

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

**HSBC BANK A.Ş.**

**PUBLICLY ANNOUNCED  
CONSOLIDATED 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 Consolidated Financial Statements**

**1. Opinion**

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated 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 Consolidated Financial Statements" section of our report. We hereby declare that we are independent of the Group 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 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 Consolidated Financial Statements**

The Group management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

### **4. Auditor's Responsibilities for the Audit of the Consolidated 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 consolidated 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We 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.



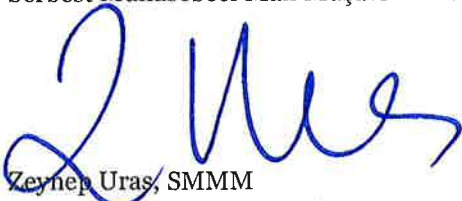
## **B. Other Responsibilities Arising From Regulatory Requirements**

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 consolidated financial statements are to be distributed and International Financial Reporting Standards ("IFRS") have not been quantified in the accompanying consolidated financial statements. Accordingly, the accompanying consolidated 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.



Zeynep Uras, SMMM  
Partner

Istanbul, 28 February 2018



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

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

Address of Bank's Headquarters : Büyükdere Caddesi No 128 Esentepe, Şişli 34394, İstanbul  
Telephone/Fax : (0212) 376 40 00 / (0212) 336 29 39  
Web-site : www.hsbc.com.tr  
Contact E-mail Address : muhaberat@hsbc.com.tr


The consolidated 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 PARENT BANK
- CONSOLIDATED FINANCIAL STATEMENTS OF PARENT BANK
- EXPLANATIONS ON ACCOUNTING POLICIES APPLIED IN THE RELATED PERIOD
- INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT OF THE GROUP WHICH IS UNDER CONSOLIDATION
- EXPLANATORY DISCLOSURES AND FOOTNOTES ON CONSOLIDATED FINANCIAL STATEMENTS
- OTHER EXPLANATIONS
- INDEPENDENT AUDITOR'S REPORT

Our subsidiaries, affiliates and jointly controlled partnership of which financial statements have been consolidated within the framework of this year's annual consolidated financial statements are:

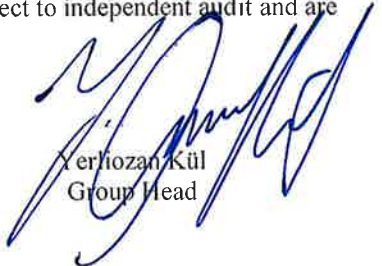
|    | Participations                       | Subsidiaries | Investments |
|----|--------------------------------------|--------------|-------------|
| 1. | HSBC Yatırım ve Menkul Değerler A.Ş. | -            | -           |


The consolidated 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

  
Yeterhozan Kül  
Group Head

  
Robert Adrian Underwood  
Head of  
Audit Committee

  
Lütfiye 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  
Fax : (0212) 376 4912

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

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017**

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

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**SECTION ONE**

**GENERAL INFORMATION**

**I. THE PARENT 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”, “the Parent Bank”, “HSBC Bank”) was established to conduct banking activities and the articles of association published in the Official Gazette No. 2611 dated 18 September 1990. The Parent 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 Parent 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 PARENT BANK’S CAPITAL STRUCTURE, SHAREHOLDERS OF THE PARENT BANK WHO ARE IN CHARGE OF THE MANAGEMENT AND/OR AUDITING OF THE PARENT BANK DIRECTLY OR INDIRECTLY, CHANGES IN THESE MATTERS (IF ANY) AND THE GROUP THAT THE BANK BELONGS TO**

As of 31 December 2017, the Parent 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 Parent 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 Parent 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 CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I**

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED 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, SHARES OF THE BANK THEY POSSESS, AND THEIR AREAS OF RESPONSIBILITIES**

| <u>Title</u>                            | <u>Name</u>                          | <u>Responsibility</u>                      | <u>Education</u>     |
|---|--------------------------------------|--|----------------------|
| <b>Chairman of the Board:</b>           | David Gordon ELDON                   | Chairman                                   | Undergraduate        |
| <b>Deputy Chairman of the Board:</b>    | Hamit AYDOĞAN                        | Deputy Chairman                            | Undergraduate        |
| <b>Board of Directors(**):</b>          | 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             |
| <b>CEO:</b>                             | Süleyman Selim KERVANCI              | CEO  | Graduate             |
| <b>Head of Internal Audit:</b>          | Umut PASİN                           | Head of Internal Audit                     | Undergraduate        |
| <b>Deputy CEO:</b>                      | Necdet Murat ŞARSEL<br>Rüçhan ÇANDAR | Credit and Risk<br>Technology and Services | Graduate<br>Graduate |
| <b>Executive Vice Presidents(****):</b> | 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<br>(*****)     | Human Resources                            | Undergraduate        |
| <b>Audit Committee<br/>(*****):</b>     | 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 Parent 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 appointed in his place effective as of 30 November 2017.

(\*\*\*\*) Per the Board Decision no: 13966 dated 27 November 2017 Ali Batu KARAALÍ 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 CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I**

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017**

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

**IV. EXPLANATION ON INDIVIDUALS OR INSTITUTIONS OWNING THE PREFERRED SHARES OF THE PARENT BANK**

| <b>Name/Commercial Title</b>   | <b>Share Amounts (Nominal) (*)</b> | <b>Share Percentages</b> | <b>Paid-in Capital (Nominal) (*)</b> | <b>Unpaid Portion</b> |
|--------------------------------|------------------------------------|--------------------------|--------------------------------------|-----------------------|
| 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 PARENT BANK’S SERVICE TYPES AND FIELDS OF OPERATION**

The Parent Bank’s activities in accordance with related regulations and the section three of the articles of association of the Parent 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 Parent 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 Parent 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 Group is 2.533 (31 December 2016: 3.240).

**VI. OTHER MATTERS**

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

**VII. INFORMATION OF INSTITUTIONS IN CONSOLIDATION SCOPE**

Parent Company “the Bank” and HSBC Yatırım Menkul Değerler A.Ş. (“HSBC Yatırım”) that is owned by the Bank and HSBC Portföy Yönetimi A.Ş. (“HSBC Portföy”) that is the subsidiary of the HSBC Yatırım are taken into consolidation scope.

The subsidiaries consolidated along with the Parent Bank are referred to as “the Group” in this report.

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

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017**

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

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**VIII. 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 Parent 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.

**IX. 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 CONSOLIDATED  
FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE 3.I**

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES**

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

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**SECTION TWO**

**CONSOLIDATED FINANCIAL STATEMENTS**

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

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

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES**

**CONSOLIDATED 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  
CONSOLIDATED FINANCIAL STATEMENTS**

| I. BALANCE SHEET  | Note<br>(Section<br>Five I) | Audited<br>Current Period<br>(31.12.2017) |                  |                   | Audited<br>Prior Period<br>(31.12.2016) |                   |                   |
|---|-----------------------------|---|------------------|-------------------|---|-------------------|-------------------|
|   |                             | TL  | FC               | Total             | TL                                      | FC                | Total             |
|   |                             | ASSETS                                    |                  |                   |   |                   |                   |
| <b>I. CASH BALANCES WITH THE CENTRAL BANK</b>                                   | (I-a)                       | 1.970.986                                 | 1.932.469        | 3.903.455         | 179.737                                 | 1.589.183         | 1.768.920         |
| <b>II. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT or (LOSS) (Net)</b>        | (I-b)                       | 439.633                                   | 526.987          | 966.620           | 667.993                                 | 337.824           | 1.005.817         |
| 2.1 Trading Financial Assets  |                             | 439.633                                   | 526.987          | 966.620           | 667.993                                 | 337.824           | 1.005.817         |
| 2.1.1 Government Debt Securities  |                             | 252.620                                   | 20.381           | 273.001           | 65.051                                  | 24.551            | 89.602            |
| 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   |                             | -   | -                | -                 | -                                       | -                 | -                 |
| <b>III. BANKS</b>   | (I-c)                       | 28.115                                    | 343.112          | 371.227           | 82.010                                  | 877.827           | 959.837           |
| <b>IV. MONEY MARKETS</b>  |                             | 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         |
| <b>V. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Net)</b>                             | (I-d)                       | 1.354.632                                 | 8.874            | 1.363.506         | 1.262.036                               | 2.435             | 1.264.471         |
| 5.1 Share Certificates  |                             | 5.567                                     | 8.874            | 14.441            | 5.567                                   | 2.435             | 8.002             |
| 5.2 Government Debt Securities  |                             | 1.349.065                                 | -                | 1.349.065         | 1.256.469                               | -                 | 1.256.469         |
| 5.3 Other Marketable Securities   |                             | -   | -                | -                 | -                                       | -                 | -                 |
| <b>VI. LOANS AND RECEIVABLES</b>  | (I-e)                       | 10.636.836                                | 4.585.869        | 15.222.705        | 10.184.383                              | 3.973.177         | 14.157.560        |
| 6.1 Loans and receivables   |                             | 10.361.052                                | 4.585.869        | 14.946.921        | 9.734.854                               | 3.973.078         | 13.707.932        |
| 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   |                             | 10.361.052                                | 4.580.531        | 14.941.583        | 9.734.854                               | 3.965.674         | 13.700.528        |
| 6.2 Non-Performing Loans  |                             | 863.211                                   | -                | 863.211           | 1.430.801                               | 165               | 1.430.966         |
| 6.3 Specific Provisions (-)   |                             | 587.427                                   | -                | 587.427           | 981.272                                 | 66                | 981.338           |
| <b>VII. FACTORING RECEIVABLES</b>   |                             | 394.213                                   | -                | 394.213           | 476.308                                 | -                 | 476.308           |
| <b>VIII. INVESTMENT SECURITIES HELD-TO-MATURITY (Net)</b>                       | (I-f)                       | -   | -                | -                 | -                                       | -                 | -                 |
| 8.1 Government Debt Securities  |                             | -   | -                | -                 | -                                       | -                 | -                 |
| 8.2 Other Marketable Securities   |                             | -   | -                | -                 | -                                       | -                 | -                 |
| <b>IX. INVESTMENTS IN ASSOCIATES (Net)</b>                                      | (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                                   |                             | -   | -                | -                 | -                                       | -                 | -                 |
| <b>X. SUBSIDIARIES (Net)</b>  | (I-h)                       | 220                                       | -                | 220               | 270                                     | -                 | 270               |
| 10.1 Unconsolidated Financial Subsidiaries                                      |                             | -   | -                | -                 | -                                       | -                 | -                 |
| 10.2 Unconsolidated Non-financial Subsidiaries                                  |                             | 220                                       | -                | 220               | 270                                     | -                 | 270               |
| <b>XI. JOINT VENTURES (Net)</b>   | (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   |                             | -   | -                | -                 | -                                       | -                 | -                 |
| <b>XII. FINANCIAL LEASE RECEIVABLES (Net)</b>                                   | (I-j)                       | -   | -                | -                 | -                                       | -                 | -                 |
| 12.1 Financial Lease Receivables  |                             | -   | -                | -                 | -                                       | -                 | -                 |
| 12.2 Operating Lease Receivables  |                             | -   | -                | -                 | -                                       | -                 | -                 |
| 12.3 Other  |                             | -   | -                | -                 | -                                       | -                 | -                 |
| 12.4 Unearned Income (-)  |                             | -   | -                | -                 | -                                       | -                 | -                 |
| <b>XIII. HEDGING DERIVATIVE FINANCIAL ASSETS</b>                                | (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   |                             | -   | -                | -                 | -                                       | -                 | -                 |
| <b>XIV. PROPERTY AND EQUIPMENT (Net)</b>  | (I-l)                       | 82.671                                    | -                | 82.671            | 81.599                                  | -                 | 81.599            |
| <b>XV. INTANGIBLE ASSETS (Net)</b>  | (I-m)                       | 147.930                                   | -                | 147.930           | 128.000                                 | -                 | 128.000           |
| 15.1 Goodwill   |                             | -   | -                | -                 | -                                       | -                 | -                 |
| 15.2 Other  |                             | 147.930                                   | -                | 147.930           | 128.000                                 | -                 | 128.000           |
| <b>XVI. INVESTMENT PROPERTIES (Net)</b>   | (I-n)                       | -   | -                | -                 | -                                       | -                 | -                 |
| <b>XVII. TAX ASSET</b>  |                             | 164.990                                   | -                | 164.990           | 4.556                                   | -                 | 4.556             |
| 17.1 Current Tax Asset  |                             | 17.340                                    | -                | 17.340            | 3.743                                   | -                 | 3.743             |
| 17.2 Deferred Tax Asset   | (I-o)                       | 147.650                                   | -                | 147.650           | 813                                     | -                 | 813               |
| <b>XVIII. ASSETS HELD FOR SALE AND RELATED TO DISCONTINUED OPERATIONS (Net)</b> | (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   |                             | -   | -                | -                 | -                                       | -                 | -                 |
| <b>XIX. OTHER ASSETS</b>  | (I-r)                       | 102.376                                   | 141.540          | 243.916           | 99.024                                  | 18.354            | 117.378           |
| <b>TOTAL ASSETS</b>   |                             | <b>15.534.512</b>                         | <b>9.123.596</b> | <b>24.658.108</b> | <b>13.238.112</b>                       | <b>11.171.798</b> | <b>24.409.910</b> |

The accompanying explanations and notes set out on pages 15 to 119 form an integral part of these consolidated financial statements.

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

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES**

**CONSOLIDATED 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<br>(Section<br>Five II) | Audited<br>Current Period<br>(31.12.2017) |                   |                   | Audited<br>Prior Period<br>(31.12.2016) |                   |                   |
|---|------------------------------|---|-------------------|-------------------|---|-------------------|-------------------|
|   |                              | TL  | FC                | Total             | TL                                      | FC                | Total             |
|   |                              | LIABILITES                                |                   |                   |   |                   |                   |
| <b>I. DEPOSITS</b>  | (II-a)                       | 4.782.719                                 | 11.566.934        | 16.349.653        | 5.981.850                               | 9.140.222         | 15.122.072        |
| 1.1 Deposits of Bank's Risk Group   | (VII)                        | 62.711                                    | 8.165             | 70.876            | 131.360                                 | 7.914             | 139.274           |
| 1.2 Other   |                              | 4.720.008                                 | 11.558.769        | 16.278.777        | 5.850.490                               | 9.132.308         | 14.982.798        |
| <b>II. TRADING DERIVATIVE FINANCIAL LIABILITIES</b>   | (II-b)                       | 207.234                                   | 531.945           | 739.179           | 24.587                                  | 642.671           | 667.258           |
| <b>III. BORROWINGS</b>  | (II-d)                       | 818.610                                   | 1.786.117         | 2.604.727         | 212.631                                 | 2.128.378         | 2.341.009         |
| <b>IV. MONEY MARKETS</b>  |                              | -   | -                 | -                 | 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           |
| <b>V. MARKETABLE SECURITIES ISSUED (Net)</b>  |                              | -   | -                 | -                 | -                                       | -                 | -                 |
| 5.1 Bills   |                              | -   | -                 | -                 | -                                       | -                 | -                 |
| 5.2 Asset Backed Securities   |                              | -   | -                 | -                 | -                                       | -                 | -                 |
| 5.3 Bonds   |                              | -   | -                 | -                 | -                                       | -                 | -                 |
| <b>VI. FUNDS</b>  |                              | -   | -                 | -                 | -                                       | -                 | -                 |
| 6.1 Borrower Funds  |                              | -   | -                 | -                 | -                                       | -                 | -                 |
| 6.2 Other   |                              | -   | -                 | -                 | -                                       | -                 | -                 |
| <b>VII. MISCELLANEOUS PAYABLES</b>  |                              | 249.379                                   | 13.630            | 263.009           | 339.910                                 | 4.303             | 344.213           |
| <b>VIII. OTHER LIABILITIES</b>  | (II-e)                       | 250.994                                   | 15.681            | 266.675           | 239.967                                 | 20.605            | 260.572           |
| <b>IX. FACTORING PAYABLES</b>   |                              | -   | -                 | -                 | -                                       | -                 | -                 |
| <b>X. FINANCIAL LEASE PAYABLES (Net)</b>  | (II-f)                       | -   | -                 | -                 | -                                       | -                 | -                 |
| 10.1 Financial Lease Payables   |                              | -   | -                 | -                 | -                                       | -                 | -                 |
| 10.2 Operational Lease Payables   |                              | -   | -                 | -                 | -                                       | -                 | -                 |
| 10.3 Other  |                              | -   | -                 | -                 | -                                       | -                 | -                 |
| 10.4 Deferred Financial Lease Expenses (-)  |                              | -   | -                 | -                 | -                                       | -                 | -                 |
| <b>XI. HEDGING DERIVATIVE FINANCIAL LIABILITIES</b>   | (II-g)                       | -   | -                 | -                 | -                                       | -                 | -                 |
| 11.1 Fair Value Hedge   |                              | -   | -                 | -                 | -                                       | -                 | -                 |
| 11.2 Cash Flow Hedge  |                              | -   | -                 | -                 | -                                       | -                 | -                 |
| 11.3 Foreign Net Investment Hedge   |                              | -   | -                 | -                 | -                                       | -                 | -                 |
| <b>XII. PROVISIONS</b>  | (II-h)                       | 681.851                                   | 1.585             | 683.436           | 775.836                                 | 900               | 776.736           |
| 12.1 General Loan Loss Provision  |                              | 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  |                              | 65.579                                    | -                 | 65.579            | 56.303                                  | -                 | 56.303            |
| 12.4 Insurance Technical Provisions (Net)   |                              | -   | -                 | -                 | -                                       | -                 | -                 |
| 12.5 Other Provisions   |                              | 99.378                                    | 1.585             | 100.963           | 110.753                                 | 900               | 111.653           |
| <b>XIII. TAX LIABILITY</b>  | (II-i)                       | 44.192                                    | -                 | 44.192            | 44.690                                  | -                 | 44.690            |
| 13.1 Current Tax Liability  |                              | 44.192                                    | -                 | 44.192            | 44.690                                  | -                 | 44.690            |
| 13.2 Deferred Tax Liability   |                              | -   | -                 | -                 | -                                       | -                 | -                 |
| <b>XIV. LIABILITIES FOR PROPERTY AND EQUIPMENT HELD FOR SALE AND RELATED TO DISCONTINUED OPERATIONS (Net)</b> | (II-j)                       | -   | -                 | -                 | -                                       | -                 | -                 |
| 14.1 Held for Sale Purpose  |                              | -   | -                 | -                 | -                                       | -                 | -                 |
| 14.2 Related to Discontinued Operations   |                              | -   | -                 | -                 | -                                       | -                 | -                 |
| <b>XV. SUBORDINATED LOANS</b>   | (II-k)                       | -   | 1.100.050         | 1.100.050         | -                                       | 1.983.954         | 1.983.954         |
| <b>XVI. SHAREHOLDERS' EQUITY</b>  | (II-l)                       | 2.602.464                                 | 4.723             | 2.607.187         | 2.337.468                               | -                 | 2.337.468         |
| 16.1 Paid-in Capital  |                              | 652.290                                   | -                 | 652.290           | 652.290                                 | -                 | 652.290           |
| 16.2 Capital Reserves   |                              | 255.786                                   | 4.723             | 260.509           | 275.934                                 | -                 | 275.934           |
| 16.2.1 Share Premium  |                              | -   | -                 | -                 | -                                       | -                 | -                 |
| 16.2.2 Share Cancellation Profits   |                              | -   | -                 | -                 | -                                       | -                 | -                 |
| 16.2.3 Marketable Securities Valuation Differences  |                              | (21.499)                                  | 4.723             | (16.776)          | (1.194)                                 | -                 | (1.194)           |
| 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  |                              | 1.403.754                                 | -                 | 1.403.754         | 1.763.921                               | -                 | 1.763.921         |
| 16.3.1 Legal Reserves   |                              | 194.478                                   | -                 | 194.478           | 202.922                                 | -                 | 202.922           |
| 16.3.2 Status Reserves  |                              | -   | -                 | -                 | -                                       | -                 | -                 |
| 16.3.3 Extraordinary Reserves   |                              | 1.240.442                                 | -                 | 1.240.442         | 1.586.675                               | -                 | 1.586.675         |
| 16.3.4 Other Profit Reserves  |                              | (31.166)                                  | -                 | (31.166)          | (25.676)                                | -                 | (25.676)          |
| 16.4 Profit or Loss   |                              | 290.634                                   | -                 | 290.634           | (354.677)                               | -                 | (354.677)         |
| 16.4.1 Prior Years' Profit/(Loss)   |                              | -   | -                 | -                 | -                                       | -                 | -                 |
| 16.4.2 Current Year Profit/(Loss)   |                              | 290.634                                   | -                 | 290.634           | (354.677)                               | -                 | (354.677)         |
| 16.5 Minority Interest  |                              | -   | -                 | -                 | -                                       | -                 | -                 |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                              | <b>9.637.443</b>                          | <b>15.020.665</b> | <b>24.658.108</b> | <b>10.488.877</b>                       | <b>13.921.033</b> | <b>24.409.910</b> |

The accompanying explanations and notes set out on pages 15 to 119 form an integral part of these consolidated financial statements.

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

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES**

**CONSOLIDATED 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              |
| <b>A. OFF-BALANCE SHEET COMMITMENTS (I+II+III)</b>                      |                         | <b>38.749.656</b>                   | <b>71.005.976</b>  | <b>109.755.632</b> | <b>21.036.900</b>                 | <b>49.809.253</b>  | <b>70.846.153</b>  |
| <b>I. GUARANTEES AND WARRANTIES</b>                                     | (III-a-2,3)             | <b>922.304</b>                      | <b>1.874.824</b>   | <b>2.797.128</b>   | <b>828.588</b>                    | <b>1.821.812</b>   | <b>2.650.400</b>   |
| 1.1 Letters of Guarantee  |                         | 918.504                             | 671.256            | 1.589.760          | 828.498                           | 939.230            | 1.767.728          |
| 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  |                         | 901.857                             | 668.849            | 1.570.706          | 818.692                           | 937.257            | 1.755.949          |
| 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 Refinancing 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   |                         | -                                   | -                  | -                  | -                                 | -                  | -                  |
| <b>II. COMMITMENTS</b>  | (III-a-1)               | <b>9.271.227</b>                    | <b>7.341.030</b>   | <b>16.612.257</b>  | <b>7.089.287</b>                  | <b>4.634.919</b>   | <b>11.724.206</b>  |
| 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 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                                       |                         | -                                   | -                  | -                  | -                                 | -                  | -                  |
| <b>III. DERIVATIVE FINANCIAL INSTRUMENTS</b>                            | (III-b)                 | <b>28.556.125</b>                   | <b>61.790.122</b>  | <b>90.346.247</b>  | <b>13.119.025</b>                 | <b>43.352.522</b>  | <b>56.471.547</b>  |
| 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                                       |                         | 5.217.788                           | 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>B. CUSTODY AND PLEDGES RECEIVED (IV+V+VI)</b>                        |                         | <b>52.291.095</b>                   | <b>55.809.728</b>  | <b>108.100.823</b> | <b>64.750.676</b>                 | <b>63.538.727</b>  | <b>128.289.403</b> |
| <b>IV. ITEMS HELD IN CUSTODY</b>  |                         | <b>38.481.483</b>                   | <b>1.650.912</b>   | <b>40.132.395</b>  | <b>45.401.965</b>                 | <b>1.637.076</b>   | <b>47.039.041</b>  |
| 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                               |                         | 34.054.019                          | 1.490.481          | 35.544.500         | 23.776.174                        | 1.472.204          | 25.248.378         |
| 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   |                         | 2.138.075                           | 101.343            | 2.239.418          | 19.332.899                        | 88.738             | 19.421.637         |
| 4.8 Custodians  |                         | -                                   | -                  | -                  | -                                 | -                  | -                  |
| <b>V. PLEDGES RECEIVED</b>  |                         | <b>8.530.950</b>                    | <b>9.604.114</b>   | <b>18.135.064</b>  | <b>12.294.107</b>                 | <b>13.802.990</b>  | <b>26.097.097</b>  |
| 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  |                         | -                                   | -                  | -                  | -                                 | -                  | -                  |
| <b>VI. ACCEPTED INDEPENDENT GUARANTEES AND WARRANTIES</b>               |                         | <b>5.278.662</b>                    | <b>44.554.702</b>  | <b>49.833.364</b>  | <b>7.054.604</b>                  | <b>48.098.661</b>  | <b>55.153.265</b>  |
| <b>TOTAL OFF-BALANCE SHEET COMMITMENTS (A+B)</b>                        |                         | <b>91.040.751</b>                   | <b>126.815.704</b> | <b>217.856.455</b> | <b>85.787.576</b>                 | <b>113.347.980</b> | <b>199.135.556</b> |

The accompanying explanations and notes set out on pages 15 to 119 form an integral part of these consolidated financial statements.

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

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES**

**CONSOLIDATED 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”).)

| <b>III. STATEMENT OF INCOME</b>   |                                       |   |   |
|---|---------------------------------------|---|---|
| <b>INCOME AND EXPENSE ITEMS</b>   | <b>Note<br/>(Section<br/>Five IV)</b> | <b>Audited<br/>Current Period<br/>(01.01.2017 – 31.12.2017)</b> | <b>Audited<br/>Prior Period<br/>(01.01.2016 – 31.12.2016)</b> |
| <b>I. INTEREST INCOME</b>   | <b>(IV-a)</b>                         | <b>2.259.830</b>  | <b>2.029.960</b>  |
| 1.1 Interest Income 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)                              | 368.957   | 14.867  |
| 1.4 Interest Received from Money Market Transactions  |                                       | 117.381   | 25.912  |
| 1.5 Interest Received from Marketable Securities Portfolio  | (IV-a-3)                              | 159.060   | 165.816   |
| 1.5.1 Trading Financial Assets  |                                       | 17.600  | 59.725  |
| 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   |                                       | 3.254   | 4.613   |
| <b>II. INTEREST EXPENSE</b>   | <b>(IV-b)</b>                         | <b>880.894</b>  | <b>1.068.648</b>  |
| 2.1 Interest Expense on Deposits  | (IV-b-4)                              | 622.064   | 756.467   |
| 2.2 Interest Expense 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  |
| <b>III. NET INTEREST INCOME/EXPENSE (I + II)</b>  |                                       | <b>1.378.936</b>  | <b>961.312</b>  |
| <b>IV. NET FEES AND COMMISSIONS INCOME/EXPENSE</b>  |                                       | <b>386.817</b>  | <b>422.398</b>  |
| 4.1 Fees and Commissions Received   |                                       | 428.329   | 465.239   |
| 4.1.1 Non-Cash Loans  |                                       | 21.053  | 20.944  |
| 4.1.2 Other   | (IV-l)                                | 407.276   | 444.295   |
| 4.2 Fees and Commissions Paid   |                                       | 41.512  | 42.841  |
| 4.2.1 Non-Cash Loans  |                                       | 925   | 564   |
| 4.2.2 Other   |                                       | 40.587  | 42.277  |
| <b>V. DIVIDEND INCOME</b>   | <b>(IV-c)</b>                         | <b>2.684</b>  | <b>-</b>  |
| <b>VI. TRADING INCOME/(LOSS) (Net)</b>  | <b>(IV-d)</b>                         | <b>(501.953)</b>  | <b>64.015</b>   |
| 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)   |                                       | (745.230)   | (485.757)   |
| <b>VII. OTHER OPERATING INCOME</b>  | <b>(IV-e)</b>                         | <b>268.636</b>  | <b>221.376</b>  |
| <b>VIII. TOTAL OPERATING INCOME (III+IV+V+VI+VII)</b>   |                                       | <b>1.535.120</b>  | <b>1.669.101</b>  |
| <b>IX. PROVISION FOR LOAN LOSSES AND OTHER RECEIVABLES (-)</b>                                      | <b>(IV-f)</b>                         | <b>344.390</b>  | <b>790.111</b>  |
| <b>X. OTHER OPERATING EXPENSES (-)</b>  | <b>(IV-g)</b>                         | <b>1.035.678</b>  | <b>1.223.711</b>  |
| <b>XI. NET OPERATING INCOME/(LOSS) (VIII-IX-X)</b>  |                                       | <b>155.052</b>  | <b>(344.721)</b>  |
| <b>XII. EXCESS AMOUNT RECORDED AS INCOME AFTER MERGER</b>   |                                       | <b>-</b>  | <b>-</b>  |
| <b>XIII. INCOME/(LOSS) FROM INVESTMENTS IN SUBSIDIARIES CONSOLIDATED<br/>BASED ON EQUITY METHOD</b> |                                       | <b>-</b>  | <b>-</b>  |
| <b>XIV. INCOME/(LOSS) ON NET MONETARY POSITION</b>  |                                       | <b>-</b>  | <b>-</b>  |
| <b>XV. INCOME/EXPENSE BEFORE TAXES FROM CONTINUING OPERATIONS<br/>(XI+XII+XIII+XIV)</b>             | <b>(IV-h)</b>                         | <b>155.052</b>  | <b>(344.721)</b>  |
| <b>XVI. PROVISION FOR TAXES ON INCOME FROM CONTINUING OPERATIONS (±)</b>                            | <b>(IV-i)</b>                         | <b>135.582</b>  | <b>(9.956)</b>  |
| 16.1 Current Tax Provision  |                                       | (10.858)  | (7.908)   |
| 16.2 Deferred Tax Provision   |                                       | 146.440   | (2.048)   |
| <b>XVII. NET PROFIT/LOSSES FROM CONTINUING OPERATIONS (XV±XVI)</b>                                  | <b>(IV-j)</b>                         | <b>290.634</b>  | <b>(354.677)</b>  |
| <b>XVIII. INCOME FROM DISCONTINUED OPERATIONS</b>   |                                       | <b>-</b>  | <b>-</b>  |
| 18.1 Income from Non-Current Assets Held for Resale   |                                       | -   | -   |
| 18.2 Profit from Sales of Associates, Subsidiaries and Joint Ventures (business partners)           |                                       | -   | -   |
| 18.3 Other Income From Discontinued Operations  |                                       | -   | -   |
| <b>XIX. EXPENSES FROM DISCONTINUED OPERATIONS (-)</b>   |                                       | <b>-</b>  | <b>-</b>  |
| 19.1 Expenses for Non-Current Assets Held for Resale  |                                       | -   | -   |
| 19.2 Loss from Sales of Associates, Subsidiaries and Joint Ventures (business partners)             |                                       | -   | -   |
| 19.3 Other Expenses From Discontinued Operations  |                                       | -   | -   |
| <b>XX. PROFIT /LOSSES BEFORE TAXES FROM DISCONTINUED OPERATIONS (XVIII-<br/>XIX)</b>                |                                       | <b>-</b>  | <b>-</b>  |
| <b>XXI. PROVISION FOR INCOME TAXES FROM DISCONTINUED OPERATIONS (±)</b>                             |                                       | <b>-</b>  | <b>-</b>  |
| 21.1 Current Tax Provision  |                                       | -   | -   |
| 21.2 Deferred Tax Provision   |                                       | -   | -   |
| <b>XXII. NET PROFIT/LOSSES FROM DISCONTINUED OPERATIONS (XX±XXI)</b>                                |                                       | <b>-</b>  | <b>-</b>  |
| <b>XXIII. NET PROFIT/LOSSES (XVII+XXII)</b>   | <b>(IV-k)</b>                         | <b>290.634</b>  | <b>(354.677)</b>  |
| 23.1 Group's Profit/Loss (-)  |                                       | 290.634   | (354.677)   |
| 23.2 Minority Shares Profit/Loss (-)  |                                       | -   | -   |
| Earnings/Loss per Share (The amounts are expressed in full TL)                                      |                                       | 0,004456  | (0,005437)  |

The accompanying explanations and notes set out on pages 15 to 119 form an integral part of these consolidated financial statements.



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

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES**

**CONSOLIDATED 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").)

| <b>IV. STATEMENT OF PROFIT AND LOSS ITEMS RECOGNISED UNDER SHAREHOLDERS' EQUITY</b>  |  |  |
|--|--|--|
| <b>PROFIT AND LOSS ITEMS RECOGNISED UNDER SHAREHOLDERS' EQUITY</b>   | <b>Audited<br/>Current Period<br/>(31.12.2017)</b> | <b>Audited<br/>Prior Period<br/>(31.12.2016)</b> |
| <b>I. ADDITIONS TO THE MARKETABLE VALUATION DIFFERENCES FROM THE AVAILABLE FOR SALE FINANCIAL ASSETS</b>                       | <b>(19.478)</b>                                    | <b>(21.665)</b>                                  |
| <b>II. PROPERTY AND EQUIPMENT REVALUATION DIFFERENCES</b>  | -  | -  |
| <b>III. INTANGIBLE ASSETS REVALUATION DIFFERENCES</b>  | -  | -  |
| <b>IV. CURRENCY TRANSLATION DIFFERENCES FOR FOREIGN CURRENCY TRANSACTIONS</b>  | -  | -  |
| <b>V. PROFIT OR LOSS ON CASH FLOW HEDGE DERIVATIVE FINANCIAL ASSETS (Effective part of the fair value differences)</b>         | <b>196</b>   | <b>(3.755)</b>                                   |
| <b>VI. PROFIT/LOSS FROM FOREIGN INVESTMENT HEDGE DERIVATIVE FINANCIAL ASSETS (Effective Part of Fair Value Changes)</b>        | -  | -  |
| <b>VII. THE EFFECT OF CHANGES IN ACCOUNTING POLICY AND ADJUSTMENT OF ERRORS</b>  | -  | -  |
| <b>VIII. OTHER INCOME AND EXPENSE ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY ACCORDING TO TAS</b>                              | <b>(6.863)</b>                                     | <b>(5.688)</b>                                   |
| <b>IX. DEFERRED TAX RELATED TO VALUATION DIFFERENCES</b>   | <b>5.229</b>                                       | <b>6.222</b>                                     |
| <b>X. NET PROFIT OR LOSS ACCOUNTED DIRECTLY UNDER SHAREHOLDERS' EQUITY (I+II+...+IX)</b>                                       | <b>(20.916)</b>                                    | <b>(24.886)</b>                                  |
| <b>XI. CURRENT YEAR PROFIT/LOSS</b>  | <b>290.634</b>                                     | <b>(354.677)</b>                                 |
| 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   | 289.962  | (379.307)  |
| <b>XII. TOTAL PROFIT/LOSS RELATED TO THE CURRENT PERIOD (X±XI)</b>   | <b>269.718</b>                                     | <b>(379.563)</b>                                 |

The accompanying explanations and notes set out on pages 15 to 119 form an integral part of these consolidated financial statements.

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

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES**

**CONSOLIDATED 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").)

| Audited   |  | Note<br>(Section<br>Five) | Paid-in<br>Capital | Adjustment to<br>Paid-in Capital | Share<br>Premium | Share<br>Cancel.<br>Profits | Legal<br>Reserves | Statutory<br>Reserves | Extraordinary<br>Reserves | Other<br>Reserves | Current<br>Period Net<br>Profit/(Loss) | Prior<br>Period Net<br>Profit/(Loss) | Marketable<br>Sec. Valuation<br>Differences | Rev. Diff. in<br>Tangible and<br>Intang. Assets | Bonus<br>Shares from<br>Investments | Hedging<br>Funds | Rev. Diff. in<br>Tangible Held<br>for Sale/Disc.<br>Operate. | Minority Shares<br>Except Total<br>Equity | Minority<br>Shares | Total<br>Equity  |
|---|--|---------------------------|--------------------|----------------------------------|------------------|-----------------------------|-------------------|-----------------------|---------------------------|-------------------|--|--------------------------------------|---|---|-------------------------------------|------------------|--|---|--------------------|------------------|
| 31 December 2016  |  |                           |                    |                                  |                  |                             |                   |                       |                           |                   |  |                                      |   |   |                                     |                  |  |   |                    |                  |
| <b>I.</b>   | Balances at the Beginning of the Period 31 December 2015                       |                           | 652.290            | -                                | -                | -                           | 199.603           | -                     | 1.915.065                 | 251.567           | (325.071)                              | -                                    | 16.138                                      | -   | -                                   | 7.439            | -  | 2.717.031                                 | -                  | 2.717.031        |
| <b>II.</b>  | Corrections According to TAS 8   |                           | -                  | -                                | -                | -                           | -                 | -                     | -                         | -                 | -                                      | -                                    | -   | -   | -                                   | -                | -  | -   | -                  | -                |
| 2.1   | Correction of Errors   |                           | -                  | -                                | -                | -                           | -                 | -                     | -                         | -                 | -                                      | -                                    | -   | -   | -                                   | -                | -  | -   | -                  | -                |
| 2.2   | Effects of the Changes in Accounting Policies                                  |                           | -                  | -                                | -                | -                           | -                 | -                     | -                         | -                 | -                                      | -                                    | -   | -   | -                                   | -                | -  | -   | -                  | -                |
| <b>III.</b>   | Adjusted Balance (I+II)  |                           | 652.290            | -                                | -                | -                           | 199.603           | -                     | 1.915.065                 | 251.567           | (325.071)                              | -                                    | 16.138                                      | -   | -                                   | 7.439            | -  | 2.717.031                                 | -                  | 2.717.031        |
| <b>Changes in the Period</b>  |  |                           |                    |                                  |                  |                             |                   |                       |                           |                   |  |                                      |   |   |                                     |                  |  |   |                    |                  |
| <b>IV.</b>  | Increase/Decrease due to the Merger  |                           | -                  | -                                | -                | -                           | -                 | -                     | -                         | -                 | -                                      | -                                    | -   | -   | -                                   | -                | -  | -   | -                  | -                |
| <b>V.</b>   | Marketable Securities Valuation Differences                                    | (V-a)                     | -                  | -                                | -                | -                           | -                 | -                     | -                         | -                 | -                                      | -                                    | (17.332)                                    | -   | -                                   | -                | -  | (17.332)                                  | -                  | (17.332)         |
| <b>VI.</b>  | Hedging Transactions Funds (Effective Parts)                                   |                           | -                  | -                                | -                | -                           | -                 | -                     | -                         | -                 | -                                      | -                                    | -   | -   | -                                   | (3.004)          | -  | (3.004)                                   | -                  | (3.004)          |
| 6.1   | Cash Flow Hedge  |                           | -                  | -                                | -                | -                           | -                 | -                     | -                         | -                 | -                                      | -                                    | -   | -   | -                                   | (3.004)          | -  | (3.004)                                   | -                  | (3.004)          |
| 6.2   | Foreign Investment Hedge   |                           | -                  | -                                | -                | -                           | -                 | -                     | -                         | -                 | -                                      | -                                    | -   | -   | -                                   | -                | -  | -   | -                  | -                |
| <b>VII.</b>   | Property and Equipment Revaluation Differences                                 |                           | -                  | -                                | -                | -                           | -                 | -                     | -                         | -                 | -                                      | -                                    | -   | -   | -                                   | -                | -  | -   | -                  | -                |
| <b>VIII.</b>  | Intangible Fixed Assets Revaluation Differences                                |                           | -                  | -                                | -                | -                           | -                 | -                     | -                         | -                 | -                                      | -                                    | -   | -   | -                                   | -                | -  | -   | -                  | -                |
| <b>IX.</b>  | Bonus Shares from Investments in Associates, Subsidiaries and Joint Ventures   |                           | -                  | -                                | -                | -                           | -                 | -                     | -                         | -                 | -                                      | -                                    | -   | -   | -                                   | -                | -  | -   | -                  | -                |
| <b>X.</b>   | Foreign Exchange Differences   |                           | -                  | -                                | -                | -                           | -                 | -                     | -                         | -                 | -                                      | -                                    | -   | -   | -                                   | -                | -  | -   | -                  | -                |
| <b>XI.</b>  | Changes due to the Disposal of Assets  |                           | -                  | -                                | -                | -                           | -                 | -                     | -                         | -                 | -                                      | -                                    | -   | -   | -                                   | -                | -  | -   | -                  | -                |
| <b>XII.</b>   | Changes due to the Reclassification of Assets                                  |                           | -                  | -                                | -                | -                           | -                 | -                     | -                         | -                 | -                                      | -                                    | -   | -   | -                                   | -                | -  | -   | -                  | -                |
| <b>XIII.</b>  | Effect of the Changes in Investment in Associates' Equity to the Bank's Equity |                           | -                  | -                                | -                | -                           | -                 | -                     | -                         | -                 | -                                      | -                                    | -   | -   | -                                   | -                | -  | -   | -                  | -                |
| <b>XIV.</b>   | Capital Increase   |                           | -                  | -                                | -                | -                           | -                 | -                     | -                         | -                 | -                                      | -                                    | -   | -   | -                                   | -                | -  | -   | -                  | -                |
| 14.1  | Cash Increase  |                           | -                  | -                                | -                | -                           | -                 | -                     | -                         | -                 | -                                      | -                                    | -   | -   | -                                   | -                | -  | -   | -                  | -                |
| 14.2  | Internal Resources   |                           | -                  | -                                | -                | -                           | -                 | -                     | -                         | -                 | -                                      | -                                    | -   | -   | -                                   | -                | -  | -   | -                  | -                |
| <b>XV.</b>  | Share Premium  | (V-d)                     | -                  | -                                | -                | -                           | -                 | -                     | -                         | -                 | -                                      | -                                    | -   | -   | -                                   | -                | -  | -   | -                  | -                |
| <b>XVI.</b>   | Share Cancellation Profits   |                           | -                  | -                                | -                | -                           | -                 | -                     | -                         | -                 | -                                      | -                                    | -   | -   | -                                   | -                | -  | -   | -                  | -                |
| <b>XVII.</b>  | Paid in-Capital Adjustment Difference  |                           | -                  | -                                | -                | -                           | -                 | -                     | -                         | -                 | -                                      | -                                    | -   | -   | -                                   | -                | -  | -   | -                  | -                |
| <b>XVIII.</b>   | Other  |                           | -                  | -                                | -                | -                           | -                 | -                     | (4.550)                   | -                 | -                                      | -                                    | -   | -   | -                                   | -                | -  | (4.550)                                   | -                  | (4.550)          |
| <b>XIX.</b>   | Current Year Income or Loss  |                           | -                  | -                                | -                | -                           | -                 | -                     | -                         | -                 | (354.677)                              | -                                    | -   | -   | -                                   | -                | -  | (354.677)                                 | -                  | (354.677)        |
| <b>XX.</b>  | Profit Distribution  |                           | -                  | -                                | -                | -                           | 3.319             | -                     | (328.390)                 | -                 | 325.071                                | -                                    | -   | -   | -                                   | -                | -  | -   | -                  | -                |
| 20.1  | Dividends Paid   |                           | -                  | -                                | -                | -                           | -                 | -                     | -                         | -                 | -                                      | -                                    | -   | -   | -                                   | -                | -  | -   | -                  | -                |
| 20.2  | Transfers to Reserves  |                           | -                  | -                                | -                | -                           | 3.319             | -                     | (328.390)                 | -                 | 325.071                                | -                                    | -   | -   | -                                   | -                | -  | -   | -                  | -                |
| 20.3  | Other  |                           | -                  | -                                | -                | -                           | -                 | -                     | -                         | -                 | -                                      | -                                    | -   | -   | -                                   | -                | -  | -   | -                  | -                |
| <b>Balances at the End of the Period – 31 December 2016 (I+II+III+.....+XIX+XX)</b> |  |                           | <b>652.290</b>     | <b>-</b>                         | <b>-</b>         | <b>-</b>                    | <b>202.922</b>    | <b>-</b>              | <b>1.586.675</b>          | <b>247.017</b>    | <b>(354.677)</b>                       | <b>-</b>                             | <b>(1.194)</b>                              | <b>-</b>  | <b>-</b>                            | <b>4.435</b>     | <b>-</b>   | <b>2.337.468</b>                          | <b>-</b>           | <b>2.337.468</b> |

The accompanying explanations and notes set out on pages 15 to 119 form an integral part of these consolidated financial statements.

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

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES**

**CONSOLIDATED 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").)

| <b>V. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY</b> |   |          |                |                 |          |          |                |           |                  |                |                |               |                 |                |             |              |                |                  |          |                  |
|--|---|----------|----------------|-----------------|----------|----------|----------------|-----------|------------------|----------------|----------------|---------------|-----------------|----------------|-------------|--------------|----------------|------------------|----------|------------------|
| Audited  |   | Note     | Paid-in        | Adjustment to   | Share    | Share    | Legal          | Statutory | Extraordinary    | Other          | Current        | Prior         | Marketable      | Rev. Diff. in  | Bonus       |              | Rev. Diff. in  | Minority Shares  | Minority | Total            |
| 31 December 2017                                       |   | (Section | Capital        | Paid-in Capital | Premium  | Cancel   | Reserves       | Reserves  | Reserves         | Reserves       | Period Net     | Period Net    | Sec. Valuation  | Tangible and   | Shares from | Hedging      | Tangible Held  | Except Total     | Shares   | Equity           |
|  |   | Five)    |                |                 |          | Profits  |                |           |                  |                | Profit/(Loss)  | Profit/(Loss) | Differences     | Intang. Assets | Investments | Funds        | for Sale/Disc. | Equity           | Shares   | Equity           |
| I.   | Balances at the End of the Prior Period   |          | 652.290        | -               | -        | -        | 202.922        | -         | -                | 1.586.675      | 247.017        | (354.677)     | -               | (1.194)        | -           | 4.435        | -              | 2.337.468        | -        | 2.337.468        |
|  | Changes in the Period   |          |                |                 |          |          |                |           |                  |                |                |               |                 |                |             |              |                |                  |          |                  |
| II.  | Increase/Decrease due to the Merger   |          | -              | -               | -        | -        | -              | -         | -                | -              | -              | -             | -               | -              | -           | -            | -              | -                | -        | -                |
| III.   | Marketable Securities Valuation Differences   | (V-a)    | -              | -               | -        | -        | -              | -         | -                | -              | -              | -             | (15.582)        | -              | -           | -            | -              | (15.582)         | -        | (15.582)         |
| IV.  | Hedging Transactions Funds (Effective Parts)  |          | -              | -               | -        | -        | -              | -         | -                | -              | -              | -             | -               | -              | -           | 157          | -              | 157              | -        | 157              |
| 4.1  | Cash Flow Hedge   |          | -              | -               | -        | -        | -              | -         | -                | -              | -              | -             | -               | -              | -           | 157          | -              | 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                       |          | -              | -               | -        | -        | -              | -         | -                | -              | -              | -             | -               | -              | -           | -            | -              | -                | -        | -                |
| VII.   | 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                                       |          | -              | -               | -        | -        | -              | -         | -                | -              | -              | -             | -               | -              | -           | -            | -              | -                | -        | -                |
| XI.  | 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   |          | -              | -               | -        | -        | -              | -         | -                | (5.490)        | -              | -             | -               | -              | -           | -            | -              | (5.490)          | -        | (5.490)          |
| XVII.  | Current Year Income or Loss   |          | -              | -               | -        | -        | -              | -         | -                | -              | 290.634        | -             | -               | -              | -           | -            | -              | 290.634          | -        | 290.634          |
| XVIII.   | Profit Distribution   |          | -              | -               | -        | -        | (8.444)        | -         | (346.233)        | -              | 354.677        | -             | -               | -              | -           | -            | -              | -                | -        | -                |
| 18.1   | Dividends Paid  |          | -              | -               | -        | -        | (8.444)        | -         | (346.233)        | -              | 354.677        | -             | -               | -              | -           | -            | -              | -                | -        | -                |
| 18.2   | Transfers to Reserves   |          | -              | -               | -        | -        | (8.444)        | -         | (346.233)        | -              | 354.677        | -             | -               | -              | -           | -            | -              | -                | -        | -                |
| 18.3   | Other   |          | -              | -               | -        | -        | -              | -         | -                | -              | -              | -             | -               | -              | -           | -            | -              | -                | -        | -                |
|  | <b>Balances at the End of the Period – 31 December 2017 (I+II+III+.....+XIX+XX)</b> |          | <b>652.290</b> | <b>-</b>        | <b>-</b> | <b>-</b> | <b>194.478</b> | <b>-</b>  | <b>1.240.442</b> | <b>241.527</b> | <b>290.634</b> | <b>-</b>      | <b>(16.776)</b> | <b>-</b>       | <b>-</b>    | <b>4.592</b> | <b>-</b>       | <b>2.607.187</b> | <b>-</b> | <b>2.607.187</b> |

The accompanying explanations and notes set out on pages 15 to 119 form an integral part of these consolidated financial statements.

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

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES**

**CONSOLIDATED 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”).)

| <b>VI. STATEMENT OF CASH FLOWS</b>  | <b>Note<br/>(Section<br/>Five VI)</b> | <b>Audited<br/>Current Period<br/>(31.12.2017)</b> | <b>Audited<br/>Prior Period<br/>(31.12.2016)</b> |
|---|---------------------------------------|--|--|
| <b>A. CASH FLOWS FROM BANKING OPERATIONS</b>  |                                       |  |  |
| <b>1.1 Operating Profit Before Changes In Operating Assets And Liabilities</b>                      | <b>(VI-a)</b>                         | <b>1.160.374</b>                                   | <b>597.814</b>                                   |
| 1.1.1 Interest Received   | (VI-a)                                | 2.366.166  | 2.054.614  |
| 1.1.2 Interest Paid   | (VI-a)                                | (837.142)  | (1.066.352)                                      |
| 1.1.3 Dividend Received   |                                       | 2.684  | -  |
| 1.1.4 Fees and Commissions Received   |                                       | 426.322  | 462.949  |
| 1.1.5 Other Income  |                                       | 202.539  | 221.376  |
| 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)                                | (394.645)  | (573.234)  |
| 1.1.8 Taxes Paid  |                                       | (24.052)   | (6.095)  |
| 1.1.9 Other   |                                       | (858.723)  | (768.180)  |
| <b>1.2 Changes in Operating Assets and Liabilities</b>  |                                       | <b>(1.948.903)</b>                                 | <b>706.609</b>                                   |
| 1.2.1 Net (Increase)/Decrease in Trading Securities   |                                       | (179.405)  | 916.341  |
| 1.2.2 Net (Increase)/Decrease in Fair Value Through Profit/Loss Financial Assets                    |                                       | -  | -  |
| 1.2.3 Net (Increase)/Decrease in Banks  |                                       | (1.108)  | 26.498   |
| 1.2.4 Net (Increase)/Decrease in Loans  |                                       | (1.606.204)  | 5.707.336  |
| 1.2.5 Net (Increase)/Decrease in Other Assets   |                                       | (114.745)  | 1.583.190  |
| 1.2.6 Net Increase/(Decrease) in Bank Deposits  |                                       | 1.339.986  | 89.958   |
| 1.2.7 Net Increase/(Decrease) in Other Deposits   |                                       | (119.775)  | (3.996.213)                                      |
| 1.2.8 Net Increase/(Decrease) in Funds Borrowed   |                                       | (658.698)  | (2.692.179)                                      |
| 1.2.9 Net Increase/(Decrease) in Payables   |                                       | -  | -  |
| 1.2.10 Net Increase/(Decrease) in Other Liabilities   | (VI-a)                                | (608.954)  | (928.322)  |
| <b>I. Net Cash Provided From Banking Operations</b>   |                                       | <b>(788.529)</b>                                   | <b>1.304.423</b>                                 |
| <b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                                       |  |  |
| <b>II. Net Cash Provided From Investing Activities</b>  |                                       | <b>(72.621)</b>                                    | <b>(612.951)</b>                                 |
| 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   | (10.351)   |
| <b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                                       |  |  |
| <b>III. Net Cash Provided From Financing Activities</b>   |                                       | <b>-</b>   | <b>-</b>   |
| 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   |                                       | -  | -  |
| <b>IV. Effect of Change in Foreign Exchange Rate on Cash and Cash Equivalents</b>                   | <b>(VI-a)</b>                         | <b>(2.792)</b>                                     | <b>2.223</b>                                     |
| <b>V. Net Increase/(Decrease) in Cash and Cash Equivalents (I+II+III+IV)</b>                        |                                       | <b>(863.942)</b>                                   | <b>693.695</b>                                   |
| <b>VI. Cash and Cash Equivalents at Beginning of the Period</b>                                     | <b>(VI-d)</b>                         | <b>5.648.090</b>                                   | <b>4.954.395</b>                                 |
| <b>VII. Cash and Cash Equivalents at End of the Period</b>  | <b>(VI-d)</b>                         | <b>4.784.148</b>                                   | <b>5.648.090</b>                                 |

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

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES**

**CONSOLIDATED 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”).)

| <b>VII.STATEMENT OF PROFIT DISTRIBUTION</b>                        | <b>Audited<br/>Current Period<br/>(31/12/2017) (*)</b> | <b>Audited<br/>Prior Period<br/>(31/12/2016) (**)</b> |
|--|--|---|
| <b>I. DISTRIBUTION OF CURRENT YEAR INCOME</b>                      |  |   |
| 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   |
| <b>A. NET INCOME FOR THE YEAR (1.1-1.2)</b>                        | <b>308.737</b>   | <b>(356.598)</b>                                      |
| 1.3 Prior Year Losses (-)  | -  | -   |
| 1.4 First Legal Reserves (-)                                       | -  | -   |
| 1.5 Other Statutory Reserves (-)                                   | 145.978  | -   |
| <b>B. NET INCOME AVAILABLE FOR DISTRIBUTION [(A-(1.3+1.4+1.5)]</b> | <b>162.759</b>   | <b>-</b>  |
| 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   | -  | -   |
| <b>II. DISTRIBUTION OF RESERVES</b>                                |  |   |
| 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 (-)                            | -  | -   |
| <b>III. EARNINGS PER SHARE (***)</b>                               |  |   |
| 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 ( % )                           | -  | -   |
| <b>IV. DIVIDEND PER SHARE</b>                                      |  |   |
| 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 profit distribution table is prepared according to the unconsolidated financial statements of the Parent Bank.

The accompanying explanations and notes set out on pages 15 to 119 form an integral part of these consolidated financial statements.

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**SECTION THREE**

**EXPLANATIONS ON ACCOUNTING POLICIES**

**I. EXPLANATIONS ON BASIS OF PRESENTATION**

**a. The preparation of the consolidated 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 consolidated 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 consolidated 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 Group maintains its books in Turkish Lira in accordance with the Banking Act, Turkish Commercial Code and Turkish Tax Legislation.

The consolidated 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 consolidated 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 the 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 preparation of consolidated financial statements:**

The accounting policies and valuation principles applied in the preparation of consolidated 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.

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**I. EXPLANATIONS ON BASIS OF PRESENTATION (Continued)**

**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 consolidated financial statements are to be distributed and International Financial Reporting Standards (“IFRS”) have not been quantified in these consolidated financial statements. Accordingly, these consolidated 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.

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

The main sources of the Parent Bank are customer deposits and borrowings from abroad. The Parent Bank’s liquidity structure covers the financing of all liabilities at due date. This liquidity structure of the Group has been established by keeping sufficient cash and cash equivalents. The Parent Bank, diversify its funding sources and keeping cash and cash equivalents adequately for constitute the provider liquidity structure which matured liability affordability.

The Group 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 Parent Bank’s exchange rates. 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 CONSOLIDATED INVESTMENTS IN ASSOCIATES AND SUBSIDIARIES**

The Group has no investments in associates as of 31 December 2017. HSBC Yatırım that is fully owned by the Bank, HSBC Portföy that is the subsidiary of HSBC Yatırım and HSBC Portföy that is the subsidiary of the HSBC Yatırım are taken into consolidation scope in accordance with the procedures listed in the “Communiqué related to the Regulation on the Preparation of the Financial Statements of the Banks” and the “Turkish Accounting Standard for Consolidated and Separate Financial Statements” (“TAS 27”) published in the Official Gazette No.26340 dated 8 November 2006.

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**IV. EXPLANATIONS ON FORWARD TRANSACTIONS, OPTIONS AND DERIVATIVE INSTRUMENTS**

In order to reduce the foreign exchange position risk the Parent 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 Group 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 Parent 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 Parent 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 Group 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 Group 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 recognized 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 Group by providing money, services or goods to borrowers are categorized as loans and receivables. Loans and receivables originated by the Group are recognised at the amortised cost value calculated using the effective interest rate method.

The Group 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 set aside”) published in the Official Gazette dated 1 November 2006 and numbered 26333. In addition to the non-performing loans, the Group 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 derecognised 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 recognised 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 recognised in the income statement. As of 31 December 2017 and 31 December 2016, the Group has no investment securities held-to-maturity.

**VIII. EXPLANATIONS ON IMPAIRMENT OF FINANCIAL ASSETS**

In each balance sheet date, the Group assesses if there is an objective evidence of the impairment of financial assets or financial asset groups. If such an indicator exists, the Group will perform the calculations. Impairment loss incurs if and only if, there is an objective evidence that the expected future cash flows of financial assets of group of financial assets 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 Set Aside by Banks and to the Provisions to be Set Aside” 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 Group 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 Group 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 Group 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 Group 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 consolidated financial statements in accordance with “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 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%, furnitures at rate 20%, 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 “Finance lease payables” in the balance sheet. Interest and foreign exchange expenses regarding lease transactions are presented the income statement. The Group 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 Group 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 Group, 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 Group. 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 Group 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 consolidated 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 consolidated 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 Group 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 Group provides provision for retirement and termination liabilities by estimating the net present value of future payments of the Group 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 31.166 (31 December 2016: TL 25.676 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%. However, the corporate income tax rate will be applied as 22% for the years 2018, 2019 and 2020 regarding to the "Law on Amendment of Certain Tax Laws and Some Other Laws" numbered 7061 and published in the Official Gazette on 5 December 2017. Corporate tax is calculated on the total income of the Group 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 Group 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%.

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**XVIII. EXPLANATIONS ON TAXATION (Continued)**

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 Parent 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 Group has limited its deferred tax assets with its deferred tax liabilities. As of 31 December 2016 the Parent Bank has not recognized deferred tax receivables amounting to TL 151.679 as an asset )

Various operations and calculations with unascertained effects on final tax amount occur during standard workflow, which require important judgement in determining income tax provision. The Parent 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. Group 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 consolidated financial statements enclosed, foreign currency borrowings are translated according to the Parent Bank’s period end counter buying exchange rate. Interest expenses of the current period regarding the borrowing amounts are recognised in the consolidated financial statements. As of 31 December 2017 and 31 December 2016, the Group has no marketable securities issued and convertible bonds.

**XX. EXPLANATIONS ON ISSUANCE OF SHARE CERTIFICATES**

As of 31 December 2017 and 31 December 2016, the Group 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.

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**XXII. EXPLANATIONS ON GOVERNMENT INCENTIVES**

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

**XXIII. EXPLANATIONS ON OPERATING SEGMENTS**

Segment reporting is presented in Note XII of Section Four.

**XXIV. PROFIT RESERVES AND PROFIT DISTRIBUTION**

Retained earnings as per the statutory consolidated 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.

|                                      | <b>Current Period</b>   | <b>Prior Period</b>     |
|--------------------------------------|-------------------------|-------------------------|
|                                      | <b>31 December 2017</b> | <b>31 December 2016</b> |
| Net Earnings /(Loss) for the Period  | 290.634                 | (354.677)               |
| Number of Shares                     | 65.229.000.000          | 65.229.000.000          |
| <b>Earnings /(Loss) per Share(*)</b> | <b>0,004456</b>         | <b>(0,005437)</b>       |

(\*) 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; and cash equivalents include interbank money market placements, reserve deposit average accounts, time deposits at banks with original maturity periods of less than three months.

**XXVII. RELATED PARTIES**

Parties stated in the article 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 consolidated 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 CONSOLIDATED 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 Group and Parent Bank are amounting to TL 3.621.536 and 3.580.597; the Group's and Parent Bank's capital adequacy ratio 17,67% and 17,56%. Calculations for 31 December 2017 has been in accordance with former regulations, thus equity was amounting to TL 4.305.490 and TL 4.246.289, and the capital adequacy ratio was 20,58% and 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<br>31 December 2017 | Amount as per<br>the regulation<br>before<br>1.1.2014 (*) |
|--|------------------------------------|---|
| <b>COMMON EQUITY TIER I CAPITAL</b>  |                                    |   |
| Paid-in Capital to be Entitled for Compensation after All Creditors  | 652.290                            |   |
| Share Premium  | -                                  |   |
| Reserves   | 1.707.614                          |   |
| Other Comprehensive Income according to TAS  | -                                  |   |
| Profit   | 290.634                            |   |
| Current Period Profit  | 290.634                            |   |
| Prior Period Profit  | -                                  |   |
| Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period's Profit   | -                                  |   |
| Minority Shares  | -                                  |   |
| <b>Common Equity Tier I Capital Before Deductions</b>  | <b>2.650.538</b>                   |   |
| <b>Deductions From Common Equity Tier I Capital</b>  |                                    |   |
| 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  | 49.065                             |   |
| 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  | 118.344                            | 147.930   |
| Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)  | 48.221                             |   |
| Differences arise when assets and liabilities not held at fair value, are subjected to cash flow hedge accounting  | -                                  |   |
| Total credit losses that exceed total expected loss calculated according to the Regulation on Calculation of Credit Risk by Internal Ratings Based Approach  | -                                  |   |
| Securitization gains   | -                                  |   |
| 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  | -                                  |   |
| <b>Total Deductions from Common Equity Tier I Capital</b>  | <b>234.910</b>                     |   |
| <b>Total Common Equity Tier I Capital</b>  | <b>2.415.628</b>                   |   |



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

|   | Current Period<br>31 December 2017 | Amount as per<br>the regulation<br>before<br>1.1.2014 (*) |
|---|------------------------------------|---|
| <b>ADDITIONAL TIER I CAPITAL</b>  |                                    |   |
| 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)   | -                                  |   |
| Third parties’ share in the Additional Tier I capital   | -                                  |   |
| Third parties’ share in the Additional Tier I capital (Temporary Article 3)   | -                                  |   |
| <b>Additional Tier I Capital before Deductions</b>  |                                    |   |
| <b>Deductions from Additional Tier I Capital</b>  |                                    |   |
| 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   | -                                  |   |
| <b>Items to be Deducted from Tier I Capital during the Transition Period</b>  |                                    |   |
| 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 (-)   | 29.586                             |   |
| 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 (-)   | -                                  |   |
| <b>Total Deductions from Additional Tier I Capital</b>  | <b>41.641</b>                      |   |
| <b>Total Additional Tier I Capital</b>  |                                    |   |
| <b>Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)</b>  | <b>2.373.987</b>                   |   |
| <b>TIER II CAPITAL</b>  |                                    |   |
| 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)   | -                                  |   |
| Third parties’ share in the Additional Tier II capital  | -                                  |   |
| Third parties’ share in the Additional Tier II capital (Temporary Article 3)  | -                                  |   |
| Provisions (Amounts explained in the first paragraph of the article 8 of the Regulation on Bank Capital)  | 210.296                            |   |
| <b>Total Deductions from Tier II Capital</b>  | <b>1.250.236</b>                   |   |
| <b>Deductions from Tier II Capital</b>  |                                    |   |
| 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  |                                    |   |
| Exceeding the 10% Threshold of Tier I Capital (-)   | -                                  |   |
| Other items to be defined by the BRSA (-)   | 190                                |   |
| <b>Total Deductions from Tier II Capital</b>  | <b>190</b>                         |   |
| <b>Total Tier II Capital</b>  | <b>1.250.046</b>                   |   |
| <b>Total Equity (Total Tier I and Tier II Capital)</b>  | <b>3.624.033</b>                   |   |
| <b>Amounts Deducted from Equity</b>   |                                    |   |
| 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                              |   |
| <b>Items to be Deducted from the Sum of Tier I and Tier II Capital (Capital) During the Transition Period</b>   |                                    |   |
| 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<br>31 December 2017 | Amount as per the<br>regulation before<br>1.1.2014 (*) |
|---|------------------------------------|--|
| <b>CAPITAL</b>  |                                    |  |
| Total Capital ( Total of Tier I Capital and Tier II Capital )   | 3.621.536                          |  |
| Total Risk Weighted Assets  | 20.490.345                         |  |
| <b>CAPITAL ADEQUACY RATIOS</b>  |                                    |  |
| Consolidated CET1 Capital Ratio (%)   | 11,79                              |  |
| Consolidated Tier I Capital Ratio (%)   | 11,59                              |  |
| Consolidated Capital Adequacy Ratio (%)   | 17,67                              |  |
| <b>BUFFERS</b>  |                                    |  |
| 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 (%)                     | 6,04                               |  |
| <b>Amounts Lower Than Excesses as per Deduction Rules</b>   |                                    |  |
| 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  | -                                  |  |
| <b>Limits for Provisions Used in Tier II Capital Calculation</b>  |                                    |  |
| General Loan Provisions for Exposures in Standard Approach (before limit of one hundred and twenty five per ten thousand)   | 430.929                            |  |
| General Loan Provisions for Exposures in Standard Approach Limited by 1,25% of Risk Weighted Assets   | 210.296                            |  |
| Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach   | -                                  |  |
| Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach, Limited by 0,6% Risk Weighted Assets     | -                                  |  |
| <b>Debt Instruments Covered by Temporary Article 4 (effective between 1.1.2018-1.1.2022)</b>  |                                    |  |
| Upper Limit for Additional Tier I Capital Items subject to Temporary Article 4  | -                                  |  |
| Amount of Additional Tier I Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit   | -                                  |  |
| Upper Limit for Additional Tier II Capital Items subject to Temporary Article 4   | -                                  |  |
| Amount of Additional Tier II Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit  | -                                  |  |

(\*) Amounts to be recognized under transition regulations.

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EQUITY (Continued)**

|  | Prior Period<br>31 December 2016 | Amount as per the<br>regulation before<br>1.1.2014 (*) |
|--|----------------------------------|--|
| <b>COMMON EQUITY TIER I CAPITAL</b>  |                                  |  |
| Paid-in Capital to be Entitled for Compensation after All Creditors  | 652.290                          |  |
| Share Premium  | -                                |  |
| Legal Reserves   | 1.707.613                        |  |
| Other Comprehensive Income according to TAS  | -                                |  |
| Profit   | -                                |  |
| Net Current Period Profit  | -                                |  |
| Prior Period Profit  | -                                |  |
| Bonus Shares from Associates, Subsidiaries and Joint-Ventures not Accounted in Current Period’s Profit   | -                                |  |
| Minority Shares  | -                                |  |
| <b>Tier I Capital Before Deductions</b>  | <b>2.359.903</b>                 |  |
| <b>Deductions From Tier I Capital</b>  |                                  |  |
| 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  | 27.993                           |  |
| Leasehold Improvements on Operational Leases (-)   | 6.613                            |  |
| Goodwill and Intangible Assets and Related Deferred Tax Liabilities (-)  | -                                |  |
| Other Intangible Assets Netted with Deferred Tax Liabilities Except Mortgage Servicing Rights  | 75.521                           | 125.868  |
| 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 due to changes in own credit risk on fair value of Bank’s liabilities  | -                                |  |
| 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  | -                                |  |
| Net Deferred Tax Assets arising from Temporary Differences Exceeding the 10% Threshold of Tier I Capital   | -                                |  |
| Amount Exceeding the 15% Threshold of Tier I Capital as per the Article 2, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks  | -                                |  |
| 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 not deducted from Tier I Capital  | -                                |  |
| Mortgage Servicing Rights not deducted   | -                                |  |
| Excess Amount arising from Deferred Tax Assets from 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  | -                                |  |
| <b>Total Deductions from Common Equity Tier I Capital</b>  | <b>110.127</b>                   |  |
| <b>Total Common Equity Tier I Capital</b>  | <b>2.249.776</b>                 |  |
| <b>ADDITIONAL CORE CAPITAL</b>   |                                  |  |
| Preferred Stock not Included in Tier I Capital and the Related Share Premiums  | -                                |  |
| Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued or Obtained after 1.1.2014)   | -                                |  |
| Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued or Obtained before 1.1.2014)  | -                                |  |
| Third parties’ share in the Additional Tier I capital  | -                                |  |
| Third parties’ share in the Additional Tier I capital (Temporary Article 3)  | -                                |  |
| <b>Additional Core Capital before Deductions</b>   | <b>-</b>                         |  |
| <b>Deductions from Additional Core Capital</b>   |                                  |  |
| Direct and Indirect Investments of the Bank on its own Additional Core Capital   | -                                |  |
| Investments of Bank to Banks that invest in Bank’s additional equity and components of equity issued by financial institutions with compatible with Article 7  | -                                |  |
| 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                                  | -                                |  |
| 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  | -                                |  |
| <b>Deductions from Core Capital</b>  | <b>-</b>                         |  |
| 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 (-)                                  | 50.347                           |  |
| 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 (-)   | -                                |  |
| Deductions from Additional Core Capital in cases where there are no adequate Tier II Capital (-)   | -                                |  |
| <b>Total Deductions from Additional Core Capital</b>   | <b>50.347</b>                    |  |
| <b>Total Additional Core Capital</b>   | <b>-</b>                         |  |
| <b>Total Core Capital (Total Capital = Core Capital + Additional Core Capital)</b>   | <b>2.199.429</b>                 |  |

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|   | Prior Period<br>31 December 2016 | Amount as per<br>the regulation<br>before<br>01.01.2014 (*) |
|---|----------------------------------|---|
| <b>TIER II CAPITAL</b>  |                                  |   |
| Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued or Obtained after 1.1.2014)  | 1.905.804                        |   |
| Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued Or Obtained before 1.1.2014)   | -                                |   |
| Third parties’ share in the Additional Tier II capital  | -                                |   |
| Third parties’ share in the Additional Tier II capital (Temporary Article 3)  | -                                |   |
| General Provisions  | 210.568                          |   |
| <b>Total Deductions from Tier II Capital</b>  | <b>2.116.372</b>                 |   |
| <b>Deductions from Tier II Capital</b>  |                                  |   |
| Direct and Indirect Investments of the Bank on its own Tier II Capital (-)  | -                                |   |
| Investments of Bank to Banks that invest in Bank’s Tier II and components of equity issued by financial institutions with the conditions declared in Article 8  | -                                |   |
| 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                              |   |
| <b>Total Deductions from Tier II Capital</b>  | <b>214</b>                       |   |
| <b>Total Tier II Capital</b>  | <b>2.116.158</b>                 |   |
| <b>Total Equity (Total Tier I and Tier II Capital)</b>  | <b>4.315.587</b>                 |   |
| <b>Amounts Deducted from Equity</b>   |                                  |   |
| 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                            |   |
| <b>Items to be Deducted from the Sum of Tier I and Tier II Capital (Capital) During the Transition Period</b>   |                                  |   |
| 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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**I. EXPLANATIONS RELATED TO COMPONENTS OF CONSOLIDATED SHAREHOLDERS' EQUITY (Continued)**

|   | Prior Period<br>31 December 2016 | Amount as per<br>the regulation before<br>1.1.2014 (*) |
|---|----------------------------------|--|
| <b>CAPITAL</b>  |                                  |  |
| Total Capital ( Total of Tier I Capital and Tier II Capital )   | 4.305.490                        |  |
| Total Risk Weighted Assets  | 20.918.968                       |  |
| <b>CAPITAL ADEQUACY RATIOS</b>  |                                  |  |
| Consolidated CET1 Capital Ratio (%)   | 10,75                            |  |
| Consolidated Tier I Capital Ratio (%)   | 10,51                            |  |
| Consolidated Capital Adequacy Ratio (%)   | 20,58                            |  |
| <b>BUFFERS</b>  |                                  |  |
| 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 (%)                     | 5,64                             |  |
| <b>Amounts Lower Than Excesses as per Deduction Rules</b>   |                                  |  |
| 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  | -                                |  |
| <b>Limits for Provisions Used in Tier II Capital Calculation</b>  |                                  |  |
| General Loan Provisions for Exposures in Standard Approach (before limit of one hundred and twenty five per ten thousand)   | 481.729                          |  |
| Up to 1,25% of total risk-weighted amount of general reserves for receivables where the standard approach used  | 210.568                          |  |
| 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      | -                                |  |
| <b>Debt instruments subjected to Article 4 (to be implemented between 1 January 2018 and 1 January 2022)</b>  |                                  |  |
| Upper limit for Additional Tier 1 Capital subjected to temporary Article 4  | -                                |  |
| Amounts Excess the Limits of Additional Tier 1 Capital subjected to temporary Article 4   | -                                |  |
| Upper limit for Additional Tier 2 Capital subjected to temporary Article 4  | -                                |  |
| Amounts Excess the Limits of Additional Tier 2 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 Parent 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 Parent 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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**I. EXPLANATIONS RELATED TO COMPONENTS OF CONSOLIDATED SHAREHOLDERS’ EQUITY (Continued)**

**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 share Capital.

**II. EXPLANATIONS ON CONSOLIDATED 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;**

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#### II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)

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.

The Parent 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.

#### **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.

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**II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)**

**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.

**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 Parent 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<br>Risk Amount | Average<br>Risk Amount(*) |
|--|-------------------------------|---------------------------|
| Conditional and unconditional receivables from central governments or central banks                | 5.266.580                     | 6.942.083                 |
| 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 organisations                         | -                             | -                         |
| Conditional and unconditional receivables from banks and brokerage houses                          | 2.612.571                     | 2.934.712                 |
| Conditional and unconditional corporate receivables  | 11.926.084                    | 10.815.561                |
| Conditional and unconditional retail receivables   | 4.146.869                     | 4.480.935                 |
| Conditional and unconditional receivables secured by mortgages                                     | 696.616                       | 768.924                   |
| Past due receivables   | 289.673                       | 366.531                   |
| 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  | 417.945                       | 436.962                   |
| <b>Total</b>   | <b>25.356.405</b>             | <b>26.745.775</b>         |

(\*) 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 CONSOLIDATED CREDIT RISK (Continued)**

| <b>Risk Classifications</b>  | <b>Prior Period Risk Amount</b> | <b>Average Risk Amount(*)</b> |
|--|---------------------------------|-------------------------------|
| Conditional and unconditional receivables from central governments or central banks                | 3.178.373                       | 5.301.627                     |
| 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 organisations                         | -                               | -                             |
| Conditional and unconditional receivables from banks and brokerage houses                          | 3.319.731                       | 3.238.789                     |
| Conditional and unconditional corporate receivables  | 9.014.374                       | 11.579.347                    |
| Conditional and unconditional retail receivables   | 5.269.793                       | 6.020.500                     |
| Conditional and unconditional receivables secured by mortgages                                     | 1.039.914                       | 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  | 436.586                         | 547.658                       |
| <b>Total</b>   | <b>22.727.648</b>               | <b>28.738.531</b>             |

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

**b. Control limits on position of the Parent 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’s Bank 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.

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

As of 31 December 2017, the Parent 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.

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**II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)**

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

|   | Current Period<br>31 December 2017 |          | Prior Period<br>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                       | -                                  | -        | -                                | -        |
| <b>Total</b>                            | <b>22</b>                          | <b>-</b> | <b>36</b>                        | <b>-</b> |

**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 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 Parent 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.

**f. The proportion of the Group’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 Group’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 Group’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 Parent Bank: TL 430.929 (31 December 2016: TL 481.729).**

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**II. EXPLANATIONS ON CONSOLIDATED 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<br>31 December 2017         | Risk Categories (***) |          |           |          |          |                  |                   |                  |                |                |          |          |          |          |          |          |                |                   |
|--|-----------------------|----------|-----------|----------|----------|------------------|-------------------|------------------|----------------|----------------|----------|----------|----------|----------|----------|----------|----------------|-------------------|
|  | 1                     | 2        | 3         | 4        | 5        | 6                | 7                 | 8                | 9              | 10             | 11       | 12       | 13       | 14       | 15       | 16       | 17             | Total             |
| Domestic                                   | 5.266.580             | -        | 67        | -        | -        | 1.027.212        | 11.865.652        | 4.132.053        | 689.535        | 289.663        | -        | -        | -        | -        | -        | -        | 417.945        | 23.688.707        |
| European Union Countries                   | -                     | -        | -         | -        | -        | 988.651          | 60.422            | 6.936            | 3.922          | 10             | -        | -        | -        | -        | -        | -        | -              | 1.059.941         |
| 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 (**)    | -                     | -        | -         | -        | -        | -                | -                 | -                | -              | -              | -        | -        | -        | -        | -        | -        | -              | -                 |
| <b>TOTAL</b>                               | <b>5.266.580</b>      | <b>-</b> | <b>67</b> | <b>-</b> | <b>-</b> | <b>2.612.571</b> | <b>11.926.084</b> | <b>4.146.869</b> | <b>696.616</b> | <b>289.673</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>417.945</b> | <b>25.356.405</b> |

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

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

(\*\*\*) 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 organisations
- 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 CONSOLIDATED CREDIT RISK (Continued)**

| Prior Period<br>31 December 2016          | Risk Categories (***) |          |           |          |          |                  |                  |                  |                  |                |          |          |          |          |          |          |          |                |                   |
|---|-----------------------|----------|-----------|----------|----------|------------------|------------------|------------------|------------------|----------------|----------|----------|----------|----------|----------|----------|----------|----------------|-------------------|
|   | 1                     | 2        | 3         | 4        | 5        | 6                | 7                | 8                | 9                | 10             | 11       | 12       | 13       | 14       | 15       | 16       | 17       | Total          |                   |
| Domestic                                  | 3.031.240             | -        | 60        | -        | -        | 936.179          | 8.883.130        | 5.249.742        | 1.027.588        | 463.919        | -        | -        | -        | -        | -        | -        | 436.316  | 20.028.174     |                   |
| European Union Countries                  | -                     | -        | -         | -        | -        | 1.241.263        | 102.742          | 5.769            | 7.231            | 40             | -        | -        | -        | -        | -        | -        | -        | 1.357.045      |                   |
| 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 | -                     | -        | -         | -        | -        | -                | -                | -                | -                | -              | -        | -        | -        | -        | -        | -        | -        | 270            |                   |
| Undistributed Assets / Liabilities (**)   | -                     | -        | -         | -        | -        | -                | -                | -                | -                | -              | -        | -        | -        | -        | -        | -        | -        | -              |                   |
| <b>TOTAL</b>                              | <b>3.178.373</b>      | <b>-</b> | <b>60</b> | <b>-</b> | <b>-</b> | <b>3.319.731</b> | <b>9.014.374</b> | <b>5.269.793</b> | <b>1.039.914</b> | <b>468.817</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>436.586</b> | <b>22.727.648</b> |

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

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

(\*\*\*) 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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- 5 Conditional and unconditional receivables from international organisations
- 6 Conditional and unconditional receivables from banks and brokerage houses
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- 8 Conditional and unconditional retail receivables
- 9 Conditional and unconditional receivables secured by mortgages
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II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)

i. Risk Profile According to Sectors and Counterparties:

| Current Period<br>31 December 2017<br>Sectors/Counterparties | Risk Categories (*) |          |           |          |          |                  |                   |                  |                |                |          |          |          |          |          |          | TL       | FC             | Total             |                   |                   |
|--|---------------------|----------|-----------|----------|----------|------------------|-------------------|------------------|----------------|----------------|----------|----------|----------|----------|----------|----------|----------|----------------|-------------------|-------------------|-------------------|
|  | 1                   | 2        | 3         | 4        | 5        | 6                | 7                 | 8                | 9              | 10             | 11       | 12       | 13       | 14       | 15       | 16       |          |                |                   | 17                |                   |
| <b>Agricultural</b>  | -                   | -        | -         | -        | -        | -                | 88.645            | 481              | -              | 244            | -        | -        | -        | -        | -        | -        | -        | 39.713         | 49.657            | 89.370            |                   |
| Farming and Raising  | -                   | -        | -         | -        | -        | -                | -                 | -                | -              | -              | -        | -        | -        | -        | -        | -        | -        | -              | -                 | -                 | -                 |
| Livestock  | -                   | -        | -         | -        | -        | -                | 59.635            | 393              | -              | 215            | -        | -        | -        | -        | -        | -        | -        | 39.452         | 20.791            | 60.243            |                   |
| Forestry   | -                   | -        | -         | -        | -        | -                | 107               | 81               | -              | 29             | -        | -        | -        | -        | -        | -        | -        | 217            | -                 | 217               |                   |
| Fishing  | -                   | -        | -         | -        | -        | -                | 28.903            | 7                | -              | -              | -        | -        | -        | -        | -        | -        | -        | 44             | 28.866            | 28.910            |                   |
| <b>Industry</b>  | -                   | -        | -         | -        | -        | -                | 6.466.974         | 94.769           | 106.756        | 85.237         | -        | -        | -        | -        | -        | -        | 417.945  | 3.632.634      | 3.539.047         | 7.171.681         |                   |
| Mining and Quarrying   | -                   | -        | -         | -        | -        | -                | 15.176            | 194              | -              | 3.499          | -        | -        | -        | -        | -        | -        | -        | 4.277          | 14.592            | 18.869            |                   |
| Production   | -                   | -        | -         | -        | -        | -                | 5.900.846         | 91.837           | 106.756        | 81.696         | -        | -        | -        | -        | -        | -        | 417.945  | 3.561.364      | 3.037.716         | 6.599.080         |                   |
| Electricity, Gas, Water                                      | -                   | -        | -         | -        | -        | -                | 550.952           | 2.738            | -              | 42             | -        | -        | -        | -        | -        | -        | -        | 66.993         | 486.739           | 553.732           |                   |
| <b>Construction</b>  | -                   | -        | -         | -        | -        | -                | 924.102           | 6.227            | 44.694         | 10.429         | -        | -        | -        | -        | -        | -        | -        | 79.315         | 906.137           | 985.452           |                   |
| <b>Services</b>  | 5.266.580           | -        | -         | -        | -        | 2.612.571        | 3.377.760         | 28.303           | 166.687        | 41.641         | -        | -        | -        | -        | -        | -        | -        | 6.220.783      | 5.272.759         | 11.493.542        |                   |
| Wholesale and Retail Trade                                   | -                   | -        | -         | -        | -        | -                | 1.934.995         | 19.513           | 5.622          | 39.447         | -        | -        | -        | -        | -        | -        | -        | 1.044.458      | 955.119           | 1.999.577         |                   |
| Hotel and Beverage Service                                   | -                   | -        | -         | -        | -        | -                | 297.013           | 277              | 8.720          | 1.872          | -        | -        | -        | -        | -        | -        | -        | 285.483        | 22.399            | 307.882           |                   |
| Transportation and   | -                   | -        | -         | -        | -        | -                | -                 | -                | -              | -              | -        | -        | -        | -        | -        | -        | -        | -              | -                 | -                 |                   |
| Telecommunication  | -                   | -        | -         | -        | -        | -                | 730.424           | 4.008            | 16.400         | 296            | -        | -        | -        | -        | -        | -        | -        | 237.179        | 513.949           | 751.128           |                   |
| Financial Institutions                                       | 5.266.580           | -        | -         | -        | -        | 2.612.571        | 54.367            | 13               | -              | 2              | -        | -        | -        | -        | -        | -        | -        | 4.644.670      | 3.288.863         | 7.933.533         |                   |
| Real Estate and Lending                                      | -                   | -        | -         | -        | -        | -                | -                 | -                | -              | -              | -        | -        | -        | -        | -        | -        | -        | -              | -                 | -                 |                   |
| Service  | -                   | -        | -         | -        | -        | -                | 360.283           | 3.890            | 135.945        | 19             | -        | -        | -        | -        | -        | -        | -        | 7.751          | 492.386           | 500.137           |                   |
| Self-Employment Service                                      | -                   | -        | -         | -        | -        | -                | 1                 | -                | -              | -              | -        | -        | -        | -        | -        | -        | -        | 1              | -                 | 1                 |                   |
| Education Service  | -                   | -        | -         | -        | -        | -                | 199               | 102              | -              | 2              | -        | -        | -        | -        | -        | -        | -        | 303            | -                 | 303               |                   |
| Health and Social Services                                   | -                   | -        | -         | -        | -        | -                | 478               | 500              | -              | 3              | -        | -        | -        | -        | -        | -        | -        | 938            | 43                | 981               |                   |
| <b>Other</b>   | -                   | -        | 67        | -        | -        | -                | 1.068.603         | 4.017.089        | 378.479        | 152.122        | -        | -        | -        | -        | -        | -        | -        | 5.012.404      | 603.956           | 5.616.360         |                   |
| <b>TOTAL</b>   | <b>5.266.580</b>    | <b>-</b> | <b>67</b> | <b>-</b> | <b>-</b> | <b>2.612.571</b> | <b>11.926.084</b> | <b>4.146.869</b> | <b>696.616</b> | <b>289.673</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>417.945</b> | <b>14.984.849</b> | <b>10.371.556</b> | <b>25.356.405</b> |

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

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- 5 Conditional and unconditional receivables from international organisations
- 6 Conditional and unconditional receivables from banks and brokerage houses
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- 8 Conditional and unconditional retail receivables
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II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)

| Prior Period<br>31 December 2016<br>Sectors/Counterparties | Risk Categories (*) |          |           |          |          |                  |                  |                  |                  |                |          |          |          |          |          |          |                | TL                | FC                | Total             |   |
|--|---------------------|----------|-----------|----------|----------|------------------|------------------|------------------|------------------|----------------|----------|----------|----------|----------|----------|----------|----------------|-------------------|-------------------|-------------------|---|
|  | 1                   | 2        | 3         | 4        | 5        | 6                | 7                | 8                | 9                | 10             | 11       | 12       | 13       | 14       | 15       | 16       | 17             |                   |                   |                   |   |
| <b>Agricultural</b>  | -                   | -        | -         | -        | -        | -                | 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            |   |
| <b>Industry</b>  | -                   | -        | -         | -        | -        | 40.116           | 4.757.144        | 125.659          | 100.523          | 114.655        | -        | -        | -        | -        | -        | -        | 436.316        | 2.532.322         | 3.042.091         | 5.574.413         |   |
| Mining and Quarrying                                       | -                   | -        | -         | -        | -        | -                | 21.458           | 1.441            | 2.293            | 5.075          | -        | -        | -        | -        | -        | -        | -              | 7.046             | 23.221            | 30.267            |   |
| Production   | -                   | -        | -         | -        | -        | 40.116           | 4.455.151        | 122.712          | 98.230           | 109.518        | -        | -        | -        | -        | -        | -        | 436.316        | 2.446.787         | 2.815.256         | 5.262.043         |   |
| Electricity, Gas, Water                                    | -                   | -        | -         | -        | -        | -                | 280.535          | 1.506            | -                | 62             | -        | -        | -        | -        | -        | -        | -              | 78.489            | 203.614           | 282.103           |   |
| <b>Construction</b>  | -                   | -        | -         | -        | -        | -                | 1.051.397        | 9.782            | 215.222          | 17.156         | -        | -        | -        | -        | -        | -        | -              | 95.478            | 1.198.079         | 1.293.557         |   |
| <b>Services</b>  | 3.178.373           | -        | 45        | -        | -        | 3.279.503        | 3.136.698        | 68.674           | 55.584           | 59.017         | -        | -        | -        | -        | -        | -        | 270            | 3.466.941         | 6.311.223         | 9.778.164         |   |
| Wholesale and Retail Trade                                 | -                   | -        | -         | -        | -        | -                | 1.326.301        | 39.879           | 51.222           | 48.561         | -        | -        | -        | -        | -        | -        | -              | 703.477           | 762.486           | 1.465.963         |   |
| Hotel and Beverage Service                                 | -                   | -        | -         | -        | -        | -                | 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                                     | 3.178.373           | -        | -         | -        | -        | 3.279.503        | 21.670           | 579              | -                | 2              | -        | -        | -        | -        | -        | -        | 270            | 2.253.642         | 4.226.755         | 6.480.397         |   |
| Real Estate and Lending Service                            | -                   | -        | -         | -        | -        | -                | 5.407            | 339              | -                | -              | -        | -        | -        | -        | -        | -        | -              | 494               | 5.252             | 5.746             |   |
| Self-Employment Service                                    | -                   | -        | 45        | -        | -        | -                | 708.855          | 12.294           | 477              | 387            | -        | -        | -        | -        | -        | -        | -              | 283.744           | 438.314           | 722.058           |   |
| Education Service  | -                   | -        | -         | -        | -        | -                | 229              | 321              | -                | 3              | -        | -        | -        | -        | -        | -        | -              | 553               | -                 | 553               |   |
| Health and Social Services                                 | -                   | -        | -         | -        | -        | -                | 151.600          | 4.622            | 1.079            | 1.963          | -        | -        | -        | -        | -        | -        | -              | 95.143            | 64.121            | 159.264           |   |
| <b>Other</b>   | -                   | -        | 15        | -        | -        | 112              | 35.605           | 5.064.355        | 668.537          | 275.716        | -        | -        | -        | -        | -        | -        | -              | 5.639.855         | 404.485           | 6.044.340         |   |
| <b>TOTAL</b>   | <b>3.178.373</b>    | <b>-</b> | <b>60</b> | <b>-</b> | <b>-</b> | <b>3.319.731</b> | <b>9.014.374</b> | <b>5.269.793</b> | <b>1.039.914</b> | <b>468.817</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>-</b> | <b>436.586</b> | <b>11.751.599</b> | <b>10.976.049</b> | <b>22.727.648</b> |   |

(\*) 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 CONSOLIDATED CREDIT RISK (Continued)**

**j. Term distribution of risks with term structure:**

| <b>Current Period – 31 December 2017</b>   | <b>Time to Maturity</b> |                   |                   |                    |                        | <b>Unallocated</b> |
|--|-------------------------|-------------------|-------------------|--------------------|------------------------|--------------------|
|  | <b>Up to 1 Month</b>    | <b>1-3 Months</b> | <b>3-6 Months</b> | <b>6-12 Months</b> | <b>1 Year and Over</b> |                    |
| <b>Risk Categories</b>   |                         |                   |                   |                    |                        |                    |
| Conditional and unconditional receivables from central governments or central banks                | 3.915.800               | -                 | -                 | -                  | 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 organisations                         | -                       | -                 | -                 | -                  | -                      | -                  |
| Conditional and unconditional receivables from banks and brokerage houses                          | 1.147.129               | 254.770           | 335.049           | 234.308            | 641.315                | -                  |
| Conditional and unconditional corporate receivables  | 2.643.713               | 1.879.586         | 1.576.113         | 1.755.650          | 4.071.022              | -                  |
| Conditional and unconditional retail receivables   | 97.677                  | 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  | 400.995                 | -                 | -                 | -                  | 16.950                 | -                  |
| <b>TOTAL</b>   | <b>8.214.520</b>        | <b>2.207.746</b>  | <b>1.991.489</b>  | <b>2.178.862</b>   | <b>10.474.115</b>      | <b>289.673</b>     |

| <b>Prior Period – 31 December 2016</b>   | <b>Time to Maturity</b> |                   |                   |                    |                        | <b>Unallocated</b> |
|--|-------------------------|-------------------|-------------------|--------------------|------------------------|--------------------|
|  | <b>Up to 1 Month</b>    | <b>1-3 Months</b> | <b>3-6 Months</b> | <b>6-12 Months</b> | <b>1 Year and Over</b> |                    |
| <b>Risk Categories</b>   |                         |                   |                   |                    |                        |                    |
| Conditional and unconditional receivables from central governments or central banks                | 1.921.225               | 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 organisations                         | -                       | -                 | -                 | -                  | -                      | -                  |
| Conditional and unconditional receivables from banks and brokerage houses                          | 1.408.071               | 427.412           | 440.832           | 258.907            | 784.509                | -                  |
| Conditional and unconditional corporate receivables  | 1.356.690               | 1.486.070         | 808.369           | 1.402.242          | 3.961.003              | -                  |
| Conditional and unconditional retail receivables   | 99.418                  | 102.686           | 103.380           | 301.127            | 4.663.182              | -                  |
| Conditional and unconditional receivables secured by mortgages                                     | 8.630                   | 8.797             | 21.530            | 76.897             | 924.060                | -                  |
| 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  | 405.904                 | -                 | -                 | -                  | 30.682                 | -                  |
| <b>TOTAL</b>   | <b>5.199.998</b>        | <b>2.345.328</b>  | <b>1.525.010</b>  | <b>2.285.406</b>   | <b>10.903.089</b>      | <b>468.817</b>     |

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**II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)**

**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.

| 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<br>Aa1<br>Aa2<br>Aa3        | 0%  | 20%  | 20%  |
| 2                      | A1<br>A2<br>A3                  | 20%   | 20%  | 50%  |
| 3                      | Baa1<br>Baa2<br>Baa3            | 50%   | 20%  | 50%  |
| 4                      | Ba1<br>Ba2<br>Ba3               | 100%  | 50%  | 100%   |
| 5                      | B1<br>B2<br>B3                  | 100%  | 50%  | 100%   |
| 6                      | Caa1<br>Caa2<br>Caa3<br>Ca<br>C | 150%  | 150%   | 150%   |



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**II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)**

**I. Risk Amounts according to Risk Weight**

| <b>31 December 2017</b>                 | <b>0%</b> | <b>10%</b> | <b>20%</b> | <b>35%</b> | <b>50%</b> | <b>75%</b> | <b>100%</b> | <b>150%</b> | <b>200%</b> | <b>250%</b> | <b>1250%</b> | <b>Deducted From Equity</b> |
|---|-----------|------------|------------|------------|------------|------------|-------------|-------------|-------------|-------------|--------------|-----------------------------|
| 1. Amount Before Credit Risk Mitigation | 5.456.457 | -          | 1.644.628  | 378.423    | 1.125.738  | 3.938.866  | 12.648.822  | 77.482      | -           | 85.989      | -            | 2.497                       |
| 2. Amount After Credit Risk Mitigation  | 5.456.457 | -          | 1.644.628  | 378.424    | 1.125.738  | 3.938.866  | 12.514.051  | 77.482      | -           | 85.989      | -            | 2.497                       |

| <b>31 December 2016</b>                 | <b>0%</b> | <b>10%</b> | <b>20%</b> | <b>35%</b> | <b>50%</b> | <b>75%</b> | <b>100%</b> | <b>150%</b> | <b>200%</b> | <b>250%</b> | <b>1250%</b> | <b>Deducted From Equity</b> |
|---|-----------|------------|------------|------------|------------|------------|-------------|-------------|-------------|-------------|--------------|-----------------------------|
| 1. Amount Before Credit Risk Mitigation | 1.696.523 | -          | 2.159.729  | 676.057    | 1.197.070  | 5.087.974  | 11.751.658  | 158.637     | -           | -           | -            | 10.097                      |
| 2. Amount After Credit Risk Mitigation  | 1.683.041 | -          | 2.159.729  | 676.057    | 1.197.070  | 5.087.974  | 11.524.376  | 158.637     | -           | -           | -            | 10.097                      |

**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 Parent 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”.

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**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:

| <b>Current Period</b><br>Major Sectors /<br>Counterparty | <b>Credits</b>          |                             |                               |                         |
|--|-------------------------|-----------------------------|-------------------------------|-------------------------|
|  | <b>Impaired Credits</b> | <b>Past due Credits (*)</b> | <b>Value adjustments (**)</b> | <b>Provisions (***)</b> |
| <b>Agricultural</b>                                      | <b>507</b>              | <b>90</b>                   | <b>3</b>                      | <b>260</b>              |
| Farming and Raising Livestock                            | 350                     | 36                          | 1                             | 132                     |
| Forestry   | 40                      | 53                          | 2                             | 11                      |
| Fishing  | 117                     | 1                           | -                             | 117                     |
| <b>Industry</b>  | <b>213.081</b>          | <b>486.540</b>              | <b>19.462</b>                 | <b>126.877</b>          |
| Mining and Quarrying                                     | 4.673                   | 34                          | 1                             | 1.127                   |
| Production   | 208.352                 | 486.501                     | 19.461                        | 125.737                 |
| Electricity, Gas, Water                                  | 56                      | 5                           | -                             | 13                      |
| <b>Construction</b>                                      | <b>15.122</b>           | <b>34.638</b>               | <b>1.386</b>                  | <b>4.641</b>            |
| <b>Services</b>  | <b>71.826</b>           | <b>72.544</b>               | <b>2.902</b>                  | <b>22.469</b>           |
| 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                   |
| <b>Other</b>   | <b>562.675</b>          | <b>175.646</b>              | <b>17.575</b>                 | <b>433.180</b>          |
| <b>Total</b>   | <b>863.211</b>          | <b>769.458</b>              | <b>41.328</b>                 | <b>587.427</b>          |

(\*) Close monitoring amounts.

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

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

| <b>Prior Period</b><br>Major Sectors /<br>Counterparty | <b>Credits</b>          |                             |                               |                         |
|--|-------------------------|-----------------------------|-------------------------------|-------------------------|
|  | <b>Impaired Credits</b> | <b>Past due Credits (*)</b> | <b>Value adjustments (**)</b> | <b>Provisions (***)</b> |
| <b>Agricultural</b>                                    | <b>3.914</b>            | <b>544</b>                  | <b>10</b>                     | <b>1.528</b>            |
| Farming and Raising Livestock                          | 3.672                   | 278                         | 5                             | 1.456                   |
| Forestry   | 207                     | 172                         | 3                             | 59                      |
| Fishing  | 35                      | 94                          | 2                             | 13                      |
| <b>Industry</b>  | <b>274.635</b>          | <b>564.748</b>              | <b>18.285</b>                 | <b>155.414</b>          |
| 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                     |
| <b>Construction</b>                                    | <b>21.316</b>           | <b>43.918</b>               | <b>1.221</b>                  | <b>3.985</b>            |
| <b>Services</b>  | <b>88.685</b>           | <b>74.638</b>               | <b>1.766</b>                  | <b>28.412</b>           |
| 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                   |
| <b>Other</b>   | <b>1.042.416</b>        | <b>343.431</b>              | <b>37.011</b>                 | <b>791.999</b>          |
| <b>Total</b>   | <b>1.430.966</b>        | <b>1.027.279</b>            | <b>58.293</b>                 | <b>981.338</b>          |

(\*) 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 CONSOLIDATED CREDIT RISK (Continued)**

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

| <b>Current Period<br/>31 December 2017</b> | <b>Opening<br/>Balance</b> | <b>Provisions provided<br/>during the period</b> | <b>Provision<br/>Reversals</b> | <b>Other<br/>Adjustments</b> | <b>Closing<br/>Balance</b> |
|--|----------------------------|--|--------------------------------|------------------------------|----------------------------|
| Specific Provisions                        | 981.338                    | 468.087  | (233.101)                      | (628.897)                    | 587.427                    |
| 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.

| <b>Prior Period<br/>31 December 2016</b> | <b>Opening<br/>Balance</b> | <b>Provisions provided<br/>during the period</b> | <b>Provision<br/>Reversals</b> | <b>Other<br/>Adjustments</b> | <b>Closing<br/>Balance</b> |
|--|----------------------------|--|--------------------------------|------------------------------|----------------------------|
| Specific Provisions                      | 786.002                    | 543.005  | (95.600)                       | (252.069)                    | 981.338                    |
| 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.

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

|                               | <b>Commercial Loans</b> | <b>Consumer Loans</b> | <b>Credit Cards</b> | <b>Total</b>   |
|-------------------------------|-------------------------|-----------------------|---------------------|----------------|
| <b>1 January 2017</b>         | <b>191.410</b>          | <b>321.241</b>        | <b>468.687</b>      | <b>981.338</b> |
| 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)      |
| <b>31 December 2017</b>       | <b>155.241</b>          | <b>161.676</b>        | <b>270.510</b>      | <b>587.427</b> |

|                               | <b>Commercial Loans</b> | <b>Consumer Loans</b> | <b>Credit Cards</b> | <b>Total</b>   |
|-------------------------------|-------------------------|-----------------------|---------------------|----------------|
| <b>1 January 2016</b>         | <b>186.734</b>          | <b>234.380</b>        | <b>364.888</b>      | <b>786.002</b> |
| 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                | (83.078)                | (59.080)              | (109.911)           | (252.069)      |
| <b>31 December 2016</b>       | <b>191.411</b>          | <b>321.242</b>        | <b>468.685</b>      | <b>981.338</b> |

**r. Information on types of loans and provisions:**

|  | <b>Commercial Loans</b> | <b>Consumer Loans</b> | <b>Credit Cards</b> | <b>Total</b>      |
|--|-------------------------|-----------------------|---------------------|-------------------|
| <b>Current Period - 31 December 2017</b> |                         |                       |                     |                   |
| Standard loans                           | 10.588.427              | 1.709.748             | 2.273.501           | 14.571.676        |
| Close monitoring loans                   | 600.026                 | 73.687                | 95.745              | 769.458           |
| Non-performing loans                     | 297.881                 | 225.250               | 340.080             | 863.211           |
| Specific provisions (-)                  | 155.241                 | 161.676               | 270.510             | 587.427           |
| <b>Total</b>                             | <b>11.331.093</b>       | <b>1.847.009</b>      | <b>2.438.816</b>    | <b>15.616.918</b> |

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

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**II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)**

|                                       | <b>Commercial Loans</b> | <b>Consumer Loans</b> | <b>Credit Cards</b> | <b>Total</b>      |
|---------------------------------------|-------------------------|-----------------------|---------------------|-------------------|
| <b>Prior Period- 31 December 2016</b> |                         |                       |                     |                   |
| Standard loans                        | 8.033.394               | 2.431.147             | 2.692.420           | 13.156.961        |
| Close monitoring loans                | 683.923                 | 146.143               | 197.213             | 1.027.279         |
| Non-performing loans                  | 386.288                 | 442.523               | 602.155             | 1.430.966         |
| Specific provisions (-)               | 191.411                 | 321.242               | 468.685             | 981.338           |
| <b>Total</b>                          | <b>8.912.194</b>        | <b>2.698.571</b>      | <b>3.023.103</b>    | <b>14.633.868</b> |

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

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

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

**III. EXPLANATIONS ON COUNTER CYCLICAL CAPITAL BUFFER RATIO CALCULATIONS**

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 CONSOLIDATED CURRENCY RISK**

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

In foreign currency risk management, the Group, makes tiny distinctions and generally attentive to not taking long position when organizing the currency risk. In organizing foreign currency positions, the Parent Bank’s 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 Group, 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.

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**IV. EXPLANATIONS ON CONSOLIDATED CURRENCY RISK (Continued)**

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

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

| <b>Current Period – 31 December 2017</b> | <b>USD (\$)</b> | <b>Euro (€)</b> |
|--|-----------------|-----------------|
| <b>Balance Sheet Date</b>                |                 |                 |
| Parent Bank’s Evaluation Rate            | 3,7816          | 4,5332          |
| <b>Prior Balance Sheet Date</b>          |                 |                 |
| 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          |
| <b>Prior Period – 31 December 2016</b>   | <b>USD (\$)</b> | <b>Euro (€)</b> |
| <b>Balance Sheet Date</b>                |                 |                 |
| Parent Bank’s Evaluation Rate            | 3,5263          | 3,7161          |
| <b>Prior Balance Sheet Date</b>          | 3,5263          | 3,7161          |
| 30 December 2016                         |                 |                 |
| 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          |

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

As of December 2017, the Parent 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).

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**IV. EXPLANATIONS ON CONSOLIDATED CURRENCY RISK (Continued)**

**f. Information related to Group’s Currency Risk:**

| <b>Current Period – 31 December 2017</b>  | <b>Euro</b>      | <b>USD</b>         | <b>Other FC</b>  | <b>Total</b>       |
|---|------------------|--------------------|------------------|--------------------|
| <b>Assets</b>   |                  |                    |                  |                    |
| Cash Equivalents (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank 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            | -                  | -                | 8.874              |
| Loans (*)   | 3.323.030        | 2.393.124          | 1.192            | 5.717.346          |
| 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            | 133.935            | 340              | 141.108            |
| <b>Total Assets</b>   | <b>3.984.253</b> | <b>5.953.539</b>   | <b>316.849</b>   | <b>10.254.641</b>  |
| <b>Liabilities</b>  |                  |                    |                  |                    |
| 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   | -                | -                  | -                | -                  |
| Funds Borrowed  | 6.579            | 2.879.588          | -                | 2.886.167          |
| Issued Marketable Securities (Net)  | 9.858            | 3.768              | 4                | 13.630             |
| Miscellaneous Payables  | -                | -                  | -                | -                  |
| Hedging Derivative Financial Liabilities  | -                | -                  | -                | -                  |
| Other Liabilities   | 347.847          | 192.503            | 13.584           | 553.934            |
| <b>Total Liabilities</b>  | <b>3.405.365</b> | <b>10.793.239</b>  | <b>822.061</b>   | <b>15.020.665</b>  |
| <b>Net on Balance Sheet Position</b>  | <b>578.888</b>   | <b>(4.839.700)</b> | <b>(505.212)</b> | <b>(4.766.024)</b> |
| <b>Net Off-Balance Sheet Position</b>   | <b>(768.674)</b> | <b>5.140.225</b>   | <b>518.541</b>   | <b>4.890.092</b>   |
| 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          | 938.930            | 123.682          | 1.874.824          |
| <b>Prior Period - 31 December 2016</b>  |                  |                    |                  |                    |
| Total Assets  | 3.514.009        | 8.741.175          | 402.483          | 12.657.667         |
| Total Liabilities   | 3.439.833        | 9.415.232          | 1.065.968        | 13.921.033         |
| <b>Net on-Balance Sheet Position</b>  | <b>74.176</b>    | <b>(674.057)</b>   | <b>(663.485)</b> | <b>(1.263.366)</b> |
| <b>Net off-Balance Sheet Position</b>   | <b>(173.984)</b> | <b>488.176</b>     | <b>655.357</b>   | <b>969.549</b>     |
| 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          | 996.878            | 110.504          | 1.821.812          |

(\*) 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: TL 47).

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**IV. EXPLANATIONS ON CONSOLIDATED CURRENCY RISK (Continued)**

As of 31 December 2017 and 31 December 2016 if Group'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:

|              | <b>Current Period<br/>31 December 2017</b> |                   | <b>Prior Period<br/>31 December 2016</b> |                   |
|--------------|--|-------------------|--|-------------------|
|              | <b>Income<br/>Statement</b>                | <b>Equity (*)</b> | <b>Income<br/>Statement</b>              | <b>Equity (*)</b> |
| USD          | 30.053                                     | 30.053            | (18.588)                                 | (18.588)          |
| Euro         | (18.979)                                   | (18.979)          | (9.981)                                  | (9.981)           |
| Other        | 1.333                                      | 1.333             | (813)                                    | (813)             |
| <b>Total</b> | <b>12.407</b>                              | <b>12.407</b>     | <b>(29.382)</b>                          | <b>(29.382)</b>   |

(\*) 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 CONSOLIDATED 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 to the fluctuations in global and local markets.

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**V. EXPLANATIONS ON CONSOLIDATED INTEREST RATE RISK (Continued)**

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

| <b>Current Period – 31 December 2017</b>  | <b>Up to 1<br/>Month</b> | <b>1 - 3<br/>Months</b> | <b>3 - 12<br/>Months</b> | <b>1 - 5<br/>Years</b> | <b>5 Years<br/>and Over</b> | <b>Non-Interest<br/>Bearing</b> | <b>Total</b>         |
|---|--------------------------|-------------------------|--------------------------|------------------------|-----------------------------|---------------------------------|----------------------|
| <b>Assets</b>   |                          |                         |                          |                        |                             |                                 |                      |
| Cash Equivalents (Cash in Vault, Foreign<br>Currency Cash,<br>Money in Transit, Cheques Purchased) and<br>Balances with the Central Bank of Turkey<br>Banks | 2.720.612<br>355.407     | -<br>-                  | -<br>-                   | -<br>-                 | -<br>-                      | 1.182.843<br>15.820             | 3.903.455<br>371.227 |
| Financial Assets at Fair Value Through Profit or<br>Loss (Net)  | 154.548                  | 261.374                 | 266.616                  | 263.907                | 14.755                      | 5.420                           | 966.620              |
| Interbank Money Market Placements   | 1.794.965                | -                       | -                        | -                      | -                           | -                               | 1.794.965            |
| Financial Assets Available-for-Sale (Net)   | -                        | 605.364                 | 262.257                  | 414.529                | 66.915                      | 14.441                          | 1.363.506            |
| Loans (*)   | 6.960.030                | 1.530.381               | 2.442.178                | 3.635.034              | 773.513                     | 275.782                         | 15.616.918           |
| Investments Held-to-Maturity (Net)  | -                        | -                       | -                        | -                      | -                           | -                               | -                    |
| Other Assets  | 9.195                    | -                       | 15                       | 163.666                | -                           | 468.541                         | 641.417              |
| <b>Total Assets</b>   | <b>11.994.757</b>        | <b>2.397.119</b>        | <b>2.971.066</b>         | <b>4.477.136</b>       | <b>855.183</b>              | <b>1.962.847</b>                | <b>24.658.108</b>    |
| <b>Liabilities</b>  |                          |                         |                          |                        |                             |                                 |                      |
| Bank Deposits   | 1.451.801                | -                       | -                        | -                      | -                           | 57.602                          | 1.509.403            |
| Other Deposits  | 10.771.214               | 1.277.473               | 158.725                  | 47                     | -                           | 2.632.791                       | 14.840.250           |
| Funds from Interbank Money Market   | -                        | -                       | -                        | -                      | -                           | -                               | -                    |
| Miscellaneous Payables  | 253.891                  | 4.875                   | 3.873                    | 370                    | -                           | -                               | 263.009              |
| 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                | -                           | 3.110.194                       | 4.340.669            |
| <b>Total Liabilities</b>  | <b>14.682.236</b>        | <b>2.226.110</b>        | <b>596.331</b>           | <b>1.272.831</b>       | <b>-</b>                    | <b>5.880.600</b>                | <b>24.658.108</b>    |
| Balance Sheet Long Position   | -                        | 171.009                 | 2.374.735                | 3.204.305              | 855.183                     | -                               | 6.605.232            |
| Balance Sheet Short Position  | (2.687.479)              | -                       | -                        | -                      | -                           | (3.917.753)                     | (6.605.232)          |
| Off Balance Sheet Long Position   | 18                       | -                       | 34.049                   | -                      | -                           | -                               | 34.067               |
| Off Balance Sheet Short Position  | -                        | (144.214)               | -                        | (3.673)                | -                           | -                               | (147.887)            |
| <b>Total Position</b>   | <b>(2.687.461)</b>       | <b>26.795</b>           | <b>2.408.784</b>         | <b>3.200.632</b>       | <b>855.183</b>              | <b>(3.917.753)</b>              | <b>(113.820)</b>     |

(\*) 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 CONSOLIDATED INTEREST RATE RISK (Continued)**

| <b>Prior Period - 31 December 2016</b>  | <b>Up to 1 Month</b> | <b>1 - 3 Months</b> | <b>3 - 12 Months</b> | <b>1 - 5 Years</b> | <b>5 Years and Over</b> | <b>Non-Interest Bearing</b> | <b>Total</b>      |
|---|----------------------|---------------------|----------------------|--------------------|-------------------------|-----------------------------|-------------------|
| <b>Assets</b>   |                      |                     |                      |                    |                         |                             |                   |
| Cash Equivalents (Cash in Vault, Foreign Currency<br>Cash, Money in Transit, Cheques Purchased) and<br>Balances with the Central Bank of Turkey | 1.233.919            | -                   | -                    | -                  | -                       | 535.001                     | 1.768.920         |
| Banks   | 802.822              | -                   | -                    | -                  | -                       | 157.015                     | 959.837           |
| Financial Assets at Fair Value Through Profit or<br>Loss (Net)  | 142.037              | 276.297             | 371.654              | 201.784            | 5.638                   | 8.407                       | 1.005.817         |
| Interbank Money Market Placements   | 4.372.998            | -                   | -                    | -                  | -                       | -                           | 4.372.998         |
| Financial Assets Available-for-Sale (Net)   | -                    | 320.306             | 397.132              | 530.243            | 8.788                   | 8.002                       | 1.264.471         |
| Loans (*)   | 6.116.811            | 690.428             | 2.251.159            | 4.262.436          | 863.406                 | 449.628                     | 14.633.868        |
| Investments Held-to-Maturity (Net)  | -                    | -                   | -                    | -                  | -                       | -                           | -                 |
| Other Assets  | 41.045               | 28.409              | -                    | 2.136              | -                       | 332.409                     | 403.999           |
| <b>Total Assets</b>   | <b>12.709.632</b>    | <b>1.315.440</b>    | <b>3.019.945</b>     | <b>4.996.599</b>   | <b>877.832</b>          | <b>1.490.462</b>            | <b>24.409.910</b> |
| <b>Liabilities</b>  |                      |                     |                      |                    |                         |                             |                   |
| Bank Deposits   | 44.488               | -                   | -                    | -                  | -                       | 123.171                     | 167.659           |
| Other Deposits  | 10.486.157           | 1.174.485           | 190.529              | 256                | -                       | 3.102.986                   | 14.954.413        |
| Funds from Interbank Money Market   | 531.938              | -                   | -                    | -                  | -                       | -                           | 531.938           |
| Miscellaneous Payables  | -                    | -                   | -                    | -                  | -                       | 344.213                     | 344.213           |
| 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                     | 2.810.623                   | 4.086.724         |
| <b>Total Liabilities</b>  | <b>13.654.708</b>    | <b>2.909.785</b>    | <b>463.446</b>       | <b>997.261</b>     | <b>546</b>              | <b>6.384.164</b>            | <b>24.409.910</b> |
| Balance Sheet Long Position   | -                    | -                   | 2.556.499            | 3.999.338          | 877.286                 | -                           | 7.433.123         |
| Balance Sheet Short Position  | (945.076)            | (1.594.345)         | -                    | -                  | -                       | (4.893.702)                 | (7.433.123)       |
| Off Balance Sheet Long Position   | 107.330              | 190.020             | 68.378               | -                  | -                       | -                           | 365.728           |
| Off Balance Sheet Short Position  | -                    | -                   | -                    | (9.500)            | -                       | -                           | (9.500)           |
| <b>Total Position</b>   | <b>(837.746)</b>     | <b>(1.404.325)</b>  | <b>2.624.877</b>     | <b>3.989.838</b>   | <b>877.286</b>          | <b>(4.893.702)</b>          | <b>356.228</b>    |

(\*) Loans consist of factoring transactions 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:**

| <b>Current Period – 31 December 2017</b>  | <b>Euro</b> | <b>USD</b> | <b>Yen</b> | <b>TL</b> |
|---|-------------|------------|------------|-----------|
| <b>Assets</b>   |             |            |            |           |
| Cash Equivalents (Cash in Vault, Foreign<br>Currency Cash, Money in Transit, Cheques<br>Purchased) and Balances with the Central<br>Bank<br>of the Republic of Turkey | -           | -          | -          | 12,75     |
| Banks   | -           | 0,95       | -          | 14,28     |
| Financial Assets at Fair Value Through<br>Interbank Money Market Placements   | 4,48        | 6,65       | -          | 6,14      |
| Financial Assets Available-for-Sale (Net)   | -           | 1,55       | -          | 12,74     |
| Loans   | 3,78        | 4,61       | -          | 12,39     |
| <b>Liabilities</b>  |             |            |            |           |
| 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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| <b>Prior Period – 31 December 2016</b>  | <b>Euro</b> | <b>USD</b> | <b>Yen</b> | <b>TL</b> |
|---|-------------|------------|------------|-----------|
| <b>Assets</b>   |             |            |            |           |
| 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       | -          | 10,60     |
| Financial Assets at Fair Value Through Profit or Loss (Net)   | 5,16        | 7,21       | -          | 7,42      |
| Interbank Money Market Placements   | -           | 0,81       | -          | -         |
| Financial Assets Available-for-Sale (Net)   | -           | -          | -          | 9,29      |
| Loans   | 3,93        | 4,47       | -          | 15,04     |
| <b>Liabilities</b>  |             |            |            |           |
| 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 analyzed 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 Parent Bank’s Banking Book as per Standard Shock Method**

| <b>31 December 2017</b>           | <b>Shocks Applied<br/>(+/- x basis point)</b> | <b>Gains / Losses</b> | <b>Gains / Equity - Losses / Equity</b> |
|-----------------------------------|---|-----------------------|---|
| 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%                                   |
| <b>Total (of negative shocks)</b> |   | <b>227.122</b>        | <b>6,34%</b>                            |
| <b>Total (of positive shocks)</b> |   | <b>(278.695)</b>      | <b>(7,78)%</b>                          |

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| <b>31 December 2016</b>           | <b>Shocks Applied<br/>(+/- x basis point)</b> | <b>Gains /<br/>Losses</b> | <b>Gains / Equity - Losses /<br/>Equity</b> |
|-----------------------------------|---|---------------------------|---|
| 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%                                       |
| <b>Total (of negative shocks)</b> |   | <b>273.362</b>            | <b>6,44%</b>                                |
| <b>Total (of positive shocks)</b> |   | <b>(329.282)</b>          | <b>(7,75)%</b>                              |

**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 Parent 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 CONSOLIDATED LIQUIDITY RISK**

**Information about the liquidity risk management including factors such as risk capacity of the Parent 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 Parent Bank has adopted principle of funding the liquidity and funding management of the Parent Bank with stable funding instruments. Funds required must be available even under stressed conditions particular to the Bank and the Market.

The Parent Bank’s short-term liquidity is managed by the Balance Sheet Management associated Treasury function. 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 inherent risk limits of liquidity. Within approved 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 CONSOLIDATED 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 APSY.

In addition to that, 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 in order to be taken of necessary actions. The aim of these meetings is to ensure that the negative net cash flow of the bank liquidity will not occur and be managed in a way that will not lead to excess 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 Parent Bank and its subsidiaries:**

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

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

Liquidity and funding management of the the Parent 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 are consisted of stable deposit and long-term debt instruments. Within this context, liquidity and funding management is primarily based on the stability of the Parent Bank’s 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. At the same time, 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 than assets.

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

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

Consolidated liquidity measurement of the Parent 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 Parent Bank also uses derivative transactions in order to lower liquidity risks.

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**VII. EXPLANATIONS ON CONSOLIDATED LIQUIDITY RISK (Continued)**

**Explanation of the usage of stress test:**

Along with legal liquidity risk calculations and restrictions, in terms of liquidity management, stress tests and scenario analyses formed up according to the international liquidity management policies of HSBC are used. In these scenarios, liquidity crisis scenarios of the Parent Bank and macro liquidity crisis scenarios are considered. Triggering factors of liquidity risk and prewarning signals are tracked. Analyses and results of 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. 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 Parent 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 to affect the results of liquidity coverage rate because of being liquid 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.
- Fluctuation 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 Parent Bank’s founding sources are consisted of real person and retail deposit, corporate bank deposits, repurchase agreements and borrowings. Deposits that are used for founding consists 66% of total liabilities.

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**VII. EXPLANATIONS ON CONSOLIDATED 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, differences in derivative volumes because of FC derivatives used in the management of cash flows based on currencies and because of 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 aimed. 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               |
| <b>HIGH QUALITY LIQUID ASSETS</b>   |   |                  |   |                  |
| High Quality Liquid Assets  |   |                  | 5.247.230   | 3.000.344        |
| <b>Cash Outflows</b>  |   |                  |   |                  |
| Real person and retail deposits   | 11.800.622  | 8.001.813        | 1.022.687   | 743.053          |
| Stable deposits   | 3.147.502   | 1.142.560        | 157.375   | 57.128           |
| Less stable deposits  | 8.653.120   | 6.859.253        | 865.312   | 685.925          |
| Unsecured debts other than real person and retail deposits  | 3.753.107   | 5.674.757        | 2.149.131   | 2.615.735        |
| Operational deposits  | 89.494  | -                | 4.475   | -                |
| Non-operational deposits  | 564.142   | 326.835          | 433.596   | 225.140          |
| Other unsecured debts   | 3.099.471   | 5.347.922        | 1.711.060   | 2.390.595        |
| Secured debts   | -   | -                | -   | -                |
| Other cash outflows   | 732.160   | 2.857.145        | 732.160   | 2.857.145        |
| Derivative liabilities and collateral completion liabilities  | 732.160   | 2.857.145        | 732.160   | 2.857.145        |
| 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 | 6.762.929   | 420.079          | 734.068   | 142.035          |
| Other irrevocable or revocable (based on conditions) off-the balance sheet debts                              | -   | -                | -   | -                |
| <b>TOTAL CASH OUTFLOWS</b>  |   |                  | <b>4.638.047</b>  | <b>6.357.969</b> |
| <b>Cash inflows</b>   |   |                  |   |                  |
| Secured receivables   | -   | -                | -   | -                |
| Unsecured receivables   | 4.704.417   | 878.885          | 3.088.655   | 769.261          |
| Other cash inflows  | 145.812   | 8.670.808        | 145.812   | 8.670.808        |
| <b>TOTAL CASH INFLOWS</b>   | <b>4.850.229</b>  | <b>9.549.693</b> | <b>3.234.467</b>  | <b>9.440.069</b> |
|   |   |                  | <b>Values to which the upper limit is applied</b>           |                  |
| <b>TOTAL HIGH QUALITY LIQUID ASSETS INVENTORY</b>   |   |                  | <b>5.247.230</b>  | <b>3.000.344</b> |
| <b>TOTAL NET CASH OUTFLOWS</b>  |   |                  | <b>1.403.580</b>  | <b>1.589.492</b> |
| <b>LIQUIDITY COVERAGE RATIO (%)</b>   |   |                  | <b>373,85</b>   | <b>188,76</b>    |

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

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**VII. EXPLANATIONS ON CONSOLIDATED LIQUIDITY RISK (Continued)**

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

|   | Current Period - 31.12.2017                                     |                  |   |                  |
|---|---|------------------|---|------------------|
|   | TL+FC   | FC               | TL+FC   | FC               |
| <b>Highest (%)</b>  | 471,12  |                  |   | 299,73           |
| <b>Date</b>   | 31.10.2017  |                  |   | 17.11.2017       |
| <b>Lowest (%)</b>   | 212,54  |                  |   | 90,40            |
| <b>Date</b>   | 12.10.2017  |                  |   | 11.10.2017       |
| <b>Average (%)</b>  | 373,85  |                  |   | 188,76           |
|   |   |                  | Values to which the upper limit is applied                  |                  |
| <b>Prior Period – 31.12.2016</b>  |   |                  |   |                  |
|   | 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               |
| <b>HIGH QUALITY LIQUID ASSETS</b>   |   |                  |   |                  |
| High Quality Liquid Assets  |   |                  | 5.634.288   | 3.039.004        |
| <b>Cash Outflows</b>  |   |                  |   |                  |
| Real person and retail deposits   | 11.148.748  | 6.344.623        | 903.871   | 556.456          |
| Stable deposits   | 4.220.082   | 1.560.123        | 211.004   | 78.006           |
| Less stable deposits  | 6.928.666   | 4.784.500        | 692.867   | 478.450          |
| Unsecured debts other than real person and retail deposits  | 7.038.220   | 2.659.128        | 4.741.682   | 1.396.234        |
| Operational deposits  | 144.220   | -                | 7.211   | -                |
| Non-operational deposits  | 2.486.139   | 566.070          | 2.324.453   | 456.106          |
| Other unsecured debts   | 4.407.861   | 2.093.058        | 2.410.018   | 940.128          |
| Secured debts   |   |                  |   |                  |
| Other cash outflows   | 36.002  | 1.635.995        | 36.002  | 1.635.995        |
| Derivative liabilities and collateral completion liabilities  | 36.002  | 1.635.995        | 36.002  | 1.635.995        |
| 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 | 4.665.288   | 305.556          | 233.264   | 15.278           |
| Other irrevocable or revocable (based on conditions) off-the balance sheet debts                              | 885.516   | 83.598           | 265.655   | 25.079           |
| <b>TOTAL CASH OUTFLOWS</b>  |   |                  | <b>6.180.474</b>  | <b>3.629.042</b> |
| <b>Cash inflows</b>   |   |                  |   |                  |
| Secured receivables   | -   | -                | -   | -                |
| Unsecured receivables   | 4.720.226   | 2.809.280        | 3.710.664   | 2.681.534        |
| Other cash inflows  | 236.592   | 1.145.040        | 236.592   | 1.145.040        |
| <b>TOTAL CASH INFLOWS</b>   | <b>4.956.818</b>  | <b>3.954.320</b> | <b>3.947.256</b>  | <b>3.826.574</b> |
| <b>TOTAL HIGH QUALITY LIQUID ASSETS INVENTORY</b>   |   |                  | <b>5.634.288</b>  | <b>3.039.004</b> |
| <b>TOTAL NET CASH OUTFLOWS</b>  |   |                  | <b>2.233.218</b>  | <b>907.261</b>   |
| <b>LIQUIDITY COVERAGE RATIO (%)</b>   |   |                  | <b>252,29</b>   | <b>334,96</b>    |

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

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**VII. EXPLANATIONS ON CONSOLIDATED LIQUIDITY RISK (Continued)**

Table below represents lowest, highest and average consolidated liquidity coverage rates by taking their simple averages for the last three month period of 2016.

|                    | Prior Period - 31.12.2016 |            |
|--------------------|---------------------------|------------|
|                    | TL+FC                     | FC         |
| <b>Highest (%)</b> | 362,85                    | 563,37     |
| <b>Date</b>        | 01.12.2016                | 01.12.2016 |
| <b>Lowest (%)</b>  | 169,87                    | 153,35     |
| <b>Date</b>        | 01.11.2016                | 03.10.2016 |
| <b>Average (%)</b> | 252,29                    | 334,96     |

**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             |
|---|--------------------|--------------------|------------------|------------------|------------------|--------------------|--------------------|-------------------|
| <b>Assets</b>   |                    |                    |                  |                  |                  |                    |                    |                   |
| Cash Equivalents (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the CBRT Banks | 1.182.843          | 2.720.612          | -                | -                | -                | -                  | -                  | 3.903.455         |
| Financial Assets at Fair Value through Profit or Loss (Net)   | 5.420              | 118.602            | 66.144           | 222.714          | 510.407          | 43.333             | -                  | 966.620           |
| Interbank Money Market Placements   | -                  | 1.794.965          | -                | -                | -                | -                  | -                  | 1.794.965         |
| Financial Assets Available-for-Sale (Net)   | -                  | -                  | 605.364          | 262.257          | 414.529          | 66.915             | 14.441             | 1.363.506         |
| Loans (*)   | -                  | 5.179.603          | 3.113.035        | 2.623.704        | 3.648.228        | 776.566            | 275.782            | 15.616.918        |
| Investments Held-to-Maturity  | -                  | -                  | -                | -                | -                | -                  | -                  | -                 |
| Other Assets (**)   | -                  | 9.195              | -                | 15               | 163.666          | -                  | 468.541            | 641.417           |
| <b>Total Assets</b>   | <b>1.204.083</b>   | <b>10.171.803</b>  | <b>3.784.543</b> | <b>3.108.690</b> | <b>4.736.830</b> | <b>886.814</b>     | <b>765.345</b>     | <b>24.658.108</b> |
| <b>Liabilities</b>  |                    |                    |                  |                  |                  |                    |                    |                   |
| Bank Deposits   | 57.602             | 1.451.801          | -                | -                | -                | -                  | -                  | 1.509.403         |
| Other Deposits  | 2.632.791          | 10.771.214         | 1.277.473        | 158.725          | 47               | -                  | -                  | 14.840.250        |
| Funds from Interbank Money Market   | -                  | -                  | -                | -                | -                | -                  | -                  | -                 |
| Miscellaneous Payables  | -                  | 253.891            | 4.875            | 3.873            | 370              | -                  | -                  | 263.009           |
| 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             | 3.110.194          | 4.340.669         |
| <b>Total Liabilities</b>  | <b>2.770.406</b>   | <b>12.602.200</b>  | <b>1.706.123</b> | <b>796.013</b>   | <b>2.556.242</b> | <b>1.116.930</b>   | <b>3.110.194</b>   | <b>24.658.108</b> |
| <b>Net Liquidity Excess/Gap</b>   | <b>(1.566.323)</b> | <b>(2.430.397)</b> | <b>2.078.420</b> | <b>2.312.677</b> | <b>2.180.588</b> | <b>(230.116)</b>   | <b>(2.344.849)</b> | <b>-</b>          |
| <b>Net Off-Balance Sheet Position</b>   | <b>-</b>           | <b>8.410</b>       | <b>(143.013)</b> | <b>10.717</b>    | <b>(4.657)</b>   | <b>-</b>           | <b>-</b>           | <b>(128.543)</b>  |
| 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  | 993.808            | 144.032            | 308.679          | 834.106          | 510.889          | 5.614              | -                  | 2.797.128         |
| <b>Prior Period - 31 December 2016</b>  |                    |                    |                  |                  |                  |                    |                    |                   |
| Total Assets  | 483.649            | 11.190.206         | 2.927.485        | 3.041.063        | 5.117.784        | 907.428            | 742.295            | 24.409.910        |
| Total Liabilities   | 3.229.328          | 11.347.614         | 1.366.154        | 820.965          | 2.823.727        | 2.009.649          | 2.812.473          | 24.409.910        |
| <b>Net Liquidity Excess/Gap</b>   | <b>(2.745.679)</b> | <b>(157.408)</b>   | <b>1.561.331</b> | <b>2.220.098</b> | <b>2.294.057</b> | <b>(1.102.221)</b> | <b>(2.070.178)</b> | <b>-</b>          |
| <b>Net Off-Balance Sheet Position</b>   | <b>-</b>           | <b>46.809</b>      | <b>31.092</b>    | <b>171.498</b>   | <b>160.308</b>   | <b>-</b>           | <b>-</b>           | <b>409.707</b>    |
| 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  | 926.690            | 301.508            | 540.880          | 428.034          | 438.806          | 14.482             | -                  | 2.650.400         |

(\*) Loans include 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 CONSOLIDATED LIQUIDITY RISK (Continued)**

**c. Breakdown of liabilities according to their remaining contractual maturities**

| <b>Current Period - 31 December 2017</b> | <b>Demand</b>    | <b>Up to 1 Month</b> | <b>1 - 3 Months</b> | <b>3 - 12 Months</b> | <b>1 - 5 Years</b> | <b>5 Years and Over</b> | <b>Total</b>      |
|--|------------------|----------------------|---------------------|----------------------|--------------------|-------------------------|-------------------|
| Bank Deposits                            | 57.602           | 1.485.350            | -                   | -                    | -                  | -                       | 1.542.952         |
| Other Deposits                           | 2.632.792        | 10.828.172           | 1.284.161           | 161.704              | 48                 | -                       | 14.906.877        |
| Funds From Interbank Money Market        | -                | -                    | -                   | -                    | -                  | -                       | -                 |
| Funds Borrowed                           | 80.013           | -                    | 285.462             | 200.123              | 2.188.835          | 1.563.603               | 4.318.036         |
| <b>Total</b>                             | <b>2.770.407</b> | <b>12.313.522</b>    | <b>1.569.623</b>    | <b>361.827</b>       | <b>2.188.883</b>   | <b>1.563.603</b>        | <b>20.767.865</b> |

| <b>Prior Period - 31 December 2016</b> | <b>Demand</b>    | <b>Up to 1 Month</b> | <b>1 - 3 Months</b> | <b>3 - 12 Months</b> | <b>1 - 5 Years</b> | <b>5 Years and Over</b> | <b>Total</b>      |
|--|------------------|----------------------|---------------------|----------------------|--------------------|-------------------------|-------------------|
| Bank Deposits                          | 123.171          | 44.560               | -                   | -                    | -                  | -                       | 167.731           |
| Other Deposits                         | 3.102.986        | 10.546.934           | 1.182.043           | 193.751              | 271                | -                       | 15.025.985        |
| Funds From Interbank Money Market      | -                | 532.398              | -                   | -                    | -                  | -                       | 532.398           |
| Funds Borrowed                         | 3.171            | -                    | 5.179               | 511                  | 2.449.495          | 2.879.991               | 5.338.347         |
| <b>Total</b>                           | <b>3.229.328</b> | <b>11.123.892</b>    | <b>1.187.222</b>    | <b>194.262</b>       | <b>2.449.766</b>   | <b>2.879.991</b>        | <b>21.064.461</b> |

**d. Information on securitisation positions:**

None.

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

| <b>Current Period - 31 December 2017</b> | <b>Up to 1 month</b> | <b>1-3 months</b> | <b>3-12 months</b> | <b>1-5 years</b> | <b>5 years and Over</b> | <b>Total</b>      |
|--|----------------------|-------------------|--------------------|------------------|-------------------------|-------------------|
| <b>Foreign exchange derivatives:</b>     |                      |                   |                    |                  |                         |                   |
| - 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        |
| <b>Interest rate derivatives:</b>        |                      |                   |                    |                  |                         |                   |
| - Inflow                                 | -                    | 320               | 368                | 41.942           | 27.974                  | 70.604            |
| - Outflow                                | -                    | 287               | 350                | 35.317           | 16.880                  | 52.834            |
| <b>Total Inflow</b>                      | <b>19.780.620</b>    | <b>6.597.991</b>  | <b>5.656.082</b>   | <b>4.535.122</b> | <b>27.974</b>           | <b>36.597.789</b> |
| <b>Total Outflow</b>                     | <b>19.774.450</b>    | <b>6.818.122</b>  | <b>5.643.432</b>   | <b>4.520.279</b> | <b>16.880</b>           | <b>36.773.163</b> |

| <b>Prior Period - 31 December 2016</b> | <b>Up to 1 month</b> | <b>1-3 months</b> | <b>3-12 months</b> | <b>1-5 years</b> | <b>5 years and Over</b> | <b>Total</b>      |
|--|----------------------|-------------------|--------------------|------------------|-------------------------|-------------------|
| <b>Foreign exchange derivatives:</b>   |                      |                   |                    |                  |                         |                   |
| - 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        |
| <b>Interest rate derivatives:</b>      |                      |                   |                    |                  |                         |                   |
| - Inflow                               | 53                   | 753               | 2.101              | 41.437           | 34.450                  | 78.794            |
| - Outflow                              | -                    | 526               | 2.104              | 36.263           | 25.695                  | 64.588            |
| <b>Total Inflow</b>                    | <b>5.473.896</b>     | <b>3.755.666</b>  | <b>6.467.320</b>   | <b>3.954.790</b> | <b>34.450</b>           | <b>19.686.122</b> |
| <b>Total Outflow</b>                   | <b>5.394.478</b>     | <b>3.743.775</b>  | <b>6.180.493</b>   | <b>3.622.279</b> | <b>25.695</b>           | <b>18.966.720</b> |

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**VIII. EXPLANATIONS ON CONSOLIDATED LEVERAGE RATIO**

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

|  | <b>Current Period<br/>31.12.2017 (*)</b> | <b>Prior Period<br/>31.12.2016 (*)</b> |
|--|--|--|
| <b>Assets On the Balance Sheet</b>   |  |  |
| Assets on the balance sheet (excluding derivative financial instruments and loan derivatives, including collaterals) | 25.518.733                               | 23.968.493                             |
| (Assets deducted from core capital)  | (131.192)                                | (83.286)                               |
| <b>Total risk amount for assets on the balance sheet</b>   | <b>25.387.541</b>                        | <b>23.885.207</b>                      |
| <b>Derivative Financial Instruments and Loan Derivatives</b>   |  |  |
| Renewal cost of derivative financial instruments and loan derivatives  | 930.529                                  | 875.210                                |
| Potential credit risk amount of derivative financial instruments and loan derivatives                                | 485.327                                  | 380.549                                |
| <b>Total risk amount of derivative financial instruments and loan derivatives</b>                                    | <b>1.415.856</b>                         | <b>1.255.759</b>                       |
| <b>Financing Transactions With Securities Or Goods Warranties</b>  |  |  |
| 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  | -  | -                                      |
| <b>Total risk amount of financing transactions with securities or goods warranties</b>                               | <b>66.530</b>                            | <b>69.590</b>                          |
| <b>Off-the-Balance Sheet Transactions</b>  |  |  |
| Gross nominal amount of the off-the-balance sheet transactions   | 17.768.493                               | 24.613.139                             |
| Adjustment amount arising from multiplying by the credit conversion rate   | -  | -                                      |
| <b>Total risk amount for off-the-balance sheet transactions</b>  | <b>17.768.493</b>                        | <b>24.613.139</b>                      |
| <b>Capital and Total Risk</b>  |  |  |
| Core capital   | 2.317.316                                | 2.296.224                              |
| <b>Total risk amount</b>   | <b>44.638.420</b>                        | <b>49.823.695</b>                      |
| <b>Leverage Ratio</b>  |  |  |
| <b>Leverage Ratio (%)</b>  | <b>5,19</b>                              | <b>4,61</b>                            |

(\*) Table represents three month average amounts.

|   | <b>Current Period (**)</b> | <b>Prior Period (**)</b> |
|---|----------------------------|--------------------------|
| Total assets in consolidated financial statements prepared in accordance with Turkish Accounting Standards (*)  | 24.057.762                 | 26.889.276               |
| The difference between total assets prepared in accordance with Turkish Accounting Standards and total assets in consolidated financial statements prepared in accordance with the communiqué “Preparation of Consolidated Financial Statements”                      | (3.513.108)                | (137.787)                |
| The difference between the amounts of derivative financial instruments and credit derivatives in consolidated financial statements prepared in accordance with the communiqué “Preparation of Consolidated Financial Statements” and risk amounts of such instruments | (485.327)                  | (380.549)                |
| The difference between the amounts of securities or commodity financing transactions in consolidated financial statements prepared in accordance with the communiqué “Preparation of Consolidated Financial Statements” and risk amounts of such instruments          | 1.996.619                  | 3.537.114                |
| The difference between the amounts of off-balance items in consolidated financial statements prepared in accordance with the Communiqué “Preparation of Consolidated Financial Statements” and risk amounts of such items   | -                          | -                        |
| Other differences between the amounts in consolidated financial statements prepared in accordance with the communiqué “Preparation of Consolidated Financial Statements” and risk amounts of such items   | -                          | -                        |
| <b>Total risk amount</b>  | <b>44.638.420</b>          | <b>49.823.695</b>        |

(\*) Consolidated financial statements prepared in compliance with the Article 6 of the Communiqué 5 “Preparation of Consolidated Financial Statements”.

(\*\*) 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<br>31 December<br>2017 | Prior Period<br>31 December<br>2016 | Current Period<br>31 December<br>2017 | Current Period<br>31 December<br>2016 |
| <b>Financial Assets</b>                   | <b>19.146.616</b>                     | <b>21.231.174</b>                   | <b>19.178.227</b>                     | <b>21.142.767</b>                     |
| Interbank Money Market Placements         | 1.794.965                             | 4.372.998                           | 1.794.965                             | 4.372.998                             |
| Banks                                     | 371.227                               | 959.837                             | 371.227                               | 959.837                               |
| Financial Assets Available-for-Sale (Net) | 1.363.506                             | 1.264.471                           | 1.363.506                             | 1.264.471                             |
| Investments Held-to-Maturity (Net)        | -                                     | -                                   | -                                     | -                                     |
| Loans (*)                                 | 15.616.918                            | 14.633.868                          | 15.648.529                            | 14.545.461                            |
| <b>Financial Liabilities</b>              | <b>20.317.439</b>                     | <b>19.791.248</b>                   | <b>20.492.886</b>                     | <b>19.834.797</b>                     |
| Bank Deposits                             | 1.509.403                             | 167.719                             | 1.509.403                             | 167.719                               |
| Other Deposits                            | 14.840.250                            | 14.954.353                          | 14.872.594                            | 14.981.908                            |
| Borrowings                                | 3.704.777                             | 4.324.963                           | 3.847.880                             | 4.340.957                             |
| Securities Issued                         | -                                     | -                                   | -                                     | -                                     |
| Miscellaneous Payables                    | 263.009                               | 344.213                             | 263.009                               | 344.213                               |

(\*) 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)**

| <b>Current Period - 31 December 2017</b>                     | <b>1st Level</b> | <b>2nd Level</b> | <b>3rd Level</b> | <b>Total</b>     |
|--|------------------|------------------|------------------|------------------|
| <b>Financial Assets at Fair Value Through Profit or Loss</b> | <b>273.001</b>   | <b>693.619</b>   | -                | <b>966.620</b>   |
| - Government debt securities                                 | 273.001          | -                | -                | 273.001          |
| - Share certificates   | -                | -                | -                | -                |
| - Trading derivative financial assets                        | -                | 688.199          | -                | 688.199          |
| - Other securities   | -                | 5.420            | -                | 5.420            |
| <b>Hedging Derivative Financial Assets</b>                   | -                | -                | -                | -                |
| <b>Available for Sale Financial Assets</b>                   | <b>1.349.065</b> | <b>1.342</b>     | -                | <b>1.350.407</b> |
| - Share certificates (*)                                     | -                | -                | -                | -                |
| - Government debt securities                                 | 1.349.065        | -                | -                | 1.349.065        |
| - Other marketable securities                                | -                | -                | -                | -                |
| <b>Total Assets</b>  | <b>1.622.066</b> | <b>694.961</b>   | -                | <b>2.317.027</b> |
| - Trading Derivative Financial Liabilities                   | -                | 739.179          | -                | 739.179          |
| <b>Hedging Derivative Financial Liabilities</b>              | -                | -                | -                | -                |
| <b>Total Liabilities</b>                                     | -                | <b>739.179</b>   | -                | <b>739.179</b>   |

(\*) Unquoted share certificates amounting to TL 14.441 measured at cost in accordance with TAS 39, are not included.

| <b>Prior Period - 31 December 2016</b>                       | <b>1st Level</b> | <b>2nd Level</b> | <b>3rd Level</b> | <b>Total</b>     |
|--|------------------|------------------|------------------|------------------|
| <b>Financial Assets at Fair Value Through Profit or Loss</b> | <b>89.602</b>    | <b>916.215</b>   | -                | <b>1.005.817</b> |
| - Government debt securities                                 | 89.602           | -                | -                | 89.602           |
| - Share certificates   | -                | -                | -                | -                |
| - Trading derivative financial assets                        | -                | 907.808          | -                | 907.808          |
| - Other securities   | -                | 8.407            | -                | 8.407            |
| <b>Hedging Derivative Financial Assets</b>                   | -                | <b>69.454</b>    | -                | <b>69.454</b>    |
| <b>Available for Sale Financial Assets</b>                   | <b>1.256.469</b> | <b>1.342</b>     | -                | <b>1.257.811</b> |
| - Share certificates   | -                | 1.342            | -                | 1.342            |
| - Government debt securities                                 | 1.256.469        | -                | -                | 1.256.469        |
| - Other marketable securities                                | -                | -                | -                | -                |
| <b>Total Assets</b>  | <b>1.346.071</b> | <b>987.011</b>   | -                | <b>2.333.082</b> |
| - Trading Derivative Financial Liabilities                   | -                | 667.258          | -                | 667.258          |
| <b>Hedging Derivative Financial Liabilities</b>              | -                | -                | -                | -                |
| <b>Total Liabilities</b>                                     | -                | <b>667.258</b>   | -                | <b>667.258</b>   |

(\*) Unquoted share certificates amounting to TL 8.002 measured at cost in accordance with TAS 39, are not included.

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

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

The Group 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 Group:**

None.

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**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(Risk Weighted Amount) 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 Parent 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 Parent 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 Parent 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 Parent 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.

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.

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**XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)**

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 organisations. Moreover, it regularly monitors the operations of organisations 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 organisation.

The Risk Management Committee is responsible for monitoring and managing all Parent 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.

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 Parent 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,
- finalising inter-unit matters such as transfer pricing and effective distribution of resources,
- reviewing fund sources and fund utilisation 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.

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**XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)**

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.

**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.

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**XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)**

**2. Overview of Risk Weighted Amounts:**

|   | Risk Weighted Amounts              |                                  | Minimum Capital Requirements       |
|---|------------------------------------|----------------------------------|------------------------------------|
|   | Current Period<br>31 December 2017 | Prior Period<br>31 December 2016 | Current Period<br>31 December 2017 |
| Credit risk (excluding counterparty credit risk) (CCR)                                | 15.838.649                         | 15.926.335                       | 1.267.092                          |
| Standardised approach (SA)  | 15.838.649                         | 15.926.335                       | 1.267.092                          |
| 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   | 578.325                            | 736.575                          | 46.266                             |
| Standardised approach (SA)  | 578.325                            | 736.575                          | 46.266                             |
| Internal model approaches (IMM)   | -                                  | -                                | -                                  |
| Operational risk  | 3.088.379                          | 3.336.981                        | 247.070                            |
| Basic indicator approach  | 3.088.379                          | 3.336.981                        | 247.070                            |
| Standardised approach   | -                                  | -                                | -                                  |
| Advanced measurement approach   | -                                  | -                                | -                                  |
| Amounts below the thresholds for deduction from capital (subject to 250% risk weight) | -                                  | -                                | -                                  |
| Floor adjustment  | -                                  | -                                | -                                  |
| <b>TOTAL</b>  | <b>20.490.345</b>                  | <b>20.918.968</b>                | <b>1.639.228</b>                   |



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**XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)**

**b. Linkages Between Financial Statements and Regulatory Exposures**

**1. Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories**

| 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 |
| <b>Assets</b>  |   |   |                                     |                        |  |
| Cash and balances with the CBRT  | 3.903.455   | 3.903.455                                       | -                                   | -                      | -  |
| Financial assets held for trading  | 966.620   | -   | 688.199                             | 966.620                | -  |
| Financial assets at fair value through profit or loss                      | -   | -   | -                                   | -                      | -  |
| Banks  | 371.227   | 371.227   | -                                   | -                      | -  |
| Interbank Money market placements  | 1.794.965   | -   | 1.794.965                           | -                      | -  |
| Financial assets available for sale (net)                                  | 1.363.506   | 1.363.506                                       | -                                   | -                      | -  |
| Loans and receivables  | 15.222.705  | 15.220.181                                      | -                                   | -                      | 2.524  |
| Factoring receivables  | 394.213   | 394.213   | -                                   | -                      | -  |
| Investments held to maturity (net)   | -   | -   | -                                   | -                      | -  |
| Associates (net)   | -   | -   | -                                   | -                      | -  |
| Subsidiaries (net)   | 220   | 220   | -                                   | -                      | -  |
| Joint ventures (net)   | -   | -   | -                                   | -                      | -  |
| Lease receivables  | -   | -   | -                                   | -                      | -  |
| Derivative financial assets held for risk management (net)                 | -   | -   | -                                   | -                      | -  |
| Tangible assets (net)  | 82.671  | 82.671  | -                                   | -                      | -  |
| Intangible assets (net)  | 147.930   | -   | -                                   | -                      | 147.930  |
| Investment property (net)  | -   | -   | -                                   | -                      | -  |
| Tax asset  | 164.990   | 164.990   | -                                   | -                      | -  |
| Assets held for sale and assets of discontinued operations (net)           | 1.690   | 1.690   | -                                   | -                      | -  |
| Other assets   | 243.916   | 243.916   | -                                   | -                      | -  |
| <b>Total Assets</b>  | <b>24.658.108</b>   | <b>21.746.069</b>                               | <b>2.483.164</b>                    | <b>966.620</b>         | <b>150.454</b>   |
| <b>Liabilities</b>   |   |   |                                     |                        |  |
| Deposits   | 16.349.653  | -   | -                                   | -                      | 16.349.653   |
| 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   | 263.009   | -   | -                                   | -                      | 263.009  |
| Other external fundings payable  | 266.675   | -   | -                                   | -                      | 266.675  |
| Factoring payables   | -   | -   | -                                   | -                      | -  |
| Lease payables   | -   | -   | -                                   | -                      | -  |
| Derivative financial liabilities held for risk management (net)            | -   | -   | -                                   | -                      | -  |
| Provisions   | 683.436   | -   | -                                   | -                      | 683.436  |
| Tax liability  | 44.192  | -   | -                                   | -                      | 44.192   |
| Liabilities held for sale and liabilities of discontinued operations (net) | -   | -   | -                                   | -                      | -  |
| Subordinated debt  | 1.100.050   | -   | -                                   | -                      | 1.100.050  |
| Shareholders' Equity   | 2.607.187   | -   | -                                   | -                      | 2.607.187  |
| <b>Total Liabilities</b>   | <b>24.658.108</b>   | <b>-</b>  | <b>739.179</b>                      | <b>739.179</b>         | <b>24.658.108</b>  |

(\*) Amounts represent consolidated 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 |
| <b>Assets</b>  |   |   |                                     |                        |  |
| Cash and balances with the CBRT  | 1.768.920   | 1.768.920                                       | -                                   | -                      | -  |
| Financial assets held for trading  | 1.005.817   | -   | 907.808                             | 98.009                 | -  |
| Financial assets at fair value through profit or loss                      | -   | -   | -                                   | -                      | -  |
| Banks  | 959.837   | 959.837   | -                                   | -                      | -  |
| Interbank Money market placements  | 4.372.998   | -   | 4.372.998                           | -                      | -  |
| Financial assets available for sale (net)                                  | 1.264.471   | 1.264.471                                       | -                                   | -                      | -  |
| Loans and receivables  | 14.157.560  | 14.147.597                                      | -                                   | -                      | 9.963  |
| Factoring receivables  | 476.308   | 476.308   | -                                   | -                      | -  |
| Investments held to maturity (net)   | -   | -   | -                                   | -                      | -  |
| Associates (net)   | -   | -   | -                                   | -                      | -  |
| Subsidiaries (net)   | 270   | 270   | -                                   | -                      | -  |
| Joint ventures (net)   | -   | -   | -                                   | -                      | -  |
| Lease receivables  | -   | -   | -                                   | -                      | -  |
| Derivative financial assets held for risk management (net)                 | 69.454  | -   | 69.454                              | -                      | -  |
| Tangible assets (net)  | 81.599  | 81.598  | -                                   | -                      | -  |
| Intangible assets (net)  | 128.000   | 2.132   | -                                   | -                      | 125.868  |
| Investment property (net)  | -   | -   | -                                   | -                      | -  |
| Tax asset  | 4.556   | 4.556   | -                                   | -                      | -  |
| Assets held for sale and assets of discontinued operations (net)           | 2.742   | 2.742   | -                                   | -                      | -  |
| Other assets   | 117.378   | 117.378   | -                                   | -                      | -  |
| <b>Total Assets</b>  | <b>24.409.910</b>   | <b>18.825.809</b>                               | <b>5.350.260</b>                    | <b>98.009</b>          | <b>135.831</b>   |
| <b>Liabilities</b>   |   |   |                                     |                        |  |
| Deposits   | 15.122.072  | -   | -                                   | -                      | 15.122.072   |
| 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   | 344.213   | -   | -                                   | -                      | 344.213  |
| Other external fundings payable  | 260.572   | -   | -                                   | -                      | 260.572  |
| Factoring payables   | -   | -   | -                                   | -                      | -  |
| Lease payables   | -   | -   | -                                   | -                      | -  |
| Derivative financial liabilities held for risk management (net)            | -   | -   | -                                   | -                      | -  |
| Provisions   | 776.736   | -   | -                                   | -                      | 776.736  |
| Tax liability  | 44.690  | -   | -                                   | -                      | 44.690   |
| Liabilities held for sale and liabilities of discontinued operations (net) | -   | -   | -                                   | -                      | -  |
| Subordinated debt  | 1.983.954   | -   | -                                   | -                      | 1.983.954  |
| Shareholders' Equity   | 2.337.468   | -   | -                                   | -                      | 2.337.468  |
| <b>Total Liabilities</b>   | <b>24.409.910</b>   | <b>-</b>  | <b>1.199.196</b>                    | <b>667.258</b>         | <b>24.409.910</b>  |

(\*) 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**

| <b>Current Period</b>  |                   | <b>Items subject to</b> | <b>Items subject to</b>         | <b>Items subject to</b> |
|--|-------------------|-------------------------|---------------------------------|-------------------------|
| <b>31 December 2017</b>  | <b>Total</b>      | <b>credit risk</b>      | <b>counterparty credit risk</b> | <b>market risk</b>      |
|  |                   | <b>framework</b>        | <b>framework</b>                | <b>framework</b>        |
| <b>Asset carrying value amount under scope of regulatory consolidation</b>             | <b>24.658.108</b> | <b>21.746.069</b>       | <b>2.483.164</b>                | <b>966.620</b>          |
| Liabilities carrying value amount under regulatory scope of consolidation              | -                 | -                       | 739.179                         | (739.179)               |
| <b>Total net amount under regulatory scope of consolidation</b>                        | <b>24.658.108</b> | <b>21.746.069</b>       | <b>3.222.343</b>                | <b>227.441</b>          |
| Off-balance sheet amounts  | 9.300.326         | 8.015.037               | -                               | -                       |
| 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)                     | 578.325                 |
| Differences due to risk reduction  | -                 | (134.371)               | -                               | -                       |
| Credit valuation adjustment  | -                 | -                       | 228.891                         | -                       |
| <b>Risk Amounts</b>  | <b>-</b>          | <b>23.728.391</b>       | <b>1.530.408</b>                | <b>805.766</b>          |

| <b>Prior Period</b>  |                   | <b>Items subject to</b> | <b>Items subject to</b>         | <b>Items subject to</b> |
|--|-------------------|-------------------------|---------------------------------|-------------------------|
| <b>31 December 2016</b>  | <b>Total</b>      | <b>credit risk</b>      | <b>counterparty credit risk</b> | <b>market risk</b>      |
|  |                   | <b>framework</b>        | <b>framework</b>                | <b>framework</b>        |
| <b>Asset carrying value amount under scope of regulatory consolidation</b>             | <b>24.409.910</b> | <b>18.825.809</b>       | <b>5.350.260</b>                | <b>98.009</b>           |
| Liabilities carrying value amount under regulatory scope of consolidation              | 531.938           | -                       | 1.199.196                       | (667.258)               |
| <b>Total net amount under regulatory scope of consolidation</b>                        | <b>24.941.848</b> | <b>18.825.809</b>       | <b>6.549.456</b>                | <b>(569.249)</b>        |
| 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  | -                 | (7.040.071)             | (5.020.307)                     | 1.305.824               |
| Differences due to risk reduction  | -                 | (226.222)               | (13.482)                        | -                       |
| Credit valuation adjustment  | -                 | -                       | 240.823                         | -                       |
| <b>Risk Amounts</b>  | <b>-</b>          | <b>20.730.394</b>       | <b>1.756.490</b>                | <b>736.575</b>          |

**2. 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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**XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)**

Fair value calculations the Parent 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 Parent 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 Parent 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 Parent 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 a such manner that covers all possible important risk components, in accordance with the Parent 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 Parent Bank’s risk appetite and Parent 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 Parent 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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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 Parent 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 "Comminiqué of Provision". There is no differences for the bank between the definitions of past due and provision made loans.

| <b>Current Period</b>      | <b>Gross carrying values of<br/>(according to TAS)</b> |                                    | <b>Allowances /<br/>Amortisation and<br/>Impairment of value</b> | <b>Net Values</b> |
|----------------------------|--|------------------------------------|--|-------------------|
|                            | <b>Defaulted<br/>Exposures</b>                         | <b>Non-defaulted<br/>Exposures</b> |  |                   |
| <b>31 December 2017</b>    |  |                                    |  |                   |
| Loans                      | 863.211  | 15.341.134                         | 587.427  | 15.616.918        |
| Debt Securities            | -  | 1.629.225                          | 1.739  | 1.627.486         |
| Off-balance sheet exposure | 1.765  | 19.407.925                         | 305  | 19.409.385        |
| <b>Total</b>               | <b>864.976</b>   | <b>36.378.284</b>                  | <b>589.471</b>   | <b>36.653.789</b> |

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

| <b>Prior Period</b>        | <b>Gross carrying values of<br/>(according to TAS)</b> |                                    | <b>Allowances /<br/>Amortisation and<br/>Impairment of value</b> | <b>Net Values</b> |
|----------------------------|--|------------------------------------|--|-------------------|
|                            | <b>Defaulted<br/>Exposures</b>                         | <b>Non-defaulted<br/>Exposures</b> |  |                   |
| <b>31 December 2016</b>    |  |                                    |  |                   |
| Loans                      | 1.430.966  | 14.184.240                         | 981.338  | 14.633.868        |
| Debt Securities            | -  | 1.355.153                          | 675  | 1.354.478         |
| Off-balance sheet exposure | 329  | 14.374.483                         | 206  | 14.374.606        |
| <b>Total</b>               | <b>1.431.295</b>                                       | <b>29.913.876</b>                  | <b>982.219</b>   | <b>30.362.952</b> |

(\*) 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:**

|  | <b>Current Period<br/>31 December<br/>2017</b> | <b>Prior Period<br/>31 December<br/>2016</b> |
|--|--|--|
| <b>I. Defaulted Loans and debt securities at prior period end</b>                    | <b>1.431.297</b>                               | <b>1.245.401</b>                             |
| II. Loans and debt securities that have defaulted since the last reporting period    | 351.075  | 745.541                                      |
| III. Returned to non-defaulted status  | 8.130  | 6.967  |
| IV. Amounts written-off from asset   | 641.607  | 286.605                                      |
| V. Other changes (*)   | (267.659)                                      | (266.075)                                    |
| <b>VI. Defaulted loans and debt securities at current period end (I+II-III-IV±V)</b> | <b>864.976</b>                                 | <b>1.431.295</b>                             |

(\*) 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 Parent 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 Parent 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 Parent 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

|                           | <b>Current Period<br/>31 December 2017</b> | <b>Prior Period<br/>31 December 2016</b> |
|---------------------------|--|--|
| Domestic                  | 15.148.770                                 | 13.724.606                               |
| 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                                  |
| <b>Total</b>              | <b>15.341.134</b>                          | <b>14.184.240</b>                        |

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

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ii. Breakdown by Sector:

|                                 | <b>Current Period</b>   | <b>Prior Period</b>     |
|---------------------------------|-------------------------|-------------------------|
|                                 | <b>31 December 2017</b> | <b>31 December 2016</b> |
| <b>Agriculture</b>              | <b>83.511</b>           | <b>33.505</b>           |
| Farming and Raising Livestock   | 57.392                  | 16.549                  |
| Forestry                        | 52                      | 3.583                   |
| Fishery                         | 26.067                  | 13.373                  |
| <b>Manufacturing</b>            | <b>5.647.484</b>        | <b>3.984.743</b>        |
| Mining and Quarrying            | 15.056                  | 23.515                  |
| Production                      | 5.196.193               | 3.784.154               |
| Electricity, Gas and Water      | 436.235                 | 177.074                 |
| <b>Construction</b>             | <b>991.051</b>          | <b>882.187</b>          |
| <b>Services</b>                 | <b>4.452.820</b>        | <b>3.756.394</b>        |
| 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                 |
| <b>Other</b>                    | <b>4.166.268</b>        | <b>5.527.411</b>        |
| <b>Total</b>                    | <b>15.341.134</b>       | <b>14.184.240</b>       |

**5. Remaining maturity distribution of receivables**

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

**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 sector based on geographical areas:**

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

a) Ageing analysis of accounting past-due exposures:

|                                   | <b>31 December 2017</b> | <b>31 December 2017</b> |
|-----------------------------------|-------------------------|-------------------------|
| 30-60 days past-due exposures (*) | 442.500                 | 797.921                 |
| 60-90 days past-due exposures     | 56.350                  | 93.635                  |
| <b>Total</b>                      | <b>498.850</b>          | <b>891.556</b>          |

(\*) 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).

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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           |

**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<br>31 December 2017 | Exposures<br>unsecured:<br>carrying<br>amount | Exposures<br>secured by<br>collaterals | Exposures<br>secured by<br>collateral, of<br>which:<br>secured<br>amount | Exposures<br>secured by<br>financial<br>guarantees | Exposures secured<br>by financial<br>guarantees, of<br>which: secured<br>amount | Exposures<br>secured by<br>credit<br>derivatives | Exposures<br>secured by<br>credit<br>derivatives,<br>of which:<br>secured<br>amount |
|------------------------------------|---|--|--|--|---|--|---|
| Loans                              | 14.576.815                                    | 1.040.103                              | 679.364  | 4  | 122.729   | -  | -   |
| Debt Securities                    | 1.627.486                                     | -                                      | -  | -  | -   | -  | -   |
| <b>Total</b>                       | <b>16.204.301</b>                             | <b>1.040.103</b>                       | <b>679.364</b>   | <b>4</b>   | <b>122.729</b>  | -  | -   |
| Defaulted                          | 860.691                                       | 3.800                                  | -  | 485  | 485   | -  | -   |

| Prior Period<br>31 December<br>2016 | Exposures<br>unsecured:<br>carrying<br>amount | Exposures<br>secured by<br>collaterals | Exposures<br>secured by<br>collateral,<br>of which:<br>secured<br>amount | Exposures<br>secured by<br>financial<br>guarantees | Exposures secured<br>by financial<br>guarantees, of<br>which: secured<br>amount | Exposures<br>secured by<br>credit<br>derivatives | Exposures<br>secured by<br>credit<br>derivatives,<br>of which:<br>secured<br>amount |
|-------------------------------------|---|--|--|--|---|--|---|
| Loans                               | 13.142.987                                    | 1.490.881                              | 1.086.255  | 254.808  | 210.428   | -  | -   |
| Debt Securities                     | 1.354.478                                     | -                                      | -  | -  | -   | -  | -   |
| <b>Total</b>                        | <b>14.497.465</b>                             | <b>1.490.881</b>                       | <b>1.086.255</b>   | <b>254.808</b>                                     | <b>210.428</b>  | -  | -   |
| Defaulted                           | 1.416.335                                     | 14.593                                 | -  | 367  | 367   | -  | -   |



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**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.

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:

| <b>Definitions</b>                         | <b>Rating</b> |
|--|---------------|
| 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<br>31 December 2017   | Exposures before<br>CCF and CRM |                                | Exposures post-<br>CCF and CRM |                                | Risk Weighted Amount<br>and Risk Weighted<br>Amount density |                                       |
|--|---------------------------------|--------------------------------|--------------------------------|--------------------------------|---|---------------------------------------|
|  | On-balance<br>sheet<br>amount   | Off-balance<br>sheet<br>amount | On-balance<br>sheet<br>amount  | Off-balance<br>sheet<br>amount | Risk<br>Weighted<br>Amount                                  | Risk<br>Weighted<br>Amount<br>density |
| <b>Asset classes</b>   |                                 |                                |                                |                                |   |                                       |
| Exposures to central governments or central banks                              | 5.266.579                       | 6                              | 5.266.579                      | 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  | 1.461.070                       | 1.421.935                      | 1.461.071                      | 1.151.500                      | 916.770   | 35%                                   |
| Exposures to corporates  | 9.946.515                       | 3.197.175                      | 9.939.032                      | 1.976.722                      | 11.916.138  | 100%                                  |
| Retail exposures   | 3.892.898                       | 4.613.147                      | 3.777.055                      | 245.860                        | 3.039.356   | 76%                                   |
| Exposures secured by residential property                                      | 378.226                         | 589                            | 378.226                        | 198                            | 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   | 400.995                         | 64.183                         | 400.994                        | 16.949                         | 142.080   | 34%                                   |
| Investment in equities   | -                               | -                              | -                              | -                              | -   | 0%                                    |
| <b>Total</b>   | <b>21.953.198</b>               | <b>9.300.326</b>               | <b>21.829.388</b>              | <b>3.392.247</b>               | <b>16.823.640</b>   | <b>67%</b>                            |

| Prior Period<br>31 December 2016   | Exposures before<br>CCF and CRM |                                | Exposures post-<br>CCF and CRM |                                | Risk Weighted Amount<br>and Risk Weighted<br>Amount density |                                       |
|--|---------------------------------|--------------------------------|--------------------------------|--------------------------------|---|---------------------------------------|
|  | On-balance<br>sheet<br>amount   | Off-balance<br>sheet<br>amount | On-balance<br>sheet<br>amount  | Off-balance<br>sheet<br>amount | Risk<br>Weighted<br>Amount                                  | Risk<br>Weighted<br>Amount<br>density |
| <b>Asset classes</b>   |                                 |                                |                                |                                |   |                                       |
| Exposures to central governments or central banks                              | 3.178.372                       | 5                              | 3.164.892                      | 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  | 1.753.397                       | 1.993.799                      | 1.753.402                      | 1.566.330                      | 1.229.044   | 37%                                   |
| Exposures to corporates  | 7.246.006                       | 3.024.639                      | 7.123.216                      | 1.762.629                      | 8.886.040   | 100%                                  |
| Retail exposures   | 5.016.373                       | 5.535.174                      | 4.927.982                      | 243.423                        | 3.901.247   | 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                         | -                              | 468.450                        | -                              | 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   | 405.903                         | 152.751                        | 405.903                        | 30.682                         | 158.369   | 36%                                   |
| Investment in equities   | -                               | -                              | -                              | -                              | -   | 0%                                    |
| <b>Total</b>   | <b>19.106.119</b>               | <b>10.715.723</b>              | <b>18.881.095</b>              | <b>3.605.789</b>               | <b>16.845.413</b>   | <b>75%</b>                            |

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XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

3. Standardised Approach-Exposures by asset classes and risk weights

| Current Period<br>31 December 2017   |                  |           |                  |                |                                   |                  |                   |               |          |                       | Total credit risk exposure<br>amount<br>(After CCF and CRM) |
|--|------------------|-----------|------------------|----------------|-----------------------------------|------------------|-------------------|---------------|----------|-----------------------|---|
| Asset Classes/ Risk Weight   | 0%               | 10%       | 20%              | 35%            | 50% secured by<br>real estate (*) | 75%              | 100%              | 150%          | 200%     | Other Risk<br>Weights |   |
| Exposures to central governments or central banks                              | 5.180.591        | -         | -                | -              | -                                 | -                | -                 | -             | -        | 85.989                | 5.266.580   |
| 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                           | -                | 207.657           | 45            | -        | -                     | 2.612.571   |
| Exposures to corporates  | -                | -         | -                | -              | -                                 | -                | 11.914.986        | 768           | -        | -                     | 11.915.754  |
| Retail exposures   | -                | -         | -                | -              | -                                 | 3.938.866        | 81.735            | 2.314         | -        | -                     | 4.022.915   |
| Exposures secured by residential property                                      | -                | -         | -                | 378.424        | -                                 | -                | -                 | -             | -        | -                     | 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 | -                | -         | -                | -              | -                                 | -                | -                 | -             | -        | -                     | -   |
| Investments in equities  | -                | -         | -                | -              | -                                 | -                | -                 | -             | -        | -                     | -   |
| Other assets   | 275.866          | -         | -                | -              | -                                 | -                | 142.077           | -             | -        | -                     | 417.943   |
| <b>Total</b>   | <b>5.456.457</b> | <b>-</b>  | <b>1.644.628</b> | <b>378.424</b> | <b>1.125.738</b>                  | <b>3.938.866</b> | <b>12.514.051</b> | <b>77.482</b> | <b>-</b> | <b>85.989</b>         | <b>25.221.635</b>   |

(\*) 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.

| Prior Period<br>31 December 2016   |                  |           |                  |                |                                   |                  |                   |                |          |                       | Total credit risk exposure<br>amount<br>(After CCF and CRM) |
|--|------------------|-----------|------------------|----------------|-----------------------------------|------------------|-------------------|----------------|----------|-----------------------|---|
| Asset Classes/ Risk Weight   | 0%               | 10%       | 20%              | 35%            | 50% secured by<br>real estate (*) | 75%              | 100%              | 150%           | 200%     | Other Risk<br>Weights |   |
| Exposures to central governments or central banks                              | 1.404.825        | -         | -                | -              | -                                 | -                | 1.760.068         | -              | -        | -                     | 3.164.893   |
| 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                           | -                | 430.592           | 1.801          | -        | -                     | 3.319.732   |
| Exposures to corporates  | -                | -         | -                | -              | -                                 | -                | 8.885.455         | 390            | -        | -                     | 8.885.845   |
| Retail exposures   | -                | -         | -                | -              | -                                 | 5.087.974        | 79.760            | 3.671          | -        | -                     | 5.171.405   |
| Exposures secured by residential property                                      | -                | -         | -                | 676.057        | -                                 | -                | -                 | -              | -        | -                     | 676.057   |
| Exposures secured by commercial real estate                                    | -                | -         | -                | -              | 363.857                           | -                | -                 | -              | -        | -                     | 363.857   |
| Past-due loans   | -                | -         | -                | -              | 105.603                           | -                | 210.072           | 152.775        | -        | -                     | 468.450   |
| 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 assets   | 278.216          | -         | -                | -              | -                                 | -                | 158.369           | -              | -        | -                     | 436.585   |
| <b>Total</b>   | <b>1.683.041</b> | <b>-</b>  | <b>2.159.729</b> | <b>676.057</b> | <b>1.197.070</b>                  | <b>5.087.974</b> | <b>11.524.376</b> | <b>158.637</b> | <b>-</b> | <b>-</b>              | <b>22.486.884</b>   |

(\*) 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 Parent 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 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 (CCR) exposure by approach:**

| <b>Current Period 31 December 2017</b>  | <b>Replacement cost</b> | <b>Potential future exposure</b> | <b>EEPE</b> | <b>Alpha used for computing regulatory exposure at default</b> | <b>Exposure at default post CRM</b> | <b>Risk Weighted Amount</b> |
|---|-------------------------|----------------------------------|-------------|--|-------------------------------------|-----------------------------|
| Standardised Approach - CCR (For Derivatives)   | 675.582                 | 535.997                          |             | 1,4  | 1.211.579                           | 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                                       |                         |                                  |             |  | -                                   | -                           |
| <b>Total</b>  |                         |                                  |             |  |                                     | <b>756.102</b>              |

| <b>Prior Period 31 December 2016</b>  | <b>Replacement cost</b> | <b>Potential future exposure</b> | <b>EEPE</b> | <b>Alpha used for computing regulatory exposure at default</b> | <b>Exposure at default post CRM</b> | <b>Risk Weighted Amount</b> |
|---|-------------------------|----------------------------------|-------------|--|-------------------------------------|-----------------------------|
| 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                                       |                         |                                  |             |  | -                                   | -                           |
| <b>Total</b>  |                         |                                  |             |  |                                     | <b>678.255</b>              |

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**XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)**

**3. Credit valuation adjustment (CVA) capital charge:**

| <b>Current Period</b><br><b>31 December 2017</b>                    | <b>Exposure at default post</b><br><b>CRM</b> | <b>Risk Weighted</b><br><b>Amount</b> |
|---|---|---------------------------------------|
| 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       | 1.211.579                                     | 228.890                               |
| <b>Total subject to the CVA capital charge</b>                      | <b>1.211.579</b>                              | <b>228.890</b>                        |

| <b>Prior Period</b><br><b>31 December 2016</b>                      | <b>Exposure at default post</b><br><b>CRM</b> | <b>Risk Weighted</b><br><b>Amount</b> |
|---|---|---------------------------------------|
| 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                               |
| <b>Total subject to the CVA capital charge</b>                      | <b>1.362.573</b>                              | <b>240.822</b>                        |

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

| <b>Current Period 31 December 2017</b>   |           |            |                |              |            |                |             |              |                                  |
|--|-----------|------------|----------------|--------------|------------|----------------|-------------|--------------|----------------------------------|
| <b>Regulatory Portfolio / Risk weight</b>                                      | <b>0%</b> | <b>10%</b> | <b>20%</b>     | <b>50%</b>   | <b>75%</b> | <b>100%</b>    | <b>150%</b> | <b>Other</b> | <b>Total Credit Exposures(*)</b> |
| 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   | -         | -          | -              | -            | -          | -              | -           | -            | -                                |
| <b>Total</b>   | -         | -          | <b>678.041</b> | <b>5.653</b> | -          | <b>617.667</b> | -           | -            | <b>1.301.361</b>                 |

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

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| Prior Period 31 December 2016<br>Regulatory Portfolio / Risk weight            | 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   | -             | -        | -                | -            | -        | -              | -        | -        | -                         |
| <b>Total</b>   | <b>13.482</b> | <b>-</b> | <b>1.044.331</b> | <b>3.698</b> | <b>-</b> | <b>467.540</b> | <b>-</b> | <b>-</b> | <b>1.529.051</b>          |

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

**5. Composition of collateral for CCR exposure:**

| Current Period<br>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                  | -  | -            | -                               | -            | -                                     | -                               |
| <b>Total</b>                       | <b>-</b>                                   | <b>-</b>     | <b>-</b>                        | <b>-</b>     | <b>1.772.738</b>                      | <b>1.794.965</b>                |

| Prior Period<br>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                | -  | -            | -                               | -            | -                                     | -                               |
| <b>Total</b>                     | <b>-</b>                                   | <b>-</b>     | <b>-</b>                        | <b>-</b>     | <b>4.942.306</b>                      | <b>4.909.323</b>                |

**6. Credit Derivatives**

None.

**7. Exposures to central counterparties**

None.

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**XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)**

**f. Securitization Disclosures**

None.

**g. Explanations on consolidated market risk**

**1. Qualitative disclosure on consolidated 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 Parent 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.

The Parent 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. Backtesting 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.

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**XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)**

**2. Standardised Approach**

|   | Current Period<br>31 December 2017 | Prior Period<br>31 December 2016 |
|---|------------------------------------|----------------------------------|
|   | Risk Weighted Amount               | Risk Weighted Amount             |
| Outright Products                         |                                    |                                  |
| Interest Rate Risk (general and specific) | 408.376                            | 375.886                          |
| Equity Risk (general and specific)        | 5.425                              | 8.588                            |
| Foreign Exchange Risk                     | 158.699                            | 348.488                          |
| Commodity Risk                            | -                                  | -                                |
| Options                                   |                                    |                                  |
| Simplified Approach                       | -                                  | -                                |
| Delta-plus Method                         | 5.825                              | 3.613                            |
| Scenario Approach                         | -                                  | -                                |
| Securitisation                            | -                                  | -                                |
| <b>Total</b>                              | <b>578.325</b>                     | <b>736.575</b>                   |

**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/Positive Year | Rate (%) | Total     |
|--|------------|------------|------------|---------------------|----------|-----------|
| Gross Income   | 1.722.512  | 1.725.241  | 1.493.654  | 1.647.135           | 15       | 247.070   |
| Operational Risk<br>Capital<br>Requirement<br>(Total*12,5) |            |            |            |                     |          | 3.088.379 |

**XII. EXPLANATIONS ON OPERATING SEGMENTS**

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

In the retail banking segment, the Parent 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 Parent Bank provides loans, commercial card, foreign trade financing, structured trading financing, project and export financing, syndications, custodian services, cash and risk management services. In the Corporate and Investment banking segment, the Parent Bank provides loan and investment services, commercial card, insurance products, cash and risk management services to its customers. Also the Parent Bank provides marketable securities transactions, gold and foreign exchange transactions, derivative transactions and money market transactions services to its customers.



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**XII. EXPLANATIONS ON OPERATING SEGMENTS**

|  | <b>Retail<br/>Banking</b> | <b>Corporate and<br/>Investment Banking</b> | <b>Treasury and<br/>Capital Markets</b> | <b>Other</b>     | <b>Group’s Total<br/>Activities</b> |
|--|---------------------------|---|---|------------------|-------------------------------------|
| <b>Current Period – 31 December<br/>2017</b> |                           |   |   |                  |                                     |
| Operating Income                             | 780.123                   | 487.423                                     | 267.574                                 | -                | 1.535.120                           |
| Other  | -                         | -   | -                                       | -                | -                                   |
| <b>Operating Income</b>                      | <b>780.123</b>            | <b>487.423</b>                              | <b>267.574</b>                          | <b>-</b>         | <b>1.535.120</b>                    |
| Segment Net Profit                           | -                         | -   | -                                       | -                | -                                   |
| Undistributed Cost                           | -                         | -   | -                                       | -                | -                                   |
| Operating Profit/(Loss)                      | (176.511)                 | 215.141                                     | 185.872                                 | (69.450)         | 155.052                             |
| <b>Profit before Tax</b>                     | <b>(176.511)</b>          | <b>215.141</b>                              | <b>185.872</b>                          | <b>(69.450)</b>  | <b>155.052</b>                      |
| Corporate Tax Provision(*)                   | -                         | -   | -                                       | 135.582          | 135.582                             |
| <b>Profit after Tax</b>                      | <b>(176.511)</b>          | <b>215.141</b>                              | <b>185.872</b>                          | <b>66.132</b>    | <b>290.634</b>                      |
| Non-Controlling Interest                     | -                         | -   | -                                       | -                | -                                   |
| <b>Net Profit for the Period</b>             | <b>(176.511)</b>          | <b>215.141</b>                              | <b>185.872</b>                          | <b>66.132</b>    | <b>290.634</b>                      |
| Segment Assets                               | 4.349.620                 | 13.693.924                                  | 6.614.344                               | -                | 24.657.888                          |
| Associates and Subsidiaries                  | -                         | -   | -                                       | 220              | 220                                 |
| Undistributed Assets                         | -                         | -   | -                                       | -                | -                                   |
| <b>Total Assets</b>                          | <b>4.349.620</b>          | <b>13.693.924</b>                           | <b>6.614.344</b>                        | <b>220</b>       | <b>24.658.108</b>                   |
| Segment Liabilities                          | 10.993.093                | 7.024.955                                   | 1.816.707                               | 4.823.353        | 24.658.108                          |
| Undistributed Liabilities                    | -                         | -   | -                                       | -                | -                                   |
| <b>Total Liabilities</b>                     | <b>10.993.093</b>         | <b>7.024.955</b>                            | <b>1.816.707</b>                        | <b>4.823.353</b> | <b>24.658.108</b>                   |
| <b>Other Segment Items</b>                   | <b>(444.105)</b>          | <b>(6.597)</b>                              | <b>(12.313)</b>                         | <b>-</b>         | <b>(463.015)</b>                    |
| Capital Investment                           | -                         | -   | -                                       | -                | -                                   |
| Amortization                                 | (29.560)                  | (6.597)                                     | (4.043)                                 | -                | (40.200)                            |
| Impairment                                   | -                         | -   | (8.270)                                 | -                | (8.270)                             |
| Non-Cash Other Income-Expense<br>(**)        | (414.545)                 | -   | -                                       | -                | (414.545)                           |

(\*) Corporate tax provision is not distributed.

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

|  | <b>Retail<br/>Banking</b> | <b>Corporate and<br/>Investment Banking</b> | <b>Treasury and<br/>Capital Markets</b> | <b>Other</b>     | <b>Group’s Total<br/>Activities</b> |
|--|---------------------------|---|---|------------------|-------------------------------------|
| <b>Prior Period – 31 December 2016</b> |                           |   |   |                  |                                     |
| Operating Income                       | 932.284                   | 445.559                                     | 291.258                                 | -                | 1.669.101                           |
| Other                                  | -                         | -   | -                                       | -                | -                                   |
| <b>Operating Income</b>                | <b>932.284</b>            | <b>445.559</b>                              | <b>291.258</b>                          | <b>-</b>         | <b>1.669.101</b>                    |
| Segment Net Profit                     | -                         | -   | -                                       | -                | -                                   |
| Undistributed Cost                     | -                         | -   | -                                       | -                | -                                   |
| Operating Profit                       | (388.523)                 | (53.601)                                    | 205.637                                 | (108.234)        | (344.721)                           |
| <b>Profit before Tax</b>               | <b>(388.523)</b>          | <b>(53.601)</b>                             | <b>205.637</b>                          | <b>(108.234)</b> | <b>(344.721)</b>                    |
| Corporate Tax Provision(*)             | -                         | -   | -                                       | (9.956)          | (9.956)                             |
| <b>Profit after Tax(**)</b>            | <b>(388.523)</b>          | <b>(53.601)</b>                             | <b>205.637</b>                          | <b>(118.190)</b> | <b>(354.677)</b>                    |
| Non-Controlling Interest               | -                         | -   | -                                       | -                | -                                   |
| <b>Net Profit for the Period</b>       | <b>(388.523)</b>          | <b>(53.601)</b>                             | <b>205.637</b>                          | <b>(118.190)</b> | <b>(354.677)</b>                    |
| Segment Assets                         | 6.173.414                 | 12.676.924                                  | 5.559.302                               | -                | 24.409.640                          |
| Associates and Subsidiaries            | -                         | -   | -                                       | 270              | 270                                 |
| Undistributed Assets                   | -                         | -   | -                                       | -                | -                                   |
| <b>Total Assets</b>                    | <b>6.173.414</b>          | <b>12.676.924</b>                           | <b>5.559.302</b>                        | <b>270</b>       | <b>24.409.910</b>                   |
| Segment Liabilities                    | 11.743.513                | 8.150.144                                   | 81.301                                  | 4.434.952        | 24.409.910                          |
| Undistributed Liabilities              | -                         | -   | -                                       | -                | -                                   |
| <b>Total Liabilities</b>               | <b>11.743.513</b>         | <b>8.150.144</b>                            | <b>81.301</b>                           | <b>4.434.952</b> | <b>24.409.910</b>                   |
| <b>Other Segment Items</b>             | <b>(141.247)</b>          | <b>(8.167)</b>                              | <b>(3.284)</b>                          | <b>-</b>         | <b>(152.698)</b>                    |
| Capital Investment                     | -                         | -   | -                                       | -                | -                                   |
| Amortization                           | (36.608)                  | (8.167)                                     | (3.233)                                 | -                | (48.008)                            |
| Impairment                             | -                         | -   | (51)                                    | -                | (51)                                |
| Non-Cash Other Income-Expense<br>(**)  | (104.639)                 | -   | -                                       | -                | (104.639)                           |

(\*) 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 THE CONSOLIDATED FINANCIAL STATEMENTS**

**I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS**

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

**1. Information on cash equivalents and the account of the CBRT:**

|                       | Current Period<br>31 December 2017 |                  | Prior Period<br>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           |
| <b>Total</b>          | <b>1.970.986</b>                   | <b>1.932.469</b> | <b>179.737</b>                   | <b>1.589.183</b> |

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

**2. Information related to the account of the CBRT:**

|                             | Current Period<br>31 December 2017 |                  | Prior Period<br>31 December 2016 |                  |
|-----------------------------|------------------------------------|------------------|----------------------------------|------------------|
|                             | TL                                 | FC               | TL                               | FC               |
| Unrestricted Demand Deposit | 463.564                            | 462.805          | 46.713                           | 2.184            |
| Unrestricted Time Deposits  | 1.436.166                          | 3.801            | -                                | -                |
| Restricted Time Deposits    | -                                  | -                | -                                | -                |
| Reserve Requirements        | -                                  | 1.280.645        | -                                | 1.450.693        |
| <b>Total</b>                | <b>1.899.730</b>                   | <b>1.747.251</b> | <b>46.713</b>                    | <b>1.452.877</b> |

**3. Explanations on reserve requirements:**

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 THE CONSOLIDATED 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<br>31 December 2017 | Prior Period<br>31 December 2016 |
|----------------------|------------------------------------|----------------------------------|
| Collateral/Blocked   | 3.656                              | 10.807                           |
| Repurchase Agreement | -                                  | -                                |
| Unrestricted         | 274.762                            | 87.202                           |
| <b>Total</b>         | <b>278.418</b>                     | <b>98.009</b>                    |

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

|                      | Current Period<br>31 December 2017 |                | Prior Period<br>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                | -                                  | -              | -                                | -              |
| <b>Total</b>         | <b>181.593</b>                     | <b>506.606</b> | <b>594.535</b>                   | <b>313.273</b> |

**c. Information on banks:**

**1. Information on banks and other financial institutions:**

|                                  | Current Period<br>31 December 2017 |                | Prior Period<br>31 December 2016 |                |
|----------------------------------|------------------------------------|----------------|----------------------------------|----------------|
|                                  | TL                                 | FC             | TL                               | FC             |
| <b>Banks</b>                     |                                    |                |                                  |                |
| Domestic                         | 27.294                             | -              | 39.950                           | 1              |
| Foreign                          | 821                                | 343.112        | 42.060                           | 877.826        |
| Foreign Head Office and Branches | -                                  | -              | -                                | -              |
| <b>Total</b>                     | <b>28.115</b>                      | <b>343.112</b> | <b>82.010</b>                    | <b>877.827</b> |

**2. Information on foreign banks balances:**

|                           | Unrestricted Amount                |                                  | Restricted Amount                  |                                  |
|---------------------------|------------------------------------|----------------------------------|------------------------------------|----------------------------------|
|                           | Current Period<br>31 December 2017 | Prior Period<br>31 December 2016 | Current Period<br>31 December 2017 | Prior Period<br>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                          |
| <b>Total</b>              | <b>343.933</b>                     | <b>772.696</b>                   | <b>-</b>                           | <b>147.190</b>                   |

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

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

**I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS (Continued)**

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

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

|                      | <b>Current Period<br/>31 December 2017</b> | <b>Prior Period<br/>31 December 2016</b> |
|----------------------|--|--|
| Collateral/Blocked   | 311.891                                    | 683.332                                  |
| Repurchase Agreement | -  | 536.123                                  |
| Unrestricted         | 1.051.615                                  | 45.016                                   |
| <b>Total</b>         | <b>1.363.506</b>                           | <b>1.264.471</b>                         |

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

|                                 | <b>Current Period<br/>31 December 2017</b> | <b>Prior Period<br/>31 December 2016</b> |
|---------------------------------|--|--|
| <b>Debt Securities</b>          | <b>1.350.779</b>                           | <b>1.257.091</b>                         |
| Quoted to Stock Exchange        | 1.350.779                                  | 1.257.091                                |
| Not Quoted                      | -  | -  |
| <b>Share Certificate</b>        | <b>14.441</b>                              | <b>8.002</b>                             |
| Quoted to Stock Exchange        | -  | -  |
| Not Quoted                      | 14.441                                     | 8.002                                    |
| <b>Impairment Provision (-)</b> | <b>1.714</b>                               | <b>622</b>                               |
| <b>Total</b>                    | <b>1.363.506</b>                           | <b>1.264.471</b>                         |

**e. Information related to loans:**

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

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

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**I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED 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 |       | Loans and Other Receivables                        | Loans and other receivables with revised contract terms |       |
|                                   |                                      | Restructured or Rescheduled                             | Other |  | Restructured or Rescheduled                             | Other |
| <b>Non-specialised Loans</b>      | <b>14.347.472</b>                    | <b>224.204</b>  | -     | <b>470.503</b>                                     | <b>298.955</b>  | -     |
| 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                      | 2.212.697                            | 60.804  | -     | 60.068   | 35.677  | -     |
| Other (*)                         | 1.158.197                            | -   | -     | 1.231  | 16  | -     |
| <b>Specialised Loans</b>          | -                                    | -   | -     | -  | -   | -     |
| <b>Other Receivables</b>          | -                                    | -   | -     | -  | -   | -     |
| <b>Total</b>                      | <b>14.347.472</b>                    | <b>224.204</b>  | -     | <b>470.503</b>                                     | <b>298.955</b>  | -     |

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

|                               | Standard Loans and Other Receivables | Loans and Other Receivables under Close Monitoring |
|-------------------------------|--------------------------------------|--|
| <b>Number of Extensions</b>   |                                      |  |
| Extended by 1 or 2 times      | 224.204                              | 298.955  |
| Extended by 3, 4 or 5 times   | -                                    | -  |
| Extended by more than 5 times | -                                    | -  |
| <b>Total</b>                  | <b>224.204</b>                       | <b>298.955</b>                                     |

|                                | Standard Loans and Other Receivables | Loans and Other Receivables under Close Monitoring |
|--------------------------------|--------------------------------------|--|
| <b>Extended period of time</b> |                                      |  |
| 0 – 6 Months                   | 192                                  | 98   |
| 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  |
| <b>Total</b>                   | <b>224.204</b>                       | <b>298.955</b>                                     |

**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 |
| <b>Short-Term Loans and Other Receivables</b>           | <b>7.696.167</b>                     | <b>69.082</b>               | <b>84.436</b>                                      | <b>38.082</b>               |
| Non-Specialized Loans (*)                               | 7.696.167                            | 69.082                      | 84.436   | 38.082                      |
| Specialized Loans                                       | -                                    | -                           | -  | -                           |
| Other Receivables                                       | -                                    | -                           | -  | -                           |
| <b>Medium and Long-Term Loans and Other Receivables</b> | <b>6.651.305</b>                     | <b>155.121</b>              | <b>386.069</b>                                     | <b>260.872</b>              |
| 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 THE CONSOLIDATED ASSETS (Continued)**

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

|  | Short-term       | Medium and<br>Long-term | Total            |
|--|------------------|-------------------------|------------------|
| <b>Consumer Loans-TL</b>                 | <b>41.233</b>    | <b>1.526.417</b>        | <b>1.567.650</b> |
| 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            |
| <b>Consumer Loans- Indexed to FC</b>     | <b>-</b>         | <b>132</b>              | <b>132</b>       |
| Mortgage Loans                           | -                | 132                     | 132              |
| Automotive Loans                         | -                | -                       | -                |
| Consumer Loans                           | -                | -                       | -                |
| Other                                    | -                | -                       | -                |
| <b>Consumer Loans-FC</b>                 | <b>-</b>         | <b>-</b>                | <b>-</b>         |
| Mortgage Loans                           | -                | -                       | -                |
| Automotive Loans                         | -                | -                       | -                |
| Consumer Loans                           | -                | -                       | -                |
| Other                                    | -                | -                       | -                |
| <b>Individual Credit Cards-TL</b>        | <b>2.260.188</b> | <b>94.291</b>           | <b>2.354.479</b> |
| Instalment                               | 859.165          | 94.291                  | 953.456          |
| None Instalment                          | 1.401.023        | -                       | 1.401.023        |
| <b>Individual Credit Cards-FC</b>        | <b>6.787</b>     | <b>-</b>                | <b>6.787</b>     |
| Instalment                               | -                | -                       | -                |
| None Instalment                          | 6.787            | -                       | 6.787            |
| <b>Personnel Loans-TL</b>                | <b>453</b>       | <b>7.627</b>            | <b>8.080</b>     |
| Mortgage Loans                           | -                | -                       | -                |
| Automotive Loans                         | -                | -                       | -                |
| Consumer Loans                           | 453              | 7.627                   | 8.080            |
| Other                                    | -                | -                       | -                |
| <b>Personnel Loans- Indexed to FC</b>    | <b>-</b>         | <b>-</b>                | <b>-</b>         |
| Mortgage Loans                           | -                | -                       | -                |
| Automotive Loans                         | -                | -                       | -                |
| Consumer Loans                           | -                | -                       | -                |
| Other                                    | -                | -                       | -                |
| <b>Personnel Loans-FC</b>                | <b>-</b>         | <b>-</b>                | <b>-</b>         |
| Mortgage Loans                           | -                | -                       | -                |
| Automotive Loans                         | -                | -                       | -                |
| Consumer Loans                           | -                | -                       | -                |
| Other                                    | -                | -                       | -                |
| <b>Personnel Credit Cards-TL</b>         | <b>4.746</b>     | <b>-</b>                | <b>4.746</b>     |
| Instalment                               | 2.189            | -                       | 2.189            |
| None Instalment                          | 2.557            | -                       | 2.557            |
| <b>Personnel Credit Cards-FC</b>         | <b>74</b>        | <b>-</b>                | <b>74</b>        |
| With Instalment                          | -                | -                       | -                |
| Without Instalment                       | 74               | -                       | 74               |
| <b>Overdraft Account-TL (Individual)</b> | <b>207.573</b>   | <b>-</b>                | <b>207.573</b>   |
| <b>Overdraft Account-FC (Individual)</b> | <b>-</b>         | <b>-</b>                | <b>-</b>         |
| <b>Total Consumer Loans</b>              | <b>2.521.054</b> | <b>1.628.467</b>        | <b>4.149.521</b> |

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**I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS (Continued)**

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

|  | Short-term    | Medium and<br>Long-term | Total          |
|--|---------------|-------------------------|----------------|
| <b>Commercial Installment Loans-TL</b>             | <b>4.794</b>  | <b>163.218</b>          | <b>168.012</b> |
| Mortgage Loans                                     | -             | 1.556                   | 1.556          |
| Automotive Loans                                   | -             | 1.122                   | 1.122          |
| Consumer Loans                                     | 4.794         | 160.540                 | 165.334        |
| Other  | -             | -                       | -              |
| <b>Commercial Installment Loans- Indexed to FC</b> | <b>463</b>    | <b>87.159</b>           | <b>87.622</b>  |
| Mortgage Loans                                     | -             | 2.166                   | 2.166          |
| Automotive Loans                                   | -             | 1.602                   | 1.602          |
| Consumer Loans                                     | 463           | 83.391                  | 83.854         |
| Other  | -             | -                       | -              |
| <b>Commercial Installment Loans-FC</b>             | <b>-</b>      | <b>-</b>                | <b>-</b>       |
| Mortgage Loans                                     | -             | -                       | -              |
| Automotive loans                                   | -             | -                       | -              |
| Consumer Loans                                     | -             | -                       | -              |
| Other  | -             | -                       | -              |
| <b>Corporate Credit Cards-TL</b>                   | <b>2.467</b>  | <b>-</b>                | <b>2.467</b>   |
| With Installment                                   | 307           | -                       | 307            |
| Without Installment                                | 2.160         | -                       | 2.160          |
| <b>Corporate Credit Cards-FC</b>                   | <b>693</b>    | <b>-</b>                | <b>693</b>     |
| With Installment                                   | -             | -                       | -              |
| Without Installment                                | 693           | -                       | 693            |
| <b>Overdraft Account-TL (Commercial)</b>           | <b>55.129</b> | <b>-</b>                | <b>55.129</b>  |
| <b>Overdraft Account-FC (Commercial)</b>           | <b>-</b>      | <b>-</b>                | <b>-</b>       |
| <b>Total</b>                                       | <b>63.546</b> | <b>250.377</b>          | <b>313.923</b> |

**6. Loans according to types of borrowers:**

|              | Current Period<br>31 December 2017 | Prior Period<br>31 December 2016 |
|--------------|------------------------------------|----------------------------------|
| Public       | -                                  | -                                |
| Private (*)  | 15.341.134                         | 14.184.240                       |
| <b>Total</b> | <b>15.341.134</b>                  | <b>14.184.240</b>                |

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

**7. Domestic and foreign loans (\*):**

|                | Current Period<br>31 December 2017 | Prior Period<br>31 December 2016 |
|----------------|------------------------------------|----------------------------------|
| Domestic Loans | 15.148.770                         | 13.724.606                       |
| Foreign Loans  | 192.364                            | 459.634                          |
| <b>Total</b>   | <b>15.341.134</b>                  | <b>14.184.240</b>                |

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

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**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<br>31 December 2017 | Prior Period<br>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                | 526.398                            | 841.159                          |
| <b>Total</b>                                       | <b>587.427</b>                     | <b>981.338</b>                   |

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

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

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

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

|  | III. Group<br>Loans and Other<br>Receivables with<br>Limited Collectability | IV. Group<br>Loans and Other<br>Receivables with<br>Doubtful Collectability | V. Group<br>Uncollectible<br>Loans and Other<br>Receivables |
|--|---|---|---|
| <b>Balance at the end of Prior Period: 31 December 2016</b>    | <b>186.475</b>  | <b>257.235</b>  | <b>987.256</b>  |
| Additions (+)  | 342.145   | 3.432   | 5.498   |
| Transfers from Other Categories of<br>Non-Performing Loans (+) | 3.993   | 388.510   | 413.469   |
| Transfers to Other Categories<br>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  | -   | -   | -   |
| <b>Balance at the End of the Period: 31 December 2017</b>      | <b>45.719</b>   | <b>95.884</b>   | <b>721.608</b>  |
| Specific Provisions (-)  | 12.128  | 48.901  | 526.398   |
| <b>Net Balance on Balance Sheet</b>                            | <b>33.591</b>   | <b>46.983</b>   | <b>195.210</b>  |

(\*) The Parent 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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**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:**

|  | <b>III. Group</b>               | <b>IV. Group</b>               | <b>V. Group</b>        |
|--|---------------------------------|--------------------------------|------------------------|
|  | <b>Loans and Other</b>          | <b>Loans and Other</b>         | <b>Uncollectible</b>   |
|  | <b>Receivables with Limited</b> | <b>Receivables with</b>        | <b>Loans and Other</b> |
|  | <b>Collectability</b>           | <b>Doubtful Collectability</b> | <b>Receivables</b>     |
| <b>Current Period (Net): : 31 December 2017</b>              | <b>33.591</b>                   | <b>46.983</b>                  | <b>195.210</b>         |
| Loans granted to corporate entities and real persons (Gross) | 45.719                          | 95.884                         | 721.608                |
| Specific Provisions Amount (-)                               | 12.128                          | 48.901                         | 526.398                |
| 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)                               | -                               | -                              | -                      |
| <b>Prior Period (Net): 31 December 2016</b>                  | <b>157.984</b>                  | <b>145.547</b>                 | <b>146.097</b>         |
| Loans granted to corporate entities and real persons (Gross) | 186.475                         | 257.235                        | 987.256                |
| Specific Provisions Amount (-)                               | 28.491                          | 111.688                        | 841.159                |
| Loans granted to corporate entities and real persons (Net)   | 157.984                         | 145.547                        | 146.097                |
| Banks (Gross)  | -                               | -                              | -                      |
| 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 Parent Bank's top management occurs.

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

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

**f. Investments held-to-maturity:**

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

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

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

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

**3. Information on investment held-to-maturity is:**

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

**g. Information on associates (Net):**

The Group 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 Group 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.

|   | <b>HSBC Yatırım ve<br/>Menkul Değerler A.Ş. (*)</b> |
|---|---|
| <b>Core Capital</b>                               | <b>76.895</b>                                       |
| Paid-in Capital                                   | 7.000   |
| Share Premium                                     | -   |
| Reserves  | 34.466  |
| Current Period's Profit and Prior Periods' Profit | 34.306  |
| Current Period's Losses and Prior Periods' Losses | -   |
| Leasehold Improvements on Operational Leases (-)  | -   |
| Intangible Assets (-)                             | 172   |
| <b>Supplementary Capital</b>                      | <b>-</b>  |
| <b>Deductions from Capital</b>                    | <b>-</b>  |
| <b>Net Available Equity</b>                       | <b>75.944</b>                                       |

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

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**I. EXPLANATIONS AND NOTES TO RELATED THE CONSOLIDATED ASSETS (Continued)**

**2. Information on unconsolidated/subsidiaries:**

**a) Unconsolidated subsidiaries:**

| <b>Title</b>   | <b>Address (City/Country)</b>                                     | <b>The Parent Bank’s share percentage – If different voting percentage (%)</b> | <b>Bank’s risk group share percentage (%)</b> |
|--|---|--|---|
| 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  |

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

|   | <b>Total Assets</b> | <b>Shareholders’ Equity</b> | <b>Total Fixed Assets</b> | <b>Interest Income</b> | <b>Income from Marketable Securities Portfolio</b> | <b>Current Period Profit/Loss</b> | <b>Prior Period Profit/Loss</b> | <b>Fair Value</b> |
|---|---------------------|-----------------------------|---------------------------|------------------------|--|-----------------------------------|---------------------------------|-------------------|
| 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 to and the merger of these two companies was accomplished as of 11 January 2002.

**a) Consolidated subsidiaries:**

| <b>Title</b>                           | <b>Address (City/Country)</b>                                     | <b>The Parent Bank’s share percentage – If different voting percentage (%)</b> | <b>Bank’s risk group share percentage (%)</b> |
|--|---|--|---|
| 1 HSBC Yatırım ve Menkul Değerler A.Ş. | Esentepe Mahallesi Büyükdere Caddesi No:128 Şişli 34394, İSTANBUL | 99,87  | 0,13  |

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

|   | <b>Total Assets</b> | <b>Shareholders’ Equity</b> | <b>Total Fixed Assets</b> | <b>Interest Income</b> | <b>Income from Marketable Securities Portfolio</b> | <b>Current Period Profit/Loss</b> | <b>Prior Period Profit/Loss (*)</b> | <b>Fair Value</b> |
|---|---------------------|-----------------------------|---------------------------|------------------------|--|-----------------------------------|-------------------------------------|-------------------|
| 1 | 92.434              | 76.895                      | 1.557                     | 5.308                  | 1.860  | 21.752                            | 12.554                              | -                 |

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

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**I. EXPLANATIONS AND NOTES TO RELATED THE CONSOLIDATED ASSETS (Continued)**

**4. Movement schedule of the consolidated subsidiaries:**

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

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

|                                     | Current Period<br>31 December 2017 | Prior Period<br>31 December 2016 |
|-------------------------------------|------------------------------------|----------------------------------|
| Banks                               | -                                  | -                                |
| Insurance Companies                 | -                                  | -                                |
| Factoring Companies                 | -                                  | -                                |
| Leasing Companies                   | -                                  | -                                |
| Finance Companies                   | -                                  | -                                |
| <b>Other Financial Subsidiaries</b> | <b>34.753</b>                      | <b>34.753</b>                    |

**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 Group 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 Group has no jointly controlled entities.

**j. Information on financial lease receivables (Net):**

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

**k. Information on hedging derivative financial assets:**

|                              | Current Period<br>31 December 2017 |          | Prior Period<br>31 December 2016 |          |
|------------------------------|------------------------------------|----------|----------------------------------|----------|
|                              | TL                                 | FC       | TL                               | FC       |
| Fair Value Hedge             | -                                  | -        | -                                | -        |
| Cash Flow Hedge              | -                                  | -        | 69.454                           | -        |
| Foreign Net Investment Hedge | -                                  | -        | -                                | -        |
| <b>Total</b>                 | <b>-</b>                           | <b>-</b> | <b>69.454</b>                    | <b>-</b> |

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**I. EXPLANATIONS AND NOTES TO RELATED THE CONSOLIDATED ASSETS (Continued)**

**l. Information on property and equipment:**

| <b>Prior Period End:</b>                    | <b>Land and Buildings</b> | <b>Vehicles</b> | <b>Other Tangible Fixed Assets</b> | <b>Total</b>  |
|---|---------------------------|-----------------|------------------------------------|---------------|
| Cost  | 22.733                    | 667             | 788.632                            | 812.032       |
| Accumulated Depreciation and Impairment (-) | 14.271                    | 661             | 715.501                            | 730.433       |
| <b>Net Book Value</b>                       | <b>8.462</b>              | <b>6</b>        | <b>73.131</b>                      | <b>81.599</b> |
| <b>Current Period End</b>                   |                           |                 |                                    |               |
| Net Book Value at the Beginning             | 8.462                     | 6               | 73.131                             | 81.599        |
| Additions                                   | -                         | -               | 33.284                             | 33.284        |
| Disposals (-) (net)                         | -                         | -               | 8.399                              | 8.399         |
| Depreciation (-)                            | 383                       | 6               | 23.424                             | 23.813        |
| Cost at Period End                          | 22.733                    | 667             | 813.516                            | 836.916       |
| Accumulated Depreciation at Period End (-)  | 14.654                    | 667             | 738.924                            | 754.245       |
| <b>Closing Net Book Value</b>               | <b>8.079</b>              | <b>-</b>        | <b>74.592</b>                      | <b>82.671</b> |

**m. Information on intangible assets:**

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

|                             | <b>Current Period<br/>31 December 2017</b> | <b>Prior Period<br/>31 December 2016</b> |
|-----------------------------|--|--|
| Gross book value            | 382.399                                    | 435.656                                  |
| Accumulated depreciation(-) | 234.469                                    | 307.656                                  |
| <b>Net Book Value</b>       | <b>147.930</b>                             | <b>128.000</b>                           |

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

|                               | <b>Current Period<br/>31 December 2017</b> | <b>Prior Period<br/>31 December 2016</b> |
|-------------------------------|--|--|
| <b>Opening balance</b>        | <b>128.000</b>                             | <b>34.530</b>                            |
| Additions                     | 36.260                                     | 114.033                                  |
| Disposals (-) (net)           | -  | -  |
| Depreciation (-)              | 16.330                                     | 20.563                                   |
| <b>Closing Net Book Value</b> | <b>147.930</b>                             | <b>128.000</b>                           |

(\*) 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 Group has no investment properties.

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**I. EXPLANATIONS AND NOTES TO RELATED THE CONSOLIDATED ASSETS (Continued)**

**o. Information on deferred tax asset:**

|   | Cumulative      |                  | Deferred Tax<br>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              | 57.539          | 49.502           | 11.886                          | 9.900            |
| Restructuring Provision                             | 85.965          | 127.051          | 18.912                          | 25.410           |
| Derivative Expense Rediscount Provision             | 50.980          | -                | 11.638                          | -                |
| Other   | 144.467         | 205.881          | 31.693                          | 41.177           |
| <b>Deferred Tax Asset</b>                           | <b>693.297</b>  | <b>1.117.864</b> | <b>152.005</b>                  | <b>223.573</b>   |
| Derivative Transactions Fair Value Difference       | -               | (333.446)        | -                               | (66.689)         |
| Other   | (20.107)        | (21.957)         | (4.355)                         | (4.391)          |
| <b>Deferred Tax Liability</b>                       | <b>(20.107)</b> | <b>(355.403)</b> | <b>(4.355)</b>                  | <b>(71.080)</b>  |
| <b>Deferred Tax Asset Recognized as Expense (*)</b> |                 |                  | -                               | <b>(152.493)</b> |
| <b>Net Tax Asset (**)</b>                           |                 |                  | <b>147.650</b>                  | <b>813</b>       |

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

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

**p. Explanations on assets held for sale and assets 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        |
| <b>Total Assets</b>                            | <b>279.690</b> |
|  | Net Amount     |
| Deposit  | 232.482        |
| Banks  | -              |
| Provisions                                     | 3.248          |
| Other Liabilities                              | 43.960         |
| <b>Total Liabilities</b>                       | <b>279.690</b> |
|  | Net Amount     |
| Interest Income                                | 27.609         |
| Interest Expense                               | 17.800         |
| Net Interest Income                            | 9.809          |
| Exchange Profit / Loss (Net)                   | (139)          |
| Special Provision for Non-Performing Loans (-) | 4.715          |
| Other Non-Interest Income                      | 6.002          |
| Other Operating Expense (-)                    | 12.043         |
| <b>Net Profit / (Loss)</b>                     | <b>(1.086)</b> |

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**I. EXPLANATIONS AND NOTES TO RELATED THE CONSOLIDATED ASSETS (Continued)**

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

|  | <b>Current Period<br/>31 December 2017</b> | <b>Prior Period<br/>31 December 2016</b> |
|--|--|--|
| <b>Prior Period End:</b>                   |  |  |
| Cost                                       | 2.896                                      | 3.594                                    |
| Accumulated Depreciation (-)               | 154  | 150                                      |
| <b>Net Book Value</b>                      | <b>2.742</b>                               | <b>3.444</b>                             |
| <b>Current Period End:</b>                 |  |  |
| Net Book Value at the Beginning            | 2.742                                      | 3.444                                    |
| Additions                                  | 1.647                                      | 1.299                                    |
| Disposals (-) (Net)                        | 2.691                                      | 1.997                                    |
| Depreciation (-)                           | 8  | 4  |
| Cost at Period End                         | 1.852                                      | 2.896                                    |
| Accumulated Depreciation at Period End (-) | 162  | 154                                      |
| <b>Closing Net Book Value</b>              | <b>1.690</b>                               | <b>2.742</b>                             |

**q. Information on other assets:**

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

|                               | <b>Current Period<br/>31 December 2017</b> | <b>Prior Period<br/>31 December 2016</b> |
|-------------------------------|--|--|
| 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                  | 4.940                                      | 4.360                                    |
| <b>Total</b>                  | <b>243.916</b>                             | <b>117.378</b>                           |

(\*) 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 Group has no receivables from forward sale of the assets classified in the miscellaneous receivables.

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**II. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED LIABILITIES**

**a. Information on deposits**

**1. Information on maturity structure of the deposits:**

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

**1 (i). Current Period – 31 December 2017:**

|                             | Demand           | With 7<br>Days<br>Maturity | Up to 1<br>Month | 1 - 3<br>Months | 3 - 6<br>Months | 6 Months-<br>1 Year | 1 Year<br>and Over | Cumulative<br>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        | -                          | -                | 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          | -                          | 824.713          | 20.325          | 12.325          | 34                  | 1.307              | -                     | 1.220.814          |
| Other Institutions Deposits | 3.665            | -                          | 696              | -               | -               | -                   | -                  | -                     | 4.361              |
| Precious Metal Deposit      | 176.338          | -                          | -                | -               | -               | -                   | 79.865             | -                     | 256.203            |
| Bank Deposits               | 57.602           | -                          | -                | -               | -               | -                   | -                  | -                     | 1.509.403          |
| The CBRT                    | -                | -                          | -                | -               | -               | -                   | -                  | -                     | 1.418.277          |
| Domestic Banks              | -                | -                          | -                | -               | -               | -                   | -                  | -                     | -                  |
| Foreign Banks               | 57.602           | -                          | 33.524           | -               | -               | -                   | -                  | -                     | 91.126             |
| Participation Banks         | -                | -                          | -                | -               | -               | -                   | -                  | -                     | -                  |
| Other                       | -                | -                          | -                | -               | -               | -                   | -                  | -                     | -                  |
| <b>Total</b>                | <b>2.690.395</b> | <b>-5.111.042</b>          | <b>7.849.828</b> | <b>420.864</b>  | <b>129.848</b>  | <b>147.676</b>      | <b>-</b>           | <b>-</b>              | <b>-16.349.653</b> |

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

|                             | Demand           | With 7<br>Days<br>Maturity | Up to 1<br>Month | 1 - 3<br>Months | 3 - 6<br>Months | 6 Months-<br>1 Year | 1 Year<br>and Over | Cumulative<br>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          | -                          | 747.151          | 14.156          | 704             | 1.631               | 174                | -                     | 1.142.179          |
| 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                       | -                | -                          | -                | -               | -               | -                   | -                  | -                     | -                  |
| <b>Total</b>                | <b>3.226.157</b> | <b>-3.960.724</b>          | <b>7.245.470</b> | <b>466.795</b>  | <b>146.713</b>  | <b>76.213</b>       | <b>-</b>           | <b>-</b>              | <b>-15.122.072</b> |



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**II. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED LIABILITIES (Continued)**

**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 Insurance               |                                  | Exceeding Deposit Insurance Limit  |                                  |
|---|------------------------------------|----------------------------------|------------------------------------|----------------------------------|
|   | Current Period<br>31 December 2017 | Prior Period<br>31 December 2016 | Current Period<br>31 December 2017 | Prior Period<br>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 | -                                  | -                                | -                                  | -                                |
| <b>Total</b>  | <b>3.682.822</b>                   | <b>4.123.434</b>                 | <b>7.948.878</b>                   | <b>6.994.933</b>                 |

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

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

|  | Current Period<br>31 December 2017 | Prior Period<br>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   | -                                  | -                                |

**b. Information on trading derivative financial liabilities:**

**Table of negative differences for trading derivative financial liabilities:**

|                      | Current Period<br>31 December 2017 |                | Prior Period<br>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                | -                                  | -              | -                                | -              |
| <b>Total</b>         | <b>207.234</b>                     | <b>531.945</b> | <b>24.587</b>                    | <b>642.671</b> |

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**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<br>31 December 2017 |                  | Prior Period<br>31 December 2016 |                  |
|--|------------------------------------|------------------|----------------------------------|------------------|
|  | TL                                 | FC               | TL                               | FC               |
| Borrowings from the CBRT                   | -                                  | -                | -                                | -                |
| From Domestic Bank and Institutions        | -                                  | -                | 1.524                            | 4.166            |
| From Foreign Banks, Institutions and Funds | 818.610                            | 1.786.117        | 211.107                          | 2.124.212        |
| <b>Total</b>                               | <b>818.610</b>                     | <b>1.786.117</b> | <b>212.631</b>                   | <b>2.128.378</b> |

**2. Information on maturity structure of funds borrowed:**

|                      | Current Period<br>31 December 2017 |                  | Prior Period<br>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        |
| <b>Total</b>         | <b>818.610</b>                     | <b>1.786.117</b> | <b>212.631</b>                   | <b>2.128.378</b> |

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

The Group diversifies funding sources with customer deposits and borrowings from foreign countries.

**e. Information on other liabilities:**

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

**f. Information on leasing agreements:**

**1. Explanations on obligations under financial leases:**

None (31 December 2016: None).

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**2. Explanations on operational lease:**

The Parent Bank makes a contract which is operating lease agreement for its some 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.

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

**g. Information on derivative financial liabilities for hedging purposes:**

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

**h. Information on provisions:**

**1. Information on general provisions:**

|   | <b>Current Period<br/>31 December 2017</b> | <b>Prior Period<br/>31 December 2016</b> |
|---|--|--|
| <b>General Provisions</b>                         | <b>430.929</b>                             | <b>481.729</b>                           |
| 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 Group has employee termination benefit provision amounting to TL 57.539 (31 December 2016: TL 49.779), and unused vacation provision amounting to TL 8.040 (31 December 2016: TL 6.524).

In accordance with existing Turkish Labour Law, the Group 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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The reserve for employment termination benefits represents the present value of the estimated total liability for the future probable obligation of the Group determined by using certain actuarial assumptions. TAS 19 requires actuarial valuation methods to be used in order to calculate Group’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)).

|                        | <b>Current Period</b>   | <b>Prior Period</b>     |
|------------------------|-------------------------|-------------------------|
|                        | <b>31 December 2017</b> | <b>31 December 2016</b> |
| As of January 1        | 49.779                  | 55.220                  |
| Service Cost           | 7.908                   | 26.963                  |
| Interest Cost          | 5.042                   | 4.963                   |
| Actuarial Gain/(Loss)  | 6.863                   | 5.688                   |
| Paid in Current Period | (12.053)                | (43.055)                |
| <b>Total</b>           | <b>57.539</b>           | <b>49.779</b>           |

**3. Information on provisions related to foreign currency difference 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 provision 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: 127.051 TL).

**6. Information on other provisions:**

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

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

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(Continued)**

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

|   | <b>Current Period<br/>31 December 2017</b> | <b>Prior Period<br/>31 December 2016</b> |
|---|--|--|
| Provision for lawsuits  | 31.615                                     | 26.479                                   |
| 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                                   |
| <b>Total</b>  | <b>100.963</b>                             | <b>111.653</b>                           |

(\*) 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 Group is explained in Note XVIII of Section Three.

**1(i). Information on taxes payable:**

|  | <b>Current Period<br/>31 December 2017</b> | <b>Prior Period<br/>31 December 2016</b> |
|--|--|--|
| Taxation on Marketable Securities        | 11.569                                     | 10.957                                   |
| Banking Insurance Transaction Tax (BITT) | 11.454                                     | 11.532                                   |
| Value Added Tax Payable                  | 1.521                                      | 1.366                                    |
| Capital Gains Tax on Property            | 470  | 805                                      |
| Foreign Exchange Transaction Tax         | -  | 13                                       |
| Corporate Tax Payable                    | 877  | 1.665                                    |
| Other (*)                                | 9.454                                      | 11.393                                   |
| <b>Total</b>                             | <b>35.345</b>                              | <b>37.731</b>                            |

(\*) 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), other taxes amounting to TL 1.087 (31 December 2016: TL 1.275), and self-employed income tax amounting to TL 8 (31 December 2016: TL 2).

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**1 (ii). Information on premium payables:**

|  | <b>Current Period<br/>31 December 2017</b> | <b>Prior Period<br/>31 December 2016</b> |
|--|--|--|
| Social Security Premiums – Employee                    | 3.626                                      | 2.959                                    |
| Social Security Premiums – Employer                    | 4.109                                      | 3.344                                    |
| Bank Social Aid Pension Fund Premium – Employee        | -  | -  |
| Bank Social Aid Pension Fund Premium – Employer        | -  | -  |
| Pension Fund Membership Fees and Provisions – Employee | -  | -  |
| Pension Fund Membership Fees and Provisions – Employer | -  | -  |
| Unemployment Insurance – Employee                      | 407  | 219                                      |
| Unemployment Insurance – Employer                      | 705  | 437                                      |
| Other  | -  | -  |
| <b>Total</b>   | <b>8.847</b>                               | <b>6.959</b>                             |

**2. Information on deferred tax liability:**

Information on the Group’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 discounted operations:**

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

**k. Explanations on the number of subordinated loans the Parent 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.

|                             | <b>Current Period<br/>31 December 2017</b> |                  | <b>Prior Period<br/>31 December 2016</b> |                  |
|-----------------------------|--|------------------|--|------------------|
|                             | <b>TL</b>                                  | <b>FC</b>        | <b>TL</b>                                | <b>FC</b>        |
| Domestic Banks              | -  | -                | -  | -                |
| Other Domestic Institutions | -  | -                | -  | -                |
| Foreign Banks               | -  | 1.100.050        | -  | 1.983.954        |
| Other Foreign Institutions  | -  | -                | -  | -                |
| <b>Total</b>                | <b>-</b>                                   | <b>1.100.050</b> | <b>-</b>                                 | <b>1.983.954</b> |

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**1. Information on Shareholder’s Equity:**

**1. Presentation of Paid-in Capital:**

|                           | <b>Current Period<br/>31 December 2017</b> | <b>Prior Period<br/>31 December 2016</b> |
|---------------------------|--|--|
| 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 Parent Bank has TL 260.509 capital reserve due to adjustment of the paid-in capital for inflation (31 December 2016: TL 275.934)

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.

**3. Information on the share capital increases during the period and other information:**

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

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

The Group 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 fiscal year and the subsequent interim period:**

The Group has no capital commitments.

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

The Group tends to strengthen its shareholders’ equity according to the assessment of financial figures for prior periods regarding the Group’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 Parent Bank has no privileges given to shares representing the capital.

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**8. Information on valuation differences of marketable securities:**

|  | Current Period<br>31 December 2017 |              | Prior Period<br>31 December 2016 |          |
|--|------------------------------------|--------------|----------------------------------|----------|
|  | TL                                 | FC           | TL                               | FC       |
| From Associates, Subsidiaries and Jointly<br>Controlled Entities | -                                  | -            | -                                | -        |
| Valuation Difference   | (21.499)                           | 4.723        | (1.194)                          | -        |
| Foreign Exchange Difference                                      | -                                  | -            | -                                | -        |
| <b>Total</b>   | <b>(21.499)</b>                    | <b>4.723</b> | <b>(1.194)</b>                   | <b>-</b> |

**9. Information on revaluation value increase fund:**

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

**10. Information on legal reserves:**

|   | Current Period<br>31 December 2017 | Prior Period<br>31 December 2016 |
|---|------------------------------------|----------------------------------|
| First Legal Reserve                             | 138.697                            | 137.660                          |
| Second Legal Reserve                            | 55.781                             | 65.262                           |
| Legal Reserves according to Special Legislation | -                                  | -                                |
| <b>Total</b>                                    | <b>194.478</b>                     | <b>202.922</b>                   |

**11. Information on extraordinary reserves:**

|   | Current Period<br>31 December 2017 | Prior Period<br>31 December 2016 |
|---|------------------------------------|----------------------------------|
| Reserves Allocated per General Assembly Minutes | 1.142.598                          | 1.488.831                        |
| Undivided Profit                                | 97.844                             | 97.844                           |
| Accumulated Loss                                | -                                  | -                                |
| Foreign Currency Differences                    | -                                  | -                                |
| <b>Total</b>                                    | <b>1.240.442</b>                   | <b>1.586.675</b>                 |

**12. Information on minority shares:**

The Group has no minority shares as of 31 December 2017 and 31 December 2016.

**13. 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 Parent 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.



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

**a. Explanations on off-balance sheet commitments:**

**1. Type and amount of irrevocable commitments:**

|  | <b>Current Period<br/>31 December 2017</b> | <b>Prior Period<br/>31 December 2016</b> |
|--|--|--|
| 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 for Securities                        | -  | 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                                  |
| <b>Total</b>   | <b>16.612.257</b>                          | <b>11.724.206</b>                        |

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

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

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

|                      | <b>Current Period<br/>31 December 2017</b> | <b>Prior Period<br/>31 December 2016</b> |
|----------------------|--|--|
| Letters of Guarantee | 1.589.760                                  | 1.767.728                                |
| Letters of Credit    | 698.997                                    | 476.016                                  |
| Bank Acceptances     | 155.184                                    | 58.547                                   |
| Other Guarantees     | 353.187                                    | 348.109                                  |
| <b>Total</b>         | <b>2.797.128</b>                           | <b>2.650.400</b>                         |

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

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

**3. Explanations on the non-cash loans:**

**3 (i). Total non-cash loans:**

|  | <b>Current Period<br/>31 December 2017</b> | <b>Prior Period<br/>31 December 2016</b> |
|--|--|--|
| <b>Non-Cash Loans Given against Achieving Cash Loans</b> | <b>-</b>                                   | <b>1.325</b>                             |
| With Original Maturity of One Year or Less               | -  | -  |
| With Original Maturity of More than One Year             | -  | 1.325                                    |
| <b>Other Non-Cash Loans</b>                              | <b>2.797.128</b>                           | <b>2.649.075</b>                         |
| <b>Total</b>   | <b>2.797.128</b>                           | <b>2.650.400</b>                         |

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

|                                      | Current Period<br>31 December 2017 |                |                  |               | Prior Period<br>31 December 2016 |               |                  |               |
|--------------------------------------|------------------------------------|----------------|------------------|---------------|----------------------------------|---------------|------------------|---------------|
|                                      | TL                                 | (%)            | FC               | (%)           | TL                               | (%)           | FC               | (%)           |
| <b>Agricultural</b>                  | <b>105</b>                         | <b>0,01</b>    | -                | -             | <b>459</b>                       | <b>0,06</b>   | --               | -             |
| Farming and Raising Livestock        | 105                                | 0,01           | -                | -             | 459                              | 0,06          | --               | -             |
| Forestry                             | -                                  | -              | -                | -             | -                                | -             | --               | -             |
| Fishing                              | -                                  | -              | -                | -             | -                                | -             | --               | -             |
| <b>Manufacturing</b>                 | <b>567.558</b>                     | <b>61,64</b>   | <b>473.257</b>   | <b>25,24</b>  | <b>593.572</b>                   | <b>71,64</b>  | <b>300.504</b>   | <b>16,49</b>  |
| Mining and Quarrying                 | 16                                 | -              | -                | -             | 140                              | 0,02          | 1.622            | 0,09          |
| Production                           | 552.912                            | 60,05          | 455.694          | 24,31         | 583.078                          | 70,37         | 280.396          | 15,39         |
| Electric, Gas and Water              | 14.630                             | 1,59           | 17.563           | 0,94          | 10.354                           | 1,25          | 18.486           | 1,01          |
| <b>Construction</b>                  | <b>9.474</b>                       | <b>1,03</b>    | <b>394.831</b>   | <b>21,06</b>  | <b>6.455</b>                     | <b>0,78</b>   | <b>438.501</b>   | <b>24,07</b>  |
| <b>Services</b>                      | <b>345.167</b>                     | <b>37,421</b>  | <b>1.006.736</b> | <b>53,70</b>  | <b>219.878</b>                   | <b>26,54</b>  | <b>1.082.453</b> | <b>59,42</b>  |
| Wholesale and Retail Trade           | 115.418                            | 12,54          | 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               | 136.798                            | 14,86          | 606.132          | 32,33         | 89.198                           | 10,77         | 883.746          | 48,51         |
| Real Estate and Leasing Services     | 1.563                              | 0,17           | -                | 0,00          | -                                | -             | -                | -             |
| Self-employment Services             | 82.043                             | 8,91           | 18.299           | 0,98          | 40.513                           | 4,89          | 26.439           | 1,45          |
| Education Services                   | 90                                 | 0,01           | -                | 0,00          | 90                               | 0,01          | -                | -             |
| Health and Social Services           | 50                                 | 0,01           | 9.453            | 0,50          | 50                               | 0,01          | 10.579           | 0,58          |
| <b>Other</b>                         | <b>-</b>                           | <b>-</b>       | <b>-</b>         | <b>-</b>      | <b>8.224</b>                     | <b>0,98</b>   | <b>354</b>       | <b>0,02</b>   |
| <b>Total</b>                         | <b>922.304</b>                     | <b>100,001</b> | <b>1.874.824</b> | <b>100,00</b> | <b>828.588</b>                   | <b>100,00</b> | <b>1.821.812</b> | <b>100,00</b> |

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

|                                     | Current Period<br>31 December 2017 |                  | Group I      |               | Group II |    |
|-------------------------------------|------------------------------------|------------------|--------------|---------------|----------|----|
|                                     | TL                                 | FC               | TL           | FC            | TL       | FC |
| <b>Non-Cash Loans</b>               | <b>916.765</b>                     | <b>1.863.239</b> | <b>3.774</b> | <b>11.585</b> |          |    |
| Letters of Guarantee                | 912.965                            | 669.739          | 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<br>31 December 2016   |                  | Group I      |               | Group II |    |
|                                     | TL                                 | FC               | TL           | FC            | TL       | FC |
| <b>Non-Cash Loans</b>               | <b>821.818</b>                     | <b>1.777.721</b> | <b>6.441</b> | <b>44.091</b> |          |    |
| Letters of Guarantee                | 821.728                            | 937.949          | 6.441        | 1.281         |          |    |
| Bank Acceptances                    | -                                  | 56.399           | -            | 2.148         |          |    |
| Letters of Credit                   | -                                  | 471.725          | -            | 4.291         |          |    |
| Endorsements                        | -                                  | -                | -            | -             |          |    |
| Underwriting Commitments            | -                                  | -                | -            | -             |          |    |
| Factoring Guarantees                | -                                  | -                | -            | -             |          |    |
| Other Commitments and Contingencies | 90                                 | 311.648          | -            | 36.371        |          |    |

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

**b. Explanations on derivative transactions:**

|                                       | <b>Current Period<br/>31 December 2017</b> | <b>Prior Period<br/>31 December 2016</b> |
|---------------------------------------|--|--|
| 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                                     | 34.564                                   |
| Precious Metals Options Transactions  | -  | 78                                       |
| <b>Total</b>                          | <b>90.346.247</b>                          | <b>56.471.547</b>                        |

**1. Cash flow hedging accounting:**

The Parent 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.

**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 is no contingent asset 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 Group 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 Group is TL 29.641 (31 December 2016: TL 39.320). A total provision of TL 33.685 (31 December 2016: TL 29.526) has been made for those lawsuits as the probability of being concluded against the Group 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 Group acts as an investment agent for the trading of marketable securities and provides custodian services on behalf of its customer.

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**IV. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED INCOME STATEMENT**

**a. Information on interest income:**

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

|                                   | Current Period<br>31 December 2017 |                | Prior Period<br>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                           | -              |
| <b>Total</b>                      | <b>1.387.233</b>                   | <b>199.535</b> | <b>1.585.738</b>                 | <b>219.280</b> |

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

**2. Information on interest income received from banks:**

|                                       | Current Period<br>31 December 2017 |            | Prior Period<br>31 December 2016 |              |
|---------------------------------------|------------------------------------|------------|----------------------------------|--------------|
|                                       | TL                                 | FC         | TL                               | FC           |
| From the CBRT                         | 305.869                            | -          | -                                | 1.136        |
| From Domestic Banks                   | 59.574                             | 254        | 7.233                            | 2.206        |
| From Foreign Banks                    | 2.927                              | 333        | 3.475                            | 817          |
| From Headquarters and Branches Abroad | -                                  | -          | -                                | -            |
| <b>Total</b>                          | <b>368.370</b>                     | <b>587</b> | <b>10.708</b>                    | <b>4.159</b> |

**3. Information on interest income on marketable securities:**

|  | Current Period<br>31 December 2017 |            | Prior Period<br>31 December 2016 |            |
|--|------------------------------------|------------|----------------------------------|------------|
|  | TL                                 | FC         | TL                               | FC         |
| Financial Assets Held For Trading                  | 16.852                             | 748        | 59.190                           | 535        |
| Financial Assets At Fair Value Through Profit/Loss | -                                  | -          | -                                | -          |
| Financial Assets Available For Sale                | 141.460                            | -          | 106.091                          | -          |
| Investments Held to Maturity                       | -                                  | -          | -                                | -          |
| <b>Total</b>                                       | <b>158.312</b>                     | <b>748</b> | <b>165.281</b>                   | <b>535</b> |

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

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

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

**b. Information on interest expense:**

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

|                                  | Current Period<br>31 December 2017 |                | Prior Period<br>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               | -                                  | -              | -                                | -              |
| <b>Total</b>                     | <b>89.299</b>                      | <b>139.014</b> | <b>73.269</b>                    | <b>169.112</b> |

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

**2. Information on interest expense given to associates and subsidiaries:**

None.

**3. Information on interest expense given on securities issued:**

The Group does not have any interest expense given on securities issued as of 31 December 2017 and 31 December 2016.

**4. Maturity structure of the interest expense on deposits:**

| Current Period:<br>31 December 2017 | Demand<br>Deposit | Time Deposit     |                  |                  |                 |                        | Cumulative<br>Deposit | Total          |
|-------------------------------------|-------------------|------------------|------------------|------------------|-----------------|------------------------|-----------------------|----------------|
|                                     |                   | Up to 1<br>Month | Up to 3<br>Month | Up to 6<br>Month | Up to 1<br>Year | More<br>Than 1<br>year |                       |                |
| <b>Turkish Lira</b>                 |                   |                  |                  |                  |                 |                        |                       |                |
| 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                 | -                 | 62.633           | 2.833            | 2.298            | 28              | 119                    | -                     | 67.911         |
| Other Deposits                      | -                 | 26               | 27               | -                | -               | -                      | -                     | 53             |
| Deposits with 7 days maturity       | -                 | -                | -                | -                | -               | -                      | -                     | -              |
| <b>Total</b>                        | <b>-</b>          | <b>159.628</b>   | <b>266.231</b>   | <b>12.438</b>    | <b>3.232</b>    | <b>2.083</b>           | <b>-</b>              | <b>443.612</b> |
| <b>Foreign Currency</b>             |                   |                  |                  |                  |                 |                        |                       |                |
| 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            |
| <b>Total</b>                        | <b>-</b>          | <b>65.915</b>    | <b>100.165</b>   | <b>9.776</b>     | <b>1.916</b>    | <b>680</b>             | <b>-</b>              | <b>178.452</b> |
| <b>Grand Total</b>                  | <b>-</b>          | <b>225.543</b>   | <b>366.396</b>   | <b>22.214</b>    | <b>5.148</b>    | <b>2.763</b>           | <b>-</b>              | <b>622.064</b> |

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

| Prior Period:<br>31 December 2016 | Demand<br>Deposit | Time Deposit     |                  |                  |                 |                        | Cumulati<br>ve Deposit | Total           |
|-----------------------------------|-------------------|------------------|------------------|------------------|-----------------|------------------------|------------------------|-----------------|
|                                   |                   | Up to 1<br>Month | Up to 3<br>Month | Up to 6<br>Month | Up to 1<br>Year | More<br>Than 1<br>year |                        |                 |
| <b>Turkish Lira</b>               |                   |                  |                  |                  |                 |                        |                        |                 |
| Interbank Deposits                | - 33.141          | -                | -                | -                | -               | -                      | - 33.141               | - 33.141        |
| Saving Deposits                   | - 112.76          | 2                | 388.23           | 7                | 16.605          | 4.476                  | 3.065                  | - 525.14        |
| Public Sector Deposits            | -                 | -                | -                | -                | -               | -                      | -                      | - 5             |
| Commercial Deposits               | - 69.311          | 24.815           | 276              | 257              | 207             | -                      | -                      | - 94.866        |
| Other Deposits                    | - 110             | 659              | 5                | -                | -               | 3                      | -                      | - 777           |
| Deposits with 7 days maturity     | -                 | -                | -                | -                | -               | -                      | -                      | -               |
| <b>Total</b>                      | -                 | <b>215.32</b>    | <b>413.71</b>    | <b>1</b>         | <b>16.886</b>   | <b>4.733</b>           | <b>3.275</b>           | - <b>653.92</b> |
| <b>Foreign Currency</b>           |                   |                  |                  |                  |                 |                        |                        |                 |
| Foreign Currency Deposits         | - 23.464          | 72.018           | 3.665            | 1.538            | 700             | -                      | -                      | 101.38          |
| Interbank Deposits                | - 471             | -                | -                | -                | -               | -                      | -                      | - 5             |
| Deposits with 7 Days Maturity     | -                 | -                | -                | -                | -               | -                      | -                      | - 471           |
| Precious Metal Deposits           | -                 | 647              | 15               | 20               | -               | -                      | -                      | -               |
| <b>Total</b>                      | -                 | <b>23.935</b>    | <b>72.665</b>    | <b>3.680</b>     | <b>1.558</b>    | <b>700</b>             | -                      | <b>102.53</b>   |
| <b>Grand Total</b>                | -                 | <b>239.25</b>    | <b>486.37</b>    | <b>6</b>         | <b>20.566</b>   | <b>6.291</b>           | <b>3.975</b>           | - <b>756.46</b> |

**5. Information on interest given on repurchase agreements:**

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

**6. Information on financial lease expenses:**

The Group has no financial lease expenses as of 31 December 2017 and 31 December 2016.

**7. Information on interest given on factoring payables:**

The Group has no interest given on factoring payables as of 31 December 2017 and 31 December 2016.

**c. Explanations on dividend income:**

As of 31 December 2017, the Group has the dividend distribution of its subsidiaries amounting to TL 2.684 (31 December 2016: None).

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

**d. Explanations on trading income/loss (net):**

**1. Trading income/loss (net):**

|   | <b>Current Period<br/>31 December 2017</b> | <b>Prior Period<br/>31 December 2016</b> |
|---|--|--|
| <b>Profit</b>                             | <b>119.553.037</b>                         | <b>89.470.473</b>                        |
| Capital Market Transactions Income        | 27.359                                     | 40.908                                   |
| Gain on Derivative Financial Transactions | 6.398.056                                  | 6.412.346                                |
| Foreign Exchange Gains                    | 113.127.622                                | 83.017.219                               |
| <b>Loss (-)</b>                           | <b>120.054.990</b>                         | <b>89.406.458</b>                        |
| Capital Market Transactions Loss          | 9.595                                      | 20.978                                   |
| Loss on Derivative Financial Transactions | 6.172.543                                  | 5.882.504                                |
| Foreign Exchange Loss                     | 113.872.852                                | 83.502.976                               |
| <b>Total (Net)</b>                        | <b>(501.953)</b>                           | <b>64.015</b>                            |

**2. Explanations on derivative instruments gain/loss:**

|   | <b>Current Period<br/>31 December 2017</b> | <b>Prior Period<br/>31 December 2016</b> |
|---|--|--|
| 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                                  |
| <b>Total (Net)</b>                                    | <b>225.513</b>                             | <b>529.842</b>                           |

**e. Explanations on other operating income:**

|   | <b>Current Period<br/>31 December 2017</b> | <b>Prior Period<br/>31 December 2016</b> |
|---|--|--|
| 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                                   |
| Provision for telecommunication expense | 1.155                                      | 2.855                                    |
| Gain on sale of assets                  | 4.043                                      | 2.401                                    |
| Other income                            | 16.908                                     | 17.629                                   |
| <b>Total</b>                            | <b>268.636</b>                             | <b>221.376</b>                           |

(\*) 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 THE CONSOLIDATED INCOME STATEMENT (Continued)**

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

|  | <b>Current Period<br/>31 December 2017</b> | <b>Prior Period<br/>31 December 2016</b> |
|--|--|--|
| 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                                  |
| <b>Total</b>   | <b>344.390</b>                             | <b>790.111</b>                           |

(\*) 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:**

|   | <b>Current Period<br/>31 December 2017</b> | <b>Prior Period<br/>31 December 2016</b> |
|---|--|--|
| Personnel Expenses  | 452.385                                    | 576.285                                  |
| Reserve for Employee Termination Benefits   | 6.474                                      | 31.974                                   |
| Bank Social Aid Provision Fund Deficit Provision                                    | -  | -  |
| Impairment Expenses of Property and Equipment                                       | -  | -  |
| Depreciation Expenses of Property and Equipment                                     | 23.813                                     | 27.372                                   |
| Impairment Expenses of Intangible Assets  | -  | -  |
| Goodwill Impairment Expenses  | -  | -  |
| Amortization Expenses of Intangible Assets  | 16.330                                     | 20.563                                   |
| 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  | 304.808                                    | 376.808                                  |
| Operational Lease Expenses  | 98.199                                     | 153.543                                  |
| Maintenance License Expenses  | 36.518                                     | 32.261                                   |
| Maintenance Expenses  | 36.395                                     | 37.463                                   |
| Communication Expenses  | 22.579                                     | 28.413                                   |
| Advertisement Expenses  | 16.031                                     | 13.831                                   |
| Other Expenses  | 95.086                                     | 111.297                                  |
| 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   | 146.873                                    | 93.388                                   |
| <b>Total</b>  | <b>1.035.678</b>                           | <b>1.223.711</b>                         |

(\*) Amount of TL 146.873 (31 December 2016: TL 93.388) consists of audit fee amounting to TL 32.676 (31 December 2016: 19.852 TL), arbitration committee expenses amounting to TL 18.524 (31 December 2016: TL 28.270) and remaining TL 95.673 of other expenses (31 December 2016: TL 45.266).



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

As of 31 December 2017, The Group has operating income amounting to TL 1.535.120 (31 December 2016: TL 1.669.101). 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 1.035.678 (31 December 2016: TL 1.223.711), profit before tax amounts to TL 155.052 (31 December 2016: TL 344.721 loss before tax).

**i. Explanation on tax provision for continuing and discontinued operations:**

As of 31 December 2017, the Group has corporate tax provision income amounting to TL 10.858 (31 December 2016: TL 7.908 income) and deferred tax income amounting to TL 146.440 (31 December 2016: TL 2.048 expense).

**j. Explanation on net income/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 1.378.396 (31 December 2016: TL 961.312), net wage and commission income amounting to TL 386.817 (31 December 2016: TL 422.398) 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 Group’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 Group, 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:**

|                          | <b>Current Period<br/>31 December 2017</b> | <b>Prior Period<br/>31 December 2016</b> |
|--------------------------|--|--|
| Credit Card Transactions | 232.427                                    | 275.301                                  |
| Insurance Commissions    | 38.209                                     | 44.727                                   |
| Banking Transactions     | 30.734                                     | 37.074                                   |
| Tefas Fund Platform      | 22.818                                     | 28.864                                   |
| Other                    | 83.088                                     | 58.329                                   |
| <b>Total</b>             | <b>407.276</b>                             | <b>444.295</b>                           |

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

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

**1. Decreases/Increases after the revaluation of available-for-sale investments:**

As of 31 December 2017, decrease in investment securities valuation differences balance amounting to TL 16.776 (31 December 2016: TL 1.194 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 17.332 decrease) 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. Explanations on dividend distribution:**

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

**d. Explanations on issuance of common stock:**

The Group 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 Group.

**f. Offsetting prior period's losses:**

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

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**VI. EXPLANATIONS AND NOTES RELATED TO THE STATEMENT OF CASH FLOWS**

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

Operating profit amounting to TL 1.160.544 (31 December 2016: TL 597.814) consists of interest income amounting to TL 2.366.166 (31 December 2016: TL 2.054.614), interest expense amounting to TL 837.142 (31 December 2016: TL 1.066.352), personnel expenses amounting to TL 394.645 (31 December 2016: TL 573.234) and net income other than interest amounting to TL 25.995 (31 December 2016: TL 182.786 income). Net decrease in other liabilities amounting to TL 608.954 (31 December 2016: TL 928.322 net 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 2.792 decrease (31 December 2016: TL 2.223 increase) as of 31 December 2017.

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

The Group 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 Group 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:

|  | <b>Current Period<br/>31 December 2017</b> | <b>Prior Period<br/>31 December 2016</b> |
|--|--|--|
| Cash   | 269.329                                    | 447.666                                  |
| Interbank Money Market Placements            | 4.372.998                                  | 3.879.540                                |
| CBRT, Banks and Other Financial Institutions | 1.005.763                                  | 627.189                                  |
| <b>Total Cash and Cash Equivalents</b>       | <b>5.648.090</b>                           | <b>4.954.395</b>                         |

Cash and cash equivalents at the end of period:

|  | <b>Current Period<br/>31 December 2017</b> | <b>Prior Period<br/>31 December 2016</b> |
|--|--|--|
| Cash   | 256.474                                    | 269.329                                  |
| Interbank Money Market Placements            | 1.794.965                                  | 4.372.998                                |
| CBRT, Banks and Other Financial Institutions | 2.732.709                                  | 1.005.763                                |
| <b>Total Cash and Cash Equivalents</b>       | <b>4.784.148</b>                           | <b>5.648.090</b>                         |

**e. Additional information:**

None.

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**VII. EXPLANATIONS AND NOTES RELATED TO THE GROUP’S RISK GROUP**

**1. Volume of transactions with the Group’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 Group         | 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                 | -   | -        | 7.404                                       | 545.492  | -  | -        |
| Closing Balance                 | -   | -        | 5.338                                       | 560.551  | -  | -        |
| Interest and Commissions Income | -   | -        | 3.122                                       | 1.634    | -  | -        |

**Prior Period – 31 December 2016:**

| Risk Group of the Group         | 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                 | -   | -        | 20.399                                      | 738.493  | -  | -        |
| Closing Balance                 | -   | -        | 7.404                                       | 545.492  | -  | -        |
| Interest and Commissions Income | -   | -        | 3.593                                       | 2.157    | -  | -        |

**2. Deposits held by the Group’s risk group:**

| Risk Group of the Group      | 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 31 December 2017   | Prior Period 31 December 2016 | Current Period 31 December 2017             | Prior Period 31 December 2016 | Current Period 31 December 2017                        | Prior Period 31 December 2016 |
| Deposit                      |   |                               |   |                               |  |                               |
| Opening Balance              | 2.051   | 751                           | 123.094                                     | 49.079                        | 14.129   | 9.252                         |
| Closing Balance              | 1.437   | 2.051                         | 57.602                                      | 123.094                       | 11.837   | 14.129                        |
| Interest expense on deposits | -   | -                             | -   | -                             | 359  | 576                           |

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

| Risk Group of the Group                                   | 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 31 December 2017   | Prior Period 31 December 2016 | Current Period 31 December 2017             | Prior Period 31 December 2016 | Current Period 31 December 2017                        | Prior Period 31 December 2016 |
| <b>The Fair Value Differences Through Profit and Loss</b> |   |                               |   |                               |  |                               |
| Opening Balance   | -   | -                             | 34.002.552                                  | 61.011.511                    | -  | -                             |
| Closing Balance   | -   | -                             | 60.853.334                                  | 34.002.552                    | -  | -                             |
| Total Profit/Loss   | -   | -                             | (450.373)                                   | 238.825                       | -  | -                             |
| <b>Transactions for Hedging Purposes</b>                  |   |                               |   |                               |  |                               |
| Opening Balance   | -   | -                             | 559.703                                     | 1.003.370                     | -  | -                             |
| Closing Balance   | -   | -                             | -   | 559.703                       | -  | -                             |
| Total Profit/Loss   | -   | -                             | -   | 182                           | -  | -                             |

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

As of 31 December 2017, payment is made to Board of Directors and top executives of the Group amounting to TL 27.528 (31 December 2016: TL 26.208).

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

**1. Information on domestic and foreign branches and foreign representatives of the Parent  
Bank:**

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

**IX. EXPLANATIONS AND NOTES TO SUBSEQUENT EVENTS**

None.

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**SECTION SIX**

**OTHER EXPLANATIONS**

**I. OTHER EXPLANATIONS ON GROUP’S OPERATIONS**

None.

**SECTION SEVEN**

**EXPLANATIONS ON INDEPENDENT AUDITOR’S REPORT**

**I. EXPLANATIONS ON INDEPENDENT AUDITOR’S REPORT**

As of 31 December 2017, consolidated financial statements and explanatory notes disclosed here in were reviewed by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. and audit report dated 28 February 2018 is presented before to the consolidated financial statements.

**II. EXPLANATIONS AND NOTES PREPARED BY THE INDEPENDENT AUDITOR**

None.

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