

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED
UNCONSOLIDATED FINANCIAL STATEMENTS AND RELATED
DISCLOSURES AT 31 DECEMBER 2018 TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT
SEE NOTE I.c OF SECTION THREE**

HSBC BANK A.Ş.

**PUBLICLY ANNOUNCED
UNCONSOLIDATED FINANCIAL STATEMENTS
TOGETHER WITH AUDIT REPORT AT 31 DECEMBER 2018**



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

INDEPENDENT AUDITOR'S REPORT

To the General Assembly of HSBC Bank A.Ş.

A. Audit of the Unconsolidated Financial Statements

1. Opinion

We have audited the accompanying unconsolidated financial statements of HSBC Bank A.Ş. (the "Bank"), which comprise the statement of unconsolidated balance sheet as at 31 December 2018, unconsolidated income statement, unconsolidated statement of income and expense items under shareholders' equity, unconsolidated statement of changes in shareholders' equity, unconsolidated statement of cash flows for the year then ended and the notes to the unconsolidated financial statements and a summary of significant accounting policies and unconsolidated financial statement notes.

In our opinion, the unconsolidated financial statements present fairly, in all material respects, the unconsolidated financial position of the Bank as at 31 December 2018, and its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with the Banking Regulation and Supervision Agency ("BRSA") Accounting and Financial Reporting Legislation which includes "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette no.26333 dated 1 November 2006, and other regulations on accounting records of Banks published by Banking Regulation and Supervision Agency and circulars and interpretations published by BRSA and Turkish Financial Reporting Standards ("TFRS") for those matters not regulated by the aforementioned regulations.



2. Basis for Opinion

Our audit was conducted in accordance with the “Regulation on Independent Audit of Banks” published by the BRSA on the Official Gazette No.29314 dated 2 April 2015 and the Standards on Independent Auditing (the “SIA”) that are part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority (the “POA”). Our responsibilities under these standards are further described in the “Auditor’s Responsibilities for the Audit of the Unconsolidated Financial Statements” section of our report. We hereby declare that we are independent of the Bank in accordance with the Ethical Rules for Independent Auditors (the “Ethical Rules”) and the ethical requirements regarding independent audit in regulations issued by POA that are relevant to our audit of the 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. Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the unconsolidated financial statements of the current period. Key audit matters were addressed in the context of our independent audit of the unconsolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Key Audit Matter***Impairment of loans and receivables***

The Bank has total provision for impairment of TL 1.095.459 thousands in respect to loans and receivables of TL 16.184.925 which represent a significant portion of the Bank's total assets in its unconsolidated financial statements as at 31 December 2018. Explanations and notes related to provision for impairment of loans and receivables are presented section III part VII-d, section V part I-e and section V part II-h in the accompanying unconsolidated financial statements as at 31 December 2018.

The reason we focused on this area during our audit is; the size of loans and receivables, the importance of their classification in accordance with the relevant legislation and estimation of impairment provision related to these loan and receivables. Timely and correctly identification of loss event and level of judgements and estimations made by the management have significant impacts on the amount of impairment provisions for loans. Therefore, this area is considered as key audit matter.

How Our Audit Addressed the Key Audit Matter

Within our audit procedures, we assessed and tested the design and operating effectiveness of controls applied by the Bank with respect to classification of loans and receivables and estimation of impairment in-line with the framework of the relevant legislation.

We have carried loan review on a selected sample of loans and receivables with the objective to identify whether the loss event had occurred and whether the provision for impairment has been recognized in a timely manner within the framework of the provisions of the relevant legislation.

In addition, we have tested the appropriateness of specific provision calculation made for non-performing loans in line with the relevant legislation. Based on a selected sample we tested whether collaterals subject to specific provision are taken into consideration with market values multiplied with specified valuation ratios and are adequately classified to correct collateral group specified in legislation. For the portfolio of loans subject to the general provision we have examined the appropriateness of the general provision established in line with the related rules and other notifications made by the BRSA.

Based on our discussions with the Bank management, we evaluated whether the key assumptions and other judgements underlying the estimation of impairment were reasonable.



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

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

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

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

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

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

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



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

- Identify and assess the risks of material misstatement in the unconsolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Assess the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the unconsolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor’s report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the unconsolidated financial statements, including the disclosures, and whether the unconsolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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



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

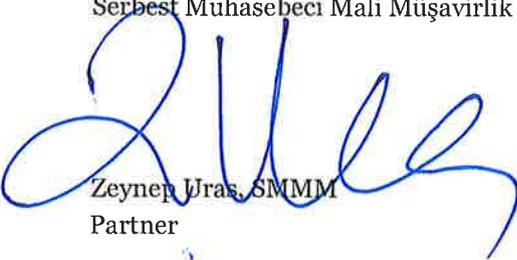
B. Other Responsibilities Arising From Regulatory Requirements

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 2018 period are not in compliance with the TCC and provisions of the Bank's articles of association related to financial reporting.
2. In accordance with subparagraph 4 of Article 402 of the TCC, the Board of Directors submitted the necessary explanations to us and provided the documents required within the context of our audit.

Additional Paragraph for Convenience Translation

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

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



Zeynep Uras, SMMM
Partner

Istanbul, 21 February 2019

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

**UNCONSOLIDATED FINANCIAL REPORT OF HSBC BANK A.Ş.
AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2018**

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 unconsolidated year-end financial report prepared in accordance with Communiqué on the Financial Statements and the Related Disclosures and Footnotes to be Publicly Announced as regulated by Banking Regulation and Supervision Agency, is comprised of the following sections:

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

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


Hamit Aydoğan
Vice President of the
Executive Board


Süleyman Salim Kervancı
General Manager


Burçin Ozan
Financial Reporting
Assistant General
Manager


Yerliozan Kül
Group Head


Robert Adrian Underwood
Head of
Audit Committee


Neslihan Erkazancı
Member of
Audit Committee

Information about the responsible personnel whom questions may be asked:

Name-Surname/Title : Burcu Eker/Manager
Tel : (0212) 376 4157
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HSBC Bank A.Ş.

Sicil Numarası: İstanbul Ticaret Sicil Müdürlüğü - 268376

Ticaret Ünvanı: HSBC Bank A.Ş.

Şirket Merkezi: Esentepe Mah. Büyükdere Cad. No: 128 Şişli 34394 İstanbul

Sicile Kayıtlı Olduğu Yer: Esentepe Mah. Büyükdere Cad. No: 128 Şişli 34394 İstanbul - İstanbul Ticaret Sicil Md.

Web Adresi: www.hsbc.com.tr

İrtibat Bilgileri Tel: 0212 376 40 00 **Fax:** 0212 336 29 39 / 336 26 38 / 336 21 41 / 336 22 60

SECTION ONE**General Information About the Bank**

I.	Bank's foundation date, start-up status, history regarding the changes in this status	1
II.	Explanation about the Bank's capital structure, shareholders of the Bank who are in charge of the management and/or auditing of the Bank directly or indirectly, changes in these matters (if any) and the Group that the Bank belongs to	1
III.	Explanation on the Board of Directors, members of the audit committee, president and executive vice presidents, if available, shares of the Bank they possess, and their areas of responsibilities	2
IV.	Information on individuals or institutions owning the preferred shares of the Bank	3
V.	Summary information on the Bank's activities and services	3
VI.	Other matters	3
VII.	Differences between the Communiqué 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	3
VIII.	The existing or potential, actual or legal obstacles on the transfer of shareholders' equity between the Bank and its subsidiaries or reimbursement of liabilities	3

SECTION TWO**Unconsolidated Financial Statements of the Bank**

I.	Balance sheet	5
II.	Statement of off-balance sheet commitments	9
III.	Income Statement	11
IV.	Statement of profit or loss and other comprehensive income	13
V.	Statement of changes in shareholders' equity	14
VI.	Statement of cash flows	16
VII.	Statement of profit distribution	18

SECTION THREE**Explanations on Accounting Policies**

I.	Explanations on basis of presentation	20
II.	Explanations on strategy of using financial instruments and explanations on foreign currency transactions	24
III.	Explanations on investments in associates and subsidiaries	25
IV.	Explanations on forward transactions, options and derivative instruments	25
V.	Explanations on interest income and expenses	25
VI.	Explanations on fee and commission income and expenses	26
VII.	Explanations on financial assets	26
VIII.	Explanations on prior period accounting policies not valid for the current period	27
IX.	Explanations on impairment of financial assets	28
X.	Explanations on offsetting financial instruments	29
XI.	Explanations on sales and repurchase agreements and securities' lending transactions	29
XII.	Explanations on property and equipment held for sale purpose and related to discontinued operations and explanations on liabilities related with these assets	29
XIII.	Explanations on goodwill and other intangible assets	29
XIV.	Explanations on property and equipment	30
XV.	Explanations on leasing transactions	30
XVI.	Explanations on provisions and contingent liabilities	30
XVII.	Explanations on contingent assets	30
XVIII.	Explanations on obligations related to employee rights	31
XIX.	Explanations on taxation	31
XX.	Explanations on borrowings	32
XXI.	Explanations on issuance of share certificates	33
XXII.	Explanations on avalized drafts and acceptances	33
XXIII.	Explanations on government incentives	33
XXIV.	Explanations on segment reporting	33
XXV.	Profit reserves and profit distribution	33
XXVI.	Earnings/loss per share	33
XXVII.	Cash and cash equivalents	34
XXVIII.	Related parties	34
XXIX.	Reclassifications	34
XXX.	Other matters	34

SECTION FOUR**Explanations Related to Financial Structure and Risk Management**

I.	Explanations related to components of shareholders' equity	35
II.	Explanations on credit risk	42
III.	Explanations on counter cyclical capital buffer ratio calculation	58
IV.	Explanations on currency risk	58
V.	Explanations on interest rate risk	61
VI.	Explanations on position risk of equity securities in Banking book	65
VII.	Explanations on liquidity risk management and liquidity coverage ratio	66
VIII.	Explanations on leverage ratio	73
IX.	Explanations on the presentation of financial assets and liabilities at fair values	74
X.	Explanations regarding the activities carried out on behalf and account of other parties	75
XI.	Explanations on risk management	76
XII.	Explanations on operating segments	98

SECTION FIVE**Explanations and Notes Related to Unconsolidated Financial Statements**

I.	Explanations and notes related to assets	100
II.	Explanations and notes related to liabilities	119
III.	Explanations and notes related to off-balance sheet accounts	130
IV.	Explanations and notes related to income statement	135
V.	Explanations and notes related to changes in shareholders' equity	145
VI.	Explanations and notes related to statement of cash flows	146
VII.	Explanations and notes related to Bank's risk group	148
VIII.	Explanations and notes related to domestic, foreign, off-shore branches or affiliates and foreign representatives of the Bank	150
IX.	Explanations and notes related to subsequent events	150

SECTION SIX**Other Explanations**

I.	Other explanations on Bank's operations	151
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SECTION SEVEN**Explanations on Auditor's Report**

I.	Explanations on independent auditor's report	151
II.	Explanations and notes prepared by the independent auditor	151

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

HSBC BANK A.Ş.

NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

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

SECTION ONE

GENERAL INFORMATION ABOUT THE BANK

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

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

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

As of 31 December 2018, the Bank’s nominal capital amounting to TL 652.290 is dividend to 65.229.000.000 shares with a nominal value of TL 0,01. 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. As of 31 December 2018 there has been no changes regarding the Bank’s capital structure and shareholders of the Bank who are in charge of the management or auditing of the Bank directly or indirectly.

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

NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

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

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

<u>Title</u>	<u>Name</u>	<u>Responsibility</u>	<u>Education</u>
Chairman of the Board:	David Gordon ELDON	Chairman	Undergraduate
Deputy Chairman of the Board:	Hamit AYDOĞAN	Deputy Chairman	Undergraduate
Board of Directors :	Süleyman Selim KERVANCI	Member, CEO	Graduate
	Robert Adrian UNDERWOOD	Member	Undergraduate
	Mehmet Gani SÖNMEZ	Member	Undergraduate
	Edward Michael FLANDERS	Member	Undergraduate
	Neslihan ERKAZANCI	Member	Undergraduate
	Georges EL HEDERY	Member	Graduate
CEO:	Süleyman Selim KERVANCI	CEO	Graduate
Head of Internal Audit:	Umut PASİN	Head of Internal Audit	Undergraduate
Deputy CEO:	Rüçhan ÇANDAR	Technology and Services	Graduate
Executive Vice Presidents (*):	Anthony WRIGHT	Credit and Risk	Graduate
	Yiğit ARSLANCIK	Corporate and Investment Banking	Graduate
	Ayşe YENEL	Retail Banking	Undergraduate
	Burçin OZAN	Finance	Undergraduate
	Rüçhan ÇANDAR	Technology and Services	Graduate
	Funda TEMOÇİN AYDOĞAN	Human Resources	Undergraduate
	İbrahim Namık AKSEL	Treasury and Capital Markets	Graduate
Audit Committee:	Robert Adrian UNDERWOOD	Head of the Audit Committee	Graduate
	Neslihan ERKAZANCI	Member of the Audit Committee	Undergraduate

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

(*) Per the Board Decision no. 14125 dated 11 July 2018, Hulusi HOROZOĞLU has resigned from his role as the executive vice president responsible for Corporate and Investment Banking as of 11 July 2018 and as per the Board Decision no. 14183 dated 5 November 2018, Yiğit ARSLANCIK was appointed in his place as the Executive Vice President responsible for Corporate and Investment Banking.

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

NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

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

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

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

(*) The amounts are expressed in full TL.

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

As stated in the relevant regulation and the articles of association of the Bank, the important areas of operations of the Bank are listed below;

- 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.

In addition to regular banking operations in accordance to the articles of association, the Bank also provides insurance intermediary services as an agency of Axa Sigorta, Zurich Sigorta, Allianz Hayat ve Emeklilik, Allianz Sigorta, Gulf Sigorta, Euler Hermes and Anadolu Hayat Emeklilik, and JLT Sigorta ve Brokerlik through its branches and investment intermediary services, also undertaking the role of steering customers for portfolio sharing as an agent for transmitting orders of HSBC Yatırım.

As of 31 December 2018, the Bank has 82 branches dispersed throughout the country (31 December 2017: 82 branches).

As of 31 December 2018, the number of employees of the Bank is 2.205 (31 December 2017: 2.478).

VI. OTHER MATTERS

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

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

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

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

None.

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

HSBC BANK A.Ş.

NOTES TO UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

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

SECTION TWO

UNCONSOLIDATED FINANCIAL STATEMENTS

- I. Balance Sheet**
- II. Statement of Off - Balance Sheet Commitments**
- III. Statement of Profit or Loss**
- IV. Statement of Profit or Loss and Other Comprehensive Income**
- V. Statement of Changes in Shareholders’ Equity**
- VI. Statement of Cash Flows**
- VII. Statement of Profit Distribution**

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

HSBC BANK A.Ş.

**UNCONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2018
(STATEMENT OF FINANCIAL POSITION)**

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

**SECTION TWO
UNCONSOLIDATED FINANCIAL STATEMENTS**

I. BALANCE SHEET	Note (Section Five I)	Audited Current Period (31.12.2018)		
		TL	FC	Total
ASSETS				
I. FINANCIAL ASSETS (NET)		3.258.212	12.787.553	16.045.765
1.1 Cash and Cash Equivalents		2.711.156	11.791.671	14.502.827
1.1.1 Cash and Balances with Central Bank	(I-a)	2.340.898	3.724.557	6.065.455
1.1.2 Banks	(I-c)	-	21.885	21.885
1.1.3 Money Markets		370.258	8.045.229	8.415.487
1.2 Financial Assets at Fair Value Through Profit or Loss	(I-b)	5.744	24.938	30.682
1.2.1 Government Debt Securities		1.519	10.282	11.801
1.2.2 Equity Instruments		4.225	14.656	18.881
1.2.3 Other Financial Assets		-	-	-
1.3 Financial Assets at Fair Value Through Other Comprehensive Income	(I-d)	511.129	-	511.129
1.3.1 Government Debt Securities		511.129	-	511.129
1.3.2 Equity Instruments		-	-	-
1.3.3 Other Financial Assets		-	-	-
1.4 Financial Assets Measured at Amortised Cost	(I-f)	-	-	-
1.4.1 Government Debt Securities		-	-	-
1.4.2 Other Financial Assets		-	-	-
1.5 Derivative Financial Assets	(I-b)	30.183	970.944	1.001.127
1.5.1 Derivative Financial Assets at Fair Value Through Profit or Loss		30.183	970.944	1.001.127
1.5.2 Derivative Financial Assets at Fair Value Through Other Comprehensive Income	(I-k)	-	-	-
II. LOANS (Net)	(I-e)	9.851.850	5.834.658	15.686.508
2.1 Loans		9.607.825	5.695.262	15.303.087
2.1.1 Loans Measured at Amortised Cost		9.607.825	5.695.262	15.303.087
2.1.2 Loans at Fair Value Through Profit or Loss		-	-	-
2.1.3 Loans at Fair Value Through Other Comprehensive Income		-	-	-
2.2 Lease Receivables	(I-j)	-	-	-
2.2.1 Financial Lease Receivables		-	-	-
2.2.2 Operating Lease Receivables		-	-	-
2.2.3 Unearned Income (-)		-	-	-
2.3 Factoring Receivables		52.886	139.396	192.282
2.3.1 Measured at Amortised Cost		52.886	139.396	192.282
2.3.2 Fair Value Through Profit or Loss		-	-	-
2.3.3 Fair Value Through Other Comprehensive Income		-	-	-
2.4 Non-Performing Loans		881.838	-	881.838
2.5 Specific Provisions (-)		690.699	-	690.699
III. NON-CURRENT ASSETS OR DISPOSAL GROUPS “HELD FOR SALE”AND “HELD FROM DISCONTINUED OPERATIONS” (Net)	(I-p)	1.369	-	1.369
3.1 Held for Sale Purpose		1.369	-	1.369
3.2 Related to Discontinued Operations		-	-	-
IV. EQUITY INVESTMENTS		34.973	-	34.973
4.1 Investments in Associates (Net)	(I-g)	-	-	-
4.1.1 Associates Valued Based on Equity Method		-	-	-
4.1.2 Unconsolidated Associates		-	-	-
4.2 Investment in Subsidiaries (Net)	(I-h)	34.973	-	34.973
4.2.1 Unconsolidated Financial Subsidiaries		34.753	-	34.753
4.2.2 Unconsolidated Non-Financial Subsidiaries		220	-	220
4.3 Jointly Controlled Partnerships (Joint Ventures) (Net)	(I-i)	-	-	-
4.3.1 Joint Ventures Valued Based on Equity Method		-	-	-
4.3.2 Unconsolidated Joint Ventures		-	-	-
V. PROPERTY AND EQUIPMENT (Net)	(I-l)	100.411	-	100.411
VI. INTANGIBLE ASSETS (Net)	(I-m)	150.911	-	150.911
6.1 Goodwill		-	-	-
6.2 Other		150.911	-	150.911
VII. INVESTMENT PROPERTY (Net)	(I-n)	-	-	-
VIII. CURRENT TAX ASSET		10.103	-	10.103
IX. DEFERRED TAX ASSET	(I-o)	137.491	-	137.491
X. OTHER ASSETS	(I-r)	136.094	507.714	643.808
TOTAL ASSETS		13.681.414	19.129.925	32.811.339

The accompanying explanations and notes set out on pages 20 to 151 form an integral part of these financial statements.

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

HSBC BANK A.Ş.

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

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

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

Note: The prior period financial statements and related disclosures are not restated as permitted by TFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.

The accompanying explanations and notes set out on pages 20 to 151 form an integral part of these financial statements.

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

HSBC BANK A.Ş.

**UNCONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2018
(STATEMENT OF FINANCIAL POSITION)**

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

I. BALANCE SHEET	Note (Section Five II)	Audited Current Period (31.12.2018)		
		TL	FC	Total
		LIABILITIES		
I. DEPOSITS	(II-a)	7.536.135	17.350.786	24.886.921
II. FUNDS BORROWED	(II-d)	1.200.041	37.960	1.238.001
III. MONEY MARKETS	(II-c)	-	-	-
IV. SECURITIES ISSUED (Net)		-	-	-
4.1 Bills		-	-	-
4.2 Asset Backed Securities		-	-	-
4.3 Bonds		-	-	-
V. FUNDS		-	-	-
5.1 Borrower Funds		-	-	-
5.2 Other		-	-	-
VI. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-	-
VII. DERIVATIVE FINANCIAL LIABILITIES	(II-b)	25.921	915.173	941.094
7.1 Derivative Financial Liabilities at Fair Value Through Profit or Loss		25.921	915.173	941.094
7.2 Derivative Financial Liabilities at Fair Value Through Other Comprehensive Income	(II-g)	-	-	-
VIII. FACTORING LIABILITIES		-	-	-
IX. LEASE LIABILITIES	(II-f)	-	-	-
9.1 Financial Lease Payables		-	-	-
9.2 Operational Lease Payables		-	-	-
9.3 Other		-	-	-
9.4 Deferred Finance Lease Expenses (-)		-	-	-
X. PROVISIONS	(II-h)	408.533	191.627	600.160
10.1 General Loan Loss Provisions		214.376	190.384	404.760
10.2 Provision for Restructuring		49.459	-	49.459
10.3 Reserves for Employee Benefits		63.428	-	63.428
10.4 Insurance Technical Reserves (Net)		-	-	-
10.5 Other Provisions		81.270	1.243	82.513
XI. CURRENT TAX LIABILITY	(II-i)	54.802	-	54.802
XII. DEFERRED TAX LIABILITY	(II-i)	-	-	-
XIII. LIABILITIES RELATED TO NON-CURRENT ASSETS “HELD FOR SALE” AND “HELD FROM DISCONTINUED OPERATIONS”(Net)	(II-j)	-	-	-
13.1 Held for Sale Purpose		-	-	-
13.2 Related to Discontinued Operations		-	-	-
XIV. SUBORDINATED DEBT	(II-k)	-	1.545.585	1.545.585
14.1 Loans		-	1.545.585	1.545.585
14.2 Other Debt Instruments		-	-	-
XV. OTHER LIABILITIES	(II-e)	583.935	27.254	611.189
XVI. SHAREHOLDERS' EQUITY	(II-l)	2.933.587	-	2.933.587
16.1 Paid-in Capital		652.290	-	652.290
16.2 Capital Reserves		272.693	-	272.693
16.2.1 Equity Share Premiums		-	-	-
16.2.2 Share Cancellation Profits		-	-	-
16.2.3 Other Capital Reserves		272.693	-	272.693
16.3 Accumulated Other Comprehensive Income or Loss Not Reclassified Through Profit or Loss		(28.096)	-	(28.096)
16.4 Accumulated Other Comprehensive Income or Loss Reclassified Through Profit or Loss		(43.708)	-	(43.708)
16.5 Profit Reserves		1.744.824	-	1.744.824
16.5.1 Legal Reserves		184.141	-	184.141
16.5.2 Statutory Reserves		-	-	-
16.5.3 Extraordinary Reserves		1.560.683	-	1.560.683
16.5.4 Other Profit Reserves		-	-	-
16.6 Profit or (Loss)		335.584	-	335.584
16.6.1 Prior Periods' Profit/(Loss)		-	-	-
16.6.2 Current Period Profit/(Loss)		335.584	-	335.584
16.7 Minority Interest		-	-	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		12.742.954	20.068.385	32.811.339

The accompanying explanations and notes set out on pages 20 to 151 form an integral part of these financial statements.

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

HSBC BANK A.Ş.

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

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

I. BALANCE SHEET	Note (Section Five II)	Audited Prior Period (31.12.2017)		
		TL	FC	Total
		LIABILITIES		
I. DEPOSITS	(II-a)	4.802.781	11.566.934	16.369.715
1.1 Deposits of Bank’s risk group	(VII)	82.773	8.165	90.938
1.2 Other		4.720.008	11.558.769	16.278.777
II. TRADING DERIVATIVE FINANCIAL LIABILITIES	(II-b)	207.234	531.945	739.179
III. BORROWINGS	(II-d)	818.610	1.786.117	2.604.727
IV. MONEY MARKETS		-	-	-
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)	-	-	-
V. MARKETABLE SECURITIES ISSUED (Net)		-	-	-
5.1 Bills		-	-	-
5.2 Asset Backed Securities		-	-	-
5.3 Bonds		-	-	-
VI. FUNDS		-	-	-
6.1 Borrower Funds		-	-	-
6.2 Other		-	-	-
VII. MISCELLANEOUS PAYABLES		249.738	13.693	263.431
VIII. OTHER LIABILITIES	(II-e)	246.521	15.681	262.202
IX. FACTORING PAYABLES		-	-	-
X. FINANCIAL LEASE PAYABLES (Net)	(II-f)	-	-	-
10.1 Financial Lease Payables		-	-	-
10.2 Operational Lease Payables		-	-	-
10.3 Other		-	-	-
10.4 Deferred Financial Lease Expenses (-)		-	-	-
XI. HEDGING DERIVATIVE FINANCIAL LIABILITIES	(II-g)	-	-	-
11.1 Fair Value Hedge		-	-	-
11.2 Cash Flow Hedge		-	-	-
11.3 Foreign Net Investment Hedge		-	-	-
XII. PROVISIONS	(II-h)	679.488	1.585	681.073
12.1 General Loan Loss Provisions		430.929	-	430.929
12.2 Restructuring Provisions		85.965	-	85.965
12.3 Reserve for Employee Rights		63.516	-	63.516
12.4 Insurance Technical Provisions (Net)		-	-	-
12.5 Other Provisions		99.078	1.585	100.663
XIII. TAX LIABILITY	(II-i)	42.466	-	42.466
13.1 Current Tax Liability		42.466	-	42.466
13.2 Deferred Tax Liability		-	-	-
XIV. LIABILITIES FOR PROPERTY AND EQUIPMENT HELD FOR SALE AND RELATED TO DISCONTINUED OPERATIONS (Net)	(II-j)	-	-	-
14.1 Held for Sale Purpose		-	-	-
14.2 Related to Discontinued Operations		-	-	-
XV. SUBORDINATED LOANS	(II-k)	-	1.100.050	1.100.050
XVI. SHAREHOLDERS' EQUITY	(II-l)	2.560.357	4.723	2.565.080
16.1 Paid-in Capital		652.290	-	652.290
16.2 Capital Reserves		254.663	4.723	259.386
16.2.1 Share Premium		-	-	-
16.2.2 Share Cancellation Profits		-	-	-
16.2.3 Marketable Securities Valuation Differences		(22.622)	4.723	(17.899)
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
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
16.3 Profit Reserves		1.344.667	-	1.344.667
16.3.1 Legal Reserves		184.141	-	184.141
16.3.2 Status Reserves		-	-	-
16.3.3 Extraordinary Reserves		1.191.037	-	1.191.037
16.3.4 Other Profit Reserves		(30.511)	-	(30.511)
16.4 Profit or Loss		308.737	-	308.737
16.4.1 Prior Periods' Profit/(Loss)		-	-	-
16.4.2 Current Period Profit/(Loss)		308.737	-	308.737
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		9.607.195	15.020.728	24.627.923

Note: The prior period financial statements and related disclosures are not restated as permitted by TFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.

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HSBC BANK A.Ş.

**UNCONSOLIDATED STATEMENT OF OFF-BALANCE SHEET COMMITMENTS
AS OF 31 DECEMBER 2018**

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

II. OFF-BALANCE SHEET COMMITMENTS	Note (Section Five III)	Audited Current Period (31.12.2018)		
		TL	FC	Total
A. OFF BALANCE SHEET COMMITMENTS AND CONTINGENCIES (I+II+III)		23.566.255	69.331.722	92.897.977
I. GUARANTEES AND WARRANTIES	(III-a-2,3)	1.012.483	2.645.782	3.658.265
1.1 Letters of Guarantee		1.004.483	839.254	1.843.737
1.1.1 Guarantees Subject to State Tender Law		-	-	-
1.1.2 Guarantees Given for Foreign Trade Operations		-	-	-
1.1.3 Other Letters of Guarantee		1.004.483	839.254	1.843.737
1.2 Bank Acceptances		-	203.137	203.137
1.2.1 Import Letter of Acceptance		-	203.137	203.137
1.2.2 Other Bank Acceptances		-	-	-
1.3 Letters of Credit		8.000	1.248.433	1.256.433
1.3.1 Documentary Letters of Credit		8.000	1.084.585	1.092.585
1.3.2 Other Letters of Credit		-	163.848	163.848
1.4 Pre-financing 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		-	354.958	354.958
1.9 Other Collaterals		-	-	-
II. COMMITMENTS	(III-a-1)	5.503.976	2.060.592	7.564.568
2.1 Irrevocable Commitments		5.503.976	2.060.592	7.564.568
2.1.1 Asset Purchase and Sale Commitments		1.095.069	1.563.472	2.658.541
2.1.2 Forward Deposit Purchase and Sales Commitments		-	496.641	496.641
2.1.3 Share Capital Commitments to Associates and Subsidiaries		-	-	-
2.1.4 Loan Granting Commitments		408.147	-	408.147
2.1.5 Securities Issue Brokerage Commitments		-	-	-
2.1.6 Commitments for Reserve Deposit Requirements		-	-	-
2.1.7 Commitments for Cheque Payments		21.519	-	21.519
2.1.8 Tax and Fund Liabilities from Export Commitments		2.286	-	2.286
2.1.9 Commitments for Credit Card Limits		3.398.789	-	3.398.789
2.1.10 Commitments for Credit Cards and Banking Services Promotions		12.995	-	12.995
2.1.11 Receivables From Short Sale Commitments of Marketable Securities		-	-	-
2.1.12 Payables for Short Sale Commitments of Marketable Securities		-	-	-
2.1.13 Other Irrevocable Commitments		565.171	479	565.650
2.2 Revocable Commitments		-	-	-
2.2.1 Revocable Loan Granting Commitments		-	-	-
2.2.2 Other Revocable Commitments		-	-	-
III. DERIVATIVE FINANCIAL INSTRUMENTS	(III-b)	17.049.796	64.625.348	81.675.144
3.1 Hedging Derivative Financial Instruments		-	-	-
3.1.1 Transactions for Fair Value Hedge		-	-	-
3.1.2 Transactions for Cash Flow Hedge		-	-	-
3.1.3 Transactions for Foreign Net Investment Hedge		-	-	-
3.2 Trading Transactions		17.049.796	64.625.348	81.675.144
3.2.1 Forward Foreign Currency Buy/Sell Transactions		5.165.979	5.866.996	11.032.975
3.2.1.1 Forward Foreign Currency Transactions-Buy		4.273.312	1.520.565	5.793.877
3.2.1.2 Forward Foreign Currency Transactions-Sell		892.667	4.346.431	5.239.098
3.2.2 Swap Transactions Related to Foreign Currency and Interest Rates		7.947.553	52.833.198	60.780.751
3.2.2.1 Foreign Currency Swap-Buy		2.129.310	15.417.132	17.546.442
3.2.2.2 Foreign Currency Swap-Sell		5.818.243	12.142.832	17.961.075
3.2.2.3 Interest Rate Swap-Buy		-	12.636.617	12.636.617
3.2.2.4 Interest Rate Swap-Sell		-	12.636.617	12.636.617
3.2.3 Foreign Currency, Interest rate and Securities Options		3.936.264	5.881.126	9.817.390
3.2.3.1 Foreign Currency Options-Buy		1.968.132	2.940.563	4.908.695
3.2.3.2 Foreign Currency Options-Sell		1.968.132	2.940.563	4.908.695
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		-	44.028	44.028
B. CUSTODY AND PLEDGES RECEIVED (IV+V+VI)		56.658.971	30.590.524	87.249.495
IV. ITEMS HELD IN CUSTODY		47.592.245	10.131.365	57.723.610
4.1 Customer Fund and Portfolio Balances		-	-	-
4.2 Investment Securities Held in Custody		46.030.483	7.567.772	53.598.255
4.3 Checks Received for Collection		6.235	93.238	99.473
4.4 Commercial Notes Received for Collection		155.033	62.368	217.401
4.5 Other Assets Received for Collection		-	-	-
4.6 Assets Received for Public Offering		-	-	-
4.7 Other Items Under Custody		1.400.494	2.407.987	3.808.481
4.8 Custodians		-	-	-
V. PLEDGES RECEIVED		7.961.235	13.712.633	21.673.868
5.1 Marketable Securities		51.931	766.825	818.756
5.2 Guarantee Notes		93.158	317.422	410.580
5.3 Commodity		486.960	660.003	1.146.963
5.4 Warranty		-	-	-
5.5 Immovable Properties		4.292.439	4.757.428	9.049.867
5.6 Other Pledged Items		3.036.747	7.210.955	10.247.702
5.7 Pledged Items-Depository		-	-	-
VI. ACCEPTED INDEPENDENT GUARANTEES AND WARRANTIES		1.105.491	6.746.526	7.852.017
TOTAL OFF BALANCE SHEET COMMITMENTS (A+B)		80.225.226	99.922.246	180.147.472

The accompanying explanations and notes set out on pages 20 to 151 form an integral part of these financial statements.

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

HSBC BANK A.Ş.

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

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

II. OFF-BALANCE SHEET COMMITMENTS	Note (Section Five III)	Audited Prior Period (31.12.2017)		
		TL	FC	Total
A. OFF BALANCE SHEET COMMITMENTS AND CONTINGENCIES (I+II+III)		38.749.790	71.006.021	109.755.811
I. GUARANTEES AND WARRANTIES	(III-a-2,3)	922.438	1.874.869	2.797.307
1.1 Letters of Guarantee		918.638	671.301	1.589.939
1.1.1 Guarantees Subject to State Tender Law		-	-	-
1.1.2 Guarantees Given for Foreign Trade Operations		16.647	2.407	19.054
1.1.3 Other Letters of Guarantee		901.991	668.894	1.570.885
1.2 Bank Acceptances		-	155.184	155.184
1.2.1 Import Letter of Acceptance		-	155.184	155.184
1.2.2 Other Bank Acceptances		-	-	-
1.3 Letters of Credit		-	698.997	698.997
1.3.1 Documentary Letters of Credit		-	637.983	637.983
1.3.2 Other Letters of Credit		-	61.014	61.014
1.4 Pre-financing 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
1.9 Other Collaterals		-	-	-
II. COMMITMENTS	(III-a-1)	9.271.227	7.341.030	16.612.257
2.1 Irrevocable Commitments		9.271.227	7.341.030	16.612.257
2.1.1 Asset Purchase and Sale Commitments		4.047.515	7.340.693	11.388.208
2.1.2 Forward Deposit Purchase and Sales Commitments		-	-	-
2.1.3 Share Capital Commitments to Associates and Subsidiaries		-	-	-
2.1.4 Loan Granting Commitments		246.829	-	246.829
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
2.1.8 Tax and Fund Liabilities from Export Commitments		1.892	-	1.892
2.1.9 Commitments for Credit Card Limits		3.872.439	-	3.872.439
2.1.10 Commitments for Credit Cards and Banking Services Promotions		14.780	-	14.780
2.1.11 Receivables From Short Sale Commitments of Marketable Securities		-	-	-
2.1.12 Payables for Short Sale Commitments of Marketable Securities		-	-	-
2.1.13 Other Irrevocable Commitments		597.942	337	598.279
2.2 Revocable Commitments		-	-	-
2.2.1 Revocable Loan Granting Commitments		-	-	-
2.2.2 Other Revocable Commitments		-	-	-
III. DERIVATIVE FINANCIAL INSTRUMENTS	(III-b)	28.556.125	61.790.122	90.346.247
3.1 Hedging Derivative Financial Instruments		-	-	-
3.1.1 Transactions for Fair Value Hedge		-	-	-
3.1.2 Transactions for Cash Flow Hedge		-	-	-
3.1.3 Transactions for Foreign Net Investment Hedge		-	-	-
3.2 Trading Transactions		28.556.125	61.790.122	90.346.247
3.2.1 Forward Foreign Currency Buy/Sell Transactions		4.268.195	5.456.776	9.724.971
3.2.1.1 Forward Foreign Currency Transactions-Buy		2.886.489	2.019.974	4.906.463
3.2.1.2 Forward Foreign Currency Transactions-Sell		1.381.706	3.436.802	4.818.508
3.2.2 Swap Transactions Related to Foreign Currency and Interest Rates		20.400.897	49.792.847	70.193.744
3.2.2.1 Foreign Currency Swap-Buy		5.217.788	20.598.966	25.816.754
3.2.2.2 Foreign Currency Swap-Sell		15.183.109	10.802.517	25.985.626
3.2.2.3 Interest Rate Swap-Buy		-	9.195.682	9.195.682
3.2.2.4 Interest Rate Swap-Sell		-	9.195.682	9.195.682
3.2.3 Foreign Currency, Interest rate and Securities Options		3.887.033	6.529.043	10.416.076
3.2.3.1 Foreign Currency Options-Buy		1.941.852	3.266.220	5.208.072
3.2.3.2 Foreign Currency Options-Sell		1.945.181	3.262.823	5.208.004
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
B. CUSTODY AND PLEDGES RECEIVED (IV+V+VI)		24.463.314	55.809.728	80.273.042
IV. ITEMS HELD IN CUSTODY		10.653.702	1.650.912	12.304.614
4.1 Customer Fund and Portfolio Balances		1.375.193	-	1.375.193
4.2 Investment Securities Held in Custody		6.809.800	1.490.481	8.300.281
4.3 Checks Received for Collection		755.122	50.506	805.628
4.4 Commercial Notes Received for Collection		159.074	-	159.074
4.5 Other Assets Received for Collection		-	8.582	8.582
4.6 Assets Received for Public Offering		-	-	-
4.7 Other Items Under Custody		1.554.513	101.343	1.655.856
4.8 Custodians		-	-	-
V. PLEDGES RECEIVED		8.530.950	9.604.114	18.135.064
5.1 Marketable Securities		32.689	-	32.689
5.2 Guarantee Notes		157.629	400.689	558.318
5.3 Commodity		240	496	736
5.4 Warranty		-	-	-
5.5 Immovable Properties		5.069.460	3.305.779	8.375.239
5.6 Other Pledged Items		3.270.932	5.897.150	9.168.082
5.7 Pledged Items-Depository		-	-	-
VI. ACCEPTED INDEPENDENT GUARANTEES AND WARRANTIES		5.278.662	44.554.702	49.833.364
TOTAL OFF BALANCE SHEET COMMITMENTS (A+B)		63.213.104	126.815.749	190.028.853

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**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED
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IN TURKISH, SEE IN NOTE I.c OF SECTION THREE**

HSBC BANK A.Ş.

**UNCONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE PERIOD
ENDED 31 DECEMBER 2018**

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

III. STATEMENT OF PROFIT OR LOSS			Audited Current Period (01.01.2018 – 31.12.2018)
INCOME AND EXPENSE ITEMS		Note (Section Five IV)	
I.	INTEREST INCOME	(IV-a)	3.014.771
1.1	Interest Income on Loans	(IV-a-1)	2.281.570
1.2	Interest Received from Reserve Requirements		47.577
1.3	Interest Received from Banks	(IV-a-2)	447.639
1.4	Interest Received from Money Market Transactions		137.365
1.5	Interest Received from Marketable Securities Portfolio	(IV-a-3)	98.696
1.5.1	Financial Assets at Fair Value through Profit or (Loss)		15.013
1.5.2	Financial Assets at Fair Value Through Other Comprehensive Income		83.683
1.5.3	Financial Assets at Measured at Amortised Cost		-
1.6	Financial Lease Income		-
1.7	Other Interest Income		1.924
II.	INTEREST EXPENSE	(IV-b)	1.559.163
2.1	Interest Expense on Deposits	(IV-b-4)	1.252.029
2.2	Interest Expense on Funds Borrowed	(IV-b-1)	262.645
2.3	Interest Expense on Money Market Transactions		31.667
2.4	Interest on Securities Issued	(IV-b-3)	-
2.5	Other Interest Expenses		12.822
III.	NET INTEREST INCOME/EXPENSE (I + II)		1.455.608
IV.	NET FEES AND COMMISSIONS INCOME/EXPENSE		376.401
4.1	Fees and Commissions Received		417.621
4.1.1	Non-Cash Loans		36.969
4.1.2	Other	(IV-1)	380.652
4.2	Fees and Commissions Paid		41.220
4.2.1	Non-Cash Loans		696
4.2.2	Other		40.524
V.	PERSONNEL EXPENSES (-)	(IV-g)	438.313
VI.	DIVIDEND INCOME	(IV-c)	20.744
VII.	TRADING INCOME/(LOSS) (Net)	(IV-d)	(399.158)
7.1	Trading Gains/(Losses) on Securities		(7.311)
7.2	Derivative Financial Transactions Gains/(Losses)		2.021.462
7.3	Foreign Exchange Gains/(Losses)		(2.413.309)
VIII.	OTHER OPERATING INCOME	(IV-e)	250.058
IX.	TOTAL OPERATING INCOME (III+IV+V+VI+VII+VIII)		1.265.340
X.	PROVISION FOR LOAN LOSSES (-)	(IV-f)	228.698
XI.	OTHER OPERATING EXPENSES (-)	(IV-g)	599.358
XII.	NET OPERATING INCOME/(LOSS) (IX-X-XI)		437.284
XIII.	EXCESS AMOUNT RECORDED AS INCOME AFTER MERGER		-
XIV.	INCOME/(LOSS) FROM INVESTMENTS IN SUBSIDIARIES CONSOLIDATED BASED ON EQUITY METHOD		-
XV.	INCOME/(LOSS) ON NET MONETARY POSITION		-
XVI.	INCOME/EXPENSE BEFORE TAXES FROM CONTINUING OPERATIONS (XII+...+XV)		437.284
XVII.	PROVISION FOR TAXES ON INCOME FROM CONTINUING OPERATIONS (±)	(IV-i)	(101.700)
17.1	Current Tax Provision		(6.748)
17.2	Deferred Tax Income Effect (+)		(94.952)
17.3	Deferred Tax Expense Effect (-)		-
XVIII.	NET PROFIT/LOSSES FROM CONTINUING OPERATIONS (XVI±XVII)	(IV-j)	335.584
XIX.	INCOME FROM DISCONTINUED OPERATIONS		-
19.1	Income from Non-Current Assets Held for Resale		-
19.2	Profit from Sales of Associates, Subsidiaries and Joint Ventures (Business Partners)		-
19.3	Other Income From Discontinued Operations		-
XX.	EXPENSES FROM DISCONTINUED OPERATIONS (-)		-
20.1	Expenses for Non-Current Assets Held for Resale		-
20.2	Loss from Sales of Associates, Subsidiaries and Joint Ventures (Business Partners)		-
20.3	Other Expenses From Discontinued Operations		-
XXI.	PROFIT/LOSSES BEFORE TAXES FROM DISCONTINUED OPERATIONS (XIX-XX)		-
XXII.	PROVISION FOR INCOME TAXES FROM DISCONTINUED OPERATIONS (±)		-
22.1	Current Tax Provision		-
22.2	Deferred Tax Income Effect (+)		-
22.3	Deferred Tax Expense Effect (-)		-
XXIII.	NET PROFIT/LOSSES FROM DISCONTINUED OPERATIONS (XXI±XXII)		-
XXIV.	NET PROFIT/LOSSES (XVIII±XXIII)	(IV-k)	335.584
	Earnings/Loss per Share		0,005145

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**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED
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IN TURKISH, SEE IN NOTE I.c OF SECTION THREE**

HSBC BANK A.Ş.

**UNCONSOLIDATED STATEMENT OF INCOME FOR THE PERIOD
ENDED 31 DECEMBER 2017**

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

III. INCOME STATEMENT			
INCOME AND EXPENSE ITEMS		Note (Section Five IV)	Audited Prior Period (01.01.2017 - 31.12.2017)
I.	INTEREST INCOME	(IV-a)	2,254.432
1.1	Interest on Loans	(IV-a-1)	1,586.768
1.2	Interest Received from Reserve Requirements		24.410
1.3	Interest Received from Banks	(IV-a-2)	365.940
1.4	Interest Received from Money Market Transactions		117.381
1.5	Interest Received from Marketable Securities Portfolio	(IV-a-3)	157.200
1.5.1	Trading Financial Assets		15.740
1.5.2	Financial Assets at Fair Value through Profit or (Loss)		-
1.5.3	Available-for-sale Financial Assets		141.460
1.5.4	Held to Maturity Investments		-
1.6	Financial Lease Income		-
1.7	Other Interest Income		2.733
II.	INTEREST EXPENSE	(IV-b)	882.664
2.1	Interest on Deposits	(IV-b-4)	623.834
2.2	Interest on Funds Borrowed	(IV-b-1)	228.313
2.3	Interest Expense on Money Market Transactions		18.467
2.4	Interest on Securities Issued	(IV-b-3)	-
2.5	Other Interest Expenses		12.050
III.	NET INTEREST INCOME (I - II)		1,371.768
IV.	NET FEES AND COMMISSIONS INCOME		332.992
4.1	Fees and Commissions Received		374.497
4.1.1	Non-Cash Loans		21.053
4.1.2	Other	(IV-1)	353.444
4.2	Fees and Commissions Paid		41.505
4.2.1	Non-Cash Loans		925
4.2.2	Other		40.580
V.	DIVIDEND INCOME	(IV-c)	42.539
VI.	TRADING INCOME/(LOSS) (Net)	(IV-d)	(501.870)
6.1	Trading Gains/Losses on Securities		17.764
6.2	Derivative Financial Transactions Gains/Losses		225.513
6.3	Foreign Exchange Gains/Losses		(745.147)
VII.	OTHER OPERATING INCOME	(IV-e)	271.747
VIII.	TOTAL OPERATING INCOME (III+IV+V+VI+VII)		1,517.176
IX.	PROVISION FOR LOAN LOSSES AND OTHER RECEIVABLES (-)	(IV-f)	344.390
X.	OTHER OPERATING EXPENSES (-)	(IV-g)	1,004.951
XI.	NET OPERATING INCOME/LOSS (VIII-IX-X)		167.835
XII.	EXCESS AMOUNT RECORDED AS INCOME AFTER MERGER INCOME/(LOSS) FROM INVESTMENTS IN SUBSIDIARIES CONSOLIDATED BASED ON EQUITY METHOD		-
XIII.	INCOME/(LOSS) ON NET MONETARY POSITION		-
XIV.	INCOME/EXPENSE BEFORE TAXES FROM CONTINUING OPERATIONS (XI+XII+XIII+XIV)	(IV-h)	167.835
XV.	PROVISION FOR TAXES ON INCOME FROM CONTINUING OPERATIONS (±)	(IV-i)	140.902
16.1	Current Tax Provision		(5.076)
16.2	Deferred Tax Provision		145.978
XVII.	NET PROFIT/LOSSES FROM CONTINUING OPERATIONS (XV±XVI)	(IV-j)	308.737
XVIII.	INCOME FROM DISCONTINUED OPERATIONS		-
18.1	Income from Non-Current Assets Held for Sale		-
18.2	Profit from Sales of Associates, Subsidiaries and Joint Ventures (Business Partners)		-
18.3	Other Income From Discontinued Operations		-
XIX.	EXPENSES FROM DISCONTINUED OPERATIONS (-)		-
19.1	Expenses for Non-Current Assets Held for Sale		-
19.2	Loss from Sales of Associates, Subsidiaries and Joint Ventures (Business Partners)		-
19.3	Other Expenses From Discontinued Operations		-
XX.	PROFIT /LOSSES BEFORE TAXES FROM DISCONTINUED OPERATIONS (XVIII-XIX)		-
XXI.	PROVISION FOR INCOME TAXES FROM DISCONTINUED OPERATIONS (±)		-
21.1	Current Tax Provision		-
21.2	Deferred Tax Provision		-
XXII.	NET PROFIT/LOSSES FROM DISCONTINUED OPERATIONS (XX±XXI)		-
XXIII.	NET PROFIT/LOSSES (XVII+XXII)	(IV-k)	308.737
	Earnings/Loss per Share (The amounts are expressed in full TL)		0,004733

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HSBC BANK A.Ş.

**UNCONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIODS ENDED 31 DECEMBER 2018 AND 31 DECEMBER 2017**

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

IV. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME		Audited Current Period (31.12.2018)
I.	CURRENT PERIOD INCOME/LOSS	335.584
II.	OTHER COMPREHENSIVE INCOME	(23.263)
2.1	Not Reclassified Through Profit or Loss	2.415
2.1.1	Property and Equipment Revaluation Increase/Decrease	-
2.1.2	Intangible Assets Revaluation Increase/Decrease	-
2.1.3	Defined Benefit Pension Plan Remeasurement Gain/Loss	3.046
2.1.4	Other Comprehensive Income Items Not Reclassified Through Profit or Loss	-
2.1.5	Tax Related Other Comprehensive Income Items Not Reclassified Through Profit or Loss	(631)
2.2	Reclassified Through Profit or Loss	(25.678)
2.2.1	Foreign Currency Translation Differences	-
2.2.2	Valuation and/or Reclassification Income/Expense of the Financial Assets at Fair Value through Other Comprehensive Income	(30.217)
2.2.3	Cash Flow Hedge Income/Loss	(2.831)
2.2.4	Foreign Net Investment Hedge Income/Loss	-
2.2.5	Other Comprehensive Income Items Reclassified Through Profit or Losses	-
2.2.6	Tax Related Other Comprehensive Income Items Reclassified Through Profit or Loss	7.370
XII.	TOTAL COMPREHENSIVE INCOME (I+II)	312.321

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

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UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2018

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

V. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY																	
Audited Current Period 31 December 2018	Note Section Five	Paid-in Capital	Share Premium	Share Cancel. Profits	Other Capital Reserves	Accumulated Other Comprehensive Income or Expense Not Reclassified through Profit or Loss			Accumulated Other Comprehensive Income or Expense Reclassified through Profit or Loss			Profit Reserves	Prior Period Profit/ (Loss)	Current Period Profit/ (Loss)	Total Equity Except from Minority Interest	Minority Interest	Total Equity
						1	2	3	4	5	6						
I. Balances at the Beginning of the Period - 31 December 2017		652.290	-	-	272.693	-	(30.511)	-	-	(17.899)	4.592	1.375.178	-	308.737	2.565.080	-	2.565.080
II. Corrections According to TAS 8		-	-	-	-	-	-	-	-	(4.723)	-	90.909	-	-	86.186	-	86.186
2.1 Effects of Corrections		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Effects of the Changes in Accounting Policies		-	-	-	-	-	-	-	-	(4.723)	-	90.909	-	-	86.186	-	86.186
III. Adjusted Beginning Balance (I+II)		652.290	-	-	272.693	-	(30.511)	-	-	(22.622)	4.592	1.466.087	-	308.737	2.651.266	-	2.651.266
IV. Total Comprehensive Income		-	-	-	-	-	2.415	-	-	(23.470)	(2.208)	-	-	335.584	312.321	-	312.321
V. Capital Increase by Cash	(V-a)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VI. Capital Increase by Internal Sources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII. Paid-in capital inflation adjustment difference		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. Convertible Bonds to Shares		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX. Subordinated Debt Instruments		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X. Increase/Decrease by Other Changes		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI. Profit Distribution		-	-	-	-	-	-	-	-	-	-	278.737	-	(308.737)	(30.000)	-	(30.000)
11.1 Dividends Paid		-	-	-	-	-	-	-	-	-	-	(30.000)	-	-	(30.000)	-	(30.000)
11.2 Transfers to Reserves		-	-	-	-	-	-	-	-	-	-	308.737	-	(308.737)	-	-	-
11.3 Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Period-End Balance (III+IV+.....+X+XI)		652.290	-	-	272.693	-	(28.096)	-	-	(46.092)	2.384	1.744.824	-	335.584	2.933.587	-	2.933.587

- Increase/Decrease of Accumulated Revaluation Reserve on Tangible.
- Accumulated Gains/Losses on Remeasurement of Defined Benefit Plans.
- Other (Other Comprehensive Income of Associates and Joint Ventures Accounted with Equity Method That Will Not Be Reclassified at Profit and Loss and Other Accumulated Amounts of Other Comprehensive Income Items That Will Not Be Reclassified at Profit or Loss.
- Exchange Differences on Translation Reserve.
- Accumulated Revaluation and/or Classification Gains / (Losses) of Financial Assets at Fair Value Through Other Comprehensive Income.
- Other (Cash Flow Hedge Gains/Losses, Other Comprehensive Income of Associates and Joint Ventures Accounted with Equity Method That Will Be Reclassified at Profit or Loss and Other Accumulated Amounts of Other Comprehensive Income Items That Will Be Reclassified at Profit or Loss).

The accompanying explanations and notes set out on pages 20 to 151 form an integral part of these financial statements.

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

HSBC BANK A.Ş.

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

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

V. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY																	
Audited 31 December 2017	Note	Paid-in Capital	Adjustment to Paid-in Capital	Share Premium	Share Cancel. Profits	Legal Reserves	Statutory Reserves	Extraordinary Reserves	Other Reserves	Current Period Net Profit/(Loss)	Prior Period Net Profit/(Loss)	Marketable Sec. Valuation Differences	Rev. Diff. in Tangible and Intang. Assets	Bonus Shares from Investments	Hedging Funds	Rev. Diff. in Tangible Held for Sale/Disc. Operations.	Total Equity
I. Balances at the Beginning of the Period-31 December 2016		652.290	-	-	-	183.104	-	1.548.672	247.439	(356.598)	-	(2.317)	-	-	4.435	-	2.277.025
II. Corrections According to TAS 8		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Correction of Errors		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Effects of the Changes in Accounting Policies		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III. Adjusted Balance (I+II)		652.290	-	-	-	183.104	-	1.548.672	247.439	(356.598)	-	(2.317)	-	-	4.435	-	2.277.025
Changes in the Period		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IV. Increase/Decrease due to the Merger		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V. Marketable Securities Valuation Differences		-	-	-	-	-	-	-	-	-	-	(15.582)	-	-	-	-	(15.582)
VI. Hedging Transactions Funds (Effective Parts)		-	-	-	-	-	-	-	-	-	-	-	-	-	157	-	157
6.1 Cash Flow Hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	157	-	157
6.2 Foreign Investment Hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII. Property and Equipment Revaluation Differences		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. Intangible Fixed Assets Revaluation Differences		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX. Bonus Shares from Investments in Associates, Subsidiaries and Joint Ventures		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X. Foreign Exchange Differences		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI. Changes due to the Disposal of Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII. Changes due to the Reclassification of Assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII. Effect of the Changes in Investment in Associates' Equity to the Bank's Equity		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV. Capital Increase		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.1 Cash Increase		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.2 Internal Resources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV. Share Premium		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI. Share Cancellation Profits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVII. Paid in-Capital Adjustment Difference		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVIII. Other		-	-	-	-	-	-	-	(5.257)	-	-	-	-	-	-	-	(5.257)
XIX. Current Year Income or Loss		-	-	-	-	-	-	-	-	308.737	-	-	-	-	-	-	308.737
XX. Profit Distribution		-	-	-	-	1.037	-	(357.635)	-	356.598	-	-	-	-	-	-	-
20.1 Dividends Paid		-	-	-	-	1.037	-	(357.635)	-	356.598	-	-	-	-	-	-	-
20.2 Transfers to Reserves		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20.3 Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balances at the End of the Period 31 December 2017 (I+II+III+IV+V+.....+XVIII)		652.290	-	-	-	184.141	-	1.191.037	242.182	308.737	-	(17.899)	-	-	4.592	-	2.565.080

Note: The prior period financial statements and related disclosures are not restated as permitted by TFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.

The accompanying explanations and notes set out on pages 20 to 151 form an integral part of these financial statements.

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

HSBC BANK A.Ş.

UNCONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 DECEMBER 2018

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

VI. STATEMENT OF CASH FLOWS	Note (Section Five VI)	Audited Current Period (31.12.2018)
A. CASH FLOWS FROM BANKING OPERATIONS		
1.1 Operating Profit Before Changes in Operating Assets and Liabilities	(VI-a)	613.308
1.1.1 Interest Received	(VI-a)	2.901.279
1.1.2 Interest Paid	(VI-a)	(1.414.902)
1.1.3 Dividend Received		20.744
1.1.4 Fees and Commissions Received		414.014
1.1.5 Other Income		250.058
1.1.6 Collections From Previously Written-Off Loans and Other Receivables		173.330
1.1.7 Cash Payments to Personnel and Service Suppliers	(VI-a)	(444.545)
1.1.8 Taxes Paid		(101.700)
1.1.9 Other		(1.184.970)
1.2 Changes in Operating Assets and Liabilities Subject to Banking Operations		7.177.044
1.2.1 Net (Increase)/Decrease in Financial Assets at Fair Value Through Profit or Loss		245.244
1.2.2 Net Decrease in Due From Banks		-
1.2.3 Net (Increase) in Loans		(238.868)
1.2.4 Net (Increase) in Other Assets		(397.125)
1.2.5 Net Increase in Bank Deposits		367.663
1.2.6 Net Increase/(Decrease) in Other Deposits		8.038.479
1.2.7 Net Increase/(Decrease) in Financial Liabilities at Fair Value Through Profit or Loss		-
1.2.8 Net (Decrease) in Funds Borrowed		(954.389)
1.2.9 Net Increase/(Decrease) in Matured Payables		-
1.2.10 Net Increase/(Decrease) in Other Liabilities	(VI-a)	116.040
I. Net Cash Provided From Banking Operations		7.790.352
B. CASH FLOWS FROM INVESTING ACTIVITIES		
II. Net Cash Provided From Investing Activities		669.929
2.1 Cash Paid for the Purchase of Associates, Subsidiaries and Joint Ventures		-
2.2 Cash Obtained from the Sale of Associates, Subsidiaries and Joint Ventures		-
2.3 Cash Paid for the Purchase of Tangible and Intangible Asset		(66.067)
2.4 Cash Obtained from the Sale of Tangible and Intangible Asset		8.710
2.5 Cash Paid for Purchase of Financial Assets at Fair Value Through Other Comprehensive Income		(147.633)
2.6 Cash Obtained from the Sale of Financial Assets at Fair Value Through Other Comprehensive Income		902.376
2.7 Cash Paid for Purchase of Financial Assets at Amortised Cost		-
2.8 Cash Obtained From Sale of Financial Assets at Amortised Cost		-
2.9 Other		(27.457)
C. CASH FLOWS FROM FINANCING ACTIVITIES		
III. Net Cash Provided From Financing Activities		(30.000)
3.1 Cash Obtained From Funds Borrowed and Securities Issued		-
3.2 Cash Outflow From Funds Borrowed and Securities Issued		-
3.3 Equity Instruments Issued		-
3.4 Dividends Paid		(30.000)
3.5 Payments for Finance Lease Liabilities		-
3.6 Other		-
IV. Effect of Change in Foreign Exchange Rate on Cash and Cash Equivalents	(VI-a)	1.721
V. Net (Decrease)/Increase in Cash and Cash Equivalents (I+II+III+IV)		8.432.002
VI. Cash and Cash Equivalents at Beginning of the Period	(VI-d)	4.761.711
VII. Cash and Cash Equivalents at End of the Period	(VI-d)	13.193.713

The accompanying explanations and notes set out on pages 20 to 151 form an integral part of these financial statements.

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

HSBC BANK A.Ş.

UNCONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION FOR THE PERIOD ENDED 31 DECEMBER 2017

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

VI. STATEMENT OF CASH FLOWS	Note (Section Five)	Audited Prior Period (31.12.2017)
A. CASH FLOWS FROM BANKING OPERATIONS		
1.1 Operating Profit Before Changes in Operating Assets and Liabilities	(VI-a)	1.172.950
1.1.1 Interest Received	(VI-a)	2.360.802
1.1.2 Interest Paid	(VI-a)	(838.912)
1.1.3 Dividend Received		42.539
1.1.4 Fees and Commissions Received		378.578
1.1.5 Other Income		205.650
1.1.6 Collections From Previously Written-Off Loans and Other Receivables		277.225
1.1.7 Payments to Personnel and Service Suppliers	(VI-a)	(382.599)
1.1.8 Taxes Paid		(17.682)
1.1.9 Other		(852.651)
1.2 Changes in Operating Assets and Liabilities to Banking Operations		(1.946.973)
1.2.1 Net (Increase)/Decrease in Trading Securities		(185.463)
1.2.2 Net (Increase)/Decrease in Fair Value Through Profit/Loss Financial Assets		-
1.2.3 Net (Increase)/Decrease in Banks		-
1.2.4 Net (Increase)/Decrease in Loans		(1.598.841)
1.2.5 Net (Increase)/Decrease in Other Assets		(112.129)
1.2.6 Net Increase/(Decrease) in Bank Deposits		1.339.986
1.2.7 Net Increase/(Decrease) in Other Deposits		(125.762)
1.2.8 Net Increase/(Decrease) in Funds Borrowed		(658.698)
1.2.9 Net Increase/(Decrease) in Matured Payables		-
1.2.10 Net Increase/(Decrease) in Other Liabilities	(VI-a)	(606.066)
I. Net Cash Provided From Banking Operations		(774.023)
B. CASH FLOWS FROM INVESTING ACTIVITIES		
II. Net Cash Provided From Investing Activities		(72.621)
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)
2.4 Disposals of Property And Equipment		11.090
2.5 Cash Paid for Purchase of Investments Available-for-Sale		(1.591.084)
2.6 Cash Obtained From Sale of Investments Available-for –Sale		1.498.283
2.7 Cash Paid for Purchase of Investment Securities		-
2.8 Cash Obtained From Sale of Investment Securities		-
2.9 Other		44.021
C. CASH FLOWS FROM FINANCING ACTIVITIES		
III. Net Cash Provided From Financing Activities		-
3.1 Cash Obtained From Funds Borrowed and Securities Issued		-
3.2 Cash Used for Repayment of Funds Borrowed and Securities Issued		-
3.3 Issued Capital Instruments		-
3.4 Dividends Paid		-
3.5 Payments for Finance Leases		-
3.6 Other		-
IV. Effect of Change in Foreign Exchange Rate on Cash and Cash Equivalents	(VI-a)	(2.711)
V. Net (Decrease)/Increase in Cash and Cash Equivalents (I+II+III+IV)		(849.355)
VI. Cash and Cash Equivalents at Beginning of the Period	(VI-d)	5.611.066
VII. Cash and Cash Equivalents at end of the Period	(VI-d)	4.761.711

Note: The prior period financial statements and related disclosures are not restated as permitted by TFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.

The accompanying explanations and notes set out on pages 20 to 151 form an integral part of these financial statements.

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

HSBC BANK A.Ş.

UNCONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION FOR THE PERIOD ENDED 31 DECEMBER 2018

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

VII. STATEMENT OF PROFIT DISTRIBUTION	Audited Current Period (31.12.2018) (*)
I. DISTRIBUTION OF CURRENT YEAR INCOME	
1.1. Current Year Income	437.284
1.2. Taxes And Duties Payable (-)	101.700
1.2.1 Corporate Tax (Income tax)	6.748
1.2.2 Income withholding tax	-
1.2.3 Other taxes and duties	94.952
A. NET INCOME FOR THE YEAR (1.1-1.2)	335.584
1.3. Prior Year Losses (-)	-
1.4. First Legal Reserves (-)	-
1.5. Other Statutory Reserves (-)	-
B. NET INCOME AVAILABLE FOR DISTRIBUTION [(A)-(1.3+1.4+1.5)]	335.584
1.6. First Dividend To Shareholders (-)	-
1.6.1 To Owners Of Ordinary Shares	-
1.6.2 To Owners Of Privileged Shares	-
1.6.3 To Owners Of Preferred Shares	-
1.6.4 To Profit Sharing Bonds	-
1.6.5 To Holders Of Profit And Loss Sharing Certificates	-
1.7. Dividends To Personnel (-)	-
1.8. Dividends To Board Of Directors (-)	-
1.9. Second Dividend To Shareholders (-)	-
1.9.1 To Owners Of Ordinary Shares	-
1.9.2 To Owners Of Privileged Shares	-
1.9.3 To Owners Of Preferred Shares	-
1.9.4 To Profit Sharing Bonds	-
1.9.5 To Holders Of Profit And Loss Sharing Certificates	-
1.10. Second Legal Reserves (-)	-
1.11. Statutory Reserves (-)	-
1.12. Extraordinary Reserves	-
1.13. Other Reserves	-
1.14. Special Funds	-
II. DISTRIBUTION OF RESERVES	
2.1. Appropriated Reserves	-
2.2. Second Legal Reserves (-)	-
2.3. Dividends To Shareholders (-)	-
2.3.1 To Owners Of Ordinary Shares	-
2.3.2 To Owners Of Privileged Shares	-
2.3.3 To Owners Of Preferred Shares	-
2.3.4 To Profit Sharing Bonds	-
2.3.5 To Holders Of Profit And Loss Sharing Certificates	-
2.4. Dividends To Personnel (-)	-
2.5. Dividends To Board Of Directors (-)	-
III. EARNINGS PER SHARE (**)	
3.1. To Owners Of Ordinary Shares	0,005145
3.2. To Owners Of Ordinary Shares (%)	-
3.3. To Owners Of Privileged Shares	-
3.4. To Owners Of Privileged Shares (%)	-
IV. DIVIDEND PER SHARE	
4.1. To Owners Of Ordinary Shares	-
4.2. To Owners Of Ordinary Shares (%)	-
4.3. To Owners Of Privileged Shares	-
4.4. To Owners Of Privileged Shares (%)	-

(*) As of reporting date, yearly ordinary meeting of the General Assembly has not been held yet to decide on the profit distribution for the year 2018.

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

The accompanying explanations and notes set out on pages 20 to 151 form an integral part of these financial statements.

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

HSBC BANK A.Ş.

UNCONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION FOR THE PERIOD ENDED 31 DECEMBER 2017

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

VII.STATEMENT OF PROFIT DISTRIBUTION	Audited Prior Period (31.12.2017) (*)
I. DISTRIBUTION OF CURRENT YEAR INCOME	
1.1. Current Year Income	167.835
1.2. Taxes And Duties Payable (-)	(140.902)
1.2.1 Corporate Tax (Income tax)	5.076
1.2.2 Income withholding tax	-
1.2.3 Other taxes and duties	(145.978)
A. NET INCOME FOR THE YEAR (1.1-1.2)	308.737
1.3. Prior Year Losses (-)	-
1.4. First Legal Reserves (-)	-
1.5. Other Statutory Reserves (-)	-
B. NET INCOME AVAILABLE FOR DISTRIBUTION [(A)-(1.3+1.4+1.5)]	308.737
1.6. First Dividend To Shareholders (-)	30.000
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	278.737
1.13. Other Reserves	-
1.14. Special Funds	-
II. DISTRIBUTION OF RESERVES	
2.1. Appropriated Reserves	-
2.2. Second Legal Reserves (-)	-
2.3. Dividends To Shareholders (-)	-
2.3.1 To Owners Of Ordinary Shares	-
2.3.2 To Owners Of Privileged Shares	-
2.3.3 To Owners Of Preferred Shares	-
2.3.4 To Profit Sharing Bonds	-
2.3.5 To Holders Of Profit And Loss Sharing Certificates	-
2.4. Dividends To Personnel (-)	-
2.5. Dividends To Board Of Directors (-)	-
III. EARNINGS PER SHARE (**)	
3.1. To Owners Of Ordinary Shares	0,004733
3.2. To Owners Of Ordinary Shares (%)	-
3.3. To Owners Of Privileged Shares	-
3.4. To Owners Of Privileged Shares (%)	-
IV. DIVIDEND PER SHARE	
4.1. To Owners Of Ordinary Shares	-
4.2. To Owners Of Ordinary Shares (%)	-
4.3. To Owners Of Privileged Shares	-
4.4. To Owners Of Privileged Shares (%)	-

(*) The profit distribution table belongs to prior period becomes definite with the decision of Ordinary General Assembly after the publishing of 31 December 2017 financial statement dated to 28 March 2018 and rearranged in this direction.

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

The accompanying explanations and notes set out on pages 20 to 151 form an integral part of these financial statements.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

SECTION THREE

EXPLANATIONS ON ACCOUNTING POLICIES

I. EXPLANATIONS ON BASIS OF PRESENTATION

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

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

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

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

Disclosures of TFRS 9 Financial Instruments:

The Bank has adopted TFRS 9: Financial Instruments (“TFRS 9”) with the exclusion of loan provision calculations, to replace TAS 39 Financial Instruments: Recognition and Measurement as of 1 January 2018, as issued by Public Oversight Accounting and Auditing Standards Authority published in the Official Gazette No. 29953 dated 19 January 2017, which resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements. The Bank did not early adopt TFRS 9 in previous periods.

According to the decision of BRSA numbered 7649 and dated 21 December 2017, HSBC Bank A.Ş., was granted time until 1 January 2019, to complete transition to TFRS 9 relating to provisions to be set aside, in accordance with Article 1 of the Communiqué on Regulation on the Procedures and Principles for Classification of Loans and Provisions to be Set Aside. The transition to TFRS 9 will take place on 1 January 2019 and until then, provisions will be calculated as part of 10th, 11th, 13th and 15th articles of the regulation.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

I. EXPLANATIONS ON BASIS OF PRESENTATION (Continued)

According to the decision of BRSA numbered 7649 and dated 21 December 2017, HSBC Bank A.Ş., was granted time until 1 January 2019, to complete transition to TFRS 9 relating to provisions to be included, in accordance with Article 1 of the Communiqué on Regulation on the Procedures and Principles for Classification of Loans and Provisions to be Set Aside. The transition to TFRS 9 will take place on 1 January 2019 and until then, provisions will be calculated as part of 10th, 11th, 13th and 15th articles of the regulation.

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

The Bank will apply the impairment requirements on the opening balance sheet on 1 January 2019 by reflecting it to the opening equity amounts retrospectively. As of 1 January 2018, the classification and measurement requirements are reflected in the shareholder’s equity amounts.

Classification and measurement of financial assets

According to TFRS 9 requirements, classification and measurement of financial assets will depend on the business model within which financial assets are managed and their contractual cash flow characteristics whether the cash flows represent “Solely Payments of Principal and Interest” (“SPPI”).

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, “principal” is defined as the fair value of the financial asset on initial recognition. “Interest” is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank consider:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms
- Features that modify consideration for the time value of money

The Bank fulfills the on-balance sheet classification and measurement criteria by applying the procedures described above for all financial assets.

Upon initial recognition each financial asset will be classified as either fair value through profit or loss (“FVPL”), amortized cost or fair value through other comprehensive income (“FVOCI”). As the requirements under TFRS 9 are different than the assessments under the existing TAS 39 rules, the classification and measurement of financial liabilities remain largely unchanged under TAS 39.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

I. EXPLANATIONS ON BASIS OF PRESENTATION (Continued)

Impairment of Financial Assets

As of 1 January 2018, the Bank will recognize provisions for impairment in accordance with the TFRS 9 requirements according to the "Regulation on the Procedures and Principles for Classification of Loans by Banks and Provisions to be set aside" published in the Official Gazette dated 22 June 2016 numbered 29750. In this framework, as of 31 December 2017, method of provisions for impairment as set out in accordance with the related legislation of BRSA as mentioned in the Section 3 Part VII-c of Explanation on Accounting Policies will be changed by applying the expected credit loss model under TFRS 9. The expected credit loss estimates are required to be unbiased, probability-weighted and should include supportable information about past events, current conditions, and forecasts of future economic conditions.

These financial assets will be divided into three categories depending on the gradual increase in credit risk observed since their initial recognition:

Stage 1:

For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk will be recorded in the amount of 12-month expected credit losses.

Stage 2:

In the event of a significant increase in credit risk since initial recognition, the financial asset will be transferred to Stage 2. Impairment for credit risk will be determined on the basis of the instrument's lifetime expected credit losses.

Stage 3:

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit losses are recognized and interest revenue is calculated on the net carrying amount.

The Bank will recognize an adjustment to opening retained earnings at 1 January 2018, to reflect the application of the new requirements at the adoption date. The primary impact is attributable to changes in the allowance for credit losses under the new impairment requirements and the related deferred taxes.

The effects of TFRS 9 on prior period financial statements are evaluated and the Bank's equity is expected to have a negative impact on 8% to 10% as of 31 December 2018. The effect of the implementation of the standard on the Bank's equity as of 1 January 2019 is based on the evaluations made to date. Regarding the estimated effects of TFRS 9 on the financial statements, the Bank reviews its policies, processes and audit principles affected by implementation due to transition to expected credit losses using estimated models with TFRS 9 implementation. In this frame, amendments may be made until the first financial statements have been disclosed, including the first application of the Bank on 1 January 2019.

The Bank will calculate deferred tax on the Stage 1 and Stage 2 loan losses within the scope of TFRS 9. The effect of the transition on the deferred tax asset will be reflected to the equity. As permitted by the transitional provisions of TFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the transition date were recognised in the "Prior Periods' Profit/(Loss)" or in the opening balance of "Other Reserves" of the current period.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

I. EXPLANATIONS ON BASIS OF PRESENTATION (Continued)

The adoption of TFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and liabilities. In accordance with the previous implementation, a portion of securities, which are represented in capital previously listed under “Available for Sale Financial Assets”, is now listed under “Financial Assets at Fair Value Through Profit or Loss”. In transition date, income of TL 4.723 after tax regarding book values of related securities are accounted under the opening balance of “Extraordinary Reserves”.

Deferred tax asset have recognized for general provisions as of 1 January 2018 in accordance with the “Communique on Uniform Chart of Accounts and Prospectus” dated 20 September 2017. Within this scope, deferred tax assets amounting to TL 86.186 have been reflected to the opening financials of 1 January 2018 and the related amount has been classified under “Extraordinary Reserves” in shareholders’ equity.

Financial Assets	Before TFRS 9		In scope of TFRS 9	
	Measurement Bases	Book Value	Measurement Bases	Book Value
		31 December 2017		1 January 2018
Cash Balances and Central Bank	Measured at Amortised Cost	3.903.455	Measured at Amortised Cost	3.903.455
Banks and Money Markets	Measured at Amortised Cost	2.138.898	Measured at Amortised Cost	2.138.898
Marketable Securities	Fair Value Through Profit or Loss	258.434	Fair Value Through Profit or Loss	271.533
	Fair Value Through Other Comprehensive Income	1.362.164	Fair Value Through Other Comprehensive Income	1.349.065
	Measured at Amortised Cost	-	Measured at Amortised Cost	-
Derivative Financial Assets	Fair Value Through Profit or Loss	688.199	Fair Value Through Profit or Loss	688.199
	Fair Value Through Other Comprehensive Income	-	Fair Value Through Other Comprehensive Income	-
Loans	Measured at Amortised Cost	15.606.817	Measured at Amortised Cost	15.606.817

As per the article named “Financial Reporting” of BRSA No. 24049440-045.01[3/8]-E.5380 dated 17 April 2018, prior periods’ information are presented in old format and TFRS 9 have not been implemented.

TFRS 15 Revenue from Contracts with Customers:

TFRS 15 Revenue from Customer Contracts provides a single and comprehensive model and guide to registering revenue and replaces the TMS 18 Revenue standard. As of 1 January 2018 the impact of adaptation of TFRS 15 is not significant.

Explanations on TFRS 16 Leases Standard:

The TFRS 16 standard eliminates the dual accounting model of leasing transactions, which is the current application in terms of lessees, which places financial leasing on the balance sheet and operational leasing on off-balance sheet. Instead, a singular accounting model on a balance sheet basis is presented, similar to current financial leasing accounting. For lessors, recognition is substantially similar to existing practices. The Bank has started to work on compliance with the TFRS 16 Leases Standard effective from 1 January 2019 which is still in progress as of 31 December 2018. The Bank does not expect a significant impact in its financials with the adaptation of TFRS 16 at 1 January 2019.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

I. EXPLANATIONS ON BASIS OF PRESENTATION (Continued)

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

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

c. Explanation for convenience translation into English:

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

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

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

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

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

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

III. EXPLANATIONS ON INVESTMENTS IN ASSOCIATES AND SUBSIDIARIES

The Bank has no investments in associates as of 31 December 2018. Investments in subsidiaries are accounted in accordance with the “Turkish Accounting Standard for Individual Financial Instruments” (“TAS 27”) in the unconsolidated financial statements. Investments in subsidiaries that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost less provision for impairment. Non-financial subsidiary of the Bank is HSBC Ödeme Sistemleri ve Bilgisayar Teknolojileri Basın Yayın ve Müşteri Hizmetleri A.Ş. HSBC Ödeme Sistemleri ve Bilgisayar Teknolojileri Basın Yayın ve Müşteri Hizmetleri A.Ş. was established on 10 December 1999 to provide VIP services either for its clients or the clients of the legal entities, and in this respect, to provide hospitality, catering and private waiting room.

IV. EXPLANATIONS ON FORWARD TRANSACTIONS, OPTIONS AND DERIVATIVE INSTRUMENTS

In order to reduce the foreign exchange position risk the Bank conducts currency forward purchase and sale transaction agreements, currency swap purchase and sale transaction agreements and option purchase and sale agreements. In order to reduce the interest risk, the Bank conducts interest futures and forward interest rate agreements. The fair value differences of derivative instruments that are reflected in the profit and loss accounts are measured at fair value and associated with income statement during recognition. If the fair value of derivative financial instruments is positive, it is disclosed under the main account “Derivative Financial Assets at Fair Value Through Profit or Loss”; and if the fair value difference is negative, it is disclosed under “Derivative Financial Liabilities at Fair Value Through Profit or Loss”. Differences arising from the valuation of fair value are reflected in the "Derivative Financial Transactions Gains/Losses" account under income statement.

Until 30 June 2017, the Bank applied cash flow hedge accounting by cross currency swap transactions in order to hedge itself from the changes in the interest rates of the fixed-rate time deposits, which have maturity of 1-3 month. The Bank has performed strength tests for risk protection accounting in balance sheet date, while the effective portions are classified as “Accumulated Other Comprehensive Income or Loss Reclassified Through Profit or Loss” in shareholders’ equity, the ineffective portion is recognized at income statement.

In periods where cash flows (interest expense) regarding the risk protected entries, affect the income statements, the loss/gain of the related risk protection tool is reduced from shareholders’ equity and shown in 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 “Derivative financial transactions gains/ (losses)”. As of 31 December 2018, 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.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

VI. EXPLANATIONS ON FEE AND COMMISSION INCOME AND EXPENSES

Fees and commission income/expenses are primarily recognized on an accrual basis or "Effective interest rate method" and TFRS 15 "Revenue from Contracts with Customers" according to the nature of the fee and commission, 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 for services such as the purchase and sale of assets on behalf of a third party or legal person are recognized as income at the time of collection.

VII. EXPLANATIONS ON FINANCIAL ASSETS

The Bank categorizes its financial assets as fair value through profit/loss, fair value through other comprehensive income or measured at amortized cost. Such financial assets are recognized or derecognized according to TFRS 9 Financial Instruments Part 3 Issued for classification and measurement of the financial instruments published in the Official Gazette No. 29953 dated 19 January 2017 by the Public Oversight Accounting and Auditing Standards Authority. Financial assets are measured at fair value at initial recognition in the financial statements. During the initial recognition of financial assets other than "Financial Assets at Fair Value Through Profit or Loss", transaction costs are added to fair value or deducted from fair value.

The Bank recognize a financial asset into financial statements when it becomes a party to the contractual terms of a financial instrument. During the first recognition of a financial asset into the financial statements, business model determined by Bank management and the nature of contractual cash flows of the financial asset are taken into consideration. When the business model determined by the Bank's management is changed, all affected financial assets are reclassified and this reclassification is applied prospectively. In such cases, no adjustments is made to earnings, losses or interest that were previously recorded in the financial statements.

a. Financial Assets at Fair Value Through Profit or Loss:

Financial assets at fair value through profit/loss are financial assets other than the ones that are managed with business model that aims to hold to collect contractual cash flows or business model that aims to collect both the contractual cash flows and cash flows arising from the sale of the assets; and if the contractual terms of the financial asset do not lead to cash flows representing solely payments of principal and interest at certain date; that are either acquired for generating a profit from short-term fluctuations in prices or are financial assets included in a portfolio aiming to short-term profit making. Financial assets at the fair value through profit or loss are initially recognized at fair value and remeasured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the income statement.

b. Financial Assets at Fair Value Through Other Comprehensive Income:

In addition to financial assets within a business model that aims to hold to collect contractual cash flows and aims to hold to sell, financial asset with contractual terms that lead to cash flows are solely payments of principal and interest at certain dates, they are classified as fair value through other comprehensive income.

"Unrealized gains and losses" arising from changes in the fair value of financial assets classified as financial assets at fair value through other comprehensive income are recognized in the shareholders' equity as "Other accumulated comprehensive income that will be reclassified in profit or loss", until the related fair value differences accumulated in the shareholders' equity are transferred to the income statement. Interest and dividends received from financial assets at fair value through other comprehensive income are recorded in interest income and dividend income as appropriate.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

VII. EXPLANATIONS ON FINANCIAL ASSETS (Continued)

Equity securities, which are classified as financial assets at fair value through other comprehensive income, that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value. 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.

During initial recognition an entity can choose in an irrevocable was to record the changes of the fair value of the investment in an equity instrument that is not held for trading purposes in the other comprehensive income. In the case of this preference, the dividend from the investment is taken into the financial statements as profit or loss.

c. Financial Assets Measured in Amortised Cost:

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as financial assets measured at amortised cost. These financial assets are initially recognized at total of acquisition and transaction cost. After their initial recognition, they are carried at “Amortised Cost” using the “effective interest method”. As of 31 December 2018 and 31 December 2017, the Bank has no marketable securities measured at amortized cost.

d. Loans:

Loans are financial assets raised through lending, providing services or products. Assets in this subject are reflected in the balance sheet measured at amortised cost using effective interest rate method.

The Bank makes risk assessment for the loans on the consumer and portfolio basis and provides specific provisions for the non-performing loans not less than the determined minimum rates according to 10th, 11th, 13th and 15th articles of the “Regulation on Procedures and Principles for Determination of Qualifications of Loans by Banks and Provisions to be set aside” published in the Official Gazette dated 22 June 2016 and numbered 29750. In addition to the non-performing loans, the Bank provides general loan loss provisions for the loans and receivables which are defined in the same communiqué. The interests and accruals of the non-performing loans are derecognized from the financial statement and provision expense is recognized in the income statement. Releases of current period provisions are made by the reversal of the amount from the “Provision for Impairment of Loans and Other Receivables” account.

Bank’s loans are recorded under the “Measured at Amortized Cost” account.

VIII. EXPLANATIONS ON PRIOR PERIOD ACCOUNTING POLICIES NOT VALID FOR THE CURRENT PERIOD

The Bank categorizes its financial assets as fair value through profit/loss, financial assets as available for sale and loans and other receivables. Financial assets in subject recognized and derecognized according to their transaction dates.

a. Financial Assets at Fair Value Through Profit or Loss:

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

**VIII. EXPLANATIONS ON PRIOR PERIOD ACCOUNTING POLICIES NOT VALID FOR THE
CURRENT PERIOD (Continued)**

b. Available-for-Sale Financial Assets:

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:

The Bank makes risk assessment for the loans and receivables on the consumer and portfolio basis and provides specific provisions for the non-performing loans not less than the determined minimum rates according to the (“Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be set aside”) published in the Official Gazette dated 1 November 2006 and numbered 26333. In addition to the non-performing loans, the Bank provides general loan loss provisions for the loans and receivables which are defined in the same communiqué. The interests and accruals of the non-performing loans are 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.

d. Investment Securities Held-to-Maturity

Investment securities held-to-maturity are financial assets that are not classified under loans and receivables and have fixed maturities and fixed or pre-determined payments where management has the intent and ability to hold the financial assets until maturity. Investment securities held-to-maturity are initially recognized at cost, and subsequently carried at amortized cost using the effective interest rate method; interest earned whilst holding investment securities held-to-maturity is reported as interest income and impairment for these financial assets recognized in the income statement.

IX. EXPLANATIONS ON IMPAIRMENT OF FINANCIAL ASSETS

In each balance sheet date, the Bank assesses if there is an objective evidence of the impairment of financial assets or financial asset groups. If such an indicator exists, the Bank will perform the calculations. Impairment loss incurs if, and only if, there is objective evidence that the expected future cash flows of financial assets or group of financial asset are adversely affected by an event “loss event” incurred subsequent to recognition. In case the loans could not be collected; loans and other receivables are classified in order to provide specific and general provisions in accordance with the Communiqué on “Regulation on the principles and Procedures Related to the Determination of the Loans and Other Receivables for which Provisions shall be booked by Banks and to the Provisions to be Booked” published in the Official Gazette No. 26333 dated 1 November 2006 and these provisions are changed against the income for the year. The Bank recognizes special and general provisions based on 10th, 11th, 13th and 15th articles of the regulation dated 22 June 2016 and numbered 29750 “Regulation on the Procedures and Principles for the Classification of Loans by Banks and the Provisions to be Set Aside”, recognised under profit and loss accounts are reserved for the loans classified within this framework.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

X. EXPLANATIONS ON OFFSETTING FINANCIAL INSTRUMENTS

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

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

Securities subject to repurchase agreements (“Repo”) are classified as “Financial assets at fair value difference through profit or loss”, “Financial assets at fair value difference through other comprehensive income” and “Measured at amortized cost” in the balance sheet according to the investment purposes and measured according to the portfolio of the Bank to which they belong. Funds obtained under repurchase agreements are accounted under “Funds provided under repurchase agreements” in liability accounts and differences between the sale and repurchase prices determined by these repurchase agreements are accrued evenly over the life of the repurchase agreement using the “Effective interest (internal return) method”. Funds given against securities purchased under agreements to resell (“Reverse repo”) are accounted under “Receivables from money market” in the balance sheet. The difference between the purchase and resell price determined by these repurchase agreements is accrued evenly over the life of repurchase agreements using the “Effective interest rate method”. The bank has no securities lending transactions.

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

Property and equipment held-for-sale consist of tangible assets that were acquired due to non-performing receivables, and are accounted in the financial statements in accordance with the regulations of “Turkish Financial Reporting Standard for Assets Held for Sale and Discontinued Operations (TFRS 5)”.

As of 31 December 2018 and 31 December 2017, the Bank has no discontinued operations.

XIII. 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.

As of 31 December 2018, there is no net book value of goodwill (31 December 2017: None).

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

XIV. EXPLANATIONS ON PROPERTY AND EQUIPMENT

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

XIV. EXPLANATIONS ON LEASING TRANSACTIONS

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

Transactions regarding operational lease agreements are accounted on an accrual basis in accordance with the terms of the related contracts.

XV. EXPLANATIONS ON PROVISIONS AND CONTINGENT LIABILITIES

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

XVI. EXPLANATIONS ON CONTINGENT ASSETS

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

XVII. EXPLANATIONS ON OBLIGATIONS RELATED TO EMPLOYEE RIGHTS

Obligations related to employment termination and vacation rights are accounted for in accordance with “Employee Rights Standard” (“TAS 19”) and are classified under “Reserve for Employee Rights” account in the balance sheet. Under the Turkish Labour Law, the Bank is required to pay a specific amount to the employees who have retired or whose employment is terminated other than the reasons specified in the Turkish Labour Law. The Bank provides provision for retirement and termination liabilities by estimating the net present value of future payments of the Bank arising from the retirement of employees and reflects this provision amount in the financial statements. For employee termination benefit provision calculation, future liability amounts are calculated and yearly discount rate is 4, 50% (31 December 2017: 2, 78%).

As of 31 December 2018, actuarial loss amounted to TL 28.096 (31 December 2017: TL 30.511 loss) is recognized under other income reserves in the financial statements.

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

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, according to Law No: 7061 “The Law regarding amendments on Certain Tax Laws and their implications on Deferred Tax Calculations” published in the Official Gazette dated 5 December 2017, corporate tax rate will be applied as 22% for the three year period between 2018 and 2020. Corporate tax is calculated on the total income of the Bank after adjusting for certain disallowable expenses, exempt income and other allowances. No further tax is payable unless there is a profit distribution.

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

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

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

b. Deferred Tax Asset/Liability:

The Bank calculates and accounts for deferred income taxes for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements in accordance with “Income Taxes Standard” (“TAS 12”) and the related decrees of the BRSA concerning income taxes. In the deferred tax calculation, the enacted tax rate, in accordance with the tax legislation, is used as of the balance sheet date. Deferred tax liabilities are recognized for all resulting temporary differences whereas deferred tax assets resulting from temporary differences are recognized

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

XIX. EXPLANATIONS ON TAXATION (Continued)

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.

In the deferred tax calculation, the enacted tax rate, in accordance with the tax legislation, is used as of the balance sheet date. The Law regarding amendments on Certain Tax Laws was approved in the Grand National Assembly of Turkey on 28 November 2017 and the Law was published in the Official Gazette on 5 December 2017. Accordingly, the corporate income tax rate will be increased from 20% to 22% for the years 2018, 2019 and 2020. According to the Law that have been enacted, deferred tax assets and liabilities shall be measured at the tax rate 22% that are expected to apply to these periods when the assets is realized or the liability is settled. From 2021 onwards, deferred tax assets and liabilities were measured by 20% tax rate.

Deferred tax asset have recognized for general provisions as of 1 January 2018. Within this scope, deferred tax assets amounting to TL 86.186 have been reflected to the opening financials of 1 January 2018 and the related amount has been classified under “Extraordinary Reserves” in shareholders' equity.

The calculated deferred tax asset and deferred tax liability are presented as net in these financial statements. 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 2018, the Bank has recognized deferred tax receivables amounting to TL 137.491 as assets (31 December 2017: Deferred tax receivables amounting to TL 146.265 as assets).

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

c. Transfer Pricing:

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

XIX. EXPLANATIONS ON BORROWINGS

The funds borrowed are recorded at their costs and discounted by using the effective interest rate method. In the unconsolidated financial statements enclosed, foreign currency borrowings are translated according to the Bank’s period end exchange rate. Interest expenses of the current period regarding the borrowing amounts are recognised in the financial statements. The Bank has no marketable securities issued and convertible bonds as of 31 December 2018 and 31 December 2017.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

XX. EXPLANATIONS ON ISSUANCE OF SHARE CERTIFICATES

As of 31 December 2018 and 31 December 2017, the Bank has no issued share certificates.

XXI. EXPLANATIONS ON AVALIZED DRAFTS AND ACCEPTANCES

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

XXII. EXPLANATIONS ON GOVERNMENT INCENTIVES

As of 31 December 2018 and 31 December 2017, the Bank 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 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 per share disclosed in the statement of profit or loss are calculated by dividing net earnings/(loss) for the year to the number of shares.

	Current Period 31 December 2018
Net Earnings/(Loss) for the Period	335.584
Number of Shares	65.229.000.000
Earnings/(Loss) per Share (*)	0,005145

(*) Amounts are expressed in full TL.

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

(*) Amounts are expressed in full TL.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

XXVI. CASH AND CASH EQUIVALENTS

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

XXVII. RELATED PARTIES

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

XXVIII. RECLASSIFICATIONS

None.

XXIX. OTHER MATTERS

As permitted by the transitional provisions of TFRS 9, the Bank elected not to restate comparative figures. As per the article named “Financial Reporting” of BRSA No. 24049440-045.01[3/8]-E.5380 dated 17 April 2018, prior periods’ information are presented in old format and TFRS 9 have not been implemented.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

SECTION FOUR

EXPLANATIONS RELATED TO FINANCIAL STRUCTURE AND RISK MANAGEMENT

I. EXPLANATIONS RELATED TO COMPONENTS OF SHAREHOLDERS’ EQUITY

Equity and Capital Adequacy Standard Ratio of the Bank is calculated in accordance with “Communiqué on Measurement and Assessment of Capital Adequacy of Banks”, and “Communiqué on Equities of Banks”. As of 31 December 2018, equity of the Bank is amounting to TL 4.414.676, and the Bank’s capital adequacy ratio is 20,00%. As of 31 December 2017, equity of the Bank is amounting to TL 3.580.597 and the Banks’s capital adequacy ratio is 17,56%. Capital adequacy ratio of the Bank is higher than the minimum rate required by the related regulation.

a. Information about shareholders’ equity items:

	Current Period 31 December 2018	Amount as per the regulation before 01.01.2014 (*)
COMMON EQUITY TIER I CAPITAL		
Paid-in capital following all debts in terms of claim in liquidation of the Bank	652.290	
Share issue premiums	-	
Reserves	2.017.517	
Gains recognized in equity as per TAS	-	
Profit	335.584	
Current Period Profit	335.584	
Prior Period Profit	-	
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and cannot be recognized within profit for the period	-	
Common Equity Tier 1 Capital Before Deductions	3.005.391	
Deductions from Common Equity Tier 1 Capital		
Common Equity as per the 1st clause of Provisional Article 9 of the Regulation on the Equity of Banks	-	
Portion of the current and prior periods’ losses which cannot be covered through reserves and losses reflected in equity in accordance with TAS	74.188	
Improvement costs for operating leasing	37.265	
Goodwill (net of related tax liability)	-	
Other intangibles other than mortgage-servicing rights (net of related tax liability)	150.911	150.911
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	4.568	
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 valued liabilities	-	
Defined-benefit pension fund net assets	-	
Direct and indirect investments of the Bank in its own Common Equity	-	
Shares obtained contrary to the 4th clause of the 56th Article of the Law	-	
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank	-	
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank	-	
Portion of mortgage servicing rights exceeding 10% of the Common Equity	-	
Portion of deferred tax assets based on temporary differences exceeding 10% of the Common Equity	-	
Amount exceeding 15% of the common equity as per the 2nd clause of the Provisional Article 2 of the Regulation on the Equity of Banks	-	
Excess amount arising from the net long positions of investments in common equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital	-	
Excess amount arising from mortgage servicing rights	-	
Excess amount arising from deferred tax assets based on temporary differences	-	
Other items to be defined by the BRSA	-	
Deductions to be made from common equity due to insufficient Additional Tier I Capital or Tier II Capital	-	
Total Deductions from Common Equity Tier I Capital	266.932	
Total Common Equity Tier I Capital	2.738.459	

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

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

	Current Period 31 December 2018	Amount as per the regulation before 01.01.2014 (*)
ADDITIONAL TIER I CAPITAL		
Preferred Stock not Included in Common Equity Tier I Capital and the Related Share Premiums	-	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-	
Additional Tier I Capital before Deductions	-	
Deductions from Additional Tier I Capital		
Direct and Indirect Investments of the Bank on its own Additional Tier I Capital	-	
Investments in Equity Instruments Issued by Banks or Financial Institutions Invested in Bank’s Additional Tier I Capital and Having Conditions Stated in the Article 7 of the Regulation	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank does not own more than 10% of the issued Share Capital (amount above 10% threshold)	-	
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital	-	
Other items to be defined by the BRSA (-)	-	
Items to be Deducted from Tier I Capital during the Transition Period		
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-	
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-	
Deduction from Additional Tier I Capital when there is not enough Tier II Capital (-)	-	
Total Deductions from Additional Tier I Capital	-	
Total Additional Tier I Capital	-	
Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)	2.738.459	
TIER II CAPITAL		
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	1.454.324	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-	
Provisions (Amounts explained in the first paragraph of the article 8 of the Regulation on Bank Capital)	231.710	
Total Deductions from Tier II Capital	1.686.034	
Deductions from Tier II Capital		
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-	
Investments in Equity Instruments Issued by Banks and Financial Institutions Invested in Bank’s Tier II Capital and Having Conditions Stated in the Article 8 of the Regulation	-	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the issued share capital exceeding the 10% Threshold of Common Equity Tier I Capital (-)	-	
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-)	-	
Other items to be defined by the BRSA (-)	214	
Total Deductions from Tier II Capital	214	
Total Tier II Capital	1.685.820	
Total Equity (Total Tier I and Tier II Capital)	4.424.279	
Amounts Deducted from Equity		
Loans Granted against the Articles 50 and 51 of the Banking Law	-	
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years	-	
Other items to be Defined by the BRSA	9.603	
Items to be Deducted from the Sum of Tier I and Tier II Capital (Capital) During the Transition Period		
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation	-	
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation	-	
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation	-	

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

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

	Current Period 31 December 2018	Amount as per the regulation before 01.01.2014 (*)
CAPITAL		
Total Capital (Total of Tier I Capital and Tier II Capital)	4.414.676	
Total Risk Weighted Assets	22.084.220	
CAPITAL ADEQUACY RATIOS		
CET1 Capital Ratio (%)	12,40	
Tier I Capital Ratio (%)	12,40	
Capital Adequacy Ratio (%)	20,00	
BUFFERS		
Total Additional Core Capital Requirement Ratio (a+b+c)	1,90	
a) Capital Conservation Buffer Ratio (%)	1,88	
b) Bank-specific Counter-Cyclical Capital Buffer Ratio (%)	0,02	
c) Systemic significant Bank Buffer Ratio (%)	-	
The ratio of Additional Common Equity Tier 1 capital which will be calculated by the first paragraph of the Article 4 of Regulation on Capital conservation and countercyclical Capital buffers to risk weighted assets (%)	6,02	
Amounts Lower Than Excesses as per the Deduction Rules		
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital	-	
Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% or less of the Issued Share Capital	-	
Remaining Mortgage Servicing Rights	-	
Net Deferred Tax Assets arising from Temporary Differences	-	
Limits for Provisions Used in Tier II Capital Calculation		
General provisions for standard based receivables (before ten thousand twenty five limitation)	404.760	
Up to 1,25% of total risk-weighted amount of general reserves for receivables where the standard approach used	229.076	
Excess amount of total provision amount to credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	
Excess amount of total provision amount to 0,6% of risk weighted receivables of credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	
Debt Instruments Covered by Temporary Article 4 (effective between 1 January 2018-1 January 2022)		
Upper limit for Additional Tier I Capital subjected to temporary Article 4	-	
Amounts Excess the Limits of Additional Tier I Capital subjected to temporary Article 4	-	
Upper limit for Additional Tier II Capital subjected to temporary Article 4	-	
Amounts Excess the Limits of Additional Tier II Capital subjected to temporary Article 4	-	

(*) Amounts to be recognized under transition regulations.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

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

	Prior Period 31 December 2017	Amount as per the regulation before 01.01.2014 (*)
COMMON EQUITY TIER I CAPITAL		
Paid-in Capital to be Entitled for Compensation after All Creditors	652.290	
Share Premium	-	
Reserves	1.647.872	
Other Comprehensive Income according to TAS	-	
Profit	308.737	
Current Period Profit	308.737	
Prior Period Profit	-	
Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period's Profit	-	
Common Equity Tier I Capital Before Deductions	2.608.899	
Deductions From Common Equity Tier I Capital		
Valuation adjustments calculated as per the article 9. (j) of the Regulation on Bank Capital	-	
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS	48.410	
Leasehold Improvements on Operational Leases	19.280	
Goodwill Netted with Deferred Tax Liabilities	-	
Other Intangible Assets Netted with Deferred Tax Liabilities Except Mortgage Servicing Rights	118.206	147.758
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	48.221	
Differences are not recognized at the fair value of assets and liabilities subject to hedge of cash flow risk	-	
Communiqué Related to Principles of the amount credit risk calculated with the Internal Ratings Based Approach, total expected loss amount exceeds the total provision	-	
Gains arising from securitization transactions	-	
Unrealized gains and losses 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	-	
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
Amounts exceeding 15% of Tier I Capital according to Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (2nd article temporary second paragraph)	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
Amounts related to mortgage servicing rights	-	
Excess amount arising from deferred tax assets based on temporary differences	-	
Other items to be defined by the BRSA	-	
Deductions from Tier I Capital in cases where there are no adequate Additional Tier I or Tier II Capitals	-	
Total Deductions from Common Equity Tier I Capital	234.117	
Total Common Equity Tier I Capital	2.374.782	
ADDITIONAL TIER I CAPITAL		
Preferred Stock not Included in Common Equity Tier I Capital and the Related Share Premiums	-	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	-	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-	
Additional Tier I Capital before Deductions	-	
Deductions from Additional Tier I Capital		
Direct and Indirect Investments of the Bank on its own Additional Tier I Capital (-)	-	
Investments in Equity Instruments Issued by Banks or Financial Institutions Invested in Bank's Additional Tier I Capital and Having Conditions Stated in the Article 7 of the Regulation	-	
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 (-)	-	
Items to be Deducted from Tier I Capital during the Transition Period		
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	29.552	
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	12.055	
Deduction from Additional Tier I Capital when there is not enough Tier II Capital (-)	-	
Total Deductions from Additional Tier I Capital	41.607	
Total Additional Tier I Capital	-	
Total Tier I Capital (Tier I Capital = Common Equity Tier I Capital + Additional Tier I Capital)	2.333.175	

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

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

	Prior Period 31 December 2017	Amount as per the regulation before 01.01.2014 (*)
TIER II CAPITAL		
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	1.039.940	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Temporary Article 4)	-	
Provisions (Amounts explained in the first paragraph of the article 8 of the Regulation on Bank Capital)	210.169	
Total Deductions from Tier II Capital	1.250.109	
Deductions from Tier II Capital		
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-	
Investments in Equity Instruments Issued by Banks and Financial Institutions Invested in Bank’s Tier II Capital and Having Conditions Stated in the Article 8 of the Regulation	-	
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 (-)	190	
Total Deductions from Tier II Capital	190	
Total Tier II Capital	1.249.919	
Total Equity (Total Tier I and Tier II Capital)	3.583.094	
Amounts Deducted from Equity		
Loans Granted against the Articles 50 and 51 of the Banking Law	-	
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years	-	
Other items to be Defined by the BRSA	2.497	
Items to be Deducted from the Sum of Tier I and Tier II Capital (Capital) During the Transition Period		
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation	-	
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation	-	
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation	-	

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

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

	Prior Period 31 December 2017	Amount as per the regulation before 01.01.2014 (*)
CAPITAL		
Total Capital (Total of Tier I Capital and Tier II Capital)	3.580.597	
Total Risk Weighted Assets	20.392.930	
CAPITAL ADEQUACY RATIOS		
Common Equity Tier I Capital Ratio (%)	11,65	
Tier I Capital Ratio (%)	11,44	
Capital Adequacy Ratio (%)	17,56	
BUFFERS		
Bank-specific total CET1 Capital Ratio (%)	5,75	
Capital Conservation Buffer Ratio (%)	1,25	
Bank-specific Counter-Cyclical Capital Buffer Ratio (%)	0,00	
Systematic-important Bank Buffer Ratio (%)	-	
The ratio of Additional Common Equity Tier 1 capital which will be calculated by the first paragraph of the Article 4 of Regulation on Capital conservation and countercyclical Capital buffers to risk weighted assets (%)	5,89	
Amounts Lower Than Excesses as per Deduction Rules		
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital	-	
Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital	-	
Remaining Mortgage Servicing Rights	-	
Net Deferred Tax Assets arising from Temporary Differences	-	
Limits for Provisions Used in Tier II Capital Calculation		
General provisions for standard based receivables (before ten thousand twenty five limitation)	430.929	
Up to 1,25% of total risk-weighted amount of general reserves for receivables where the standard approach used	210.169	
Excess amount of total provision amount to credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	
Excess amount of total provision amount to 0,6% of risk weighted receivables of credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	
Debt instruments subjected to Article 4 (to be implemented between 1 January 2018 and 1 January 2022)		
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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

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

b. Items included in capital calculation:

Information about instruments that will be included in total capital calculation:	
Details on Subordinated Liabilities:	
Issuer	HSBC HOLDINGS PLC
Identifier(s) (CUSIP, ISIN vb.)	Subordinated Loans
Governing law (s) of the instrument	BDDK
Regulatory treatment	
Subject to 10% deduction as of 1/1/2015	Not Deducted
Eligible on unconsolidated and /or consolidated basis	Eligible
Instrument type	Loan
Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	1,454
Nominal value of instrument	1,454
Accounting classification of the instrument	Liability –Subordinated Loan
Issuance date of instrument	28.01.2015
Maturity structure of the instrument (demand/maturity)	Maturity
Original maturity of the instrument	10 Year
Issuer call subject to prior supervisory (BRSA) approval	Yes
Optional call date, contingent call dates and redemption amount	According to written approval of the BRSA, it can be fully repaid in the 5th year of the loan.
Subsequent call dates, if applicable	None
Coupon/dividend payment	
Fixed or floating coupon/dividend payments	Floating
Coupon rate and any related index	LIBOR + 4,48%
Existence of any dividend payment restriction	-
Fully discretionary, partially discretionary or mandatory	-
Existence of step up or other incentive to redeem	-
Noncumulative or cumulative	-
Convertible or non-convertible into equity shares	
	In case of the possibility of cancelling the Bank's operational permit or transferring to the Fund; The principal amount and interest payment liabilities of the loan may be terminated in whole or in part in accordance with the decision of the Board in this direction or it may be converted into capital by complying with the required legislation.
If convertible, conversion trigger (s)	
If convertible, fully or partially	Fully convertible
If convertible, conversion rate	The conversion rate / value shall be calculated based on the market data in the case of the exercise of the right.
If convertible, mandatory or optional conversion	-
If convertible, type of instrument convertible into	-
If convertible, issuer of instrument to be converted into	-
Write-down feature	
If bonds can be written-down, write-down trigger(s)	-
If bond can be written-down, full or partial	-
If bond can be written-down, permanent or temporary	-
If temporary write-down, description of write-up mechanism	-
Position in subordination hierarchy in case of liquidation (instrument type immediately senior to the instrument)	After borrowing, before additional capital, same as other contribution capital
In compliance with article number 7 and 8 of " Own fund regulation "	In compliance with the requirements of Article 7 and 8 of "Own fund regulation"
Details of incompliances with article number 7 and 8 of " Own fund regulation"	In compliance with the requirements of Article 7 and 8 of "Own fund regulation"

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

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

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

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

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

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

II. EXPLANATIONS ON CREDIT RISK

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

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

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

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

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

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

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

II. EXPLANATIONS ON CREDIT RISK (Continued)

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

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

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.

23 basic customer risk rating ranges are as follows:

CRR 1.0-1.2 - Minimal Risk - The counterparty has an independent credit rating, possibly awarded by a publicly-held and reputable rating agency in one of the major exchanges. 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 2.1-2.2 - Low Risk - The counterparty has an independent credit rating, possibly awarded by a publicly-held and reputable rating agency in one of the major exchanges. Financial situation, capital structure, profitability, liquidity, cash generation and management are very good. It is a strong credit risk with a low probability of default.

CRR 3.1-3.3 - Acceptable Risk – Firm is a private enterprise or publicly traded company that does not display a significant negative trend and has a satisfactory financial position. It is an acceptable credit risk with an acceptable risk of default.

CRR 4.1-4.3 - Reasonable Risk - Firm’s financial situation is sufficiently consistent with a few important signs of financial concern. Defined weaknesses are acceptable at the general credit risk level. The default risk is reasonable, but may require more regular monitoring with respect to the stated risks.

CRR 5.1-5.3 - 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 6.1-6.2 - 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.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

II. EXPLANATIONS ON CREDIT RISK (Continued)

CRR 7.1-7.2 - High Risk - There is a continuous downtrend in the firm’s financial situation 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. The transfer of customer management to the Loan Monitoring Unit (LMU) should be evaluated.

CRR 8.1-8.3 - The Risk Requiring Special Management - The financial situation of the firm is generally weakened 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. Risk approval must be transferred to the Loan Monitoring (LMU) team unless there is a specific occasion.

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

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

CRR 10.0 - Loss - Very low collection expectations. The remaining principal and interest balance should be written as loss soon as possible. The amount of doubtful receivable to meet the expected loss should be recorded.

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

Risk Classifications	Current Period Risk Amount	Average Risk Amount (*)
Conditional and unconditional receivables from central governments or central banks	6.146.415	6.059.424
Conditional and unconditional receivables from regional governments or local governments	-	5
Conditional and unconditional receivables from administrative units and non-commercial enterprises	249	3.102
Conditional and unconditional receivables from multilateral development banks	-	-
Conditional and unconditional receivables from international organizations	-	-
Conditional and unconditional receivables from banks and brokerage houses	1.785.994	4.002.008
Conditional and unconditional corporate receivables	13.356.174	13.843.437
Conditional and unconditional retail receivables	3.508.660	3.833.958
Conditional and unconditional receivables secured by mortgages	1.266.774	1.040.327
Past due receivables	191.554	209.281
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	-	1.756
Other receivables	819.431	677.022
Total	27.075.251	29.670.320

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

II. EXPLANATIONS ON CREDIT RISK (Continued)

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

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

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

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

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

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

II. EXPLANATIONS ON CREDIT RISK (Continued)

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

As of 31 December 2018, the Bank has TL 40 (31 December 2017: TL 22) of non-cash loans turned into cash loans.

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

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

	Current Period 31 December 2018	
	TL	FC
Letters of Guarantee	-	-
Pre-financing Loans	-	-
Commercial Letter of Credit Commitments	-	-
Factoring Guarantees	-	-
Bad Check Payments	40	-
Other Liabilities	-	-
Total	40	-

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

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

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

II. EXPLANATIONS ON CREDIT RISK (Continued)

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

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

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

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

- f. The proportion of the Bank’s top 100 and 200 cash loan balances in total cash loans: 69% and 75% (31 December 2017: 59% and 69%).**

The proportion of the Bank’s top 100 and 200 non-cash loan balances in total non-cash loans: 95% and 100% (31 December 2017: 93% and 99%).

The proportion of the Bank’s cash and non-cash loan balances with the first 100 and 200 customers comprises of total cash loans and non-cash loans: 66% and 77% (31 December 2017: 58% and 71%).

- g. General loan loss provision booked by the Bank: TL 404.760 (31 December 2017: TL 430.929).**

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

II. EXPLANATIONS ON CREDIT RISK (Continued)

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

Current Period 31 December 2018	Risk Categories (*)																	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	Total
Domestic	6.146.415	-	249	-	-	523.024	13.216.300	3.468.271	1.262.297	190.203	-	-	-	-	-	-	819.431	25.626.190
European Union Countries	-	-	-	-	-	1.027.107	139.185	13.744	1.643	1.263	-	-	-	-	-	-	-	1.182.942
OECD Countries (**)	-	-	-	-	-	80.888	-	1.290	65	-	-	-	-	-	-	-	-	82.243
Off – Shore Banking Regions	-	-	-	-	-	13.282	-	171	-	-	-	-	-	-	-	-	-	13.453
USA, Canada	-	-	-	-	-	45.955	20	2.048	42	18	-	-	-	-	-	-	-	48.083
Other Countries	-	-	-	-	-	95.738	669	23.136	2.727	70	-	-	-	-	-	-	-	122.340
Associates, Subsidiaries and Joint Venture	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Undistributed Assets / Liabilities (***)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	6.146.415	-	249	-	-	1.785.994	13.356.174	3.508.660	1.266.774	191.554	-	-	-	-	-	-	819.431	27.075.251

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

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

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

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

II. EXPLANATIONS ON CREDIT RISK (Continued)

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

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

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

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

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

II. EXPLANATIONS ON CREDIT RISK (Continued)

i. Risk profile according to Sectors and Counterparties:

Current Period 31 December 2018 Sectors/Counterparties	Risk Categories (*)																	TL	FC	Total	
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17				
Agricultural	-	-	-	-	-	-	50.955	8	-	20	-	-	-	-	-	-	-	2.509	48.474	50.983	
Farming and Raising	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Livestock	-	-	-	-	-	-	2.467	1	-	6	-	-	-	-	-	-	-	2.474	-	2.474	
Forestry	-	-	-	-	-	-	12	2	-	10	-	-	-	-	-	-	-	24	-	24	
Fishing	-	-	-	-	-	-	48.476	5	-	4	-	-	-	-	-	-	-	11	48.474	48.485	
Industry	4	-	33	-	-	-	7.068.998	82.748	227.596	106.514	-	-	-	-	-	-	-	1.721	4.002.889	3.484.725	7.487.614
Mining and Quarrying	-	-	-	-	-	-	31.220	7	-	2.129	-	-	-	-	-	-	-	2.186	31.170	33.356	
Production	4	-	33	-	-	-	6.395.478	82.741	227.596	104.352	-	-	-	-	-	-	-	1.721	3.828.762	2.983.163	6.811.925
Electricity, Gas, Water	-	-	-	-	-	-	642.300	-	-	33	-	-	-	-	-	-	-	171.941	470.392	642.333	
Construction s	-	-	-	-	-	-	1.496.161	28	432.154	4.615	-	-	-	-	-	-	-	-	137.869	1.795.089	1.932.958
Service	6.146.411	-	-	-	-	1.785.994	3.458.936	200	163.328	29.438	-	-	-	-	-	-	-	97	6.244.168	5.340.236	11.584.404
Wholesale and Retail Trade	-	-	-	-	-	-	1.902.262	135	96.755	24.857	-	-	-	-	-	-	-	50	1.379.491	644.568	2.024.059
Hotel and Beverage Service	-	-	-	-	-	-	276.217	16	17.818	1.805	-	-	-	-	-	-	-	-	268.245	27.611	295.856
Transportation and Telecommunication	-	-	-	-	-	-	1.144.202	11	45.250	176	-	-	-	-	-	-	-	47	424.041	765.645	1.189.686
Financial Institutions	6.146.411	-	-	-	-	1.785.994	8.220	6	-	-	-	-	-	-	-	-	-	-	4.112.348	3.828.283	7.940.631
Real Estate and Lending Service	-	-	-	-	-	-	14.955	5	-	17	-	-	-	-	-	-	-	-	14.977	-	14.977
Self-Employment Service	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Education Service	-	-	-	-	-	-	49	-	-	468	-	-	-	-	-	-	-	-	517	-	517
Health and Social Services	-	-	-	-	-	-	113.031	27	3.505	2.115	-	-	-	-	-	-	-	-	44.549	74.129	118.678
Other	-	-	216	-	-	-	1.281.124	3.425.676	443.696	50.967	-	-	-	-	-	-	-	817.613	4.601.315	1.417.977	6.019.292
TOTAL	6.146.415	-	249	-	-	1.785.994	13.356.174	3.508.660	1.266.774	191.554	-	-	-	-	-	-	-	819.431	14.988.750	12.086.501	27.075.251

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

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

II. EXPLANATIONS ON CREDIT RISK (Continued)

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

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

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- 3 Conditional and unconditional receivables from administrative units and non-commercial enterprises
- 4 Conditional and unconditional receivables from multilateral development banks
- 5 Conditional and unconditional receivables from international organizations
- 6 Conditional and unconditional receivables from banks and brokerage houses
- 7 Conditional and unconditional corporate receivables
- 8 Conditional and unconditional retail receivables
- 9 Conditional and unconditional receivables secured by mortgages
- 10 Past due receivables
- 11 Receivables defined in high risk category by BRSA
- 12 Securities collateralized by mortgages
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- 17 Other receivables

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

II. EXPLANATIONS ON CREDIT RISK (Continued)

j. Term distribution of risks with term structure:

Current Period - Risk Categories	Time to Maturity					Unallocated
	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1 Year and Over	
Conditional and unconditional receivables from central governments or central banks	5.635.284	-	-	-	511.131	-
Conditional and unconditional receivables from regional governments or local governments	-	-	-	-	-	-
Conditional and unconditional receivables from administrative units and non-commercial enterprises	249	-	-	-	-	-
Conditional and unconditional receivables from multilateral development banks	-	-	-	-	-	-
Conditional and unconditional receivables from international organizations	-	-	-	-	-	-
Conditional and unconditional receivables from banks and brokerage houses	514.997	175.789	638.477	175.790	280.941	-
Conditional and unconditional corporate receivables	3.993.535	1.728.452	1.302.724	1.921.802	4.409.661	-
Conditional and unconditional retail receivables	2.339.668	215.500	30.779	122.746	799.967	-
Conditional and unconditional receivables secured by mortgages	35.914	1.702	15.732	206.486	1.006.940	-
Past due receivables	-	-	-	-	-	191.554
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	819.431	-	-	-	-	-
TOTAL	13.339.078	2.121.443	1.987.712	2.426.824	7.008.640	191.554

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

II. EXPLANATIONS ON CREDIT RISK (Continued)

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

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.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

II. EXPLANATIONS ON CREDIT RISK (Continued)

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

I. Risk amounts according to risk weights:

31 December 2018	0%	10%	20%	35%	50%	75%	100%	150%	200%	250%	1250%	Deducted From Equity
1.Amount Before Credit Risk												
Mitigation	6.281.459	-	1.057.884	-	629.565	3.735.237	15.368.507	2.599	-	-	-	9.603
2.Amount After Credit Risk												
Mitigation	6.281.449	-	1.058.098	293.608	1.399.391	3.307.819	14.827.286	2.552	-	-	-	9.603

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

II. EXPLANATIONS ON CREDIT RISK (Continued)

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

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

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

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

Miscellaneous Information regarding Major Sectors or Counterparty Type:

Current Period Major Sectors/ Counterparties	Credits			
	Impaired Credits	Past due Credits (*)	Value Adjustments (**)	Provisions (***)
Agricultural	183	48.474	1.454	164
Farming and Raising livestock	66	-	-	47
Forestry	-	-	-	-
Fishing	117	48.474	1.454	117
Industry	229.910	611.130	17.986	153.528
Mining and Quarrying	4.050	21.096	633	1.920
Production	225.803	590.034	17.353	151.585
Electricity, Gas, Water	57	-	-	23
Construction	202.553	30.520	909	167.908
Services	56.895	1.502.663	43.682	355.753
Wholesale and Retail Trade	46.295	75.077	2.234	21.498
Hotel and Beverage Services	3.145	240.522	6.971	1.346
Transportation and Telecommunication	1.795	225.751	6.718	1.679
Financial Institutions	1	-	-	1
Real Estate and Lending Services	1.144	956.780	27.625	329.314
Self-Employment Services	91	13	-	71
Education Services	803	-	-	338
Health and Social Services	3.621	4.520	134	1.506
Other	392.297	183.691	4.431	13.346
Total	881.838	2.376.478	68.462	690.699

(*) Close monitoring amounts.

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

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

II. EXPLANATIONS ON CREDIT RISK (Continued)

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

(*) Close monitoring amounts.

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

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

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

Current Period 31 December 2018	Opening Balance	Provisions provided during the period	Provision Reversals	Other Adjustments(*)	Closing Balance
Specific Provisions	587.367	227.928	(120.748)	(3.848)	690.699
General Provisions	430.929	-	(26.169)	-	404.760

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

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

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

II. EXPLANATIONS ON CREDIT RISK (Continued)

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

	Commercial Loans	Consumer Loans	Credit Cards	Total
1 January 2018	155.181	161.676	270.510	587.367
Transferred during the period	63.541	42.073	122.314	227.928
Collection during the period	(9.141)	(52.889)	(58.718)	(120.748)
Write-off/sold	-	(1.511)	(2.337)	(3.848)
31 December 2018	209.581	149.349	331.769	690.699
	Commercial Loans	Consumer Loans	Credit Cards	Total
1 January 2017	191.350	321.241	468.687	981.278
Transferred during the period	169.490	100.280	198.317	468.087
Collection during the period	(135.831)	(38.356)	(58.914)	(233.101)
Write-off/sold	(69.828)	(221.489)	(337.580)	(628.897)
31 December 2017	155.181	161.676	270.510	587.367

r. Information on types of loans and provisions:

	Commercial Loans	Consumer Loans	Credit Cards	Total
Current Period – 31 December 2018				
Standard loans	9.641.471	1.399.382	2.078.038	13.118.891
Close monitoring loans	2.167.372	84.669	124.437	2.376.478
Non-performing loans	293.647	209.033	379.158	881.838
Specific provisions (-)	209.581	149.349	331.769	690.699
Total	11.892.909	1.543.735	2.249.864	15.686.508

(*) Includes the factoring receivables amounting to TL 192.282.

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

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

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

	Current Period 31 December 2018 Collateral Value
Mortgages	281.582
Pledged Vehicle	227
Cheques and Notes	-
Cash	-
Total	281.809

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

II. EXPLANATIONS ON CREDIT RISK (Continued)

	Prior Period 31 December 2017 Collateral Value
Mortgages	397.974
Pledged Vehicle	6.772
Cheques and Notes	-
Cash	485
Total	405.231

III. EXPLANATIONS ON COUNTER CYCLICAL CAPITAL BUFFER RATIO CALCULATION

Current Period 31 December 2018	Private sector credit exposures in banking book	Risk weighted equivalent trading book	Total
Turkey	16.568.846	1.458.440	18.027.326
Great Britain	234.217	-	234.217
Germany	164.580	-	164.580
Spain	67.914	-	67.914
Romania	61.446	-	61.446
Canada	41.708	-	41.708
Republic of China	30.078	-	30.078
France	23.224	-	23.224
Japan	21.715	-	21.715
Sweden	18.128	-	18.128
Other	78.966	-	78.966

IV. EXPLANATIONS ON CURRENCY RISK

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

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

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

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

- c. Management policy for foreign currency risk:**

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

IV. EXPLANATIONS ON CURRENCY RISK (Continued)

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

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

Current Period – 31 December 2018	USD (\$)	Euro (€)
Balance Sheet Date		
Bank Evaluation Rate	5,2885	6,0566
Prior Balance Sheet Date		
28 December 2018	5,2736	6,0359
27 December 2018	5,2928	6,0465
26 December 2018	5,3030	6,0438
25 December 2018	5,3030	6,0438
24 December 2018	5,3030	6,0438
Prior Period – 31 December 2017	USD (\$)	Euro (€)
Balance Sheet Date		
Bank Evaluation Rate	3,7816	4,5332
Prior Balance Sheet Date		
29 December 2017	3,7816	4,5332
28 December 2017	3,7758	4,5111
27 December 2017	3,8232	4,5527
26 December 2017	3,8182	4,5253
25 December 2017	3,8182	4,5253

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

As of December 2018, the Bank’s simple arithmetic average foreign exchange rate for USD is TL 5,3104 (December 2017: TL 3,8421) and exchange rate for Euro is TL 6,0426 (December 2017: TL 4,5487).

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

IV. EXPLANATIONS ON CURRENCY RISK (Continued)

f. Information related to Bank’s currency risk:

Current Period – 31 December 2018	Euro	USD	Other FC	Total
Assets				
Cash Equivalents (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of the Republic of Turkey	1.717.943	1.566.119	440.495	3.724.557
Banks	12.148	-	9.737	21.885
Financial Assets at Fair Value through Profit or Loss (Net)	498.560	495.785	1.537	995.882
Interbank Money Market Placements	-	8.045.229	-	8.045.229
Financial Assets at Fair Value Through Other Comprehensive Income	-	-	-	-
Loans (*)	3.409.277	2.577.781	15.293	6.002.351
Investments in Associates, Subsidiaries and Joint Ventures (Business Partners)	-	-	-	-
Financial Assets Measured at Amortised Cost	-	-	-	-
Hedging Derivative Financial Assets	-	-	-	-
Tangible Assets (Net)	-	-	-	-
Intangible Assets (Net)	-	-	-	-
Other Assets (**)	252.738	254.911	65	507.714
Total Assets	5.890.666	12.939.825	467.127	19.297.618
Liabilities				
Bank Deposits	-	1.698.556	-	1.698.556
Foreign Currency Deposits	5.736.114	8.637.587	1.278.529	15.652.230
Funds from Interbank Money Market	-	-	-	-
Fund Borrowed	30.496	1.553.049	-	1.583.545
Issued Marketable Securities (Net)	-	-	-	-
Miscellaneous Payables	1.820	6.651	10.250	18.721
Hedging Derivative Financial Liabilities	-	-	-	-
Other Liabilities	327.984	751.367	35.982	1.115.333
Total Liabilities	6.096.414	12.647.210	1.324.761	20.068.385
Net on Balance Sheet Position	(205.748)	292.615	(857.634)	(770.767)
Net off-Balance Sheet Position	316.303	(229.759)	828.988	915.532
Financial Derivative Assets	8.156.299	11.522.133	1.231.193	20.909.625
Financial Derivative Liabilities	7.839.996	11.751.892	402.205	19.994.093
Non-cash Loans	1.316.677	1.102.091	227.014	2.645.782
Prior Period - 31 December 2017				
Total Assets	3.984.253	5.950.424	316.849	10.251.526
Total Liabilities	3.405.365	10.793.302	822.061	15.020.728
Net on-Balance Sheet Position	578.888	(4.842.878)	(505.212)	(4.769.202)
Net off-Balance Sheet Position	(768.674)	5.140.225	518.541	4.890.092
Financial Derivative Assets	12.651.214	22.025.708	1.260.969	35.937.891
Financial Derivative Liabilities	13.419.888	16.885.483	742.428	31.047.799
Non-cash Loans	812.212	938.975	123.682	1.874.869

(*) As of 31 December 2018, total loans amount consists foreign indexed loans amounting to TL 167.693 (31 December 2017: TL 1.131.477).

(**) As of 31 December 2018, the Bank has no other assets that do not consist of prepaid expenses (31 December 2017: TL 432).

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

IV. EXPLANATIONS ON CURRENCY RISK (Continued)

As of 31 December 2018 and 31 December 2017, if Bank's foreign currency position had depreciated by 10% against TL with all other variables held constant, the changes in profit before tax and equity mainly as a result of foreign exchange losses are disclosed as following:

	Current Period 31 December 2018	
	Income Statement	Equity (*)
USD	6.286	6.286
EURO	11.056	11.056
Other	(2.865)	(2.865)
Total	14.477	14.477

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

	Prior Period 31 December 2017	
	Income Statement	Equity (*)
USD	29.735	29.735
EURO	(18.979)	(18.979)
Other	1.333	1.333
Total	12.089	12.089

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

As of 31 December 2018 and 31 December 2017, as a result of 10% appreciation of TL currency against other foreign currencies with all other variables held constant, the changes in the assets and liabilities have occurred in accordance with the table above but effects will be reverse.

V. EXPLANATIONS ON INTEREST RATE RISK

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

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

V. EXPLANATIONS ON INTEREST RATE RISK (Continued)

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

Current Period – 31 December 2018	Up to 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years	5 Years and Over	Non- Interest Bearing	Total
Assets							
Cash Equivalents (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of the Republic of Turkey	3.534.216	-	-	-	-	2.531.239	6.065.455
Banks	-	-	-	-	-	21.885	21.885
Financial Assets at Fair Value Through Profit or Loss (Net) (**)	200.407	215.768	459.302	130.383	7.068	18.881	1.031.809
Interbank Money Market Placements	8.415.487	-	-	-	-	-	8.415.487
Financial Assets at Fair Value Through Other Comprehensive Income	-	-	-	456.176	54.953	-	511.129
Loans	6.016.866	1.622.793	2.493.079	4.585.695	776.936	191.139	15.686.508
Financial Assets Measured at Amortised Cost	-	-	-	-	-	-	-
Other Assets	1.986	-	72	163.489	-	913.519	1.079.066
Total Assets	18.168.962	1.838.561	2.952.453	5.335.743	838.957	3.676.663	32.811.339
Liabilities							
Bank Deposits	1.744.608	-	-	-	-	132.885	1.877.493
Other Deposits	15.745.761	3.182.694	663.602	8.126	-	3.409.245	23.009.428
Funds from Interbank Money Market	-	-	-	-	-	-	-
Miscellaneous Payables	181.226	-	-	-	-	133.921	315.147
Issued Marketable Securities (Net)	-	-	-	-	-	-	-
Funds Borrowed	1.545.585	607.097	592.944	-	-	37.960	2.783.586
Other Liabilities (*) (**)	141.786	212.530	621.265	448.329	-	3.401.775	4.825.685
Total Liabilities	19.358.966	4.002.321	1.877.811	456.455	-	7.115.786	32.811.339
Balance Sheet Long Position	-	-	1.074.642	4.879.288	838.957	-	6.792.887
Balance Sheet Short Position	(1.190.004)	(2.163.760)	-	-	-	(3.439.123)	(6.792.887)
Off-Balance Sheet Long Position	50.697	-	66.833	-	-	-	117.530
Off-Balance Sheet Short Position	-	(20.870)	-	(13.430)	-	-	(34.300)
Total Position	(1.139.307)	(2.184.630)	1.141.475	4.865.858	838.957	(3.439.123)	83.230

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

(**) Financial Derivative Assets are shown in "Financial Assets at Fair Value Through Profit or Loss", and Financial Derivative Liabilities are shown in "Other Liabilities".

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

V. EXPLANATIONS ON INTEREST RATE RISK (Continued)

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

(*) Loans consist of factoring transactions amounting to TL 394.213.

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

b. Effective average interest rates for monetary financial instruments:

Current Period – 31 December 2018	Euro	USD	Yen	TL
Assets				
Cash Equivalents (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the Central Bank of the Republic of Turkey	-	2,00	-	21,37
Banks	-	-	-	-
Financial Assets at Fair Value Through Profit or Loss (Net)	6,84	6,10	-	9,02
Interbank Money Market Placements	-	2,47	-	25,49
Financial Assets at Fair Value through Other Comprehensive Income	-	-	-	11,01
Loans	4,30	5,65	-	21,72
Financial Assets Measured at Amortised Cost	-	-	-	-
Liabilities				
Bank Deposits	-	2,50	-	19,60
Other Deposits	2,04	3,65	-	22,18
Funds From Interbank Money Market	-	-	-	-
Funds Borrowed	-	6,72	-	21,29

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

V. EXPLANATIONS ON INTEREST RATE RISK (Continued)

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

c. Interest rate risk on banking book:

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

The interest rate risk resulted from banking book is measured legally as per the “Regulation on Measurement and Evaluation of Interest Rate Risk Resulted from Banking Book as per Standard Shock Method” published in the Official Gazette no.28034 dated 23 August 2011, and the legal limit as per this measurement is monitored and reported monthly. The capital level is maintained considering the interest rate risk resulted from the banking book.

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

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

V. EXPLANATIONS ON INTEREST RATE RISK (Continued)

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

31 December 2018	Shocks Applied (+/- x basis point)	Gains / Losses	Gains / Equity - Losses / Equity
Type of Currency			
1. TL	500	(139.192)	(3,15) %
2. TL	(400)	132.859	3,01%
3. EURO	200	(118.101)	(2,68) %
4. EURO	(200)	13.876	0,31%
5. USD	200	228.621	5,18%
6. USD	(200)	(265.953)	(6,03) %
Total (of Negative Shocks)		(119.218)	(2,70) %
Total (of Positive Shocks)		(28.672)	(0,65) %
31 December 2017	Shocks Applied (+/- x basis point)	Gains / Losses	Gains / Equity - Losses / Equity
Type of Currency			
1. TL	500	(204.332)	(5,71) %
2. TL	(400)	198.240	5,54%
3. EURO	200	(61.719)	(1,72) %
4. EURO	(200)	10.642	0,30%
5. USD	200	(12.644)	(0,35) %
6. USD	(200)	18.240	0,51%
Total (of negative shocks)		227.122	6,34%
Total (of positive shocks)		(278.695)	(7,78) %

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

- a. Position risk of equity securities in banking book**

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

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

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

None.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

VII. EXPLANATIONS ON LIQUIDITY RISK

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

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

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

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

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

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

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

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

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

VII. EXPLANATIONS ON LIQUIDITY RISK (Continued)

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

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

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

Information on liquidity risk mitigation techniques:

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

Explanation of the usage of stress test:

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

General information on liquidity emergency and contingency plans:

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

a. Liquidity coverage rate:

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

Liquidity coverage rate is calculated by dividing high quality liquid assets that Bank owns to net cash outflows with maturity of 1 month. Reserve requirements kept by Central Bank of the Republic of Turkey (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, non-deposit borrowings that are became due and receivables from banks form the most important components which affect the results of liquidity coverage rate due to the liquidity of the assets, having high volume in net cash outflows and having high rate of consideration. The ratio may fluctuate periodically due to reasons listed below;

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

VII. EXPLANATIONS ON LIQUIDITY RISK (Continued)

Explanation regarding the components of high quality liquid assets:

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

Components density of fund resources in all funds:

The Bank’s founding sources are consisted of real person and retail deposit, corporate bank deposits, repurchase agreements and borrowings. Deposits that are used for founding consists 76% of total liabilities.

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 Turkish Lira and Foreign Currency net cash flows with 30-days maturity. Net cash flows resulted from derivative transactions have minimal effect on total liquidity coverage rate. However, as a result of shifts in derivative volumes due to Foreign Currency derivatives used in the management of cash flows and incoming maturities of derivative transactions, periodic fluctuations on Foreign Currency liquidity coverage rate may occur.

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

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

VII. EXPLANATIONS ON LIQUIDITY RISK (Continued)

	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
Current Period – 31.12.2018				
HIGH QUALITY LIQUID ASSETS				
High Quality Liquid Assets			10.587.062	9.295.612
Cash Outflows				
Real person and retail deposits	17.004.786	11.370.267	1.617.439	1.137.027
Stable deposits	1.660.801	-	83.040	-
Less stable deposits	15.343.985	11.370.267	1.534.399	1.137.027
Unsecured debts other than real person and retail deposits	8.127.515	5.218.825	3.682.915	2.162.052
Operational deposits	-	-	-	-
Non-operational deposits	7.775.506	5.187.235	3.330.906	2.130.462
Other unsecured debts	352.009	31.590	352.009	31.590
Secured debts	-	-	-	-
Other cash outflows	1.733.936	2.964.527	1.733.936	2.964.526
Derivative liabilities and collateral completion liabilities	1.733.936	2.964.527	1.733.936	2.964.526
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	8.533.612	2.820.916	888.107	463.850
Other irrevocable or revocable (based on conditions) off-the balance sheet debts	-	-	-	-
TOTAL CASH OUTFLOWS			7.922.397	6.727.455
Cash inflows				
Secured liabilities	-	-	-	-
Unsecured liabilities	6.247.311	2.372.158	4.362.186	2.042.487
Other cash inflows	80.488	1.823.917	80.488	1.823.917
TOTAL CASH INFLOWS	6.327.799	4.196.075	4.442.674	3.866.404
			Values to which the upper limit is applied	
TOTAL HIGH QUALITY LIQUID ASSETS INVENTORY			10.587.062	9.295.612
TOTAL NET CASH OUTFLOWS			3.479.723	2.861.051
LIQUIDITY COVERAGE RATIO (%)			304,25	324,90

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

VII. EXPLANATIONS ON LIQUIDITY RISK (Continued)

Table below represents lowest, highest and average liquidity coverage rates for the last year.

	Current Period - 31.12.2018	
	TL+FC	FC
Highest (%)	525,95	537,49
Date	28.12.2018	28.12.2018
Lowest (%)	248,06	227,95
Date	04.10.2018	04.10.2018
Average (%)	304,25	324,90

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

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

VII. EXPLANATIONS ON LIQUIDITY RISK (Continued)

Table below represents lowest, highest and average liquidity coverage rates for year 2017.

	Prior Period - 31.12.2017	
	TL+FC	FC
Highest (%)	360,54	212,61
Date	25.12.2017	13.11.2017
Lowest (%)	259,69	95,19
Date	02.10.2017	02.10.2017
Average (%)	303,81	144,02

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

Current Period - 31 December 2018	Demand	Up to 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years	5 Years and Over	Unallocated	Total
Assets								
Cash Equivalents (Cash in Vault, Foreign Currency Cash, Money in Transit, Cheques Purchased) and Balances with the CBRT Banks	2.531.239	3.534.216	-	-	-	-	-	6.065.455
Financial Assets at Fair Value through Profit or Loss (Net) (***)	-	160.254	155.516	431.569	229.207	36.382	18.881	1.031.809
Interbank Money Market Placements	-	8.415.487	-	-	-	-	-	8.415.487
Financial Assets at Fair Value through Other Comprehensive Income	-	-	-	-	456.176	54.953	-	511.129
Loans	-	5.448.964	1.893.907	2.646.467	4.661.947	844.084	191.139	15.686.508
Financial Assets at Fair Value Through Amortised Cost	-	-	-	-	-	-	-	-
Other Assets (*)	-	1.986	-	72	163.489	-	913.519	1.079.066
Total Assets	2.553.124	17.560.907	2.049.423	3.078.108	5.510.819	935.419	1.123.539	32.811.339
Liabilities								
Bank Deposits	132.885	1.744.608	-	-	-	-	-	1.877.493
Other Deposits	3.409.245	15.745.761	3.182.694	663.602	8.126	-	-	23.009.428
Funds from Interbank Money Market	-	-	-	-	-	-	-	-
Miscellaneous Payables	-	181.226	-	-	-	-	133.921	315.147
Issued Marketable Securities (Net)	-	-	-	-	-	-	-	-
Funds Borrowed	37.960	-	607.097	592.944	-	1.545.585	-	2.783.586
Other Liabilities (**)(***)	-	106.806	165.731	583.294	548.221	19.858	3.401.775	4.825.685
Total Liabilities	3.580.090	17.778.401	3.955.522	1.839.840	556.347	1.565.443	3.535.696	32.811.339
Net Liquidity Excess / (Gap)	(1.026.966)	(217.494)	(1.906.099)	1.238.268	4.954.472	(630.024)	(2.412.157)	-
Net Off Balance Sheet Position	-	50.696	(20.869)	66.832	(13.429)	-	-	83.230
Derivative Financial Assets	-	13.554.469	3.991.419	8.862.705	13.942.201	1.664.084	-	42.014.878
Derivative Financial Liabilities	-	13.503.773	4.012.288	8.795.873	13.955.630	1.664.084	-	41.931.648
Non-cash Loans	2.116.849	64.051	258.606	678.814	536.647	3.298	-	3.658.265
Prior Period - 31 December 2017								
Total Assets	1.198.568	10.146.504	3.780.817	3.092.429	4.736.830	895.688	777.087	24.627.923
Total Liabilities	2.770.406	12.622.684	1.706.123	796.013	2.556.242	1.116.930	3.059.525	24.627.923
Net Liquidity Excess / (Gap)	(1.571.838)	(2.476.180)	2.074.694	2.296.416	2.180.588	(221.242)	(2.282.438)	-
Net Off-Balance Sheet Position	-	8.410	(143.013)	10.717	(4.657)	-	-	(128.543)
Derivative Financial Assets	-	19.664.075	6.535.673	5.460.951	4.252.471	-	-	35.913.170
Derivative Financial Liabilities	-	19.655.665	6.678.686	5.450.234	4.257.128	-	-	36.041.713
Non-cash Loans	993.987	144.032	308.679	834.106	510.889	5.614	-	2.797.307

(*) 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.

(***) Financial Derivative Assets are shown in "Financial Assets at Fair Value Through Profit or Loss", and Financial Derivative Liabilities are shown in "Other Liabilities".

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

VII. EXPLANATIONS ON LIQUIDITY RISK (Continued)

c. Breakdown of liabilities according to their remaining contractual maturities

Current Period - 31 December 2018	Demand	Up to 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years	5 Years and Over	Total
Bank Deposits	132.885	1.747.930	-	-	-	-	1.880.815
Other Deposits	3.409.245	15.780.389	3.226.383	727.607	9.957	-	23.153.581
Funds Provided Under Repurchase Agreements	-	-	-	-	-	-	-
Borrowings	37.960	-	622.355	729.027	-	2.140.057	3.529.399
Total	3.580.090	17.528.319	3.848.738	1.456.634	9.957	2.140.057	28.563.795
Prior Period - 31 December 2017	Demand	Up to 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years	5 Years and Over	Total
Bank Deposits	57.602	1.485.350	-	-	-	-	1.542.952
Other Deposits	2.632.791	10.848.234	1.284.161	161.704	48	-	14.926.938
Funds Provided Under Repurchase Agreements	-	-	-	-	-	-	-
Borrowings	80.013	-	285.462	200.123	2.188.835	1.563.603	4.318.036
Total	2.770.406	12.333.584	1.569.623	361.827	2.188.883	1.563.603	20.787.926

d. Information on securitisation positions:

None.

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

Current Period – 31 December 2018	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Total
Foreign exchange derivatives:						
- Inflow	12.959.134	3.348.171	8.147.025	3.799.751	-	28.254.081
- Outflow	12.905.870	3.348.586	8.080.192	3.813.181	-	28.147.829
Interest rate derivatives:						
- Inflow	-	201	3.181	46.814	29.313	79.509
- Outflow	-	181	3.292	55.827	19.858	79.158
Total Inflow	12.959.134	3.348.372	8.150.206	3.846.565	29.313	28.333.590
Total Outflow	12.905.870	3.348.767	8.083.484	3.869.008	19.858	28.226.987
Prior Period - 31 December 2017	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Total
Foreign exchange derivatives:						
- Inflow	19.780.620	6.597.671	5.655.714	4.493.180	-	36.527.185
- Outflow	19.774.450	6.817.835	5.643.082	4.484.962	-	36.720.329
Interest rate derivatives:						
- Inflow	-	320	368	41.942	27.974	70.604
- Outflow	-	287	350	35.317	16.880	52.834
Total Inflow	19.780.620	6.597.991	5.656.082	4.535.122	27.974	36.597.789
Total Outflow	19.774.450	6.818.122	5.643.432	4.520.279	16.880	36.773.163

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

VIII. EXPLANATIONS ON LEVERAGE RATIO

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

	Current Period 31.12.2018 (*)
Assets On the Balance Sheet	
Assets on the balance sheet (excluding derivative financial instruments and loan derivatives, including collaterals)	25.514.773
1 (Assets deducted from core capital)	(178.737)
2 Total risk amount for assets on the balance sheet (sum of lines 1 and 2)	25.336.036
Derivative Financial Instruments and Loan Derivatives	
4 Renewal cost of derivative financial instruments and loan derivatives	645.111
5 Potential credit risk amount of derivative financial instruments and loan derivatives	617.504
6 Total risk amount of derivative financial instruments and loan derivatives (sum of lines 4 and 5)	1.262.615
Financing Transactions with Securities or Goods Warranties	
7 Risk amount of financial transactions with securities or goods warranties (excluding those in the balance sheet)	123.170
8 Risk amount arising from intermediated transactions	-
9 Total risk amount of financing transactions with securities or goods warranties (sum of lines 7 and 8)	123.170
Off-the-Balance Sheet Transactions	
10 Gross nominal amount of the off-the-balance sheet transactions	15.826.674
11 Adjustment amount arising from multiplying by the credit conversion rate	-
12 Total risk amount for off-the-balance sheet transactions (sum of lines 10 and 11)	15.826.674
Capital and Total Risk	
13 Core capital	2.719.157
14 Total risk amount (sum of lines 3,6,9 and 12)	42.548.495
Transition Process Unapplied Leverage Ratio (%)	
15 Transition process unapplied leverage ratio (%)	6,39

(*) Table represents three month average amounts.

	Prior Period 31.12.2017 (*)
Assets On the Balance Sheet	
Assets on the balance sheet (excluding derivative financial instruments and loan derivatives, including collaterals)	25.491.205
2 (Assets deducted from core capital)	(160.606)
3 Total risk amount for assets on the balance sheet (sum of lines 1 and 2)	25.330.599
Derivative Financial Instruments and Loan Derivatives	
4 Renewal cost of derivative financial instruments and loan derivatives	930.529
5 Potential credit risk amount of derivative financial instruments and loan derivatives	485.326
6 Total risk amount of derivative financial instruments and loan derivatives (sum of lines 4 and 5)	1.415.855
Financing Transactions with Securities or Goods Warranties	
7 Risk amount of financial transactions with securities or goods warranties (excluding those in the balance sheet)	66.530
8 Risk amount arising from intermediated transactions	-
9 Total risk amount of financing transactions with securities or goods warranties (sum of lines 7 and 8)	66.530
Off-the-Balance Sheet Transactions	
10 Gross nominal amount of the off-the-balance sheet transactions	17.768.672
11 Adjustment amount arising from multiplying by the credit conversion rate	-
12 Total risk amount for off-the-balance sheet transactions (sum of lines 10 and 11)	17.768.672
Capital and Total Risk	
13 Core capital	2.278.736
14 Total risk amount (sum of lines 3,6,9 and 12)	44.581.656
Leverage Ratio	
15 Leverage ratio (%)	5,11

(*) Table represents three month average amounts.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

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.

Current Period - 31 December 2018	Carrying Value	Fair Value
Financial Assets	24.635.009	24.632.797
Interbank Money Market Placements	8.415.487	8.415.487
Banks	21.885	21.885
Financial Assets at Fair Value Through Other Comprehensive Income	511.129	511.129
Financial Assets Measured at Amortised Cost	-	-
Loans (*)	15.686.508	15.684.296
Financial Liabilities	27.985.654	28.131.291
Bank Deposits	1.877.493	1.877.493
Other Deposits	23.009.428	23.158.154
Borrowings	2.783.586	2.780.497
Securities Issued	-	-
Miscellaneous Payables	315.147	315.147

(*) Includes the factoring receivables amounting to TL 192.282

Prior Period – 31 December 2017	Carrying Value	Fair Value
Financial Assets	19.107.879	19.139.490
Interbank Money Market Placements	1.794.965	1.794.965
Banks	343.933	343.933
Financial Assets Available-for-Sale (Net)	1.362.164	1.362.164
Investments Held-to-Maturity (Net)	-	-
Loans (*)	15.606.817	15.638.428
Financial Liabilities	20.337.923	20.513.370
Bank Deposits	1.509.403	1.509.403
Other Deposits	14.860.312	14.892.656
Borrowings	3.704.777	3.847.880
Securities Issued	-	-
Miscellaneous Payables	263.431	263.431

(*) Includes the factoring receivables amounting to TL 394.213

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.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

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

Current Period - 31 December 2018	1st Level	2nd Level	3rd Level	Total
Financial Assets at Fair Value Through Profit or Loss	11.801	1.001.127	-	1.012.928
- Government debt securities	11.801	-	-	11.801
- Share certificates (*)	-	-	-	-
- Trading derivative financial assets	-	1.001.127	-	1.001.127
- Other securities	-	-	-	-
Hedging Derivative Financial Assets Available for Sale Financial Assets	511.129	-	-	511.129
- Share certificates	-	-	-	-
- Government debt securities	511.129	-	-	511.129
- Other marketable securities	-	-	-	-
Total Assets	522.930	1.001.127	-	1.524.057
- Trading Derivative Financial Liabilities	-	941.094	-	941.094
Total Liabilities	-	941.094	-	941.094

(*) Unquoted share certificates amounting to TL 18.881 measured at cost in accordance with TFRS 9, are not included.

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

(*) Unquoted share certificates amounting to TL 13.099 measured at cost in accordance with TFRS 9, 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 Bank on behalf of Third Parties:

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

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

None.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

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 2018:

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

a. Explanations on Risk Management and Risk Weighted Amount:

1. Bank’s risk management approach

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

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

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

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

The Audit Committee has been assigned by the Board of Directors to be the Internal Systems Supervisor for all departments with regard to internal systems. The Audit Committee checks the effectiveness and adequacy of the internal systems of the Bank on behalf of the Board of Directors, supervises how these internal systems, accounting systems, and reporting systems work within the framework of the Law and regulations, ensures the integrity of the generated data, and does the necessary pre-evaluation for the Board of Directors to enable them to choose independent audit companies and rating, valuation, and support service 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 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.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

The Asset-Liability Committee’s main responsibilities are:

- providing continuous guidance to set up a perpetually developing structure in line with estimated risk parameters and the Bank’s performance objectives,
- monitoring asset-liability and capital management risk and determining its effects,
- providing a forum where matters concerning asset-liability management can be discussed,
- providing opportunities for teamwork between various lines of work,
- 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.

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.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

Stress Tests

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

2. Overview of Risk Weighted Amounts:

	Risk Weighted Amounts		Minimum Capital Requirements
	Current Period 31 December 2018	Prior Period 31 December 2017	Current Period 31 December 2018
Credit risk (excluding counterparty credit risk) (CCR)	16.867.575	15.828.491	1.349.406
Standardised approach (SA)	16.867.575	15.828.491	1.349.406
Internal rating-based (IRB) approach	-	-	-
Counterparty credit risk	1.458.480	984.992	116.678
Standardised approach for counterparty credit risk (SA-CCR)	1.458.480	984.992	116.678
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	995.725	579.350	79.658
Standardised approach (SA)	995.725	579.350	79.658
Internal model approaches (IMM)	-	-	-
Operational risk	2.762.440	3.000.097	220.995
Basic indicator approach	2.762.440	3.000.097	220.995
Standardised approach	-	-	-
Advanced measurement approach	-	-	-
Amounts below the thresholds for deduction from capital (subject to 250% risk weight)	-	-	-
Floor adjustment	-	-	-
TOTAL	22.084.220	20.392.930	1.766.737

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

b. Linkages between financial statements and risk amounts

1. Differences and matching between accounting consolidation and legal consolidation

Current Period 31 December 2018	Carrying values of items in accordance with TAS				Not Subject to Capital Requirements or Subject to Deduction from Capital
	Carrying Values in Financial Statements Prepared as per TAS (*)	Subject to Credit Risk	Subject to Counterparty Credit Risk	Subject to Market Risk	
Assets					
Cash and balances and the CBRT	6.065.455	6.065.455	-	-	-
Banks	21.885	21.885	-	-	-
Interbank Money market placements	8.415.487	-	8.415.487	8.415.487	-
Financial assets at fair value through profit or loss	30.682	-	-	30.682	-
Financial Assets at Fair Value Through Other Comprehensive Income	511.129	511.129	-	-	-
Financial Assets Measured at Amortised Cost	-	-	-	-	-
Derivative Financial Assets	1.001.127	-	1.001.127	1.001.127	-
Loans (Net)	15.686.508	15.676.703	-	-	9.805
Assets held for sale and assets of discontinued operations (net)	1.369	1.369	-	-	-
Subsidiaries(net)	-	-	-	-	-
Associates (net)	34.973	34.973	-	-	-
Joint ventures (net)	-	-	-	-	-
Tangible assets (net)	100.411	63.146	-	-	37.265
Intangible assets (net)	150.911	-	-	-	150.911
Investment property (net)	-	-	-	-	-
Tax assets	10.103	10.103	-	-	-
Deferred tax assets	137.491	131.586	-	-	5.905
Other assets	643.808	69.062	-	-	574.746
Total Assets	32.811.339	22.585.411	9.416.614	9.447.296	778.632
Liabilities					
Deposits	24.886.921	-	-	-	24.886.921
Funds borrowed	1.238.001	-	-	-	1.238.001
Interbank money markets	-	-	-	-	-
Securities issued	-	-	-	-	-
Funds	-	-	-	-	-
Financial liabilities at fair value through profit or loss	-	-	-	-	-
Derivative financial liabilities	941.094	-	941.094	941.094	-
Factoring payables	-	-	-	-	-
Lease payables	-	-	-	-	-
Provisions	600.160	-	-	-	600.160
Tax liability	54.802	-	-	-	-
Deferred tax assets	-	-	-	-	-
Liabilities held for sale and liabilities of discontinued operations (net)	-	-	-	-	-
Subordinated debt	1.545.585	-	-	-	1.545.585
Other liabilities	611.189	-	-	-	611.189
Shareholders' Equity	2.933.587	-	-	-	2.933.587
Total Liabilities	32.811.339	-	941.094	941.094	31.815.443

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

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

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

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

Current Period 31 December 2018	Total	Items subject to credit risk framework	Items subject to counterparty credit risk framework	Items subject to market risk framework
Asset carrying value amount under scope of regulatory consolidation	32.811.339	22.585.411	9.416.614	9.447.296
Liabilities carrying value amount under regulatory scope of consolidation	941.094	-	941.094	941.094
Total net amount under regulatory scope of consolidation	33.752.433	22.585.411	10.357.708	10.388.390
Off-balance sheet amounts	-	8.255.298	-	-
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	-	(5.219.133)	(8.899.228)	-
Differences due to risk reduction	-	(190.233)	-	-
Credit valuation adjustment	-	-	280.212	-
Risk Amounts	-	25.431.343	1.738.692	10.388.390

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

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

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

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

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

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

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

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

c. Credit risk explanations:

1. General qualitative information about credit risk:

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

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.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

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

2. Credit Quality of Assets

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

Current Period	Gross carrying values of		Allowances /	Net Values
	(according to TAS)			
31 December 2018	Defaulted Exposures	Non-defaulted Exposures	Amortisation and Impairments	
Loans (*)	881.838	15.495.369	690.699	15.686.508
Debt Securities	-	571.384	29.573	541.811
Off-balance sheet exposure	4.699	11.222.477	4.343	11.222.833
Total	886.537	27.289.230	724.615	27.451.152

(*) Also includes factoring receivables amounting to TL 192.282.

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

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

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

	Current Period 31 December 2018
I. Defaulted loans and debt securities at end of the previous reporting period	864.916
II. Loans and debt securities that have defaulted since the last reporting period	195.865
III. Returned to non-defaulted status	-
IV. Amounts written-off	3.848
V. Other Changes (*)	(170.396)
VI. Defaulted loans and debt securities at end of the reporting period end (I+II-III-IV±V)	886.537

(*) Includes current period collections.

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

(*) Includes current period collections.

4. Additional explanations on credit quality of assets

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

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

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

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

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

	Current Period 31 December 2018
Domestic	15.308.267
European Union Countries	154.734
USA, Canada	893
OECD Countries (*)	936
Off-Shore Banking Regions	1.053
Other	29.486
Total (**)	15.495.369

- (*) OECD countries other than EU Countries, USA and Canada.
(**) Also includes factoring receivables amounting to TL 192.282.

	Prior Period 31 December 2017
Domestic	15.138.669
European Union Countries	169.005
USA, Canada	2.946
OECD Countries (*)	4.067
Off-Shore Banking Regions	1.876
Other	14.470
Total (**)	15.331.033

- (*) OECD countries other than EU Countries, USA and Canada.
(**) Also includes factoring receivables amounting to TL 394.212.

- ii. Breakdown by sector:

	Current Period 31 December 2018
Agriculture	50.927
Farming and Raising Livestock	2.453
Forestry	-
Fishery	48.474
Manufacturing	6.374.836
Mining and Quarrying	31.171
Production	5.821.490
Electricity, Gas and Water	522.175
Construction	1.409.205
Services	4.533.308
Wholesale and Retail Trade	1.515.771
Accommodation and Dining	265.773
Transportation and Telecom.	923.970
Financial Institutions	517.936
Real Estate and Rental Services	1.111.575
Self-Employment Services	96.801
Educational Services	-
Health and Social Services	101.482
Other	3.127.093
Total (*)	15.495.369

- (*) Also includes factoring receivables amounting to TL 192.282.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

	Prior Period 31 December 2017
Agriculture	83.511
Farming and Raising Livestock	57.392
Forestry	52
Fishery	26.067
Manufacturing	5.647.484
Mining and Quarrying	15.056
Production	5.196.193
Electricity, Gas and Water	436.235
Construction	991.051
Services	4.452.820
Wholesale and Retail Trade	1.465.233
Accommodation and Dining	302.442
Transportation and Telecom.	691.327
Financial Institutions	1.048.574
Real Estate and Rental Services	5.532
Self-Employment Services	775.380
Educational Services	199
Health and Social Services	164.133
Other	4.156.167
Total (*)	15.331.033

(*) Also includes factoring receivables amounting to TL 394.212.

5. Remaining maturity distribution of receivables:

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

6. Provisions booked for receivables based on sector:

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

7. Provisions booked for receivables based on geographical area:

Non-performing loans and provision amounts are mainly domestic. Specific provisions amounting to TL 878.966 are booked for domestic non-performing loan risk amount of TL 689.126.

a) Ageing analysis of accounting past-due exposures:

	31 December 2018
30-60 days past-due exposures (*)	2.334.210
60-90 days past-due exposures	42.268
Total	2.376.478

(*) 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 2.245.612

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

(*) 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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

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

	31 December 2018
Loans Structured from Standard Loans and Other Receivables	1.409.117
Loans Composed of Follow-on Loans and Other Receivables	1.250.562
Loans Restructured from Non-Performing Loans	6.800
	31 December 2017
Loans Structured from Standard Loans and Other Receivables	224.204
Loans Composed of Follow-on Loans and Other Receivables	298.955
Loans Restructured from Non-Performing Loans	34.565

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:

	Exposures unsecured: carrying amount	Exposures secured by collaterals	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
Current Period							
31 December 2018							
Loans	14.106.568	1.579.940	1.455.267	1.160	928	-	-
Debt Securities	541.811	-	-	-	-	-	-
Total	14.648.379	1.579.940	1.455.267	1.160	928	-	-
Defaulted	670.177	211.661	86.987	4.783	3.827	-	-
Prior Period							
31 December 2017							
Loans	14.566.714	1.040.103	679.364	4	122.729	-	-
Debt Securities	1.607.499	-	-	-	-	-	-
Total	16.174.213	1.040.103	679.364	4	122.729	-	-
Defaulted	860.631	3.800	-	485	485	-	-

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

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 2018 is as follows:

Definitions	Rating
Baseline Credit Assessment	caa1
Outlook	Negative
Long-term foreign currency deposit rating	b2
Long-term TL deposit rating	b2
Short-term foreign currency deposit rating	NP
Short-term TL deposit rating	NP
Long-term national scale TL deposit	Baa2.tr

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

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

Current Period 31 December 2018	Exposures before CCF and CRM		Exposures post- CCF and CRM		Risk Weighted Amount and Risk Weighted Amount density	
	On-balance sheet amount	Off- balance sheet amount	On-balance sheet amount	Off- balance sheet amount	Risk Weighted Amount	Risk Weighted Amount density
Asset classes						
Exposures to central governments or central banks	6.052.577	187.645	6.052.577	93.838	496.641	4%
Exposures to regional governments or local authorities	-	-	-	-	-	-
Exposures to public sector entities	217	101	217	34	80	32%
Exposures to multilateral development banks	-	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-	-
Exposures to institutions	650.082	1.331.767	650.087	1.208.591	722.667	39%
Exposures to corporates	10.429.612	4.349.332	10.403.686	3.121.307	13.524.993	100%
Retail exposures	3.312.284	3.919.889	3.160.157	201.956	2.535.158	75%
Exposures secured by residential property	293.727	-	293.608	-	102.763	35%
Exposures secured by commercial real estate	936.751	63.700	936.751	36.296	588.133	60%
Past-due loans	191.554	1.557	191.554	344	168.095	88%
Higher-risk categories by the Agency Board	-	-	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-	-	-
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings	-	-	-	-	-	-
Other assets	803.100	29.618	803.260	15.940	187.525	23%
Investment in equities	-	-	-	-	-	-
Total	22.669.904	9.883.609	22.491.897	4.678.306	18.326.055	67%

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

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

Current Period
31 December 2018

Asset Classes / Risk Weights	0%	10%	20%	35%	50% secured by real estate (*)	75%	100%	150%	200%	Other risk weights	Total credit risk exposure amount (After CCF and CRM)
Exposures to central governments or central banks	5.649.774	-	-	-	-	-	496.641	-	-	-	6.146.415
Exposures to regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-
Exposures to public sector entities	-	-	214	-	-	-	37	-	-	-	251
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-	-	-	-	-	-	-
Exposures to banks and financial intermediaries	-	-	1.057.884	-	579.407	-	221.387	-	-	-	1.858.678
Exposures to corporates	-	-	-	-	-	-	13.524.993	-	-	-	13.524.993
Retail exposures	-	-	-	-	-	3.307.819	54.294	-	-	-	3.362.113
Exposures secured by residential property	-	-	-	293.608	-	-	-	-	-	-	293.608
Exposures secured by commercial real estate	-	-	-	-	769.826	-	203.221	-	-	-	973.047
Past-due loans	-	-	-	-	50.158	-	139.188	2.552	-	-	191.898
Higher Risk categories by the Agency Board	-	-	-	-	-	-	-	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-	-	-	-	-	-	-	-
Exposures to institutions and corporates with a short term credit assessments	-	-	-	-	-	-	-	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings (CIUs)	-	-	-	-	-	-	-	-	-	-	-
Investments in equities	-	-	-	-	-	-	-	-	-	-	-
Other assets	631.675	-	-	-	-	-	187.525	-	-	-	819.200
Total	6.281.449	-	1.058.098	293.608	1.399.391	3.307.819	14.827.286	2.552	-	-	27.170.203

(*) 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.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

Prior Period
31 December 2017

Asset Classes / Risk Weights	0%	10%	20%	35%	50% secured by real estate (*)	75%	100%	150%	200%	Other risk weights	Total credit risk exposure amount (After CCF and CRM)
Exposures to central governments or central banks	5.160.604	-	-	-	-	-	-	-	-	85.989	5.246.593
Exposures to regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-
Exposures to public sector entities	-	-	-	-	-	-	67	-	-	-	67
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-	-	-
Exposures to international organizations	-	-	-	-	-	-	-	-	-	-	-
Exposures to banks and financial intermediaries	-	-	1.644.628	-	760.241	-	177.345	45	-	-	2.582.259
Exposures to corporates	-	-	-	-	-	-	11.918.213	768	-	-	11.918.981
Retail exposures	-	-	-	-	-	3.938.866	71.425	2.314	-	-	4.012.605
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 (CIUs)	-	-	-	-	-	-	-	-	-	-	-
Investments in equities	-	-	-	-	-	-	-	-	-	-	-
Other assets	275.866	-	-	-	-	-	169.317	-	-	-	445.183
Total	5.436.470	-	1.644.628	378.424	1.125.738	3.938.866	12.503.896	77.482	-	85.989	25.191.493

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

e. Explanations on counterparty credit risk

1. Qualitative disclosure on counterparty credit risk

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

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

Current Period 31 December 2018	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory exposure at default	Exposure at default post CRM	Risk Weighted Amount
Standardised Approach - CCR (For Derivatives)	600.798	745.322		1,4	1.346.120	918.386
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)					112.360	22.472
Value at Risk for repo transactions, marketable securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions					-	-
Total						940.858
Prior Period 31 December 2017	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory exposure at default	Exposure at default post CRM	Risk Weighted Amount
Standardised Approach - CCR (For Derivatives)	688.188	631.836		1,4	1.320.025	728.962
Internal Model Method (for derivatives, repo transactions, marketable securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					-	-
Simple Approach for Credit Mitigation (for repo transactions, marketable securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					-	-
Comprehensive Approach for Credit Risk Mitigation (for repo transactions, marketable securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					89.773	27.140
Value at Risk for repo transactions, marketable securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions					-	-
Total						756.102

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

3. Credit valuation adjustment (CVA) capital charge:

Current Period 31 December 2018	Exposure at default post CRM	Risk Weighted Amount
Total portfolios subject to the Advanced CVA capital charge	-	-
(i) Value at Risk component (Including the 3* multiplier)	-	-
(ii) Stressed Value at Risk component (Including the 3* multiplier)	-	-
All portfolios subject to the Standardised CVA capital charge	1.458.480	280.212
Total subject to the CVA capital charge	1.458.480	280.212
Prior Period 31 December 2017	Exposure at default post CRM	Risk Weighted Amount
Total portfolios subject to the Advanced CVA capital charge	-	-
(i) Value at Risk component (Including the 3* multiplier)	-	-
(ii) Stressed Value at Risk component (Including the 3* multiplier)	-	-
All portfolios subject to the Standardised CVA capital charge	1.320.025	228.890
Total subject to the CVA capital charge	1.320.025	228.890

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

Current Period 31 December 2018									Total Credit Exposures(*)
Regulatory Portfolio / Risk weights	0%	10%	20%	50%	75%	100%	150%	Other	
Exposures to central governments or central banks	-	-	-	-	-	-	-	-	-
Exposures to regional governments or local authorities	-	-	-	-	-	-	-	-	-
Exposures to public sector entities	-	-	214	-	-	-	-	-	214
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-
Exposures to International organizations	-	-	-	-	-	-	-	-	-
Exposures to banks and financial intermediaries	-	-	645.988	1.320	-	-	-	-	647.308
Exposures to corporates	-	-	-	-	-	764.107	-	-	764.107
Retail exposures	-	-	-	-	-	46.851	-	-	46.851
Exposures secured by residential property	-	-	-	-	-	-	-	-	-
Exposures secured by commercial real estate	-	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	-	-	-
Higher Risk categories by the Agency Board	-	-	-	-	-	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-	-	-	-	-	-
Exposures to institutions and corporates with a short term credit assessments	-	-	-	-	-	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings	-	-	-	-	-	-	-	-	-
Investments in equities	-	-	-	-	-	-	-	-	-
Other exposures	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-
Total	-	-	646.202	1.320	-	810.958	-	-	1.458.480

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

Prior Period 31 December 2017

Regulatory Portfolio / Risk weights	0%	10%	20%	50%	75%	100%	150%	Other	Total Credit Exposures(*)
Exposures to central governments or central banks	-	-	-	-	-	-	-	-	-
Exposures to regional governments or local authorities	-	-	-	-	-	-	-	-	-
Exposures to public sector entities	-	-	-	-	-	-	-	-	-
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-
Exposures to International organizations	-	-	-	-	-	-	-	-	-
Exposures to banks and financial intermediaries	-	-	678.04	1	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	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-
collective investment undertakings	-	-	-	-	-	-	-	-	-
Investments in equities	-	-	-	-	-	-	-	-	-
Other exposures	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-
Total	-	-	678.04	1	5.653	-	617.667	-	1.301.361

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

5. Composition of collateral for CCR exposure:

Current Period	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		
31 December 2018						
Cash – domestic currency	-	-	-	-	-	-
Cash – other currencies	-	-	-	-	-	-
Domestic sovereign debt	-	-	-	-	380.728	-
Other sovereign debt	-	-	-	-	8.353.618	-
Government agency bonds	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collaterals	-	-	-	-	-	-
Total	-	-	-	-	8.734.346	-

Prior Period	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		
31 December 2017						
Cash – domestic currency	-	-	-	-	-	210.220
Cash – other currencies	-	-	-	-	-	1.584.745
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	1.772.738	-
Government agency bonds	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collaterals	-	-	-	-	-	-
Total	-	-	-	-	1.772.738	1.794.965

6. Credit derivatives exposures

None.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

7. Exposures to central counterparties

None.

f. Securitization Disclosures

None.

g. Explanations on market risk:

1. Qualitative disclosures on market risk:

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

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

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

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

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

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

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

XI. EXPLANATIONS ON RISK MANAGEMENT (Continued)

2. Standardised Approach

	Current Period 31 December 2018 Risk Weighted Amount
Outright Products	
Interest Rate Risk (general and specific)	629.685
Equity Risk (general and specific)	16.082
Foreign Exchange Risk	346.433
Commodity Risk	-
Options	
Simplified Approach	-
Delta-plus Method	3.525
Scenario Approach	-
Securitisation	-
Total	995.725

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

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 for 31 December 2018 with the usage of the gross income of the Bank in 2015, 2016 and 2017.

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	31.12.2015	31.12.2016	31.12.2017	Total/Number of Positive Gross Income Years	Rate (%)	Total
Gross Income	1.687.489	1.460.525	1.271.890	1.473.301	15	220.995
Operational Risk Capital Requirement (Total*12,5)						2.762.440

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

XII. EXPLANATIONS ON OPERATING SEGMENTS

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

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

	Retail Banking	Corporate and Investment Banking	Treasury and Capital Markets	Other	Bank’s Total Activities
Current Period – 31 December 2018					
Operating Income (***)	494.948	500.072	270.320	-	1.265.340
Other	-	-	-	-	-
Operating Income	494.948	500.072	270.320	-	1.265.340
Segment Net Profit	-	-	-	-	-
Undistributed Cost	-	-	-	-	-
Operating Profit/(Loss)	(73.059)	307.699	203.763	(1.119)	437.284
Profit before Tax	(73.059)	307.699	203.763	(1.119)	437.284
Corporate Tax Provision (*)	-	-	-	(101.700)	(101.700)
Profit after Tax	(73.059)	307.699	203.763	(102.819)	335.584
Non-Controlling Interest	-	-	-	-	-
Net Profit for the Period	(73.059)	307.699	203.763	(102.819)	335.584
Segment Assets	4.031.440	8.152.060	20.592.866	-	32.776.366
Associates and Subsidiaries	-	-	34.753	220	34.973
Undistributed Assets	-	-	-	-	-
Total Assets	4.031.440	8.152.060	20.627.619	220	32.811.339
Segment Liabilities	16.784.522	7.791.363	3.706.737	4.528.717	32.811.339
Undistributed Liabilities	-	-	-	-	-
Total Liabilities	16.784.522	7.791.363	3.706.737	4.528.717	32.811.339
Other Segment Items	99.064	(8.610)	(8.114)	-	82.340
Capital Investment	-	-	-	-	-
Amortization	(28.044)	(8.610)	(7.344)	-	(43.998)
Impairment	-	-	(770)	-	(770)
Non-Cash Other Income-Expense (**)	127.108	-	-	-	127.108

(*) Corporate tax provision is not distributed.

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

(***) Personnel Expenses are shown under operating income in compliance with the financial statement format.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

XII. EXPLANATIONS ON OPERATING SEGMENTS (Continued)

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

(*) Corporate tax provision is not distributed.

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

(***) Items of income and expense are the amounts for the period ended 31 December 2018.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

SECTION FIVE

**EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED
FINANCIAL STATEMENTS**

I. EXPLANATIONS AND NOTES RELATED TO ASSETS

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

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

	Current Period 31 December 2018	
	TL	FC
Cash/Foreign Currency	84.321	547.868
The CBRT	2.256.577	3.159.099
Other (*)	-	17.590
Total	2.340.898	3.724.557

(*) As of 31 December 2018, account of Precious Metal is amounting to TL 17.590. As of 31 December 2018 the bank has no Money in Transit.

	Prior Period 31 December 2017	
	TL	FC
Cash/Foreign Currency	71.256	172.506
The CBRT	1.899.730	1.747.251
Other (*)	-	12.712
Total	1.970.986	1.932.469

(*) As of 31 December 2017, account of Precious Metal is amounting to TL 12.712. As of 31 December 2017, there is no Money in Transit.

2. Information related to balances with the CBRT:

	Current Period 31 December 2018	
	TL	FC
Unrestricted Demand Deposit	534.189	1.347.271
Unrestricted Time Deposit (*)	1.722.388	502.714
Restricted Time Account	-	-
Reserve Requirements	-	1.309.114
Total	2.256.577	3.159.099

(*) “Transactions Related to Foreign Currency Deposits in Turkish Lira Deposits” published by Central Bank of the Republic of Turkey as of 17 January 2017 are recorded in the balance sheet under cash assets and deposit accounts.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

	Prior Period 31 December 2017	
	TL	FC
Unrestricted Demand Deposit	463.564	462.805
Unrestricted Time Deposit (*)	1.436.166	3.801
Restricted Time Account	-	-
Reserve Requirements	-	1.280.645
Total	1.899.730	1.747.251

(*) “Transactions Related to Foreign Currency Deposits in Turkish Lira Deposits” published by Central Bank of the Republic of Turkey as of 17 January 2017 are recorded in the balance sheet under cash assets and deposit accounts.

3. Explanation on reserve deposits:

The banks operating in Turkey are subject to the Central Bank of the Republic of Turkey’s Communiqué numbered 2013/15 and are required to keep a deposit at the CBRT for their Turkish Lira, U.S. Dollar and/or Euro and standard gold.

As of 31 December 2018, the reserve deposit rates vary according to their maturity structure; the reserve deposit rates are realized between 1,50% - 8% (31 December 2017: 4% - 10,50%), for TL deposits and other liabilities and between 4% - 20% for FC deposits (31 December 2017: 4% - 24%).

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

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

	Current Period 31 December 2018
Collateral/Blocked	-
Repurchase Agreement	-
Unrestricted	11.801
Total	11.801

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

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

	Current Period 31 December 2018	
	TL	FC
Forward Transactions	-	490.631
Swap Transactions	30.183	234.520
Futures Transactions	-	-
Options	-	245.793
Other	-	-
Total	30.183	970.944

	Prior Period 31 December 2017	
	TL	FC
Forward Transactions	82.389	44.821
Swap Transactions	99.204	238.280
Futures Transactions	-	-
Options	-	223.505
Other	-	-
Total	181.593	506.606

c. Information on banks:

1. Information on banks and other financial institutions:

	Current Period 31 December 2018	
	TL	FC
Banks		
Domestic	-	-
Foreign	-	21.885
Foreign Head Office and Branches	-	-
Total	-	21.885

	Prior Period 31 December 2017	
	TL	FC
Banks		
Domestic	-	-
Foreign	821	343.112
Foreign Head Office and Branches	-	-
Total	821	343.112

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

2. Information on foreign bank accounts:

	Unrestricted Amount	Restricted Amount
	Current Period	Current Period
	31 December 2018	31 December 2018
European Union Countries	18.410	-
USA, Canada	286	-
OECD Countries (*)	1.471	-
Off-Shore Banking Regions	432	-
Other	1.286	-
Total	21.885	-

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

	Unrestricted Amount	Restricted Amount
	Prior Period	Prior Period
	31 December 2017	31 December 2017
European Union Countries	8.873	-
USA, Canada	333.908	-
OECD Countries (*)	715	-
Off-Shore Banking Regions	133	-
Other	304	-
Total	343.933	-

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

d. Information on financial assets fair value through other comprehensive income given as collateral/blocked and subject to repurchase agreements

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

	Current Period
	31 December 2018
Collateral/Blocked Repurchase Agreement	502.515
Unrestricted	8.614
Total	511.129
	Prior Period
	31 December 2017
Collateral/Blocked Repurchase Agreement	311.891
Unrestricted	1.050.273
Total	1.362.164

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

2. (i) Information on financial assets at fair value through other comprehensive income:

	Current Period 31 December 2018
Debt Securities	540.700
Quoted to Stock Exchange	540.700
Not Quoted	-
Share Certificate	-
Quoted to Stock Exchange	-
Not Quoted	-
Impairment Provision (-)	29.571
Total	511.129

(ii) Information on available-for-sale financial assets

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

e. Information related to loans:

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

	Current Period 31 December 2018	
	Cash	Non-cash
Direct Loans Granted to Shareholders	-	141.077
Corporate Shareholders	-	141.077
Real Person Shareholders	-	-
Indirect Loans Granted to Shareholders	15.268	492.414
Loans Granted to Employees	11.960	-
Total	27.228	633.491

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

	Prior Period 31 December 2017	
	Cash	Non-cash
Direct Loans Granted to Shareholders	-	117.901
Corporate Shareholders	-	117.901
Real Person Shareholders	-	-
Indirect Loans Granted to Shareholders	5.338	442.650
Loans Granted to Employees	12.900	-
Total	18.238	560.551

2. Information on the standard loans and loans under close monitoring including loans that have been restructured or rescheduled:

Cash Loans	Loans under Close Monitoring			
	Standard Loans	Loans not Subject to Restructuring	Restructured Loans	
			Loans with Revised Contract Terms	Refinance
Non-Specialized Loans	13.118.891	1.125.916	1.250.562	-
Commercial Loans	8.410.377	928.406	1.101.412	-
Export Loans	694.015	51.667	81.250	-
Import Loans	111.397	-	4.637	-
Loans Given to Financial Sector	284.571	-	-	-
Consumer Loans	1.399.382	75.168	9.501	-
Credit Cards	2.078.038	70.675	53.762	-
Other	141.111	-	-	-
Specialized Loans	-	-	-	-
Other Receivables	-	-	-	-
Total	13.118.891	1.125.916	1.250.562	-

(*) Includes the factoring receivables amounting to TL 192.282.

	Standard Loans	Loans under Close Monitoring
General Provisions	189.721	68.462
Total	189.721	68.462

	Standard Loans	Loans under Close Monitoring
Number of Extensions		
Extended by 1 or 2 times	1.409.117	1.250.562
Extended by 3, 4 or 5 times	-	-
Extended by more than 5 times	-	-
Total	1.409.117	1.250.562

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

Extended period of time	Standard Loans	Loans under Close Monitoring
0 – 6 Months	834.880	538
6 – 12 Months	47.313	13.795
1 – 2 Years	160.500	175.246
2 – 5 Years	366.424	796.628
5 years or more	-	264.355
Total	1.409.117	1.250.562

3. Breakdown of loans according to their maturities:

	Standard Loans and Other Receivables		Loans and Other Receivables under Close Monitoring	
	Loans and Other Receivables	Restructured or Rescheduled	Loans and Other Receivables	Restructured or Rescheduled
Short-Term Loans and Other Receivables	7.898.820	273.632	221.232	39.106
Non-Specialized Loans (*)	7.898.820	273.632	221.232	39.106
Specialized Loans	-	-	-	-
Other Receivables	-	-	-	-
Medium and Long-Term Loans and Other Receivables	3.810.954	1.135.485	904.684	1.211.456
Non-Specialized Loans	3.810.954	1.135.485	904.684	1.211.456
Specialized Loans	-	-	-	-
Other Receivables	-	-	-	-

(*) Includes the factoring receivables amounting to TL 192.282.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

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

	Short-term	Medium and Long-term	Total
Consumer Loans-TL	50.139	1.229.323	1.279.462
Mortgage Loans	93	542.458	542.551
Automotive Loans	91	6.035	6.126
Consumer Loans	49.955	678.247	728.202
Other	-	2.583	2.583
Consumer Loans- Indexed to FC	-	982	982
Mortgage Loans	-	982	982
Automotive Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Consumer Loans-FC	-	-	-
Mortgage Loans	-	-	-
Automotive Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Individual Credit Cards-TL	2.132.109	55.376	2.187.485
Instalment	789.789	55.376	845.165
Non Instalment	1.342.320	-	1.342.320
Individual Credit Cards-FC	5.846	-	5.846
Instalment	303	-	303
Non Instalment	5.543	-	5.543
Personnel Loans-TL	523	6.236	6.759
Mortgage Loans	-	-	-
Automotive Loans	-	-	-
Consumer Loans	523	6.236	6.759
Other	-	-	-
Personnel Loans- Indexed to FC	-	-	-
Mortgage Loans	-	-	-
Automotive Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Personnel Loans-FC	-	-	-
Mortgage Loans	-	-	-
Automotive Loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Personnel Credit Cards-TL	5.150	2	5.152
Instalment	2.454	2	2.456
Non Instalment	2.696	-	2.696
Personnel Credit Cards-FC	49	-	49
Instalment	-	-	-
Non Instalment	49	-	49
Overdraft Account-TL (Individual)	196.848	-	196.848
Overdraft Account-FC (Individual)	-	-	-
Total Consumer Loans	2.390.664	1.291.919	3.682.583

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

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

	Short-term	Medium and Long-term	Total
Commercial Instalment Loans-TL	-	86.266	86.266
Mortgage Loans	-	74.623	74.623
Automotive Loans	-	-	-
Consumer Loans	-	11.643	11.643
Other	-	-	-
Commercial Instalment Loans- Indexed to FC	-	46.552	46.552
Mortgage Loans	-	-	-
Automotive Loans	-	144	144
Consumer Loans	-	46.408	46.408
Other	-	-	-
Commercial Instalment Loans-FC	-	-	-
Mortgage Loans	-	-	-
Automotive loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Corporate Credit Cards-TL	3.218	-	3.218
Instalment	569	-	569
Non Instalment	2.649	-	2.649
Corporate Credit Cards-FC	725	-	725
Instalment	-	-	-
Non Instalment	725	-	725
Overdraft Account-TL (Commercial)	78	-	78
Overdraft Account-FC (Commercial)	-	-	-
Total	4.021	132.818	136.839

6. Loans according to types of borrowers:

	Current Period 31 December 2018
Public	-
Private (*)	15.495.369
Total	15.495.369

(*) Includes the factoring receivables amounting to TL 192.282

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

(*) Includes the factoring receivables amounting to TL 394.213

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

7. Domestic and foreign loans:

	Current Period 31 December 2018
Domestic Loans	15.308.267
Foreign Loans	187.102
Total (*)	15.495.369

(*) Includes the factoring receivables amounting to TL 192.282

	Prior Period 31 December 2017
Domestic Loans	15.138.669
Foreign Loans	192.364
Total (*)	15.331.033

(*) Includes the factoring receivables amounting to TL 394.213

8. Loans granted to investments in associates and subsidiaries:

As of 31 December 2018 and 31 December 2017, the Bank has no loans granted to investments in associates and subsidiaries.

9. Specific provisions provided against loans:

	Current Period 31 December 2018
Loans with Limited Collectability	8.840
Loans with Doubtful Collectability	31.109
Uncollectible Loans	650.750
Total	690.699

	Prior Period 31 December 2017
Loans and Other Receivables with Limited Collectability	12.128
Loans and Other Receivables with Doubtful Collectability	48.901
Uncollectible Loans and Other Receivables	526.338
Total	587.367

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

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

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

	III. Group	IV. Group	V. Group
	Loans with	Loans with	Uncollectible
	Limited	Doubtful	Loans
	Collectability	Collectability	
Current Period: 31 December 2018			
Gross Amounts Before Provisions	-	1.685	5.115
Rescheduled Loans	-	1.685	5.115

Prior Period: 31 December 2017

Gross Amounts Before Provisions	626	600	33.339
Rescheduled Loans	626	600	33.339

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

	III. Group	IV. Group	V. Group
	Loans with	Loans with	Uncollectible
	Limited	Doubtful	Loans
	Collectability	Collectability	
Balance at the end of Prior Period: 31 December 2017	45.719	95.884	721.548
Additions (+)	180.523	14.465	877
Transfers from Other Categories of Non-Performing Loans (+)	-	151.547	161.140
Transfers to Other Categories of Non-Performing Loans (-)	151.547	161.140	-
Collections (-)	28.999	32.074	112.257
Write-offs (-)	-	-	3.848
Sold Portfolio (-)	-	-	-
Corporate and Commercial Loans	-	-	-
Retail Loans	-	-	-
Credit Cards	-	-	-
Other	-	-	-
Balance at the End of the Period: 31 December 2018	45.696	68.682	767.460
Specific Provisions (-)	8.840	31.109	650.750
Net Balance in Balance Sheet	36.856	37.573	116.710

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

As of 31 December 2018, there are no non-performing loans granted as foreign currency loans (31 December 2017: None).

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

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

	III. Group Loans with Limited Collectability	IV. Group Loans with Doubtful Collectability	V. Group Uncollectible Loans
Current Period (Net): 31 December 2018	36.856	37.573	116.710
Loans granted to corporate entities and real persons (Gross)	45.696	68.682	767.460
Provisions Amount (-)	8.840	31.109	650.750
Loans granted to corporate entities and real persons (Net)	36.856	37.573	116.710
Banks (Gross)	-	-	-
Provisions Amount (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Advances (Gross)	-	-	-
Provisions Amount (-)	-	-	-
Other Loans and Advances (Net)	-	-	-
Prior Period (Net): 31 December 2017	33.591	46.983	195.210
Loans granted to corporate entities and real persons (Gross)	45.719	95.884	721.548
Provisions Amount (-)	12.128	48.901	526.338
Loans granted to corporate entities and real persons (Net)	33.591	46.983	195.210
Banks (Gross)	-	-	-
Provisions Amount (-)	-	-	-
Banks (Net)	-	-	-
Other Loans and Advances (Gross)	-	-	-
Provisions Amount (-)	-	-	-
Other Loans and Advances (Net)	-	-	-

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

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

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

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

f. Explanations on financial assets measured at amortised cost:

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

(i) Financial assets measured at amortised cost:

As of 31 December 2018, the Bank has no financial assets measured at amortised cost given as collateral/blocked and subject to repurchase agreements.

(ii) Investments held-to-maturity:

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

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

(i) Financial assets measured at amortised cost:

As of 31 December 2018, the Bank has no government debt securities measured at amortised.

(ii) Investment securities held-to-maturity:

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

3. (i) Information on financial assets measured at amortised cost:

As of 31 December 2018, the Bank has no financial assets measured at amortised cost.

(ii) Information on investment securities held-to-maturity:

As of 31 December 2017, the Bank has no financial assets at fair value through amortised cost.

4. (i) The movement of financial assets measured at amortised cost :

As of 31 December 2018, the Bank has no movements of financial assets measured at amortised cost within the period.

(ii) The movement of investment securities held-to-maturity:

As of 31 December 2017, the Bank has no movements of investment securities held-to-maturity within the year.

g. Information on associates (Net):

The Bank has no associates as of 31 December 2018 and 31 December 2017.

h. Information on subsidiaries (Net):

1. Information on capital adequacy of major subsidiaries:

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

HSBC Yatırım ve Menkul Değerler A.Ş. (*)	
Core Capital	88.029
Paid-in Capital	7.000
Share Premium	-
Reserves	36.606
Current Period's Profit and Prior Periods' Profit	44.423
Current Period's Losses and Prior Periods' Losses	-
Leasehold Improvements on Operational Leases (-)	-
Intangible Assets (-)	43
Supplementary Capital	-
Deductions from Capital	-
Net Available Equity	87.986

(*) Prepared with the non-audited financial statements as of 31 December 2018.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

2. Information on unconsolidated subsidiaries:

a) Unconsolidated subsidiaries:

Title	Address (City/Country)	Bank's share percentage If different voting percentage (%)	Bank's risk group share percentage (%)
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 (*):

Total Assets	Shareholders' Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities Portfolio	Current Period Profit/Loss	Prior Period Profit/Loss	Fair Value
7.493	6.935	10	-	-	4.502	1.843	-

(*). Prepared with the non-audited financial statements as of 31 December 2018.

3. Information on the consolidated subsidiaries:

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

a) Consolidated subsidiaries:

Title	Address (City/Country)	Bank's share percentage - If different voting percentage (%)	Bank's risk group share percentage (%)
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 the subsidiaries, in the order of the above table (*):

Total Assets	Shareholders' Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities Portfolio	Current Period Profit/Loss	Prior Period Profit/Loss (**)	Fair Value
121.040	78.485	71	7.499	1.475	22.191	14.926	-

(*). Prepared with the non-audited financial statements as of 31 December 2018.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

4. Movement schedule of the consolidated subsidiaries:

	Current Period 31 December 2018
Balance at the Beginning of the Period	34.753
Movements During the Period	-
Purchases	-
Bonus Shares and Contributions to Capital	-
Dividends From Current Year Profit	-
Sales/Liquidation	-
Revaluation Increase	-
Increase/(Decrease) of Valuation	-
Balance at the End of the Period	34.753
Capital Commitments	-
Share Percentage at the End of the Period (%)	99,87

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

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

	Current Period 31 December 2018
Banks	-
Insurance Companies	-
Factoring Companies	-
Leasing Companies	-
Finance Companies	-
Other Financial Subsidiaries	34.753

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

6. Subsidiaries quoted on a stock exchange:

The Bank has no subsidiaries quoted on a stock exchange as of 31 December 2018 and 31 December 2017.

i. Information on jointly controlled entities:

- a. The Bank has no jointly controlled entities as of 31 December 2018 and 31 December 2017.
- b. As of 31 December 2018 and 31 December 2017, the accounting method is not determined since the Bank has no jointly controlled entities.

j. Information on financial lease receivables (Net):

As of 31 December 2018 and 31 December 2017, the Bank has no finance leases.

k. Information on hedging derivative financial assets:

The Bank has no hedging of derivative financial assets as of 31 December 2018 and 31 December 2017.

l. Explanations on property and equipment:

Prior Period End:	Land and Buildings	Vehicles	Other Tangible Fixed Assets	Total
Cost	20.021	62	352.591	372.674
Accumulated Depreciation and Impairment (-)	11.812	62	278.129	290.003
Net Book Value	8.209	-	74.462	82.671
Current Period End:				
Net Book Value at the Beginning	8.209	-	74.462	82.671
Additions	46	8.960	39.642	48.648
Disposals (-) (net)	1.089	-	7.010	8.099
Depreciation (-)	304	149	22.356	22.809
Cost at Period End	18.978	9.022	385.223	413.223
Accumulated Depreciation at Period End (-)	12.116	211	300.485	312.812
Closing Net Book Value	6.862	8.811	84.738	100.411

m. Information on intangible assets:

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

	Current Period 31 December 2018
Gross book value	402.747
Accumulated depreciation(-)	251.836
Net Book Value	150.911
	Prior Period 31 December 2017
Gross book value	377.766
Accumulated depreciation(-)	230.008
Net Book Value	147.758

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

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

	Current Period 31 December 2018
Opening balance	147.758
Additions	24.303
Disposals (-) (net)	-
Depreciation (-)	21.150
Closing Net Book Value	150.911
	Prior Period 31 December 2017
Opening balance	127.701
Additions (*)	36.207
Disposals (-) (net)	-
Depreciation (-)	16.150
Closing Net Book Value	147.758

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

n. Information on the investment properties:

As of 31 December 2018 and 31 December 2017, the Bank has no investment properties.

o. Information on deferred tax asset:

	Cumulative 31.12.2018	Deferred Tax Asset/Liability 31.12.2018
Fiscal Loss	55.139	12.131
Unearned Revenues	60.314	13.269
Employee Termination Benefit Provision	54.775	11.341
Restructuring Provision	49.459	10.881
Derivative Expense Rediscount Provision	941.095	203.942
Other	563.512	111.389
Deferred Tax Asset	1.724.294	362.953
Derivative Transactions Fair Value Difference	-	-
Other	(1.040.512)	(225.462)
Deferred Tax Liability	(1.040.512)	(225.462)
Deferred Tax Asset Recognized as Expense		
Net Tax Asset (*)		137.491

(*) Information of deferred tax asset of the Bank as of 31 December 2018 is explained in Note XIX of Section Three.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

	Cumulative	Deferred Tax
	31.12.2017	Asset/Liability
		31.12.2017
Fiscal Loss	293.780	64.632
Unearned Revenues	60.566	13.244
Employee Termination Benefit Provision	55.835	11.545
Restructuring Provision	85.965	18.912
Derivative Expense Rediscount Provision	50.980	11.638
Other	139.246	30.649
Deferred Tax Asset	686.372	150.620
Derivative Transactions Fair Value Difference	-	-
Other	(20.107)	(4.355)
Deferred Tax Liability	(20.107)	(4.355)
Deferred Tax Asset Recognized as Expense		-
Net Tax Asset (*)		146.265

(*) Information of deferred tax asset of the Bank as of 31 December 2018 is explained in Note XIX of Section Three.

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

As of 31 December 2018, assets held for sale of the Bank is TL 1.369 (31 December 2017: TL 1.690).

	Current Period
	31 December 2018
Prior Period End:	
Cost	1.852
Accumulated Depreciation (-)	162
Net Book Value	1.690
Current Period End:	
Net Book Value at the Beginning	1.690
Additions	294
Disposals (-) (Net)	611
Depreciation (-)	4
Cost at Period End	1.535
Accumulated Depreciation at Period End (-)	166
Closing Net Book Value	1.369
	Prior Period
	31 December 2017
Prior Period End:	
Cost	2.896
Accumulated Depreciation (-)	154
Net Book Value	2.742
Current Period End:	
Net Book Value at the Beginning	2.742
Additions	1.647
Disposals (-) (Net)	2.691
Depreciation (-)	8
Cost at Period End	1.852
Accumulated Depreciation at Period End (-)	162
Closing Net Book Value	1.690

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

I. EXPLANATIONS AND NOTES RELATED TO ASSETS (Continued)

r. Information on other assets:

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

	Current Period 31 December 2018
Miscellaneous Receivables (*)	498.100
Prepaid Expenses	39.932
Debited Suspence Accounts	77.122
Other Rediscount Income	28.654
Other Assets	-
Total	643.808

(*) Includes the BIST and derivative securities.

	Prior Period 31 December 2017
Miscellaneous Receivables (*)	138.520
Prepaid Expenses	45.131
Debited Suspence Accounts	35.711
Other Rediscount Income	19.614
Other Assets	283
Total	239.259

(*) Includes the BIST and derivative securities.

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

As of 31 December 2018 and 31 December 2017, the Bank has no receivables from forward sale of the assets classified in the miscellaneous receivables

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES

a. Information on deposits

1. Information on maturity structure of the deposits:

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

1 (i). Current Period – 31 December 2018:

	Demand	With 7 Days Maturity	Up to 1 Month	1 - 3 Months	3 - 6 Months	6 Months- 1 Year	1 Year and Over	Cumulative Deposit	Total
Saving Deposits	287.253	-	788.211	2.627.955	1.228.322	214.741	129.880	-	5.276.362
Foreign Currency Deposits	2.367.443	-	3.960.736	7.929.278	689.730	264.653	91.188	-	15.303.028
Residents in Turkey	2.042.331	-	3.838.899	7.402.054	588.283	224.949	40.674	-	14.137.190
Residents Abroad	325.112	-	121.837	527.224	101.447	39.704	50.514	-	1.165.838
Public Sector Deposits	2.416	-	-	-	-	-	-	-	2.416
Commercial Deposits	512.428	-	1.383.389	69.652	26.709	24	81.790	-	2.073.992
Other Institutions Deposits	4.237	-	189	2	-	-	-	-	4.428
Precious Metal Deposit	235.468	-	1.424	106.370	1.702	4.238	-	-	349.202
Bank Deposits	132.885	-	1.744.608	-	-	-	-	-	1.877.493
The CBRT	-	-	1.698.541	-	-	-	-	-	1.698.541
Domestic Banks	-	-	-	-	-	-	-	-	-
Foreign Banks	132.885	-	46.067	-	-	-	-	-	178.952
Participation Banks	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total	3.542.130	-	7.878.557	10.733.257	1.946.463	483.656	302.858	-	24.886.921

1 (ii). Prior Period - 31 December 2017:

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

I. EXPLANATIONS AND NOTES RELATED TO 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 Deposit Insurance Fund	Exceeding Deposit Insurance Limit
	Current Period 31 December 2018	Current Period 31 December 2018
Saving Deposits	2.093.383	3.182.979
Foreign Currency Saving Deposits	1.983.620	9.517.816
Other Deposits in the Form of Saving Deposits	7.119	59.056
Foreign Branches' Deposits under Foreign Authorities' Insurance Coverage	-	-
Off-Shore Banking Regions Deposits under Foreign Authorities Insurance Coverage	-	-
Total	4.084.122	12.759.851

	Covered by Deposit Insurance Fund	Exceeding Deposit Insurance Limit
	Prior Period 31 December 2017	Prior Period 31 December 2017
Saving Deposits	1.930.866	1.528.221
Foreign Currency Saving Deposits	1.740.269	6.364.267
Other Deposits in the Form of Saving Deposits	11.687	56.390
Foreign Branches' Deposits under Foreign Authorities' Insurance Coverage	-	-
Off-Shore Banking Regions Deposits under Foreign Authorities Insurance Coverage	-	-
Total	3.682.822	7.948.878

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

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

	Current Period 31 December 2018
Foreign Branches' Deposits and other accounts	-
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	14.407
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	-

	Prior Period 31 December 2017
Foreign Branches' Deposits and other accounts	-
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	-

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

b. Information on trading derivative financial liabilities:

Table of negative differences for trading derivative financial liabilities:

	Current Period 31 December 2018	
	TL	FC
Forward Transactions	556	161.147
Swap Transactions	25.365	507.812
Future Transactions	-	-
Options	-	246.214
Other	-	-
Total	25.921	915.173

	Prior Period 31 December 2017	
	TL	FC
Forward Transactions	8.477	51.668
Swap Transactions	198.757	256.279
Future Transactions	-	-
Options	-	223.998
Other	-	-
Total	207.234	531.945

c. Information on funds provided under repurchase agreements:

As of 31 December 2018, the Bank does not have any funds provided under repurchase agreements (31 December 2017: None).

d. Information on funds borrowed:

1. Information on banks and other financial institutions:

	Current Period 31 December 2018	
	TL	FC
Borrowings from the CBRT	-	-
Domestic Bank and Institutions	-	-
Foreign Banks and Institutions and Funds	1.200.041	37.960
Total	1.200.041	37.960

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

	Prior Period 31 December 2017	
	TL	FC
Borrowings from the CBRT	-	-
Domestic Bank and Institutions	-	-
Foreign Banks and Institutions and Funds	818.610	1.786.117
Total	818.610	1.786.117

2. Information on the maturity structure of funds borrowed:

	Current Period 31 December 2018	
	TL	FC
Short-Term	-	37.960
Medium and Long-Term	1.200.041	-
Total	1.200.041	37.960

	Prior Period 31 December 2017	
	TL	FC
Short-Term	-	80.013
Medium and Long-Term	818.610	1.706.104
Total	818.610	1.786.117

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

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

e. Information on foreign other liabilities:

Other foreign liabilities of the Bank under “Other Liabilities” do not exceed 10% of the total liabilities.

f. Information on financial leasing agreements:

i. Information on obligations under financial leases:

None (31 December 2017: None).

ii. Explanations on operational lease:

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

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

	Current Period 31 December 2018
Less Than 1 Year	16.339
Between 1- 4 Years	7.169
More Than 4 Years	330
Total	23.838
	Prior Period 31 December 2017
Less Than 1 Year	20.129
Between 1- 4 Years	1.495
More Than 4 Years	749
Total	22.373

g. Information on derivative financial liabilities for hedging purposes:

As of 31 December 2018, the Bank has no derivative financial liabilities for hedging purposes (31 December 2017: None).

h. Information on provisions:

1. Information on general provisions:

	Current Period 31 December 2018
General Provisions	404.760
Provisions for First Group Loans and Receivables	189.721
Provisions for Second Group Loans and Receivables	68.462
Provisions for Non-Cash Loans	40.759
Other	105.818
	Prior Period 31 December 2017
General Provisions	430.929
Provisions for First Group Loans and Receivables	274.605
Provisions for Second Group Loans and Receivables	38.934
Provisions for Non-Cash Loans	25.985
Other	91.405

2. Information on employee benefit provisions:

As of 31 December 2018, the Bank has employee termination benefit provision amounting to TL 54.775 (31 December 2017: TL 55.835), and unused vacation provision amounting to TL 8.653 (31 December 2017: TL 7.681).

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

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

The computation of the liability is based upon the retirement pay ceiling announced. The applicable ceiling amount is TL 5.434,42 (full TL) (31 December 2017: TL 4.732,49 (full TL)). Employee termination benefit liability is not legally dependent on any kind of funding, and there is no requirement on funding.

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

The assumption is that retirement pay ceiling is expected to increase as per the inflation rate every year. Thus discount rate applied shall represent real rate, net of inflation. Since retirement pay ceiling amount is determined once every six months, employee benefit liability of the Bank is calculated from the ceiling amount valid from 1 July 2018, TL 5.434,42 (full TL) (31 December 2017: TL 4.732,49 (full TL)).

	Current Period 31 December 2018
As of January 1	55.835
Service Cost	8.507
Interest Cost	5.642
Actuarial Loss / (Gain)	(3.046)
Paid in Current Period	(12.163)
Total	54.775
	Prior Period 31 December 2017
As of January 1	48.491
Service Cost	7.844
Interest Cost	4.908
Actuarial Loss / (Gain)	6.571
Paid in Current Period	(11.979)
Total	55.835

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

As of 31 December 2018, the bank has no provisions related to foreign currency difference on the principles of foreign currency indexed loans (31 December 2017: TL 6.426).

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

As of 31 December 2018, provision for non-cash loans that are non-funded and non-transformed into cash is amounting to TL 4.343 (31 December 2017: TL 305).

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

5. Information on restructuring provisions:

As of 31 December 2018, provision for restructuring is amounting to TL 49.459 (31 December 2017: TL 85.965).

6. Information on other provisions:

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

As of 31 December 2018, the Bank has no free provisions for possible risks (31 December 2017: None).

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

	Current Period 31 December 2018
Provision for Lawsuits	32.112
Provision for Accumulated Credit Card Bonus	4.623
Return Provision of Case File Expenses	1.284
Specific Provision for Non-Cash Loans that are Non-Funded and Non-Transformed into Cash	4.343
Other Provisions (*)	40.151
Total	82.513

(*) Includes other provisions within TAS 37.

	Prior Period 31 December 2017
Provision For Lawsuits	31.315
Provision for Accumulated Credit Card Bonus	4.809
Return Provision of Case File Expenses	2.070
Specific Provision for Non-Cash Loans that are Non-Funded And Non-Transformed into Cash	13.194
Other Provisions (*)	49.275
Total	100.663

(*) Includes other provisions within TAS 37.

i. Explanations on tax liability:

1. Explanations on current tax liability:

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

1 (i). Information on taxes payable:

	Current Period 31 December 2018
Taxation on Marketable Securities	19.282
Banking Insurance Transaction Tax (BITT)	16.657
Value Added Tax Payable	1.061
Capital Gains Tax on Property	348
Foreign Exchange Transaction Tax	-
Corporate Taxes Payable	-
Other (*)	8.777
Total	46.125

(*) As of 31 December 2018, other taxes payable amount consists of payroll tax amounting to TL 7.907, stamp tax amounting to TL 203, other taxes amounting to TL 488, and self-employed income tax amounting to TL 179.

	Prior Period 31 December 2017
Taxation on Marketable Securities	11.569
Banking Insurance Transaction Tax (BITT)	11.187
Value Added Tax Payable	1.432
Capital Gains Tax on Property	470
Foreign Exchange Transaction Tax	-
Corporate Taxes Payable	-
Other (*)	9.173
Total	33.831

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

1 (ii). Information on premium payables:

	Current Period 31 December 2018
Social Security Premiums – Employer	3.581
Social Security Premiums – Employee	4.205
Bank Social Aid Pension Fund Premium – Employer	-
Bank Social Aid Pension Fund Premium – Employee	-
Pension Fund Membership Fees and Provisions – Employer	-
Pension Fund Membership Fees and Provisions – Employee	-
Unemployment Insurance – Employer	597
Unemployment Insurance – Employee	294
Other	-
Total	8.677

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

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

2. Information on deferred tax liability:

Information on the Bank’s deferred tax liability as of 31 December 2018 is explained in Note XIX of Section Three.

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

As of 31 December 2018 and 31 December 2017, the Bank has no liabilities regarding assets held for sale and discontinued operations.

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

As of 31 December 2018, the Bank has obtained a subordinated loan from HSBC Holdings Plc amounting to USD 275 million with 10 years maturity and USD Libor + 4,48% interest rate in accordance with the permit from BRSA No: 20008792 dated 26 January 2015.

	Current Period 31 December 2018	
	TL	FC
Domestic Banks	-	-
Other Domestic Institutions	-	-
Foreign Banks	-	1.545.585
Other Foreign Institutions	-	-
Total	-	1.545.585

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

1. Information on shareholder's equity:

1. Presentation of paid-in capital:

	Current Period 31 December 2018
Common Stock Provision	652.290
Preferred Stock Provision	-

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

Amount of paid-in capital is presented in nominal amount. As of 31 December 2018 capital reserve due to adjustment of the paid-in capital for inflation amounts to TL 272.693 has been classified under the other capital reserve sub-account (31 December 2017: Other capital reserve is amounting to TL 272.693).

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 2017: TL 272.693).

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

Registered share capital system is not applied.

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

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

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

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

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

The Bank has no capital commitments.

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

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

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

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

8. Information on valuation differences of marketable securities:

	Current Period 31 December 2018	
	TL	FC
From Investments in Associates, Subsidiaries, and Joint Ventures	-	-
Valuation Difference	(46.092)	-
Foreign Currency Difference	-	-
Total	(46.092)	-

	Prior Period 31 December 2017	
	TL	FC
From Investments in Associates, Subsidiaries, and Joint Ventures	-	-
Valuation Difference	(22.622)	4.723
Foreign Currency Difference	-	-
Total	(22.622)	4.723

a. Information on revaluation value increase fund:

As of 31 December 2018 and 31 December 2017, the Bank has no revaluation value increase fund.

b. Information on legal reserves:

	Current Period 31 December 2018
First Legal Reserve	184.141
Second Legal Reserve	-
Legal Reserves according to Special Legislation	-
Total	184.141

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

II. EXPLANATIONS AND NOTES RELATED TO LIABILITIES (Continued)

11. Information on extraordinary reserves:

	Current Period 31 December 2018
Reserves Allocated per General Assembly Minutes	1.462.839
Retained Earnings	97.844
Accumulated Loss	-
Foreign Currency Differences	-
Total	1.560.683
	Prior Period 31 December 2017
Reserves Allocated per General Assembly Minutes	1.093.193
Retained Earnings	97.844
Accumulated Loss	-
Foreign Currency Differences	-
Total	1.191.037

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

Based on the approval of the Banking Regulation and Supervision Agency dated 21 June 2017, 10,01% share of HSBC Bank Plc.'s 100% ownership of the 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.

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

a. Explanations on off-balance sheet commitments:

1. Type and amount of irrevocable commitments:

	Current Period 31 December 2018
Asset Purchase and Sale Commitments	3.155.182
Commitments for Credit Card Limits	3.398.789
Commitments for Cheques	21.519
Loan Granting Commitments	408.147
Short Sale Commitments	-
Commitments for Credit Cards and Banking Services Promotions	12.995
Tax and Fund Liabilities from Export Commitments	2.286
Other Irrevocable Commitments	565.650
Total	7.564.568

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

	Prior Period 31 December 2017
Asset Purchase and Sale Commitments	11.388.208
Commitments for Credit Card Limits	3.872.439
Commitments for Cheques	489.830
Loan Granting Commitments	246.829
Short Sale Commitments	-
Commitments for Credit Cards and Banking Services Promotions	14.780
Tax and Fund Liabilities from Export Commitments	1.892
Other Irrevocable Commitments	598.279
Total	16.612.257

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

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

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

	Current Period 31 December 2018
Letters of Guarantee	1.843.737
Letters of Credit	1.256.433
Bank Acceptances	203.137
Other Guarantees	354.958
Total	3.658.265

	Prior Period 31 December 2017
Letters of Guarantee	1.589.939
Letters of Credit	698.997
Bank Acceptances	155.184
Other Guarantees	353.187
Total	2.797.307

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

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

3. Information on the non-cash loans:

3 (i). Total amount of non-cash loans:

	Current Period 31 December 2018
Non-Cash Loans Given for Cash Loan Risks	
Non-Cash Loans	-
With Original Maturity of One Year or Less	-
With Original Maturity of More Than One Year	-
Other Non-Cash Loans	3.658.265
Total	3.658.265
	Prior Period 31 December 2017
Non-Cash Loans Given for Cash Loan Risks	
Non-Cash Loans	-
With Original Maturity of One Year or Less	-
With Original Maturity of More Than One Year	-
Other Non-Cash Loans	2.797.307
Total	2.797.307

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

	Current Period 31 December 2018			
	TL	(%)	FC	(%)
Agricultural	-	-	-	-
Farming and Raising Livestock	-	-	-	-
Forestry	-	-	-	-
Fishing	-	-	-	-
Manufacturing	442.571	43,71	1.159.319	43,82
Mining and Quarrying	16	0,00	-	-
Production	416.187	41,11	1.137.423	42,99
Electric, Gas and Water	26.368	2,60	21.896	0,83
Construction	18.986	1,88	507.559	19,18
Services	548.673	54,19	978.905	37,00
Wholesale and Retail Trade	176.746	17,46	355.097	13,42
Hotel, Food and Beverage				
Services	34.464	3,40	19.547	0,74
Transportation and Telecommunication	20.494	2,02	18.426	0,70
Financial Institutions	201.157	19,87	520.705	19,68
Real Estate and Leasing Services	115.656	11,42	46.222	1,75
Self-employment Services	16	0,00	5.687	0,21
Education Services	90	0,01	-	-
Health and Social Services	50	0,00	13.221	0,50
Other	2.252	0,22	-	-
Total	1.012.482	100,00	2.645.783	100,00

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

	Prior Period 31 December 2017			
	TL	(%)	FC	(%)
Agricultural	105	0,01	-	-
Farming and Raising Livestock	105	0,01	-	-
Forestry	-	-	-	-
Fishing	-	-	-	-
Manufacturing	567.558	61,53	473.257	25,24
Mining and Quarrying	16	0,00	-	-
Production	552.912	59,94	455.694	24,31
Electric, Gas and Water	14.630	1,59	17.563	0,94
Construction	9.474	1,03	394.831	21,06
Services	345.301	37,43	1.006.781	53,70
Wholesale and Retail Trade	115.418	12,51	339.822	18,13
Hotel, Food and Beverage				
Services	3.530	0,38	-	-
Transportation and Telecommunication	5.675	0,62	33.030	1,76
Financial Institutions	136.932	14,84	606.177	32,33
Real Estate and Leasing Services	1.563	0,17	-	-
Self-employment Services	82.043	8,89	18.299	0,98
Education Services	90	0,01	-	-
Health and Social Services	50	0,01	9.453	0,50
Other	-	-	-	-
Total	922.438	100,00	1.874.869	100,00

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

	Current Period 31 December 2018			
	Group I		Group II	
	TL	FC	TL	FC
Non-Cash Loans	1.010.394	2.645.782	87	-
Letters of Guarantee	1.002.394	839.254	87	-
Bank Acceptances	-	203.137	-	-
Letters of Credit	8.000	1.248.433	-	-
Endorsements	-	-	-	-
Underwriting Commitments	-	-	-	-
Factoring Guarantees	-	-	-	-
Other Commitments and Contingencies	-	354.958	-	-
Prior Period 31 December 2017	Group I		Group II	
	TL	FC	TL	FC
Non-Cash Loans	916.899	1.863.284	3.774	11.585
Letters of Guarantee	913.099	669.784	3.774	1.517
Bank Acceptances	-	155.184	-	-
Letters of Credit	-	698.997	-	-
Endorsements	-	-	-	-
Underwriting Commitments	-	-	-	-
Factoring Guarantees	-	-	-	-
Other Commitments and Contingencies	3.800	339.319	-	10.068

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

b. Explanations on derivative transactions:

	Current Period 31 December 2018	Prior Period 31 December 2017
Foreign Currency Swap Transactions	35.507.517	51.802.380
Interest Rate Swap Transactions	25.273.234	18.391.364
Foreign Currency Options Transactions	9.817.390	10.416.076
Forward Foreign Currency Transactions	11.032.975	9.724.971
Precious Metals Swap Transactions	44.028	11.456
Precious Metals Options Transactions	-	-
Total	81.675.144	90.346.247

1. Cash flow hedging accounting:

As of 31 December 2018, there are no swap transactions subjected to cash flow hedge accounting as hedging instrument (31 December 2017: None).

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 2018, there is no contingent assets to be disclosed.

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

The Bank has certain contingent liabilities relating to various lawsuits due to the transactions it performed in the scope of banking operations. As of 31 December 2018, the total amount of these lawsuits filed against the Bank is TL 32.112 (31 December 2017: TL 29.109). A total provision of TL 1.284 (31 December 2017: TL 2.070) has been made for those lawsuits as the probability of being concluded against the bank is higher than the probability of their concluding in its favor, with TL 33.396 (31 December 2017: TL 33.385) being for provisions for refunds related to case document charges.

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

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

IV. EXPLANATIONS AND NOTES RELATED TO INCOME STATEMENT

a. Information on interest income:

1. Information on interest income received from loans :

	Current Period 31 December 2018	
	TL	FC
Interest Income on Loans (*)	1.551.334	49.974
Short-Term Loans	416.193	239.855
Medium and Long-Term Loans	24.214	-
Interest on Loans Under Follow-Up	-	-
Resource Utilization Support Fund	-	-
Total	1.991.741	289.829

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

	Prior Period 31 December 2017	
	TL	FC
Interest Income on Loans (*)	914.749	6.851
Short-Term Loans	914.749	6.851
Medium and Long-Term Loans	434.971	192.684
Interest on Loans Under Follow-Up	37.513	-
Resource Utilization Support Fund	-	-
Total	1.387.233	199.535

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

2. Information on interest income received from banks:

	Current Period 31 December 2018	
	TL	FC
From the CBRT	358.625	201
From Domestic Banks	79.684	778
From Foreign Banks	927	7.424
Headquarters and Branches Abroad	-	-
Total	439.236	8.403

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

	Prior Period 31 December 2017	
	TL	FC
From the CBRT	305.869	-
From Domestic Banks	56.557	254
From Foreign Banks	2.927	333
Headquarters and Branches Abroad	-	-
Total	365.353	587

3. Information on interest income on marketable securities:

	Current Period 31 December 2018	
	TL	FC
From Financial Assets at Fair Value Through Profit or Loss	14.112	901
From Financial Assets at Fair Value Through Other Comprehensive Income	83.683	-
From Financial Assets Measured at Amortised Cost	-	-
Total	97.795	901

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

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

As of 31 December 2018 and 31 December 2017, the Bank has no interest income received from investments in associates and subsidiaries.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

b. Information on interest expense:

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

	Current Period 31 December 2018	
	TL	FC
Banks		
The CBRT	-	-
Domestic Banks	21	1
Foreign Banks	111.988	150.635
Headquarters and Branches Abroad	-	-
Other Institutions	-	-
Total	112.009	150.636

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

	Prior Period 31 December 2017	
	TL	FC
Banks		
The CBRT	-	-
Domestic Banks	48	50
Foreign Banks	89.251	138.964
Headquarters and Branches Abroad	-	-
Other Institutions	-	-
Total	89.299	139.014

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

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

	Current Period 31 December 2018
Interest Expenses Given to Subsidiaries and Associates	4.203
	Prior Period 31 December 2017
Interest Expenses Given to Subsidiaries and Associates	1.770

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

3. Information on interest expense paid on securities issued:

The Bank has no interest expense paid on securities issued during the period ended on 31 December 2018 and 31 December 2017.

4. Maturity structure of the interest expense on deposits:

Current Period: 31 December 2018	Time Deposit						Cumulative Deposit	Total
	Demand Deposit	Up to 1 Month	Up to 3 Month	Up to 6 Month	Up to 1 Year	More Than 1 year		
Turkish Lira								
Interbank deposits	-	14.950	-	-	-	-	-	14.950
Saving deposits	-	118.365	462.963	68.621	11.737	6.305	-	667.991
Public sector deposits	-	-	-	-	-	-	-	-
Commercial deposits	-	169.803	75.188	4.424	2	3.137	-	252.554
Other deposits	-	39	270	-	-	-	-	309
Deposits with 7 days maturity	-	-	-	-	-	-	-	-
Total	-	303.157	538.421	73.045	11.739	9.442	-	935.804
Foreign Currency								
Foreign currency deposits	-	65.944	182.823	17.876	5.814	1.013	-	273.470
Interbank deposits	-	41.473	-	-	-	-	-	41.473
Deposits with 7 days maturity	-	-	-	-	-	-	-	-
Precious metal deposits	-	61	1.175	11	35	-	-	1.282
Total	-	107.478	183.998	17.887	5.849	1.013	-	316.225
Grand Total	-	410.635	722.419	90.932	17.588	10.455	-	1.252.029

Prior Period: 31 December 2017	Time Deposit						Cumulative Deposit	Total
	Demand Deposit	Up to 1 Month	Up to 3 Month	Up to 6 Month	Up to 1 Year	More Than 1 year		
Turkish Lira								
Interbank deposits	-	25.595	-	-	-	-	-	25.595
Saving deposits	-	71.374	263.371	10.140	3.204	1.964	-	350.053
Public sector deposits	-	-	-	-	-	-	-	-
Commercial deposits	-	64.403	2833	2.298	28	119	-	69.681
Other deposits	-	26	27	-	-	-	-	53
Deposits with 7 days maturity	-	-	-	-	-	-	-	-
Total	-	161.398	266.231	12.438	3.232	2.083	-	445.382
Foreign Currency								
Foreign currency deposits	-	34.270	99.246	9.761	1.896	680	-	145.853
Interbank deposits	-	31.645	-	-	-	-	-	31.645
Deposits with 7 days maturity	-	-	-	-	-	-	-	-
Precious metal deposits	-	-	919	15	20	-	-	954
Total	-	65.915	100.165	9.776	1.916	680	-	178.452
Grand Total	-	227.313	366.396	22.214	5.148	2.763	-	623.834

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

5. Information on interest given on repurchase agreements:

As of 31 December 2018, the Bank has interest given on repurchase agreements amounting to TL 31.628 (31 December 2017: TL 18.058).

6. Information on finance lease expenses:

The Bank has no finance lease expenses during the periods ended on 31 December 2018 and 31 December 2017.

7. Information on interest given on factoring payables:

The Bank has no interest given on factoring payables during the period ended on 31 December 2018 and 31 December 2017.

c. Explanations on dividend income:

As of 31 December 2018, the share of the Bank in the dividend distribution of its subsidiaries is TL 20.744 (31 December 2017: TL 42.539).

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

1. Trading income/loss (Net):

	Current Period 31 December 2018
Profit	89.633.235
Capital Market Transactions Income	124.916
Gain on Derivative Financial Transactions	13.438.182
Foreign Exchange Gains	76.070.137
Loss (-)	90.032.393
Capital Market Transactions Loss	132.227
Loss on Derivative Financial Transactions	11.416.720
Foreign Exchange Loss	78.483.446
Total (Net)	(399.158)
	Prior Period 31 December 2017
Profit	119.552.856
Capital Market Transactions Income	27.359
Gain on Derivative Financial Transactions	6.398.056
Foreign Exchange Gains	113.127.441
Loss (-)	120.054.726
Capital Market Transactions Loss	9.595
Loss on Derivative Financial Transactions	6.172.543
Foreign Exchange Loss	113.872.588
Total (Net)	(501.870)

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

2. Information on derivative instruments gain/loss:

	Current Period 31 December 2018
Effect of the Change in Exchange Rates on Profit/Loss	2.044.996
Effect of the Change in Interest Rates on Profit/Loss	(23.534)
Total (Net)	2.021.462

	Prior Period 31 December 2017
Effect of the Change in Exchange Rates on Profit/Loss	(75.586)
Effect of the Change in Interest Rates on Profit/Loss	301.099
Total (Net)	225.513

e. Information on other operating income:

	Current Period 31 December 2018
Reverse of Previous Years Expenses	207.772
Gain on Sale of Assets	3.836
Provision for Telecommunication Expense	2.160
Other Income	36.290
Total	250.058

	Prior Period 31 December 2017
Reverse of Previous Years Expenses	177.937
Gain on Sale of Non-Performing Loan (*)	66.097
Gain on Sale of Assets	4.043
Provision for Telecommunication Expense	1.155
Other Income	22.515
Total	271.747

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

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

	Current Period 31 December 2018
Specific Provisions	227.928
Loans with Limited Collectability	35.738
Loans with Doubtful Collectability	48.062
Uncollectible Loans	144.128
General Provisions	-
Marketable Securities Impairment Expense	770
Financial Assets at Fair Value Through Profit or Loss	611
Financial Assets at Fair Value Through Other Comprehensive	159
Investments in Associates, Subsidiaries and Jointly Controlled Entities	
Value Decrease	-
Investments in Associates	-
Subsidiaries	-
Jointly Controlled Entities (Joint Ventures)	-
Other	-
Total	228.698
	Prior Period 31 December 2017
Specific Provisions for Loans and Other Receivables	323.255
III. Group Loans and Receivables	12.402
IV. Group Loans and Receivables	48.296
V. Group Loans and Receivables	262.557
General Provision Expenses	-
Provision Expense for Possible Risks	-
Marketable Securities Impairment Expense	8.270
Financial Assets at Fair Value Through Profit or Loss	8.270
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
Total	344.390

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

g. Information related to other operating expenses:

	Current Period 31 December 2018
Personnel Expenses (*)	434.748
Reserve for Employee Termination Benefits	3.565
Bank Social Aid Provision Fund Deficit Provision	-
Impairment Expenses of Property and Equipment	-
Depreciation Expenses of Property and Equipment	22.809
Impairment Expenses of Intangible Assets	-
Goodwill Impairment Expenses	-
Amortization Expenses of Intangible Assets	21.150
Impairment Expenses of Equity participants for which Equity Method is Applied	-
Impairment Expenses of Assets Held for Sale	-
Depreciation Expenses on Assets Held for Sale	39
Impairment Expenses on Non-Current Assets Held for Sale and Discontinued Operations	-
Other Operating Expenses	279.764
Operational Lease Expenses	72.652
Maintenance Licensing Expenses	46.180
Maintenance Expenses	24.092
Communication Expenses	17.439
Advertisement Expenses	20.485
Other Expenses	98.916
Loss on Sales of Assets	8.712
Tax, Duties, Charges and Funds Expenses	54.731
Saving Deposit Insurance Fund Expenses	32.075
Other (**)	180.078
Total	1.037.671

(*) "Personnel Expenses" disclosed in "Information related to other operating expenses" and is presented separately, and not presented in "Other Operating Expense" in the income statement.

(**) Amount of TL 180.078 disclosed under "Other", consists of audit fee amounting to TL 6.710, arbitration committee expenses amounting to TL 1.623 and remaining TL 171.745 of other expenses.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

	Prior Period 31 December 2017
Personnel Expenses	433.876
Reserve for Employee Termination Benefits	5.891
Bank Social Aid Provision Fund Deficit Provision	-
Impairment Expenses of Property and Equipment	-
Depreciation Expenses of Property and Equipment	23.812
Impairment Expenses of Intangible Assets	-
Goodwill Impairment Expenses	-
Amortization Expenses of Intangible Assets	16.150
Impairment Expenses of Equity participants for which Equity Method is Applied	-
Impairment Expenses of Assets Held for Sale	-
Depreciation Expenses on Assets Held for Sale	57
Impairment Expenses on Non-Current Assets Held for Sale and Discontinued Operations	-
Other Operating Expenses	304.548
Operational Lease Expenses	98.199
Maintenance Licensing Expenses	36.281
Maintenance Expenses	36.518
Communication Expenses	22.579
Advertisement Expenses	16.031
Other Expenses	94.940
Loss on Sales of Assets	19.725
Tax, Duties, Charges and Funds Expenses	34.388
Saving Deposit Insurance Fund Expenses	30.825
Other (*)	135.679
Total	1.004.951

(*) Amount of TL 135.679 consists of audit fee amounting to TL 32.312, arbitration committee expenses amounting to TL 18.524 and remaining TL 84.843 of other expenses.

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

As of 31 December 2018, the Bank has operating income amounting to TL 1.703.653 (31 December 2017: TL 1.517.176). The amount of provisions for losses for loans and other receivables is TL 228.698 (31 December 2017: TL 344.390), other operating expenses amounting to TL 1.037.671 (31 December 2017: TL 1.004.951), profit before tax amounts to TL 437.284 (31 December 2017: TL 167.835 profit before tax).

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

As of 31 December 2018, the Bank has corporate tax provision expense amounting to TL 6.748 (31 December 2017: TL 5.076 expense) and deferred tax expense of TL 94.952 (31 December 2017: TL 145.978 income).

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

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

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

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 1.455.608 (31 December 2017: TL 1.371.768), net wage and commission income amounting to TL 376.401 (31 December 2017: TL 332.992) have an important role among the income items in the accounting period ending on 31 December 2018. The wage and commission income received from cash loans are presented in the net interest income. Considering the distribution in interest income, the most important sources of the Bank's interest income are the interests received from loans and interbank money market. The main portion of the interest expenses consists of the interests paid for deposits and loans received. The most important portion of the commission income consists of the commissions received from credit card transactions and other banking transactions.

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

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

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

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

	Current Period 31 December 2018
Credit Card Transactions	242.082
Commissions Received from Banking Transactions	44.814
Insurance Commissions	38.902
Tefas Fund Platform	11.886
Other Fee and Commissions	42.968
Total	380.652
	Prior Period 31 December 2017
Credit Card Transactions	232.427
Insurance Commissions	38.209
Commissions Received from Banking Transactions	30.734
Tefas Fund Platform	10.560
Other Fee and Commissions	41.514
Total	353.444

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

a. Information on the current year adjustments made in accordance with the requirements of the accounting standard on financial instruments:

1. Decreases/increases after the revaluation of financial assets at fair value through other comprehensive income:

As of 31 December 2018, there is a decrease in investment securities valuation differences balance amounting to TL 46.092 (31 December 2017: TL 17.899 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 2018, the decrease of TL 23.470 (31 December 2017: TL 15.582 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 information 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 financial investments at fair value through other comprehensive income:

In the accounting period ending 31 December 2018, loss amounting to TL 9.282 (31 December 2017: TL 2.234 income) arising from the revaluation of investments available for sale at their fair values has been transferred from equities to net profit/loss account since the investment available for sale was sold.

2. Information on cash flow hedges:

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

c. Information on profit distribution:

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 2018.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

**V. EXPLANATIONS AND NOTES RELATED TO CHANGES IN SHAREHOLDERS' EQUITY
(Continued)**

d. Information on issuance of common stock:

The Bank has no issuance of common stock as of 31 December 2018 and 31 December 2017.

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

As of 31 December 2018 and 31 December 2017, the adjustments made for prior periods do not have any effect on opening balance sheets of the Bank.

f. Offsetting prior period's losses:

As of 31 December 2018 and 31 December 2017, the Bank does not have any offset transactions relating to previous year's losses.

VI. EXPLANATIONS AND NOTES RELATED TO STATEMENT OF CASH FLOWS

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

Operating profit amounting to TL 613.308 (31 December 2017: TL 1.172.950 income) consists of interest income amounting to TL 2.901.279 (31 December 2017: TL 2.360.802), interest expense amounting to TL 1.414.902 (31 December 2017: TL 838.912), personnel expenses amounting to TL 444.545 (31 December 2017: TL 382.599) and net income other than interest amounting to TL 428.524 (31 December 2017: TL 33.659 net income other than interest). Net increase in other liabilities amounting to TL 116.069 (31 December 2017: TL 606.066 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 1.721 increase (31 December 2017: TL 2.711 decrease) as of 31 December 2018.

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

The Bank has no cash flow arising from acquisition of associates, subsidiaries and other investments as of 31 December 2018 and 31 December 2017.

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

The Bank has no cash flow related to disposals of associates, subsidiaries or other investments as of 31 December 2018 and 31 December 2017.

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.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

VI. EXPLANATIONS AND NOTES RELATED TO STATEMENT OF CASH FLOWS (Continued)

1. Current Period – 31 December 2018

1. (i) Cash and cash equivalents at the beginning of the period:

	Current Period 31 December 2018
Cash	256.474
Interbank Money Market Placements	1.794.965
CBRT, Banks and Other Financial Institutions	2.710.272
Total Cash and Cash Equivalents	4.761.711

1. (ii) Cash and cash equivalents at the end of period:

	Current Period 31 December 2018
Cash	649.779
Interbank Money Market Placements	8.415.487
CBRT, Banks and Other Financial Institutions	4.128.447
Total Cash and Cash Equivalents	13.193.713

2. Prior Period – 31 December 2018

2. (i) Cash and cash equivalents at the beginning of the period:

	Prior Period 31 December 2017
Cash	269.329
Interbank Money Market Placements	4.372.998
CBRT, Banks and Other Financial Institutions	968.739
Total Cash and Cash Equivalents	5.611.066

2. (ii) Cash and cash equivalents at the end of period:

	Prior Period 31 December 2017
Cash	256.474
Interbank Money Market Placements	1.794.965
CBRT, Banks and Other Financial Institutions	2.710.272
Total Cash and Cash Equivalents	4.761.711

e. Additional information:

None.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

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

Current Period – 31 December 2018:

Risk Group of the Bank	Subsidiaries, Associates and Jointly Controlled Entities (Joint Ventures)		Direct or Indirect Shareholders of the Bank		Other Individuals and Legal Entities in the Risk Group	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
Loans						
Opening Balance	-	179	5.338	560.551	-	-
Closing Balance	-	102	15.268	633.491	-	-
Interest and Commission Income	-	-	895	1.514	-	-

Prior Period - 31 December 2017:

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

(*) The prior period balances present amounts of 31 December 2017.

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

Risk Group of the Bank	Subsidiaries, Associates and Jointly Controlled Entities (Joint Ventures)	Direct or Indirect Shareholders of the Bank	Other Individuals and Legal Entities in the Risk Group
	Current Period 31 December 2018	Current Period 31 December 2018	Current Period 31 December 2018
Deposit			
Opening Balance	21.499	57.602	11.837
Closing Balance	19.867	92.407	13.244
Interest expense on deposits	4.203	-	407

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

(*) The prior period balances present amounts of 31 December 2017.

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

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

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

Risk Group of the Group	Subsidiaries, Associates and Jointly Controlled Entities (Joint Ventures)	Direct or Indirect Shareholders of the Parent Bank	Other Individuals and Legal Entities in the Risk Group
	Current Period 31 December 2018	Current Period 31 December 2018	Current Period 31 December 2018
The Fair Value Differences Through Profit and Loss			
Opening Balance	-	60.853.334	-
Closing Balance	-	18.861.471	-
Total Profit/Loss	-	1.871.060	-
Transactions for Hedging Purposes			
Opening Balance	-	-	-
Closing Balance	-	-	-
Total Profit/Loss	-	-	-
Risk Group of the Group	Subsidiaries, Associates and Jointly Controlled Entities (Joint Ventures)	Direct or Indirect Shareholders of the Parent Bank	Other Individuals and Legal Entities in the Risk Group
	Prior Period 31 December 2017	Prior Period 31 December 2017	Prior Period 31 December 2017
The Fair Value Differences Through Profit and Loss			
Opening Balance	-	34.002.552	-
Closing Balance	-	60.853.334	-
Total Profit/Loss (*)	-	(450.373)	-
Transactions for Hedging Purposes			
Opening Balance	-	559.703	-
Closing Balance	-	-	-
Total Profit/Loss (*)	-	-	-

(*) The prior period balances present amounts of 31 December 2017.

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

As of 31 December 2018, payment is made to the Board of Directors and top executives of the Bank amounting to TL 22.239 (31 December 2017: TL 21.688).

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED
UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED
IN TURKISH, SEE NOTE 1.c OF SECTION THREE**

HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

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

Information on the Bank's domestic and foreign branches and foreign representatives of the Bank:

	Number	Number of Employees			
Domestic Branch	82	2.205			
			Country of Incorporation		
Foreign Representation Office	-	-	-		
				Total Assets	Statutory Share Capital
Foreign branch	-	-	-	-	-
Off-shore Banking Region Branches	-	-	-	-	-

IX. EXPLANATIONS AND NOTES RELATED TO SUBSEQUENT EVENTS

None.

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UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED
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HSBC BANK A.Ş.

**NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2018**

SECTION SIX

OTHER EXPLANATIONS

I. OTHER EXPLANATIONS ON BANK'S OPERATIONS

None.

SECTION SEVEN

EXPLANATIONS ON INDEPENDENT AUDITOR'S REPORT

II. EXPLANATIONS ON INDEPENDENT AUDITOR'S REPORT

As of 31 December 2018, unconsolidated financial statements and explanatory notes of the Bank disclosed here in were audited by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. and audit report dated 21 February 2019 is presented before to the unconsolidated financial statements.

III. EXPLANATIONS AND NOTES PREPARED BY THE INDEPENDENT AUDITOR

None.

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