Türkiye Garanti Bankası Anonim Şirketi
And Its Subsidiaries

Consolidated Financial Statements

For the three month period ended

31 March 2019

With Independent Auditors' Report on
Review of Consolidated Interim
Financial Information

Türkiye Garanti Bankası Anonim Şirketi
And Its Subsidiaries

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Independent Auditors' Report on Review of Consolidated Interim Financial Statements

To the Board of Directors of Türkiye Garanti Bankası Anonim Şirketi,

Introduction

We have reviewed the accompanying consolidated statement of financial position of Türkiye Garanti Bankası Anonim Şirketi ("the Bank") and its subsidiaries (together "the Group") as at 31 March 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three month period then ended, and notes comprising significant accounting policies and other explanatory information ("the consolidated interim financial statements"). The Bank management is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with International Financial Reporting Standards ("IFRS") including the requirements of IAS 34 'Interim Financial Reporting'. Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

The accompanying consolidated interim financial statements as at 31 March 2019 include a general reserve of total TL 2,350,000 thousands, of which TL 100,000 thousands was recognized as expense in the current period and TL 2,250,000 thousands had been recognized as expense in prior periods, which is provided by the Bank management for the possible effects of the negative circumstances which may arise in economy or market conditions.

Qualified Conclusion

Based on our review, except for the effects of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not present fairly, in all material respects, the consolidated financial position of Türkiye Garanti Bankası AŞ and its subsidiaries as at 31 March 2019, and its consolidated financial performance and its consolidated cash flows for the three month period then ended, in accordance with International Financial Reporting Standards ("IFRS") including the requirements of IAS 34 "Interim Financial Reporting".

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of KPMG International Cooperative

Alper Güvenç
Partner

31 May 2019
İstanbul, Turkey

Türkiye Garanti Bankası AŞ And Its Subsidiaries

Consolidated Statement of Financial Position
At 31 March 2019

(Currency: Thousands of Turkish Lira (TL))

	Notes	31 March 2019	31 December 2018
Assets			
Cash and balances with central banks	*4*	37,948,867	31,704,520
Financial assets at fair value through profit or loss	*5*	4,708,833	4,613,218
Derivative financial assets	*6*	5,502,928	4,094,114
Loans and advances to banks	*7*	24,896,017	19,617,573
Loans and advances to customers	*8,29*	266,028,731	251,144,014
Investment securities	*9,27,28*	53,296,049	51,527,379
Equity investments	*10*	331,739	274,760
Assets held for sale	*11*	867,235	857,695
Investment properties	*12*	324,329	324,329
Tangible and intangible assets	*13*	7,574,305	6,595,030
Goodwill, net	*14*	32,948	32,948
Deferred tax asset	*24*	1,442,562	1,532,924
Other assets	*15*	19,881,362	24,252,000
Total Assets		**422,835,905**	**396,570,504**
Liabilities			
Deposits from banks	*16*	7,680,401	6,161,687
Deposits from customers	*17*	254,976,999	238,730,486
Loans and advances from banks and other institutions	*18*	36,640,555	34,629,291
Obligations under repurchase agreements and money market fundings	*19*	1,617,087	2,634,590
Debt securities issued	*20*	29,715,336	27,002,214
Financial liabilities at fair value through profit or loss	*21*	13,319,268	12,312,230
Derivative financial liabilities	*22*	4,698,955	4,518,660
Subordinated liabilities	*23*	4,302,079	3,977,018
Current tax liability	*24*	306,676	133,670
Deferred tax liability	*24*	52,476	49,975
Provisions	*25*	5,498,440	5,398,882
Other liabilities and accrued expenses	*26*	15,583,297	14,126,378
Total Liabilities		**374,391,569**	**349,675,081**
Equity attributable to owners of the bank			
Share capital	*27*	5,146,371	5,146,371
Share premium	*27*	11,880	11,880
Legal reserves	*27*	1,586,884	1,585,920
Other reserves	*9,27*	2,037,303	2,261,012
Retained earnings	*27*	39,443,458	37,692,683
		48,225,896	**46,697,866**
Non-controlling interests	*27*	**218,440**	**197,557**
Total Equity		**48,444,336**	**46,895,423**
Total Liabilities and Equity		**422,835,905**	**396,570,504**
Commitments and Contingencies	*29*		

The notes on pages 5 to 109 are an integral part of these consolidated financial statements.

Türkiye Garanti Bankası AŞ And Its Subsidiaries

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For The Three-Month Period Ended 31 March 2019

(Currency: Thousands of Turkish Lira (TL))

	Notes	1 January 2019- 31 March 2019	1 January 2018- 31 March 2018
Statement of Profit or Loss:			
Interest income:			
Interest on loans		8,465,055	6,393,746
Interest on securities		1,644,243	1,065,674
Interest on deposits at banks		283,391	112,997
Interest on lease business		131,877	115,116
Interest on factoring business		116,341	98,532
Interest on reserve deposits		70,868	71,905
Others		71,367	25,410
		10,783,142	7,883,380
Interest expense:			
Interest on saving, commercial and public deposits		(4,688,191)	(2,507,404)
Interest on borrowings, obligations under repurchase agreements,money market and swap fundings		(1,283,730)	(1,310,063)
Interest on debt securities issued		(611,681)	(473,294)
Interest on lease business		(47,837)	(38)
Interest on subordinated liabilities		(40,515)	(46,033)
Interest on bank deposits		(32,967)	(23,624)
Others		(48,003)	(13,396)
		(6,752,924)	(4,373,852)
Net interest income before provisions for loans and other credit risks		**4,030,218**	**3,509,528**
Provisions for loans and other credit risks, net	*4,5,7,8,9,25*	**(1,348,163)**	**(803,191)**
Net interest income after provisions for loans and other credit risks		**2,682,055**	**2,706,337**
Fees and commissions income		2,035,031	1,558,135
Fees and commissions expense		(546,622)	(329,687)
Net fees and commissions income	*33*	**1,488,409**	**1,228,448**
Net trading income/(expense)	*34*	**2,052,229**	**1,068,653**
Foreign exchange gains/(losses), net		**(1,775,925)**	**(799,716)**
Insurance business income		194,994	199,887
Insurance business expense		(54,077)	(63,808)
Net insurance business income		**140,917**	**136,079**
Gain on sale of assets		37,080	142,912
Other operating income	*35*	96,248	91,884
Other operating income		**133,328**	**234,796**
Total operating Income		**4,721,013**	**4,574,597**
Salaries and wages		(697,945)	(587,122)
Employee benefits	*25*	(387,294)	(271,810)
Credit card rewards and promotion expenses		(300,178)	(264,804)
Depreciation and amortisation	*13*	(218,558)	(112,498)
Taxes and duties other than on income		(169,573)	(137,156)
Impairment losses, net	*11,12,13,14,25*	(110,609)	(2,795)
Communication expenses		(58,480)	(57,710)
Other operating expenses	*36*	(513,545)	(545,481)
Total operating expenses		**(2,456,182)**	**(1,979,376)**
Profit/(loss) before tax		**2,264,831**	**2,595,221**
Taxation charge	*24*	(493,173)	(571,439)
Net profit/(loss) for the period		**1,771,658**	**2,023,782**
Other Comprehensive Income:			
(items to be recycled subsequently to profit or loss)			
Foreign currency translation, net of tax	*27*	210,332	267,311
Fair value change on debt instruments measured at fair value through other comprehensive income, net of tax:			
Net change in fair values	*27*	(502,092)	(242,326)
Net amount reclassified to profit/loss	*27*	26,012	(10,499)
Cash flow hedges, net of tax:			
Effective portion of changes in hedge reserve	*27*	142,619	80,994
Net amount reclassified to profit/loss	*27*	(65,380)	(1,223)
Net investment hedge for foreign operations, net of tax	*27*	(83,702)	(93,704)
		(272,211)	**553**
(items not to be recycled subsequently to profit or loss)			
Fair value change on equity investments measured at fair value through other comprehensive income, net of tax:			
Net change in fair values	*27*	44,254	7,615
Net amount recycled to profit/loss	*27*	-	-
Change on revaluation surplus on tangible and intangible assets, net of tax		4,248	1,852
		48,502	**9,467**
Other comprehensive income for the period, net of tax		**(223,709)**	**10,020**
Total Comprehensive Income for the Period		**1,547,949**	**2,033,802**
Net profit/(loss) attributable to:			
Equity holders of the Bank		1,750,775	2,006,651
Non-controlling interests		20,883	17,131
		1,771,658	**2,023,782**
Total comprehensive income attributable to:			
Equity holders of the Bank		1,527,066	2,016,671
Non-controlling interests		20,883	17,131
		1,547,949	**2,033,802**
Weighted average number of shares with a face value of Kr 1 each	*27*	**420 billions**	**420 billions**
Basic and diluted earnings per share (full TL amount per TL 1 face value each)		**0.417**	**0.478**

The notes on pages 5 to 109 are integral part of these consolidated financial statements.

Türkiye Garanti Bankası AŞ And Its Subsidiaries

Consolidated Statement of Changes in Equity
For The Period Ended 31 March 2019

(Currency: Thousands of Turkish Lira (TL))

				Other Reserves								
				to be recycled to profit or loss			not to be recycled to profit or loss					
	Share Capital	Share Premium	Legal Reserves	Fair Value Change on Debt Instruments	Hedge Reserve	Foreign Currency Translation Reserve	Fair Value Change on Equity Investments	Actuarial Gain/(Loss)	Revaluation Surplus on Tangible Assets	Retained Earnings	Non-Controlling Interests	Total Equity
Balances at 31 December 2017	**5,146,371**	**11,880**	**1,396,218**	**(378,822)**	**(644,771)**	**1,817,138**	**60,858**	**(144,368)**	**1,516,053**	**32,822,485**	**322,160**	**41,925,202**
Impact of adopting IFRS 9 at 1 January 2018	-	-	-	396,257	-	-	-	-	-	107,356	(7,809)	495,804
Restated balances at 1 January 2018	**5,146,371**	**11,880**	**1,396,218**	**17,435**	**(644,771)**	**1,817,138**	**60,858**	**(144,368)**	**1,516,053**	**32,929,841**	**314,351**	**42,421,006**
Net unrealized losses from debt instruments measured at fair value through other comprehensive income	-	-	-	(242,330)	-	-	-	-		-	4	(242,326)
Net unrealized gains from equity investments measured at fair value through other comprehensive income	-	-	-	-	-	-	7,615	-	-	-	-	7,615
Net realized losses on debt instruments measured at fair value through other comprehensive income recycled to statement of profit or loss at disposal	-	-	-	(10,499)	-	-	-	-	-	-	-	(10,499)
Foreign currency translation	-	-	-	(9,353)	47	276,617	-	-	-	-	-	267,311
Net change on revaluation surplus on tangible and intangible assets	-	-	-	-	-	-	-	-	1,852	-	-	1,852
Net gains on cash flow hedges	-	-	-	-	79,771	-	-	-	-	-	-	79,771
Net change on net investment hedge for foreign operations	-	-	-	-	(93,704)	-	-	-	-	-	-	(93,704)
Net profit/loss for three-month period	-	-	-	-	-	-	-	-	-	2,006,651	17,131	2,023,782
Total comprehensive income for the period	**-**	**-**	**-**	**(262,182)**	**(13,886)**	**276,617**	**7,615**	**-**	**1,852**	**2,006,651**	**17,135**	**2,033,802**
Newly consolidated subsidiaries	-	-	136	-	-	-	-	-		3,031	-	3,167
Transfer to legal reserves	-	-	154,954	-	-	-	-	-	-	(154,954)	-	-
Foreign currency translation for legal reserves	-	-	1,819	-	-	-	-	-	-	-	-	1,819
Dividends distributed	-	-	-	-	-	-	-	-	-	(1,750,000)	-	(1,750,000)
Balances at 31 March 2018	**5,146,371**	**11,880**	**1,553,127**	**(244,747)**	**(658,657)**	**2,093,755**	**68,473**	**(144,368)**	**1,517,905**	**33,034,569**	**331,486**	**42,709,794**
Balances at 31 December 2018	**5,146,371**	**11,880**	**1,585,920**	**(1,138,282)**	**(1,126,584)**	**3,056,188**	**99,362**	**(160,773)**	**1,531,101**	**37,692,683**	**197,557**	**46,895,423**
Net unrealized losses from debt instruments measured at fair value through other comprehensive income	-	-	-	(502,092)	-	-	-	-		-	-	(502,092)
Net unrealized gains from equity investments measured at fair value through other comprehensive income	-	-	-	-	-	-	44,254	-	-	-	-	44,254
Net realized gains on debt instruments measured at fair value through other comprehensive income recycled to statement of profit or loss at disposal	-	-	-	26,012	-	-	-	-	-	-	-	26,012
Foreign currency translation	-	-	-	1,324	201	208,807	-	-	-	-	-	210,332
Net change on revaluation surplus on tangible and intangible assets	-	-	-	-	-	-	-	-	4,248	-	-	4,248
Net change on actuarial gain/(loss) related to employee benefits	-	-	-	-	-	-	-	-	-	-	-	-
Net losses on cash flow hedges	-	-	-	-	77,239	-	-	-	-	-	-	77,239
Net change on net investment hedge for foreign operations	-	-	-	-	(83,702)	-	-	-	-	-	-	(83,702)
Net profit/loss for three-month period	-	-	-	-	-	-	-	-	-	1,750,775	20,883	1,771,658
Total comprehensive income for the period	**-**	**-**	**-**	**(474,756)**	**(6,262)**	**208,807**	**44,254**	**-**	**4,248**	**1,750,775**	**20,883**	**1,547,949**
Foreign currency translation for legal reserves	-	-	964	-	-	-	-	-	-	-	-	964
Balances at 31 March 2019	**5,146,371**	**11,880**	**1,586,884**	**(1,613,038)**	**(1,132,846)**	**3,264,995**	**143,616**	**(160,773)**	**1,535,349**	**39,443,458**	**218,440**	**48,444,336**

Türkiye Garanti Bankası AŞ And Its Subsidiaries

Consolidated Statement of Cash Flows
For The Three-Month Period Ended 31 March 2019

(Currency: Thousands of Turkish Lira (TL))

	Notes	1 January 2019- 31 March 2019	1 January 2018- 31 March 2018
Cash flows from operating activities:-			
Interests and commissions received		10,002,388	7,720,054
Interests and commissions paid		(6,967,505)	(4,335,416)
Other operating activities, net		(416,301)	407,907
Cash payments to employees and suppliers		(2,025,789)	(1,582,184)
		592,793	2,210,361
(Increase)/decrease in operating assets:-			
Loans and advances to banks		(8,392,472)	1,856,549
Balances with central banks		5,880,733	(3,510,049)
Financial assets at fair value through profit or loss		15,608	451,615
Loans and advances to customers		(17,250,087)	(11,205,802)
Other assets		(1,501,042)	(401,820)
Increase/(decrease) in operating liabilities:-			
Deposits from banks		1,517,940	2,280,384
Deposits from customers		16,205,719	8,714,372
Obligations under repurchase agreements and money market fundings		(989,430)	(11,110,629)
Other liabilities		176,614	(75,005)
Net cash outflows from operating activities before taxes and duties paid		**(3,743,624)**	**(10,790,024)**
Income taxes and other duties paid		**(307,951)**	**(725,657)**
Net cash outflows from operating activities		**(4,051,575)**	**(11,515,681)**
Cash flows from investing activities:-			
Net decrease/(increase) in investment securities		(960,101)	4,205,269
Interest received for investment securities		1,010,850	604,511
Dividends received		568	820
Proceeds from sale of tangible and intangible assets	*12,13*	202,684	164,217
Purchase of tangible and intangible assets	*12,13*	(263,147)	(226,610)
Net cash inflows/(outflows) from investing activities		**(9,146)**	**4,748,207**
Cash flows from financing activities:-			
Increase in loans and advances from banks and other institutions, net		2,285,694	2,030,650
Cash obtained from debt securities issued		5,301,805	1,449,210
Cash used for repayment of debt securities issued		(1,720,346)	97,093
Net cash inflows from financing activities		**5,867,153**	**3,576,953**
Effect of exchange rate changes		**1,301,552**	**335,070**
Net increase/(decrease) in cash and cash equivalents		**3,107,984**	**(2,855,451)**
Cash and cash equivalents at the beginning of the period		35,952,532	14,980,904
Cash and cash equivalents at the end of the period	*2*	**39,060,516**	**12,125,453**

The notes on pages 5 to 109 are an integral part of these consolidated financial statements.

Overview of the Bank

Türkiye Garanti Bankası AŞ (the Bank) is a bank domiciled in Turkey. The consolidated financial statements of the Bank as of and for the three-month period ended 31 March 2019 comprise the Bank and its subsidiaries (the Subsidiaries) (collectively referred as "the Group").

(a) Brief History

The foundation of the Bank was approved by the decree of the Council of Ministers numbered 3/4010 dated 11 April 1946 and its "Articles of Association" was published in the official gazette dated 25 April 1946. The Bank provides retail, commercial, corporate and small and medium size enterprises (SME) banking, leasing, insurance, asset management and factoring services through a network of 889 domestic branches, eight foreign branches, two representative offices abroad and 33 offices. In addition to its branches, the Bank has 100% ownership in two banks each of which is located in Amsterdam and Bucharest. The Bank and its subsidiaries in total have 21,901 employees. The Bank's head office is located at Levent Nispetiye Mahallesi Aytar Caddesi 2 Beşiktaş 34340 Istanbul, Turkey.

(b) Ownership

As of 31 March 2019, group of companies under Banco Bilbao Vizcaya Argentaria SA ("BBVA") that currently owns 49.85% shares of the Bank, is named the BBVA Group (the Group) and it is the main shareholder.

On 22 March 2011, BBVA had acquired; 78.120.000.000 shares of the Bank owned by GE Capital Corporation at a total nominal value of TL 781,200 thousands representing 18.60% ownership, and 26.418.840.000 shares of the Bank owned by Doğuş Holding AŞ at a total nominal value of TL 264,188 thousands representing 6.29% ownership. BBVA, purchasing 24.89% shares of the Bank, had joint control on the Bank's management together with group of companies under Doğuş Holding AŞ (the Doğuş Group).

Subsequently, on 7 April 2011, BBVA had acquired 503.160.000 shares at a nominal value of TL 5,032 thousands and increased its ownership in the Bank's share capital to 25.01%. Accordingly, BBVA and the Doğuş Group had mutual control on the Bank's management.

In accordance with the terms of the agreement between BBVA and the Doğuş Group which was previously disclosed on 19 November 2014, the sale of shares representing 14.89% of the share capital of the Bank with a face value of TL 625,380 thousands and 62.538.000.000 shares by the Doğuş Group to BBVA, has been completed on 27 July 2015. Following the acquisition, BBVA's stake in the Bank has reached to 39.90% and BBVA became the main shareholder. The Bank has moved to "Foreign Deposit Banks" category from "Private Deposit Bank" category by the Banking Regulation and Supervision Agency (the "BRSA").

On 21 February 2017, BBVA had agreed with the Doğuş Group to acquire 41.790.000.000 shares at a nominal value of TL 417,900 thousands representing 9.95% ownership and on 22 March 2017 in accordance with the terms of the agreement share transfer had been finalized. After the share transfer BBVA's interest in the share capital of the Bank is at 49.85%.

Accordingly, as of the balance sheet date, the Doğuş Group's interest in the share capital of the Bank is at 0.05%.

Significant accounting policies

(a) Statement of compliance

The Bank and its Turkish subsidiaries maintain their books of accounts and prepare their statutory financial statements in Turkish Lira (TL) in accordance with the Accounting Practice Regulations as promulgated by the BRSA; Turkish Accounting Standards promulgated by the Public Oversight Accounting and Auditing Standards Authority; the Turkish Commercial Code; and the Turkish Tax Legislation (collectively, Turkish GAAP); the Bank's foreign subsidiaries maintain their books of accounts and prepare their statutory financial statements in accordance with the generally accepted accounting principles and the related legislation applicable in the countries they operate.

The accompanying consolidated financial statements are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRS") including the requirements of IAS 34 Interim Financial Reporting. The accompanying consolidated financial statements are authorized for issue by the directors on 26 April 2019.

(b) Basis of preparation

The accompanying consolidated financial statements are presented in thousands of TL, which is the Bank's functional currency.

The accompanying consolidated financial statements are prepared on the historical cost basis, except that the following assets and liabilities are stated at their fair value: financial instruments measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income, real estates and investment properties.

The accounting policies set out below have been applied consistently by the Bank and its subsidiaries to prior periods presented in these consolidated financial statements except for the impact of transition to IFRS 16 Leases ("IFRS 16") as explained below.

(c) New and amended standards and interpretations

In the accompanying consolidated financial statements, the Group has adopted IFRS 16, effective for annual periods beginning on or after 1 January 2019, for the first time. The Group has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

- The new and amended standards which are effective for annual periods beginning on or after 1 January 2019

IFRS 16 Leases

IFRS 16 Leases standard abolishes the dual accounting model currently applied for lessees through recognizing finance leases in the balance sheet whereas not recognizing operational lease. Instead, it is set forth a single model similar to the accounting of finance leases (on balance sheet). For lessors, the accounting stays almost the same. This standard is applied with modified retrospective approach recognizing the cumulative effect of initially applying the standard at the date of initial application. In this context, comparative information is not restated. A lease liability and a right-of-use asset is recognised at the date of initial application for leases previously classified as an operating lease applying IAS 17. That lease liability is measured at the present value of the remaining lease payments, discounted using the Bank's alternative borrowing rate at the date of initial application. Besides, that right-of-use asset is measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

Significant accounting policies (continued)

IFRIC 23 –Uncertainty over Income Tax Treatments

On 17 June 2017, IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty in accounting for income taxes. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. IFRIC 23 is effective from 1 January 2019. No major impact has been encountered in the accompanying consolidated financial statements regarding IFRIC 23 application.

- The new and amended standards not effective as of 1 January 2019 and not early adopted

IFRS 17 –Insurance Contracts

On 18 May 2017, IASB issued IFRS 17 Insurance Contracts. This first truly international standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. IFRS 17 has an effective date of 1 January 2022 but companies can apply it earlier. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 17.

Annual Improvements to IFRSs 2015-2017 Cycle

The amendments are effective as of 1 January 2020 and summarised below:

Amendments to IFRS 3 - *Definition of Business*

Amendments to IAS 1 and IAS 8 - *Definition of Material*

Amendments to The Conceptual Framework for Financial Reporting

The accounting policies and the valuation principles applied in the preparation of the accompanying current period consolidated financial statements are explained in the following sections.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are in Notes 6, 8, 9, 13, 14, 15, 18, 22, 24, 25, 28, 29, 30 and 37.

Significant accounting policies (continued)

(e) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the Bank and its subsidiaries on the basis set out in sections below. The financial statements of the entities included in the consolidation have been prepared as of the date of the consolidated financial statements.

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

Subsidiaries

Subsidiaries are the entities controlled by the Bank. The control exists if and only if;

- when the Bank has the power over an subsidiary which that power, directly or indirectly, give rights to govern the financial and operating policies of the entity so as to obtain benefits from its activities.
- exposure, or rights, to variable returns from its involvement with the subsidiary.
- the ability to use its power over the subsidiary to affect the amount of its returns.

The Bank reassesses its control power over its subsidiaries if there is an indication that there are changes to any of the three elements of control. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates

Associates are those entities in which the Bank and its subsidiaries have significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Bank and its subsidiaries’ share of the total recognised gains and losses of associates on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases. When the Bank and its subsidiaries’ share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank and its subsidiaries have incurred obligations in respect of the associate.

Structured entities

Structured entities are entities that are created to accomplish a narrow and well defined objective such as the securitization of particular assets, or the execution of a specific borrowing or lending transaction. Structured entities are consolidated when the substance of the relationship between the Bank and the structured entity indicates that the structured entity is controlled by the Bank.

Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized gains and losses arising from intercompany transactions, are eliminated in the accompanying consolidated financial statements.

Unrealized gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Bank and its subsidiaries’ interest in the entity. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Significant accounting policies (continued)

Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Loss of control

When the Group losses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(f) Foreign currency

Foreign currency transactions

Transactions in the financial statements of the Bank are recorded in TL, which is the Bank's functional currency and the presentation currency for the accompanying consolidated financial statements. Transactions in foreign currencies are translated into the functional currency of the Bank at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into TL at the exchange rates ruling at date of the statement of financial position with the resulting exchange differences recognised in income as foreign exchange gain or loss. Gains and losses arising from foreign currency transactions are reflected in income as realized during the period.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to TL at foreign exchange rates ruling at the date of the statement of financial position. The revenues and expenses of foreign operations are translated to TL using average exchange rates. Foreign exchange differences arising on translation are recognised directly in a separate component of equity. When a foreign operation is disposed of in part or in full, the relevant amount in the foreign currency translation reserve is recycled to profit or loss.

(g) Tangible and intangible assets and related depreciation

Owned assets

The costs of the tangible and intangible assets acquired before 31 December 2005 are restated for the effects of inflation in TL units current at 31 December 2005 pursuant to IAS 29. Such assets acquired after this date are recorded at their historical costs. Accordingly, they are carried at costs, less accumulated depreciation and impairment losses (refer to accounting policy (t)). As of 1 November 2015, changing the existing accounting policy, it has been decided to apply revaluation model for properties recorded under tangible assets instead of cost model in accordance with IAS 16. Accordingly, for all real estates registered in the ledger, a valuation study was performed by independent expertise firms.

Leased assets

Leases in terms of which the Bank and its subsidiaries assume substantially all the risks and rewards of ownership are classified as financial leases. Tangible assets acquired by way of financial lease are stated at amounts equal to the lower of their fair values and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (refer to accounting policy (t)). Lease liabilities are reduced through repayments of principal, while the finance charge component of the lease payment is charged directly to income.

Significant accounting policies (continued)

Internally generated software

As per IAS 38, internally-generated software should be recognised as assets if they meet the below listed criterias:

- the technical feasibility of completing the asset so that it will be available for use,
- availability of the intention to complete and use the asset,
- the ability to use the asset,
- clarity in probable future economic benefits to be generated from the asset,
- the availability of adequate technical, financial and other resources to complete the development phase and to start using the asset,
- the availability to measure reliably the expenditure attributable to the asset during the development phase.

The directly attributable development costs of asset are included in the cost of such assets, however the research costs are recognised as expense as incurred.

Subsequent expenditure

Expenditures incurred to replace a component of a tangible and intangible asset that is accounted for separately, and major inspection and overhaul costs, are capitalized. Other subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the item of such assets. All other expenditures are reflected as expense in the statement of profit or loss and other comprehensive income as incurred.

Expenditures for major renewals and improvement of tangible and intangible assets are capitalized and depreciated over the remaining useful lives of the related assets.

Depreciation

The estimated useful lives and depreciation rates of tangible and intangible assets are as follows. Depreciation method in use was not changed in the current period.

Tangible and intangible assets	***Estimated useful lives (years)***	***Depreciation Rates (%)***
Buildings	50	2
Vaults	50	2
Motor vehicles	5-7	15-20
Other tangible and intangible assets	4-20	5-25

The estimated useful lives, residual values and depreciation methods are reviewed at least once a year, with the effect of any changes in estimate accounted for on a prospective basis.

Investment property

Land and buildings that are held to earn rentals or for capital appreciation or both rather than for use in production, supply of goods or services, administrative purposes or sale in the ordinary course of business are classified as investment property. As of 1 November 2015, changing the existing accounting policy, it has been decided to apply fair value model for investment properties instead of cost model in accordance with the IAS 40. Accordingly, for all the investment properties registered in the ledger, a valuation study was performed by independent expertise firms. Fair value changes in investment properties are accounted in the corresponding statement of profit or loss and other comprehensive income.

Investment properties are initially measured at cost and subsequently at fair value, with any change therein recognised in statement of profit or loss and other comprehensive income. Any gain or loss on disposal of investment properties (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the statement of profit or loss and other comprehensive income.

Significant accounting policies (continued)

Investment properties under fair value model are not depreciated.

Right-of-use assets

As a result of internal evaluations, branches and service buildings subject to operational lease are accounted in accordance with IFRS 16; but ATMs, vehicles and other leasing transaction balances are not considered within the scope of IFRS 16 as they are below the materiality level and the corresponding rent payments are recognized under other operating expenses.

At the commencement date, the Group measures the right-of-use real estates considered as right-of-use asset at the cost of right-of-use asset in accordance with IFRS 16. The cost of the right-of-use asset comprises the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs incurred by the lessee and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

After the commencement date, the right-of-use asset is measured applying a cost model. To apply the cost model, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses; and adjusted for any remeasurement of the lease liability.

The depreciation requirements in IAS 16 Property, Plant and Equipment is applied in depreciating real assets considered as right-of-use asset.

IAS 36 Impairment of Assets is applied to determine whether the real estates considered as right-of-use assets are impaired and to account for any impairment loss identified.

(h) Goodwill

Goodwill arose from business combinations and represents the excess of the total acquisition costs over the share of the Bank and its subsidiaries in the fair value of the net assets of the acquired companies at the dates of acquisitions. When the excess is negative, it is recognised immediately in income. Goodwill is assessed for indication of impairment at least annually using external and internal sources such as market value, information on any adverse effect on the acquired companies, market interest rates or other market rates of return on investments and carrying value of net assets. If any such indication exists, the recoverable amount of the goodwill is estimated. If the recoverable amount is less than the carrying amount, the carrying amount is reduced to its recoverable amount, and impairment loss is recognised as an expense in income. The losses arising from the impairment of goodwill are not reversed in a subsequent period.

(i) Financial instruments

Initial recognition of financial instruments

It shall be recognised a financial asset or a financial liability in the statement of financial position when, and only when, an entity becomes party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets shall be recognised and derecognised, as applicable, using trade date accounting or settlement date accounting. Purchase and sale transactions of securities are accounted at the settlement date.

Significant accounting policies (continued)

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the contractual conditions and the relevant business model. At initial recognition, the Group shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at FVPL, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Classification of financial instruments

On which category a financial instrument shall be classified at initial recognition depends on both the business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Assessment of the business model

The business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The business model does not depend on management's intentions for an individual instrument. Accordingly, this condition is not an instrument-by-instrument approach to classification and should be determined on a higher level of aggregation.

During assessment of the business model for management of financial assets, it must be considered all relevant evidence that is available at the date of the assessment. Such relevant evidence includes below:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

Assessment of the business model is not performed on the basis of scenarios that the entity does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios.

If cash flows are realized in a way that is different from the expectations at the date that it is assessed the business model, that does not give rise to a prior period error in the financial statements nor does it change the classification of the remaining financial assets held in that business model as long as it is considered all relevant information that was available at the time that it made the business model assessment. However, when the business model for newly originated or newly purchased financial assets is assessed, it must be considered information about how cash flows were realized in the past, along with all other relevant information.

The business models are divided into three categories. These categories are defined below:

- A business model whose objective is to hold assets in order to collect contractual cash flows: a business model whose objective is to hold assets in order to collect contractual cash flows are managed to realize cash flows by collecting contractual payments over the life of the instrument. The financial assets that are held within the scope of this business model are measured at amortised cost when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Significant accounting policies (continued)

- A business model whose objective is achieved by both collecting contractual cash flows and selling financial assets: it may be held financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Fair value change of the financial assets that are held within the scope of this business model are accounted under other comprehensive income when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Other business models: financial assets are measured at FVPL if they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding

A financial asset is classified on the basis of its contractual cash flow characteristics if the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

In a basic lending arrangement, consideration for the time value of money and credit risk are typically the most significant elements of interest. In order to assess whether the element provides consideration for only the passage of time, an entity applies judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set.

When the contractual conditions are exposed to the risks which are not consistent with the basic lending arrangement or variability of cash flows, the relevant financial asset is measured at FVPL.

Measurement categories of financial assets and liabilities

All financial assets are classified based on the business model for managing the financial assets. Accordingly, financial assets are classified in four main categories as listed below:

- Financial instruments measured at amortised cost,
- Financial instruments measured at FVOCI, with gains or losses recycled to profit or loss on derecognition,
- Equity instruments measured at FVOCI, with no recycling of gains or losses to profit or loss on derecognition, and
- Financial instruments measured at FVPL.

Financial instruments measured at amortised cost

Financial assets are classified as measured at amortised cost if both of the following conditions are met.

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt securities measured at amortised cost: subsequent to the initial recognition, debt securities are measured at amortised cost by using the effective interest rate method.

Significant accounting policies (continued)

Loans and advances measured at amortised cost: financial assets other than those held for trading in short term or generated through providing money, commodity and services to debtors. Loans are financial assets with fixed or determinable payments and not quoted in an active market.

These financial assets are recognised at cost and also measured at amortised cost by using the effective interest method.

All financial liabilities are classified as subsequently measured at amortised cost except for financial liabilities at FVPL, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, financial guarantee contracts, commitments to provide a loan at a below-market interest rate, and contingent consideration recognised by an acquirer in a business combination.

Financial instruments measured at FVOCI

Financial investments are classified as measured at FVOCI if both of the following conditions are met.

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A gain or loss on a financial asset measured at FVOCI shall be recognised in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognised or reclassified. If the financial asset is reclassified, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

Financial assets measured at FVOCI are measured at their fair values subsequently. However, assets for which fair values could not be determined reliably are valued at amortised cost by using the discounting method with internal rate of return for floating-rate securities; and by using valuation models or discounted cash flow techniques for fixed-rate securities. Unrecognised gain/losses derived from the difference between their fair value and the discounted values are recorded in accumulated other comprehensive income or expense to be reclassified to profit or loss under the shareholders' equity. In case of sales, the gain/losses arising from fair value measurement accumulated under shareholders' equity are recognised in statement of profit or loss and other comprehensive income.

Interests calculated and/or earned by using the effective interest method during holding of financial assets measured at FVOCI are recorded primarily in interest income. On derecognition of such financial assets, the difference between the carrying amount of the asset and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Bank owns consumer price indexed government bonds (CPI) portfolio. CPI's are valued and accounted according to the effective interest rate method which is calculated according to the real coupon rate and the reference inflation index on the issue date. As it is mentioned in the Undersecretariat of Treasury's Investor Guide of CPI, the reference index used during the calculation of the actual coupon payment amount is the previous two months CPI's. The Bank determines its expected inflation rates in compliance with this guide. The estimated inflation rate according to the Central Bank of Turkey and the Bank's expectations is updated during the year when it is considered necessary.

Significant accounting policies (continued)

Equity instruments measured at FVOCI

At initial recognition, it can be made an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies. Such election is made on an instrument by instrument basis.

Amounts presented in other comprehensive income shall not be subsequently recycled to profit or loss. However, the cumulative gain or loss shall be recycled to prior period's profit or loss. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. IFRS 9 impairment requirements are not applicable for equity instruments.

Financial assets and liabilities measured at FVPL

Financial assets at FVPL are valued at their fair values and gain/loss arising on those assets is recorded in the statement of profit or loss and other comprehensive income. Interest income earned on these assets and the difference between their acquisition costs and amortised costs are recorded as interest income in the statement of profit or loss and other comprehensive income excluding loans and receivables. The differences between the amortised costs and the fair values of such assets are recorded under net trading income/(expense) in the statement of profit or loss and other comprehensive income. In cases where such assets are sold before their maturities, the gains/losses on such sales are recorded under net trading income/(expense).

It is designated irrevocably certain loans and securities issued at initial recognition, as financial assets/liabilities at FVPL as permitted by IFRS 9.

Besides, as detailed in the relevant accounting policy sections, the original contractual terms or a counterparty of a loan might change in certain circumstances and the existing financial asset is derecognised. The characteristics of new contractual terms of a loan are assessed and when they are exposed to the risks which are not consistent with the basic lending agreement leading to variability of cashflows, the relevant financial asset is measured at FVPL.

The interest income/expense earned and the difference between the acquisition costs and the amortised costs of financial liabilities are recorded under interest income/(expense) in statement of profit or loss and other comprehensive income, the difference between the amortised costs and the fair values of financial liabilities are recorded under net trading income/(expense) in statement of profit or loss and other comprehensive income. The amount of change in the fair value of the financial liability at FVPL that is attributable to changes in the credit risk of that liability shall be presented in other comprehensive income unless it creates accounting mismatch or increase the accounting mismatch. Excluding the change in credit risk of the liability, the remaining amount of change in the fair value of the liability shall be presented in profit or loss.

Derecognition of financial instruments

Derecognition of financial assets due to change in the contractual terms

Based on IFRS 9, the renegotiation or modification of the contractual cash flows of a financial asset can lead to the derecognition of the existing financial asset. When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a "new" financial asset.

When it is assessed the characteristics of the new contractual terms of the financial asset, it is also evaluated the contractual cash flows including foreign currency rate changes, conversion to equity, counterparty changes and solely principal and interest on principle.

Significant accounting policies (continued)

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, it is recalculated the gross carrying amount of the financial asset and recognised a modification gain or loss in profit or loss.

Derecognition of financial liabilities

Where all risks and rewards of ownership of the asset have not been transferred to another party and it is retained control of the asset, it is continued to be recognised the remaining portion of the asset and liabilities arising from such asset.

When it is retained substantially all the risks and rewards of ownership of the transferred asset, the transferred asset continues to be recognised in its entirety and the consideration received is recognised as a liability.

Derecognition of a financial asset without any change in the contractual terms

The asset is derecognised if the contractual rights to cash flows from the financial asset are expired or the related financial asset and all risks and rewards of ownership of the asset are transferred to another party.

Except for equity instruments measured at FVOCI, the total amount consisting of the gain or loss arising from the difference between the book value and the amount obtained and any accumulated gain directly accounted in equity shall be recognised in profit or loss.

A financial liability (or a part of a financial liability) shall be removed from the statement of financial position when, and only when, it is extinguished—i.e. when the obligation specified in the contract is discharged or cancelled or expires.

Reclassification of financial instruments

It shall be reclassified all affected financial assets based on classification principles of IFRS 9 when, and only when, it is changed the business model for managing financial assets.

It is fulfilled the requirements of reclassification during transition to IFRS 9 and such reclassification details are presented in transition disclosures.

Restructuring and refinancing of financial instruments

It may be changed the original contractual terms of a loan (maturity, repayment structure, guarantees and sureties) which were previously signed, in case the loan cannot be repaid or if a potential payment difficulty is encountered based on the new financing power and structure of the borrower.

Restructuring is to change the financial terms of existing loans in order to facilitate the payment of debt. Refinancing is granting a new loan which will cover either the principal or the interest payment in whole or in part of one or a few existing loans due to the anticipated financial difficulty which the customer or group encounter currently or will encounter in the future.

Changes in the original terms of a credit risk can be made in the current contract or through a new contract.

(j) ***Derivatives***

The derivative transactions mainly consist of foreign currency and interest rate swaps, foreign currency options, forward foreign currency purchase/sale contacts and credit derivatives.

Significant accounting policies (continued)

Derivatives are initially recorded at their fair values. The related transaction costs are recognized in statement of profit or loss and other comprehensive income at the date they incur. The changes in their fair values are recorded on balance sheet under "derivative financial assets" or "derivative financial liabilities", respectively depending on the fair values being positive or negative. Fair value changes for derivatives are recorded in the account of "net gain / (losses) on derivative transactions" under the statement of profit or loss and other comprehensive income.

Credit derivatives; are capital market tools designed to transfer credit risk from one party to another. The credit derivatives portfolio included in the off-balance sheet accounts composes of total return swaps and credit default swaps resulted from protection buying or selling.

Credit default swap; is a contract, in which the protection seller commits to pay the protection value to the protection buyer in case of certain credit risk events in return for the premium paid by the buyer for the contract. Credit default swaps are valued daily at their fair values.

Total return swap; is a contract, in which the protection seller commits to make a certain payment and compensate the decreases in market values of the reference assets to the buyer under the condition that the protection buyer will transfer all the cash flows to be created by and the increases in market values of the reference asset. It is entered into total return swap contract for the purpose of generating long-term funding.

Within the scope of IFRS 13 Fair Value Measurement standard; (i) if there is a significant decrease in the volume or level of activity for that asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities); (ii) when the transaction or quoted price does not represent fair value; and / or (iii) when a price for a similar asset requires significant adjustment to make it comparable to the asset being measured, or (iv) when the price is stale, an adjustment to the transactions or quoted prices is made and this adjustment is reflected to the fair value measurement. In this context, the point is determined within the range that is most representative of fair value under current market conditions. As of 31 March 2019, fair value measurement adjustments are made in TL yield curves used in valuation of derivative transactions.

IFRS 9 permits to defer application of IFRS 9 hedge accounting and continue to apply hedge accounting in accordance with IAS 39 as a policy choice. Accordingly, the Bank and its subsidiaries continue to apply hedge accounting in accordance with IAS 39 in this context.

Derivatives held for risk management purposes are also measured at fair value. The treatment for the changes in their fair value depends on their classification into the following categories:

Cash flow hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect the income, the effective portion of changes in the fair value of the derivative are recognised directly in other comprehensive income and presented in hedge reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in income.

Significant accounting policies (continued)

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued and the amount recognised in other comprehensive income and presented in the hedge reserve in equity remains there until the forecast transaction affects the income. If the forecast transaction is no longer expected to occur, then hedge accounting is discontinued and the balance in other comprehensive income is recognised immediately in income.

Fair value hedge

A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in income immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in income relating to the hedged item.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or a liability with corresponding gain or loss recognised in profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to income from that date.

Net investment hedge

When a derivative or non-derivative financial liability is designated as a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised directly in the shareholders' equity, in the foreign currency translation reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in income. The amount recognised in the shareholders' equity is removed and included in the income on disposal of the foreign operation.

The foreign currency risk arising from net investments in foreign operations are hedged with long-term foreign currency borrowings and currency translation differences arising from conversion of foreign investments and foreign currency borrowings into TL are accounted for foreign currency translation reserve and hedge reserve, respectively, in equity.

Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host with the effect that some of the cash flows of the combined instrument vary in a way similar to stand alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to contract. A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty, is not an embedded derivative but a separate financial instrument. If a hybrid contract contains a host that is an asset within the scope of this standard, it is applied the standard's requirements about classification of financial assets to the entire hybrid contract. The Bank and its subsidiaries do not have either any hybrid contract contains a host that is not an asset within the scope of this standard or a financial instrument which shall be separated from the host and accounted for as derivative under this standard.

Significant accounting policies (continued)

(k) Securities borrowing and lending business

Investments lent under securities lending arrangements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for the related assets as appropriate. Cash collateral received in respect of securities lent is recognised as liabilities to either banks or customers. Investments borrowed under securities borrowing agreements are not recognised in the statement of financial position as the related risks and rewards of such securities are not retained. Borrowed securities are recorded under commitments and contingencies. Cash collateral placements in respect of securities borrowed are recognised under loans and advances to either banks or customers depending on the type of counterparty.

(l) Repurchase and resale agreements over investments

The Bank and its subsidiaries enter into purchases of investments under agreements to resell (reverse repo) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised in loans to either banks or customers. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements (repo) are recognised in the statement of financial position and are measured in accordance with the accounting policy for the related assets as appropriate. The proceeds from the sale of the investments are reported as “obligations under repurchase agreements and money market fundings”, a liability account.

Income and expenses arising from the repurchase and resale agreements over investments are recognised on an accrual basis over the period of the transactions and are included in interest income or expense.

(m) Items held in trust

Assets, other than cash deposits, held by the Bank and its subsidiaries in fiduciary or agency capacities for its customers and government entities are not included in the accompanying consolidated statement of financial position, since such items are not under the ownership of the Bank.

(n) Financial guarantees

Financial guarantees are contracts that require the Bank and its subsidiaries to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount or the present value of any expected payment (when a payment under the guarantee has become probable).

(o) Employee benefits

(i) Defined benefit plan

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his/her dependents will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The Bank has a defined benefit plan (“the Plan”) for its employees namely Türkiye Garanti Bankası Anonim Şirketi Memur ve Müstahdemleri Emekli ve Yardım Sandığı Vakfı (“the Fund”). The Fund is a separate legal entity and a foundation recognised by an official decree, providing pension and post-retirement medical benefits to all Bank employees entitled to receive such benefits. This benefit plan is funded through contributions of both by the employees and the employer as required by Social Security Law numbered 506 and these contributions are as follows:

	31 March 2019	
	Employer	***Employee***
	%	*%*
Pension contributions	15.5	10.0
Medical benefit contributions	6.0	5.0

Significant accounting policies (continued)

This benefit plan is composed of a) the contractual benefits of the employees, which are subject to transfer to Social Security Foundation ("SSF") ("pension and medical benefits transferable to SSF") (see Note 25) and b) other excess social rights and payments provided in the existing trust indenture but not transferable to SSF and medical benefits provided by the Bank for its constructive obligation ("excess benefits").

a) Pension and medical benefits transferable to SSF

As discussed in Note 25, the Bank expects to transfer a portion of the obligation of the Fund to SSF. This transfer will be a settlement of that portion of the Fund's obligation. Final legislation establishing the terms for this transfer was enacted on 8 May 2008. Although the settlement will not be recognised until the transfer is made, the Bank believes that it is more appropriate to measure the obligation as the value of the payment that would need to be made to SSF to settle the obligation at the date of the statement of financial position in accordance with the Temporary Article 20 of the Law No.5754: "Law regarding the changes in Social Insurance and General Health Insurance Law and other laws and regulations" ("New Law"). The pension disclosures set out in Note 25, therefore reflect the actuarial assumptions and mortality tables specified in the New Law, including a discount rate of 9.80%.

The pension benefits transferable to SSF are calculated annually by an independent actuary, who is registered with the Undersecretariat of the Treasury.

b) Excess benefits not transferable to SSF

The excess benefits, which are not subject to the transfer, are accounted for in accordance with IAS 19, "Employee Benefits". The obligation in respect of the retained portion of the defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value by using the projected unit credit method, and any unrecognised past service costs and the fair value of any plan assets are deducted.

All actuarial gains and losses stem from the remeasurement of defined benefit obligation and are recognised immediately in other comprehensive income.

(ii) Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its subsidiaries calculated in accordance with the Turkish Labor Law. In accordance with Turkish Labor Law, the Bank and its subsidiaries are required to make lump-sum payments to each employee whose employment is terminated due to retirement or before the retirement date for reasons other than resignation or misconduct and has completed at least one year of service.

All actuarial gains and losses are recognised immediately in other comprehensive income.

(iii) Short-term employee benefits

The Bank provided for undiscounted short-term employee benefits earned during the financial periods as per services rendered in compliance with IAS 19.

(p) Operating leases

Based on IFRS 16, at the commencement date, the lease liability is measured at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the alternative borrowing interest rate.

Significant accounting policies (continued)

After the commencement date, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made; and remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease.

Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.

After the commencement date, the lease liability is remeasured to reflect changes to the lease payments.The amount of the remeasurement of the lease liability is recognised as an adjustment to the right-of-use asset.

The lease liability is remeasured by discounting the revised lease payments using a revised discount rate, if either there is a change in the lease term or there is a change in the assessment of an option to purchase the underlying asset. However, if there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments or if there is a change in the amounts expected to be payable under a residual value guarantee, an unchanged discount rate is used.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification, the lease liability is remeasured by discounting the revised lease payments using a revised discount rate. The revised discount rate is determined as the alternative borrowing interest rate at the effective date of the modification. The carrying amount of the right-of-use asset is decreased to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease. Any gain or loss relating to the partial or full termination of the lease is recognised in profit or loss. A corresponding adjustment to the right-of-use asset is made for all other lease modifications.

(q) Taxes on income

Taxes on income for the period comprise current taxes and deferred taxes. Current taxes on income comprises tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and; any adjustment in taxes payable for previous years.

Deferred income tax is provided, using the statement of financial position method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax liabilities and assets are recognised when it is probable that the future economic benefits resulting from the reversal of temporary differences will flow to or from the Bank and its subsidiaries. Deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised. Deferred tax balances are calculated using the tax rates that are expected to apply to the reporting period or periods when the temporary differences reverse based on the tax rates and tax laws enacted or substantively enacted at the end of the reporting period.

An individual consolidated subsidiary offsets deferred tax asset and deferred tax liability if the deferred tax asset and deferred tax liability relate to income taxes levied by the same taxation authority or where the legal right of offset exists.

Significant accounting policies (continued)

Current and deferred taxes are recognised in profit or loss except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Accordingly, deferred taxes related to fair value measurement of financial assets measured at FVOCI, real estates (excluding investment properties), cash flow hedges, net investment hedges and actuarial measurements are recognised in other comprehensive income.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

(r) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, there is a legally enforceable right to set off the amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses from a group of similar transactions.

(s) Earnings per share

Earnings per share disclosed in the accompanying consolidated statement of profit or loss and other comprehensive income are determined by dividing net income by the weighted average number of shares outstanding during the period attributable to the shareholders of the Bank. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (“Bonus Shares”) to existing shareholders from retained earnings. Additionally, considering the fact that the increase in the number of shares issued by way of bonus shares in fact does not require any cash injection by the shareholders; the number of issued shares outstanding before such bonus share issuances is adjusted for the proportionate change in the number of issued shares outstanding as if the event had occurred at the beginning of the earliest period reported.

(t) Impairment

Financial and non-financial assets are reviewed at each date of the statement of financial position to determine whether there is objective evidence of impairment. If any such indication exists, the asset’s recoverable amount is estimated in order to determine the extent of the impairment loss, if any.

Impairment of financial assets

As of 1 January 2018, it is recognised a loss allowance for expected credit losses on financial assets and loans measured at amortised cost, financial assets measured at FVOCI, loan commitments and financial guarantee contracts not measured at FVPL based on IFRS 9 which came into force starting from 1 January 2018. IFRS 9 impairment requirements are not applicable for equity instruments.

At each reporting date, it shall be assessed whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, it shall be used the change in the risk of a default occurring for the financial instrument.

As of the reporting date, if the credit risk on a financial instrument has not increased significantly since initial recognition, it shall be measured the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses. However, if there is a significant increase in credit risk of a financial instrument since initial recognition, loss allowance regarding such instrument is measured at an amount equal to lifetime expected credit losses.

The expected credit loss is calculated on a collective basis by means of grouping the financial assets having common credit risk features or on an individual basis.

Significant accounting policies (continued)

It is constituted a policy in order to make an assessment whether the credit risk on a financial instrument has increased significantly since initial recognition by taking into consideration change in the risk of a default occurring over the expected life of the financial instrument. The aforementioned policy is presented in this note.

The impairment model having three stages based on the change in credit quality since initial recognition based on IFRS 9 is explained below:

Calculation of expected credit losses

It is calculated expected credit losses based on a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due based on the contract and the cash flows that are expected to be received.

Probability of Default (PD): PD refers to the likelihood that a loan will default, which is usually set at 12 months, given certain characteristics. Based on IFRS 9, it is used two different PDs in order to calculate expected credit losses:

- 12-month PD: as the estimated probability of default occurring within the next 12 months.
- Lifetime PD: as the estimated probability of default occurring over the remaining life of the financial instrument.

It is used internal rating systems for both retail and commercial portfolios. The internal rating models used for the commercial portfolio include customer financial information and qualitative survey responses. Whereas behavioral and application scorecards used in the retail portfolio include; (i) the behavioral data of the customer and the product in the Bank, (ii) the demographic information of the customer, and (iii) the behavioral data of the customer in the sector. Probability of default calculation has been carried out based on past information, current conditions and forward looking macroeconomic parameters.

Loss Given Default (LGD): If a loan default occurs, it represents the economic loss incurred on the loan. It is expressed as a percentage.

LGD calculations are performed using historical data which best reflects current conditions, by formation of segments based on certain risk factors that are deemed important for each portfolio and inclusion of forward-looking information and macroeconomic expectations. LGD summarizes all cash flows from customers subsequent to default. It covers all costs and collections that occur during the collection cycle, including collections from collaterals. It also includes the "time value of money" calculated by means of deducting costs and additional losses from the present value of collections.

Exposure at Default (EAD): For cash loans, it corresponds to the amount of loan granted as of the reporting date. For non-cash loans and commitments, it is the value calculated through using credit conversion factors. Credit conversion factor corresponds to the factor which adjusts the potential increase of the exposure between the current date and the default date.

When expected credit losses are estimated, it is considered four scenarios (base scenario, bad scenario, good scenario, balanced scenario). Each of these four scenarios is associated with different probability of default, loss given default and exposure at default. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

Significant accounting policies (continued)

With the exception of credit cards and other revolving facilities, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless there is the legal right to call it earlier.

Stage 1: 12-month expected credit loss represents the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date and calculated as the portion of lifetime expected credit losses. It is calculated 12-month expected credit loss based on a probability of default realized within 12 months after the reporting date. Such expected 12-month probability of default is applied on an expected exposure at default, multiplied with loss given default rate and discounted with the original effective interest rate. Such calculation is performed for each of four scenarios explained above.

Stage 2: When a loan has shown a significant increase in credit risk since origination, it is calculated an allowance for the lifetime expected credit losses. Including multiple scenario usage, it is similar to descriptions above, but probability of default and loss given default rates are estimated through the life of the instrument. Estimated cash shortfalls are discounted by using the original effective interest rate.

Stage 3: For the loans considered as impaired, it is accounted lifetime expected credit losses. The methodology is similar to stage 2 and the probability of default is taken into account as 100%.

Loan commitments and non-cash loans

The expected credit losses on a loan commitment shall be discounted using the effective interest rate, or an approximation thereof, that will be applied when recognising the financial asset resulting from the loan commitment. This is because for the purpose of applying the impairment requirements, a financial asset that is recognised following a draw down on a loan commitment shall be treated as a continuation of that commitment instead of as a new financial instrument. The expected credit losses on the financial asset shall therefore be measured considering the initial credit risk of the loan commitment from the date when becoming a party to the irrevocable commitment.

Expected credit losses on financial guarantee contracts or on loan commitments for which the effective interest rate cannot be determined shall be discounted by applying a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Debt instruments measured at FVOCI

As of 1 January 2018, it shall be applied the impairment requirements for the recognition and measurement of an expected credit loss for financial assets that are measured at FVOCI. However, the expected credit loss shall be recognised in other comprehensive income and shall not reduce the carrying amount of the financial asset in the statement of financial position. The expected credit loss is reflected in other comprehensive income and accounted in profit or loss. The expected credit loss is reflected in other comprehensive income and the accumulated amount is recycled to statement of profit/loss following the derecognition of related financial asset.

Significant accounting policies (continued)

(u) Income and expense recognition

Interest income and expense

Interest is recorded according to the effective interest rate method (rate equal to the rate in calculation of present value of future cash flows of financial assets or liabilities) defined in the IFRS 9 Financial instruments standard by applying the effective interest rate to the gross carrying amount of a financial asset except for: purchased or originated credit-impaired financial assets or financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. In applying the effective interest method, an entity identifies fees that are an integral part of the effective interest rate of a financial instrument. Fees that are an integral part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate, unless the financial instrument is measured at fair value, with the change in fair value being recognised in profit or loss. In those cases, such fees are accounted as revenue or expense when the instrument is initially recognised in the financial statements.

When applying the effective interest method, it is amortised any fees, transaction costs and other premiums or discounts that are included in the calculation of the effective interest rate over the expected life of the financial instrument.

In case an interest was accrued on a security before its acquisition, the collected interest is divided into two parts as interest before and after the acquisition and only the interest income of the period after the acquisition is recorded as interest income in the financial statements.

If the expectations for the cash flows in the financial asset are revised for reasons other than the credit risk, the amendment is reflected in the carrying amount of the asset and in the related statement of profit or loss and other comprehensive income line and is amortised over the estimated life of the financial asset.

If the financial asset is impaired and classified as a non-performing receivable, the effective interest rate is applied to the amortized cost of the asset for subsequent reporting periods. Such interest income calculation is performed on an individual contract basis for all financial assets subject to impairment calculation. The effective interest rate is used for the calculation of loss given default parameter in the expected credit loss models and therefore the calculated expected credit losses, includes this calculated interest amount. Accordingly a reclassification is performed between the accounts of “expected credit losses” expense and “interest income from loans” for such calculated interest amount. If the credit risk of the financial instrument improves to the extent that the financial asset is no longer considered as impaired and the improvement can be attributed to an incident that eventually takes place (such as an increase in the loan's credit rating), the system calculates interest income at subsequent reporting periods by applying the effective interest rate to the gross amount.

Fee and commission

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commissions, placement fees and syndication fees, are recognised as the related services are performed in accordance with IFRS 15 Revenue from contracts with customers. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

Significant accounting policies (continued)

Net trading income/(expense)

Net trading income/(expense) includes gains and losses arising from sale of financial assets measured at FVPL and financial assets measured at FVOCI in addition to changes in fair value of financial assets measured at FVPL and derivatives including effective portion of fair value hedges.

Dividend income

Dividend income is recognised in income when the right to receive payment is established.

Insurance business

Premium income: For short-term insurance contracts, premiums are recognised as income (earned premiums), net of premium ceded to reinsurer firms, proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at date of the statement of financial position is recognised as the reserve for unearned premiums that are calculated on a daily pro-rata basis. Premiums are shown before deduction of commissions and deferred acquisition cost, and are gross of any taxes and duties levied on premiums.

For long-term insurance contracts, premiums are recognised as income when the premiums are due from the policyholders. Premiums received for long-term insurance contracts with discretionary participation feature (“DPF”), are recognised directly as liabilities.

Unearned premium reserve: Unearned premiums are those proportions of the premiums written in a period that relate to the period of risk subsequent to the date of the statement of financial position for all short-term insurance policies. In accordance with the incumbent legislation on the computation of insurance contract liabilities, unearned premium reserve set aside for unexpired risks as at the dates of the statements of financial position, has been computed on a daily pro-rata basis. The change in the provision for unearned premium is recognised in income in the order that income is recognised over the period of risk.

Claims and provision for “outstanding” claims: Claims are recognised in the period in which they occur, based on reported claims or on the basis of estimates when not reported. The claims provision is the total estimated ultimate cost of settling all claims arising from events, which have occurred up to the end of the accounting period. Full provision is accounted for outstanding claims, including claim settlements reported at the period-end.

Incurred but not reported claims (“IBNR”) are also provided for under the provision for outstanding claims.

Liability adequacy test: At each statement of financial position date, asset-liability adequacy tests are performed to ensure the adequacy of the contract liabilities, net of related deferred acquisition costs. In performing these tests, current best estimates of future cash flows are used. Any deficiency is immediately charged to income.

Income generated from pension business: Income arising from asset management and other related services offered by the insurance subsidiary of the Bank is recognised in the accounting period in which the service is rendered. Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the insurance company actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the instrument. These services comprise the activity of trading financial assets in order to reproduce the contractual services. In all cases, these services comprise an indeterminate number of acts over the life of the individual contracts.

Significant accounting policies (continued)

Mathematical provisions: Mathematical provisions are the provisions recorded against the liabilities of the insurance subsidiary of the Bank to the beneficiaries of long-term life, health and individual accident policies based on actuarial assumptions. Mathematical provisions consist of actuarial mathematical provisions for long term insurance contracts, saving portion of the saving life products classified as investment contracts and related profit sharing reserves.

Actuarial mathematical provisions are calculated as the difference between the net present values of premiums written in return of the risk covered by the insurance subsidiary and the liabilities to policyholders for long-term insurance contracts based on the basis of actuarial mortality assumptions as approved by the Republic of Turkey Prime Ministry Undersecretariat of Treasury, which are applicable for Turkish insurance companies.

Profit sharing reserves are the reserves provided against income obtained from asset backing saving life insurance contracts. These contracts entitle the beneficiaries of those contracts to a minimum guaranteed crediting rate per annum or, when higher, a bonus rate declared by the insurance subsidiary from the eligible surplus available to date.

Mathematical provisions are presented under “other liabilities, accrued expenses and provisions” in the accompanying consolidated financial statements.

(v) Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (disposal group) is available for immediate sale in its present condition.

Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

(w) Segment reporting

An operating segment is a component of the Bank and its subsidiaries that engage in business activities from which it may earn income and incur expenses, including income and expenses that relate to transactions with any of the Bank’s other components. All operating segments’ operating results are reviewed regularly by the management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(Currency: Thousands of Turkish Lira (TL))

Transition disclosures

Reclassifications and remeasurements during the first time application of IFRS 16 Leases Standard dated 1 January 2019 are presented in the below table.

	Note	*31.12.2018*	*IFRS16 Reclassification Effect*	*IFRS16 Transition Effect*	*01.01.2019*
Tangible and intangible assets	(1),(2)	6,595,030	33,008	1,041,258	7,669,296
Other assets	(2)	24,252,000	(33,008)	-	24,218,992
Other liabilities and accrued expenses	(1),(3)	14,126,378	-	1,041,258	15,167,636

(1) In accordance with IFRS 16 a lease liability and a right-of-use asset amounting to TL 1,041,258 thousands are recognised as of 1 January 2019 for leases previously classified as an operating lease applying IAS 17.

(2) In accordance with IFRS 16 prepaid rent payments amounting to TL 33,008 thousands are reclassified under tangible assets as right-of-use which were previously classified under other assets.

(3) As of 1 January 2019, the weighted average of the alternative borrowing interest rates applied to TL, EUR and USD lease liabilities presented in the consolidated statement of financial position are 23.6%, 4.2% and 7% respectively.

Index for the notes to the consolidated financial statements:

(Currency: Thousands of Turkish Lira (TL))

1 Segment reporting

The Bank has seven reportable segments from banking and other financial institutions, as described in the business segments part 1.2 below, which are the Bank's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the senior management reviews internal reports regularly. The following summary describes the operations in each of the Bank's reportable segments:

1.1 Geographical segments

The Bank and its subsidiaries operate principally in Turkey, but also have operations in the Netherlands, Romania, Turkish Republic of Northern Cyprus, Malta and Germany. Total geographic sector risk concentrations, both on and off balance sheet, are presented in the table below:

	31 March 2019				
	Loans and Advances to Customers	***Total Assets***	***Total Liabilities***	***Non-Cash Loans***	***Capital Expenditures***
Turkey	241,736,143	368,366,212	298,348,534	55,791,988	1,184,265
Romania	10,269,716	13,661,348	9,881,412	394,550	7,573
Netherlands	2,734,918	9,081,362	7,894,460	251,473	3,069
USA	1,039,291	7,945,880	3,051,764	1,066,386	-
England	851,000	7,256,718	12,693,758	291,017	-
Germany	1,445,669	4,301,672	14,999,046	224,893	67
Cyprus	802,317	2,365,875	2,302,132	95,866	-
Switzerland	2,132,596	2,161,454	2,231,504	2,031,376	-
Malta	1,091,257	1,605,913	712,414	7,718	-
Luxembourg	381,975	1,383,151	2,933,115	13	-
Belgium	538,144	698,157	961,963	110,442	-
France	508,212	658,022	3,691,052	383,526	-
Austria	510,822	517,845	401,849	28,053	-
Singapore	409,446	409,448	93,970	36,397	-
United Arabian Emirates	307,940	311,022	4,186,963	566,856	-
Canada	12,737	308,036	524,148	1,950	-
Spain	136,937	289,574	277,579	857,410	-
Italy	191,496	289,094	410,706	789,563	-
Qatar	225,401	235,742	160,551	9,274	-
Russia	63,882	104,819	201,857	-	-
Ireland	82,629	82,636	419,734	25	-
Japan	122	56,952	17,660	409,851	-
China	4,691	12,887	1,995,834	84,940	-
Sweden	6,370	8,661	230,452	38,700	-
Saudi Arabia	466	5,563	166,628	-	-
Ukraine	2,068	2,084	42,189	-	-
Azerbaijan	1,719	1,732	384,456	567	-
Thailand	-	1,584	1,243	-	-
Albania	20	20	224,757	-	-
Bahamas	-	-	261,271	-	-
Others	540,747	712,442	4,688,568	2,020,474	-
	266,028,731	422,835,905	374,391,569	65,493,308	1,194,974

(Currency: Thousands of Turkish Lira (TL))

1 Segment reporting (continued)

	31 December 2018				
	Loans and Advances to Customers	***Total Assets***	***Total Liabilities***	***Non-Cash Loans***	***Capital Expenditures***
Turkey	228,151,296	341,005,947	274,493,394	54,994,701	1,227,307
Romania	9,934,580	13,203,148	9,717,682	393,989	49,189
Netherlands	2,601,903	9,128,888	6,890,673	339,204	18,155
England	756,576	6,756,224	11,812,201	329,130	-
Malta	887,825	6,310,702	479,266	50,113	-
USA	933,235	5,685,718	4,295,268	2,014,645	-
Germany	1,493,385	3,853,613	14,583,231	202,554	32
Switzerland	2,024,061	2,322,407	3,585,635	3,147,324	-
Cyprus	716,475	2,265,909	2,081,484	97,080	-
Luxembourg	286,181	1,292,496	2,950,501	13	-
France	345,807	700,030	3,113,198	329,517	-
Belgium	472,811	498,269	984,878	138,602	-
Austria	468,034	469,065	373,335	10,552	-
United Arabian Emirates	304,288	356,316	5,672,158	1,830,444	-
Italy	308,728	348,825	324,064	711,012	-
Spain	23,778	325,909	213,047	847,326	-
Singapore	291,478	291,480	25,121	100,432	-
Sweden	198,219	269,973	226,740	39,210	-
Qatar	158,939	158,946	152,436	1,847	-
Russia	60,569	128,610	150,990	34	-
Canada	38,686	112,841	620,128	1,700	-
China	1,245	97,285	1,884,075	114,969	-
Ireland	78,494	78,499	673,324	25	-
Japan	158	77,101	20,829	385,905	-
Saudi Arabia	502	4,574	162,568	-	-
Azerbaijan	2,115	2,126	343,180	67	-
Ukraine	2,045	2,058	37,586	-	-
Thailand	7	1,765	1,472	-	-
Albania	14	14	211,130	-	-
Bahamas	-	-	242,408	-	-
Others	602,580	821,766	3,353,079	1,635,033	-
	251,144,014	396,570,504	349,675,081	67,715,428	1,294,683

Total geographic sector risk concentrations of the net income are presented in the table below:

	For the three-month period ended	
	31 March 2019	***31 March 2018***
Turkey	1,475,523	1,783,366
Malta	174,324	156,796
Romania	54,294	38,748
Netherlands	24,614	25,949
Others	42,903	18,923
	1,771,658	2,023,782

(Currency: Thousands of Turkish Lira (TL))

1 Segment reporting (continued)

1.2 Business segments

The segments are identified on the basis used by the Group's top management to allocate resources and evaluate performance, in accordance with IFRS 8 "Operating Segments". The Board reviews discrete financial information for each of its segments, including measures of operating results, assets and liabilities. The main business segments are banking, leasing, insurance and factoring sectors. Banking segment information is detailed further to retail banking and commercial, corporate and SME banking as these are the major banking activities. Other operations heading under the banking segment include mainly treasury and investment banking activities as well as unallocated income and expense items. The analysis is as follows:

31 March 2019	*Retail Banking*	*Commercial, Corporate & SME Banking*	*Other Operations*	*Total Banking*	*Leasing*	*Insurance*	*Factoring*	*Other Financial*	*Other Non-Financial*	*Combined*	*Eliminations*	*Total*
Operating income	2,938,466	1,604,370	(235,698)	4,307,138	59,306	177,756	37,132	108,517	69,035	4,758,884	(37,871)	4,721,013
Operating expenses	(1,454,746)	(561,013)	(309,759)	(2,325,518)	(22,227)	(34,758)	(11,984)	(56,733)	(46,806)	(2,498,026)	41,844	(2,456,182)
Income from operations	**1,483,720**	**1,043,357**	**(545,457)**	**1,981,620**	**37,079**	**142,998**	**25,148**	**51,784**	**22,229**	**2,260,858**	**3,973**	**2,264,831**
Taxation charge	-	-	(430,032)	(430,032)	(7,894)	(31,425)	(5,778)	(14,292)	(4,936)	(494,357)	1,184	(493,173)
Net income for the period	**1,483,720**	**1,043,357**	**(975,489)**	**1,551,588**	**29,185**	**111,573**	**19,370**	**37,492**	**17,293**	**1,766,501**	**5,157**	**1,771,658**
Segment assets	68,644,958	192,714,299	149,460,942	410,820,199	7,129,334	1,634,006	2,181,596	1,368,289	1,894,682	425,028,106	(2,523,940)	422,504,166
Equity investments	-	-	720,184	720,184	10,000	304	-	4,709	1	735,198	(403,459)	331,739
Total assets	**68,644,958**	**192,714,299**	**150,181,126**	**411,540,383**	**7,139,334**	**1,634,310**	**2,181,596**	**1,372,998**	**1,894,683**	**425,763,304**	**(2,927,399)**	**422,835,905**
Segment liabilities	171,434,095	94,186,133	99,478,501	365,098,729	6,048,773	612,756	2,022,711	1,201,065	1,761,777	376,745,811	(2,354,242)	374,391,569
Total equity	-	-	46,441,654	46,441,654	1,090,561	1,021,554	158,885	171,933	132,906	49,017,493	(573,157)	48,444,336
Total liabilities and equity	**171,434,095**	**94,186,133**	**145,920,155**	**411,540,383**	**7,139,334**	**1,634,310**	**2,181,596**	**1,372,998**	**1,894,683**	**425,763,304**	**(2,927,399)**	**422,835,905**

(Currency: Thousands of Turkish Lira (TL))

1 Segment reporting (continued)

31 March 2018	***Retail Banking***	***Commercial, Corporate & SME Banking***	***Other Operations***	***Total Banking***	***Leasing***	***Insurance***	***Factoring***	***Other Financial***	***Other Non-Financial***	***Combined***	***Eliminations***	***Total***
Operating income	1,294,603	1,429,167	1,461,652	4,185,422	62,566	165,519	20,780	99,308	66,812	4,600,407	(25,810)	4,574,597
Operating expenses	(391,892)	(256,499)	(1,190,341)	(1,838,732)	(18,583)	(39,100)	(10,417)	(56,233)	(42,704)	(2,005,769)	26,393	(1,979,376)
Income from operations	**902,711**	**1,172,668**	**271,311**	**2,346,690**	**43,983**	**126,419**	**10,363**	**43,075**	**24,108**	**2,594,638**	**583**	**2,595,221**
Taxation charge	-	-	(512,045)	(512,045)	(9,632)	(27,815)	(2,468)	(10,698)	(8,442)	(571,100)	(339)	(571,439)
Net income for the period	**902,711**	**1,172,668**	**(240,734)**	**1,834,645**	**34,351**	**98,604**	**7,895**	**32,377**	**15,666**	**2,023,538**	**244**	**2,023,782**
31 December 2018												
Segment assets	71,774,112	178,316,435	133,375,107	383,465,654	7,196,920	1,461,170	2,434,061	1,246,157	1,887,949	397,691,911	(1,396,167)	396,295,744
Equity investments	-	-	663,401	663,401	10,000	304	-	4,511	1	678,217	(403,457)	274,760
Total assets	**71,774,112**	**178,316,435**	**134,038,508**	**384,129,055**	**7,206,920**	**1,461,474**	**2,434,061**	**1,250,668**	**1,887,950**	**398,370,128**	**(1,799,624)**	**396,570,504**
Segment liabilities	160,344,635	88,680,117	90,008,327	339,033,079	6,013,617	551,485	2,278,515	1,111,011	1,767,081	350,754,788	(1,079,707)	349,675,081
Total equity	-	-	45,095,976	45,095,976	1,193,303	909,989	155,546	139,657	120,869	47,615,340	(719,917)	46,895,423
Total liabilities and equity	**160,344,635**	**88,680,117**	**135,104,303**	**384,129,055**	**7,206,920**	**1,461,474**	**2,434,061**	**1,250,668**	**1,887,950**	**398,370,128**	**(1,799,624)**	**396,570,504**

(Currency: Thousands of Turkish Lira (TL))

2 Cash and cash equivalents

Cash and cash equivalents include cash balances on hand, due from banks with original maturity periods of less than three months and other cash items. Cash and cash equivalents as of 31 March 2019 and 2018, included in the accompanying consolidated statement of cash flows are as follows:

	31 March 2019	*31 March 2018*
Cash at branches	3,286,922	2,463,896
Unrestricted balances with central banks	20,259,294	3,734,386
Placements at money markets	368,715	7,350
Loans and advances to banks with original maturity periods of less than three months	15,145,585	5,919,821
	39,060,516	12,125,453

3 Related party disclosures

For the purpose of this report, the shareholders either controlling or having executive key management personnel in common with the Bank and BBVA and all their subsidiaries, and their ultimate owners, directors and executive officers and the Bank's unconsolidated subsidiaries and associates are referred to as related parties. During the course of the business, the Bank has made placements with and granted loans to related parties and also received deposits from them at various terms. The Bank had the following balances outstanding from and transactions with related parties:

	31 March 2019	*31 December 2018*
Statement of financial position		
Loans and advances to banks	10,244	116,428
Loans and advances to customers (*)	227,784	387,719
Loans measured at FVPL (*)	4,201,115	4,081,161
Miscellaneous receivables	834	1,120
Deposits from banks	188,054	198,239
Deposits from customers	292,310	100,086
Miscellaneous payables	59	158
Commitments and contingencies		
Non-cash loans	574,934	1,002,926
Derivatives	19,129,386	19,576,878

	For the three-month period ended	
Statement of profit or loss and other comprehensive income (**)	***31 March 2019***	***31 March 2018***
Interest, fees and commissions income	116,329	49,003
Interest, fees and commissions expense	10,781	4,358
Net trading income/(expense) and foreign exchange gains/(losses), net	(18,443)	59,997
Other operating income	53	336
Other operating expenses	5,517	6,951

(*) The loans measured at FVPL amounting to TL 4,201,115 thousands (31 December 2018: TL 4,081,161 thousands) and the loans measured at amortised cost amounting to TL 49,028 thousands (31 December 2018: TL 44,794 thousands) granted to a special purpose entity owned by the Group with 22.1265% (as explained in Note 11) and its investment in Türk Telekomünikasyon A.Ş. considered as associate are disclosed as related party balances as of the year end.

(**)The Doğuş Group has not been considered as related party, as it does not meet the required criteria under IAS 24 Related Party Disclosures standard starting from 20 December 2018. The interest and commissions received/paid due to the transactions with this group until 20 December 2018, are included in the related party disclosures.

(Currency: Thousands of Turkish Lira (TL))

3 Related party disclosures (continued)

In the first quarter of 2019, interest rates applied to foreign currency receivables from and payables to related parties vary within the ranges of 4%-6% and (0.37)%-5% (31 December 2018: 2%-6% and (0.34)%-5%), respectively. The interest rates applied to TL receivables from and payables to related parties vary within the ranges of 14%-19% and 5%-28%, respectively (31 December 2018: 14%-19% and 5%-28%).

Various commission rates are applied to transactions involving guarantees and commitments. The pricing in transactions with the related parties is set on an arms-length basis.

As per IFRS 9, expected credit losses amounted to TL 43 thousands (31 March 2018: TL 62,331 thousands) are recognised against balances outstanding during the period with related parties as of 31 March 2019.

Key management personnel compensation for the three-month period ended 31 March 2019 amounted to TL 43,248 thousands (31 March 2018: TL 36,330 thousands) on a consolidated basis. Within this total, individual key management expenses of the Bank amounted to TL 28,861 thousands (31 March 2018: TL 23,746 thousands) and of its subsidiaries amounted to TL 14,387 thousands (31 March 2018: TL 12,584 thousands).

4 Cash and balances with central banks

	31 March 2019	31 December 2018
Cash at branches	3,286,922	4,072,788
Balances with central banks excluding reserve deposits	34,661,945	27,631,732
	37,948,867	31,704,520

The credit quality analysis of cash and balances with central banks as of 31 March 2019 and 31 December 2018 is as follows:

	31 March 2019			31 December 2018		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Stage 1: Low-fair risk	38,014,784	-	-	31,749,067	-	-
Stage 2: Watch list	-	-	-	-	-	-
Stage 3.1: Substandard	-	-	-	-	-	-
Stage 3.2: Doubtful	-	-	-	-	-	-
Stage 3.3: Loss	-	-	-	-	-	-
Expected credit losses	(65,917)	-	-	(44,547)	-	-
Total carrying amount	37,948,867	-	-	31,704,520	-	-

The movements of expected credit losses per asset class for cash and balances with central banks as of 31 March 2019 and 31 December 2018 are as follows:

	31 March 2019			31 December 2018		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage	Stage 3
Balances at 31 December	44,547	-	-	-	-	-
Impact of adopting IFRS 9 at 1 January	-	-	-	5,808	-	-
Balances at 1 January	44,547	-	-	5,808	-	-
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
Debt sales and write-offs	-	-	-	-	-	-
Recoveries and reversals	(2,711)	-	-	(6,742)	-	-
Provision for the period	24,072	-	-	45,451	-	-
Effects of movements in exchange rates	9	-	-	30	-	-
Balances at the end of the period	65,917	-	-	44,547	-	-

(Currency: Thousands of Turkish Lira (TL))

5 Financial assets at fair value through profit or loss

	31 March 2019				*31 December 2018*
	Face value	***Carrying value***	***Interest rate range %***	***Latest maturity***	***Carrying value***
Debt and other instruments measured at FVPL:					
Government bonds in TL	94,312	79,076	3-28	2028	132,843
Eurobonds	78,487	75,158	3-12	2047	82,899
Bonds issued by financial institutions	63,433	68,146	2-16	2027	70,643
Government bonds indexed to CPI	33,716	60,664	1-4	2025	42,947
Government bonds in FC	56,079	56,236	2-4	2021	527
Investment funds	-	53,251	-	-	109,928
Bonds issued by corporations	20,397	18,715	4-24	2021	29,333
Government bonds-floating ***(a)***	15,000	14,818	20-20	2020	358
Discounted government bonds in TL	374	357	-	2020	-
		426,421			469,478
Loans measured at FVPL ***(b)***		4,201,115			4,081,161
Equity and other non-fixed income instruments:					
Listed shares		81,297			62,579
Total financial assets at fair value through profit or loss		4,708,833			4,613,218

(a) *The interest rates applied on these securities are floating quarterly based on interest rates of government bond bids of the government.*

(b) *As details included in Note 11, it includes the loan provided to a special purpose entity. This loan is accounted under loans measured at FVPL based on IFRS 9.*

Income from debt and other instruments held at fair value is reflected in the consolidated statement of profit or loss and other comprehensive income as interest on securities. Gains and losses arising from trading of financial assets at FVPL are recorded in net trading income/(expense).

As of 31 March 2019, financial assets at FVPL amounting to TL 21,306 thousands are blocked against asset management operations and securitizations (31 December 2018: TL 20,931 thousands) (refer to Note 9).

As of 31 March 2019, there are TL 8,508 thousands of securities pledged under repurchase agreements with customers (31 December 2018: TL 1,605 thousands).

6 Derivative financial assets

Derivative financial assets mainly consist of foreign currency and interest rate swaps, foreign currency options and forward foreign currency contracts.

	31 March 2019		*31 December 2018*	
	Trading	***Hedging***(*)	***Trading***	***Hedging***(*)
Swap derivative financial assets	2,998,960	1,198,288	1,951,350	1,001,323
Option derivative financial assets	673,772	-	673,176	-
Forward derivative financial assets	618,778	-	451,049	-
Future derivative financial assets	-	-	2,586	-
Other derivative financial assets	13,130	-	14,630	-
	4,304,640	1,198,288	3,092,791	1,001,323

(*) *Includes derivative transactions subject to cash flow and fair value hedge accounting amounted to TL 864,208 thousands (31 December 2018: TL 745,428 thousands) and TL 334,080 thousands (31 December 2018: TL 255,895 thousands), respectively.*

(Currency: Thousands of Turkish Lira (TL))

6 Derivative financial assets (continued)

As of 31 March 2019 and 31 December 2018, fair value changes of hedged items and related gains/losses accounted under equity and statement of profit or loss, for cash flow hedges are as follows:

31 March 2019

Hedging item	Hedged item	Type of risk	Fair value change of hedged item: Asset	Fair value change of hedged item: Liability	Gains/losses accounted under equity	Gains/losses accounted under statement of profit or loss	Ineffective portion (net) accounted under statement of profit or loss
Interest Rate Swaps	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates	77,007	(18,114)	(38,688)	10,874	1,311
Interest Rate Swaps	Floating-rate deposit	Cash flow risk resulted from change in market interest rates	217,929	(47,140)	126,903	76,021	20,788
Cross Currency Swaps	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	522,311	(42,719)	(8,258)	(5,501)	-
Cross Currency Swaps	Fixed-rate borrowings	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	46,961	(26,435)	11,283	(11,283)	-
Currency Forwards	Mile payments	Cash flow risk resulted from foreign currency exchange rates	-	(46,778)	4,190	-	-
Spot Position (*)	Operational expenses	Cash flow risk resulted from foreign currency exchange rates	488,526	-	10,365	-	-
Foreign currency borrowings	Operational lease receivables	Cash flow risk resulted from foreign currency exchange rates	-	-	(6,743)	13,710	-
			1,352,734	(181,186)	99,052	83,821	22,099

(*) Includes foreign currency items on asset side in the balance sheet.

(Currency: Thousands of Turkish Lira (TL))

6 Derivative financial assets (continued)

31 December 2018

Hedging item	Hedged item	Type of risk	Fair value change of hedged item: Asset	Fair value change of hedged item: Liability	Gains/losses accounted under equity	Gains/losses accounted under statement of profit or loss	Ineffective portion (net) accounted under statement of profit or loss
Interest Rate Swaps	Floating-rate debt securities issued	Cash flow risk resulted from change in market interest rates	-	-	(17)	17	-
Interest Rate Swaps	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates	111,668	(3,821)	44,614	33,260	913
Interest Rate Swaps	Floating-rate deposit	Cash flow risk resulted from change in market interest rates	90,272	(74,443)	(55,708)	9,665	(5,115)
Cross Currency Swaps	Mile payments	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	-	-	(1,094)	(248)	-
Cross Currency Swaps	Floating-rate borrowings	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	502,173	-	18,447	(31,509)	-
Cross Currency Swaps	Fixed-rate borrowings	Cash flow risk resulted from change in market interest rates and foreign currency exchange rates	41,315	(58,695)	4,455	(4,380)	-
Currency Swaps	Foreign currency lease receivables	Cash flow risk resulted from foreign currency exchange rates	-	(22,345)	531	-	(22,876)
Currency Forwards	Mile payments	Cash flow risk resulted from foreign currency exchange rates	-	(50,968)	(50,968)	-	-
Foreign currency borrowings	Operational lease receivables	Cash flow risk resulted from foreign currency exchange rates	-	-	(38,931)	100,039	-
			745,428	(210,272)	(78,671)	106,844	(27,078)

As of 31 March 2019 and 31 December 2018, fair value changes of hedged items and related gains/losses accounted under equity and statement of profit or loss, for fair value hedges are as follows:

31 March 2019

Hedging item	Hedged item	Type of risk	Fair value change of hedged item	Net fair value change of hedging item: Asset	Net fair value change of hedging item: Liability	Statement of profit or loss effect
Interest Rate Swaps	Fixed-rate commercial loans	Interest rate risk	(28,834)	101,262	(85,812)	(13,384)
Interest Rate Swaps	Fixed-rate mortgage loans	Interest rate risk	(51,026)	52,501	-	1,475
Interest Rate Swaps	Fixed-rate securities	Interest rate risk	(64,502)	169,450	(126,473)	10,144
Cross Currency Swaps	Fixed-rate securities	Interest rate and foreign currency exchange rate risk	34,102	10,867	(153,822)	(108,853)
Other (*)			22,350	-	(8,145)	(35,759)
			(87,910)	334,080	(374,252)	(146,377)

(*) *Includes firm commitments. See Note 31.4 for details*

(Currency: Thousands of Turkish Lira (TL))

6 Derivative financial assets (continued)

31 December 2018

Hedging item	Hedged item	Type of risk	Fair value change of hedged item	Net fair value change of hedging item: Asset	Net fair value change of hedging item: Liability	Statement of profit or loss effect
Interest Rate Swaps	Fixed-rate commercial loans	Interest rate risk	(14,818)	75,199	(79,246)	(18,865)
Interest Rate Swaps	Fixed-rate mortgage loans	Interest rate risk	(39,668)	45,883	-	6,215
Interest Rate Swaps	Fixed-rate securities	Interest rate risk	(72,617)	134,813	(75,643)	(14,728)
Cross Currency Swaps	Fixed-rate securities	Interest rate and foreign currency exchange rate risk	15,263	-	(98,516)	(83,479)
Other (*)			236,199	-	(8,319)	(117,044)
			124,359	255,895	(261,724)	(227,901)

(*) *Includes firm commitments. See Note 31.4 for details*

As of 31 March 2019, there is not any reclassified amount from the equity to the statement of profit or loss due to the ceased hedging transactions during the current period.

The notional amounts of derivative financial assets are explained in detail in Note 30.

7 Loans and advances to banks

	31 March 2019			31 December 2018		
	TL	*Foreign Currency*	*Total*	*TL*	*Foreign Currency*	*Total*
Loans and advances-demand						
Domestic banks	34,049	7,553	41,602	8,154	4,511	12,665
Foreign banks	6,876	18,450,406	18,457,282	13,561	15,621,389	15,634,950
	40,925	18,457,959	18,498,884	21,715	15,625,900	15,647,615
Loans and advances-time						
Domestic banks	1,440,764	3,009,699	4,450,463	730,680	1,287,977	2,018,657
Foreign banks	297,000	1,228,912	1,525,912	390,184	1,384,386	1,774,570
	1,737,764	4,238,611	5,976,375	1,120,864	2,672,363	3,793,227
Placements at money markets	232,107	136,608	368,715	3,917	138,138	142,055
Income accrual on loans and advances to banks	30,390	45,578	75,968	19,441	34,198	53,639
Total loans and advances to banks	2,041,186	22,878,756	24,919,942	1,165,937	18,470,599	19,636,536
Less:						
Expected credit losses	(4,621)	(19,304)	(23,925)	(3,181)	(15,782)	(18,963)
Net loans and advances to banks	2,036,565	22,859,452	24,896,017	1,162,756	18,454,817	19,617,573

(Currency: Thousands of Turkish Lira (TL))

7 Loans and advances to banks (continued)

As of 31 March 2019, majority of loans and advances-time are short-term with interest rates ranging between (0.37)%-8% per annum for foreign currency time placements and 1%-44% per annum for TL time placements (31 December 2018: (0.34)%-13 and 1%-44%, respectively).

As of 31 March 2019, loans and advances at domestic and foreign banks include blocked accounts of TL 8,257,154 thousands (31 December 2018: TL 11,267,803 thousands) held against securitizations, fundings and insurance business.

The credit quality analysis of loans and advances to banks is as follows as of 31 March 2019 and 31 December 2018:

	31 March 2019			*31 December 2018*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	24,919,942	-	-	19,636,536	-	-
Stage 2: Watch list	-	-	-	-	-	-
Stage 3.1: Substandard	-	-	-	-	-	-
Stage 3.2: Doubtful	-	-	-	-	-	-
Stage 3.3: Loss	-	-	-	-	-	-
Expected credit losses	(23,925)	-	-	(18,963)	-	-
Total carrying amount	24,896,017	-	-	19,617,573	-	-

The movements of expected credit losses per asset class for loans and advances to banks as of 31 March 2019 and 31 December 2018 are as follows:

	31 March 2019			*31 December 2018*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Balances at 31 December	18,963	-	-	-	-	-
Impact of adopting IFRS 9 at 1 January	-	-	-	5,976	-	-
Balances at 1 January	18,963	-	-	5,976	-	-
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
Debt sales and write-offs	-	-	-	-	-	-
Recoveries and reversals	(3,144)	-	-	(21,444)	-	-
Provision for the period	7,750	-	-	31,611	-	-
Effects of movements in exchange rates	356	-	-	2,820	-	-
Balances at the end of the period	23,925	-	-	18,963	-	-

(Currency: Thousands of Turkish Lira (TL))

8 Loans and advances to customers

Outstanding loans and advances to customers are divided between economic sectors and loan types as follows:

	31 March 2019	***31 December 2018***
Consumer loans	70,427,231	72,304,426
Mortgage loans	*23,096,743*	*23,886,619*
Credit card receivables	*20,463,766*	*20,558,091*
Auto loans	*2,053,857*	*2,276,416*
General purpose and other consumer loans	*24,812,865*	*25,583,300*
Energy	36,261,162	32,382,711
Transportation vehicles and sub-industry	14,750,970	13,215,283
Service sector	14,197,668	13,472,630
Food	11,864,720	11,052,350
Textile	11,239,100	9,712,055
Construction	10,705,713	10,991,942
Metal and metal products	9,602,472	8,017,309
Transportation and logistics	8,663,863	8,177,170
Financial institutions	8,548,411	7,677,417
Chemistry and chemical products	6,666,761	5,859,083
Tourism	6,344,753	5,609,165
Durable consumption	5,346,203	5,065,700
Agriculture and stockbreeding	4,500,746	4,491,352
Data processing	4,068,982	2,543,519
Machinery and equipment	3,836,830	3,363,328
Stone, rock and related products	3,378,786	3,215,142
Mining	2,944,418	2,436,370
Paper and paper products	1,869,024	1,809,345
Electronic, optical and medical equipment	1,710,115	1,327,109
Plastic products	1,005,415	872,430
Others	14,654,876	14,028,531
Total performing loans	252,588,219	237,624,367
Financial lease receivables, net of unearned income	5,837,125	5,988,553
Factoring receivables	1,993,746	2,232,082
Income accrual on loans, factoring and financial lease receivables	5,011,532	4,637,901
Non-performing loans, factoring and financial lease receivables (*)	15,138,830	13,753,384
Expected credit losses on loans, factoring and financial lease receivables	(14,540,721)	(13,092,273)
Loans and advances to customers	266,028,731	251,144,014

(*) *Includes related income accruals.*

(Currency: Thousands of Turkish Lira (TL))

8 Loans and advances to customers (continued)

As of 31 March 2019, interest rates on loans granted to customers range between 1%-31% (31 December 2018: 1%-31%) per annum for the foreign currency loans and 1%-39% (31 December 2018: 1%-44%) per annum for the TL loans.

The credit quality analysis of cash loans and advances to customers excluding factoring and financial lease receivables, including related income accruals, is as follows as of 31 March 2019 and 31 December 2018:

	31 March 2019			*31 December 2018*		
	Stage 1	**Stage 2**	**Stage3**	**Stage 1**	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	214,287,793	-	-	201,143,397	-	-
Stage 2: Watch list	-	38,300,426	-	-	36,480,970	-
Stage 3.1: Substandard	-	-	1,643,591	-	-	2,609,056
Stage 3.2: Doubtful	-	-	5,179,981	-	-	4,587,593
Stage 3.3: Loss	-	-	6,609,383	-	-	4,919,562
Total loans	214,287,793	38,300,426	13,432,955	201,143,397	36,480,970	12,116,211
Income accrual on loans	3,458,146	1,483,499	450,310	3,296,278	1,259,528	432,491
Expected credit losses	(999,888)	(4,463,567)	(8,231,130)	(877,232)	(3,941,648)	(7,462,003)
Total carrying amount	216,746,051	35,320,358	5,652,135	203,562,443	33,798,850	5,086,699

The movements of expected credit losses per asset class for cash loans and advances to customers as of 31 March 2019 and 31 December 2018 are as follows:

	31 March 2019			*31 December 2018*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Balances at 31 December	877,232	3,941,648	7,462,003	1,422,171	2,665,136	4,945,107
Impact of adopting IFRS 9 at 1 January	-	-	-	(585,560)	714,434	(792,799)
Balances at 1 January	877,232	3,941,648	7,462,003	836,611	3,379,570	4,152,308
Transfer to Stage 1	318,722	(317,861)	(861)	1,181,702	(1,178,697)	(3,005)
Transfer to Stage 2	(153,243)	158,349	(5,106)	(530,440)	556,542	(26,102)
Transfer to Stage 3	(1,996)	(299,633)	301,629	(5,385)	(3,798,505)	3,803,890
Debt sales and write-offs	-	-	(48,717)	(649)	-	(2,584,301)
Recoveries and reversals	(548,788)	(832,909)	(233,920)	(2,238,408)	(1,045,746)	(880,565)
Provision for the period	493,973	1,677,453	605,888	1,564,431	4,915,505	2,861,646
Effects of movements in exchange rates	13,988	136,520	150,214	69,370	1,112,979	138,132
Balances at the end of the period	999,888	4,463,567	8,231,130	877,232	3,941,648	7,462,003

(Currency: Thousands of Turkish Lira (TL))

8 Loans and advances to customers (continued)

The movements of expected credit losses per asset class for factoring receivables as of 31 March 2019 and 31 December 2018 are as follows:

	31 March 2019			*31 December 2018*		
	Stage 1	**Stage**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Balances at 31 December	7,150	163	263,834	-	-	75,553
Impact of adopting IFRS 9 at 1 January	-	-	-	8,563	40,830	4,027
Balances at 1 January	7,150	163	263,834	8,563	40,830	79,580
Transfer to Stage 1	9	(9)	-	1	-	(1)
Transfer to Stage 2	(79)	79	-	(44)	44	-
Transfer to Stage 3	(12)	(54)	66	(249)	(40,556)	40,805
Debt sales and write-offs	-	-	-	-	-	(97)
Recoveries and reversals	(2,830)	(79)	(2,236)	(3,565)	(275)	(2,252)
Provision for the period	902	1,603	3,000	2,363	112	143,799
Effects of movements in exchange	8	79	9,381	81	8	2,000
Balances at the end of the period	5,148	1,782	274,045	7,150	163	263,834

As of 31 March 2019 and 31 December 2018, movements of non-performing factoring receivables (Stage 3) are as follows:

	31 March 2019	*31 December 2018*
Balance at 31 December	306,866	95,335
Impact of adopting IFRS 9 at 1 January	-	-
Balance at 1 January	306,866	95,335
Addition	29,517	219,525
Collection	(29,659)	(14,601)
Debt sales and write-offs	-	(95)
Effects of movements in exchange rates	11,540	6,702
Balance at the end of the period	318,264	306,866

(Currency: Thousands of Turkish Lira (TL))

8 Loans and advances to customers (continued)

As of 31 March 2019 and 31 December 2018, movements of non-performing cash loans (Stage 3) are as follows:

	31 March 2019		*31 December 2018*	
	Principal	**Accrual**	**Principal**	**Accrual**
Balance at 31 December	12,116,211	432,491	6,122,611	54,377
Impact of adopting IFRS 9 at 1 January	-	-	6,825	188
Balance at 1 January	12,116,211	432,491	6,129,436	54,565
Addition	1,606,826	26,729	10,743,081	383,261
Collection	(583,523)	(4,339)	(2,407,674)	(8,993)
Debt sales and write-offs (*)	(43,847)	(7,855)	(2,569,569)	(17,763)
Effects of movements in exchange rates	337,288	3,284	220,937	21,421
Balance at the end of the period	13,432,955	450,310	12,116,211	432,491

(*) *As of 31 December 2018, write –offs include cash loans for which 100% provision is provided during the corresponding period.*

A part of non-performing receivables of the Bank amounting to TL 21,905 thousands (31 December 2018: TL 316,908 thousands) was sold for a consideration of TL 7,472 thousands in the current period (31 December 2018: TL 17,550 thousands). Considering the related provision of TL 20,220 thousands (31 December 2018: TL 316,908 thousands) made in the financial statements, a gain of TL 5,787 thousands (31 December 2018: TL 17,550 thousands) is recognised under "gains on sale of assets" in the statement of profit or loss and other comprehensive income.

The credit quality analysis of factoring receivables, including related income accruals, is as follows as of 31 March 2019 and 31 December 2018:

	31 March 2019			*31 December 2018*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	1,959,225	-	-	2,223,594	-	-
Stage 2: Watch list	-	34,521	-	-	8,488	-
Stage 3.1: Substandard	-	-	27,348	-	-	30,970
Stage 3.2: Doubtful	-	-	15,885	-	-	37,892
Stage 3.3: Loss	-	-	275,031	-	-	238,004
Total factoring receivables	1,959,225	34,521	318,264	2,223,594	8,488	306,866
Income accrual on factoring receivables	32,818	-	-	47,002	168	-
Expected credit losses	(5,148)	(1,782)	(274,045)	(7,150)	(163)	(263,834)
Total carrying amount	1,986,895	32,739	44,219	2,263,446	8,493	43,032

(Currency: Thousands of Turkish Lira (TL))

8 Loans and advances to customers (continued)

The financial leases typically run for a period of one to five years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease. The receivables are secured by way of the underlying assets. Loans and advances to customers include the following financial lease receivables:

	31 March 2019	*31 December 2018*
Financial lease receivables, net of unearned income	5,837,125	5,988,553
Add: non-performing financial lease receivables (*)	937,301	897,816
Less: expected credit losses on financial lease receivables	(565,161)	(540,243)
	6,209,265	6,346,126
Income accrual on financial lease receivables	37,069	34,925
Analysis of net financial lease receivables		
Due within 1 year	2,975,485	3,036,019
Due between 1 and 5 years	3,751,219	3,869,977
Due after 5 years	215,937	211,968
Financial lease receivables, gross	6,942,641	7,117,964
Unearned income	(733,376)	(771,838)
Financial lease receivables, net	6,209,265	6,346,126
Analysis of net financial lease receivables		
Due within 1 year	2,619,561	2,660,535
Due between 1 and 5 years	3,383,873	3,484,501
Due after 5 years	205,831	201,090
Financial lease receivables, net	6,209,265	6,346,126

(*) *Includes related income accruals.*

The credit quality analysis of financial lease receivables including related income accruals is as follows as of 31 March 2019 and 31 December 2018:

	31 March 2019			*31 December 2018*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	4,825,529	-	-	5,032,806	-	-
Stage 2: Watch list	-	1,011,596	-	-	955,747	-
Stage 3.1: Substandard	-	-	423,293	-	-	428,763
Stage 3.2: Doubtful	-	-	156,275	-	-	180,126
Stage 3.3: Loss	-	-	355,307	-		287,173
Total financial lease receivables	4,825,529	1,011,596	934,875	5,032,806	955,747	896,062
Income accrual on financial lease receivables	2,664	34,405	2,426	27,645	7,280	1,754
Expected credit losses	(44,941)	(98,212)	(422,008)	(56,016)	(85,474)	(398,753)
Total carrying amount	4,783,252	947,789	515,293	5,004,435	877,553	499,063

(Currency: Thousands of Turkish Lira (TL))

8 Loans and advances to customers (continued)

The movements of expected credit losses per asset class for financial lease receivables as of 31 March 2019 and 31 December 2018 are as follows:

	31 March 2019			31 December 2018		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Balances at 31 December	56,016	85,474	398,753	1,679	17,510	259,105
Impact of adopting IFRS 9 at 1 January	-	-	-	53,676	93,479	21,360
Balances at 1 January	56,016	85,474	398,753	55,355	110,989	280,465
Transfer to Stage 1	7,678	(7,544)	(134)	53,100	(48,864)	(4,236)
Transfer to Stage 2	(6,840)	8,683	(1,843)	(39,597)	55,448	(15,851)
Transfer to Stage 3	(49)	(3,738)	3,787	(171)	(81,857)	82,028
Debt sales and write-offs	-	-	(66)	-	-	(21,876)
Recoveries and reversals	(26,803)	(10,747)	(13,897)	(123,129)	(71,863)	(69,605)
Provision for the period	13,084	22,546	23,816	97,191	89,723	106,541
Effects of movements in exchange rates	1,855	3,538	11,592	13,267	31,898	41,287
Balances at the end of the period	44,941	98,212	422,008	56,016	85,474	398,753

As of 31 March 2019 and 31 December 2018, movements of non-performing financial lease receivables (Stage 3) are as follows:

	31 March 2019		31 December 2018	
	Principal	Accrual	Principal	Accrual
Balance at 31 December	896,062	1,754	592,517	456
Impact of adopting IFRS 9 at 1 January	-	-	16,072	75
Balance at 1 January	896,062	1,754	608,589	531
Addition	44,974	640	455,402	990
Collection	(35,405)	-	(228,022)	-
Debt sales and write-offs	(92)	-	(21,893)	-
Effects of movements in exchange rates	29,336	32	81,986	233
Balance at the end of the period	934,875	2,426	896,062	1,754

(Currency: Thousands of Turkish Lira (TL))

9 Investment securities

	31 March 2019				31 December 2018
	Face value	Carrying value	Interest rate range %	Latest maturity	Carrying value
Debt and other instruments at FVOCI:					
Government bonds indexed to CPI ***(a)***	5,693,729	10,241,195	1-4	2028	10,821,289
Eurobonds	5,132,628	4,767,663	2-12	2034	4,657,172
Government bonds in TL	4,911,913	4,362,312	3-23	2028	4,605,909
Bonds issued by foreign governments	3,242,448	3,425,593	2-5	2028	2,968,873
Government bonds at floating rates ***(b)***	2,640,992	2,608,931	20	2020	2,747,441
Government bonds in FC	1,197,608	1,204,189	2-3	2021	-
Bonds issued by financial institutions	1,014,135	952,901	1-11	2025	1,003,204
Bonds issued by corporations	126,064	131,994	1	2024	123,607
Total debt and other instruments at FVOCI		27,694,778			26,927,495
Debt and other instruments at amortised cost:					
Government bonds indexed to CPI ***(a)***	6,924,124	7,796,953	1-20	2025	7,796,952
Eurobonds	5,382,411	6,320,653	6-12	2030	6,050,202
Government bonds in TL	4,317,290	4,337,265	3-21	2026	4,337,437
Government bonds at floating rates ***(b)***	294,949	288,502	20	2020	288,502
Bonds issued by financial institutions	191,918	144,279	1-30	2023	46,514
		18,887,652			18,519,607
Income accrual on amortised cost portfolio		6,781,420			6,134,402
Total debt and other instruments at amortised cost		25,669,072			24,654,009
Expected credit losses on amortised cost portfolio		(67,801)			(54,125)
Total investment securities		53,296,049			51,527,379

(a) *As disclosed in the accounting policies, the Bank values CPI-indexed government bonds in its securities portfolio according to the reference index on the issue date and the index that is calculated according to the expected inflation rate. The inflation rate used during the valuation is being updated during the year when it is considered necessary. The estimated inflation rate which was taken as 14% in the first two months of 2019, was updated to 13% as of 4 March 2019. If the valuation of such securities was performed according to the reference index valid as of 31 March 2019, the Bank's unrealized gains/(losses) from fair value changes on debt instruments and equity investments measured at FVOCI under the equity would increase by TL 350,996 thousands (net), whereas interest income on securities would decrease by TL 1,031,959 thousands.*

(b) *The interest rates applied on these securities are floating quarterly based on interest rates of government bond bids of the government.*

Interest income from debt and other fixed or floating instruments is reflected in interest on securities, whereas, gains and losses arising from changes in the fair values of debt and other instruments measured at FVOCI are accounted as a separate component of equity.

The credit quality analysis of investment securities measured at FVOCI is as follows as of 31 March 2019 and 31 December 2018:

	31 March 2019			31 December 2018		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Stage 1: Low-fair risk	27,694,778	-	-	26,927,495	-	-
Stage 2: Watch list	-	-	-	-	-	-
Stage 3.1: Substandard	-	-		-	-	
Stage 3.2: Doubtful	-	-	-	-	-	-
Stage 3.3: Loss	-	-	-	-	-	-
Expected credit losses	-	-	-	-	-	-
Total carrying amount	27,694,778	-	-	26,927,495	-	-

As of 31 March 2019, expected credit losses amounting to TL 71,720 thousands (31 December 2018: TL 57,967 thousands) are recognised under other comprehensive income for debt and other instruments measured at FVOCI.

(Currency: Thousands of Turkish Lira (TL))

9 Investment securities (continued)

The credit quality analysis of investment securities measured at amortised cost is as follows as of 31 March 2019 and 31 December 2018:

	31 March 2019			*31 December 2018*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	25,669,072	-	-	24,654,009	-	-
Stage 2: Watch list	-	-	-	-	-	-
Stage 3.1: Substandard	-	-	-	-	-	-
Stage 3.2: Doubtful	-	-	-	-	-	-
Stage 3.3: Loss	-	-	-	-	-	-
Expected credit losses	(67,801)	-	-	(54,125)	-	-
Total carrying amount	25,601,271	-	-	24,599,884	-	-

The movements of expected credit losses per asset class for investment securities measured at amortised cost as of 31 March 2019 and 31 December 2018 are as follows:

	31 March 2019			*31 December 2018*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Balances at 31 December	54,125	-	-	-	-	-
Impact of adopting IFRS 9 at 1 January	-	-	-	16,491		
Balances at 1 January	54,125	-	-	16,491	-	-
Transfer to Stage 1	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-
Recoveries and reversals	(2,815)	-	-	(15,193)	-	-
Provision for the period	15,287	-	-	51,482	-	-
Effects of movements in exchange rates	1,204	-	-	1,345	-	
Balances at the end of the period	67,801	-	-	54,125	-	-

Government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to TL 1,548,498 thousands (31 December 2018: TL 1,206,611 thousands).

The following table summarizes securities that were deposited as collateral with respect to various banking, insurance and asset management transactions:

	31 March 2019		*31 December 2018*	
	Face value	***Carrying value***	***Face value***	***Carrying value***
Collateralized to foreign banks	7,243,899	7,797,152	5,213,741	5,788,455
Deposited at central banks for interbank transactions	3,396,725	5,423,955	3,558,725	5,584,719
Deposited at Clearing Bank (Takasbank)	1,246,736	1,845,051	1,031,761	1,371,832
Deposited at central banks for repurchase transactions	1,453,235	1,549,456	1,189,029	1,207,475
Deposited at Borsa Istanbul	1,015	7,549	46	740
Others		26,029		25,592
		16,649,192		13,978,813

(Currency: Thousands of Turkish Lira (TL))

10 Equity investments

	31 March 2019		*31 December 2018*	
	Carrying value	*Ownership %*	*Carrying value*	*Ownership %*
Equity investments measured at FVOCI:				
Visa Inc. (*)	271,426	0.00	215,173	0.00
İstanbul Takas ve Saklama Bankası AŞ	26,096	5.25	27,636	5.25
Others	34,217	-	31,951	-
	331,739		274,760	

(*) *represents 0.001001% of ownership in Visa Inc.*

As of 21 June 2016, the acquisition of Visa Europe Ltd. by Visa Inc. was completed. During acquisition, the Bank and one of its consolidated subsidiaries sold their two existing shares in Visa Europe Ltd. with a nominal of EUR 10.00 in exchange of cash consideration amounting to EUR 61,376,433 and of 22.284 shares of new "C Type Visa Inc." shares. The acquired new shares were classified as available for sale at the acquisition date and subsequent to adoption of IFRS 9, reclassified as equity investments measured at FVOCI similar to other shares classified in the same category.

Starting from 1 January 2018, the investment in Motoractive Multiservices SRL, previously accounted under equity investments, is consolidated in the accompanying consolidated financial statements on line by line basis and the cumulative impact of TL 3,167 thousands is accounted in the current period's statement of changes in equity.

The legal name of İMKB Takasbank AŞ was changed as İstanbul Takas ve Saklama Bankası AŞ in 2013. The paid-in capital of İstanbul Takas ve Saklama Bankası AŞ was decided to be increased from TL 60,000 thousands to TL 420,000 thousands by TL 360,000 thousands of which TL 180,000 thousands was in cash, at the ordinary general meeting held on 29 March 2013. The Bank and its consolidated subsidiary participated in this increase by TL 10,539 thousands in cash and also acquired bonus shares of TL 5,135 thousands. The ownership percentage remained the same.

İstanbul Takas ve Saklama Bankası AŞ and other equity investments do not have a quoted market price in an active market and there is a wide range of possible fair value measurements for these investments. The cost represents the best estimate of their fair values within that range and therefore, these investments are accounted at cost in the accompanying consolidated financial statements.

11 Assets held for sale

An asset (or a disposal group) classified as asset held for sale is measured at lower of carrying value or fair value less costs to sell. An asset (or a disposal group) is regarded as asset held for sale only when the sale is highly probable and the asset (disposal group) is available for immediate sale in its present condition. For a highly probable sale, there must be a valid plan prepared by the management for the sale of asset including identification of possible buyers and completion of sale process. Furthermore, the asset should be actively marketed at a price consistent with its fair value.

As of 31 March 2019 and 31 December 2018, movements in tangible assets held for sale are as follows:

	31 March 2019	***31 December 2018***
Balance at the beginning of the period	857,684	835,552
Additions	64,277	293,534
Disposals	(57,166)	(217,661)
Fair value changes (*)	1,824	(58,187)
Effects of movement in exchange rates	605	4,446
Balance at the end of the period	867,224	857,684

(*) Includes also the reversal of provision for impairment losses for current and previous periods.

(Currency: Thousands of Turkish Lira (TL))

11 **Assets held for sale** (continued)

Impairment losses provided on real estates held for sale were determined based on the appraisals of independent appraisal firms. As of 31 March 2019, real estates held for sale have been impaired by TL 90,314 thousands (31 December 2018: TL 92,447 thousands).

As of 31 March 2019, the rights of repurchase on various tangible assets held for sale amounted to TL 316,976 thousands (31 December 2018: TL 241,574 thousands).

As of 31 March 2019 and 31 December 2018, movements in investments in associates to be disposed are as follows:

	31 March 2019	*31 December 2018*
Balance at the beginning of the period	11	-
Additions (*)	-	11
Disposals	-	-
Fair value changes	-	-
Effects of movement in exchange rates	-	-
Balance at the end of the period	11	11

(*) Within the context of the existing loan agreements, all creditors including the Bank have reached an agreement on restructuring the loans granted to Ojer Telekomünikasyon A.Ş. (OTAŞ) who is the main shareholder of Türk Telekomünikasyon A.Ş. (Türk Telekom) and it is contemplated that Türk Telekom's number of 192,500,000,000 A group shares owned by OTAŞ, representing 55% of its issued share capital corresponding to A group shares have been pledged as a guarantee for the existing facilities would be taken over by a special purpose entity which is incorporated or will be incorporated in the Turkish Republic, and owned by directly or indirectly by all creditors. As per the agreed structure, it is agreed on the corresponding agreements, completed all required corporate and administrative permissions and the transaction is concluded by a transfer of the aforementioned shares to the special purpose entity incorporated in the Turkish Republic, and owned by directly or indirectly by all creditors. In this context, the Bank owned 22.1265% of the founded special purpose entity and the related investment is considered within the scope of IFRS 5 "Assets Held for Sale and Discontinued Operations" as it meets requirements of being asset held for sale.

12 **Investment properties**

As of 31 March 2019 and 31 December 2018, movements in investment properties are as follows:

	31 March 2019	*31 December 2018*
Balance at the beginning of the period	324,329	328,403
Additions	-	6,576
Transfers to tangible assets	-	3,814
Disposals	-	(8,850)
Fair value changes	-	(5,614)
Effects of movement in exchange rates	-	-
Balance at the end of the period	324,329	324,329

The investment properties are held for rental purposes.

(Currency: Thousands of Turkish Lira (TL))

13 Tangible and intangible assets

Movement in tangible and intangible assets from 1 January to 31 March 2019 is as follows:

	1 January	Additions	Effects of Movement in Exchange Rates	Revaluation Surplus	Disposals and Transfer	31 March
Costs						
Land and buildings *(*)*	3,758,847	1,148,762	10,153	2,348	(8,656)	4,911,454
Furniture, fixture, equipments and motor vehicles	4,246,169	129,054	9,182	-	(156,997)	4,227,408
Leasehold improvements	772,317	7,061	2,421	-	(3,471)	778,328
Software and other intangible assets	1,028,201	52,271	4,470	-	(7,533)	1,077,409
	9,805,534	1,337,148	26,226	2,348	(176,657)	10,994,599
Less: Accumulated depreciation						
Buildings	121,160	88,799	350	-	(445)	209,864
Furniture, fixture, equipments and motor vehicles	1,889,306	102,200	5,507	-	(33,216)	1,963,797
Leasehold improvements	526,973	27,444	2,359	-	(2,947)	553,829
Software and other intangible assets	627,401	33,999	2,710	-	(9,064)	655,046
	3,164,840	252,442	10,926	-	(45,672)	3,382,536
Construction in progress	3,639	265	25	-	6,260	10,189
	6,644,333					7,622,252
Impairment in value of tangible and intangible assets	(49,303)					(47,947)
	6,595,030					7,574,305

(*) Additions balance includes the IFRS 16 transition impact of TL 1,074,266 thousands.

Movement in tangible and intangible assets from 1 January to 31 December 2018 is as follows:

	1 January (*)	Additions(**)	Effects of Movement in Exchange Rates	Revaluation Surplus	Disposals and Transfer	31 December
Costs						
Land and buildings	2,799,484	82,772	29,730	23,272	823,589	3,758,847
Furniture, fixture, equipments and motor vehicles	3,892,679	844,749	86,183	-	(577,442)	4,246,169
Leasehold improvements	571,943	191,422	25,347	-	(16,395)	772,317
Software and other intangible assets	881,555	157,429	29,761	-	(40,544)	1,028,201
	8,145,661	1,276,372	171,021	23,272	189,208	9,805,534
Less: Accumulated depreciation						
Buildings	94,946	37,177	827	-	(11,790)	121,160
Furniture, fixture, equipments and motor vehicles	1,600,469	394,920	46,092	-	(152,175)	1,889,306
Leasehold improvements	441,580	76,241	23,873	-	(14,721)	526,973
Software and other intangible assets	513,356	129,709	19,746	-	(35,410)	627,401
	2,650,351	638,047	90,538	-	(214,096)	3,164,840
Construction in progress	741,659	98,400	293	-	(836,713)	3,639
	6,236,969					6,644,333
Impairment in value of tangible and intangible assets	(47,075)					(49,303)
	6,189,894					6,595,030

(*) As of 1 January 2018, the Bank has made a reclassification between land and buildings and construction in progress amounting to TL 46,733 thousands.

(**)Starting from 1 January 2018, the investment in Motoractive Multiservices SRL, previously accounted under equity investments, is consolidated in the accompanying consolidated financial statements on a line by line basis. Additions include tangible and intangible asset contribution of this newly consolidated subsidiary amounting to TL 80,089 thousands.

(Currency: Thousands of Turkish Lira (TL))

13 Tangible and intangible assets (continued)

Depreciation expenses of tangible assets for the three-month period ended 31 March 2019 amounted to TL 218,558 thousands (31 March 2018: TL 112,498 thousands) excluding the depreciation expenses of operational lease business as disclosed in Note 35.

As of 31 March 2019, TL 34,885 thousands (31 March 2018: TL 31,692 thousands) of depreciation expenses of subsidiaries in operational lease business is netted-off with the net sales of the companies.

As of 31 March 2019, the revaluation model effect, net of deferred tax, for real estates under tangible and intangible assets amounting to TL 1,535,349 thousands was accounted under shareholders' equity (31 December 2018: TL 1,531,101 thousands).

As of 31 March 2019, if the real estates were accounted based on cost model instead of revaluation model, the net carrying value would be TL 1,965,848 thousands (31 December 2018: TL 1,931,439 thousands).

As of 31 March 2019, cumulative provisions for land and buildings are TL 49,324 thousands (31 December 2018: TL 49,670 thousands) and TL 1,377 thousands was reversed (31 December 2018: TL 367 thousands) as per the valuation study performed in accordance with IAS 36.

14 Goodwill

Goodwill arises from the direct acquisitions of Garanti Yatırım Menkul Kıymetler AŞ, Garanti Finansal Kiralama AŞ, Garanti Emeklilik ve Hayat AŞ and Garanti Faktoring AŞ consisting of the excesses of the total acquisition costs over the fair values of the net assets of these consolidated entities at the dates of their acquisition as follows:

	31 March 2019	*31 December 2018*
Garanti Yatırım Menkul Kıymetler AŞ	20,984	20,984
Garanti Faktoring AŞ	6,697	6,697
Garanti Finansal Kiralama AŞ	5,233	5,233
Garanti Emeklilik ve Hayat AŞ	34	34
	32,948	32,948
Impairment of goodwill	-	-
	32,948	32,948

Impairment losses when necessary are provided for decrease in the net asset value of the consolidated entities by assessing their internal and external resources.

15 Other assets

	31 March 2019	*31 December 2018*
Reserve deposits at central banks, net	13,939,100	19,833,871
Gold	2,117,852	1,745,241
Prepaid expenses, insurance claims and similar items	1,162,696	1,044,251
Miscellaneous receivables	898,152	622,050
Balances with clearing house	688,813	37,094
Purchased cheques	305,304	694
Receivables from sale of assets	146,155	177,072
Prepaid taxes and taxes/funds to be refunded	141,700	204,898
Receivables from securities lending market	39,962	108,347
Insurance premium receivables	36,044	36,496
Option premium receivables	13,272	3,940
Others	475,107	517,270
	19,964,157	24,331,224
Expected credit losses for other assets	(82,795)	(79,224)
	19,881,362	24,252,000

(Currency: Thousands of Turkish Lira (TL))

15 Other assets (continued)

The credit quality analysis of other assets excluding gold, prepaid taxes and option premium receivables is as follows as of 31 March 2019 and 31 December 2018:

	31 March 2019			*31 December 2018*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Stage 1: Low-fair risk	17,542,741	-	-	22,234,452	-	-
Stage 2: Watch list	-	61,037	-	-	69,655	-
Stage 3.1: Substandard	-	-	-	-	-	-
Stage 3.2: Doubtful	-	-	19,787	-	-	11,515
Stage 3.3: Loss	-	-	67,768	-	-	61,523
Expected credit losses	(22,482)	(3,898)	(56,415)	(21,007)	(3,458)	(54,759)
Total carrying amount	17,520,259	57,139	31,140	22,213,445	66,197	18,279

The movements of expected credit losses per asset class for other assets excluding gold, prepaid taxes and option premium receivables as of 31 March 2019 and 31 December 2018 are as follows:

	31 March 2019			*31 December 2018*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Balances at 31 December	21,007	3,458	54,759	495	467	30,810
Impact of adopting IFRS 9 at 1 January	-	-	-	11,216	2,351	(2,608)
Balances at 1 January	21,007	3,458	54,759	11,711	2,818	28,202
Transfer to Stage 1	262	(262)	-	654	(654)	-
Transfer to Stage 2	(317)	317	-	(720)	748	(28)
Transfer to Stage 3	(69)	(118)	187	(44)	(185)	229
Transfer from prior year provision	-	-	-	-	-	-
Debt sales and write-offs	-	-	(225)	-	-	(665)
Recoveries and reversals	(3,571)	(527)	(1,870)	(7,188)	(2,376)	(6,024)
Provision for the period	5,117	948	1,403	15,980	2,595	26,244
Effects of movements in exchange rates	53	82	2,161	614	512	6,801
Balances at the end of the period	22,482	3,898	56,415	21,007	3,458	54,759

Reserve deposits at central banks

Reserve deposits at the Central Bank of Turkey are kept as minimum reserve requirement. These funds are not available for the daily business of the Bank and its subsidiaries. As required by the Turkish Banking Law, these reserve deposits are calculated on the basis of liabilities in TL, foreign currencies and gold taken at the rates determined by the Central Bank of Turkey. Turkish Lira reserve deposits earn interest monthly starting from November 2014, and quarterly starting from 2015, to be paid by Central Bank of Turkey on the first business day following the end of March, June, September and December. US$ reserve deposits also earn interest starting from May 2015. The interest rates are calculated by Central Bank of Turkey according to market conditions.

The reserve deposits at the Central Bank of the Netherlands, as required by the Dutch Banking Law, are calculated as 1% on all customer deposits with an original maturity less than 2 years and 1% on bank deposits of non-EU banks with an original maturity less than 2 years. The reserve deposits are not required to be kept under blocked accounts in the Netherlands, therefore, such balances are classified under “cash and balances with central banks” in Note 4.

(Currency: Thousands of Turkish Lira (TL))

15 Other assets (continued)

The banks operating in Romania are obliged to keep minimum reserve requirements in accounts held with Romanian Central Bank (NBR). The reserve requirements are to be held in RON for RON liabilities and in Euro or US$ for foreign currency liabilities.

Currently, in line with stipulations of related legislation in force, the rates for reserve requirements are 8% both for RON denominated liabilities with a remaining maturity less than 2 years and foreign currency denominated liabilities with a remaining maturity less than 2 years excluding Romanian banks' fundings. The interest rates paid by the NBR to banks for reserve requirements are subject of permanent update, currently the rates are 0.15% for RON reserves 0.01% for Euro reserves and 0.17% for US$ reserves.

16 Deposits from banks

Deposits from banks comprise the following:

	31 March 2019	*31 December 2018*
Payable on demand	7,048,148	4,477,785
Term deposits	629,050	1,681,475
	7,677,198	6,159,260
Expense accrual on deposits from banks	3,203	2,427
	7,680,401	6,161,687

Deposits from banks include both TL accounts amounting to TL 719,197 thousands (31 December 2018: TL 1,210,274 thousands) and foreign currency accounts amounting to TL 6,958,001 thousands (31 December 2018: TL 4,948,986 thousands) in total. As of 31 March 2019, interest rates applicable to TL bank deposits and foreign currency bank deposits vary within ranges of 19%-27% and (0.37)%-4% (31 December 2018: 19%-27% and (0.34)%-3%), respectively.

17 Deposits from customers

Deposits from customers comprise the following:

	31 March 2019			*31 December 2018*
	Demand	*Time*	*Total*	*Total*
Foreign currency	44,005,999	104,197,781	148,203,780	132,254,019
Saving	10,921,870	55,499,110	66,420,980	68,627,741
Commercial	9,394,173	19,837,775	29,231,948	26,365,194
Public and other	1,352,131	4,011,147	5,363,278	6,406,012
Gold and other precious metals	3,315,177	601,454	3,916,631	3,277,933
	68,989,350	184,147,267	253,136,617	236,930,899
Expense accrual on deposits from customers	4,268	1,836,114	1,840,382	1,799,587
	68,993,618	185,983,381	254,976,999	238,730,486

As of 31 March 2019, interest rates applicable to TL deposits and foreign currency deposits vary within the ranges of 1%-32% and 1%-9% (31 December 2018: 1%-33% and 1%-9%), respectively.

(Currency: Thousands of Turkish Lira (TL))

18 Loans and advances from banks and other institutions

Loans and advances from banks and other institutions comprise the following:

	31 March 2019	*31 December 2018*
Short-term borrowings		
Domestic banks	2,240,981	2,029,230
Foreign banks	15,338,295	15,192,585
	17,579,276	17,221,815
Long-term debts		
Short-term portion	12,797,912	10,865,040
Medium and long-term portion	5,900,487	6,304,679
	18,698,399	17,169,719
Expense accrual on loans and advances from banks and other institutions	362,880	237,757
	36,640,555	34,629,291

As of 31 March 2019, loans and advances from banks and other institutions included various promissory notes amounting to TL 1,159,649 thousands in total with short-term maturities (31 December 2018: TL 1,407,450 thousands).

As of 31 March 2019, short-term borrowings included two one-year-syndicated-loan facilities to be utilised for general trade finance purposes including export and import contracts in two tranches of (i) US$ 457,000,000 and EUR 670,500,000 with rates of Libor + 1.30% and Euribor + 1.20% per annum with the participation of 38 banks from 17 countries (equivalent of TL 6,792,488 thousands), (ii) US$ 249,000,000 and EUR 483,500,000 with rates of Libor + 2.00% and Euribor + 1.90% per annum with the participation of 28 banks from 15 countries (equivalent of TL 4,445,807 thousands).

As of 31 December 2018, short-term borrowings included two one-year-syndicated-loan facilities to be utilised for general trade finance purposes including export and import contracts in two tranches of (i) US$ 457,000,000 and EUR 670,500,000 with rates of Libor + 1.30% and Euribor + 1.20% per annum with the participation of 38 banks from 17 countries (equivalent of TL 6,446,028 thousands), (ii) US$ 249,000,000 and EUR 483,500,000 with rates of Libor + 2.00% and Euribor + 1.90% per annum with the participation of 28 banks from 15 countries (equivalent of TL 4,223,794 thousands).

Long-term debts comprise the following:

	31 March 2019					*31 December 2018*
	Interest rate%	*Latest maturity*	*Amount in original currency*	*Short term portion*	*Medium and long term portion*	*Medium and long term debts*
ICBC	5	2020	US$ 250 millions	-	1,403,817	1,317,466
Syndicated Loan II	5	2019	US$ 180 millions	1,010,754	-	-
EIB	3-4	2022	US$ 145 millions	125,145	689,220	667,859
ING DIBA	3-4	2020	US$ 124 millions	557,053	140,358	131,667
Proparco	2	2028	EUR 100 millions	33,175	597,143	570,494
Bilateral Loan I	5	2019	US$ 100 millions	561,530	-	-
EIB	9	2020	TL 494 millions	275,432	218,513	218,513
Bilateral Loan II	5	2019	US$ 50 millions	280,765	-	-
EFSE	3	2022	EUR 28 millions	71,189	105,347	100,499
OPIC	5	2019	US$ 11 millions	60,645	-	-
EBRD-II	1	2025	US$ 9 millions	7,928	43,602	40,919
Others				9,814,296	2,702,487	3,257,262
				12,797,912	5,900,487	6,304,679

(Currency: Thousands of Turkish Lira (TL))

19 Obligations under repurchase agreements and money market fundings

The Bank and its subsidiaries raise funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates.

Obligations under repurchase agreements and money market fundings comprise the following:

	31 March 2019	*31 December 2018*
Money market fundings	266,439	1,345,840
Obligations under repurchase agreements	1,338,630	1,267,723
Obligations on securities under reverse repurchase agreements	12,018	21,027
	1,617,087	2,634,590

Assets sold under repurchase agreements are further detailed as follows:

	Carrying value	*Fair value of underlying assets*	*Carrying amount of corresponding liabilities*	*Range of repurchase dates*	*Repurchase price*
31 March 2019					
Financial assets at fair value through profit or loss	8,508	8,508	9,571	Apr'19	9,589
Investment securities	1,548,498	1,504,313	1,329,059	Apr'19-Feb'25	1,345,815
	1,557,006	1,512,821	1,338,630		1,355,404
31 December 2018					
Financial assets at fair value through profit or loss	1,605	1,605	1,756	Jan'19	1,766
Investment securities	1,206,611	1,205,934	1,265,967	Jan'19-Feb'25	1,271,962
	1,208,216	1,207,539	1,267,723		1,273,728

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As of 31 March 2019, the maturities of the obligations varied from one day to 71 months and interest rates varied between 3%-30% (31 December 2018: 3%-30%). In general the carrying values of such assets are more than the corresponding liabilities due to the margins set between the parties, since such funding is raised against assets collateralized.

Expense accrual on obligations under repurchase agreements and money market fundings amounting to TL 9,426 thousands (31 December 2018: TL 37,499 thousands) is included in the carrying amount of corresponding liabilities.

(Currency: Thousands of Turkish Lira (TL))

20 Debt securities issued

Debt securities comprise the following:

	31 March 2019			*31 December 2018*
	Latest maturity	*Interest rate %*	*Amount*	*Amount*
Bonds payable of US$ 2,575 millions	2024	4.0-6.4	13,274,203	13,172,100
Bonds payable of TL 4,957 millions	2023	0.1-27.0	6,494,213	4,109,186
Bonds payable of EUR 545 millions	2027	3.5-5.2	3,431,768	3,277,545
Bonds payable of RON 300 millions	2019	5.5	396,795	387,435
Bonds payable of GBP 4 millions	2019	1.67	29,205	26,970
Total bonds payable			23,626,184	20,973,236
DPR future flow transactions of US$ 705 millions	2027	5.2-5.6	3,956,504	3,954,353
DPR future flow transactions of EUR 246 millions	2022	1.1-2.3	1,549,417	1,604,424
Total DPR future flow transactions			5,505,921	5,558,777
Expense accrual on bonds payable			534,684	424,090
Expense accrual on DPR future flow transactions			48,547	46,111
			29,715,336	27,002,214

In April 2013, the Bank established a Global Medium Term Notes (GMTN) program in order to issue bonds and other borrowing instruments in any currency with different series and maturities. In this regard, since May 2013 the Bank issues bills in US$, EUR, CHF, RON, CZK, JPY and AUD with latest maturity in April 2027.

The Bank and/or its consolidated subsidiaries repurchased the Bank's own TL securities with a total face value of TL 4,016 thousands and foreign currency securities with a total face value of TL 1,166,298 thousands (31 December 2018: TL 1,089,446 thousands) and netted off such securities in the accompanying consolidated financial statements as of 31 March 2019.

21 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise the following:

	31 March 2019	*31 December 2018*
Securities issued	13,319,268	12,312,230
	13,319,268	12,312,230

In accordance with IFRS 9, the Group classified a part of its debt securities obtained through securitisations amounting to USD 2,596,160,714 (31 December 2018: USD 2,484,345,238) as financial liabilities at fair value through profit or loss at the initial recognition in order to eliminate the accounting mismatch. As of 31 March 2019, the accumulated credit risk change and the credit risk change recognised in the statement of profit or loss and other comprehensive income amounted to TL 1,443,344 thousands (31 December 2018: TL 930,827 thousands) and a loss of TL 512,517 thousands (31 March 2018: TL 164,286 thousands), respectively. The carrying value of the related financial liability amounted to TL 13,319,268 thousands (31 December 2018: TL 12,312,230 thousands).

(Currency: Thousands of Turkish Lira (TL))

22 Derivative financial liabilities

Derivative financial liabilities mainly consist of foreign currency and interest rate swaps, foreign currency options and forward foreign currency contracts.

	31 March 2019		*31 December 2018*	
	Trading	*Hedging*(*)	*Trading*	*Hedging*(*)
Swap derivative financial liabilities	3,030,575	555,438	3,029,370	421,004
Option derivative financial liabilities	674,451	-	583,104	-
Forward derivative financial liabilities	297,613	-	396,957	50,993
Future derivative financial liabilities	3,700	-	975	-
Other derivative financial liabilities	137,178	-	36,257	-
	4,143,517	555,438	4,046,663	471,997

(*) *Includes derivative transactions subject to cash flow and fair value hedge accounting amounted to TL 181,186 thousands (31 December 2018: TL 210,272 thousands) and TL 374,252 thousands (31 December 2018: TL 261,725 thousands), respectively.*

The notional amounts of derivative financial liabilities are explained in detail in Note 30.

23 Subordinated liabilities

Subordinated liabilities comprise the following:

	31 March 2019			*31 December 2018*
	Latest maturity	*Interest rate %*	*Amount*	*Amount*
Subordinated debt of EUR 750 millions	2027	6.125	4,211,475	3,952,425
Expense accrual on subordinated liabilities			90,604	24,593
			4,302,079	3,977,018

On 23 May 2017, the Bank had obtained a 10-year subordinated loan of US$ 750 millions due in May 2027 with its first Basel III compliant Tier 2 issuance from international capital markets, with a coupon rate of 6.125%.

24 Taxation

While the corporate tax rate was at the rate of 20% since 1 January 2016, for all companies, such rate has been set as 22% for the tax bases of the years 2018, 2019, and 2020 based on the legislation of the Amendment on Certain Tax Laws and Other Laws no. 7061. Furthermore, the Council of Ministers has been authorized to reduce the rate of 22% down to 20%. This rate is applied to tax base which is calculated by adding certain non deductible expenses for tax purposes and deducting certain exemptions (like dividend income) and other deductions on accounting income. If there is no dividend distribution, no further tax charges are made.

Dividends paid to the resident institutions and the institutions working through local offices or representatives in Turkey are not subject to withholding tax. As per the decisions no. 2009/14593 and 2009/14594 of the Council of Ministers published in the Official Gazette no. 27130 dated 3 February 2009, certain duty rates included in the articles no. 15 and 30 of the new Corporate Tax Law no. 5520 are revised. Accordingly, the withholding tax rate on the dividend payments other than the ones paid to the nonresident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions, is 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. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

24 Taxation (continued)

Under the Turkish taxation system, tax 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 prior years. There is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns within four months following the end of the accounting year to which they relate. Tax returns and accounting records are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit the tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

75% of earnings generated through sale of equity shares, founders' shares, redeemed shares and pre-emption rights and 50% of earnings generated through sale of real estates held at least for two years by the institutions are exempt from the corporate tax with the conditions that such earnings shall be held in a special reserve account under equity until the end of five years following the year of sale and shall be collected as cash until the end of the following two fiscal years.

All earnings generated through transfer of equity shares, founders' shares, redeemed shares and pre-emption rights by the companies being under legal proceedings or guarantor and mortgage provider of such companies, to banks, financial leasing companies and finance companies or the Savings Deposit Insurance Fund in connection with liquidation of their liabilities and earnings of banks, financial leasing companies and finance companies through sale of immovable part of such assets or other items are exempt from corporate tax at the rate of 50% and 75%, respectively.

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, the taxation charge, as reflected in the accompanying consolidated financial statements, represents the total amount of the taxation charge of each subsidiary.

Tax applications for foreign branches

NORTHERN CYPRUS

According to the Corporate Tax Law of the Turkish Republic of Northern Cyprus no.41/1976 as amended, the corporate earnings (including foreign corporations) are subject to a 10% corporate tax and 15% income tax. This tax is calculated based on the income that the taxpayers earn in an accounting period. Tax base is determined by modifying accounting income for certain exclusions and allowances for tax purposes. The corporations cannot benefit from the rights of offsetting losses, investment incentives and amortisation unless they prepare and have certified their statements of financial position, statements of comprehensive income and accounting records used for tax calculations by an auditor authorized by the Ministry of Finance. In cases where it is revealed that the earnings of a corporation were not subject to taxation in prior years or the tax paid on such earnings are understated, additional taxes can be charged in the next 12 years following that the related taxation period. The corporate tax returns are filed in the tax administration office in April after following the end of the accounting year to which they relate. The corporate taxes are paid in two equal installments in May and October.

MALTA

The corporate earnings are subject to a 35% corporate tax. This rate is determined by modifying accounting income for certain exclusions and allowances for tax purposes. The earnings of the foreign corporations' branches in Malta are also subject to the same tax rate that the resident corporations in Malta are subject to. The earnings of such branches that are transferred to their head offices are not subject to an additional tax. The taxes payable is calculated by the obligating firm and the calculation is presented in the tax declaration form that is due till the following year's month of November.

(Currency: Thousands of Turkish Lira (TL))

24 Taxation (continued)

Tax applications for foreign subsidiaries

THE NETHERLANDS

In the Netherlands, corporate income tax is levied at the rate of 20% for tax profits up to EUR 200,000 and 25% for the excess part over this amount on the worldwide income of resident companies, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the related year. These rates will be applied as 19% and 25% in 2019, as 16.50% and 22.55% in 2020 and as 15% and 20.50% in 2021. Based on the unilateral decree for the avoidance of double taxation between Turkey and The Netherlands, the dividend taxation is nil as of 1 January 2018. Under the Dutch taxation system, tax losses can be carried forward to offset against future taxable income for nine years. Tax losses can be carried back to the prior year. Companies must file their tax returns within nine months following the end of the tax year to which they relate, unless the company applies for an extension (normally an additional nine months). Tax returns are open for five years from the date of final assessment of the tax return during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings. The corporate income tax for the Germany branch is 30%.

ROMANIA

The applicable corporate tax rate in Romania is 16%. The taxation system in Romania is continuously developing and is subject to varying interpretations and constant changes, which may become rarely retroactive. In Romania, tax periods remain open for tax audits for seven years. Tax losses can be carried forward to offset against future taxable income for seven years.

As of 1 January 2019 based on the Emergency Ordinance no. 114/2018 (“the Ordinance”), as modified by the Emergency Ordinance no. 19/2019, banking institutions defined as credit institutions, Romanian legal entities and Romanian branches of nonresident credit institutions became subject to the tax on certain financial asset groups starting from 1 January 2019. The tax on financial assets is computed by applying a tax rate on the total value of the taxpayer’s certain financial asset groups, existing at the end of the computation semester, recorded as per the applicable accounting regulations. The tax rate applied shall be 0.4% or 0.2% per annum, depending on the bank's market share greater than or equal to, or lower than 1%, respectively. At the same time, the value of the tax may not exceed the accounting profit realized by the bank before calculating the tax on assets. In addition, no tax shall be due by the bank incurring accounting loss before calculating the tax on assets. The first computation and payment deadline of the tax is on 25 August 2019. The Ordinance provides the possibility of reducing the tax due by up to 100%, depending on certain indicators aimed at increasing financial intermediation and /or diminishing the net interest margin for RON denominated loans and deposits.

The total provision for taxes on income is different than the amount computed by applying the Turkish statutory tax rate to income before provision for taxes as shown in the following reconciliation:

	31 March 2019	*%*	*31 March 2018*	*%*
Taxes on income per statutory tax rate	498,263	22.00	570,949	22.00
Disallowable expenses	20,026	0.88	13,835	0.53
Income items exempt from tax or subject to different tax rates	(47,269)	(2.09)	(12,172)	(0.47)
General reserve	22,000	0.97	-	-
Others	153	0.02	(1,173)	(0.04)
Taxation charge	493,173	21.78	571,439	22.02

(Currency: Thousands of Turkish Lira (TL))

24 Taxation (continued)

The taxation charge is comprised of the following:

	For the three-month period ended 31 March 2019	31 March 2018
Current taxes	286,162	476,676
Deferred taxes	207,011	94,763
Taxation charge	493,173	571,439

The movement of current tax liability is as follows:

	31 March 2019	31 December 2018
Balance at the beginning of the period	133,670	763,632
Current period taxation charge	286,162	1,813,696
Less: Advance taxes paid during the period	(113,156)	(2,443,658)
Current tax liability	306,676	133,670

In accordance with the related regulation for prepaid taxes on income, such advance payments during the year are being deducted from the final tax liability for the period. Accordingly, the taxation charge on income is not equal to the final tax liability appearing on the statement of financial position.

Deferred tax assets and liabilities are as follows:

	31 March 2019	31 December 2018
Total deferred tax assets	1,741,167	1,849,543
Off-setted amount	(298,605)	(316,619)
Deferred tax assets per financial statements	1,442,562	1,532,924
Total deferred tax liabilities	351,081	366,594
Off-setted amount	(298,605)	(316,619)
Deferred tax liabilities per financial statements	52,476	49,975
Net deferred tax assets	1,390,086	1,482,949

Movements in deferred tax assets and liabilities are detailed in the table below:

	Opening balance	*Recognised in statement of profit or loss*	*Effects of movement in exchange rates*	*Recognised in equity*	*Closing balance*
31 March 2019					
Expected credit losses	1,354,148	135,836	176	(2,608)	1,487,552
Discount on loans and advances to customers	112,808	(2,206)	-	-	110,602
Reserve for employee severance indemnity	96,832	6,020	108	-	102,960
Short-term employee benefits	138,415	6,665	62	-	145,142
Tax losses carried forward	93,103	(1,119)	(4)	-	91,980
Valuation difference on financial assets and liabilities	(137,419)	(426,277)	(4,284)	121,803	(446,177)
Revaluation surplus on real estates	(202,260)	-	(777)	(382)	(203,419)
Impairment of equity investments, tangible and intangible assets	11,298	(519)	-	-	10,779
Accruals on credit card rewards	27,366	2,494	-	-	29,860
Pro-rata basis depreciation expenses	(127,591)	5,603	-	-	(121,988)
Others, net	116,249	66,492	54	-	182,795
Net deferred tax assets	1,482,949	(207,011)	(4,665)	118,813	1,390,086

(Currency: Thousands of Turkish Lira (TL))

24 Taxation (continued)

	Opening balance (*)	*Recognised in statement of profit or loss*	*Effects of movement in exchange rates*	*Recognised in equity*	*Closing balance*
31 December 2018					
Expected credit losses	1,076,297	283,348	1,801	(7,298)	1,354,148
Discount on loans and advances to customers	91,931	20,877	-	-	112,808
Reserve for employee severance indemnity	83,606	10,133	(155)	3,248	96,832
Short-term employee benefits	105,413	32,879	123	-	138,415
Tax losses carried forward	69,904	15,156	8,223	(180)	93,103
Valuation difference on financial assets and liabilities	82,921	(589,231)	(12,110)	381,001	(137,419)
Revaluation surplus on real estates	(195,311)	(200)	(2,929)	(3,820)	(202,260)
Impairment of equity investments, tangible and intangible assets	6,917	4,378	3	-	11,298
Accruals on credit card rewards	23,600	3,766	-	-	27,366
Pro-rata basis depreciation expenses	(111,903)	(15,688)	-	-	(127,591)
Others, net	131,210	(12,142)	(2,819)	-	116,249
Net deferred tax assets	1,364,585	(246,724)	(7,863)	372,951	1,482,949

(*) *The opening balance includes the IFRS 9 transition impact of TL 33,666 thousands.*

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, if 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.

25 Provisions

The principal components of provisions are as follows:

	31 March 2019	*31 December 2018*
General reserve (*)	2,350,000	2,250,000
Short term employee benefits	679,405	646,978
Reserve for employee severance indemnity	533,221	502,610
Insurance business related provisions	466,996	444,672
Expected credit losses from non-cash loans	661,471	654,649
Provisions for litigations	364,696	348,414
Other provisions (**)	442,651	551,559
	5,498,440	5,398,882

(*) *As of 31 March 2019, general reserves amounting to TL 2,350,000 thousands (31 December 2018: TL 2,250,000 thousands) are provided by the Bank in line with conservatism principle considering the circumstances which may arise from any changes in economy or market conditions.*

(**)*As of 31 March 2019, it includes provisions for credit card rewards and promotions amounting to TL 143,666 thousands (31 December 2018: TL 132,272 thousands).*

25 **Provisions** (continued)

Recognised liability for defined benefit obligations

(i) Defined benefit plan

As a result of the changes in legislation described below, the Bank will transfer a substantial portion of its pension liability under the Plan to SSF. This transfer, which will be a settlement of the Bank's obligation in respect of the pension and medical benefits transferable to SSF, was originally set to be within three years from the enactment of the New Law in May 2008, however, has been postponed for two years as per the decision of the Council of Ministers published on 9 April 2011 as further explained below. The actual date of the transfer has not been specified yet. However, in the financial statements for the year ended 31 December 2007, the Bank has modified the accounting required by IAS 19 Employee Benefits as the Bank believes that it is more appropriate to measure the obligation, in respect of the benefits that will be transferred to SSF, at the expected transfer amount prior to the date on which the transfer and settlement will occur. The expected transfer amount is calculated based on the methodology and actuarial assumptions (discount rate and mortality tables) prescribed in the New Law. As such, this calculation measures the liability to be transferred at the expected settlement amount i.e., the expected value of the payment to be made to SSF to assume that obligation.

The obligation with respect to excess benefits is accounted for as a defined benefit plan under IAS 19.

a) Pension and medical benefits transferable to SSF

As per the provisional Article no.23 of the Turkish Banking Law no.5411 as approved by the Turkish Parliament on 19 October 2005, pension funds which are in essence similar to foundations are required to be transferred directly to SSF within a period of three years. In accordance with the Banking Law, the actuarial calculation of the liability (if any) on the transfer should be performed regarding the methodology and parameters determined by the commission established by Ministry of Labor and Social Security. Accordingly, the Bank calculated the pension benefits transferable to SSF in accordance with the Decree published by the Council of Ministers in the Official Gazette no. 26377 dated 15 December 2006 ("Decree") for the purpose of determining the principles and procedures to be applied during the transfer of funds. However the said Article was vetoed by the President and at 2 November 2005 the President initiated a lawsuit before the Turkish Constitutional Court in order to rescind certain paragraphs of the provisional article no.23.

The Bank obtained an actuarial report regarding its obligations at 31 December 2006. This report, which was dated 12 February 2007, is from an actuary, who is registered with the Undersecretariat of the Treasury regarding this Fund in accordance with the Decree. Based on this Decree, the actuarial statement of financial position of the Fund has been prepared using a discount rate of 10.24% and the CSO 1980 mortality table. Based on the actuarial report, the assets of the plan exceeded the amount that would be required to be paid to transfer the obligation at 31 December 2006. In accordance with the existing legislation at 31 December 2006, the pension and medical benefits within the social security limits were subject to transfer and the banks were not required to provide any excess social rights and payments.

On 22 March 2007, the Turkish Constitutional Court reached a verdict with regards to the suspension of the execution of the first paragraph of provisional article no.23 of the Turkish Banking Law, which requires the transfer of pension funds to SSF, until the decision regarding the cancellation thereof is published in the Official Gazette. The Constitutional Court stated in its reasoned ruling published in the Official Gazette numbered 26731, dated 15 December 2007 that the reason behind this cancellation was the possible loss of antecedent rights of the members of pension funds. Following the publication of the verdict, the Grand National Assembly of Republic of Turkey ("Turkish Parliament") worked on the new legal arrangements by taking the cancellation reasoning into account.

(Currency: Thousands of Turkish Lira (TL))

25 **Provisions** (continued)

At 17 April 2008, the New Law has been accepted by the Turkish Parliament and the New Law has been enacted at 8 May 2008 following its publishment in the Official Gazette no. 26870. In accordance with the New Law, members of the funds established in accordance with the Social Security Law should be transferred to SSF within three years following its enactment date. The transfers are to take place within the three-year period starting from 1 January 2008. Subsequently, the transfer of the contributors and the persons receiving monthly or regular income and their right-holders from such funds established for employees of the banks, insurance and reinsurance companies, trade chambers, stock markets and unions that are part of these organizations subject to the provisional Article no. 20 of the Social Security Law no.506 to the SSF, has been postponed for two years. The decision was made by the Council of Ministers on 14 March 2011 and published in the Official Gazette no. 27900 dated 9 April 2011 as per the decision of the Council of Ministers, numbered 2011/1559, and as per the letter no. 150 of the Ministry of Labor and Social Security dated 24 February 2011 and according to the provisional Article no. 20 of the Social Security and Public Health Insurance Law no.5510.

On 19 June 2008, the main opposition party Cumhuriyet Halk Partisi ("CHP") applied to the Constitutional Court for the cancellation of various articles of the Law including the first paragraph of the provisional Article no. 20. At the meeting of the Constitutional Court on 30 March 2011, it was decided that the Article no. 73 and the first paragraph of the provisional Article no. 20 added to the law no. 5510 are not contradictory to the Constitutional Law, and accordingly the dismissal of the cancellation request was denied with the majority of votes.

Before the completion of two-years period set by the Council of Ministers on 14 March 2011 as explained above, as per the Article no. 51 of the law no. 6645, published in the Official Gazette no. 29335 dated 23 April 2015, the Article no. 20 of the law no. 5510 was amended giving the Council of Ministers the authority to determine the date of transfer without defining any timeline.

The Bank obtained an actuarial report dated 23 December 2018 from an independent actuary reflecting the principles and procedures on determining the application of transfer transactions in accordance with the New Law. The actuarial statement of financial position of the Fund has been prepared using a discount rate of 9.80% and the CSO 1980 mortality table, and the assets of the plan exceed the amount that would be required to be paid to transfer the obligation at 31 March 2019.

The Bank's obligation in respect of the pension and medical benefits transferable to SSF has been determined as the value of the payment that would need to be made to SSF to settle the obligation at the date of the statement of financial position in accordance with the related article of the New Law.

The pension disclosures set out below therefore reflect the methodology and actuarial assumptions specified in the New Law. This calculation measures the benefit obligation at the expected transfer amount i.e., the estimated amount the Bank will pay to SSF to assume this portion of the obligation.

The pension benefits are calculated annually. As per the calculation as of 31 December 2018, the present value of funded obligations amounted to TL 864,972 thousands and the fair value of the planned assets amounted to TL 4,612,956 thousands.

	31 December 2018
Present value of funded obligations	
- Pension benefits transferable to SSF (obligation measured at the expected transfer amount)	(1,408,961)
- Medical benefits transferable to SSF (obligation measured at the expected transfer amount)	596,470
- General administrative expenses	(52,481)
	(864,972)
Fair value of plan assets	4,612,956
Asset surplus in the plan (*)	3,747,984

(*) Asset surplus in this plan will be used to cover the excess benefits not transferable to SSF.

(Currency: Thousands of Turkish Lira (TL))

25 **Provisions** (continued)

Plan assets consisted of the following:

	31 December 2018
Cash and due from banks	3,757,484
Securities	755,575
Land and buildings	96,845
Other	3,052
	4,612,956

b) Excess benefits not transferable to SSF

The other social rights and payments representing benefits in excess of social security limits are not subject to transfer to SSF. Therefore these excess benefits are accounted for as an ongoing defined benefit plan.

Asset surplus/(shortage) on present value of defined benefit obligation is as follows:

	31 December 2018
Present value of defined benefit obligations	
- Pension	(920,128)
- Health	(1,134,112)
Fair value of plan assets (*)	3,747,984
Asset surplus over present value of defined benefit obligation	1,693,744

(*) *Plan assets are composed of asset surplus in the plan explained in paragraph* a).

As per the actuarial calculation performed as of 31 December 2018 detailed above, the asset surplus over the fair value of the plan assets to be used for the payment of the obligations also fully cover the benefits not transferable and still a surplus of TL 1,693,744 thousands remains. However, the Bank's management, acting prudently, did not consider the health premium surplus amounting to TL 596,470 thousands as stated above and resulted from the present value of medical benefits and health premiums transferable to SSF. However, despite this treatment there was no excess obligation that needed to be provided against as of 31 December 2018.

	31 December 2018
Asset surplus over present value of defined benefit obligation	1,693,744
Net present value of medical benefits and health premiums transferable to SSF	(596,470)
Present value of asset surplus/(defined benefit obligation)	1,097,274

Expenses recognised regarding this benefit plan in the accompanying consolidated statement of profit or loss and other comprehensive income for the first quarter of 2019 and 2018 are as follows:

	31 March 2019	***31 March 2018***
Total contribution payment	106,924	69,495
Provision for unfunded liability	-	-
	106,924	69,495

Principal actuarial assumptions used were as follows:

	31 December 2018
Discount rates (*)	16.30
Inflation rates (*)	12.50
Future real salary increase rates	1.5
Medical cost trend rates	16.70
Future pension increase rates (*)	12.50

(*) *The above mentioned rates are effective rates, whereas the rates applied for the calculation differ according to the employees' years in service.*

(Currency: Thousands of Turkish Lira (TL))

25 Provisions (continued)

The sensitivity analysis of defined benefit obligation of excess liabilities is as follows as of 31 December 2018:

	% change in defined benefit obligation		
Assumption change	***Pension Benefits %***	***Medical Benefits %***	***Overall %***
Discount rate +1%	(12.8)	(17.4)	(15.3)
Discount rate -1%	16.1	23.3	20.1
Medical inflation +1%	-	23.0	12.7
Medical inflation -1%	-	(17.4)	(9.6)

Short-term employee benefits

Movement in the provision for short-term employee benefits is as follows:

	31 March 2019	***31 December 2018***
Balance, beginning of the period	646,978	492,140
Payments	(120,350)	(211,598)
Provision for the period, net	152,777	366,436
Balance, end of the period	679,405	646,978

Insurance business related provisions

Insurance business related provisions are detailed in the table below:

	31 March 2019	***31 December 2018***
Reserve for unearned premiums, net	69,089	58,849
Gross	*90,103*	*78,165*
Reinsurers' share	*(21,014)*	*(19,316)*
Provision for claims, net	52,016	50,720
Gross	*69,286*	*66,833*
Reinsurers' share	*(17,270)*	*(16,113)*
Life mathematical reserves	345,891	335,103
	466,996	444,672

Reserve for employee severance indemnity

Movement in the reserve for employee severance indemnity is as follows:

	31 March 2019	***31 December 2018***
Balance, beginning of the period	502,610	437,642
Service cost	12,350	45,094
Interest cost	18,994	48,886
Benefits paid	(1,924)	(55,068)
Settlement/curtailment/termination gain/loss	1,191	9,128
Past service cost arising over last period	-	129
Business combinations	-	454
Actuarial gain/loss	-	16,345
Balance, end of the period	533,221	502,610

(Currency: Thousands of Turkish Lira (TL))

25 Provisions (continued)

The computation of the liabilities is based upon the retirement pay ceiling announced by the government. The ceiling amounts applicable for each year of employment are full TL 6,017.60 and full TL 5,434.42 as of 31 March 2019 and 31 December 2018, respectively.

The principal actuarial assumptions for the Bank and its consolidated subsidiaries are as follows:

	31 March 2019 (*)	*31 December 2018* (*)
	%	*%*
Net effective discount rates	3.38	3.38
Discount rates	16.30	16.30
Expected rates of salary increases	14.00	14.00
Inflation rates	12.50	12.50

(*) *In the above table, the effective rates are presented for the Bank and its consolidated subsidiaries subject to the labour law, whereas the rates applied for the calculations differ according to the employee's years-in-service.*

The sensitivity analysis of reserve for employee severance indemnity for the Bank is as follows as of 31 December 2018:

	% change in employee severance indemnity	
	Sensitivity of Past Service Liability	***Sensitivity of Normal Cost***
Assumption change	*%*	*%*
Discount rate +1%	(11.2)	(15.2)
Discount rate -1%	13.5	18.8
Inflation rate +1%	12.2	19.2
Inflation rate -1%	(11.4)	(15.7)

Expected credit losses from non-cash loans

Movement in expected credit losses from non-cash loans as of 31 March 2019 and 31 December 2018 are as follows:

	31 March 2019			*31 December 2018*		
	Stage 1	**Stage 2**	**Stage 3**	**Stage 1**	**Stage 2**	**Stage 3**
Balances at 31 December	123,743	245,225	285,681	61,393	49,108	50,880
Impact of adopting IFRS 9 at 1 January	-	-	-	53,579	156,309	67,940
Balances at 1 January	123,743	245,225	285,681	114,972	205,417	118,820
Transfer to Stage 1	20,776	(20,573)	(203)	150,260	(135,371)	(14,889)
Transfer to Stage 2	(7,251)	8,402	(1,151)	(39,066)	47,408	(8,342)
Transfer to Stage 3	(116)	(16,205)	16,321	(752)	(81,092)	81,844
Transfer from prior year provision	-	-	-	-	-	-
Debt sales and write-offs	-	-	-	-	-	-
Recoveries and reversals	(63,413)	(43,522)	(57,633)	(325,023)	(202,021)	(60,410)
Provision for the period	64,786	63,881	24,553	216,146	369,581	157,008
Effects of movements in exchange rates	2,675	5,405	10,089	7,206	41,303	11,650
Balances at the end of the period	141,200	242,613	277,657	123,743	245,225	285,681

(Currency: Thousands of Turkish Lira (TL))

26 Other liabilities and accrued expenses

The principal components of other liabilities and accrued expenses are as follows:

	31 March 2019	*31 December 2018*
Blocked accounts against expenditures of card holders	11,230,743	10,956,519
Operational lease payables	1,053,436	-
Miscellaneous payables	940,822	674,102
Transfer orders	630,198	405,184
Withholding taxes	547,292	520,645
Expense accruals	403,179	322,891
Unearned income	181,351	184,256
Advances received	114,324	105,920
Payables to suppliers relating to financial lease activities	101,534	125,324
Blocked accounts	83,301	34,720
Payables to insurance and reinsurance companies relating to insurance business	46,292	31,669
Cash guarantees obtained	13,386	13,086
Option premium payables	10,900	2,612
Others	226,539	749,450
	15,583,297	14,126,378

27 Equity

Share capital

The authorized nominal share capital of the Bank amounted to TL 4,200,000 thousands as of 31 March 2019.

Legal reserves

As per the decisions made at the annual general assemblies of the Bank and its subsidiaries, 5% of the prior year’s net income is allocated to legal reserves. The reserves include legal reserves amounting to TL 1,586,884 thousands (31 December 2018: TL 1,585,920 thousands) in total.

For the Bank and its Turkish subsidiaries, the legal reserves are generated by annual appropriations amounting to 5% of the statutory income until such reserves reach 20% of paid-in share capital (first legal reserves). Without limit, a further 10% of dividend distributions in excess of 5% of paid-in share capital appropriated to generate the legal reserves (second legal reserves). The legal reserves are restricted and are not available for distribution as dividends unless they exceed 50% of the share capital.

The Bank’s subsidiaries in Romania also allocate legal reserves in accordance with the requirements of statutory laws and regulations applicable for each entity. According to the relevant legislation, legal reserves include annual allocations of 5% of the statutory income before tax. According to the relevant legislation, the legal reserve cannot exceed 20% of the share capital.

The Bank’s subsidiary in the Netherlands is not subject to any legal reserve requirements.

(Currency: Thousands of Turkish Lira (TL))

27 **Equity** (continued)

Unrealized gains/(losses) from fair value changes on debt instruments and equity investments measured at FVOCI

	31 March 2019	31 December 2018(*)
Balance at the beginning of the period	(1,038,920)	78,293
Net unrealized (losses)/gains from changes in fair value	(584,262)	(1,389,780)
Related deferred and current income taxes	126,424	255,255
Net (losses)/gains recycled to the statement of comprehensive income on disposal	32,556	15,425
Related deferred and current income taxes	(6,544)	(4,405)
Effect of movements in foreign exchange rates	1,324	6,292
Balance at the end of the period	(1,469,422)	(1,038,920)

(*) *Includes IFRS 9 transition impact of TL 396,257 thousands.*

Hedge reserve

The hedge reserve comprises the effective portions of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred (see Note 31.4 for the details) and of the cumulative change in the net investment hedge performed in order to hedge the foreign currency risk arising from net investments in foreign operations with long-term foreign currency borrowings.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations into the functional currency of the Bank which is TL and of the cumulative change in the net investment hedge performed in order to hedge the foreign currency risk arising from net investments in foreign operations with long-term foreign currency borrowings.

Non-controlling interests

As of 31 March 2019, net non-controlling interests amount to TL 218,440 thousands (31 December 2018: TL 197,557 thousands). Non-controlling interests are detailed as follows:

	31 March 2019	31 December 2018
Capital	55,219	55,219
Retained earnings and other reserves	142,338	77,385
Net income for the period	20,883	64,953
	218,440	197,557

28 Fair value information

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The estimated fair values of financial instruments have been determined using available market information by the Bank, and where it exists, appropriate valuation methodologies. However, judgement is necessary required to interpret market data to determine the estimated fair value. While management uses available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Management has estimated that the fair value of certain financial assets and liabilities are not materially different than their recorded values except for those of loans and advances to customers and investment securities. These financial assets and liabilities include loans and advances to banks, obligations under repurchase agreements and money market fundings, loans and advances from banks

(Currency: Thousands of Turkish Lira (TL))

28 Fair value information (continued)

and other institutions, and other short-term assets and liabilities that are of a contractual nature, obligations under repurchase agreements and money market fundings, loans and advances from banks and other institutions, and other short-term assets and liabilities that are of a contractual nature.

Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair value, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

Fair value of loans and advances to customers is TL 262,826,358 thousands (31 December 2018: TL 249,867,575 thousands), whereas the carrying amount is TL 266,028,731 thousands (31 December 2018: TL 251,144,014 thousands) in the accompanying consolidated statement of financial position as of 31 March 2019.

Fair value of investment securities measured at amortised cost is TL 22,508,871 thousands (31 December 2018: TL 23,072,442 thousands), whereas the carrying amount is TL 25,601,271 thousands (31 December 2018: TL 24,599,884 thousands) in the accompanying consolidated statement of financial position as of 31 March 2019.

The table below analyzes financial instruments carried at fair value, by valuation method:

31 March 2019	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets at fair value through profit or loss (*)	296,522	52,888	4,359,423	4,708,833
Derivative financial assets	7,755	5,467,052	28,121	5,502,928
Debt and other instruments measured at FVOCI	18,082,439	8,366,579	1,245,760	27,694,778
Financial assets at fair value	18,386,716	13,886,519	5,633,304	37,906,539
Financial liabilities at fair value through profit or loss (**)	-	-	13,319,268	13,319,268
Derivative financial liabilities	6,085	3,321,113	1,371,757	4,698,955
Financial liabilities at fair value	6,085	3,321,113	14,691,025	18,018,223

31 December 2018	***Level 1***	***Level 2***	***Level 3***	***Total***
Financial assets at fair value through profit or loss (*)	433,074	-	4,180,144	4,613,218
Derivative financial assets	2,235	4,054,960	36,919	4,094,114
Debt and other instruments measured at FVOCI	26,927,402	-	93	26,927,495
Financial assets at fair value	27,362,711	4,054,960	4,217,156	35,634,827
Financial liabilities at fair value through profit or loss (**)	-	-	12,312,230	12,312,230
Derivative financial liabilities	216	3,639,466	878,978	4,518,660
Financial liabilities at fair value	216	3,639,466	13,191,208	16,830,890

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

(*) Financial assets at fair value through profit or loss include the loan granted to the special purpose entity amounting to TL 4,201,115 thousands (31 December 2018: TL 4,081,161 thousands) as detailed in Notes 5 and 11. The fair value of this loan is determined by the independent valuation company based on the average of different methodologies (discounted cash flows, similar market multipliers, same sector transaction multipliers, market value and analyst reports). The corresponding loan is considered as Level 3 based on IFRS 13 "Fair Value Measurement" standard. Valuation methodologies considered in this valuation study and any possible changes in the basic assumptions may affect the carrying value of the related asset.

(**) Based on IFRS 9, in order to eliminate the accounting mismatch, the securitized bonds issued are measured at fair value and it is used the valuation of the Turkish Republic's credit default swap (CDS) and Eurobonds together with the Z-spread of the Turkish Republic (TC) and the Bank. The credit default swap (CDS) level is determined based on the remaining maturity.

(Currency: Thousands of Turkish Lira (TL))

28 Fair value information (continued)

As of 31 March 2019 and 31 December 2018, the movements of Level 3 financial instruments are as follows:

	31 March 2019		31 December 2018	
	Asset	Liability	Asset	Liability
Balance at the beginning of the period	4,217,156	13,191,208	181,358	9,375,462
Additions	1,306,228	856,653	18,172	3,184,820
Disposals	(8,739)	(214,418)	(31,345)	(2,586,015)
Transfers, net	-	-	4,081,161	-
Effects of valuation differences *(*)*	118,659	857,582	(32,190)	3,216,941
Balance at the end of the period	5,633,304	14,691,025	4,217,156	13,191,208

(*) As of 31 March 2019 and 31 December 2018, effect of movements in exchange rates regarding Level 3 financial liabilities is TL 873,813 thousands and TL 3,690,135 thousands; respectively.

Regarding valuation of the related securitization transactions, it is determined a reference level which indicates the correlation among the transaction spread at inception date with either of the followings: TC CDS, TC eurobonds, and Z-spreads of the Bank and TC and considered the impact of daily changes in relevant parameters with variation in reference level. Therefore, the fair value of both the securitization transactions and the corresponding Total Return Swap (TRS) transactions are determined as Level 3.

Fair value measurement of financial instruments is disclosed under significant accounting policies (i).

29 Commitments and contingencies

In the ordinary course of business, the Bank and its subsidiaries undertake various commitments and incur certain contingent liabilities that are not presented in the accompanying consolidated financial statements, including letters of guarantee, acceptance credits and letters of credit. Commitments and contingent liabilities comprise the following:

	31 March 2019	31 December 2018
Letters of guarantee	50,709,543	50,173,770
Letters of credit	11,729,087	14,685,922
Acceptance credits	2,986,359	2,788,829
Other guarantees and endorsements	68,319	66,907
	65,493,308	67,715,428

As of 31 March 2019;

- Commitment for unpaid capital of subsidiaries companies amounts to TL 6,012 thousands (31 December 2018: TL 5,743 thousands).
- Commitments for unused credit limits and promotions of credit cards, cheques and loans to customers, commitments for loan granting and other revocable and irrevocable commitments amount to TL 54,470,224 thousands (31 December 2018: TL 53,363,381 thousands) in total.
- Commitments for the derivative transactions carried out on behalf of customers in the Turkish Derivatives Exchange amount to TL 2,264,375 thousands (31 December 2018: TL 878,213 thousands) in total.

As of 31 March 2019, the securities acquired under security borrowing transactions include shares with total market and carrying values of TL 11,090 thousands (31 December 2018: TL 8,532 thousands).

30 Derivative financial instruments

As of 31 March 2019, commitment for purchase and sale of foreign currencies under spot, forwards, swaps, future rate agreements, options and forward agreements for gold trading amounts to TL 187,150,596 thousands (31 December 2018: TL 148,458,335 thousands), approximately 81% of which are due within a year (31 December 2018: 76%).

The following tables summarize the notional amounts of the forward, swap, futures and options contracts, with details of remaining periods to maturity. Foreign currency amounts are translated at rates ruling at the date of the statement of financial position. Monetary items denominated in foreign currencies are economically hedged using foreign currency derivative contracts. All gains and losses on foreign currency contracts are recognised in the statement of profit or loss and other comprehensive income, except for contracts of cash flow hedges as stated above.

(Currency: Thousands of Turkish Lira (TL))

30 Derivative financial instruments (continued)

	Notional amount with remaining life of					
31 March 2019	***Up to 1 month***	***1 to 3 months***	***3 to 6 months***	***6 to 12 months***	***Over 1 year***	***Total***
Interest Rate Derivatives						
Interest rate swaps (*)	569	2,591	22,397	17,070	1,647,377	1,690,004
Purchases	*287*	*2,354*	*8,746*	*15,521*	*1,182,748*	*1,209,656*
Sales	*282*	*237*	*13,651*	*1,549*	*464,629*	*480,348*
Interest rate options	-	1,921,712	-	790,295	3,131,845	5,843,852
Purchases	-	*1,921,712*	-	*790,295*	*3,327,165*	*6,039,172*
Sales	-	-	-	-	*(195,320)*	*(195,320)*
Interest rate futures	-	57,873	-	-	-	57,873
Purchases	-	-	-	-	-	-
Sales	-	*57,873*	-	-	-	*57,873*
Other Derivatives						
Securities, shares and index options	66,636	87,094	147,682	102,468	-	403,880
Purchases	*51,332*	*39,219*	*51,796*	*35,938*	-	*178,285*
Sales	*15,304*	*47,875*	*95,886*	*66,530*	-	*225,595*
Other forward contracts	691,488	86,697	7,054	-	-	785,239
Purchases	*687,111*	*78,241*	*3,527*	-	-	*768,879*
Sales	*4,377*	*8,456*	*3,527*	-	-	*16,360*
Other future contracts	20,322	187,239	5,450	8,336	-	221,347
Purchases	*11,775*	*3,893*	*5,450*	*6*	-	*21,124*
Sales	*8,547*	*183,346*	-	*8,330*	-	*200,223*
Other swap contracts	276,417	357,587	2,089,246	211,382	23,506,546	26,441,178
Purchases	*232,618*	-	-	-	*9,265,244*	*9,497,862*
Sales	*43,799*	*357,587*	*2,089,246*	*211,382*	*14,241,302*	*16,943,316*
Currency Derivatives						
Spot exchange contracts	5,872,370	1,472,742	95,730	-	-	7,440,842
Purchases	*3,225,520*	-	-	-	-	*3,225,520*
Sales	*2,646,850*	*1,472,742*	*95,730*	-	-	*4,215,322*
Forward exchange contracts	8,611,606	6,081,557	1,469,297	1,665,811	1,614,556	19,442,827
Purchases	*6,388,877*	*3,861,743*	*720,853*	*906,414*	*789,194*	*12,667,081*
Sales	*2,222,729*	*2,219,814*	*748,444*	*759,397*	*825,362*	*6,775,746*
Currency/cross currency swaps	55,840,590	31,075,561	4,688,240	6,233,896	3,955,780	101,794,067
Purchases	*32,156,385*	*14,099,912*	*2,005,997*	*4,135,844*	*1,068,168*	*53,466,306*
Sales	*23,684,205*	*16,975,649*	*2,682,243*	*2,098,052*	*2,887,612*	*48,327,761*
Options	4,641,885	6,633,698	1,453,888	4,438,686	2,360,082	19,528,239
Purchases	*2,666,337*	*4,386,445*	*1,095,059*	*3,269,790*	*803,956*	*12,221,587*
Sales	*1,975,548*	*2,247,253*	*358,829*	*1,168,896*	*1,556,126*	*7,306,652*
Foreign currency futures	2,040,745	1,207,012	225,218	28,273	-	3,501,248
Purchases	*1,860,159*	*1,190,444*	*225,218*	-	-	*3,275,821*
Sales	*180,586*	*16,568*	-	*28,273*	-	*225,427*
Subtotal Purchases	47,280,401	25,583,963	4,116,646	9,153,808	16,436,475	102,571,293
Subtotal Sales	30,782,227	23,587,400	6,087,556	4,342,409	19,779,711	84,579,303
Total of Transactions	78,062,628	49,171,363	10,204,202	13,496,217	36,216,186	187,150,596

(*) *In case of interest rate swaps, the amounts presented in the table above are the marked-to-market values of such transactions.*

(Currency: Thousands of Turkish Lira (TL))

30 Derivative financial instruments (continued)

	Notional amount with remaining life of					
31 December 2018	***Up to 1 month***	***1 to 3 months***	***3 to 6 months***	***6 to 12 months***	***Over 1 year***	***Total***
Interest Rate Derivatives						
Interest rate swaps (*)	63	8,869	4,732	30,908	1,103,349	1,147,921
Purchases	*63*	*5,454*	*4,292*	*21,744*	*820,171*	*851,724*
Sales	-	*3,415*	*440*	*9,164*	*283,178*	*296,197*
Interest rate options	-	-	3,671,900	1,525,226	6,346,143	11,543,269
Purchases	-	-	*1,835,950*	*762,613*	*3,173,167*	*5,771,730*
Sales	-	-	*1,835,950*	*762,613*	*3,172,976*	*5,771,539*
Interest rate futures	-	18,066	-	-	-	18,066
Purchases	-	-	-	-	-	-
Sales	-	*18,066*	-	-	-	*18,066*
Other Derivatives						
Securities, shares and index options	9,181	67,914	61,162	150,846	-	289,103
Purchases	*7,981*	*46,778*	*23,914*	*82,337*	-	*161,010*
Sales	*1,200*	*21,136*	*37,248*	*68,509*	-	*128,093*
Other forward contracts	12,587	163,635	24,076	3,964	-	204,262
Purchases	*8,990*	*92,603*	*12,038*	*1,982*	-	*115,613*
Sales	*3,597*	*71,032*	*12,038*	*1,982*	-	*88,649*
Other future contracts	13,041	121,355	-	-	-	134,396
Purchases	*11,554*	*5,834*	-	-	-	*17,388*
Sales	*1,487*	*115,521*	-	-	-	*117,008*
Other swap contracts	15,087	-	-	474,291	21,313,293	21,802,671
Purchases	-	-	-	-	*8,695,334*	*8,695,334*
Sales	*15,087*	-	-	*474,291*	*12,617,959*	*13,107,337*
Currency Derivatives						
Spot exchange contracts	6,169,503	-		-	-	6,169,503
Purchases	*1,905,904*	-	-	-	-	*1,905,904*
Sales	*4,263,599*	-		-	-	*4,263,599*
Forward exchange contracts	4,826,989	2,593,835	2,971,831	962,061	1,009,811	12,364,527
Purchases	*2,499,777*	*1,282,572*	*1,944,341*	*519,864*	*774,637*	*7,021,191*
Sales	*2,327,212*	*1,311,263*	*1,027,490*	*442,197*	*235,174*	*5,343,336*
Currency/cross currency swaps	54,923,474	5,030,773	9,038,569	4,425,322	3,209,804	76,627,942
Purchases	*24,664,887*	*2,706,936*	*4,246,994*	*2,286,252*	*1,332,692*	*35,237,761*
Sales	*30,258,587*	*2,323,837*	*4,791,575*	*2,139,070*	*1,877,112*	*41,390,181*
Options	2,525,742	3,401,185	7,288,990	1,768,384	2,307,301	17,291,602
Purchases	*1,645,994*	*2,150,150*	*4,822,266*	*1,385,238*	*768,939*	*10,772,587*
Sales	*879,748*	*1,251,035*	*2,466,724*	*383,146*	*1,538,362*	*6,519,015*
Foreign currency futures	318,386	488,409	15,872	42,406	-	865,073
Purchases	*318,386*	*391,622*	*15,872*	-	-	*725,880*
Sales	-	*96,787*	-	*42,406*	-	*139,193*
Subtotal Purchases	31,063,536	6,681,949	12,905,667	5,060,030	15,564,940	71,276,122
Subtotal Sales	37,750,517	5,212,092	10,171,465	4,323,378	19,724,761	77,182,213
Total of Transactions	68,814,053	11,894,041	23,077,132	9,383,408	35,289,701	148,458,335

(*) *In case of interest rate swaps, the amounts presented in the table above are the marked-to-market values of such transactions.*

31 Financial risk management disclosures

This section provides details of the Bank and its subsidiaries' exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Bank and its subsidiaries are exposed, are credit risk, liquidity risk, market risk and operational risk.

The nature of the risks and the approach to managing risk differs fundamentally between the trading and non-trading portfolios; section 31.2 contains risk management information related to the trading portfolio and section 31.3 deals with the non-trading portfolio.

Risk management framework

Risk Management Department ensures that; risk management policies and principles are applied and adopted throughout the Bank and its consolidated subsidiaries and that risk management system is maintained and improved which pursues risk-return relationship, and measures all risks together and which is in compliance with applicable regulation, bank strategies and policies and where limits determined in connection with the risk appetite approved by the Board of Directors are not breached. Risk Management Department also ensures that activities to define, measure, report, monitor and control risks are conducted thoroughly and timely; to monitor the results.

Policies and procedures regarding risk management are established for consolidated subsidiaries. Policies and procedures are prepared in compliance with applicable legislations that the subsidiaries are subject to and the Bank's risk management strategy. They are reviewed regularly and revised if necessary. The Bank ensures that risk management system is applied in subsidiaries where risks are defined, measured, monitored and controlled.

Risk management activities are structured under the responsibility of the Board of Directors. Management of various risks that the Bank may be exposed to, including oversight of corporate risk management policies and practices, capital adequacy, planning and liquidity adequacy, is the responsibility of the Risk Committee, which consists of members of the Board of Directors. Accordingly, the Risk Management, which performs risk management functions, reports to the Board of Directors via the Risk Committee, whereas the Internal Audit Department, performing internal audit functions, the Internal Control Unit, performing internal control functions, and the Compliance Department, which implements compliance controls and performs activities to prevent laundering proceeds of crime, and financing of terrorism, report directly to the Board of Directors. Senior managements responsibility is to report to Board of Directors about the significant risk the Bank encounters, ensure the compliance with the risk management about own duties, eliminate the risks, deficiencies and errors occurring in the units responsible or take the necessary measures, participate in design and implementation of internal capital adequacy assessment process (ICAAP); participate in process of assessing the adequacy and appropriateness of the underlying assumptions, data sources and principles used to measure the assumptions and risks associated with the models.

The Bank's main approach for the implementation of risk management model is establishing risk culture throughout the Bank, and aims that the importance of risk management for maintaining business operations is understood and risk awareness and sensitivity is ensured for decision making and implementation mechanisms process by all employees.

Compliant with legislation, the Bank measures and monitors risks that are exposed to, considering methods suitable with international standards. Risk measuring and reporting are performed via advanced methods and risk management softwares. Risk based detailed reports are prepared for management of significant risks, in order to determine strategies and take decisions, in this scope, reports are prepared for Board of Directors, relevant committees and senior management.

The Bank's risk appetite framework determines the risk level that the Board of Directors is prepared to accept in order to accomplish the goals and strategies with the consideration of the capacity of the institution to safely absorb those risks and the Bank monitors regularly risk appetite metrics regarding capital, liquidity, income recurrence and risk based limits. Risks that the Bank is exposed to are managed by providing effective control environment and following closely within limits.

31 Financial risk management disclosures (continued)

Unmitigated risks are either accepted with current risk levels or decreasing/ terminating the activity that causes the risk.

The Risk Management Department conducts the ICAAP report, to be sent to the BRSA by coordinating relevant parties. Stress test report is also reported to the BRSA, which evaluates how adverse effects on macroeconomic parameters, in the scope of determined scenarios, affect the Bank's three year budget plan and results, and certain ratios, including capital adequacy.

Training programs for employees, risk reports to the Board of Directors, senior management and committees, risk appetite framework established by the Bank and ICAAP generate significant inputs to ensure that risk management culture is widely embraced.

Risk Committee

The Risk Committee is responsible for:

- Monitor and oversee the strategy and general risk policies of the Bank and to review the risk appetite declaration and core metrics, risk tolerance levels, limit structure, and metrics, taking into consideration the strength of the Bank's capital and the overall quality of risk management, measurement and reporting,
- Review and approve, as appropriate, the corporate risk policies for each risk type, and the yearly limits for each risk type and business area with the level of detail that may be deemed appropriate at the time,
- Review and approve, as appropriate, measures to mitigate the impact of identified risk, should these materialize,
- Monitor the evolution of the global risk profile and the Bank's risk exposure, by type of risk, business line, product, or customer segment, and how these compare to the risk strategy and policies and the risk appetite,
- Assess the adequacy of the risk information and risk internal control systems in the Bank to guarantee the appropriate functioning of risk management as well as the suitability of the structure and working of risk management in the Bank,
- Monitor that pricing of investment and deposit products offered to clients fully take into consideration the business model and risk strategy of the Bank, including a remediation plan should it be necessary,
- Verify that the Bank takes the necessary steps to guarantee the availability of systems, staffing and general resources adequate for the management of risks,
- Analyse and assess the appropriate working of asset valuation, asset classification and risk estimation of the company,
- Promote the continuous development and improvement of advanced risk management model and practices, whilst closely monitoring requirements and recommendations of regulators and supervisors,
- Receive and review reports on capital planning, capital adequacy and provide effective challenge of the enterprise risk management and capital planning processes.

Audit Committee

The audit committee consists of three members of the Board of Directors who do not have any executive functions. The audit committee, which was established to assist the Board of Directors in its auditing and supervising activities, is responsible for:

31 Financial risk management disclosures (continued)

- Monitoring the effectiveness and adequacy of the Bank’s internal control, risk management and internal audit systems, operation of these systems and accounting and reporting systems in accordance with applicable regulations and the integrity of resulting information;
- Performing the preliminary studies required for the election of independent audit firms and regularly monitoring their activities;
- Ensuring that the internal audit functions of consolidated organizations are performed in a consolidated and coordinated manner.

Other Committees

There is a number of risk management committees established in order to conduct risk management activities, including: Risk Committee, Risk Management Committee, New Business and Product Committee, Risk Technology and Analytics Committee, IT Risk Committee, Retail Credit Risk Committee and Wholesale Credit Risk Committee.

31.1 Derivative financial instruments

The Bank and its subsidiaries enter into a variety of derivative financial instruments for hedging and risk management purposes. This note describes the derivatives used. Further details of the objectives and strategies in the use of derivatives are set out in the sections of this note on non-trading activities. Details of the nature and terms of derivative instruments outstanding at the dates of the statements of financial position are set out in Note 30. Derivative financial instruments used include swaps, futures, forwards, options and other similar types of contracts whose value changes in response to changes in interest rates, foreign exchange rates and gold prices. Derivatives are individually negotiated over-the-counter contracts. A description of the main types of derivative instruments used is set out below:

Swaps

Swaps are over-the-counter agreements to exchange future cash flows based upon agreed notional amounts. Most commonly used swaps are currency swaps. The Bank and its subsidiaries are subject to credit risk arising from the respective counterparties’ failure to perform. Market risk arises from the possibility of unfavorable movements in market rates relative to the contractual rates of the contract.

Futures and forwards

Futures and forward contracts are commitments to either purchase or sell a designated financial instrument, currency, commodity or an index at a specified future date for a specified price and may be settled in cash or another financial asset. Futures are standardized exchange-traded contracts whereas forwards are individually traded over-the-counter contracts. Initial margin requirements for futures are met in cash or other instruments, and changes in the future contract values are settled daily. Therefore credit risk is limited to the net positive change in the market value for a single day. Futures contracts have little credit risk because the counterparties are clearing houses. Forward contracts result in credit exposure to the counterparty. Futures and forward contracts both result in exposure to market risk based on changes in market prices relative to contracted amounts.

Options

Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell (put option) to the writer a specified underlying at a specified price on or before a specified date. The Bank enters into foreign exchange, bond, equity index, interest rate options, not only vanilla options but also exotic options.

Foreign currency options provide protection against rising or falling currency rates. The Bank as a buyer of over-the-counter options is subject to market risk and credit risk since the counterparty is obliged to make payments under the terms of the contract if the Bank exercises the option. As the writer of over-the-counter options, the Bank is subject to market risk only since it is obliged to make payments if the option is exercised.

31 Financial risk management disclosures (continued)

31.2 Trading activities

The Bank and its subsidiaries maintain active trading positions in non-derivative financial instruments. Most of the trading activities are customer driven. In anticipation of customer demand, an inventory of capital market instruments is carried and access to market liquidity is maintained by quoting bid and offer prices to and trading with other market makers. Positions are also taken in the interest rate, foreign exchange, debt and equity markets based on expectations of future market conditions. These activities constitute the proprietary trading business and enable the Bank and its subsidiaries to provide customers with capital market products at competitive prices. As trading strategies depend on both market-making and proprietary positions, given the relationships between instruments and markets, those are managed in concert to maximize net trading income/(expense). Trading activities are managed by type of risk involved and on the basis of the categories of trading instruments held.

Counterparty credit risk

Counterparty credit risk management policies include evaluating and monitoring risk developments, taking necessary measures, setting risk limits, ensuring that the risks remain within the limits, and establishing required reporting, control and audit mechanisms by using the methods aligned with both international standards and local regulations. The policies regarding counterparty credit risk measurement, monitoring, and limit settings are defined by the Board of Directors.

Counterparty credit risk arising from derivative transactions is periodically being monitored and reported by the Market and Structural Risk unit on product, country, counterparty and counterparty type basis. CCR model has been validated yearly in the periodic validation framework.

International framework agreements (ISDA, CSA, GMRA, etc.) are used through collateral and margin call mechanisms in order to mitigate the counterparty credit risk.

Market risk

Market Risk is defined as the losses that the trading portfolio of the Bank may incur due to the risks caused by market price changes (interest rate, equities, foreign exchange and commodity prices), the correlations between market prices and the uncertainty in the volatility levels.

All trading instruments are subject to market risk. The instruments are recognised at fair value, and all changes in market conditions directly affect net trading income/(expense).

The Bank and its subsidiaries manage its use of trading instruments in response to changing market conditions.

The Board of Directors monitors the effectiveness of risk management systems through audit committee, related other committees and top management, and in the light of various risk reports and the assessments made by the audit committee.

The risk policies and application procedures have been approved by the Board of Directors and regularly revisited. The market risk is also managed by risk mitigations through hedging transactions beside measuring the risks in compliance with the international standards, limiting such risk and allocating capital accordingly.

Market risks arising from trading portfolios are measured by the Bank as per “standard” and “value at risk (VaR)” methods. The measurements as per the standard method are performed on a monthly basis, and taken into consideration in the calculation of capital adequacy. Whereas, the measurements as per VaR method are performed on a daily basis. The Bank takes the historical VaR results as the basis for the internal management of market risk and limit setting. In the VaR calculation, two years historical market data set is used, and 99% confidence interval and one-day holding period (10 days for regulatory capital calculation) are taken into account. In order to test the reliability of the VaR model, back tests are performed. Stress tests and scenario analysis are also applied in order to reflect the effects of prospective severe market fluctuations in the VaR calculations. VaR model has been validated yearly in the periodic validation framework.

31 Financial risk management disclosures (continued)

Beside the VaR limit, sensitivity limits on risk factors, economic capital and stop-loss limits approved by the Board of Directors for trading portfolio are also applied in order to limit the market risks.

The capital requirement for general market risk and specific risks is calculated using the standard method defined by the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" as set out by the BRSA and reported monthly.

31.3 Non-trading activities

Below is a discussion of the various risks the Bank and its subsidiaries are exposed to as a result of its non-trading activities and the approach taken to manage those risks.

Liquidity risk

Liquidity risk is defined as the risk that the Bank may not be able to fulfill its payment obligations in a timely manner due to the lack of available cash or cash inflows in quality and in quantity to cover the cash outflows in a complete and timely manner due to imbalances in the cash flows of the Bank and its subsidiaries.

Liquidity risk is managed by Asset and Liability Management department (ALMD), Weekly Review Committee and Asset and Liability Committee (ALCO) in line with liquidity and funding policies and risk appetite approved by the Board of Directors in order to take the necessary measures in a timely and correct manner against possible liquidity shortages that may result from market conditions and balance sheet structure. Under stressed conditions, liquidity risk is managed within the contingency funding plan framework.

The Board of Directors reviews the liquidity risk management policy and approves the liquidity and funding policies, ensures the effective of practice of policies and integrations with the Bank's risk management system. The Board of Directors determines the basic metrics in liquidity risk measurement and monitoring. The Board of Directors establishes risk appetite of the Bank in liquidity risk management and identifies the risk limits in accordance with the risk appetite and reviews it regularly.

ALCO takes necessary decisions which will be executed by related departments by assessing the liquidity risk that the Bank is exposed to and considering the Bank's strategy and conditions of competition and pursues the implementations.

ALMD, performs daily liquidity management by ensuring compliance with regulatory and internal liquidity limits and monitoring related early warning indicators in case of probable liquidity squeezes. The medium and long term liquidity and funding management is performed by ALMD in accordance with ALCO decisions.

Head of Risk Management defines the Bank's liquidity risk, measures and monitors the risks with liquidity risk measurement methods that are in compliance with international standards, presents measurement results periodically to related departments, committees and senior management. Head of Risk Management coordinates related parties in order to ensure compliance of risk management process in accordance with the Bank's risk profile, operation environment and strategic plan with regulations. Head of Risk Management analyses, develops and revises relevant liquidity risk measurement in accordance with changing market conditions and the Bank's structure. Risk Management Department reviews assumptions and parameters used in liquidity risk analysis.

The liquidity risk analysis and the important liquidity indicators are reported monthly to related senior management. Additionally, analysis and monitored internal ratios related to liquidity risk are presented in ALCO report. Internal liquidity metrics are monitored with limit and alert levels approved by the Board of Directors and reported regularly to related parties.

Decentralized management approach is adopted in liquidity management. Each subsidiary controlled by the Bank performs daily, medium and long term liquidity management independently from the Bank by the authorities in each subsidiary responsible for managing liquidity risk.

(Currency: Thousands of Turkish Lira (TL))

31 Financial risk management disclosures (continued)

In addition, within the scope of consolidated risk management, liquidity and funding risk of each subsidiary in control are monitored via the liquidity risk management methods identified by the Bank by considering the operations, risk profile and regulations of the related subsidiary.

The Bank's funding management is carried out in compliance with the ALCO decisions. Funding and placement strategies are developed by assessing liquidity.

In liquidity risk management, actions that will be taken and procedures are determined by considering normal economic conditions and stress conditions.

Diversification of assets and liabilities is assured so as to be able to continuously meet the obligations, also taking into account the relevant currencies. Funding sources are monitored actively during identification of concentration risk related to funding. The Bank's funding base of customer deposits, interbank and other borrowing transactions are diversified in order to prevent the concentration of a particular funding source. Factors that could trigger the sudden and significant run off in funds or impair the accessibility of the funding sources are analyzed. Additionally, securities which are eligible as collateral at CBRT issued by Republic of Turkey Treasury and have active secondary market are comprised in the Bank's assets.

In the context of TL and foreign currencies liquidity management, the cash flows regarding assets and liabilities are monitored and the required liquidity in future periods is forecasted. In cash flow analysis, stress is applied to items that affect the liquidity by volume and rate of change from a liquidity management point of view.

Liquidity risk exposed by the Bank is managed by establishing risk appetite, risk mitigation according to the liquidity and funding policies (diversification of funding sources, holding high quality liquid assets reserve) and effective control environment and closely monitoring by limits. For those risks that cannot be reduced, the adoption of the current level of risk, reduction or termination of the activities that cause the risk is considered.

In liquidity risk stress testing framework, the level of the Bank's ability to cover cash outflows in liquidity crisis scenario based on the Bank's current cash flow structure, by high quality liquid assets is calculated. Scenario analysis are performed by assessing changing balance sheet structure, liquidity requirements and market conditions.

The results of liquidity risk stress testing are taken into consideration in the assessment of liquidity adequacy and identification of policy regarding liquidity risk and contingency funding plan is prepared within this framework.

There exists "Liquidity Contingency Plan" in the Bank approved by the Board of Directors including mechanisms to prevent increase in liquidity risk scenarios for different conditions and levels. Available liquidity sources are determined by considering the liquidity squeezes. Within the framework of this plan, the Bank monitors liquidity risk in terms of early warning indicators, and probable scenarios where liquidity risk crisis and possible actions that can be taken.

In the scope of contingency plan within the framework of intraday liquidity risk management procedure, situations requiring the activation of contingency plan and indicating an intraday liquidity stress, and intraday liquidity metrics are monitored and intraday liquidity risk stress testing is performed.

The table below presents the last three months' consolidated liquidity ratios in accordance with the BRSA regulations:

Period	**TL+FC**	**FC**
31 January 2019	238.35%	269.06%
28 February 2019	245.14%	257.89%
31 March 2019	256.42%	278.16%

31 Financial risk management disclosures (continued)

Exposure to liquidity risk

Liquidity Coverage Ratio (LCR), aims for the banks having the ability to cover 30 days of liquidity needs with their own cash and high quality liquid assets that are easy to convert to cash during liquidity shortages in the markets. With that perspective and according to “Regulation for Banks’ Liquidity Coverage Ratio Calculations” terms LCR ratio is calculated by having high quality liquid assets divided by net cash outflows. In both bank-only and consolidated basis, LCR ratio should be at least 80% for foreign currency and 100% for total.

The Bank’s banking subsidiary in the Netherlands is subject to liquidity requirements as per the rules of Capital Requirement Regulation, which encompasses a liquidity coverage ratio, a net stable funding ratio and liquidity requirements under stress scenarios.

The Bank’s banking subsidiary in Romania calculates two different liquidity ratios as follows:

- In accordance with national regulation, as a ratio of effective liquidity in local currency equivalent to necessary liquidity in local currency equivalent for several individual time buckets (<1 month, 1-3 months, 3-6 months, 6-12 months, >1 year) and each ratio for each bucket should be >1.
- In accordance with Basel II requirements, the liquidity coverage ratio (LCR) as a ratio of highly quality liquid assets necessary to meet total net cash outflows over 30 days, which should be above 100% starting from 1 January 2018.

(Currency: Thousands of Turkish Lira (TL))

The following table provides an analysis of monetary assets and monetary liabilities of the consolidated entities into relevant maturity groupings based on the remaining periods to repayment:

	31 March 2019							
	Demand Accounts	*Up to 1 month*	*1 to 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 year*	*Undistributed(*)*	*Total*
MONETARY ASSETS								
Turkish Lira								
Cash and balances with central banks	2,643,658	-	-	-	-	-	(3,778)	2,639,880
Financial assets at fair value through profit or loss	97,750	22	2,896	29,936	121,733	21,247	-	273,584
Derivative financial assets	-	1,091,907	1,329,898	396,210	1,291,786	168,483	-	4,278,284
Loans and advances to banks	41,130	1,299,526	506,173	194,324	-	-	(4,588)	2,036,565
Loans and advances to customers	459,181	39,608,139	18,276,277	36,972,769	49,422,354	6,244,719	3,493,117	154,476,556
Investment securities	-	23,430	1,072,055	4,065,458	23,433,101	7,993,513	(47,994)	36,539,563
Other assets	605,453	1,036,014	24,745	40,516	205,504	38,537	2,499,421	4,450,190
Total Turkish Lira monetary assets	3,847,172	43,059,038	21,212,044	41,699,213	74,474,478	14,466,499	5,936,178	204,694,622
Foreign Currency								
Cash and balances with central banks	20,902,566	14,467,516	-	-	-	-	(61,095)	35,308,987
Financial assets at fair value through profit or loss	36,799	486	-	4,307,988	29,119	60,857	-	4,435,249
Derivative financial assets	-	22,040	126,526	305,953	76,999	693,126	-	1,224,644
Loans and advances to banks	18,475,655	2,634,730	430,016	1,033,258	232,846	71,597	(18,650)	22,859,452
Loans and advances to customers	246,699	10,040,950	8,472,922	25,163,901	45,414,603	19,938,472	2,274,628	111,552,175
Investment securities	-	347,352	395,308	594,772	4,123,127	11,315,728	(19,801)	16,756,486
Other assets	3,045,786	13,443,167	107,147	34,638	149,028	28,298	65,670	16,873,734
Total foreign currency monetary assets	42,707,505	40,956,241	9,531,919	31,440,510	50,025,722	32,108,078	2,240,752	209,010,727
Total Monetary Assets	46,554,677	84,015,279	30,743,963	73,139,723	124,500,200	46,574,577	8,176,930	413,705,349
MONETARY LIABILITIES								
Turkish Lira								
Deposits	22,141,721	64,341,589	10,286,781	6,416,047	51,260	-	-	103,237,398
Loans and advances from banks and other institutions	-	120,986	133,781	690,766	734,729	-	-	1,680,262
Obligations under repurchase agreements and money market fundings	-	253,439	30,149	31,271	-	-	-	314,859
Debt securities issued	-	1,811,324	2,036,998	679,880	2,104,370	-	-	6,632,572
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	-
Derivative financial liabilities	-	581,772	667,530	707,384	455,092	29,793	-	2,441,571
Subordinated liabilities	-	-	-	-	-	-	-	-
Other liabilities	11,976,304	949,992	385,920	159,719	521,385	221,372	4,355,297	18,569,989
Total Turkish Lira monetary liabilities	34,118,025	68,059,102	13,541,159	8,685,067	3,866,836	251,165	4,355,297	132,876,651
Foreign Currency								
Deposits	53,900,006	76,992,915	14,575,604	11,311,612	2,468,098	171,767	-	159,420,002
Loans and advances from banks and other institutions	-	2,775,160	9,483,294	17,490,953	5,206,351	4,535	-	34,960,293
Obligations under repurchase agreements and money market fundings	142	-	-	413,789	812,017	76,280	-	1,302,228
Debt securities issued	-	-	445,454	7,529,944	12,376,396	2,730,970	-	23,082,764
Financial liabilities at fair value through profit or loss	-	-	-	339,840	2,743,426	10,236,002	-	13,319,268
Derivative financial liabilities	-	-	58,966	10,067	328,453	1,859,898	-	2,257,384
Subordinated liabilities	-	-	-	-	-	4,302,079	-	4,302,079
Other liabilities	216,520	933,647	568,635	62,029	59,664	1,475	1,028,930	2,870,900
Total foreign currency monetary liabilities	54,116,668	80,701,722	25,131,953	37,158,234	23,994,405	19,383,006	1,028,930	241,514,918
Total Monetary Liabilities	88,234,693	148,760,824	38,673,112	45,843,301	27,861,241	19,634,171	5,384,227	374,391,569

(*) Includes expected credit losses.

(Currency: Thousands of Turkish Lira (TL))

The following table provides an analysis of monetary assets and monetary liabilities of the consolidated entities into relevant maturity groupings based on the remaining periods to repayment:

	31 December 2018							
	Demand Accounts	***Up to 1 month***	***1 to 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 year***	***Undistributed(*)***	***Total***
MONETARY ASSETS								
Turkish Lira								
Cash and balances with central banks	2,682,605	-	-	-	-	-	(2,911)	2,679,694
Financial assets at fair value through profit or loss	69,979	1	32,606	15,060	157,974	2,308	-	277,928
Derivative financial assets	-	679,711	367,923	953,024	952,074	145,059	-	3,097,791
Loans and advances to banks	21,679	502,608	349,114	292,286	-	-	(2,931)	1,162,756
Loans and advances to customers	440,857	35,411,970	16,403,558	37,007,351	45,551,469	6,607,700	3,644,035	145,066,940
Investment securities	-	-	282,719	2,072,139	26,604,665	7,866,071	(38,214)	36,787,380
Other assets	47,644	699,154	24,872	23,936	236,859	-	2,586,150	3,618,615
Total Turkish Lira monetary assets	3,262,764	37,293,444	17,460,792	40,363,796	73,503,041	14,621,138	6,186,129	192,691,104
Foreign Currency								
Cash and balances with central banks	20,936,900	8,129,564	-	-	-	-	(41,638)	29,024,826
Financial assets at fair value through profit or loss	102,530	-	5	4,140,470	27,128	65,157	-	4,335,290
Derivative financial assets	-	7,793	45,623	235,630	97,235	610,042	-	996,323
Loans and advances to banks	15,636,885	1,438,980	369,640	755,387	222,009	47,588	(15,672)	18,454,817
Loans and advances to customers	267,573	8,904,829	7,704,566	23,291,807	43,881,428	19,849,158	2,177,713	106,077,074
Investment securities	-	-	71,650	490,548	2,045,538	12,148,170	(15,907)	14,739,999
Other assets	7,264,000	14,479,543	71,776	27,581	228,974	27,035	67,400	22,166,309
Total foreign currency monetary assets	44,207,888	32,960,709	8,263,260	28,941,423	46,502,312	32,747,150	2,171,896	195,794,638
Total Monetary Assets	47,470,652	70,254,153	25,724,052	69,305,219	120,005,353	47,368,288	8,358,025	388,485,742
MONETARY LIABILITIES								
Turkish Lira								
Deposits	19,629,974	58,354,968	17,479,075	8,429,634	66,054	-	-	103,959,705
Loans and advances from banks and other institutions	-	114,698	135,250	692,777	563,421	-	-	1,506,146
Obligations under repurchase agreements and money market fundings	-	1,013,456	296,652	103,794	-	-	-	1,413,902
Debt securities issued	-	942,900	885,485	289,625	2,071,942	-	-	4,189,952
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	-	-
Derivative financial liabilities	-	1,061,280	605,609	589,327	380,806	346,294	-	2,983,316
Subordinated liabilities	-	-	-	-	-	-	-	-
Other liabilities	951,824	12,028,312	129,349	18,571	7,316	-	4,198,332	17,333,704
Total Turkish Lira monetary liabilities	20,581,798	73,515,614	19,531,420	10,123,728	3,089,539	346,294	4,198,332	131,386,725
Foreign Currency								
Deposits	44,533,528	63,538,113	18,229,324	12,439,491	2,179,352	12,660	-	140,932,468
Loans and advances from banks and other institutions	-	1,506,772	1,177,050	24,697,399	4,978,741	763,183	-	33,123,145
Obligations under repurchase agreements and money market fundings	139	371,962	-	-	776,561	72,026	-	1,220,688
Debt securities issued	-	53,687	661,936	7,475,888	11,996,088	2,624,663	-	22,812,262
Financial liabilities at fair value through profit or loss	-	-	-	478,804	2,650,312	9,183,114	-	12,312,230
Derivative financial liabilities	-	158,492	23,071	240,227	250,783	862,771	-	1,535,344
Subordinated liabilities	-	-	-	-	-	3,977,018	-	3,977,018
Other liabilities	206,230	672,993	359,311	49,927	443	-	1,086,297	2,375,201
Total foreign currency monetary liabilities	44,739,897	66,302,019	20,450,692	45,381,736	22,832,280	17,495,435	1,086,297	218,288,356
Total Monetary Liabilities	65,321,695	139,817,633	39,982,112	55,505,464	25,921,819	17,841,729	5,284,629	349,675,081

(*) Includes expected credit losses.

(Currency: Thousands of Turkish Lira (TL))

31 Financial risk management disclosures (continued)

Contractual maturity analysis of liabilities according to remaining maturities

The remaining maturities table of the contractual liabilities includes the undiscounted future cash outflows for the principal amounts of the Bank and its subsidiaries' financial liabilities as per their earliest likely contractual maturities.

	31 March 2019							
	Carrying Value	***Nominal Principal Outflows***	***Demand***	***Up to 1 Month***	***1 to 3 Months***	***3 to 12 Months***	***1 to 5 Years***	***Over 5 Years***
Deposits	262,657,400	260,813,815	76,037,498	140,483,306	24,524,644	17,089,832	2,507,513	171,022
Obligations under repurchase agreements and money market fundings	1,617,087	1,607,661	142	241,299	27,218	443,610	819,416	75,976
Loans and advances from banks and other institutions	36,640,555	36,277,675	-	2,726,601	9,522,480	18,128,107	4,780,945	1,119,542
Debt securities issued	29,715,336	29,132,105	-	1,774,307	2,435,315	8,040,969	14,184,100	2,697,414
Subordinated liabilities	4,302,079	4,211,475	-	-	-	-	-	4,211,475
Financial liabilities at fair value through profit or loss	13,319,268	14,578,221	-	-	-	336,918	2,870,320	11,370,983
Total Monetary Liabilities	348,251,725	346,620,952	76,037,640	145,225,513	36,509,657	44,039,436	25,162,294	19,646,412

	31 December 2018							
	Carrying Value	***Nominal Principal Outflows***	***Demand***	***Up to 1 Month***	***1 to 3 Months***	***3 to 12 Months***	***1 to 5 Years***	***Over 5 Years***
Deposits	244,892,173	243,090,159	64,143,609	121,035,809	35,230,022	20,436,832	2,231,265	12,622
Obligations under repurchase agreements and money market fundings	2,634,590	2,597,091	139	1,357,567	286,818	98,466	782,847	71,254
Loans and advances from banks and other institutions	34,629,291	34,391,534	-	1,475,755	1,239,994	25,371,106	5,541,654	763,025
Debt securities issued	27,002,214	26,532,013	-	980,255	1,530,011	7,654,244	13,768,324	2,599,179
Subordinated liabilities	3,977,018	3,952,425	-	-	-	-	-	3,952,425
Financial liabilities at fair value through profit or loss	12,312,230	13,092,251	-	-	-	474,291	2,736,897	9,881,063
Total Monetary Liabilities	325,447,516	323,655,473	64,143,748	124,849,386	38,286,845	54,034,939	25,060,987	17,279,568

Interest rate risk

Interest rate risk in the banking book is evaluated considering the repricing risk, yield curve risk, basis risk and optionality, measured in compliance with the international standards and managed by risk mitigation techniques through limits and hedging.

The interest rate risk resulted from balance sheet maturity mismatch presents the possible losses that may arise due to the changes in interest rates of interest sensitive assets and liabilities in the on and off balance sheet. Interest rate sensitivity of assets, liabilities and off-balance sheet items is evaluated during the Weekly Assessment Committee and Asset and Liability Committee meetings taking into consideration the developments in market conditions.

The Bank's interest rate risk is measured by using economic value, economic capital, net interest income, earnings at risk, economic value sensitivity of securities portfolio, duration-gap and credit spread risk sensitivity analysis.

(Currency: Thousands of Turkish Lira (TL))

31 Financial risk management disclosures (continued)

The results are supported by sensitivity and scenario analysis performed periodically due to the possible instabilities in the markets. Furthermore, the interest rate risk is monitored according to the limits approved by the Board of Directors.

The interest rate risk on the interest-rate-sensitive financial instruments of trading portfolio is evaluated as a part of market risk.

The following table indicates the economic value differences resulted from interest rate instabilities calculated on a bank-only basis according to Regulation on Measurement and Evaluation of Interest Rate Risk Resulted from Banking Book as per Standard Shock Method as of 31 December 2018:

31 December 2018 **Type of Currency**		**Shocks Applied (+/- basis points)**	**Gains/Losses**	**Gains/Equity-Losses/Equity**
1	TL	(+) 500 bps	(3,575,813)	(6.71)%
2	TL	(-) 400 bps	3,313,745	6.22%
3	USD	(+) 200 bps	125,277	0.24%
4	USD	(-) 200 bps	(97,656)	(0.18)%
5	EUR	(+) 200 bps	31,038	0.06%
6	EUR	(-) 200 bps	9,549	0.02%
	Total (of negative shocks)		**3,225,638**	**6.06%**
	Total (of positive shocks)		**(3,419,498)**	**(6.41)%**

(Currency: Thousands of Turkish Lira (TL))

The following table provides an analysis of interest rate sensivity of monetary assets and liabilities of the consolidated entities into relevant maturity groupings:

	31 March 2019						
	Up to 1 month	***1 to 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 year***	***Non-Interest Bearing(*)***	***Total***
MONETARY ASSETS							
Cash and balances with central banks	22,413,254	-	-	-	-	15,535,613	37,948,867
Financial assets at fair value through profit or loss	6,645	3,956	4,273,988	87,631	80,371	256,242	4,708,833
Loans and advances to banks	4,561,332	765,550	1,053,145	319,522	77,541	18,118,927	24,896,017
Loans and advances to customers	67,533,221	44,275,361	69,765,654	69,617,691	13,140,842	1,695,962	266,028,731
Other assets	10,605,513	-	-	146,155	-	16,075,184	26,826,852
Investment securities	6,553,335	7,026,752	12,459,438	5,956,688	11,499,965	9,799,871	53,296,049
Total Monetary Assets	111,673,300	52,071,619	87,552,225	76,127,687	24,798,719	61,481,799	413,705,349
MONETARY LIABILITIES							
Deposits	149,821,639	24,547,682	17,169,228	2,404,279	162,764	68,551,808	262,657,400
Obligations under repurchase agreements and money market fundings	241,300	27,218	443,610	819,416	75,976	9,567	1,617,087
Loans and advances from banks and other institutions	2,978,513	21,105,291	8,531,571	2,680,130	982,177	362,873	36,640,555
Debt securities issued	7,280,269	2,459,712	8,040,885	11,225,222	126,016	583,232	29,715,336
Subordinated liabilities	-	-	-	-	4,211,475	90,604	4,302,079
Financial liabilities at fair value through profit or loss	13,134,877	-	-	-	-	184,391	13,319,268
Other liabilities	-	-	-	-	-	26,139,844	26,139,844
Total Monetary Liabilities	173,456,598	48,139,903	34,185,294	17,129,047	5,558,408	95,922,319	374,391,569

	31 December 2018						
	Up to 1 month	***1 to 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 year***	***Non-Interest Bearing***	***Total***
MONETARY ASSETS							
Cash and balances with central banks	16,036,729	-	-	-	-	15,667,791	31,704,520
Financial assets at fair value through profit or loss	45,922	36,429	4,152,182	136,176	65,002	177,507	4,613,218
Loans and advances to banks	1,857,261	681,908	1,430,348	249,305	69,100	15,329,651	19,617,573
Loans and advances to customers	63,274,415	30,452,792	73,686,461	64,364,863	13,894,003	5,471,480	251,144,014
Other assets	10,984,135	-	-	177,073	-	17,184,906	28,346,114
Investment securities	3,493,756	7,587,154	14,397,742	4,451,777	12,402,065	10,727,809	53,060,303
Total Monetary Assets	95,692,218	38,758,283	93,666,733	69,379,194	26,430,170	64,559,144	388,485,742
MONETARY LIABILITIES							
Deposits	130,144,939	35,243,915	20,518,902	2,134,307	5,065	56,845,045	244,892,173
Obligations under repurchase agreements and money market fundings	1,357,567	286,818	98,466	782,847	71,255	37,637	2,634,590
Loans and advances from banks and other institutions	2,583,900	15,666,635	12,361,802	2,213,565	914,820	888,569	34,629,291
Debt securities issued	6,539,033	1,530,012	7,662,050	10,680,521	120,397	470,201	27,002,214
Subordinated liabilities	-	-	-	-	3,952,425	24,593	3,977,018
Financial liabilities at fair value through profit or loss	12,161,424	-	-	-	-	150,806	12,312,230
Other liabilities	-	-	-	-	-	24,227,565	24,227,565
Total Monetary Liabilities	152,786,863	52,727,380	40,641,220	15,811,240	5,063,962	82,644,416	349,675,081

(*) Includes expected credit losses.

(Currency: Thousands of Turkish Lira (TL))

31 Financial risk management disclosures (continued)

The following table indicates the effective interest rates by major currencies for the major components of the consolidated statement of financial position for the first quarter of 2019 and the year 2018:

	31 March 2019			
	US$ %	***EUR %***	***TL %***	***Other Currencies %***
Assets				
Loans and advances to banks	1-5	(0.37)-8	1-29	3
Debt and other fixed or floating income instruments	2-12	1-5	3-28	2-5
Loans and advances to customers	3-19	1-15	10-39	1-31
Liabilities				
Deposits:				
- Foreign currency deposits	1-4	1-7	-	1-7
- Bank deposits	3-5	(0.37)-1	19-24	3-4
- Saving deposits	-	-	12-29	-
- Commercial deposits	-	-	3-26	-
- Public and other deposits	-	-	21	-
Obligations under repurchase agreements and money market fundings	3	-	7-30	-
Loans and advances from banks and other institutions	3-8	1-6	2-45	1-4
Debt securities issued	6	4	19-27	5

	31 December 2018			
	US$ %	***EUR %***	***TL %***	***Other Currencies %***
Assets				
Loans and advances to banks	1-5	(0.34)-8	1-30	3
Debt and other fixed or floating income instruments	3-12	1-5	3-28	1-5
Loans and advances to customers	2-19	1-11	10-44	1-31
Liabilities				
Deposits:				
- Foreign currency deposits	1-4	1-7	-	1-6
- Bank deposits	2-4	(0.34)-1	19-27	1-2
- Saving deposits	-	-	15-29	-
- Commercial deposits	-	-	9-26	-
- Public and other deposits	-	-	24	-
Obligations under repurchase agreements and money market fundings	3-4	-	7-30	-
Loans and advances from banks and other institutions	3-12	1-5	11-45	1-4
Debt securities issued	6	4	18-27	5

31 Financial risk management disclosures (continued)

Currency risk

Currency risk arises from the potential impact of adverse exchange rate fluctuations on the capital ratio and net profit, when the Bank has a significant activity in currencies other than the local currency of the balance sheet or when it holds exposure to protect its equity.

The Bank and its subsidiaries are exposed to currency risk through transactions in foreign currencies and through investments in foreign operations. The Bank and its subsidiaries' main foreign operations are in the Netherlands and Romania. The measurement currencies of its operations are Euro and Romanian Leu. As the currency in which the Bank presents its consolidated financial statements is TL, the consolidated financial statements are affected by currency exchange rate fluctuations against TL. The Bank finances a significant proportion of its net investment in foreign operations with borrowings in the same currencies as the relevant measurement currencies to mitigate its currency risk. FX swaps are also used to match the currency of some of its other borrowings to the measurement currencies involved. The Bank and its subsidiaries' transactional exposures give rise to foreign currency gains and losses that are recognised in the consolidated statement of profit or loss and other comprehensive income. These exposures comprise of monetary assets and monetary liabilities that are not denominated in the measurement currency of the Bank involved.

(Currency: Thousands of Turkish Lira (TL))

31 Financial risk management disclosures (continued)

These exposures are as follows:

	31 March 2019			
	US$	*EUR*	*Other Currencies*	*Total*
Assets				
Cash and balances with central banks	13,666,588	21,231,471	410,928	35,308,987
Financial assets at fair value through profit or loss	4,318,953	116,296	-	4,435,249
Loans and advances to banks	16,346,147	5,878,458	634,847	22,859,452
Loans and advances to customers	52,626,695	51,765,604	7,159,876	111,552,175
Other assets	3,117,227	7,039,839	7,903,458	18,060,524
Investment securities	11,722,610	3,744,253	1,289,623	16,756,486
Equity investments	271,426	8,205	931	280,562
Tangible and intangible assets	304	220,928	244,987	466,219
Deferred tax asset	-	32,121	5,733	37,854
Total Assets	102,069,950	90,037,175	17,650,383	209,757,508
Liabilities				
Deposits	89,157,681	56,453,979	13,808,342	159,420,002
Obligations under repurchase agreements and money market fundings	490,069	812,017	142	1,302,228
Loans and advances from banks and other institutions	20,297,320	14,446,764	216,209	34,960,293
Debt securities issued	17,568,283	5,069,029	445,452	23,082,764
Financial liabilities at fair value through profit or loss	13,319,268	-	-	13,319,268
Subordinated liabilities	4,302,079	-	-	4,302,079
Current and deferred tax liability	-	94,276	13,320	107,596
Other liabilities, accrued expenses and provisions	3,236,649	1,255,473	528,566	5,020,688
Total Liabilities	148,371,349	78,131,538	15,012,031	241,514,918
Net Statement of Financial Position	(46,301,399)	11,905,637	2,638,352	(31,757,410)
Net Off Balance Sheet Position	38,951,966	(11,483,842)	(1,031,604)	26,436,520
Net Long/(Short) Position	(7,349,433)	421,795	1,606,748	(5,320,890)

	31 December 2018			
	US$	*EUR*	*Other Currencies*	*Total*
Total Assets	90,204,911	87,213,043	18,976,538	196,394,492
Total Liabilities	135,086,130	69,268,106	13,934,120	218,288,356
Net Statement of Financial Position	(44,881,219)	17,944,937	5,042,418	(21,893,864)
Net Off Balance Sheet Position	40,753,037	(16,677,550)	(3,596,806)	20,478,681
Net Long/(Short) Position	(4,128,182)	1,267,387	1,445,612	(1,415,183)

For the purposes of the evaluation of the table above, the figures represent the TL equivalent of the related hard currencies. The effective exchange rates at the balance sheet date announced by the Bank in TL are 5.6153 for US dollars and 6.3032 for Euro.

(Currency: Thousands of Turkish Lira (TL))

31 Financial risk management disclosures (continued)

The short positions in the consolidated statement of financial position shown in the table above are hedged by currency swaps, forward contracts and other derivatives entered into to manage these currency exposures. In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Bank and its subsidiaries ensure that their net exposures are kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

The potential impact of adverse exchange rate fluctuations on the capital adequacy ratio and foreign currency risk weighted assets are regularly monitored according to internal limits and reported.

Credit risk

The Bank and its subsidiaries are subject to credit risk through the trading, lending, hedging and investing activities and the guarantees issued for their customers as well as in cases where they act as intermediaries on behalf of customers or other third parties.

The Bank and its subsidiaries' primary exposures to credit risk arise through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of these assets on the statement of financial position. The Bank operates a statistical-based internal risk rating model in which corporate, commercial and small-size customers are rated from 1 to 23 using the internal grades. Based on this model, while the grades from 1 to 9 represents "above average", 10 to 16 represents "average" and 17 to 23 represents "below average" performance. Risk rating is a requirement for loan applications, and ratings are used both to determine credit authorization limits and in credit assessment process.

The concentration table of the cash and non-cash loans as of 31 December 2018 for the Bank according to this model is presented below. No major deviation has occurred in the table as of 31 March 2019 comparing to the year end.

	31 December 2018 ***%***
Above Average	42
Average	46
Below Average	12
	100

Concentrations based on industries and groups are also monitored. Application scorecards are used during loan granting process for retail and credit card portfolios. Behavioral scorecards are also used for these portfolios.

The Bank and its subsidiaries are exposed to credit risk on various other financial assets, including derivative instruments used for hedging and debt investments. The current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the statement of financial position. In addition, the Bank and its subsidiaries are exposed to off balance sheet credit risk through guarantees issued (Note 29).

The risk that counterparties to both derivative and other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank and its subsidiaries deal with counterparties of good credit standing, enter into master netting agreements whenever possible, and when appropriate, obtain collateral.

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

(Currency: Thousands of Turkish Lira (TL))

31 Financial risk management disclosures (continued)

Credit risk exposure

In accordance with IFRS 7 "Financial Instruments: Disclosures", the Group's maximum credit risk exposure (see definition below) by headings in the statement of financial position as of 31 March 2019 and 31 December 2018 are provided below. It does not consider the availability of collateral or other credit enhancements to guarantee compliance with payment obligations. The details of collateral and other credit enhancements are disclosed in "collateral policy" section below. The maximum credit exposures broken down by financial instruments are as follows:

	Notes	31 March 2019	Stage 1	Stage 2	Stage 3
Financial assets at fair value through profit or loss		*507,718*			
Debt and other instruments	5	426,421			
Equity and other non-fixed income instruments	5	81,297			
Loans and advances	5	-			
Non-trading financial assets mandatorily at fair value through profit or loss		*4,201,115*			
Loans and advances	5	4,201,115			
Debt and other instruments	5	-			
Equity and other non-fixed income instruments	5	-			
Equity investments measured at FVOCI	10	*331,739*			
Derivative financial assets	6	*5,502,928*			
Financial assets at fair value through other comprehensive income		*27,694,778*	*27,694,778*	-	-
Debt and other instruments	9	27,694,778	27,694,778	-	-
Equity and other non-fixed income instruments	9	-	-	-	-
Financial assets at amortised cost		*365,820,411*	*309,817,134*	*40,864,447*	*15,138,830*
Balances with central banks excluding reserve deposits	4	34,661,945	34,661,945	-	-
Loans and advances to banks	7	24,919,942	24,919,942	-	-
Loans and advances to customers	8	280,569,452	224,566,175	40,864,447	15,138,830
Debt and other instruments	9	25,669,072	25,669,072	-	-
Total financial assets risk		**404,058,689**			
Total loan commitments and financial guarantees	29	*119,963,532*			
Total maximum credit exposure		**524,022,221**			

(Currency: Thousands of Turkish Lira (TL))

31 Financial risk management disclosures (continued)

	Notes	31 December 2018	Stage 1	Stage 2	Stage 3
Financial assets at fair value through profit or loss		*532,057*			
Debt and other instruments	5	469,478			
Equity and other non-fixed income instruments	5	62,579			
Loans and advances	5	-			
Non-trading financial assets mandatorily at fair value through profit or loss		*4,081,161*			
Loans and advances	5	4,081,161			
Debt and other instruments	5	-			
Equity and other non-fixed income instruments	5	-			
Equity investments measured at FVOCI	10	*274,760*			
Derivative financial assets	6	*4,094,114*			
Financial assets at fair value through other comprehensive income		*26,927,495*	*26,927,495*	-	-
Debt and other instruments	9	26,927,495	26,927,495	-	-
Equity and other non-fixed income instruments	9	-	-	-	-
Financial assets at amortised cost		*336,158,564*	*283,692,999*	*38,712,181*	*13,753,384*
Balances with central banks excluding reserve deposits	4	27,631,732	27,631,732	-	-
Loans and advances to banks	7	19,636,536	19,636,536	-	-
Loans and advances to customers	8	264,236,287	211,770,722	38,712,181	13,753,384
Debt and other instruments	9	24,654,009	24,654,009	-	-
Total financial assets risk		**372,068,151**			
Total loan commitments and financial guarantees	29	*121,078,809*			
Total maximum credit exposure		**493,146,960**			

The maximum credit exposure presented in the table above is determined by type of financial asset as explained below:

- In the case of financial assets recognised in the statement of financial position, exposure to credit risk is considered equal to its carrying amount (not including impairment losses) with the sole exception of derivatives. For derivatives, credit risk exposure is measured as the fair value of the corresponding instrument.
- The maximum credit risk exposure on financial guarantees granted is the maximum amount that the Group would be liable for if these guarantees were called in.

31 Financial risk management disclosures (continued)

Impairment assessment based on IFRS 9

Definition of default, cure and reverse transfer logic

According to the default definition, an asset is considered as default, on objective default (more than 90 days past due) and subjective default (unlikely to pay) conditions. Therefore, the Group considers a financial instrument defaulted and therefore stage 3 (credit-impaired) on these two below conditions:

1. Objective Default Definition: It means debt having past due more than 90 days. Current definition of default in the Bank and its financial subsidiaries subject to consolidation is based on a more than 90 days past due definition. If a loan is exactly 90 days past due, it will not be considered as default. Default status starts on the 91st day.
2. Subjective Default Definition: It means it is considered that a debt is unlikely to be paid. Whenever it is considered that an obligor is unlikely to pay its credit obligations, it should be considered as defaulted regardless of the existence of any past-due amount or of the number of days past due.

In order for the restructured non-performing corporate and commercial loans to be classified to the watchlist category, the following conditions must be met:

- Recovery in debt service,
- At least one year should pass over the date of restructuring,
- Payment of all accrued and overdue amounts by debtor (interest and principal) since the date of restructuring /refinancing or the date when the debtor is classified as non-performing (earlier date to be considered) and fulfillment of the payment condition of all overdue amounts as of the date of restructuring /refinancing,
- Collection of all overdue amounts, disappearance of the reasons for classification as non-performing receivable (based on the conditions mentioned above) and having no overdue more than 30 days as of the date of reclassification.

During the follow-up period of at least two years following the date of restructuring / refinancing, if there is a new restructuring / refinancing or a delay of more than 30 days, the transactions which were non-performing at the beginning of the follow-up period are classified as non-performing loans again. The performing or non-performing retail loans being subject to restructuring shall be removed from the watchlist only if the debt is paid in full.

Corporate and commercial companies which have been restructured and refinanced can be removed from the watchlist when the following conditions are met:

- Subsequent to the thorough review of company's financial data and its owners' equity position, at circumstances when it is not anticipated that the owner of the company will face financial difficulties; and it is assessed that the restructured debt will be paid on time (starting from the date when the debt is restructured all due principal and interest payments are made on time)
- At least two years should pass over the date of restructuring (or if it is later), the date of removal from non-performing loan category, at least 10% (or the ratio specified in the legislation) of the total principal amount at the time restructuring /refinancing shall be paid and no overdue amount (principal and interest) shall remain at the date of restructuring / refinancing

Besides, when the condition that triggers a transfer to Stage 2 is no longer met, the exposure shall be transferred to Stage 1. If the credit risk on financial instruments, for which lifetime expected credit losses have been recognised, subsequently improves so that the requirement for recognising lifetime expected credit losses is no longer met, the expected credit loss shall be measured at an amount equal to 12-month expected credit losses with a resulting gain recognised in profit or loss.

31 Financial risk management disclosures (continued)

Assessment of the significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12-month expected credit losses or lifetime expected losses, the Group assesses both qualitatively and quantitatively whether there has been a significant increase in credit risk since initial recognition.

Qualitative assessment:

A financial asset is classified as Stage 2 (Significant Increase in Credit Risk) where any of the following conditions are satisfied as a result of a qualitative assessment:

- Loans overdue more than 30 days as of the reporting date,
- Loans classified as watchlist,
- When there is a change in the payment plan due to refinancing, restructuring or concession, the loan is not considered as default or written off and the change is not due to any commercial reason.

Quantitative assessment:

The quantitative reason explaining the significant increase in the credit risk is based on a comparison of the probability of default calculated at the origination of the loan and the probability of default assigned for the same loan as of the reporting date.

It is classified the related financial asset as Stage 2 (Significant Increase in Credit Risk) where both of the following criteria are satisfied as a result of quantitative assessment. The absolute and relative thresholds used for the probability of default are differentiated on the basis of segment/loan group.

- Relative change in the PD: If the "relative difference" between the probability of defaults as of the reporting date and the date when the loan is initially recognised in the financial statements is above the specified threshold
- Absolute change in the PD: If the "absolute difference" between the probability of defaults as of the reporting date and the date when the loan is initially recognised in the financial statements is above the specified threshold (different from the threshold for the relative change)

Besides, for the purpose of determining significant increases in credit risk and recognising an expected credit loss on a collective basis, it is grouped financial instruments on the basis of shared credit risk characteristics. In this context, the methodology developed for the estimation of expected credit losses should include the risk features which meet the criteria for carrying the same credit risk characteristics. Examples of the common credit risk characteristics include, but are not limited to, the following:

- Customer type (retail or corporate / commercial)
- Product type
- Credit risk rating notes /scores
- Sector / market segmentation
- Collateral type
- Loan to value ratio
- Duration since origination of a loan
- Remaining time to maturity
- Exposure at default

(Currency: Thousands of Turkish Lira (TL))

31 Financial risk management disclosures (continued)

When measuring expected credit losses, it shall be considered the risk or probability that a credit loss occurs by reflecting the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is very low. Such assessment is made by reflecting the estimate of expected credit loss which is unbiased and probability-weighted determined by evaluating a range of possible outcomes.

Expected credit losses assessment is performed either on a collective basis or an individual basis. Collective assessment is applied for segments defined on the basis of similar risk characteristics. On the other hand, individual assessment is performed for loans that are individually significant and exhibit specific characteristics. Accordingly, certain portion of commercial and corporate loans is individually assessed. Calculations are performed by discounting the expected cash flows for the individual financial instrument to its present value using the effective interest rate. Future cash flows are determined based on two scenarios: going concern and gone concern scenarios. The choice of these scenarios depends on whether the customer is still operating and has operating cash flows that may be used to repay the debt, or whether the customer is not operating anymore and has collateral that may be used to pay the debt. In the estimation of credit losses individual assessment, on-balance/ off-balance positions and collateral valuations are taken into consideration in the calculations of the cash flows using expert opinion.

In accordance with the Bank's internal policies, IFRS 9 models are updated once a year. The related model update was made in the 4th quarter of 2018 and the Bank continued to calculate expected credit losses provision based on the mentioned updated model in 2019.

As of 31 March 2019 and 31 December 2018, the breakdowns of individually and collectively assessed expected credit losses for loans, factoring and financial lease receivables and non-cash loans are as follows:

	31 March 2019					
	Stage 1		*Stage 2*		*Stage 3*	
	Individual	*Collective*	*Individual*	*Collective*	*Individual*	*Collective*
Cash loans	463	999,425	2,834,214	1,629,353	3,666,896	4,564,234
Factoring receivables	-	5,148	1,573	209	217,705	56,340
Financial lease receivables	160	44,781	11,160	87,052	150	421,858
Non-cash loans	-	141,922	145,413	97,200	205,039	72,618
	623	1,191,276	2,992,360	1,813,814	4,089,790	5,115,050

	31 December 2018					
	Stage 1		*Stage 2*		*Stage 3*	
	Individual	*Collective*	*Individual*	*Collective*	*Individual*	*Collective*
Cash loans	653	876,579	2,415,200	1,526,448	3,484,458	3,977,545
Factoring receivables	-	7,150	-	163	208,348	55,486
Financial lease receivables	3,890	52,126	72,290	13,184	312,167	86,586
Non-cash loans	-	123,743	155,538	89,687	221,055	64,626
	4,543	1,059,598	2,643,028	1,629,482	4,226,028	4,184,243

31 Financial risk management disclosures (continued)

The Bank's internal rating and model inputs

The Bank's Credit Risk Department classifies exposures based on internal rating models and scoring models. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behavior. Where practical, they also build on information from rating agencies. These information sources together with the empirical default data, are used to determine the PDs, which are later adjusted for IFRS 9 expected credit loss calculations to incorporate forward looking information. Additionally, these information sources are also utilised for the IFRS 9 stage allocation.

In LGD calculations, the direct costs of the recovery process are included as a cash flow reducing the final recovery. Workout LGD approach is preferred as methodological approach and client level cycle is used in accordance to the default definition. Effective interest rate is used in discounting process.

The Bank and its subsidiaries offer credit card and overdraft products which gives ability to corporate and commercial customers demand repayment and cancel the undrawn commitment. Such products do not limit the period that entities are exposed to credit losses with the contractual notice. For this reason, it is calculated the expected credit losses for these products over a period of time reflecting the anticipation of customer behavior, the likelihood of default, and future risk mitigation procedures such as the reduction or removal of undrawn limits.

When determining the period over which it is expected to be exposed to credit risk, but for which expected credit losses would not be mitigated by normal credit risk management actions, it is considered factors such as historical information and experience about the below items:

- the period over which the entity was exposed to credit risk on similar financial instruments;
- the length of time for related defaults to occur on similar financial instruments following a significant increase in credit risk; and
- the credit risk management actions that it is expected to be taken once the credit risk on the financial instrument has increased, such as the reduction or removal of undrawn limits.

Expected credit losses on the revolving products are calculated for retail and corporate customers by considering 3 to 5 years of expected lifetime.

The assessment of significant increase in credit risk for revolving loans is performed by considering qualitative and quantitative criteria as performed for other credit products which is explained in disclosure "Significant increase in credit risk".

Forward-looking macroeconomic information

IFRS 9 indicates that forecasts of future economic conditions should be incorporated to expected credit losses estimates by considering a range of possible outcomes.

Accordingly, forward-looking macroeconomic information is incorporated into credit risk parameters during assessment of significant increase in credit risk and expected credit loss calculation. In order to include forward-looking information into the estimation of the risk parameters, econometric models are built. The incorporation of forward-looking information into the credit risk parameters consists of the following steps:

Step 1: It is made specifications and estimates of econometric models that reveal past relationships between credit risk parameters and macroeconomic variable in order to be able to generate estimates based on macroeconomic information. Macroeconomic variables prevailing during these estimates is the Gross Domestic Product (GDP).

31 Financial risk management disclosures (continued)

Step 2: Where macroeconomic scenarios do not include longer maturity, a process called "convergence to the mean" is applied.

Step 3: In order to estimate the ultimate parameters to be used in the calculation of the expected credit losses, the methods of credit risk parameters reflection and forward-looking impact inclusion into the parameters are applied.

Low credit risk assumption

The credit risk on a financial instrument is considered as low if the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. It is not considered financial instruments to have low credit risk when they are regarded as having a low risk of loss simply because of the value of collateral and the financial instrument without that collateral would not be considered low credit risk. Financial instruments are also not considered to have low credit risk simply because they have a lower risk of default than the other financial instruments or relative to the credit risk of the jurisdiction within which it is operated.

If it is determined that a financial instrument has a low credit risk as of the reporting date, it is assumed that the credit risk on the financial instrument has not increased significantly following its first recognition in the financial statements.

It is defined the definition of low credit risk based on the definition of High Quality Liquid Asset given in the Regulation on the Liquidity Coverage Ratio Calculation and the principles of the risk weight calculation based on the external rating note of the receivables from the Central Banks and the Central Governments in accordance with the Regulation on the Measurement and Assessment of Banks' Capital Adequacy.

The financial instruments that are defined as having low credit risk based on IFRS 9 are as follows:

- Receivables from the Central Bank of the Republic of Turkey (required reserves, free reserves, placement, etc.)
- Loans with counterparty of Treasury of the Republic of Turkey,
- Receivables (reserves, free reserves, placements, etc.) from the central banks of the branches of the Bank or its subsidiaries, securities issued or guaranteed by these central banks and securities issued / guaranteed by the treasury of these countries,
- Loans granted to the treasury of countries having rating note of AA- and above and the securities issued or guaranteed by the treasury of these countries,
- Local currency loans granted to the treasury of countries having rating below AA-, and securities in local currency issued or guaranteed by the treasury of these countries,

Securities exported or guaranteed by multilateral development banks or international organizations having rating of AA- and above.

(Currency: Thousands of Turkish Lira (TL))

31 Financial risk management disclosures (continued)

As of 31 March 2019 and 31 December 2018, details of loans under follow-up (Stage 2) including restructured contracts are as follows:

31 March 2019	**Loans and Other Receivables under Follow-Up (Stage 2)**		
		Restructured	
Cash Loans	**Non-restructured**	**Revised Contract Terms**	**Other Changes**
Loans	**29,487,544**	**5,723,309**	**4,573,071**
Commercial, Corporate and SME Loans	18,974,190	4,191,888	4,516,389
Consumer Loans	7,184,447	931,134	56,682
Credit Cards	3,328,907	600,287	-
Other Receivables	**780,318**	**287,594**	**12,612**
Total	**30,267,862**	**6,010,903**	**4,585,683**

31 December 2018	**Loans and Other Receivables under Follow-Up (Stage 2)**		
		Restructured	
Cash Loans	**Non-restructured**	**Revised Contract Terms**	**Other Changes**
Loans	**29,217,404**	**5,290,795**	**3,232,300**
Commercial, Corporate and SME Loans	18,367,497	4,299,803	3,206,070
Consumer Loans	7,536,368	466,539	26,230
Credit Cards	3,313,539	524,453	-
Other Receivables	**724,252**	**234,738**	**12,692**
Total	**29,941,656**	**5,525,533**	**3,244,992**

Below table indicates the delinquency periods of loans under follow-up (Stage 2) as of 31 March 2019 and 31 December 2018:

31 March 2019	**Corporate / Commercial Loans**	**Consumer Loans**	**Credit Cards**	**Total**
31-60 days	1,107,058	1,208,614	251,155	2,566,827
61-90 days	1,631,330	374,457	96,501	2,102,288
Loans not delinquent more than 30 days	26,024,606	6,589,192	3,581,534	36,195,332
Total	**28,762,994**	**8,172,263**	**3,929,190**	**40,864,447**

31 December 2018	**Corporate / Commercial Loans**	**Consumer Loans**	**Credit Cards**	**Total**
31-60 days	3,730,224	1,803,644	264,827	5,798,695
61-90 days	680,448	389,255	83,782	1,153,485
Loans not delinquent more than 30 days	22,434,380	5,836,238	3,489,383	31,760,001
Total	**26,845,052**	**8,029,137**	**3,837,992**	**38,712,181**

Sectoral and geographical concentration of impaired (Stage 3) loans

The Bank and its subsidiaries monitor concentrations of credit risk by sector and by geographic location.

(Currency: Thousands of Turkish Lira (TL))

31 Financial risk management disclosures (continued)

An analysis of concentrations of non-performing (Stage 3) loans, factoring and financial lease receivables including accruals is presented below:

	31 March 2019	*31 December 2018*
Consumer loans	4,107,287	3,703,820
Energy	2,673,871	2,446,022
Construction	2,077,555	1,922,566
Transportation and logistics	1,180,563	1,121,121
Food	863,546	738,424
Data processing	805,804	775,442
Service sector	528,131	488,010
Textile	422,284	419,743
Tourism	285,659	264,265
Agriculture and stockbreeding	284,095	186,850
Transportation vehicles and sub-industries	268,265	236,803
Durable consumption	197,614	162,559
Metal and metal products	191,279	176,573
Paper and paper products	123,396	115,650
Chemistry and chemical products	115,719	112,702
Others	1,013,762	882,834
Total non-performing loans, factoring and financial lease receivables	15,138,830	13,753,384

	31 March 2019	*31 December 2018*
Turkey	13,454,877	12,052,992
Malta	757,032	719,798
Romania	593,764	630,568
England	151,170	141,977
Switzerland	43,979	40,888
Cyprus	16,355	16,391
USA	1,937	48,712
Others	119,716	102,058
Total non-performing loans, factoring and financial lease receivables	15,138,830	13,753,384

Write-off policy

The Bank writes off a receivable balance (and any related allowances for impairment losses) when it is determined that the receivable is uncollectible based on the evidence of insolvency issued by the court. In cases where any possible collections are negligible comparing to the prospective expenses and costs, such receivables are written off by the decision of the Board of Directors.

Collateral policy

The Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. The Bank and its subsidiaries currently hold collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 March 2019 or 31 December 2018.

(Currency: Thousands of Turkish Lira (TL))

31 Financial risk management disclosures (continued)

As part of its statutory capital adequacy calculations, and as per the legislation revised accounting to the Basel II requirements and effective from 1 July 2012, the Bank applies credit risk mitigation according to the comprehensive method that includes risk mitigation calculations considering the volatility-adjusted values of financial collaterals in compliance with the relevant local legislation. In the credit risk mitigation, cash and cash equivalent items and high-credit-quality debt instruments are used. The volatility adjustments regarding the receivables, collaterals and currency mismatch of the collaterals are made as per the standard volatility-adjustment approach defined in the relevant regulation. In cases where there are maturity mismatches resulted from shorter remaining life of collateral than of receivables, the value of collateral is considered as the volatility-adjusted value.

The collaterals held against loans under follow-up (Stage 2) including accruals, are presented below, as per the collateral type, up to the outstanding total amount of exposures:

31 March 2019	Corporate / Commercial Loans	Consumer Loans	Credit Cards	Total
Mortgages	13,047,528	3,637,642	-	16,685,170
Pledge assets	2,413,269	309,031	-	2,722,300
Promissory notes	109,302	5,584	-	114,886
Cash collateral	505,838	28,085	-	533,923
Unsecured	12,687,057	4,191,921	3,929,190	20,808,168
Total	**28,762,994**	**8,172,263**	**3,929,190**	**40,864,447**

31 December 2018	Corporate / Commercial Loans	Consumer Loans	Credit Cards	Total
Mortgages	12,572,700	3,679,534	-	16,252,234
Pledge assets	1,591,381	280,990	-	1,872,371
Promissory notes	160,108	5,465	-	165,573
Cash collateral	457,023	30,031	-	487,054
Unsecured	12,063,840	4,033,117	3,837,992	19,934,949
Total	**26,845,052**	**8,029,137**	**3,837,992**	**38,712,181**

The collaterals held against non-performing (Stage 3) loans and receivables including accruals, are presented below, as per the collateral type, up to the outstanding total amount of exposures:

31 March 2019	Corporate / Commercial Loans	Consumer Loans	Credit Cards	Total
Mortgages	6,421,116	280,726	-	6,701,842
Pledge assets	1,365,910	63,951	-	1,429,861
Promissory notes	205,202	7,319	-	212,521
Cash collateral	7,394	466	-	7,860
Unsecured	3,441,510	2,081,022	1,264,214	6,786,746
Total	**11,441,132**	**2,433,484**	**1,264,214**	**15,138,830**

31 December 2018	Corporate / Commercial Loans	Consumer Loans	Credit Cards	Total
Mortgages	5,789,032	240,063	-	6,029,095
Pledge assets	1,180,931	59,774	-	1,240,705
Promissory notes	187,107	6,875	-	193,982
Cash collateral	13,272	354	-	13,626
Unsecured	3,290,916	1,857,614	1,127,446	6,275,976
Total	**10,461,258**	**2,164,680**	**1,127,446**	**13,753,384**

31 Financial risk management disclosures (continued)

The amounts reflected in the tables above represent the maximum accounting loss that would be recognised at the date of the statement of financial position if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value.

Operational risks

The Bank accepts the definition of operational risk proposed by the Bank for International Settlements (BIS) and defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition excludes strategic or business risk and reputational risk.

The definition of operational risk (OR) includes the risk types: processes, external and internal fraud, technology, human resources, business practices, disasters, suppliers.

Operational risk is managed on the basis of the three lines of defense approach within the frame of risk management policies approved by the Board of Directors.

Currently, the value at consolidated operational risk is calculated according to the basic indicator approach as per the Article 14 of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks"

The annual gross income is composed of net interest income and net non-interest income after deducting realized gains/losses from the sale of securities classified under financial assets measured at fair value through other comprehensive income and financial assets measured at amortised cost, extraordinary income and income derived from insurance claims.

Capital management – regulatory capital

The BRSA sets and monitors capital requirements for the Bank as a whole. The parent company and individual banking operations are directly supervised by their local regulators. In implementing current capital requirements, the BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital.

The Bank and its subsidiaries' consolidated regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes paid-in capital, share premium, legal reserves, retained earnings, other comprehensive income, foreign currency translation reserve and non-controlling interests after deductions for goodwill and certain cost items.

-Tier 2 capital, which includes qualifying subordinated liabilities and general reserves.

The BRSA also requires the banks to maintain prescribed ratios of minimum 6% and 4.5% of Tier 1 and Common Equity Tier 1 (CET1) capital, respectively, also additional capital buffers, including 2.5% of capital conservation buffer (31 December 2018: 1.875%) and 2.0% of domestic systemically important bank buffer (31 December 2018: 1.5%) for 2019 in consolidated terms, to total value at credit, market and operational risks starting from 1 January 2014.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank's management of capital during the period.

(Currency: Thousands of Turkish Lira (TL))

31 Financial risk management disclosures (continued)

Starting from 1 July 2012, the capital adequacy ratio is calculated within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (the "Regulation")", "Communiqué on Credit Risk Mitigation Techniques" and "Communiqué on Calculation of Risk Weighted Amounts for Securitizations" published in the Official Gazette no.28337 dated 28 June 2012 which were replaced with regulations in the Official Gazette no.29111 dated 6 September 2014 and no.29511 dated 23 October 2015 and the "Regulation on Equities of Banks" published in the Official Gazette no.26333 dated 1 November 2006 which was replaced in the Official Gazette no.28756 dated 5 September 2013. The Bank's process of internal capital requirements is assessed under the regulation on the "Internal Systems and Internal Capital Adequacy Assessment Processes of Banks" published in the Official Gazette no. 29057 dated 11 July 2014. In calculation of capital adequacy ratio, the data prepared from accounting records in compliance with the current legislation are used. Such accounting data is included in the calculation of credit and market risks subsequent to their designation as "trading book" and "banking book" according to the Regulation. The items classified as trading book and the items deducted from the equity are not included in the calculation of credit risk. In the calculation of risk weighted assets, the assets subject to amortisation or impairment, are taken into account on a net basis after being reduced by the related amortisations and provisions.

In the calculation of value at credit risk for on balance sheet items, non-cash loans and commitments are netted with specific provisions based on the "Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables". Net amounts of non-cash loans and commitments are then multiplied by the rates stated in the Article 5 of the Regulation. Finally, exposures are reduced as per the "Communiqué on Credit Risk Mitigation Techniques" and then included in the relevant exposure category defined in the Article 6 of the Regulation and weighted as per Appendix-1 of the Regulation.

Value at credit risk for the derivative financial instruments and credit derivatives are calculated according to Current Exposure Method as defined in the Appendix-2 of the Regulation, reduced as per the "Communiqué on Credit Risk Mitigation Techniques" and then included in the relevant exposure category defined in the Article 6 of the Regulation and weighted as per Appendix-1 of the Regulation.

As per the Article 5 of the Regulation, securities financing transactions (SFTs) and margin lending transactions are calculated according to "Communiqué on Credit Risk Mitigation Techniques".

The Bank's and its subsidiaries' regulatory capital positions on consolidated basis are as follows:

	31 March 2019	*31 December 2018*
Tier 1 capital	47,489,631	46,033,825
Tier 2 capital	8,118,538	7,538,990
Deductions from capital	(16,246)	(14,041)
Total regulatory capital	55,591,923	53,558,774
Value at credit, market and operational risks	358,226,378	324,153,343
Capital ratios (%)		
Total regulatory capital expressed as a percentage of total value at credit, market and operational risks	15.52	16.52
Total tier 1 capital expressed as a percentage of total value at credit, market and operational risks	13.26	14.20

31 Financial risk management disclosures (continued)

31.4 Hedging

Due to the Bank and its subsidiaries' overall interest rate risk position and funding structure, its risk management policies require that it should minimize its exposure to changes in foreign currency rates and manage interest rate, credit risk and market price risk exposure within certain guidelines. Derivative financial instruments are used to manage the potential earnings impact of interest rate and foreign currency movements. Several types of derivative financial instrument are used for this purpose, including interest rate swaps and currency swaps, options, financial futures, forward contracts and other derivatives. The purpose of the hedging activities is to protect the Bank and its subsidiaries from the risk that the net cash inflows will be adversely affected by changes in interest or exchange rates, credit ratings or market prices. The Bank and its subsidiaries enter into transactions to ensure that it is economically hedged in accordance with risk management policies. In the accompanying consolidated financial statements, hedge accounting is applied for the cases where hedge accounting relationship is evidenced.

From time to time, the Bank enters into various interest rate swap transactions in order to hedge its certain cash flow or fair value exposures on floating/fixed rate assets and liabilities, through converting its floating/fixed rate income/payments into fixed/floating rate income/payments.

In this respect, the Bank applied fair value hedge accounting for the fixed rate eurobonds issued in 2011 with a total face value of US$ 500,000,000, maturity of 10 years and maturity date of 20 April 2021 which were priced at 6.375% originally and had a coupon rate of 6.25%, by designating interest rate swaps with the same face value amount and conditions. In June 2012, the Bank ceased to apply hedge accounting and accordingly fair value calculations for these bonds. The accumulated fair value differences incurred starting from the date of hedge accounting up to the date on which it was ceased, are amortised as per the effective interest-rate method in compliance with IAS 39.

The Bank also applied fair value hedge accounting for its fixed-rate loans with a total principal of TL 2,214,627 thousands, USD 563,513,627 and EUR 259,591,490 for its fixed-rate bonds with a total face value of TL 795,000 thousands and USD 487,500,000 and fixed-rate coupons with a total face value of USD 90,000,000 and EUR 148,800,000 by designating interest rate swaps and cross currency swaps with the same face values and terms. Accordingly, in the current period, losses of TL 79,860 thousands and TL 25,312 thousands (31 March 2018: TL 119,809 thousands and TL 50,635 thousands) resulted from the related fair value calculations for the hedged loans and bonds were accounted for under net trading income/(expense) in the consolidated statement of profit or loss and other comprehensive income, respectively.

The Bank also enters into interest rate and cross currency swap agreements in order to hedge the rates. In this respect, the Bank applied cash flow hedge accounting for its borrowings amounting to USD 43,904,865 and EUR 28,947,368, and securitization borrowings amounting to EUR 60,189,468 by designating cross currency swaps with the same face values and terms and borrowing amounting to USD 500,000,000, securitizations amounting to USD 667,093,498 and EUR 82,500,000 and deposits amounting to TL 5,255,000 thousands, USD 855,000,000 and forward EUR 350,000,000 by designating interest rate swaps with the same face values and terms and finalized commitments amounting to USD 39,633,336 by designating forwards with the same face values and terms. Accordingly, in the current period, gains of TL 70,779 thousands and TL 171,305 thousands and a loss of TL 46,778 thousands (31 March 2018: gains of TL 53,087 thousands and TL 192,860 thousands) resulting from cross currency, interest rate swap and forward agreements were recognised under shareholders' equity respectively.

One of the Bank's consolidated subsidiaries associated its contractual operational lease receivables (contractual future cash flows) denominated in EUR with its EUR denominated borrowings and other foreign currency borrowings converted to EUR currency through swap transactions and applied cash flow hedge accounting until 1 October 2017. The foreign currency exposures in operational lease receivables were hedged and accordingly the effective portion of foreign currency

31 Financial risk management disclosures (continued)

gains/losses of non-derivative hedging instruments designated for hedges of future cash flows were recognised directly in equity and any ineffective portion is recognised immediately in income until 1 October 2017. Effective from 1 October 2017, the subsidiary ceased the cash flow hedge regarding foreign currency exposure of its EUR denominated operational lease contracts and considered a fair value hedge relationship between such EUR denominated operational lease receivables and corresponding foreign currency borrowings. Accordingly, the subsequent cumulative change in the fair value of EUR denominated operational lease receivables (the firm commitment) attributable to the hedged risk is recognised as an asset with a corresponding gain recognised in profit or loss. As of 31 March 2019, while a negative amount of TL 136,113 thousands (net of deferred taxes) was recognised under shareholders' equity as the hedge reserve (31 March 2018: TL 110,776 thousands), the unrecognised firm commitment fair value change was recognised as asset amounting to TL 144,574 thousands (31 March 2018: TL 75,299 thousands) as a consequence of the new fair value hedge designation explained above. Besides, the subsidiary continued to apply cash flow hedge for its forecasted second hand vehicle sales same as previous year.

One of the Bank's consolidated subsidiaries enters into interest rate swap agreements in order to hedge the change in fair values of its fixed rate financial instruments due to fluctuations in market interest rates. In this respect, the subsidiary applied fair value hedge accounting for fixed rate eurobonds with a total face value of USD 25,000,000 and EUR 65,000,000 by designating interest rate swaps with the same face values and terms. Accordingly, in the current period, a net gain of TL 3,745 thousands (31 March 2018: a net loss of TL 1,938 thousands) resulting from the related fair value calculations for the hedged bonds were accounted for under net trading income/(expense) in the consolidated statement of profit or loss and other comprehensive income.

One of the Bank's consolidated subsidiaries enters into interest rate swap agreements in order to hedge the change in cash flows of floating rate financial instruments due to fluctuations in market interest rates. In this respect, the subsidiary applied cash flow hedge accounting for its borrowings amounting to USD 35,000,000 by designating interest rate swaps with the same face values and terms. Accordingly, in the current period, a net loss of TL 2,842 thousands (31 March 2018: a net gain of TL 238 thousands) resulting from interest rate swap agreements were recognised under shareholders' equity.

One of the Bank's consolidated subsidiaries enters into foreign currency derivative contracts to hedge the foreign currency risk of its expected future cash flows. In this respect, the subsidiary applied cash flow hedge accounting for its loans granted in Turkish Lira by designating swaps with the same face values and similar terms; TL 838,908,632 thousands sell and EUR 127,305,629 buy, RON 265,000,000 sell and EUR 54,742,035 buy. Accordingly, in the current period, a net gain of TL 8,857 thousands (31 March 2018: TL 65 thousands) resulting from currency derivative contracts were recognised under shareholder's equity.

One of the Bank's consolidated subsidiaries enters into foreign currency derivative contracts to hedge the foreign currency risk of its expected future cash flows. In this respect, the subsidiary applied cash flow hedge accounting for its financial lease receivables granted in foreign currency by designating swaps with the same face values and similar terms; EUR 15,000,000 thousands sell and TL 139,095,000 buy, USD 29,000,000 sell and TL 209,090,000 buy. Accordingly, in the current period, a net loss of TL 11,250 thousands resulting from currency derivative contracts were recognised under shareholder's equity.

One of the Bank's consolidated subsidiaries enters into cross currency interest rate swap agreements in order to hedge the change in fair values of its fixed rate financial instruments denominated in EUR due to fluctuations in market interest rates and foreign exchange rates. In this respect, the subsidiary applied fair value hedge accounting for the fixed rate bonds issued in 2013 and 2017 with a total face value of EUR 80,000,000 for 10 years and maturity dates of 18 September 2020 and 19 April 2027 by designating cross currency interest rate swaps with the same face values and terms. In August 2018, the subsidiary ceased to apply this hedge accounting.

(Currency: Thousands of Turkish Lira (TL))

32 Subsidiaries, associates and structured entities

The table below sets out the consolidated subsidiaries, associates and structured entities of the Bank and its shareholding interests in these entities:

Consolidated entities	***31 March 2019***	***31 December 2018***
Garanti Bank International NV	100.00	100.00
Garanti Holding BV	100.00	100.00
Garanti Portföy Yönetimi AŞ	100.00	100.00
Garanti Yatırım Menkul Kıymetler AŞ	100.00	100.00
Garanti Bilişim Teknolojisi ve Tic. AŞ	100.00	100.00
Garanti Filo Yönetimi Hizmetleri AŞ	100.00	100.00
G Netherlands BV	100.00	100.00
Garanti Bank SA	100.00	100.00
Motoractive IFN SA	100.00	100.00
Ralfi IFN SA	100.00	100.00
Motoractive Multiservices SRL ***(a)***	100.00	100.00
Garanti Kültür AŞ	100.00	100.00
Garanti Konut Finansmanı Danışmanlık Hiz. AŞ	100.00	100.00
Garanti Ödeme Sistemleri AŞ	99.96	99.96
Garanti Hizmet Yönetimi AŞ	100.00	100.00
Garanti Emeklilik ve Hayat AŞ	84.91	84.91
Garanti Faktoring AŞ	81.84	81.84
Garanti Yatırım Ortaklığı AŞ	3.61	3.61
Garanti Diversified Payment Rights Finance Company ***(b)***	-	-
RPV Company ***(b)***	-	-

(a) *Starting from 1 January 2018, the investment in Motoractive Multiservices SRL, previously accounted under equity investments, is consolidated in the accompanying consolidated financial statements on a line by line basis and the cumulative impact of TL 3,167 thousands is accounted in the current period's statement of changes in equity.*

(b) *Garanti Diversified Payment Rights Finance Company and RPV Company, are structured entities established for the Bank's securitization transactions, and consolidated in the accompanying consolidated financial statements. The Bank or any of its subsidiaries do not have any shareholding interests in these companies.*

33 Net fees and commissions income

	For the three-month period ended	
	31 March 2019	***31 March 2018***
Fees and commissions income		
Credit cards fees	1,323,928	871,063
Commercial banking	115,075	169,476
Retail banking	113,739	122,111
SME banking	110,805	138,461
Brokerage activities related fees	91,307	86,096
Corporate banking	71,440	52,086
Insurance business fees	32,277	32,521
Others	176,460	86,321
Total fees and commissions income	2,035,031	1,558,135
Fees and commissions expense:		
Credit cards fees	496,180	286,816
Commercial banking	4,330	6,159
Retail banking	3,765	5,779
Insurance business fees	272	3,234
SME banking	52	395
Corporate banking	15	51
Others	42,008	27,253
Total fees and commissions expense	546,622	329,687
Net fees and commissions income	1,488,409	1,228,448

(Currency: Thousands of Turkish Lira (TL))

34 Net trading income/(expense)

Gains and losses from derivative financial instruments and changes in fair value of other trading instruments are reflected in net trading income/(expense) including the effective portion of fair value hedges, whereas, gains and losses arising from changes in the effective portion of the fair value of cash flow hedges are reflected as a separate component of equity. Net gains/(losses) from trading of financial assets is detailed in the table below:

	For the three-month period ended	
	31 March 2019	***31 March 2018***
Net gains/(losses) on fixed/floating securities	488,957	218,226
Net gains/(losses) on derivative transactions	1,563,272	850,427
Net trading income/(expense)	2,052,229	1,068,653

35 Other operating income

	For the three-month period ended	
	31 March 2019	***31 March 2018***
Other operating income:		
Net sales from operational lease business(*)	28,389	42,361
Net sales from other non-financial subsidiaries	19,119	19,967
Net sales from Garanti Technology	14,138	10,836
Rent income from real estate (including investment property)	2,756	1,488
Cheque booklet charge	1,263	2,477
Dividend income	567	820
Others	30,016	13,935
Total operating income	96,248	91,884

(*) *Depreciation expenses of the operational lease portfolio are netted-off with the net sales of this business as shown below;*

	For the three-month period ended	
	31 March 2019	***31 March 2018***
Net sales	*63,274*	*74,053*
Less: Depreciation	*(34,885)*	*(31,692)*
Net sales after depreciation	*28,389*	*42,361*

36 Other operating expenses

	For the three-month period ended	
	31 March 2019	***31 March 2018***
Computer usage expenses	107,947	71,205
Saving deposits insurance fund	88,635	55,124
Utility expenses	48,730	33,551
Advertising expenses	34,122	45,839
Rent expenses	25,407	110,120
Repair and maintenance expenses	20,229	17,396
Research and development expenses	13,534	17,845
Stationary expenses	9,488	8,221
Others	165,496	186,180
	513,588	545,481

37 Use of estimates and judgements

Management discusses with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates. These disclosures supplement the commentary on financial risk management (see Note 31).

Key sources of estimation uncertainty

<u>Allowances for credit losses</u>

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

The following are the critical judgements that have the most significant effect on the amounts recognised in the accompanying consolidated financial statements:

Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or FVOCI that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Significant increase in credit risk: As explained in "significant accounting policies" in detail, ECL are measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward looking information. Refer to "financial risk management disclosures" for more details.

Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics.

Refer to "financial risk management disclosures" for details of the characteristics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets.

Models and assumptions used: The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL.

Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See both "significant accounting policies" and "financial risk management disclosures" for more details on ECL and Note 28 for more details on fair value measurement.

37 Use of estimates and judgements *(continued)*

Establishing the number and relative weightings of forward-looking scenarios and determining the forward looking information relevant to each scenario: When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. See Note 31 for more details, including analysis of the sensitivity of the reported ECL to changes in LGD resulting from changes in economic drivers.

Fair value measurement and valuation process: In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available the Group uses valuation models to determine the fair value of its financial instruments. Refer to Note 28 for more details on fair value measurement. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in significant accounting policies section and Note 28. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Critical accounting judgements in applying the Bank's accounting policies

Critical accounting judgements made in applying the Bank's accounting policies include:

Financial asset and liability classification

The Bank and its subsidiaries' accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as "trading", the Bank has determined that it meets the description of trading assets and liabilities set out in accounting policy *(i) Financial instruments*.
- In designating financial assets or liabilities at FVPL, the Bank has determined that it has met one of the criteria for this designation set out in accounting policy *(i) Financial instruments*.
- In classifying financial assets as at amortised cost, the Bank has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy *(i) Financial instruments*.

Securitizations

In applying its policies on securitized financial assets, the Bank has considered both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Bank over the other entity:

- When the Bank, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the Bank's consolidated statement of financial position.

(Currency: Thousands of Turkish Lira (TL))

37 Use of estimates and judgements (continued)

- When the Bank has transferred financial assets to another entity, but has not transferred substantially all of the risk and rewards relating to the transferred assets, the assets are recognised in the Bank's consolidated statement of financial position.
- When the Bank transfers substantially all the risks and rewards relating to the transferred assets to an entity that it does not control, the assets have been derecognised from the Bank's consolidated statement of financial position.

Control over investments

As a bank, regardless of the nature of its involvement with an entity, is required to determine whether it is a parent by assessing whether it controls the entity, the Bank also reassesses whether or not it controls an investment when facts and circumstances indicate that there are changes to one or more of the following three elements of control:

- power over the investee;
- exposure, or rights, to variable returns from involvement with the investee; and
- the ability to use power over the investee to affect the amount of its returns.

38 Significant event

As per the decision made at the annual general assembly of shareholders of the parent Bank on 4 April 2019, the distribution of the net profit of the year 2018, was as follows:

2018 PROFIT DISTRIBUTION TABLE	
2018 Net Profit	**6,638,236**
A – I. Legal reserve (Turkish Commercial Code 519/1) at 5%	-
Undistributable funds	(6,416)
B – First dividend at 5% of the paid-in capital	-
C – Extraordinary reserves at 5% after above deductions	(331,912)
D – Second dividend to the shareholders	-
E – Extraordinary reserves	(6,299,908)
F – II. Legal reserve (Turkish Commercial Code 519/2)	-

Following the completion of the legal procedures required by the BBVA Group's global strategy, the Bank will continue its operations with the brand of “Garanti BBVA”.

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