

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED
CONSOLIDATED FINANCIAL STATEMENTS
AND RELATED DISCLOSURES AT 31 DECEMBER 2018,
SEE NOTE I. c OF SECTION THREE**

HSBC BANK A.Ş.

**PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS
AND RELATED DISCLOSURES AT 31 DECEMBER 2018 TOGETHER
WITH INDEPENDENT AUDITOR REPORT**



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

INDEPENDENT AUDITOR'S REPORT

To the General Assembly of HSBC Bank A.Ş.

A. Audit of the Consolidated Financial Statements

1. Opinion

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Banking Regulation and Supervision Agency ("BRSA") Accounting and Financial Reporting Legislation which includes "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette no.26333 dated 1 November 2006, and other regulations on accounting records of Banks published by Banking Regulation and Supervision Agency and circulars and interpretations published by BRSA and Turkish 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 Consolidated 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 consolidated financial statements of the current period. Key audit matters were addressed in the context of our independent audit of the consolidated 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 Group has total provision for impairment of TL 1.095.535 thousands in respect to loans and receivables of TL 16.197.065 which represent a significant portion of the Group's total assets in its consolidated 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 consolidated 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 Group 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 Consolidated Financial Statements

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

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

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

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

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

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



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

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

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

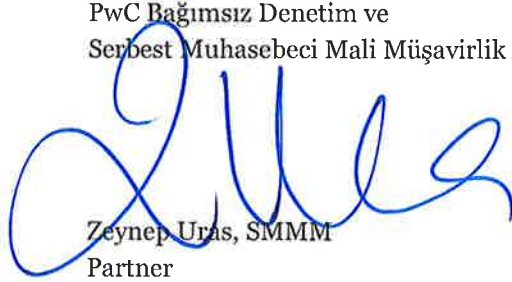
B. Other Responsibilities Arising From Regulatory Requirements

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 consolidated financial statements are to be distributed and International Financial Reporting Standards ("IFRS") have not been quantified in the accompanying consolidated financial statements. Accordingly, the accompanying consolidated financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

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



Zeynep Uras, SMMM
Partner

Istanbul, 28 February 2019

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

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

Address of Bank's Headquarters : Büyükdere Caddesi No 128 Esentepe, Şişli 34394, İstanbul
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The consolidated year-end financial report prepared in accordance with Communiqué on the Financial Statements and the Related Disclosures and Footnotes to be Publicly Announced as regulated by Banking Regulation and Supervision Agency, is comprised of the following sections:

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

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

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

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


Hamit Aydoğan
Vice President of the
Executive Board


Süleyman Selim Kervancı
General Manager


Burçin Ozan
Financial Reporting
Assistant General
Manager


Yeterliozan 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 41 57
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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.

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CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED
IN TURKISH, SEE IN NOTE I.c OF SECTION THREE**

HSBC BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

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

SECTION ONE

GENERAL INFORMATION

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

It has been approved by the decision of the Council of Ministers dated 27 June 1990 and numbered 90/644 that HSBC Bank A.Ş. (“the Bank”, “the Parent Bank”, “HSBC Bank”) was established to conduct banking activities and the articles of association published in the Official Gazette No. 2611 dated 18 September 1990. The Parent Bank is a foreign-capitalized bank, which has been registered in accordance with the Law on Encouraging Foreign Investments numbered 6224. On 20 September 2001 the ‘Share Sales Agreement’ regarding the sale of all shares of Demirbank T.A.Ş., which was under in “TMSF”, was signed by the Bank’s main share holder 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 PARENT BANK’S CAPITAL STRUCTURE, SHAREHOLDERS OF THE PARENT BANK WHO ARE IN CHARGE OF THE MANAGEMENT AND/OR AUDITING OF THE PARENT BANK DIRECTLY OR INDIRECTLY, CHANGES IN THESE MATTERS (IF ANY) AND THE GROUP THAT THE BANK BELONGS TO

As of 31 December 2018, the Parent Bank’s nominal capital amounting to TL 652.290 is dividend to 65.229.000.000 shares with a nominal value of TL 0,01. The share capital of the Parent Bank has been fully paid and registered. Based on the approval of the Banking Regulation and Supervision Agency dated 21 June 2017, 10,01% share of HSBC Bank Plc.’s 100% ownership of the Parent Bank’s capital was transferred to HSBC Bank Middle East Limited and remaining 89,99% share of HSBC Bank Plc. was transferred to HSBC Middle East Holdings B.V. through share transfer agreement dated 29 June 2017. As of 31 December 2018 there has been no changes regarding the Parent Bank’s capital structure and shareholders of the Parent Bank who are in charge of the management or auditing of the Parent Bank directly or indirectly.

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED
CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED
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HSBC BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED 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 PARENT 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 PASIN	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 Parent 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
CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED
IN TURKISH, SEE IN NOTE I.c OF SECTION THREE**

HSBC BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

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

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

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 PARENT BANK’S SERVICE TYPE AND FIELDS OF OPERATION

As stated in the relevant regulation and the articles of association of the Parent Bank, the important areas of operations of the Parent 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 Parent Bank has 82 branches dispersed throughout the country (31 December 2017: 82 branches).

As of 31 December 2018, the number of employees of the Group is 2.258 (31 December 2017: 2.533).

VI. OTHER MATTERS

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

VII. INFORMATION OF INSTITUTIONS IN CONSOLIDATION SCOPE

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

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

The consolidated financial statements 8 November 2006 and 26340 in the Official Gazette published the “Bank Communiqué on Preparation of Consolidated Financial Statements” and “Consolidated Turkey to the Financial Statements Financial Reporting Standards” (“IFRS 10”) was prepared in accordance with the provisions.

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED
CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED
IN TURKISH, SEE IN NOTE Lc OF SECTION THREE**

HSBC BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

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

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

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

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

None.

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED
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IN TURKISH, SEE IN NOTE Lc OF SECTION THREE**

HSBC BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

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

SECTION TWO

CONSOLIDATED FINANCIAL STATEMENTS

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

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

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED 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
CONSOLIDATED FINANCIAL STATEMENTS**

I. BALANCE SHEET	Note (Section Five I)	Audited Current Period (31.12.2018)		
		TL	FC	Total
ASSETS				
I. FINANCIAL ASSETS (NET)		3.305.188	12.790.209	16.095.397
1.1 Cash and Cash Equivalents		2.741.578	11.794.327	14.535.905
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)	30.422	24.541	54.963
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)	22.298	24.938	47.236
1.2.1 Government Debt Securities		16.731	10.282	27.013
1.2.2 Equity Instruments		5.567	14.656	20.223
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		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)	9.863.914	5.834.658	15.698.572
2.1 Loans		9.619.889	5.695.262	15.315.151
2.1.1 Measured at Amortised Cost		9.619.889	5.695.262	15.315.151
2.1.2 Fair Value Through Profit or Loss		-	-	-
2.1.3 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		881.914	-	881.914
2.5 Specific Provisions (-)		690.775	-	690.775
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		220	-	220
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)	220	-	220
4.2.1 Unconsolidated Financial Subsidiaries		-	-	-
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)	101.877	-	101.877
VI. INTANGIBLE ASSETS (Net)	(I-m)	150.954	-	150.954
6.1 Goodwill		-	-	-
6.2 Other		150.954	-	150.954
VII. INVESTMENT PROPERTY (Net)	(I-n)	-	-	-
VIII. CURRENT TAX ASSET		10.103	-	10.103
IX. DEFERRED TAX ASSET	(I-o)	139.325	-	139.325
X. OTHER ASSETS	(I-r)	139.046	511.875	650.921
TOTAL ASSETS		13.711.996	19.136.742	32.848.738

The accompanying explanations and notes set out on pages 21 to 151 form an integral part of these consolidated financial statements.

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

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED 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)	439.633	526.987	966.620
2.1 Trading Financial Assets		439.633	526.987	966.620
2.1.1 Government Debt Securities		252.620	20.381	273.001
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)	28.115	343.112	371.227
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)	1.354.632	8.874	1.363.506
5.1 Share Certificates		5.567	8.874	14.441
5.2 Government Debt Securities		1.349.065	-	1.349.065
5.3 Other Marketable Securities		-	-	-
VI. LOANS AND RECEIVABLES	(I-e)	10.636.836	4.585.869	15.222.705
6.1 Loans and receivables		10.361.052	4.585.869	14.946.921
6.1.1 Loans to Bank's Risk Group	(VII)	-	5.338	5.338
6.1.2 Government Debt Securities		-	-	-
6.1.3 Other		10.361.052	4.580.531	14.941.583
6.2 Non-Performing Loans		863.211	-	863.211
6.3 Specific Provisions (-)		587.427	-	587.427
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)	220	-	220
10.1 Unconsolidated Financial Subsidiaries		-	-	-
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)	147.930	-	147.930
15.1 Goodwill		-	-	-
15.2 Other		147.930	-	147.930
XVI. INVESTMENT PROPERTIES (Net)	(I-n)	-	-	-
XVII. TAX ASSET		164.990	-	164.990
17.1 Current Tax Asset		17.340	-	17.340
17.2 Deferred Tax Asset	(I-o)	147.650	-	147.650
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)	102.376	141.540	243.916
TOTAL ASSETS		15.534.512	9.123.596	24.658.108

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 21 to 151 form an integral part of these consolidated financial statements

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

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED 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
		LIABILITES		
I. DEPOSITS	(II-a)	7.509.066	17.349.423	24.858.489
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 (Net)	(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)	411.041	191.627	602.668
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		65.581	-	65.581
10.4 Insurance Technical Reserves (Net)		-	-	-
10.5 Other Provisions		81.625	1.243	82.868
XI. CURRENT TAX LIABILITY	(II-i)	57.768	-	57.768
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)	590.346	27.930	618.276
XVI. SHAREHOLDERS' EQUITY	(II-l)	2.986.857	-	2.986.857
16.1 Paid-in Capital		652.290	-	652.290
16.2 Capital Reserves		272.693	-	272.693
16.2.1 Equity Share Premium		-	-	-
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		(28.652)	-	(28.652)
16.4 Accumulated Other Comprehensive Income or Loss Reclassified Through Profit or Loss		(43.708)	-	(43.708)
16.5 Profit Reserves		1.787.586	-	1.787.586
16.5.1 Legal Reserves		196.518	-	196.518
16.5.2 Statutory Reserves		-	-	-
16.5.3 Extraordinary Reserves		1.591.068	-	1.591.068
16.5.4 Other Profit Reserves		-	-	-
16.6 Profit or (Loss)		346.648	-	346.648
16.6.1 Prior Periods' Profit/(Loss)		-	-	-
16.6.2 Current Period Profit/(Loss)		346.648	-	346.648
16.7 Minority Interest		-	-	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		12.781.040	20.067.698	32.848.738

The accompanying explanations and notes set out on pages 21 to 151 form an integral part of these consolidated financial statements

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

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED 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
		LIABILITES		
I. DEPOSITS	(II-a)	4.782.719	11.566.934	16.349.653
1.1 Deposits of Bank's Risk Group	(VII)	62.711	8.165	70.876
1.2 Other		4.720.008	11.558.769	16.278.777
II. TRADING DERIVATIVE FINANCIAL LIABILITIES		207.234	531.945	739.179
III. FUNDS BORROWED	(II-b)	818.610	1.786.117	2.604.727
IV. MONEY MARKETS	(II-d)	-	-	-
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		249.379	13.630	263.009
VIII. OTHER LIABILITIES	(II-e)	250.994	15.681	266.675
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)	681.851	1.585	683.436
12.1 General Loan Loss Provision		430.929	-	430.929
12.2 Restructuring Provisions		85.965	-	85.965
12.3 Reserve for Employee Rights		65.579	-	65.579
12.4 Insurance Technical Provisions (Net)		-	-	-
12.5 Other Provisions		99.378	1.585	100.963
XIII. TAX LIABILITY	(II-i)	44.192	-	44.192
13.1 Current Tax Liability		44.192	-	44.192
13.2 Deferred Tax Liability		-	-	-
XIV. LIABILITIES FOR PROPERTY AND EQUIPMENT HELD FOR SALE AND RELATED TO DISCONTINUED OPERATIONS	(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)	2.602.464	4.723	2.607.187
16.1 Paid-in Capital		652.290	-	652.290
16.2 Capital Reserves		255.786	4.723	260.509
16.2.1 Share Premium		-	-	-
16.2.2 Share Cancellation Profits		-	-	-
16.2.3 Marketable Securities Valuation Differences		(21.499)	4.723	(16.776)
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 Asset Held for Sale and Related to Discontinued Operations		-	-	-
16.2.10 Other Capital Reserves		272.693	-	272.693
16.3 Profit Reserves		1.403.754	-	1.403.754
16.3.1 Legal Reserves		194.478	-	194.478
16.3.2 Status Reserves		-	-	-
16.3.3 Extraordinary Reserves		1.240.442	-	1.240.442
16.3.4 Other Profit Reserves		(31.166)	-	(31.166)
16.4 Profit or Loss		290.634	-	290.634
16.4.1 Prior Periods' Profit/(Loss)		-	-	-
16.4.2 Current Period Profit/(Loss)		290.634	-	290.634
16.5 Minority Interest		-	-	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		9.637.443	15.020.665	24.658.108

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 21 to 151 form an integral part of these consolidated financial statements.

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

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED 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 (I+II+III)		23.566.213	69.331.661	92.897.874
I. GUARANTEES AND WARRANTIES	(III-a-2,3)	1.012.441	2.645.721	3.658.162
1.1 Letters of Guarantee		1.004.441	839.193	1.843.634
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		1.004.441	839.193	1.843.634
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 Refinancing Given as Guarantee		-	-	-
1.5 Endorsements		-	-	-
1.5.1 Endorsements to the Central Bank of the Republic of Turkey		-	-	-
1.5.2 Other Endorsements		-	-	-
1.6 Securities Issue Purchase Guarantees		-	-	-
1.7 Factoring Guarantees		-	-	-
1.8 Other Guarantees		-	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 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)		97.562.233	30.590.524	128.152.757
IV. ITEMS HELD IN CUSTODY		88.495.507	10.131.365	98.626.872
4.1 Customer Fund and Portfolio Balances		-	-	-
4.2 Investment Securities Held in Custody		86.244.819	7.567.772	93.812.591
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		2.089.420	2.407.987	4.497.407
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)		121.128.446	99.922.185	221.050.631

The accompanying explanations and notes set out on pages 21 to 151 form an integral part of these consolidated financial statements.

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

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED 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 (I+II+III)		38.749.656	71.005.976	109.755.632
I. GUARANTEES AND WARRANTIES	(III-a-2,3)	922.304	1.874.824	2.797.128
1.1 Letters of Guarantee		918.504	671.256	1.589.760
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		901.857	668.849	1.570.706
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 Refinancing Given as Guarantee		-	-	-
1.5 Endorsements		-	-	-
1.5.1 Endorsements to the Central Bank of the Republic of Turkey		-	-	-
1.5.2 Other Endorsements		-	-	-
1.6 Securities Issue Purchase Guarantees		-	-	-
1.7 Factoring Guarantees		-	-	-
1.8 Other Guarantees		3.800	349.387	353.187
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 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)		52.291.095	55.809.728	108.100.823
IV. ITEMS HELD IN CUSTODY		38.481.483	1.650.912	40.132.395
4.1 Customer Fund and Portfolio Balances		1.375.193	-	1.375.193
4.2 Investment Securities Held in Custody		34.054.019	1.490.481	35.544.500
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		2.138.075	101.343	2.239.418
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)		91.040.751	126.815.704	217.856.455

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

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED 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 INCOME		
INCOME AND EXPENSE ITEMS	Note (Section Five IV)	Audited Current Period (01.01.2018-31.12.2018)
I. INTEREST INCOME	(IV-a)	3.027.592
1.1 Interest Income on Loans	(IV-a-1)	2.284.578
1.2 Interest Received from Reserve Requirements		47.577
1.3 Interest Received from Banks	(IV-a-2)	450.506
1.4 Interest Received from Money Market Transactions		137.365
1.5 Interest Received from Marketable Securities Portfolio	(IV-a-3)	101.089
1.5.1 Financial Assets at Fair Value through Profit or (Loss)		17.406
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		6.477
II. INTEREST EXPENSE	(IV-b)	1.555.025
2.1 Interest Expense on Deposits	(IV-b-4)	1.247.826
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		12.887
III. NET INTEREST INCOME/EXPENSE (I + II)		1.472.567
IV. NET FEES AND COMMISSIONS INCOME/EXPENSE		439.046
4.1 Fees and Commissions Received		480.382
4.1.1 Non-Cash Loans		36.969
4.1.2 Other	(IV-l)	443.413
4.2 Fees and Commissions Paid		41.336
4.2.1 Non-Cash Loans		696
4.2.2 Other		40.640
V. PERSONEL EXPENSES	(IV-g)	459.738
VI. DIVIDEND INCOME	(IV-c)	165
VII. TRADING INCOME/(LOSS) (Net)	(IV-d)	(398.944)
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)	(IV-e)	(2.413.095)
VIII. OTHER OPERATING INCOME		246.998
IX. TOTAL OPERATING INCOME (III+IV+V+VI+VII+VIII)	(IV-f)	1.300.094
X. PROVISION FOR LOAN LOSSES (-)	(IV-g)	228.698
XI. OTHER OPERATING EXPENSES (-)		614.088
XII. NET OPERATING INCOME/(LOSS) (IX-X-XI)		457.308
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)		457.308
XVII. PROVISION FOR TAXES ON INCOME FROM CONTINUING OPERATIONS (±)		(110.660)
17.1 Current Tax Provision		(16.185)
17.2 Deferred Tax Income Effect (+)	(IV-j)	(94.475)
17.3 Deferred Tax Expense Effect (-)		-
XVIII. NET PROFIT/LOSSES FROM CONTINUING OPERATIONS (XVI±XVII)		346.648
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 (-)	(IV-k)	-
XXIII. NET PROFIT/LOSSES FROM DISCONTINUED OPERATIONS (XXI±XXII)		
XXIV. NET PROFIT/LOSSES (XVIII+XXIII)		346.648
23.1 Group's Profit / Loss per share		346.648
23.2 Minority Shares Profit / Loss (-)		-
Earnings/Loss per Share		0,005314

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

**HSBC BANK A.Ş. AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME FOR THE PERIOD
ENDED 31 DECEMBER 2017**

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

III. STATEMENT OF INCOME		
INCOME AND EXPENSE ITEMS	Note (Section Five IV)	Audited Prior Period (01.01.2017-31.12.2017)
I. INTEREST INCOME	(IV-a)	2.259.830
1.1 Interest Income 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)	368.957
1.4 Interest Received from Money Market Transactions		117.381
1.5 Interest Received from Marketable Securities Portfolio	(IV-a-3)	159.060
1.5.1 Trading Financial Assets		17.600
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		3.254
II. INTEREST EXPENSE	(IV-b)	880.894
2.1 Interest Expense on Deposits	(IV-b-4)	622.064
2.2 Interest Expense 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/EXPENSE (I + II)		1.378.936
IV. NET FEES AND COMMISSIONS INCOME/EXPENSE		386.817
4.1 Fees and Commissions Received		428.329
4.1.1 Non-Cash Loans		21.053
4.1.2 Other		407.276
4.2 Fees and Commissions Paid		41.512
4.2.1 Non-Cash Loans		925
4.2.2 Other		40.587
V. DIVIDEND INCOME	(IV-c)	2.684
VI. TRADING INCOME/(LOSS) (Net)	(IV-d)	(501.953)
6.1 Trading Gains/(Losses) on Securities		17.764
6.2 Derivative Financial Transactions Gains/(Losses)		225.513
6.3 Foreign Exchange Gains/(Losses)		(745.230)
VII. OTHER OPERATING INCOME	(IV-e)	268.636
VIII. TOTAL OPERATING INCOME (III+IV+V+VI+VII)		1.535.120
IX. PROVISION FOR LOAN LOSSES AND OTHER RECEIVABLES (-)	(IV-f)	344.390
X. OTHER OPERATING EXPENSES (-)	(IV-g)	1.035.678
XI. NET OPERATING INCOME/(LOSS) (VIII-IX-X)		155.052
XII. EXCESS AMOUNT RECORDED AS INCOME AFTER MERGER		-
XIII. INCOME/(LOSS) FROM INVESTMENTS IN SUBSIDIARIES CONSOLIDATED BASED ON EQUITY METHOD		-
XIV. INCOME/(LOSS) ON NET MONETARY POSITION		-
XV. INCOME/EXPENSE BEFORE TAXES FROM CONTINUING OPERATIONS (XI+XII+XIII+XIV)	(IV-h)	155.052
XVI. PROVISION FOR TAXES ON INCOME FROM CONTINUING OPERATIONS (±)	(IV-i)	135.582
16.1 Current Tax Provision		(10.858)
16.2 Deferred Tax Provision		146.440
XVII. NET PROFIT/LOSSES FROM CONTINUING OPERATIONS (XV±XVI)	(IV-j)	290.634
XVIII. INCOME FROM DISCONTINUED OPERATIONS		-
18.1 Income from Non-Current Assets Held for Resale		-
18.2 Profit from Sales of Associates, Subsidiaries and Joint Ventures (Business Partners)		-
18.3 Other Income From Discontinued Operations		-
XIX. EXPENSES FROM DISCONTINUED OPERATIONS (-)		-
19.1 Expenses for Non-Current Assets Held for Resale		-
19.2 Loss from Sales of Associates, Subsidiaries and Joint Ventures (Business Partners)		-
19.3 Other Expenses From Discontinued Operations		-
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)	290.634
23.1 Group’s Profit / Loss		290.634
23.2 Minority Shares Profit / Loss (-)		-
Earnings / Loss per Share (The amounts are expressed in full TL)		0,004456

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

HSBC BANK A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED 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	346.648
II. OTHER COMPREHENSIVE INCOME	(23.164)
2.1 Not Reclassified Through Profit or Loss	2.514
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	3.124
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	(610)
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
III. TOTAL COMPREHENSIVE INCOME (I+II)	323.484

IV. STATEMENT OF PROFIT OR LOSS ITEMS 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 the 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	(6.863)
IX. DEFERRED TAX RELATED TO VALUATION DIFFERENCES	5.229
X. NET PROFIT OR LOSS ACCOUNTED DIRECTLY UNDER SHAREHOLDERS' EQUITY (I+II+...+IX)	(20.916)
XI. CURRENT YEAR PROFIT/LOSS	290.634
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	289.962
XII. TOTAL PROFIT/LOSS RELATED TO THE CURRENT PERIOD (X±XI)	269.718

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

HSBC BANK A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED 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																	
						Accumulated Other Comprehensive Income or Expense Not Reclassified through Profit or Loss			Accumulated Other Comprehensive Income or Expense Reclassified through Profit or Loss								
Audited Current Period 31 December 2018	Note Section Five	Paid-in Capital	Share Premium	Share Cancel Profits	Other Capital Reserves	1	2	3	4	5	6	Profit Reserves	Prior Period Profit/ (Loss)	Current Period Profit/ (Loss)	Total Equity Except from Minority Interest	Minority Interest	Total Shareholders' Equity
I. Balances at the Beginning of the Period - 31 December 2017		652.290	-	-	272.693	-	(31.166)	-	-	(16.776)	4.592	1.434.920	-	290.634	2.607.187	-	2.607.187
II. Corrections According to TAS 8		-	-	-	-	-	-	-	-	(5.846)	-	92.032	-	-	86.186	-	86.186
2.1 Effects of Corrections		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Effects of the Changes in Accounting Policies		-	-	-	-	-	-	-	-	(5.846)	-	92.032	-	-	86.186	-	86.186
III. Adjusted Beginning Balance (I+II)		652.290	-	-	272.693	-	(31.166)	-	-	(22.622)	4.592	1.526.952	-	290.634	2.693.373	-	2.693.373
IV. Total Comprehensive Income		-	-	-	-	-	2.514	-	-	(23.470)	(2.208)	-	-	346.648	323.484	-	323.484
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		-	-	-	-	-	-	-	-	-	-	260.634	-	(290.634)	(30.000)	-	(30.000)
11.1 Dividends Paid		-	-	-	-	-	-	-	-	-	-	(30.000)	-	-	(30.000)	-	(30.000)
11.2 Transfers to Reserves		-	-	-	-	-	-	-	-	-	-	290.634	-	(290.634)	-	-	-
11.3 Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Period-End Balance (III+IV+.....+X+XI)		652.290	-	-	272.693	-	(28.652)	-	-	(46.092)	2.384	1.787.586	-	346.648	2.986.857	-	2.986.857

- 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 21 to 151 form an integral part of these consolidated financial statements.

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

HSBC BANK A.Ş. AND ITS SUBSIDIARIES

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

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

V. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY																			
Audited Prior Period 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. Operate.	Minority Shares Except Total Equity	Minority Shares	Total Equity
I. Balances at the Beginning of the Period		652.290	-	-	-	202.922	-	1.586.675	247.017	(354.677)	-	(1.194)	-	-	4.435	-	2.337.468	-	2.337.468
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	-	-	-	202.922	-	1.586.675	247.017	(354.677)	-	(1.194)	-	-	4.435	-	2.337.468	-	2.337.468
Changes in the Period																			
IV. Increase/Decrease due to the Merger		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V. Marketable Securities Valuation Differences		-	-	-	-	-	-	-	-	-	-	(15.582)	-	-	-	-	(15.582)	-	(15.582)
VI. Hedging Transactions Funds (Effective Parts)		-	-	-	-	-	-	-	-	-	-	-	-	-	157	-	157	-	157
6.1 Cash Flow Hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	157	-	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		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVII. Other		-	-	-	-	-	-	-	(5.490)	-	-	-	-	-	-	-	(5.490)	-	(5.490)
XIX. Current Year Income or Loss		-	-	-	-	-	-	-	-	290.634	-	-	-	-	-	-	290.634	-	290.634
XX. Profit Distribution		-	-	-	-	(8.444)	-	(346.233)	-	354.677	-	-	-	-	-	-	-	-	-
20.1 Dividends Paid		-	-	-	-	(8.444)	-	(346.233)	-	354.677	-	-	-	-	-	-	-	-	-
20.2 Transfers to Reserves		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20.3 Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balances at the End of the Period 31 December 2017 (I+II+III+.....+XVIII)		652.290	-	-	-	194.478	-	1.240.442	241.527	290.634	-	(16.776)	-	-	4.592	-	2.607.187	-	2.607.187

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 21 to 151 form an integral part of these consolidated financial statement

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

HSBC BANK A.Ş. AND ITS SUBSIDIARIES

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

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

VI. STATEMENTS OF CASHS FLOW	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)	633.321
1.1.1 Interest Received	(VI-a)	2.914.281
1.1.2 Interest Paid	(VI-a)	(1.410.764)
1.1.3 Dividend Received		151
1.1.4 Fees and Commissions Received		469.858
1.1.5 Other Income		246.998
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)	(459.216)
1.1.8 Taxes Paid		(110.173)
1.1.9 Other		(1.191.144)
1.2 Changes in Operating Assets and Liabilities Subject to Banking Operations		7.164.974
1.2.1 Net (Increase)/Decrease in Financial Assets at Fair Value Through Profit or Loss		248.677
1.2.2 Net Decrease in Due From Banks		447
1.2.3 Net (Increase) in Loans		(240.628)
1.2.4 Net (Increase) in Other Assets		(398.580)
1.2.5 Net Increase in Bank Deposits		367.663
1.2.6 Net Increase/(Decrease) in Other Deposits		8.025.939
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)	115.845
I. Net Cash Provided From Banking Operations		7.798.295
B. CASH FLOWS FROM INVESTING ACTIVITIES		
II. Net Cash Provided From Investing Activities		668.425
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		(69.042)
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		903.718
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		(27.328)
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)	1.695
V. Net (Decrease)/Increase in Cash and Cash Equivalents (I+II+III+IV)		8.438.415
VI. Cash and Cash Equivalents at Beginning of the Period	(VI-d)	4.784.148
VII. Cash and Cash Equivalents at End of the Period	(VI-d)	13.222.563

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HSBC BANK A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 DECEMBER 2017

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

VI. STATEMENTS OF CASH FLOW	Note (Section Five VI)	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)	1.160.374
1.1.1 Interest Received	(VI-a)	2.366.166
1.1.2 Interest Paid	(VI-a)	(837.142)
1.1.3 Dividend Received		2.684
1.1.4 Fees and Commissions Received		426.322
1.1.5 Other Income		202.539
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)	(394.645)
1.1.8 Taxes Paid		(24.052)
1.1.9 Other		(858.723)
1.2 Changes in Operating Assets and Liabilities to Banking Operations		(1.948.903)
1.2.1 Net (Increase)/Decrease in Financial Assets at Fair Value Through Profit or Loss		(179.405)
1.2.2 Net Decrease in Due From Banks		-
1.2.3 Net (Increase) in Loans		(1.108)
1.2.4 Net (Increase) in Other Assets		(1.606.204)
1.2.5 Net Increase in Bank Deposits		(114.745)
1.2.6 Net Increase/(Decrease) in Other Deposits		1.339.986
1.2.7 Net Increase/(Decrease) in Financial Liabilities at Fair Value Through Profit or Loss		(119.775)
1.2.8 Net (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)	(608.954)
I. Net Cash Provided From Banking Operations		(788.529)
B. CASH FLOWS FROM INVESTING ACTIVITIES		
II. Net Cash Provided From Investing Activities		(72.621)
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		(34.931)
2.4 Cash Obtained from the Sale of Tangible and Intangible Asset		11.090
2.5 Cash Paid for Purchase of Financial Assets at Fair Value Through Other Comprehensive Income		(1.591.084)
2.6 Cash Obtained from the Sale of Financial Assets at Fair Value Through Other Comprehensive Income		1.498.283
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		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 Outflow From Funds Borrowed and Securities Issued		-
3.3 Equity Instruments Issued		-
3.4 Dividends Paid		-
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)	(2.792)
V. Net Increase/(Decrease) in Cash and Cash Equivalents (I+II+III+IV)		(863.942)
VI. Cash and Cash Equivalents at Beginning of the Period	(VI-d)	5.648.090
VII. Cash and Cash Equivalents at end of the Period	(VI-d)	4.784.148

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. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS 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.

(***) Profit distribution table has been prepared according to the unconsolidated financial statements of the Parent Bank

The accompanying explanations and notes set out on pages 21 to 151 form an integral part of these consolidated financial statements.

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED
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HSBC BANK A.Ş. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS 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 21 to 151 form an integral part of these consolidated financial statements

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED
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HSBC BANK A.Ş. AND ITS SUBSIDIARIES

**NOTES RELATED TO CONSOLIDATED 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 consolidated financial statements and related notes and explanations in accordance with the Turkish Accounting Standards and Regulation on the Principles and Procedures Regarding Banks’ Accounting Application and Keeping Documents:

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

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

The preparation of the consolidated financial statements in conformity with TAS requires the Parent 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 estimates and projections used are explained in the corresponding disclosures.

Disclosures of TFRS 9 Financial Instruments:

The Group 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 Group 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.

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HSBC BANK A.Ş. AND ITS SUBSIDIARIES

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

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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 Group will apply the impairment requirements on the opening balance sheet on 1 January 2019 by reflecting it to the opening equity 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.

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 Group 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 Group 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 Group 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.

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I. EXPLANATIONS ON BASIS OF PRESENTATION (Continued)

Impairment of Financial Assets

As of 1 January 2019, the Group 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 2018, method of provisions for impairment as set out in accordance with the related legislation of BRSA as mentioned in the Section 3 Part VII-d 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 Group will recognize an adjustment to opening retained earnings at 1 January 2019, 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 Group's equity is expected to have a negative impact on 8% to 10% as of 31 December 2018. Along with that, the effect of the implementation of the standard on the Group’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 Group 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 Group on 1 January 2019,.

The Group 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.

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I. EXPLANATIONS ON BASIS OF PRESENTATION (Continued)

As permitted by the transitional provisions of TFRS 9, the Group 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.

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 5.846 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. With in 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	2.166.192	Measured at Amortised Cost	2.166.192
Marketable Securities	Fair Value Through Profit or Loss	278.421	Fair Value Through Profit or Loss	292.862
	Fair Value Through Other Comprehensive Income	1.363.506	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	15.616.918	Measured at Amortised Cost	15.616.918

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

TFRS 15 Revenue from Customer Contracts:

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.

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I. EXPLANATIONS ON BASIS OF PRESENTATION (Continued)

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 Group 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 Group does not expect a significant impact in its financials with the adaptation of TFRS 16 at 1 January 2019.

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

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

c. Explanation for convenience translation into English:

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

d. Different accounting policies applied in the preparation of consolidated financial statements:

Where the accounting policies used by the subsidiaries differ from the Parent Bank, the differences are aligned in the financial statements by taking into account the materiality criterion.

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

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

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

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

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

**III. EXPLANATIONS ON CONSOLIDATED INVESTMENTS IN ASSOCIATES AND
SUBSIDIARIES**

The Group has no investments in associates as of 31 December 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 Parent 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.

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IV. EXPLANATIONS ON FORWARD TRANSACTIONS, OPTIONS AND DERIVATIVE INSTRUMENTS

In order to reduce the foreign exchange position risk the Parent Bank conducts currency forward purchase and sale transaction agreements, currency swap purchase and sale transaction agreements and option purchase and sale agreements. In order to reduce the interest risk, the Parent 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 Parent Bank applied cash flow hedge accounting by cross currency swap transactions in order to hedge itself from the changes in the interest rates of the fixed-rate time deposits, which have maturity of 1-3 month. The Parent Bank has performed strength tests for risk protection accounting in balance sheet date, while the effective portions are classified as “Accumulated Other Comprehensive Income or Expense 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 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.

VI. EXPLANATIONS ON FEE AND COMMISSION INCOME AND EXPENSES

All fees and commission income/expenses are recognised on an accrual basis in accordance with the matching principle or “Effective Rate Method (Internal Rate of Return Method)” and TFRS 15 “Revenue Standard from Customer Contracts”, except for certain commission income for various banking services, which are recorded as income at the time of collection. Contract based fees or fees received in return for services such as the purchase and sale of assets on behalf of a third party or legal person are recognised as income at the time of collection.

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VII. EXPLANATIONS ON FINANCIAL ASSETS

The Group categorizes its financial assets as fair value through profit/loss, 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 Group 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 Parent Bank management and the nature of contractual cash flows of the financial asset are taken into consideration. When the business model determined by the Parent 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.

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.

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VII. EXPLANATIONS ON FINANCIAL ASSETS (Continued)

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 Group has no marketable securities measured at amortised 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 Group 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 Parent 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.

Group’s loans are recorded under the “Measured at Amortised Cost” account.

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

The Group 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 recognized in the income statement.

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

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.

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IX. EXPLANATIONS ON IMPAIRMENT OF FINANCIAL ASSETS

In each balance sheet date, the Group assesses if there is an objective evidence of the impairment of financial assets or financial asset groups. If such an indicator exists, the Group will perform the calculations. Impairment loss incurs if, and only if, there is an objective evidence that the expected future cash flows of financial assets of group of financial assets are adversely affected by an event (“loss event”) incurred subsequent to recognition. In case the loans could not be collected; loans and other receivables are classified in order to provide specific and general provisions in accordance with the Communiqué on “Regulation on the Principles and Procedures Related to the Determination of the Loans and Other Receivables for which Provisions shall be 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 Parent 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 Aside”, recognised under profit and loss accounts are reserved for the loans classified within this framework.

X. EXPLANATIONS ON OFFSETTING FINANCIAL INSTRUMENTS

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

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 Group 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 Parent Bank has no securities lending transactions.

XII. EXPLANATIONS ON PROPERTY AND EQUIPMENT HELD FOR SALE PURPOSE AND RELATED TO DISCONTINUED OPERATIONS AND EXPLANATIONS ON 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 “IFRS 5 Held for Sale Fixed Assets and Turkey Related to Discontinued Operations Financial Reporting Standards” under assets held for sale and discontinued operations.

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

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XIII. EXPLANATIONS ON GOODWILL AND OTHER INTANGIBLE ASSETS

The Group’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).

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 31 December 2004 are recognised with their purchase cost in the financial statements. Property and equipment are amortised by using the straight-line method based on their useful lives, such as buildings depreciated at rate 2%, transportation vehicles at rates 15% - 20%, furnitures at rate 20%, other tangible assets at rates ranging from 2% to 33%. The depreciation charge for items remaining in the property and equipment for less than an accounting period at the balance sheet date is calculated in proportion to the period the item will remain in property and equipment. Gains and losses on the disposal of property and equipment are determined by deducting the net book value of the property and equipment from its net sales revenue. Repair and maintenance expenses in order to increase the useful life of the property and equipment are capitalized, other repair and maintenance costs are recognised as expenses. There are no mortgages, pledges or similar precautionary measures on tangible fixed assets.

XV. EXPLANATIONS ON LEASING TRANSACTIONS

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

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

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XVI. EXPLANATIONS ON PROVISIONS AND CONTINGENT LIABILITIES

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

XVII. EXPLANATIONS ON CONTINGENT ASSETS

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

XVIII. EXPLANATIONS ON OBLIGATIONS RELATED TO EMPLOYEE RIGHTS

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

As of 31 December 2018, actuarial loss amounted to 28.652 TL (31 December 2017: TL 31.166 loss) is recognized under other income reserves in the financial statements.

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

XIX. 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 Group after adjusting for certain disallowable expenses, exempt income and other allowances. No further tax is payable unless the profit is distributed.

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XIX. EXPLANATIONS ON TAXATION (Continued)

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 nonresident 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, can be credited against the annual corporation tax calculated on their annual corporate income in the following year. Companies file their tax returns until the 25th day of the fourth month after the closing of the accounting year to which they relate.

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

b. Deferred Tax Asset/Liability:

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

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 asset 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 in accordance with the “Communique on Uniform Chart of Accounts and Prospectus” dated 20 September 2017. With in 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 Parent Bank has recognized deferred tax receivables amounting to TL 139.325 as assets (31 December 2017: Deferred tax receivables amounting to TL 147.650 as assets).

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XIX. EXPLANATIONS ON TAXATION (Continued)

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

c. Transfer Pricing:

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

XX. EXPLANATIONS ON BORROWINGS

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

XXI. EXPLANATIONS ON ISSUANCE OF SHARE CERTIFICATES

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

XXII. 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.

XXIII. EXPLANATIONS ON GOVERNMENT INCENTIVES

As of 31 December 2018 and 31 December 2017, the Group has no government incentives.

XXIV. EXPLANATIONS ON OPERATING SEGMENTS

Segment reporting is presented in Note XII of Section Four.

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XXV. PROFIT RESERVES AND PROFIT DISTRIBUTION

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

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

XXVI. EARNINGS/LOSS PER SHARE

Earnings per share disclosed in the statement of profit or loss calculated by dividing net earning (loss) for the year to the number of shares.

	Current Period 31 December 2018
Net Earnings/(Loss) for the Period	346.648
Number of Shares	65.229.000.000
Earnings/(Loss) per Share (*)	0,005314

(*) Amounts are expressed in full TL.

	Prior Period 31 December 2017
Net Earnings/(Loss) for the Period	290.634
Number of Shares	65.229.000.000
Earnings/(Loss) per Share (*)	0,004456

(*) Amounts are expressed in full TL.

XXVII. CASH AND CASH EQUIVALENTS

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

XXVIII. RELATED PARTIES

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

XXIX. RECLASSIFICATIONS

None.

XXX. OTHER MATTERS

The Group has not chosen not to revise the comparative figures in accordance with the relevant provisions of TFRS 9. As per BRSA's Communiqué on Financial Reporting dated 17 April 2018 and numbered 24049440-045.01 [3/8] -E.5380, prior period data are presented in the old format and TFRS 9 provisions are not applied.

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SECTION FOUR

EXPLANATIONS RELATED TO FINANCIAL STRUCTURE AND RISK MANAGEMENT

I. EXPLANATIONS RELATED TO COMPONENTS OF CONSOLIDATED SHAREHOLDERS’ EQUITY

Equity and Capital Adequacy Standard Ratio 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 Group and the Parent Bank is amounting to TL 4.462.042 and TL 4.414.676 respectively, and capital adequacy ratio of the Group and the Parent Bank is 20,13% and 20,00% respectively. As of 31 December 2017 has been in accordance with former regulations, thus equity of the Group and the Parent Bank is amounting to TL 3.621.536 and 3.580.597 respectively and the capital adequacy ratio was 17,67% and 17,56% respectively. Capital adequacy ratio of the Parent Bank is higher than the minimum rate required by the related regulations.

a. Information about shareholders’ equity items:

	Current Period 31 December 2018	Amount as per the regulation before 1.1.2014 (*)
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	2.060.279	
Gains recognized in equity as per TAS	-	
Profit	346.648	
Current Period Profit	346.648	
Prior Period Profit	-	
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and cannot be recognized within profit for the period	-	
Minorities’ Share	-	
Common Equity Tier I Capital Before Deductions	3.059.217	
Deductions from Common Equity Tier I 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	74.744	
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)	150.955	150.955
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	267.532	
Total Common Equity Tier I Capital	2.791.685	

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

	Current Period 31 December 2018	Amount as per the regulation before 1.1.2014 (*)
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)	-	
Third parties’ share in the Additional Tier I capital	-	
Third parties’ share in the Additional Tier I capital (Covered by Temporary Article 3)	-	
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 (-)	-	
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)	2.791.685	
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)	-	
Third parties’ share in the Additional Tier II capital	-	
Third parties’ share in the Additional Tier II capital (Covered by Temporary Article 3)	-	
Provisions (Amounts explained in the first paragraph of the article 8 of the Regulation on Bank Capital)	225.850	
Total Deductions from Tier II Capital	1.680.174	
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	1.679.960	
Total Equity (Total Tier I and Tier II Capital)	4.471.645	
Total Tier I and Tier II Capital (Total 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	9.603	
Other items to be Defined by the BRSA	-	
Items to be Deducted from the Sum of Tier I and Tier II Capital (Capital) During the Transition Period		
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation	-	
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation	-	
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation	-	

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EQUITY (Continued)**

	Current Period 31 December 2018	Amount as per the regulation before 1.1.2014 (*)
CAPITAL		
Total Capital (Total of Tier I Capital and Tier II Capital)	4.462.042	
Total Risk Weighted Assets	22.171.503	
CAPITAL ADEQUACY RATIOS		
Consolidated CET1 Capital Ratio (%)	12,59	
Consolidated Tier I Capital Ratio (%)	12,59	
Consolidated Capital Adequacy Ratio (%)	20,13	
BUFFERS		
Bank-specific total CET1 Capital 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(%)	6,21	
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 Loan Provisions for Exposures in Standard Approach (before limit of one hundred and twenty five per ten thousand)	404.760	
General Loan Provisions for Exposures in Standard Approach Limited by 1,25% of Risk Weighted Assets	229.353	
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach	-	
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach, Limited by 0,6% Risk Weighted Assets	-	
Debt Instruments Covered by Temporary Article 4 (effective between 1 January 2018-1 January 2022)		
Upper Limit for Additional Tier I Capital Items subject to Temporary Article 4	-	
Amount of Additional Tier I Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	
Upper Limit for Additional Tier II Capital Items subject to Temporary Article 4	-	
Amount of Additional Tier II Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	

(*) Amounts to be recognized under transition regulations.

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EQUITY (Continued)**

	Prior Period 31 December 2017	Amount as per the regulation before 1.1.2014 (*)
COMMON EQUITY TIER I CAPITAL		
Paid-in Capital to be Entitled for Compensation after All Creditors	652.290	
Share Premium	-	
Reserves	1.707.614	
Other Comprehensive Income according to TAS	-	
Profit	290.634	
Current Period Profit	290.634	
Prior Period Profit	-	
Bonus Shares from Associates, Affiliates and Joint-Ventures not Accounted in Current Period's Profit	-	
Minority Shares	-	
Common Equity Tier I Capital Before Deductions	2.650.538	
Deductions From Common Equity Tier I Capital		
Valuation adjustments calculated as per the article 9. (i) of the Regulation on Bank Capital	-	
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS	49.065	
Leasehold Improvements on Operational Leases	19.280	
Goodwill Netted with Deferred Tax Liabilities	-	
Other Intangible Assets Netted with Deferred Tax Liabilities Except Mortgage Servicing Rights	118.344	147.930
Deferred tax assets that rely on future profitability excluding those arising from temporary differences(net of related tax liability)	48.221	
Differences arise when assets and liabilities not held at fair value, are subjected to cash flow hedge accounting	-	
Total credit losses that exceed total expected loss calculated according to the Regulation on Calculation of Credit Risk by Internal Ratings Based Approach	-	
Securitization gains	-	
Unrealized gains and losses from changes in bank's liabilities' fair values due to changes in creditworthiness	-	
Net amount of defined benefit plans	-	
Direct and Indirect Investments of the Bank on its own Tier I Capital	-	
Shares Obtained against Article 56, Paragraph 4 of the Banking Law	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the Bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the Bank owns more than 10% of the issued share capital (amount above 10% threshold)	-	
Mortgage Servicing Rights Exceeding the 10% Threshold of Tier I Capital	-	
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
Amounts exceeding 15% of Tier 1 Capital according to Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (2nd article temporary second paragraph)	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the Bank owns more than 10% of the issued common share capital of the entity	-	
Amounts related to mortgage servicing rights	-	
Excess amount arising from deferred tax assets based on temporary differences	-	
Other items to be Defined by the BRSA (-)	-	
Deductions from Tier I Capital in cases where there are no adequate Additional Tier I or Tier II Capitals(-)	-	
Total Deductions from Common Equity Tier I Capital	234.910	
Total Common Equity Tier I Capital	2.415.628	

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	Prior Period 31 December 2017	Amount as per the regulation before 1.1.2014 (*)
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)	-	
Third parties’ share in the Additional Tier I capital	-	
Third parties’ share in the Additional Tier I capital (Covered by Temporary Article 3)	-	
Additional Tier I Capital before Deductions		
Deductions from Additional Tier I Capital		
Direct and Indirect Investments of the Bank on its own Additional Tier I Capital	-	
Investments in Equity Instruments Issued by Banks or Financial Institutions Invested in Bank’s Additional Tier I Capital and Having Conditions Stated in the Article 7 of the Regulation	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the Bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital	-	
Other items to be defined by the BRSA	-	
Items to be Deducted from Tier I Capital during the Transition Period		
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	29.586	
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	12.055	
Deduction from Additional Tier I Capital when there is not enough Tier II Capital (-)	-	
Total Deductions from Additional Tier I Capital	41.641	
Total Additional Tier I Capital		
Total Tier I Capital (Tier I Capital= Common Equity Tier I Capital + Additional Tier I Capital)	2.373.987	
TIER II CAPITAL		
Debt Instruments and the Related Issuance Premiums Defined by the BRSA	1.039.940	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Covered by Temporary Article 4)	-	
Third parties’ share in the Additional Tier II capital	-	
Third parties’ share in the Additional Tier II capital (Temporary Article 3)	-	
Provisions (Amounts explained in the first paragraph of the article 8 of the Regulation on Bank Capital)	210.296	
Total Deductions from Tier II Capital	1.250.236	
Deductions from Tier II Capital		
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-	
Investments in Equity Instruments Issued by Banks and Financial Institutions Invested in Bank’s Tier II Capital and Having Conditions Stated in the Article 8 of the Regulation	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the Bank does not own more than 10% of the issued share capital (amount above 10% threshold) (-)	-	
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital 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	1.250.046	
Total Equity (Total Tier I and Tier II Capital)	3.624.033	
Amounts Deducted from Equity		
Loans Granted against the Articles 50 and 51 of the Banking Law	-	
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years	-	
Other items to be Defined by the BRSA	2.497	
Items to be Deducted from the Sum of Tier I and Tier II Capital (Capital) During the Transition Period		
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation	-	
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Tier I Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation	-	
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation	-	

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

	Prior Period 31 December 2017	Amount as per the regulation before 1.1.2014 (*)
CAPITAL		
Total Capital (Total of Tier I Capital and Tier II Capital)	3.621.536	
Total Risk Weighted Assets	20.490.345	
CAPITAL ADEQUACY RATIOS		
Consolidated CET1 Capital Ratio (%)	11,79	
Consolidated Tier I Capital Ratio (%)	11,59	
Consolidated Capital Adequacy Ratio (%)	17,67	
BUFFERS		
Bank-specific total CET1 Capital Ratio (%)	5,75	
Capital Conservation Buffer Ratio (%)	1,25	
Bank-specific Counter-Cyclical Capital Buffer Ratio (%)	0,00	
Systemic 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(%)	6,04	
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 Loan Provisions for Exposures in Standard Approach (before limit of one hundred and twenty five per ten thousand)	430.929	
General Loan Provisions for Exposures in Standard Approach Limited by 1,25% of Risk Weighted Assets	210.296	
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach	-	
Total Loan Provision that Exceeds Total Expected Loss Calculated According to Communiqué on Calculation of Credit Risk by Internal Ratings Based Approach, Limited by 0,6% Risk Weighted Assets	-	
Debt Instruments Covered by Temporary Article 4 (to be implemented between 1 January 2018 and 1 January 2022)		
Upper Limit for Additional Tier I Capital Items subject to Temporary Article 4	-	
Amount of Additional Tier I Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	
Upper Limit for Additional Tier II Capital Items subject to Temporary Article 4	-	
Amount of Additional Tier II Capital Items Subject to Temporary Article 4 that Exceeds Upper Limit	-	

(*) Amounts to be recognized under transition regulations.

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

b. Items included in consolidated 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 Loans
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
	The conversion rate / value shall be calculated based on the market data in the case of the exercise of the right..
If convertible, conversion rate	
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"

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

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

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

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

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

The difference between Total Capital and Equity in the consolidated balance sheet mainly arises from the general provision 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 CONSOLIDATED CREDIT RISK

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

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

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II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)

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

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

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

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

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

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

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

Corporate and Commercial Loan Portfolio Rating System:

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

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

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.

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II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)

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.

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.

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II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)

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	6.161.627	6.076.603
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 organisations	-	-
Conditional and unconditional receivables from banks and brokerage houses	1.819.072	4.028.636
Conditional and unconditional corporate receivables	13.356.174	13.843.437
Conditional and unconditional retail receivables	3.520.724	3.846.962
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	796.476	638.411
Total	27.112.650	29.688.520

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

Risk Classifications	Prior Period Risk Amount	Average Risk Amount(*)
Conditional and unconditional receivables from central governments or central banks	5.266.580	6.942.083
Conditional and unconditional receivables from regional governments or local governments	-	-
Conditional and unconditional receivables from administrative units and non-commercial enterprises	67	67
Conditional and unconditional receivables from multilateral development banks	-	-
Conditional and unconditional receivables from international organisations	-	-
Conditional and unconditional receivables from banks and brokerage houses	2.612.571	2.943.712
Conditional and unconditional corporate receivables	11.926.084	10.815.561
Conditional and unconditional retail receivables	4.146.869	4.480.935
Conditional and unconditional receivables secured by mortgages	696.616	768.924
Past due receivables	289.673	366.531
Receivables defined in high risk category by BRSA	-	-
Securities collateralized by mortgages	-	-
Securitization positions	-	-
Short-term receivables from to banks, brokerage houses and corporates	-	-
Investments of natured collective investment enterprise	-	-
Stock Investments	-	-
Other receivables	417.945	436.962
Total	25.356.405	26.745.775

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

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II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)

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

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

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

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

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

As of 31 December 2018, the Parent 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	-	-
Prefinancing 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	-
Prefinancing Loans	-	-
Commercial Letter of Credit Commitments	-	-
Factoring Guarantees	-	-
Bad Check Payments	12	-
Other Liabilities	-	-
Total	22	-

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II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)

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

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

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

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

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

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

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

The proportion of the Group’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 Group’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 Parent Bank: TL 404.760 (31 December 2017: TL 430.929).

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II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)

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

Current Period 31 December 2018	Risk Categories (***)																	Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	
Domestic	6.161.627	-	249	-	-	556.102	13.216.300	3.480.334	1.262.297	190.203	-	-	-	-	-	-	796.476	25.663.588
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	-	172	-	-	-	-	-	-	-	-	-	13.454
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	6.161.627	-	249	-	-	1.819.072	13.356.174	3.520.724	1.266.774	191.554	-	-	-	-	-	-	796.476	27.112.650

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

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

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

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

Prior Period 31 December 2017	Risk Categories (***)																	Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	
Domestic	5.266.580	-	67	-	-	1.027.212	11.865.652	4.132.053	689.535	289.663	-	-	-	-	-	-	417.945	23.688.707
European Union Countries	-	-	-	-	-	988.651	60.422	6.936	3.922	10	-	-	-	-	-	-	-	1.059.941
OECD Countries (*)	-	-	-	-	-	67.632	-	197	79	-	-	-	-	-	-	-	-	67.908
Off – Shore Banking Regions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
USA, Canada	-	-	-	-	-	378.384	4	538	264	-	-	-	-	-	-	-	-	379.190
Other Countries	-	-	-	-	-	150.692	6	7.145	2.816	-	-	-	-	-	-	-	-	160.659
Associates Subsidiaries and Joint Venture	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Undistributed Assets / Liabilities (**)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	5.266.580	-	67	-	-	2.612.571	11.926.084	4.146.869	696.616	289.673	-	-	-	-	-	-	417.945	25.356.405

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

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

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

- 1 Conditional and unconditional receivables from central governments or central banks
- 2 Conditional and unconditional receivables from regional governments or local governments
- 3 Conditional and unconditional receivables from administrative units and non-commercial enterprises
- 4 Conditional and unconditional receivables from multilateral development banks
- 5 Conditional and unconditional receivables from international organisations
- 6 Conditional and unconditional receivables from banks and brokerage houses
- 7 Conditional and unconditional corporate receivables
- 8 Conditional and unconditional retail receivables
- 9 Conditional and unconditional receivables secured by mortgages
- 10 Past due receivables
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- 14 Short-term receivables from to banks, brokerage houses and corporates
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II. EXPLANATIONS ON CONSOLIDATED 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	4.002.887	3.484.727	7.487.614
Mining and Quarrying	-	-	-	-	-	-	31.220	7	-	2.129	-	-	-	-	-	-	-	-	2.185	31.171	33.356
Production	4	-	33	-	-	-	6.395.478	82.741	227.596	104.352	-	-	-	-	-	-	-	1.721	3.828.761	2.983.164	6.811.925
Electricity, Gas, Water	-	-	-	-	-	-	642.300	-	-	33	-	-	-	-	-	-	-	-	171.941	470.392	642.333
Construction	-	-	-	-	-	-	1.496.161	28	432.154	4.615	-	-	-	-	-	-	-	-	137.869	1.795.089	1.932.958
Services	6.161.623	-	-	-	-	1.819.072	3.458.936	200	163.328	29.438	-	-	-	-	-	-	-	97	6.292.459	5.340.235	11.632.694
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	-	-	-	-	-	-	-	-	268.246	27.610	295.856
Transportation and Telecommunication	-	-	-	-	-	-	1.144.202	11	45.250	176	-	-	-	-	-	-	-	47	424.041	765.645	1.189.686
Financial Institutions	6.161.623	-	-	-	-	1.819.072	8.220	6	-	-	-	-	-	-	-	-	-	-	4160.638	3.828.283	7.988.921
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	3.437.740	443.696	50.967	-	-	-	-	-	-	-	794.658	4.590.424	1.417.977	6.008.401
TOTAL	6.161.627	-	249	-	-	1.819.072	13.356.174	3.520.724	1.266.774	191.554	-	-	-	-	-	-	-	796.476	15.026.148	12.086.502	27.112.650

(*) 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
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II. EXPLANATIONS ON CONSOLIDATED 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	-	-	-	-	-	-	59.635	393	-	215	-	-	-	-	-	-	-	39.452	20.791	60.243	
Forestry	-	-	-	-	-	-	107	81	-	29	-	-	-	-	-	-	-	217	-	217	
Fishing	-	-	-	-	-	-	28.903	7	-	-	-	-	-	-	-	-	-	44	28.866	28.910	
Industry	-	-	-	-	-	-	6.466.974	94.769	106.756	85.237	-	-	-	-	-	-	417.945	3.632.634	3.539.047	7.171.681	
Mining and Quarrying	-	-	-	-	-	-	15.176	194	-	3.499	-	-	-	-	-	-	-	4.277	14.592	18.869	
Production	-	-	-	-	-	-	5.900.846	91.837	106.756	81.696	-	-	-	-	-	-	417.945	3.561.364	3.037.716	6.599.080	
Electricity, Gas, Water	-	-	-	-	-	-	550.952	2.738	-	42	-	-	-	-	-	-	-	66.993	486.739	553.732	
Construction	-	-	-	-	-	-	924.102	6.227	44.694	10.429	-	-	-	-	-	-	-	79.315	906.137	985.452	
Services	5.266.580	-	-	-	-	2.612.571	3.377.760	28.303	166.687	41.641	-	-	-	-	-	-	-	6.220.783	5.272.759	11.493.542	
Wholesale and Retail Trade	-	-	-	-	-	-	1.934.995	19.513	5.622	39.447	-	-	-	-	-	-	-	1.044.458	955.119	1.999.577	
Hotel and Beverage Service	-	-	-	-	-	-	297.013	277	8.720	1.872	-	-	-	-	-	-	-	285.483	22.399	307.882	
Transportation and Telecommunication	-	-	-	-	-	-	730.424	4.008	16.400	296	-	-	-	-	-	-	-	237.179	513.949	751.128	
Financial Institutions	5.266.580	-	-	-	-	2.612.571	54.367	13	-	2	-	-	-	-	-	-	-	4.644.670	3.288.863	7.933.533	
Real Estate and Lending Service	-	-	-	-	-	-	360.283	3.890	135.945	19	-	-	-	-	-	-	-	7.751	492.386	500.137	
Self-Employment Service	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-	1	-	1	
Education Service	-	-	-	-	-	-	199	102	-	2	-	-	-	-	-	-	-	303	-	303	
Health and Social Services	-	-	-	-	-	-	478	500	-	3	-	-	-	-	-	-	-	938	43	981	
Other	-	-	67	-	-	-	1.068.603	4.017.089	378.479	152.122	-	-	-	-	-	-	-	5.012.404	603.956	5.616.360	
TOTAL	5.266.580	-	67	-	-	2.612.571	11.926.084	4.146.869	696.616	289.673	-	-	-	-	-	-	417.945	14.984.849	10.371.556	25.356.405	

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

j. Term distribution of risks with term structure:

Current Period – 31 December 2018	Time to Maturity					Unallocated
	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1 Year and Over	
Risk Categories						
Conditional and unconditional receivables from central governments or central banks	5.635.284	-	13.960	-	512.383	-
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 organisations	-	-	-	-	-	-
Conditional and unconditional receivables from banks and brokerage houses	548.075	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	2.351.732	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	796.476	-	-	-	-	-
TOTAL	13.361.265	2.121.443	2.001.672	2.426.824	7.009.892	191.554

Prior Period – 31 December 2017	Time to Maturity					Unallocated
	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1 Year and Over	
Risk Categories						
Conditional and unconditional receivables from central governments or central banks	3.915.800	-	-	-	1.350.780	-
Conditional and unconditional receivables from regional governments or local governments	-	-	-	-	-	-
Conditional and unconditional receivables from administrative units and non-commercial enterprises	67	-	-	-	-	-
Conditional and unconditional receivables from multilateral development banks	-	-	-	-	-	-
Conditional and unconditional receivables from international organisations	-	-	-	-	-	-
Conditional and unconditional receivables from banks and brokerage houses	1.147.129	254.770	335.049	234.308	641.315	-
Conditional and unconditional corporate receivables	2.643.713	1.879.586	1.576.113	1.755.650	4.071.022	-
Conditional and unconditional retail receivables	97.677	68.885	71.845	169.232	3.739.230	-
Conditional and unconditional receivables secured by mortgages	9.139	4.505	8.482	19.672	654.818	-
Past due receivables	-	-	-	-	-	289.673
Receivables defined in high risk category by BRSA	-	-	-	-	-	-
Securities collateralized by mortgages	-	-	-	-	-	-
Securitization positions	-	-	-	-	-	-
Short-term receivables from to banks, brokerage houses and corporates	-	-	-	-	-	-
Investments of natured collective investment enterprise	-	-	-	-	-	-
Stock Investments	-	-	-	-	-	-
Other receivables	400.995	-	-	-	16.950	-
TOTAL	8.214.520	2.207.746	1.991.489	2.178.862	10.474.115	289.673

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II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)

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

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

Rating Scores;

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

are used in risk classes.

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

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

Credit Quality Degrees	Moody's Risk Rating	Risk Categories		
		Exposures to Central Governments or Central Banks	Exposures to Central Governments or Central Banks	
			Exposures with Remaining Maturities Less Than 3 Months	Exposures with Remaining Maturities More Than 3 Months
1	Aaa 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%

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II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)

I. Risk Amounts according to Risk Weight

31 December 2018	0%	10%	20%	35%	50%	75%	100%	150%	200%	250%	1250%	Deducted From Equity
1. Amount Before Credit Risk Mitigation	6.296.499	-	1.058.098	-	629.565	3.735.237	15.390.652	2.599	-	-	-	9.603
2. Amount After Credit Risk Mitigation	6.296.499	-	1.058.098	293.607	1.399.390	3.307.819	14.849.472	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	5.456.457	-	1.644.628	378.423	1.125.738	3.938.866	12.648.822	77.482	-	85.989	-	2.497
2. Amount After Credit Risk Mitigation	5.456.457	-	1.644.628	378.424	1.125.738	3.938.866	12.514.051	77.482	-	85.989	-	2.497

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

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

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

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II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)

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 / Counterparty	Impaired Credits	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	392.373	183.691	4.431	13.422
Total	881.914	2.376.478	68.462	690.775

(*) Close monitoring amounts.

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

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

Prior Period Major Sectors / Counterparty	Impaired Credits	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	562.675	175.646	17.575	433.180
Total	863.211	769.458	41.328	587.427

(*) Close monitoring amounts.

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

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

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II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)

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

Current Period 31 December 2018	Opening Balance	Provisions provided during the period	Provision Reversals	Other Adjustments	Closing Balance
Specific Provisions	587.427	227.944	(120.748)	(3.848)	690.775
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	981.338	468.087	(233.101)	(628.897)	587.427
General Provisions	481.729	-	(50.800)	-	430.929

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

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

	Commercial Loans	Consumer Loans	Credit Cards	Total
1 January 2018	155.241	161.676	270.510	587.427
Transferred during the period	63.557	42.073	122.314	227.944
Collection during the period	(9.141)	(52.889)	(58.718)	(120.748)
Write-off/sold	-	(1.511)	(2.337)	(3.848)
31 December 2018	209.657	149.349	331.769	690.775

	Commercial Loans	Consumer Loans	Credit Cards	Total
1 January 2017	191.410	321.241	468.687	981.338
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	155.241	161.676	270.510	587.427

r. Information on types of loans and provisions:

	Commercial Loans	Consumer Loans	Credit Cards	Total
Current Period - 31 December 2018				
Standard loans	9.653.535	1.399.382	2.078.038	13.130.955
Close monitoring loans	2.167.372	84.669	124.437	2.376.478
Non-performing loans	293.723	209.033	379.158	881.914
Specific provisions (-)	209.657	149.349	331.769	690.775
Total	11.904.973	1.543.735	2.249.864	15.698.572

(*) Includes the factoring receivables amounting to TL 192.282

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II. EXPLANATIONS ON CONSOLIDATED CREDIT RISK (Continued)

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

(*) Includes factoring receivables amounting to TL 394.213.

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

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

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

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IV. EXPLANATIONS ON CONSOLIDATED CURRENCY RISK

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

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

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

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

c. Management policy for foreign currency risk:

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

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

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

Current Period – 31 December 2018	USD (\$)	Euro (€)
Balance Sheet Date		
Parent Bank’s 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		
Parent Bank’s 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 Group’s foreign exchange bid rates for the last thirty days preceding the balance sheet date for major foreign currencies:

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

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IV. EXPLANATIONS ON CONSOLIDATED CURRENCY RISK (Continued)

f. Information related to Group’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	2.656	9.737	24.541
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	259.072	65	511.875
Total Assets	5.890.666	12.946.642	467.127	19.304.435
Liabilities				
Bank Deposits	-	1.698.556	-	1.698.556
Foreign Currency Deposits	5.735.909	8.636.762	1.278.196	15.650.867
Funds from Interbank Money Market	-	-	-	-
Funds 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	328.660	751.367	35.982	1.116.009
Total Liabilities	6.096.885	12.646.385	1.324.428	20.067.698
Net on Balance Sheet Position	(206.219)	300.257	(857.301)	(763.263)
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	1.316.616	1.102.091	227.014	2.645.721
Prior Period - 31 December 2017				
Total Assets	3.984.253	5.953.539	316.849	10.254.641
Total Liabilities	3.405.365	10.793.239	822.061	15.020.665
Net on-Balance Sheet Position	578.888	(4.839.700)	(505.212)	(4.766.024)
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	938.930	123.682	1.874.824

(*) 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: 432)

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IV. EXPLANATIONS ON CONSOLIDATED CURRENCY RISK (Continued)

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

	Current Period 31 December 2018	
	Income Statement	Equity (*)
USD	7.050	7.050
Euro	11.008	11.008
Other	(2.831)	(2.831)
Total	15.227	15.227

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

	Current Period 31 December 2017	
	Income Statement	Equity (*)
USD	30.053	30.053
Euro	(18.979)	(18.979)
Other	1.333	1.333
Total	12.407	12.407

(*) 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 CONSOLIDATED INTEREST RATE RISK

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

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

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V. EXPLANATIONS ON CONSOLIDATED INTEREST RATE RISK (Continued)

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

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	14.593	-	-	-	-	40.370	54.963
Financial Assets at Fair Value Through Profit or Loss (Net) (**)	200.407	215.768	473.262	131.635	7.068	20.223	1.048.363
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	6.028.930	1.622.793	2.493.079	4.585.695	776.936	191.139	15.698.572
Financial Assets Measured at Amortised Cost	-	-	-	-	-	-	-
Other Assets	1.986	-	72	163.489	-	889.222	1.054.769
Total Assets	18.195.619	1.838.561	2.966.413	5.336.995	838.957	3.672.193	32.848.738
Liabilities							
Bank Deposits	1.744.608	-	-	-	-	132.885	1.877.493
Other Deposits	15.717.329	3.182.694	663.602	8.126	-	3.409.245	22.980.996
Funds from Interbank Money Market	-	-	-	-	-	-	-
Miscellaneous Payables	181.226	-	-	-	-	117.839	299.065
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	-	3.483.688	4.907.598
Total Liabilities	19.330.534	4.002.321	1.877.811	456.455	-	7.181.617	32.848.738
Balance Sheet Long Position	-	-	1.088.602	4.880.540	838.957	-	6.808.099
Balance Sheet Short Position	(1.134.915)	(2.163.760)	-	-	-	(3.509.424)	(6.808.099)
Off Balance Sheet Long Position	50.697	-	66.833	-	-	-	117.530
Off Balance Sheet Short Position	-	(20.870)	-	(13.430)	-	-	(34.300)
Total Position	(1.084.218)	(2.184.630)	1.155.435	4.867.110	838.957	(3.509.424)	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".

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V. EXPLANATIONS ON CONSOLIDATED 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	355.407	-	-	-	-	15.820	371.227
Financial Assets at Fair Value Through Profit or Loss (Net)	154.548	261.374	266.616	263.907	14.755	5.420	966.620
Interbank Money Market Placements	1.794.965	-	-	-	-	-	1.794.965
Financial Assets Available-for-Sale (Net)	-	605.364	262.257	414.529	66.915	14.441	1.363.506
Loans (*)	6.960.030	1.530.381	2.442.178	3.635.034	773.513	275.782	15.616.918
Financial Assets Measured at Amortised Cost	-	-	-	-	-	-	-
Other Assets	9.195	-	15	163.666	-	468.541	641.417
Total Assets	11.994.757	2.397.119	2.971.066	4.477.136	855.183	1.962.847	24.658.108
Liabilities							
Bank Deposits	1.451.801	-	-	-	-	57.602	1.509.403
Other Deposits	10.771.214	1.277.473	158.725	47	-	2.632.791	14.840.250
Funds from Interbank Money Market	-	-	-	-	-	-	-
Miscellaneous Payables	253.891	4.875	3.873	370	-	-	263.009
Issued Marketable Securities (Net)	-	-	-	-	-	-	-
Funds Borrowed	2.047.848	758.296	211.122	607.498	-	80.013	3.704.777
Other Liabilities (**)	157.482	185.466	222.611	664.916	-	3.110.194	4.340.669
Total Liabilities	14.682.236	2.226.110	596.331	1.272.831	-	5.880.600	24.658.108
Balance Sheet Long Position	-	171.009	2.374.735	3.204.305	855.183	-	6.605.232
Balance Sheet Short Position	(2.687.479)	-	-	-	-	(3.917.753)	(6.605.232)
Off-Balance Sheet Long Position	18	-	34.049	-	-	-	34.067
Off-Balance Sheet Short Position	-	(144.214)	-	(3.673)	-	-	(147.887)
Total Position	(2.687.461)	26.795	2.408.784	3.200.632	855.183	(3.917.753)	(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	-	-	-	22,90
Financial Assets at Fair Value Through Profit or Loss (Net)	6,84	6,10	-	11,91
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

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V. EXPLANATIONS ON CONSOLIDATED 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 Republic of Turkey	-	-	-	12,75
Banks	-	0,95	-	14,28
Financial Assets at Fair Value Through Profit or Loss (Net)	4,48	6,65	-	6,14
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 (Net)	-	-	-	-
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 analyzed interest rate risk according to it.

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

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

31 December 2018	Shocks Applied (+/- x basis point)	Gains / Losses	Gains / Equity - Losses / Equity
Type of Currency			
1. TL	500	(140.828)	(3,15)%
2. TL	(400)	134.464	3,01%
3. EURO	200	(118.102)	(2,64)%
4. EURO	(200)	13.876	0,31%
5. USD	200	228.618	5,12%
6. USD	(200)	(265.950)	(5,96)%
Total (of negative shocks)		(117.610)	(2,63)%
Total (of positive shocks)		(30.312)	(0,65)%

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V. EXPLANATIONS ON CONSOLIDATED INTEREST RATE RISK (Continued)

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

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

None.

VII. EXPLANATIONS ON LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE RATIO

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

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

The Balance Sheet Management, which is associated to the treasury function, and the management of liquidity manage the Parent 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 the Parent Bank's strategy and market conditions, Assets and Liabilities Committee (ALCO) is the decision making body regarding balance sheet management, identification and efficiency of funding sources, and determination of potential risks. The Asset-Liability Management Committee is responsible for preparing middle and long term liquidity strategies.

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VIII. EXPLANATIONS ON CONSOLIDATED LIQUIDITY RISK

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 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 in order to be taken of necessary actions. The aim of these meetings is to ensure that the negative net cash flow of the bank liquidity will not occur and be managed in a way that will not lead to excess limits by comparing the current situation regarding to the balance sheet structure of business line with the approved limit usage of strategic funding plans and liquidity.

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

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

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

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

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

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

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

Information on liquidity risk mitigation techniques:

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

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VIII. EXPLANATIONS ON CONSOLIDATED LIQUIDITY RISK (Continued)

Explanation of the usage of stress test:

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

General Information on liquidity emergency and contingency plans:

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

a. Liquidity coverage rate:

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

Liquidity coverage rate is calculated by dividing high quality liquid assets that bank owns to net cash outflows with maturity of 1 month. Reserve requirements kept by 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 to affect the results of liquidity coverage rate because of being liquid assets, having high volume in net cash outflows and having high rate of consideration. The ratio may fluctuate periodically due to reasons listed below;

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

Explanation regarding the components of high quality liquid assets:

High quality liquid assets are consisted of cash, effective depot, cheques purchased, time and demand deposit by CBRT, overnight borrowing provided to banks via CBRT in Interbank Money Market, reverse repurchase transactions and securities that are not subject to repurchase/collateral for providing liquidity.

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VIII. EXPLANATIONS ON CONSOLIDATED LIQUIDITY RISK (Continued)

The sources of funding and the distribution of all funds:

The Parent Bank’s funding sources are consisted of real person and retail deposit, corporate bank deposits, repurchase agreements and borrowings. Deposits that are used for funding 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 TL and FC net cash flows with 30-days maturity. Net cash flows resulted from derivative transactions have minimal effect on total liquidity coverage rate, however, differences in derivative volumes because of FC derivatives used in the management of cash flows based on currencies and because of incoming maturities of derivative transactions, periodic fluctuations on FC liquidity coverage rate may occur.

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

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

	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			10.617.622	9.266.490
Cash Outflows				
Real person and retail deposits	17.009.619	11.374.954	1.618.048	1.137.495
Stable deposits	1.658.278	-	82.914	-
Less stable deposits	15.351.341	11.374.954	1.535.134	1.137.495
Unsecured debts other than real person and retail deposits	8.151.456	5.239.933	3.661.282	2.171.528
Operational deposits	-	-	-	-
Non-operational deposits	7.852.453	5.207.865	3.362.280	2.139.461
Other unsecured debts	299.003	32.068	299.002	32.067
Secured debts	-	-	-	-
Other cash outflows	1.735.406	2.965.608	1.735.406	2.965.608
Derivative liabilities and collateral completion liabilities	1.735.406	2.965.608	1.735.406	2.965.608
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	8.541.948	2.828.218	890.504	466.375
Other irrevocable or revocable (based on conditions) off-the balance sheet debts	-	-	-	-
TOTAL CASH OUTFLOWS			7.905.240	6.741.006
Cash inflows				
Secured liabilities	-	-	-	-
Unsecured liabilities	6.293.192	2.387.926	4.394.905	2.059.840
Other cash inflows	78.282	1.827.692	78.282	1.827.692
TOTAL CASH INFLOWS	6.371.474	4.215.618	4.473.187	3.887.532
			Values to which the upper limit is applied	
TOTAL HIGH QUALITY LIQUID ASSETS INVENTORY			10.617.622	9.266.490
TOTAL NET CASH OUTFLOWS			3.432.053	2.853.474
LIQUIDITY COVERAGE RATIO (%)			309,37	324,74

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

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

	Current Period - 31.12.2018	
	TL+FC	FC
Highest (%)	529,57	537,49
Date	28.12.2018	28.12.2018
Lowest (%)	253,22	227,95
Date	04.10.2018	04.10.2018
Average (%)	309,37	324,74

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			5.247.230	3.000.344
Cash Outflows				
Real person and retail deposits	11.800.622	8.001.813	1.022.687	743.053
Stable deposits	3.147.502	1.142.560	157.375	57.128
Less stable deposits	8.653.120	6.859.253	865.312	685.925
Unsecured debts other than real person and retail deposits	3.753.107	5.674.757	2.149.131	2.615.735
Operational deposits	89.494	-	4.475	-
Non-operational deposits	564.142	326.835	433.596	225.140
Other unsecured debts	3.099.471	5.347.922	1.711.060	2.390.595
Secured debts	-	-	-	-
Other cash outflows	732.160	2.857.145	732.160	2.857.145
Derivative liabilities and collateral completion liabilities	732.160	2.857.145	732.160	2.857.145
Debts related to the structured financial products	-	-	-	-
Payment commitments for debts to financial markets and other off-the-balance sheet liabilities	-	-	-	-
Other off-the-balance sheet and revocable (without contingency) liabilities and other contractual liabilities	6.762.929	420.079	734.068	142.035
Other irrevocable or revocable (based on conditions) off-the balance sheet debts	-	-	-	-
TOTAL CASH OUTFLOWS			4.638.047	6.357.969
Cash inflows				
Secured liabilities	-	-	-	-
Unsecured liabilities	4.704.417	878.885	3.088.655	769.261
Other cash inflows	145.812	8.670.808	145.812	8.670.808
TOTAL CASH INFLOWS	4.850.229	9.549.693	3.234.467	9.440.069
			Values to which the upper limit is applied	
TOTAL HIGH QUALITY LIQUID ASSETS INVENTORY			5.247.230	3.000.344
TOTAL NET CASH OUTFLOWS			1.403.580	1.589.492
LIQUIDITY COVERAGE RATIO (%)			373,85	188,76

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

Table below represents lowest, highest and average consolidated liquidity coverage rates by taking their simple averages for the last three months of 2017.

	Prior Period - 31.12.2017	
	TL+FC	FC
Highest (%)	471,12	299,73
Date	31.10.2017	17.11.2017
Lowest (%)	212,54	90,40
Date	12.10.2017	11.10.2017
Average (%)	373,85	188,76

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VIII. EXPLANATIONS ON CONSOLIDATED LIQUIDITY RISK (Continued)

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	2.531.239	3.534.216	-	-	-	-	-	6.065.455
Banks	22.543	14.592	-	-	-	-	17.828	54.963
Financial Assets at Fair Value through Profit or Loss (Net) (***)	-	160.254	155.516	445.529	230.459	36.382	20.223	1.048.363
Interbank Money Market Placements	-	8.415.487	-	-	-	-	-	8.415.487
Financial Assets at Fair Value Through Comprehensive Income	-	-	-	-	456.176	54.953	-	511.129
Loans	-	5.461.028	1.893.907	2.646.467	4.661.947	844.084	191.139	15.698.572
Financial Assets at Fair Value Through Amortised Cost	-	-	-	-	-	-	-	-
Other Assets (*)	-	1.986	-	72	163.489	-	889.222	1.054.769
Total Assets	2.553.782	17.587.563	2.049.423	3.092.068	5.512.071	935.419	1.118.412	32.848.738
Liabilities								
Bank Deposits	132.885	1.744.608	-	-	-	-	-	1.877.493
Other Deposits	3.409.245	15.717.329	3.182.694	663.602	8.126	-	-	22.980.996
Funds from Interbank Money Market	37.960	-	607.097	592.944	-	1.545.585	-	2.783.586
Miscellaneous Payables	-	-	-	-	-	-	-	-
Issued Marketable Securities (Net)	-	-	-	-	-	-	-	-
Funds Borrowed	-	181.226	6.165	-	-	-	111.674	299.065
Other Liabilities (**)(***)	-	106.806	168.697	583.294	548.221	19.858	3.480.722	4.907.598
Total Liabilities	3.580.090	17.749.969	3.964.653	1.839.840	556.347	1.565.443	3.592.396	32.848.738
Net Liquidity Excess / (Gap)	(1.026.308)	(162.406)	(1.915.230)	1.252.228	4.955.724	(630.024)	(2.473.984)	-
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	2.116.746	64.051	258.606	678.814	536.647	3.298	-	3.658.162
Prior Period - 31 December 2017								
Total Assets	1.204.083	10.171.803	3.784.543	3.108.690	4.736.830	886.814	765.345	24.658.108
Total Liabilities	2.770.406	12.602.200	1.706.123	796.013	2.556.242	1.116.930	3.110.194	24.658.108
Net Liquidity Excess / (Gap)	(1.566.323)	(2.430.397)	2.078.420	2.312.677	2.180.588	(230.116)	(2.344.849)	-
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	993.808	144.032	308.679	834.106	510.889	5.614	-	2.797.128

(*) 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".

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VIII. EXPLANATIONS ON CONSOLIDATED 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	15.751.957	3.226.383	727.607	9.957	-	23.125.149
Funds From Interbank Money Market	-	-	-	-	-	-	-
Funds Borrowed	37.960	-	622.355	729.027	-	2.140.057	3.529.399
Total	3.580.090	17.499.887	3.848.738	1.456.634	9.957	2.140.057	28.535.363

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	2.632.792	10.828.172	1.284.161	161.704	48	-	14.906.877
Funds From Interbank Money Market	-	-	-	-	-	-	-
Funds Borrowed	80.013	-	285.462	200.123	2.188.835	1.563.603	4.318.036
Total	2.770.407	12.313.522	1.569.623	361.827	2.188.883	1.563.603	20.767.865

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

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IX. EXPLANATIONS ON CONSOLIDATED LEVERAGE RATIO

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

	Current Period 31.12.2018 (*)
Assets on the Balance Sheet	
1 Assets on the balance sheet (excluding derivative financial instrument and loan derivatives, including collaterals)	25.547.386
2 (Assets deducted from core capital)	(178.782)
3 Total risk amount for assets on the balance sheet (sum of lines 1 and 2)	25.368.604
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	15.826.565
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)	15.826.565
Capital and Total Risk	
13 Core capital	2.769.278
14 Total risk amount (sum of lines 3,6,9 and 12)	42.580.954
Transition Process Unapplied Leverage Ratio	
15 Transition process unapplied leverage ratio (%)	6,50

(*) Table represents three month average amounts.

	Prior Period 31.12.2017 (*)
Assets on the Balance Sheet	
1 Assets on the balance sheet (excluding derivative financial instruments and loan derivatives, including collaterals)	25.518.733
2 (Assets deducted from core capital)	(131.192)
3 Total risk amount for assets on the balance sheet (sum of lines 1 and 2)	25.387.541
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	485.327
6 Total risk amount of derivative financial instruments and loan derivatives (sum of lines 4 and 5)	1.415.856
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	17.768.493
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)	17.768.493
Capital and Total Risk	
13 Core capital	2.317.316
14 Total risk amount (sum of lines 3,6,9 and 12)	44.638.420
Leverage Ratio	
15 Leverage Ratio (%)	5,19

(*) Table represents three month average amounts.

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IX. EXPLANATIONS ON CONSOLIDATED LEVERAGE RATIO (Continued)

	Current Period 31.12.2018 (**)
Total assets in consolidated financial statements prepared in accordance with Turkish Accounting Standards (*)	31.296.578
The difference between total assets prepared in accordance with Turkish Accounting Standards and total assets in consolidated financial statements prepared in accordance with the communiqué “Preparation of Consolidated Financial Statements”	(1.771.615)
The difference between the amounts of derivative financial instruments and credit derivatives in consolidated financial statements prepared in accordance with the communiqué “Preparation of Consolidated Financial Statements” and risk amounts of such instruments	(617.504)
The difference between the amounts of securities or commodity financing transactions in consolidated financial statements prepared in accordance with the communiqué “Preparation of Consolidated Financial Statements” and risk amounts of such instruments	7.399.186
The difference between the amounts of off-balance items in consolidated financial statements prepared in accordance with the Communiqué “Preparation of Consolidated Financial Statements” and risk amounts of such items	-
Other differences between the amounts in consolidated financial statements prepared in accordance with the communiqué “Preparation of Consolidated Financial Statements” and risk amounts of such items	-
Total risk amount	42.580.954

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

(**) Table represents three month average amounts.

	Prior Period 31.12.2017 (**)
Total assets in consolidated financial statements prepared in accordance with Turkish Accounting Standards (*)	24.057.762
The difference between total assets prepared in accordance with Turkish Accounting Standards and total assets in consolidated financial statements prepared in accordance with the communiqué “Preparation of Consolidated Financial Statements”	(3.513.108)
The difference between the amounts of derivative financial instruments and credit derivatives in consolidated financial statements prepared in accordance with the communiqué “Preparation of Consolidated Financial Statements” and risk amounts of such instruments	(485.327)
The difference between the amounts of securities or commodity financing transactions in consolidated financial statements prepared in accordance with the communiqué “Preparation of Consolidated Financial Statements” and risk amounts of such instruments	1.996.619
The difference between the amounts of off-balance items in consolidated financial statements prepared in accordance with the Communiqué “Preparation of Consolidated Financial Statements” and risk amounts of such items	-
Other differences between the amounts in consolidated financial statements prepared in accordance with the communiqué “Preparation of Consolidated Financial Statements” and risk amounts of such items	-
Total risk amount	44.638.420

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

(**) Table represents three month average amounts.

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X. 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 Group, 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	24.680.151	24.677.939
Interbank Money Market Placements	8.415.487	8.415.487
Banks	54.963	54.963
Financial Assets Available-for-Sale (Net)	511.129	511.129
Investments Held-to-Maturity (Net)	-	-
Loans (*)	15.698.572	15.696.360
Financial Liabilities	27.941.140	28.086.777
Bank Deposits	1.877.493	1.877.493
Other Deposits	22.980.996	23.129.722
Borrowings	2.783.586	2.780.497
Securities Issued	-	-
Miscellaneous Payables	299.065	299.065

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

Prior Period-31 December 2017	Carrying Value	Fair Value
Financial Assets	19.146.616	19.178.227
Interbank Money Market Placements	1.794.965	1.794.965
Banks	371.227	371.227
Financial Assets Available-for-Sale (Net)	1.363.506	1.363.506
Investments Held-to-Maturity (Net)	-	-
Loans (*)	15.616.918	15.648.529
Financial Liabilities	20.317.439	20.492.886
Bank Deposits	1.509.403	1.509.403
Other Deposits	14.840.250	14.872.594
Borrowings	3.704.777	3.847.880
Securities Issued	-	-
Miscellaneous Payables	263.009	263.009

(*) Includes the factoring receivables amounting to TL 394.213

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

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.

Current Period - 31 December 2018	1st Level	2nd Level	3rd Level	Total
Financial Assets at Fair Value Through Profit or Loss	27.013	1.001.127		- 1.028.140
- Government debt securities	27.013	-	-	- 27.013
- 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	538.142	1.001.127		- 1.539.269
- Trading Derivative Financial Liabilities	-	941.094	-	- 941.094
Total Liabilities		941.094		- 941.094

(*) Unquoted share certificates amounting to TL 20.223 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	273.001	693.619		- 966.620
- Government debt securities	273.001	-	-	- 273.001
- 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	1.342		- 1.350.407
- Share certificates	-	1.342	-	- 1.342
- Government debt securities	1.349.065	-	-	- 1.349.065
- Other marketable securities	-	-	-	-
Total Assets	1.622.066	694.961		- 2.317.027
- Trading Derivative Financial Liabilities	-	739.179	-	- 739.179
Hedging Derivative Financial Liabilities				-
Total Liabilities		739.179		- 739.179

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

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

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

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

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

None.

XII. EXPLANATIONS ON RISK MANAGEMENT

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

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

a. Explanations on Risk Management and Risk Weighted Amount:

1. Bank’s Risk Management Approach

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

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

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

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XII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

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

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

The Asset-Liability Committee’s main responsibilities are:

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

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XII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

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

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

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

Stress Tests

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

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XII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

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)	16.889.761	15.838.649	1.351.181
Standardised approach	16.889.761	15.838.649	1.351.181
Internal rating-based approach	-	-	-
Counterparty credit risk	1.458.480	984.992	116.678
Standardised approach for counterparty credit risk	1.458.480	984.992	116.678
Internal model method	-	-	-
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	-	-	-
IRB supervisory formula approach	-	-	-
SA/simplified supervisory formula approach	-	-	-
Market risk	1.003.877	578.325	80.310
Standardised approach	1.003.877	578.325	80.310
Internal model approaches	-	-	-
Operational risk	2.819.385	3.088.379	225.551
Basic indicator approach	2.819.385	3.088.379	225.551
Standardised approach	-	-	-
Advanced measurement approach	-	-	-
Amounts below the thresholds for deduction from capital (subject to 250% risk weight)	-	-	-
Floor adjustment	-	-	-
TOTAL	22.171.503	20.490.345	1.773.720

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XII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

b. Linkages Between Financial Statements and Regulatory Exposures

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

Current Period – 31 December 2018	Carrying Values in Financial Statements Prepared as per TAS	Carrying values of items in accordance with TAS			
		Subject to Credit Risk	Subject to Counterparty Credit Risk	Subject to Market Risk	Not Subject to Requirements or Subject to Deduction from Capital
Assets					
Cash and balances and the CBRT	6.065.455	6.065.455	-	-	-
Banks	54.963	54.963	-	-	-
Interbank Money market placements	8.415.487	-	8.415.487	8.415.487	-
Financial assets at fair value through profit or loss	47.236	-	-	47.236	-
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)	15.698.572	15.688.767	-	-	9.805
Assets held for sale and assets of discontinued operations (net)	1.369	1.369	-	-	-
Subsidiaries (net)	-	-	-	-	-
Associates (net)	220	220	-	-	-
Joint ventures (net)	-	-	-	-	-
Tangible assets (net)	101.877	64.612	-	-	37.265
Intangible assets (net)	150.954	-	-	-	150.954
Investment property (net)	-	-	-	-	-
Tax assets	10.103	10.103	-	-	-
Deferred tax assets	139.325	138.118	-	-	1.207
Other assets	650.921	76.171	-	-	574.750
Assets	6.065.455	6.065.455	-	-	-
Cash and balances and the CBRT	54.963	54.963	-	-	-
Total Assets	32.848.738	22.610.907	9.416.614	9.463.850	773.981
Liabilities					
Deposits	24.858.489	-	-	-	24.858.489
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	602.668	-	-	-	602.668
Tax liability	57.768	-	-	-	-
Deferred tax assets	-	-	-	-	-
Liabilities held for sale and liabilities of discontinued operations (net)	-	-	-	-	-
Subordinated debt	1.545.585	-	-	-	1.545.585
Other liabilities	618.276	-	-	-	618.276
Shareholders' Equity	2.986.857	-	-	-	2.986.857
Total Liabilities	32.848.738	-	941.094	941.094	31.849.876

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XII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

Prior Period – 31 December 2017	Carrying Values in Financial Statements Prepared as per TAS	Carrying values of items in accordance with TAS			
		Subject to Credit Risk	Subject to Counterparty Credit Risk	Subject to Market Risk	Not Subject to Requirements or Subject to Deduction from Capital
Assets					
Cash and balances with the CBRT	3.903.455	3.903.455	-	-	-
Financial assets held for trading	966.620	-	688.199	966.620	-
Financial assets at fair value through profit or loss	-	-	-	-	-
Banks	371.227	371.227	-	-	-
Interbank Money market placements	1.794.965	-	1.794.965	-	-
Financial assets available for sale (net)	1.363.506	1.363.506	-	-	-
Loans and receivables	15.222.705	15.220.181	-	-	2.524
Factoring receivables	394.213	394.213	-	-	-
Investments held to maturity (net)	-	-	-	-	-
Associates (net)	-	-	-	-	-
Subsidiaries (net)	220	220	-	-	-
Joint ventures (net)	-	-	-	-	-
Lease receivables	-	-	-	-	-
Derivative financial assets held for risk management (net)	-	-	-	-	-
Tangible assets (net)	82.671	82.671	-	-	-
Intangible assets (net)	147.930	-	-	-	147.930
Investment property (net)	-	-	-	-	-
Tax asset	164.990	164.990	-	-	-
Assets held for sale and assets of discontinued operations (net)	1.690	1.690	-	-	-
Other assets	243.916	243.916	-	-	-
Total Assets	24.658.108	21.746.069	2.483.164	966.620	150.454
Liabilities					
Deposits	16.349.653	-	-	-	16.349.653
Derivative financial liabilities held for trading	739.179	-	739.179	739.179	739.179
Funds borrowed	2.604.727	-	-	-	2.604.727
Interbank money markets	-	-	-	-	-
Securities issued	-	-	-	-	-
Funds	-	-	-	-	-
Miscellaneous payables	263.009	-	-	-	263.009
Other external fundings payable	266.675	-	-	-	266.675
Factoring payables	-	-	-	-	-
Lease payables	-	-	-	-	-
Derivative financial liabilities held for risk management (net)	-	-	-	-	-
Provisions	683.436	-	-	-	683.436
Tax liability	44.192	-	-	-	44.192
Liabilities held for sale and liabilities of discontinued operations (net)	-	-	-	-	-
Subordinated debt	1.100.050	-	-	-	1.100.050
Shareholders' Equity	2.607.187	-	-	-	2.607.187
Total Liabilities	24.658.108	-	739.179	739.179	24.658.108

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XII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

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

Current Period		Items subject to	Items subject to	Items subject to
31 December 2018	Total	credit risk	counterparty credit risk	market risk
		framework	framework	framework
Asset carrying value amount under scope of regulatory consolidation	32.848.738	22.610.907	9.416.614	9.463.850
Liabilities carrying value amount under regulatory scope of consolidation	941.094	-	941.094	941.094
Total net amount under regulatory scope of consolidation	33.789.832	22.610.907	10.357.708	10.404.944
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	-	(5.174.153)	(8.899.228)	-
Differences due to risk reduction	-	(190.233)	-	-
Credit valuation adjustment	-	-	280.212	-
Risk Amounts	-	25.501.819	1.738.692	10.404.944

Prior Period		Items subject to	Items subject to	Items subject to
31 December 2017	Total	credit risk	counterparty credit risk	market risk
		framework	framework	framework
Asset carrying value amount under scope of regulatory consolidation	24.658.108	21.746.069	2.483.164	966.620
Liabilities carrying value amount under regulatory scope of consolidation	-	-	739.179	(739.179)
Total net amount under regulatory scope of consolidation	24.658.108	21.746.069	3.222.343	227.441
Off-balance sheet amounts	9.300.326	8.015.037	-	-
Differences in valuations	-	-	-	-
Differences due to different netting rules, other than those already included in row 2	-	-	-	-
Differences due to consideration of provisions	-	-	-	-
Differences due to applications of BRSA	-	(5.898.344)	(1.920.826)	578.325
Differences due to risk reduction	-	(134.371)	-	-
Credit valuation adjustment	-	-	228.891	-
Risk Amounts	-	23.728.391	1.530.408	805.766

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

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

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

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XII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

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

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

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

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

c) Credit risk explanations:

i. General qualitative information about credit risk:

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

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

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

2. Credit Quality of Assets

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

Current Period 31 December 2018	Gross carrying values of (according to TAS)		Allowances / Amortisation and Impairment of value		Net Values
	Defaulted Exposures	Non-defaulted Exposures			
Loans(*)	881.914	15.507.433	690.775		15.698.572
Debt Securities	-	587.938	29.573		558.365
Off-balance sheet exposure	4.699	11.222.374	4.343		11.222.730
Total	886.613	27.317.745	724.691		27.479.667

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

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

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

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XII. 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 prior period end	864.976
II.	Loans and debt securities that have defaulted since the last reporting period	195.881
III.	Returned to non-defaulted status	-
IV.	Amounts written-off from asset	3.848
V.	Other changes (*)	(170.396)
VI.	Defaulted loans and debt securities at current period end (I+II-III-IV±V)	886.613

(*) Includes current period collections.

		Prior Period 31 December 2017
I.	Defaulted Loans and debt securities at prior period end	1.431.297
II.	Loans and debt securities that have defaulted since the last reporting period	351.075
III.	Returned to non-defaulted status	8.130
IV.	Amounts written-off from asset	641.607
V.	Other changes (*)	(267.659)
VI.	Defaulted loans and debt securities at current period end (I+II-III-IV±V)	864.976

(*) Includes current period collections.

4. Additional explanations on credit quality of assets

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

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

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

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

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XII. 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	15.320.331
European Union Countries	154.734
USA, Canada	893
OECD Countries (*)	936
Off-Shore Banking Regions	1.053
Other	29.486
Total (**)	15.507.433

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

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

	Prior Period 31 December 2017
Domestic	15.148.770
European Union Countries	169.005
USA, Canada	2.946
OECD Countries (*)	4.067
Off-Shore Banking Regions	1.876
Other	14.470
Total (**)	15.341.134

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

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

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XII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

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	3.139.157
Total (*)	15.507.433

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

	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	4.166.268
Total (*)	15.341.134

(*) 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.

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XII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

6. Provisions booked for receivables based on sector:

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

7. Provisions booked for receivables based on sector based on geographical areas:

Non-performing loans and provision amounts are mainly domestic. Specific provisions amounting to TL 689.202 are booked for domestic non-performing loan risk amount of TL 879.042.

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.

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

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XII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

8. Qualitative disclosure on credit risk mitigation techniques:

The Parent 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 are controlled systematically.

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

9. Credit Risk Mitigation Techniques – Overview:

Current Period 31 December 2018	Exposures unsecured: carrying amount	Exposures secured by collaterals	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
Loans	14.118.632	1.579.940	1.455.267	1.160	928	-	-
Debt Securities	558.365	-	-	-	-	-	-
Total	14.676.997	1.579.940	1.455.267	1.160	928	-	-
Defaulted	670.253	211.661	86.987	4.783	3.827	-	-

Prior Period 31 December 2017	Exposures unsecured: carrying amount	Exposures secured by collaterals	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
Loans	14.576.815	1.040.103	679.364	4	122.729	-	-
Debt Securities	1.627.486	-	-	-	-	-	-
Total	16.204.301	1.040.103	679.364	4	122.729	-	-
Defaulted	860.691	3.800	-	485	485	-	-

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XII. 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

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XII. 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	6.067.789	187.645	6.067.789	93.838	496.641	8%
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	683.160	1.331.767	683.165	1.208.587	755.741	40%
Exposures to corporates	10.429.612	4.349.332	10.403.686	3.121.307	13.524.993	100%
Retail exposures	3.324.348	3.919.889	3.172.221	201.957	2.547.223	75%
Exposures secured by residential property	293.727	-	293.607	-	102.762	35%
Exposures secured by commercial real estate	936.751	63.700	936.750	36.296	588.134	60%
Past-due loans	191.163	1.557	191.163	344	167.704	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	780.536	29.618	780.528	15.948	164.963	21%
Investment in equities	-	-	-	-	-	-
Total	22.707.303	9.883.609	22.529.126	4.678.311	18.348.241	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	5.266.579	6	5.266.579	1	214.972	4%
Exposures to regional governments or local authorities	-	-	-	-	-	0%
Exposures to public sector entities	-	333	-	67	67	100%
Exposures to multilateral development banks	-	-	-	-	-	0%
Exposures to international organizations	-	-	-	-	-	0%
Exposures to institutions	1.461.070	1.421.935	1.461.071	1.151.500	916.770	35%
Exposures to corporates	9.946.515	3.197.175	9.939.032	1.976.722	11.916.138	100%
Retail exposures	3.892.898	4.613.147	3.777.055	245.860	3.039.356	76%
Exposures secured by residential property	378.226	589	378.226	198	132.448	35%
Exposures secured by commercial real estate	317.242	2.958	317.242	950	159.096	50%
Past-due loans	289.673	-	289.189	-	302.713	105%
Higher-risk categories by the Agency Board	-	-	-	-	-	0%
Exposures in the form of covered bonds	-	-	-	-	-	0%
Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	0%
Exposures in the form of units or shares in collective investment undertakings	-	-	-	-	-	0%
Other assets	400.995	64.183	400.994	16.949	142.080	34%
Investment in equities	-	-	-	-	-	0%
Total	21.953.198	9.300.326	21.829.388	3.392.247	16.823.640	67%

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XII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

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

Current Period 31 December 2018											
Asset Classes/ Risk Weight	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	5.664.986	-	-	-	-	-	496.641	-	-	-	6.161.627
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	-	254.461	-	-	-	1.891.752
Exposures to corporates	-	-	-	-	-	-	13.524.993	-	-	-	13.524.993
Retail exposures	-	-	-	-	-	3.307.819	66.359	-	-	-	3.374.178
Exposures secured by residential property	-	-	-	293.607	-	-	-	-	-	-	293.607
Exposures secured by commercial real estate	-	-	-	-	769.825	-	203.221	-	-	-	973.046
Past-due loans	-	-	-	-	50.158	-	138.797	2.552	-	-	191.507
Higher Risk categories by the Agency Board	-	-	-	-	-	-	-	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-	-	-	-	-	-	-	-
Exposures to institutions and corporates with a short term credit assessments	-	-	-	-	-	-	-	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-
Investments in equities	-	-	-	-	-	-	-	-	-	-	-
Other assets	631.513	-	-	-	-	-	164.963	-	-	-	796.476
Total	6.296.499	-	1.058.098	293.607	1.399.390	3.307.819	14.849.472	2.552	-	-	27.207.437

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

Prior Period 31 December 2017											
Asset Classes/ Risk Weight	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	5.180.591	-	-	-	-	-	-	-	-	85.989	5.266.580
Exposures to regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-
Exposures to public sector entities	-	-	-	-	-	-	67	-	-	-	67
Exposures to multilateral development banks	-	-	-	-	-	-	-	-	-	-	-
Exposures to International organizations	-	-	-	-	-	-	-	-	-	-	-
Exposures to banks and financial intermediaries	-	-	1.644.628	-	760.241	-	207.657	45	-	-	2.612.571
Exposures to corporates	-	-	-	-	-	-	11.914.986	768	-	-	11.915.754
Retail exposures	-	-	-	-	-	3.938.866	81.735	2.314	-	-	4.022.915
Exposures secured by residential property	-	-	-	378.424	-	-	-	-	-	-	378.424
Exposures secured by commercial real estate	-	-	-	-	318.192	-	-	-	-	-	318.192
Past-due loans	-	-	-	-	47.305	-	167.529	74.355	-	-	289.189
Higher Risk categories by the Agency Board	-	-	-	-	-	-	-	-	-	-	-
Exposures in the form of covered bonds	-	-	-	-	-	-	-	-	-	-	-
Exposures to institutions and corporates with a short term credit assessments	-	-	-	-	-	-	-	-	-	-	-
Exposures in the form of units or shares in collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-
Investments in equities	-	-	-	-	-	-	-	-	-	-	-
Other assets	275.866	-	-	-	-	-	142.077	-	-	-	417.943
Total	5.456.457	-	1.644.628	378.424	1.125.738	3.938.866	12.514.051	77.482	-	85.989	25.221.635

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

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XII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

e. Explanations on counterparty credit risk

1. Qualitative disclosure on counterparty credit risk

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

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

Current Period	Replacement	Potential		Alpha used for	Exposure at	Risk
31 December 2018	cost	future	EEPE	computing regulatory	default post	Weighted
		exposure		exposure at default	CRM	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	Replacement	Potential		Alpha used for	Exposure at	Risk
31 December 2017	cost	future	EEPE	computing regulatory	default post	Weighted
		exposure		exposure at default	CRM	Amount
Standardised Approach - CCR (For Derivatives)	675.582	535.997		1,4	1.211.579	728.962
Internal Model Method (for derivatives, repo transactions, marketable securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)			-	-	-	-
Simple Approach for Credit Mitigation (for repo transactions, marketable securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					-	-
Comprehensive Approach for Credit Risk Mitigation (for repo transactions, marketable securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					89.773	27.140
Value at Risk for repo transactions, marketable securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions					-	-
Total						756.102

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XII. 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	1.211.579	228.890
Total subject to the CVA capital charge	1.211.579	228.890

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

Current Period 31 December 2018									
Regulatory Portfolio / Risk weight	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	-	-	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 CRM techniques.

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XII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

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

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

5. Composition of collateral for CCR exposure:

Current Period 31 December 2018	Collateral used in derivative transactions				Collateral used in other transactions	
	Fair Value of Collateral Received		Fair Value of Posted Collateral		Fair Value of Collateral Received	Fair Value of Posted Collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash – domestic currency	-	-	-	-	-	-
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 31 December 2017	Collateral used in derivative transactions				Collateral used in other transactions	
	Fair Value of Collateral Received		Fair Value of Posted Collateral		Fair Value of Collateral Received	Fair Value of Posted Collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash – domestic currency	-	-	-	-	-	210.220
Cash – other currencies	-	-	-	-	-	1.584.745
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	1.772.738	-
Government agency bonds	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collaterals	-	-	-	-	-	-
Total	-	-	-	-	1.772.738	1.794.965

6. Credit Derivatives

None.

7. Exposures to central counterparties

None.

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XII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

f. Securitization Disclosures

None.

g. Explanations on consolidated market risk

1. Qualitative disclosure on consolidated market risk

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

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

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

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XII. EXPLANATIONS ON RISK MANAGEMENT (Continued)

2. Standardised Approach

	Current Period 31 December 2018
	Risk Weighted Amount
Outright Products	
Interest Rate Risk (general and specific)	629.088
Equity Risk (general and specific)	17.425
Foreign Exchange Risk	353.839
Commodity Risk	-
Options	
Simplified Approach	-
Delta-plus Method	3.525
Scenario Approach	-
Securitisation	-
Total	1.003.877

	Prior Period 31 December 2017
	Risk Weighted Amount
Outright Products	
Interest Rate Risk (general and specific)	408.376
Equity Risk (general and specific)	5.425
Foreign Exchange Risk	158.699
Commodity Risk	-
Options	
Simplified Approach	-
Delta-plus Method	5.825
Scenario Approach	-
Securitisation	-
Total	578.325

h. Explanations on operational risk

The amount subject to the operational risk is calculated once every year through the use of “Basic Indicator Method” in the “Regulation Regarding Measurement and Evaluation of the Bank’s Capital Adequacy Ratio” published in the Official Gazette No.29511 dated 23 October 2015 and effective as of 1 July 2012. The amount subject to operational risk is calculated with the usage of the gross income of the Bank in 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/Positive Year	Rate (%)	Total
Gross Income	1.727.530	1.493.654	1.289.834	1.503.673	15	225.551
Operational Risk Capital Requirement (Total*12,5)						2.819.385

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XIII. EXPLANATIONS ON OPERATING SEGMENTS

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

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

	Retail Banking	Corporate and Investment Banking	Treasury and Capital Markets	Other	Group's Total Activities
Current Period – 31 December 2018					
Operating Income (***)	510.563	500.072	289.459	-	1.300.094
Other	-	-	-	-	-
Operating Income	510.563	500.072	289.459	-	1.300.094
Segment Net Profit	-	-	-	-	-
Undistributed Cost	-	-	-	-	-
Operating Profit/(Loss)	(70.029)	307.699	220.757	(1.119)	457.308
Profit before Tax	(70.029)	307.699	220.757	(1.119)	457.308
Corporate Tax Provision (*)	-	-	-	(110.660)	(110.660)
Profit after Tax	(70.029)	307.699	220.757	(111.779)	346.648
Non-Controlling Interest	-	-	-	-	-
Net Profit for the Period	(70.029)	307.699	220.757	(111.779)	346.648
Segment Assets	4.053.960	8.152.060	20.642.498	-	32.848.518
Associates and Subsidiaries	-	-	-	220	220
Undistributed Assets	-	-	-	-	-
Total Assets	4.053.960	8.152.060	20.642.498	220	32.848.738
Segment Liabilities	16.821.921	7.791.363	3.706.737	4.528.717	32.848.738
Undistributed Liabilities	-	-	-	-	-
Total Liabilities	16.821.921	7.791.363	3.706.737	4.528.717	32.848.738
Other Segment Items	98.401	(8.610)	(8.114)	-	81.677
Capital Investment	-	-	-	-	-
Amortization	(28.225)	(8.610)	(7.344)	-	(44.179)
Impairment	-	-	(770)	-	(770)
Non-Cash Other Income-Expense (**)	126.626	-	-	-	126.626

(*) 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.

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XIII. EXPLANATIONS ON OPERATING SEGMENTS (Continued)

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

(*) Corporate tax provision is not distributed.

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

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SECTION FIVE

**EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED
FINANCIAL STATEMENTS**

I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS

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

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

	Current Period 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 there is 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 the account of the CBRT:

	Current Period 31 December 2018	
	TL	FC
Unrestricted Demand Deposit	534.189	1.347.271
Unrestricted Time Deposits (*)	1.722.388	502.714
Restricted Time Deposits	-	-
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.

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

	Prior Period 31 December 2017	
	TL	FC
Unrestricted Demand Deposit	463.564	462.805
Unrestricted Time Deposits (*)	1.436.166	3.801
Restricted Time Deposits	-	-
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. Explanations on reserve requirements:

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, USD 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% and 8% (31 December 2017: 4% - 10,50%) for TL deposits and other liabilities, and between 4% and 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	3.708
Repurchase Agreement	-	
Unrestricted	23.305	
Total	27.013	

	Prior Period 31 December 2017	
	Collateral/Blocked	3.656
Repurchase Agreement	-	
Unrestricted	274.762	
Total	278.418	

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I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED 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	30.422	2.656
Foreign	-	21.885
Foreign Head Office and Branches	-	-
Total	30.422	24.541

	Prior Period 31 December 2017	
	TL	FC
Banks		
Domestic	27.294	-
Foreign	821	343.112
Foreign Head Office and Branches	-	-
Total	28.115	343.112

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

2. Information on foreign banks balances:

	Free Amount	Non-Free 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.

	Free Amount	Non-Free 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 at fair value through other comprehensive income:

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	-
	1.051.615
Total	1.363.506

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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	14.441
Quoted to Stock Exchange	-
Not Quoted	14.441
Impairment Provision (-)	1.714
Total	1.363.506

e. Information related to loans:

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

	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

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I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED 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	13.130.955	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	153.175	-	-	-
Specialized Loans	-	-	-	-
Other Receivables	-	-	-	-
Total	13.130.955	1.125.916	1.250.562	-

	Standard Loans	Loans under Close Monitoring
General Provisions	189.721	68.462
Total	189.721	68.462

Number of Extensions	Standard Loans	Loans under Close Monitoring
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

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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	7.910.884	273.632	221.232	39.106
Non-Specialized Loans (*)	7.910.884	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.

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

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

	Short-Term	Medium and 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
None Instalment	1.342.320	-	1.342.320
Individual Credit Cards-FC	5.846	-	5.846
Instalment	303	-	303
None 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
None Instalment	2.696	-	2.696
Personnel Credit Cards-FC	49	-	49
With Instalment	-	-	-
Without 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

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

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

	Short-Term	Medium and Long-Term	Total
Commercial Installment Loans-TL	-	86.266	86.266
Mortgage Loans	-	74.623	74.623
Automotive Loans	-	-	-
Consumer Loans	-	11.643	11.643
Other	-	-	-
Commercial Installment Loans- Indexed to FC	-	46.552	46.552
Mortgage Loans	-	-	-
Automotive Loans	-	144	144
Consumer Loans	-	46.408	46.408
Other	-	-	-
Commercial Installment Loans-FC	-	-	-
Mortgage Loans	-	-	-
Automotive loans	-	-	-
Consumer Loans	-	-	-
Other	-	-	-
Corporate Credit Cards-TL	3.218	-	3.218
With Installment	569	-	569
Without Installment	2.649	-	2.649
Corporate Credit Cards-FC	725	-	725
With Installment	-	-	-
Without Installment	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 (*)	15.507.433
Total	15.507.433

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

	Prior Period 31 December 2017
Public	-
Private (*)	15.341.134
Total	15.341.134

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

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7. Distribution of domestic and foreign loans :

	Current Period 31 December 2018
Domestic Loans	15.320.331
Foreign Loans	187.102
Total (*)	15.507.433

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

	Prior Period 31 December 2017
Domestic Loans	15.148.770
Foreign Loans	192.364
Total (*)	15.341.134

(*) 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	650.826
Total	690.775

	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	526.398
Total	587.427

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

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

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

	III. Group Loans and with Limited Collectability	IV. Group Loans with Doubtful Collectability	V. Group Uncollectible Loans
--	---	---	---

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 Loans with Limited Collectability	IV. Group Loans with Doubtful Collectability	V. Group Uncollectible Loans
Balance at the end of Prior Period: 31 December 2017	45.719	95.884	721.608
Additions (+)	180.523	14.465	893
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	767.536
Specific Provisions (-)	8.840	31.109	650.826
Net Balance on 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).

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

	III. Group	IV. Group	V. Group
	Loans with Limited Collectability	Loans with Doubtful Collectability	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	767.536
Provisions Amount (-)	8.840	31.109	650.826
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	721.608
Provisions Amount (-)	12.128	48.901	526.398
Loans granted to corporate entities and real persons (Net)	33.591	46.983	195.210
Banks (Gross)	-	-	-
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 Parent Bank's top management occurs.

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

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

f. Explanations on financial assets measured at amortised cost:

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

(i) Financial assets measured at amortised cost:

As of 31 December 2018, the Group has no financial assets measured at amortised cost given as collateral/blocked and subject to repurchase agreements.

(ii) Investment Securities held-to-maturity:

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

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2. Information on government debt securities:

(i) Financial assets measured at amortised cost:

As of 31 December 2018, the Group has no investments as government debt securities measured at amortised cost.

(ii) Investment securities held-to-maturity:

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

3. (i). Information on financial assets measured at amortised cost:

As of 31 December 2018, the Group has no financial assets measured at amortised cost.

(ii) Information on investment securities held-to-maturity:

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

4. (i). The movement of financial assets measured at amortised cost:

As of 31 December 2018 the Group has no movement of financial assets at amortised cost.

(ii) The movement of investment securities held-to-maturity:

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

g. Information on associates (Net):

The Group has no associates as of 31 December 2018 and 31 December 2017.

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h. Information on subsidiaries (Net):

1. Information on capital adequacy of major subsidiaries:

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

	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 audited financial statements as of 31 December 2018.

2. Information on unconsolidated subsidiaries:

a) Unconsolidated subsidiaries:

Title	Address (City/Country)	The Bank's share percentage – If different voting percentage (%)	Bank's risk group share percentage (%)
HSBC Odeme 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 non-reviewed financial statements as of 31 December 2018.

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3. Information on the consolidated subsidiaries:

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

a) Consolidated subsidiaries:

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

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

Total Assets	Shareholders' Equity	Total Fixed Assets	Interest Income	Income from Marketable Securities Portfolio	Current Period Profit/Loss	Prior Period Profit/Loss	Fair Value
105.924	88.028	1.509	11.623	2.293	31.792	21.752	-

(*) Prepared with the non-reviewed financial statements as of 31 December 2018.

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

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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

6. Subsidiaries quoted on a stock exchange:

The Group has no subsidiaries quoted on a stock exchange as of 31 December 2018 and 31 December 2017.

i. Information on jointly controlled entities:

1. The Group has no jointly controlled entities as of 31 December 2018 and 31 December 2017.
2. As of 31 December 2018 and 31 December 2017, the accounting method is not determined since the Group has no jointly controlled entities.

j. Information on financial lease receivables (Net):

As of 31 December 2018 and 31 December 2017, the Group has no finance leases.

k. Explanations on hedging derivative financial assets:

As of 31 December 2018 ve 31 December 2017, the Group has no hedging derivative financial assets.

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l. Explanations on property and equipment:

Prior Period End:	Land and Buildings	Vehicles	Other Tangible Fixed Assets	Total
Cost	20.021	62	352.795	372.878
Accumulated Depreciation and Impairment (-)	11.812	62	278.333	290.207
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	10.444	39.667	50.157
Disposals (-) (net)	1.089	-	7.010	8.099
Depreciation (-)	304	187	22.361	22.852
Cost at Period End	18.978	10.506	385.452	414.936
Accumulated Depreciation at Period End (-)	12.116	249	300.694	313.059
Closing Net Book Value	6.862	10.257	84.758	101.877

m. Explanations 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	407.389
Accumulated depreciation(-)	256.435
Net Book Value	150.954
	Prior Period 31 December 2017
Gross book value	382.399
Accumulated depreciation(-)	234.469
Net Book Value	147.930

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

	Current Period 31 December 2018
Opening balance	147.930
Additions	24.311
Disposals (-) (net)	-
Depreciation (-)	21.287
Closing Net Book Value	150.954

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	Prior Period 31 December 2017
Opening balance	128.000
Additions	36.260
Disposals (-) (net)	-
Depreciation (-)	16.330
Closing Net Book Value	147.930

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

n. Explanations on the investment properties:

As of 31 December 2018 and 31 December 2017, the Group has no investment properties.

o. Explanations 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	56.629	11.326
Restructuring Provision	49.459	10.881
Derivative Expense Rediscount Provision	941.095	203.942
Other	566.190	113.238
Deferred Tax Asset	1.728.826	364.787
Derivative Transactions Fair Value Difference	-	-
Other	(1.040.512)	(225.462)
Deferred Tax Liability	(1.040.512)	(225.462)
Deferred Tax Asset Recognized as Asset		-
Net deferred tax asset (*)		139.325

(*) Information on the deferred tax asset as of 31 December 2018 is disclosed in Note XIX of Section Three.

	Cumulative 31.12.2017	Deferred Tax Asset/Liability 31.12.2017
Fiscal Loss	293.780	64.632
Unearned Revenues	60.566	13.244
Employee Termination Benefit Provision	57.539	11.886
Restructuring Provision	85.965	18.912
Derivative Expense Rediscount Provision	50.980	11.638
Other	144.467	31.693
Deferred Tax Asset	693.297	152.005
Derivative Transactions Fair Value Difference	-	-
Other	(20.107)	(4.355)
Deferred Tax Liability	(20.107)	(4.355)
Deferred Tax Asset Recognized as Asset		-
Net deferred tax asset (*)		147.650

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

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

As of 31 December 2018, assets held for sale of the Group 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

r. Information on other assets:

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

	Current Period 31 December 2018
Miscellaneous Receivables (*)	498.100
Prepaid Expenses	39.932
Debited Suspense Accounts	77.122
Other Rediscount Income	28.654
Other Assets	7.113
Total	650.921

(*) Includes the BIST and derivative securities.

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	Prior Period 31 December 2017
Miscellaneous Receivables (*)	138.520
Prepaid Expenses	45.131
Debited Suspense Accounts	35.711
Other Rediscount Income	19.614
Other Assets	4.940
Total	243.916

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

II. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED LIABILITIES

a. Information on deposits

1. Information on maturity structure of the deposits:

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

1(i). Current Period – 31 December 2018:

	With 7 Days	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	-	3.959.373	7.929.278	689.730	264.653	91.188	- 15.301.665
Residents in Turkey	2.042.331	-	3.837.536	7.402.054	588.283	224.949	40.674	- 14.135.827
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	-	1.356.320	69.652	26.709	24	81.790	- 2.046.923
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	-	7.850.125	10.733.257	1.946.463	483.656	302.858	- 24.858.489

1(ii). Prior Period - 31 December 2017:

	With 7 Days	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	-	824.713	20.325	12.325	34	1.307	- 1.220.814
Other Institutions Deposits	3.665	-	696	-	-	-	-	- 4.361
Precious Metal Deposit	176.338	-	-	-	-	79.865	-	- 256.203
Bank Deposits	57.602	-	1.451.801	-	-	-	-	- 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	-	5.111.042	7.849.828	420.864	129.848	147.676	- 16.349.653

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(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	Exceeding Deposit Insurance Limit
	Current Period 31 December 2018	Current Period 31 December 2018
Saving Deposits		
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	Exceeding Deposit Insurance Limit
	Prior Period 31 December 2017	Prior Period 31 December 2017
Saving Deposits		
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 Parent Bank is not located abroad, saving deposits in Turkey are not covered by the saving deposits insurance.

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 Solely	-

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(Continued)**

	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 Solely	-

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 Group does not have any funds provided under repurchase agreements (31 December 2017: None).

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(Continued)**

d. Information on funds borrowed:

1. Information on banks and other financial institutions:

	Current Period 31 December 2018	
	TL	FC
Borrowings from the CBRT	-	-
From Domestic Bank and Institutions	-	-
From Foreign Banks, Institutions and Funds	1.200.041	37.960
Total	1.200.041	37.960

	Prior Period 31 December 2017	
	TL	FC
Borrowings from the CBRT	-	-
From Domestic Bank and Institutions	-	-
From Foreign Banks, Institutions and Funds	818.610	1.786.117
Total	818.610	1.786.117

2. Information on 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:

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

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(Continued)**

e. Information on foreign other liabilities:

Other foreign liabilities of the Group under “Other Liabilities” do not exceed 10% of the total liabilities.

f. Information on leasing agreements:

1. Explanations on obligations under financial leases:

None (31 December 2017: None).

2. Explanations on operational lease:

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

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

	Current Period 31 December 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 Group has no derivative financial liabilities for hedging purposes (31 December 2017: None).

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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 Group has employee termination benefit provision amounting to TL 56.629 (31 December 2017: TL 57.539), and unused vacation provision amounting to TL 8.952 (31 December 2017: TL 8.040).

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

The computation of the liability is based upon the retirement pay ceiling announced. The applicable ceiling amount 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 Group determined by using certain actuarial assumptions. TAS 19 requires actuarial valuation methods to be used in order to calculate Group's liabilities.

The assumption is that retirement pay ceiling is expected to increase as per the inflation rate every year. Thus discount rate applied shall represent real rate, net of inflation. Since retirement pay ceiling amount is determined once every six months, employee benefit liability of the Group 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)).

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(Continued)**

	Current Period 31 December 2018
As of January 1	57.539
Service Cost	8.675
Interest Cost	5.805
Actuarial Loss/(Gain)	(3.124)
Paid in Current Period	(12.266)
Total	56.629
	Prior Period 31 December 2017
As of January 1	49.779
Service Cost	7.908
Interest Cost	5.042
Actuarial Loss/(Gain)	6.863
Paid in Current Period	(12.053)
Total	57.539

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

As of 31 December 2018, the Group 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 provision 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).

5. Information on restructuring provisions:

As of 31 December 2018 restructuring provisions amounting to TL 49.459 (31 December 2017: 85.965 TL).

6 Information on other provisions:

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

As of 31 December 2018, the Group has no free provisions for possible risks (31 December 2017: None)

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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
Provisions for Lawsuits	32.467
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	82.868

(*) Includes other provisions within TAS 37.

	Prior Period 31 December 2017
Provisions for Lawsuits	31.615
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	100.963

(*) Includes other provisions within TAS 37.

i. Explanations on tax liability:

1. Explanations on current tax liability:

The corporate tax provisions calculation of the Group is explained in Note XIX of Section Three.

1(i). Information on taxes payable:

	Current Period 31 December 2018
Taxation on Marketable Securities	19.282
Banking Insurance Transaction Tax (BITT)	17.024
Corporate Taxes Payable	1.841
Capital Gains Tax on Property	348
Value Added Tax Payable	1.095
Foreign Exchange Transaction Tax	-
Other (*)	9.253
Total	48.843

(*) As of 31 December 2018, other taxes payable account consists of payroll tax amounting to TL 7.907, stamp tax amounting to TL 203, other taxes amounting to TL 964, and self-employed income tax amounting to TL 179.

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	Prior Period 31 December 2017
Taxation on Marketable Securities	11.569
Banking Insurance Transaction Tax (BITT)	11.454
Corporate Taxes Payable	877
Value Added Tax Payable	1.521
Capital Gains Tax on Property	470
Foreign Exchange Transaction Tax	-
Other (*)	9.454
Total	35.345

(*) As of 31 December 2017, other taxes payable account consists of payroll tax amounting to TL 8.138, stamp tax amounting to TL 221, other taxes amounting to TL 1.087, and self-employed income tax amounting to TL 8.

1 (ii). Information on premium payables:

	Current Period 31 December 2018
Social Security Premiums – Employee	3.673
Social Security Premiums – Employer	4.342
Bank Social Aid Pension Fund Premium – Employee	-
Bank Social Aid Pension Fund Premium – Employer	-
Pension Fund Membership Fees and Provisions – Employee	-
Pension Fund Membership Fees and Provisions – Employer	-
Unemployment Insurance – Employee	300
Unemployment Insurance – Employer	610
Other	-
Total	8.925

	Prior Period 31 December 2017
Social Security Premiums – Employee	3.626
Social Security Premiums – Employer	4.109
Bank Social Aid Pension Fund Premium – Employee	-
Bank Social Aid Pension Fund Premium – Employer	-
Pension Fund Membership Fees and Provisions – Employee	-
Pension Fund Membership Fees and Provisions – Employer	-
Unemployment Insurance – Employee	407
Unemployment Insurance – Employer	705
Other	-
Total	8.847

2. Information on deferred tax liability:

Information on the Group's deferred tax liability as of 31 December 2018 is explained in Note XIX of Section Three.

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

As of 31 December 2018 and 31 December 2017, the Group has no liabilities regarding assets held for sale and discontinued operations.

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

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

l. Information on shareholders' 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).

With the circular issued by the BRSA on 28 April 2005, the capital reserve amounting to TL 272.693 has been transferred to the subsidiary account of the other capital reserves a due to the correction of paid-in capital. (31 December 2017: TL 272.693)

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

Registered share capital system is not applied.

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

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

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

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

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

The Group has no capital commitments.

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

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

7. Summary information on privileges given to shares representing the capital:

Share structure of the Parent Bank does not consist privileges given to shares representing the capital.

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	(21.499)	4.723
Foreign Currency Difference	-	-
Total	(21.499)	4.723

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

9. Information on revaluation value increase fund:

As of 31 December 2018 and 31 December 2017, the Group has no revaluation value increase fund.

10. Information on legal reserves:

	Current Period 31 December 2018
First Legal Reserve	185.941
Second Legal Reserve	10.577
Legal Reserves according to Special Legislation	-
Total	196.518

	Prior Period 31 December 2017
First Legal Reserve	138.697
Second Legal Reserve	55.781
Legal Reserves according to Special Legislation	-
Total	194.478

11. Information on extraordinary reserves:

	Current Period 31 December 2018
Reserves Allocated per General Assembly Minutes	1.493.224
Undivided Profit	97.844
Accumulated Loss	-
Foreign Currency Differences	-
Total	1.591.068

	Prior Period 31 December 2017
Reserves Allocated per General Assembly Minutes	1.142.598
Undivided Profit	97.844
Accumulated Loss	-
Foreign Currency Differences	-
Total	1.240.442

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(Continued)**

12. Information on minority shares:

The Group has no minority shares as of 31 December 2018 and 31 December 2017.

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

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

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

a. Explanations on off-balance sheet commitments:

1. Loan 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

	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 Group has no probable losses arising from off-balance sheet items. Obligations arising from the off-balance sheet are disclosed in "Off-Balance Sheet Commitments".

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

	Current Period 31 December 2018
Letters of Guarantee	1.843.634
Letters of Credit	1.256.433
Bank Acceptances	203.137
Other Guarantees	354.958
Total	3.658.162

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

	Prior Period 31 December 2017
Letters of Guarantee	1.589.760
Letters of Credit	698.997
Bank Acceptances	155.184
Other Guarantees	353.187
Total	2.797.128

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

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

3. Explanations on the non-cash loans:

3 (i). Total amount of non-cash loans:

	Current Period 31 December 2018
Non-Cash Given for Cash Loan Risks	-
With Original Maturity of One Year or Less	-
With Original Maturity of More than One Year	-
Other Non-Cash Loans	3.658.162
Total	3.658.162

	Prior Period 31 December 2017
Non-Cash Given for Cash Loan Risks	-
With Original Maturity of One Year or Less	-
With Original Maturity of More than One Year	-
Other Non-Cash Loans	2.797.128
Total	2.797.128

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

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	43,72	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	548.570	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	201.054	19,86	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	1.012.379	100,00	2.645.783	100,00

	Prior Period 31 December 2017			
	TL	(%)	FC	(%)
Agricultural	105	0,01	-	0,00
Farming and Raising Livestock	105	0,01	-	0,00
Forestry	-	0,00	-	0,00
Fishing	-	0,00	-	0,00
Manufacturing	567.558	61,64	473.257	25,24
Mining and Quarrying	16	0,00	-	0,00
Production	552.912	60,05	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	345.167	37,42	1.006.736	53,70
Wholesale and Retail Trade	115.418	12,54	339.822	18,13
Hotel, Food and Beverage Services	3.530	0,38	-	0,00
Transportation and Telecommunication	5.675	0,62	33.030	1,76
Financial Institutions	136.798	14,86	606.132	32,33
Real Estate and Leasing Services	1.563	0,17	-	0,00
Self-employment Services	82.043	8,91	18.299	0,98
Education Services	90	0,01	-	0,00
Health and Social Services	50	0,01	9.453	0,50
Other	-	0,00	-	0,00
Total	922.304	100,00	1.874.824	100,00

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

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	1.010.352	2.645.721	87	-
Letters of Guarantee	1.002.352	839.193	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	916.765	1.863.239	3.774	11.585
Letters of Guarantee	912.965	669.739	3.774	1.517
Bank Acceptances	-	155.184	-	-
Letters of Credit	-	698.997	-	-
Endorsements	-	-	-	-
Underwriting Commitments	-	-	-	-
Factoring Guarantees	-	-	-	-
Other Commitments and Contingencies	3.800	339.319	-	10.068

b. Explanations on derivative transactions:

	Current Period 31 December 2018
Foreign Currency Swap Transactions	35.507.517
Interest Rate Swap Transactions	25.273.234
Foreign Currency Options Transactions	9.817.390
Forward Foreign Currency Transactions	11.032.975
Precious Metals Swap Transactions	44.028
Precious Metals Options Transactions	-

Total **81.675.144**

	Prior Period 31 December 2017
Foreign Currency Swap Transactions	51.802.380
Interest Rate Swap Transactions	18.391.364
Foreign Currency Options Transactions	10.416.076
Forward Foreign Currency Transactions	9.724.971
Precious Metals Swap Transactions	11.456
Precious Metals Options Transactions	-

Total **90.346.247**

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

1. Cash flow hedging accounting:

As of 31 December 2018, there are no transactions subject to hedge accounting as a hedging instrument (31 December 2018: 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 asset to be disclosed.

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

The Group has certain contingent liabilities relating to various lawsuits due to the transactions it performed in the scope of banking operations. As of 31 December 2018, the total amount of these lawsuits filed against the Group is TL 32.467 (31 December 2017: TL 29.641). 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 Group is higher than the probability of their concluding in its favor, with TL 33.751 (31 December 2017: TL 33.685) being for provisions for refunds related to case document charges.

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

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

IV. EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED 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 (*)		
Short-Term Loans	1.554.342	49.974
Medium and Long-Term Loans	416.193	239.855
Interest on Loans Under Follow-Up	24.214	-
Utilization Support Fund	-	-
Total	1.994.749	289.829

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

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

	Prior Period 31 December 2017	
	TL	FC
Interest Income on Loans (*)		
Short-Term Loans	914.749	6.851
Medium and Long-Term Loans	434.971	192.684
Interest on Loans Under Follow-Up	37.513	-
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	82.551	778
From Foreign Banks	927	7.424
Headquarters and Branches Abroad	-	-
Total	442.103	8.403

	Prior Period 31 December 2017	
	TL	FC
From the CBRT	305.869	-
From Domestic Banks	59.574	254
From Foreign Banks	2.927	333
Headquarters and Branches Abroad	-	-
Total	368.370	587

3. Information on interest income on marketable securities:

	Current Period 31 December 2018	
	TL	FC
Financial Assets at Fair Value Through Profit/Loss	16.505	901
Financial Assets at Fair Value Through Other Comprehensive Income Statement	83.683	-
Financial Assets Measured at Amortised Cost	-	-
Total	100.188	901

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

	Prior Period 31 December 2017	
	TL	FC
Financial Assets Held for Trading	16.852	748
Financial Assets at Fair Value Through Profit/Loss	-	-
Financial Assets Available for Sale	141.460	-
Investments Held to Maturity	-	-
Total	158.312	748

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

As of 31 December 2018 and 31 December 2017, the Parent Bank has no interest income received from investments in associates and subsidiaries.

b. Information on interest expense:

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

	Current Period 31 December 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 are included.

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

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

None.

3. Information on interest expense paid on securities issued:

The Group has no interest expense given on securities issued as of 31 December 2018 and 31 December 2017.

4. Maturity structure of the interest expense on deposits:

Current Period: 31 December 2018	Demand Deposit	Time Deposit					Cumulative Deposit	Total
		Up to 1 Month	Up to 3 Month	Up to 6 Month	Up to 1 Year	More Than 1 Year		
Turkish Lira								
Interbank Deposit	-	14.950	-	-	-	-	-	14.950
Saving Deposit	-	118.365	462.963	68.621	11.737	6.305	-	667.991
Public sector Deposit	-	-	-	-	-	-	-	-
Commercial Deposit	-	165.600	75.188	4.424	2	3.137	-	248.351
Other Deposit	-	39	270	-	-	-	-	309
Deposits with 7 Days Maturity	-	-	-	-	-	-	-	-
Total	-	298.954	538.421	73.045	11.739	9.442	-	931.601
Foreign Currency								
Foreign currency Deposit	-	65.944	182.823	17.876	5.814	1.013	-	273.470
Interbank Deposit	-	41.473	-	-	-	-	-	41.473
Deposits with 7 Days Maturity	-	-	-	-	-	-	-	-
Precious Metal Deposit	-	61	1.175	11	35	-	-	1.282
Total	-	107.478	183.998	17.887	5.849	1.013	-	316.225
Grand Total	-	406.432	722.419	90.932	17.588	10.455	-	1.247.826

Prior Period: 31 December 2017	Demand Deposit	Time Deposit					Cumulative Deposit	Total
		Up to 1 Month	Up to 3 Month	Up to 6 Month	Up to 1 Year	More Than 1 year		
Turkish Lira								
Interbank Deposit	-	25.595	-	-	-	-	-	25.595
Saving Deposit	-	71.374	263.371	10.140	3.204	1.964	-	350.053
Public Sector Deposit	-	-	-	-	-	-	-	-
Commercial Deposit	-	62.633	2.833	2.298	28	119	-	67.911
Other Deposit	-	26	27	-	-	-	-	53
Deposits with 7 Days Maturity	-	-	-	-	-	-	-	-
Total	-	159.628	266.231	12.438	3.232	2.083	-	443.612
Foreign Currency								
Foreign Currency Deposit	-	34.270	99.246	9.761	1.896	680	-	145.853
Interbank Deposit	-	31.645	-	-	-	-	-	31.645
Deposits with 7 Days Maturity	-	-	-	-	-	-	-	-
Precious Metal Deposit	-	-	919	15	20	-	-	954
Total	-	65.915	100.165	9.776	1.916	680	-	178.452
Grand Total	-	225.543	366.396	22.214	5.148	2.763	-	622.064

5. Information on interest given on repurchase agreements:

As of 31 December 2018, the Parent Bank has interest given on repurchase agreements amounting to TL 31.628 (31 December 2017: TL 18.058).

6. Information on financial lease expenses:

The Group has no financial lease expenses as of 31 December 2018 and 31 December 2017.

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

7. Information on interest expenses given on factoring payables:

The Group has no interest given on factoring payables as of 31 December 2018 and 31 December 2017.

c. Explanations on dividend income:

As of 31 December 2018, the Group has 165 TL in the dividend distribution of its subsidiaries. (31 December 2017: 2.684).

d. Explanations on trading income/loss (Net):

1. Trading income/loss (Net):

	Current Period 31 December 2018
Profit	89.633.449
Capital Market Transactions Income	124.916
Gain on Derivative Financial Transactions	13.438.182
Foreign Exchange Gains	76.070.351
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)	(398.944)

	Prior Period 31 December 2017
Profit	119.553.037
Capital Market Transactions Income	27.359
Gain on Derivative Financial Transactions	6.398.056
Foreign Exchange Gains	113.127.622
Loss (-)	120.054.990
Capital Market Transactions Loss	9.595
Loss on Derivative Financial Transactions	6.172.543
Foreign Exchange Loss	113.872.852
Total (Net)	(501.953)

2. Explanations 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

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	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. Explanations 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	33.230
Total	246.998

	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	19.404
Total	268.636

(*) 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

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

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

	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 Income	159
Investments in Associates, Subsidiaries and Held-to-Maturity	
Securities 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"	-
Free 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

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

g. Information related to other operating expenses:

	Current Period 31 December 2018
Personnel Expenses (*)	455.868
Reserve for Employee Termination Benefits (**)	3.870
Bank Social Aid Provision Fund Deficit Provision	-
Impairment Expenses of Property and Equipment	-
Depreciation Expenses of Property and Equipment	22.852
Impairment Expenses of Intangible Assets	-
Goodwill Impairment Expenses	-
Amortization Expenses of Intangible Assets	21.287
Impairment Expenses on Equity Accounted	-
Impairment Expenses on Assets Held for Sale Investees	-
Depreciation Expenses on Assets Held for Sale	39
Impairment Expenses on Non-Current Assets Held for Sale and Discontinued Operations	-
Other Operating Expenses	281.128
Operational Lease Expenses	72.652
Maintenance Licensing Expenses	46.180
Maintenance Expenses	24.092
Communication Expenses	17.439
Advertisement Expenses	20.485
Other Expenses	100.280
Loss on Sales of Assets	8.712
Tax, Duties, Charges and Funds Expenses	54.731
Saving Deposit Insurance Fund Expenses	32.075
Other (***)	193.264
Total	1.073.826

(*) "Personnel Expenses" are also disclosed in "Information related to other operating expenses", although it is not presented in "Other Operating Expense" in the income statement.

(**) "Reserve for Employee Termination Benefits" is disclosed in "Personnel Expenses" in the income statement.

(***) Amount of TL 193.264 consists of audit fee amounting to TL 6.718, arbitration committee expenses amounting to TL 18.524 and remaining TL 168.022 of other expenses.

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

	Prior Period 31 December 2017
Personnel Expenses	452.385
Reserve for Employee Termination Benefits	6.474
Bank Social Aid Provision Fund Deficit Provision	-
Impairment Expenses of Property and Equipment	-
Depreciation Expenses of Property and Equipment	23.813
Impairment Expenses of Intangible Assets	-
Goodwill Impairment Expenses	-
Amortization Expenses of Intangible Assets	16.330
Impairment Expenses on Equity Accounted	-
Impairment Expenses on Assets Held for Sale Investees	-
Depreciation Expenses on Assets Held for Sale	57
Impairment Expenses on Non-Current Assets Held for Sale and Discontinued Operations	-
Other Operating Expenses	304.808
Operational Lease Expenses	98.199
Maintenance Licensing Expenses	36.518
Maintenance Expenses	36.395
Communication Expenses	22.579
Advertisement Expenses	16.031
Other Expenses	95.086
Loss on Sales of Assets	19.725
Tax, Duties, Charges and Funds Expenses	34.388
Saving Deposit Insurance Fund Expenses	30.825
Other (*)	146.873
Total	1.035.678

(*) Amount of TL 146.873 consists of audit fee amounting to TL 32.676, arbitration committee expenses amounting to TL 18.524 and remaining TL 95.673 of other expenses.

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

For the year ended 31 December 2018, the Group's operating income is TL 1.759.832 (31 December 2017: TL 1.535.120). Provision for impairment of loans and other receivables of the Group are in amount of 228.698 TL (31 December 2017:344.390). Other operating expenses are in the amount of TRY 1.073.826 (31 December 2017: TL 1.035.678) and the income before tax is TL 457.308 (31 December 2017: TL 155.052 profit).

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

As of 31 December 2018, the Group has corporate tax provision expense amounting to TL 16.185 (31 December 2017: TL 10.858 expense) and deferred tax expense amounting to TL 94.475 (31 December 2017: TL 146.440 expense).

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

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

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

k. Explanations 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 1.472.567 (31 December 2017: TL 1.378.396), net wage and commission income amounting to TL 439.046 (31 December 2017: TL 386.817) 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 Group's interest income are the interests received from loans and interbank money market. The main portion of the interest expenses consists of the interests paid for deposits and loans received. The most important portion of the commission income consists of the commissions received from credit card transactions and other banking transactions.

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

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

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

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

	Current Period 31 December 2018
Credit Card Transactions	242.082
Insurance Commissions	44.814
Banking Transactions	38.902
Tefas Fund Platform	33.509
Other	84.106
Total	443.413
	Prior Period 31 December 2017
Credit Card Transactions	232.427
Insurance Commissions	38.209
Banking Transactions	30.734
Tefas Fund Platform	22.818
Other	83.088
Total	407.276

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

a. Information on the current year adjustments made in accordance with the requirements of the accounting standard on financial instruments:

1. Decreases/increases after the revaluation of financial assets at fair value through other comprehensive income:

As of 31 December 2018, decrease in investment securities valuation differences balance amounting to TL 46.092 (31 December 2017: TL 16.776 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 informations regarding the accounting of cash flow hedges are explained in Note b.1 of Section Three.

b. Information on adjustments made for the application of standard on accounting for financial instruments in the current year:

1. Information on 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 profit) arising from the revaluation of investments available for sale at their fair values has been transferred from equities to net profit/loss account since the investment available for sale was sold.

2. Information on cash flow hedges:

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

c. Explanations on dividend distribution:

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

d. Explanations on issuance of common stock:

The Group has no issuance of common stock as of 31 December 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 Group.

f. Offsetting prior period's losses:

As of 31 December 2018 and 31 December 2017, the Group does not have any offset transactions relating to previous year's losses.

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

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

Operating profit amounting to TL 631.993 (31 December 2017: TL 1.160.374) consists of interest income amounting to TL 2.914.281 (31 December 2017: TL 2.366.166), interest expense amounting to TL 1.410.764 (31 December 2017: TL 837.142), personnel expenses amounting to TL 459.216 (31 December 2016: TL 394.645) and net income other than interest amounting to TL 412.308 (31 December 2017: TL 25.995 income).

Net decrease in other liabilities amounting to TL 115.845 (31 December 2017: TL 608.954 net decrease) consists mainly of changes in miscellaneous payables, subordinated debts, other liabilities and taxes and other duties payable.

Effect of change in exchange rate on cash and cash equivalents is calculated approximately TL 1.695 decrease (31 December 2017: TL 2.792 increase) as of 31 December 2018.

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

The Group has no cash flow arising from acquisition of associates, subsidiaries and other investments as of 31 December 2018 and 31 December 2017.

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

The Group has no cash flow related to disposals of associates, subsidiaries or other investments as of 31 December 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.

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	2.732.709
Total Cash and Cash Equivalents	4.784.148

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	4.157.297
Total Cash and Cash Equivalents	13.222.563

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

1. Prior Period – 31 December 2017

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	1.005.763
Total Cash and Cash Equivalents	5.648.090

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	2.732.709
Total Cash and Cash Equivalents	4.784.148

e. Additional information:

None.

VII. EXPLANATIONS AND NOTES RELATED TO THE GROUP'S RISK GROUP

3. Volume of transactions with the Group's risk group, lending and deposits outstanding at the period end and income and expenses in the current period:

Current Period – 31 December 2018:

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	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
Loans and other Receivables						
Opening Balance	-	-	5.338	560.551	-	-
Closing Balance	-	-	15.268	633.491	-	-
Interest and Commissions Income	-	-	895	1.514	-	-

Prior Period – 31 December 2017:

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	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
Loans and Other Receivables						
Opening Balance	-	-	7.404	545.492	-	-
Closing Balance	-	-	5.338	560.551	-	-
Interest and Commissions Income (*)	-	-	3.122	1.634	-	-

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VII. EXPLANATIONS AND NOTES RELATED TO THE GROUP'S RISK GROUP (Continued)

2. Deposits held by the Group's risk group:

Risk Group of the Group	Subsidiaries, Associates and Jointly Controlled Entities (Joint Ventures)	Direct or Indirect Shareholders of the 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
Deposit			
Opening Balance	1.437	57.602	11.837
Closing Balance	5.510	92.407	13.244
Interest expense on deposits	-	-	407

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
Deposit			
Opening Balance	2.051	123.094	14.129
Closing Balance	1.437	57.602	11.837
Interest expense on deposits (*)	-	-	359

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

Risk Group of the Group	Subsidiaries, Associates and Jointly Controlled Entities (Joint Ventures)	Direct or Indirect Shareholders of the 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 (*)	-	-	-

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

As of 31 December 2018, payment is made to Board of Directors and top executives of the Group amounting to TL 28.971 (31 December 2017: TL 27.528).

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

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

	Number	Number of Employees			
Domestic Branch	82	2.258			
			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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SECTION SIX

OTHER EXPLANATIONS

I. OTHER EXPLANATIONS ON GROUP'S OPERATIONS

None.

SECTION SEVEN

EXPLANATIONS ON INDEPENDENT AUDITOR'S REVIEW REPORT

II. EXPLANATIONS ON INDEPENDENT AUDITOR'S REVIEW REPORT

As of 31 December 2018, consolidated financial statements and explanatory notes of the Bank disclosed herein were audited by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. and review report dated 28 February 2019 is presented before to the consolidated financial statements.

III. EXPLANATIONS AND NOTES PREPARED BY THE INDEPENDENT AUDITOR

None.

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