TÜRK BANKASI LIMITED
AND ITS SUBSIDIARIES

Consolidated Statement and Independent
Auditor’s Report for the year
which ends on 31st of December 2017

May 2nd, 2018

This report includes 3 pages of "independent auditor's report" and 65 pages of consolidated financial statements and explanatory notes to consolidated financial statements.

Türk Bankası Limited and its Subsidiaries

TABLE OF CONTENTS:

KPMG Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
İş Kuleleri Kule 3 Kat:2-9
Levent 34330 İstanbul
Phone: +90 212 316 6000
Fax +90 212 316 6060
www.kpmg.com.tr

Independent Auditor's Report

To the Board of Directors of Türk Bankası Limited

Opinion

We have audited the consolidated financial statements of Türk Bankası Limited ("the Bank") and its subsidiaries (together referred as the "Group") which comprise the consolidated balance sheet as at 31 December 2017, and the consolidated statement profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flows for the year ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material aspects, the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year ended in accordance with the International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International International Audit Standards ("IAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Accountants ("IESBA Code"). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the consolidated Financial Statements

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

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

Auditor's Responsibilities for the Audit of the consolidated Financial Statements

Responsibilities of auditors in an audit are as follows

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Determining and assessing the risks of "important mistakes" resulting from error or fraud in the consolidated financial statements; designing and implementing auditing procedures meeting these risks and collecting adequate and appropriate auditing evidence that will constitute grounds for our opinion. As fraud may involve the acts of forgery, wilful negligence, misstatement or internal control breach, the risk of failing to detect an important fraud-related mistake is higher than the risk of failing to detect an important error-related mistake.
- The internal control related to the audit is evaluated to design auditing procedures appropriate for the situation, not for providing opinion on the efficiency of the internal control of the Group
- It is evaluated whether the accounting policies used by the management are compatible and whether the accounting estimates and related interpretations are reasonable.
- Based on the audit evidence obtained, it is decided whether there is any event that may arise serious doubt about Group's ability to continue its sustainability or any uncertainty about the circumstances and whether the management employs the principle of the sustainability of the business appropriately. If we reach the conclusion that there is an important uncertainty, we need to highlight the explanations regarding the consolidated financial statements in our report, or in case these explanations are not sufficient, we need to present another opinion that is not a positive one. The conclusions that we reach are based on the audit evidence obtained until the date of the independent auditor's report. In addition, the future events or circumstances may end the sustainability of the Group.
- The general presentation, form and content of the consolidated financial reports, including explanations, and whether these statements reflect the transactions and events constituting their basis in a way that will ensure a presentation based on fair value.

• In order to provide opinion on consolidated financial statements, sufficient and appropriate audit evidence on the financial information related to the businesses or operation departments within the group are obtained. We are responsible for directing, supervising and executing the auditing of the group. We are solely responsible the audit opinion that we present.

In addition to other issues, we report to the officers in charge of senior management the important audit findings with regard to the planned content and timing of the independent audit, including the deficiencies in the internal control process that we determine during the audit.

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

A member firm of KPMG International Cooperative

Funda Aslanoğlu
Responsible Auditor
SIGNATURE/SEAL

May 2nd, 2018
Istanbul, Turkey

Türk Bankası Limited and Its Subsidiaries

Consolidated Balance Sheet

As at 31 December 2017

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

	Note	31 December 2017	31 December 2016
ASSETS			
Cash and cash equivalents	7	825,411,359	833,132,421
Reserve deposits at central bank	8	69,689,658	59,571,220
Financial assets at fair value through profit or loss	9	256,050	1,813,418
Loans and advances to banks	11	9,019,397	7,388,904
Loans and advances to customers	12	733,509,095	630,501,178
Investment securities	13	158,942,572	134,300,277
Tangible assets	14	19,897,539	16,736,403
Intangible assets	14	8,333,262	4,111,285
Other assets	16	19,722,713	8,757,609
TOTAL ASSETS		1,844,781,645	1,696,312,715
LIABILITIES AND EQUITY			
Financial liabilities held for trading	17	1,282,698	878,567
Deposits from banks	18	16,028,512	16,531,076
Deposits from customers	19	1,605,290,384	1,463,815,987
Funds provided under repurchase agreements	10	543,404	19,239,756
Subordinated loans	20	18,750,000	17,545,000
Other liabilities and provisions	21	17,200,839	14,388,803
Current tax liability	22	1,752,342	2,148,880
Deferred tax liability	22	3,936,453	1,418,576
TOTAL LIABILITIES		1,664,784,632	1,535,966,645
Share capital	24	81,072,525	77,211,336
Reservers	24	60,988,569	51,853,156
Retained earnings		20,217,759	15,499,718
Total equity attributable to owners of the parent		162,278,853	144,564,210
Non-controlling interests	24	17,718,160	15,781,860
Total equity		179,997,013	160,346,070
Total liabilities and equity		1,844,781,645	1,696,312,715

Türk Bankası Limited and Its Subsidiaries
Consolidated Statement of Profit or Loss and Other Comprehensive Income For the Year Ended 31 December 2017
(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

	Note	31 December 2017	31 December 2016
Interest income			
Interest income on loans and receivables		51,924,557	49,256,592
Interest income on marketable securities		10,858,085	13,188,115
Interest income on deposits		14,997,390	9,456,334
Interest income on interbank and other money market placements		521,940	82,686
Other interest income		220,324	227,389
Total interest income		**78,522,296**	**72,211,116**
Interest expense			
Interest expense on deposits		(28,418,763)	(27,843,702)
Interest expense on other money market		(18,685)	(86,826)
Interest expense on funds borrowed		(1,231,212)	(945,462)
Other interest expense		(507,043)	(534,440)
Total interest expense		**(30,175,703)**	**(29,410,430)**
Net interest income		**48,346,593**	**42,800,686**
Fees and commission income		12,431,602	11,941,156
Fees and commission expense		(3,964,278)	(3,248,830)
Net fee and commission income		**8,467,324**	**8,692,326**
Other operating incomes			
Net trading income		59,281	66,354
Net foreign exchange gain		7,435,810	3,527,598
Other incomes	26	3,417,654	3,569,107
Total operating income		**10,912,745**	**7,163,059**
Other operating expenses			
Personnel expenses	27	(28,445,729)	(23,728,816)
Incurred loan losses, net of recoveries	12	(388,402)	(149,125)
Depreciation and amortisation	14	(4,030,492)	(3,858,281)
Taxes other than on income		(1,038,409)	(781,523)
Other expenses	28	(20,985,974)	(18,837,508)
Total operating expenses		**(54,889,006)**	**(47,355,253)**
Profit before income tax		**12,837,656**	**11,300,818**
Income tax	22	(3,153,677)	(2,949,802)
Profit for the year		**9,683,979**	**8,351,016**

(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

	Note	31 December 2017	31 December 2016
Profit for the year		**9,683,979**	**8,351,016**
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Foreign currency translation differences for foreign operations		6,191,128	47,082
Net change in fair value of available-for-sale financial assets	24	800,391	644,980
Net change in fair value of available-for-sale financial assets transferred to profit or loss	24	4,151,390	318,533
Related tax	22	(1,176,567)	(226,425)
Other comprehensive income/(loss) for the period from continued operations, net of income tax		**9,966,342**	**784,170**
Total comprehensive income for the year		**19,650,321**	**9,135,186**
Profit attributable to:			
Owners of the Bank		8,779,533	7,698,246
Non-controlling interests		904,446	652,770
Profit for the year		**9,683,979**	**8,351,016**
Total comprehensive income attributable to:			
Owners of the Bank		17,714,021	8,460,423
Non-controlling interests		1,936,300	674,763
Total comprehensive income for the year		**19,650,321**	**9,135,186**
Earnings per 100 share on profit for the year (full TL)	23	0.1083	0.1040

Türk Bankası Limited and Its Subsidiaries
Consolidated Statement of Changes in Equity For the Year Ended 31 December 2017
(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

		Attributable to Owners of the Parent							
			Reserves						
	Note	Share Capital	Available for sale reserve, net of tax	Currency translation reserve	Legal Reserves	Retained Earnings	Total	Non-controlling interest	Total equity
Balances at 1 January 2017		77,211,336	1,083,713	33,565,246	17,204,197	15,499,718	144,564,210	15,781,860	160,346,070
Profit for the period		-	-	-	-	8,779,533	8,779,533	904,446	9,683,979
Total comprehensive income for the period		-	-	-	-	-	-	-	-
Foreign currency translation differences		-	-	4,899,199	-	260,075	5,159,274	1,031,854	6,191,128
Net change in fair value of available-for-sale financial assets	24	-	599,401	-	-	-	599,401	-	599,401
Net change in fair value of available-for-sale financial assets transferred to profit or loss	24	-	3,175,813	-	-	-	3,175,813	-	3,175,813
Total other comprehensive income		-	3,775,214	4,899,199	-	260,075	8,934,488	1,031,854	9,966,342
Total comprehensive income for the period		-	3,775,214	4,899,199	-	9,039,608	17,714,021	1,936,300	19,650,321
Capital increase	24	3,861,189	-	-	-	(3,860,567)	622	-	622
Transfer to reserves		-	-	-	461,000	(461,000)	-	-	-
Total contributions by and distributions to owners of the parent, recognized directly in equity		3,861,189	-	-	461,000	(4,321,567)	622	-	622
Balances at 31 December 2017		81,072,525	4,858,927	38,464,445	17,665,197	20,217,759	162,278,853	17,718,160	179,997,013

Türk Bankası Limited and Its Subsidiaries
Consolidated Statement of Changes in Equity For the Year Ended 31 December 2017
(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

		Attributable to Owners of the Parent							
			Reserves						
	Note	Share Capital	Available for sale reserve, net of tax	Currency translation reserve	Legal Reserves	Retained Earnings	Total	Non-controlling interest	Total equity
Balances at 1 January 2016		73,534,074	346,625	33,540,157	16,799,197	11,883,176	136,103,229	15,107,097	151,210,326
Profit for the period		-	-	-	-	7,698,246	7,698,246	652,770	8,351,016
Total comprehensive income for the period		-	-	-	-	-	-	-	-
Foreign currency translation differences		-	-	25,089	-	-	25,089	21,993	47,082
Net change in fair value of available-for-sale financial assets	24	-	493,410	-	-	-	493,410	-	493,410
Net change in fair value of available-for-sale financial assets transferred to profit or loss	24	-	243,678	-	-	-	243,678	-	243,678
Total other comprehensive income		-	737,088	25,089	-	-	762,177	21,993	784,170
Total comprehensive income for the period		-	737,088	25,089	-	7,698,246	8,460,423	674,763	9,135,186
Capital increase		3,677,262	-	-	-	(3,676,704)	558	-	558
Transfer to reserves		-	-	-	405,000	(405,000)	-	-	-
Total contributions by and distributions to owners of the parent, recognized directly in equity		3,677,262	-	-	405,000	(4,081,704)	558	-	558
Balances at 31 December 2016		77,211,336	1,083,713	33,565,246	17,204,197	15,499,718	144,564,210	15,781,860	160,346,070

Türk Bankası Limited and Its Subsidiaries
Consolidated Statement of Cash Flows For the Year Ended 31 December 2017
(Currency: Amounts are expressed in full Turkish Lira ("TL") unless otherwise stated)

	Note	31 December 2017	31 December 2016
Cash flows from operating activities			
Profit for the year		9,683,979	8,351,016
Adjustments:			
Income taxes expenses	22	3,153,677	2,949,802
Incurred loan losses, net of recoveries	12	388,402	149,125
Depreciation and amortisation	14	4,030,492	3,858,281
Cash payments to the personnel		(320,000)	-
Changes in unearned premium provision	26	394,590	81,458
Changes in outstanding claims provision		(1,799)	273
Other provision expenses		3,132,039	2,742,290
Net Interest income		48,346,593	42,800,686
Foreign currency translation differences		6,191,128	47,082
		74,999,101	60,980,013
Loans and advances to banks		(2,304,671)	6,749,980
Reserve deposits at central bank		(10,118,438)	(6,064,794)
Financial assets at fair value through profit or loss		-	(1,421,089)
Loans and advances to customers		(101,823,843)	51,471,959
Other assets		(39,467,826)	10,125,279
Deposits from banks		(502,564)	(20,774,744)
Deposits from customers		140,499,696	268,683,183
Funds provided under repurchase agreements		(18,704,623)	(12,469,679)
Other liabilities and provisions		(91,622,141)	(64,915,518)
		(49,045,309)	292,364,590
Interests received		10,933,427	10,594,859
Interests paid		(2,981,306)	(1,901,906)
Paid taxes other than on income		(2,208,905)	(3,498,684)
Net cash provided by / (used in) operating activities		(43,302,093)	297,558,859
Cash flows from investing activities			
Purchases of property and equipment	14	(3,311,120)	(1,232,375)
Sales of property and equipment	14	851,771	-
Purchases of intangible assets	14	(5,134,086)	(246,239)
Net cash provided by / (used in) investing activities		(7,593,435)	(1,478,614)
Cash flows from financing activities			
Proceeds from capital increase		622	558
Net cash provided by / (used in) financing activities		622	558
Effect of foreign exchange rate fluctuations on cash and cash equivalents		41,563,155	17,915,793
Net increase in cash and cash equivalents		(9,331,751)	313,996,596
Cash and cash equivalents at the beginning of the year	7	832,432,092	518,435,496
Cash and cash equivalents at the end of the year	7	823,100,341	832,432,092

Footnotes to the consolidated financial statements

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

1. General information about the Bank

(a) Short history

Türk Bankası Limited (the "Bank") was founded on July 1, 1901 by tradesmen and merchants led by Mufti Ziyai Efendi. The name of the Bank at the date of its foundation was "İslam İddihar Sandığı" (*Islamic Savings Fund*), with a function to create resources for the social economy, New managers were employed in the scope of modernization efforts initiated in 1938. Despite the Second World War, the modern management understanding was further improved, and its capital was doubled in 1943, and the name of the Bank was changed to Lefkoşa Türk Bankası Ltd. It opened foreign branches in Turkey and in UK between the years 1974 and 1983, and as of 1991, it converted each of its Turkish and British branches into independent local banks of the countries where they were located, and constituted the Türk Bankası Group.

The Türk Bankası Group consists of 4 individual banks located in the Turkish Republic of Northern Cyprus ("TRNC"), Turkey and UK and the affiliates of these banks, and operates only in the finance sector. With a paid-up capital of TL 81,072,525, Türk Bankası Ltd is a private bank of the Group acting in TRNC, providing services to its customers with 20 Branches and 26 ATMs.

Information about consolidated partnerships

Turkish Bank (UK) Ltd

Turkish Bank (UK) Ltd is an affiliate of Türk Bankası Ltd founded in TRNC in 1901. The group started operating in UK with its Harringay Branch in 1974, and established Turkish Bank (UK) Ltd in 1991 with its Harringay, Dalston and Elephant and Castle Branches. Turkish Bank (UK) Ltd is currently focused on retail banking with its Borough Central Branch, Harringay, Dalston, Edmonton, Palmers Green and Mayfair (Private Banking) Branches, and also offers commercial banking services.

Türk Sigorta Ltd

Türk Sigorta Ltd started its activity as a separate entity under the name Saray Sigorta Ltd in 1996. Currently serving with the name Türk Sigorta Ltd, the entity assumes risks for potential losses by issuing policies against risks that the assets of its customers may face. It offers services through the branches of Türk Bankası and agents of Türk Sigorta Ltd.

(b) Shareholding Structure

As of December 31, 2017, the paid-up capital is TL 81,072,525 (December 31, 2016: TL 77,211,336). The shareholding structure of the Bank is as follows:

Trade Name	Share Amounts	Share Ratios (%)	Paid-up Shares
T.Özyol Yatırımları Ltd	63,492,959	78.32%	63,492,959
Özyol Holding AŞ	9,939,080	12.26%	9,939,080
Saray Kredi Şti. Ltd	4,052,280	5.00%	4,052,280
Other	3,588,206	4.42%	3,588,206
Paid-in Capital	81,072,525	100.00%	81,072,525

2. Basics of presentation

(a) Declaration of conformity

The attached consolidated financial statements of the Bank and its affiliates (collectively the "Group") have been prepared in accordance with the International Financial Reporting Standards.

The attached consolidated financial statements were approved by the Bank Board of Directors on May 2, 2018. The General Meeting and certain regulatory institutions are entitled to amend the legal financial statements.

(b) Valuation principles

The attached consolidated financial statements have been prepared according to the inflation-adjusted historical cost principle until 31 December 2006, which is accepted as the ending date of high inflationary period, except for financial assets reflected at fair value through profit/loss, derivative financial assets and liabilities held-for-trading, available-for-sale financial assets, and equity securities, which are measured at fair value where fair values can be reliably determined.

(c) Functional and reporting currency

The attached consolidated financial statements have been presented in TL, the functional currency of the Bank and Türk Sigorta Ltd. Unless otherwise stated, financial assets expressed in TL are shown as figures rounded up to the nearest "integer". Among the consolidated affiliated, Turkish Bank (UK) Ltd's functional currency is British Pound ("GBP"), and its financial statements have been included in the consolidated financial statements in TL which is the reporting currency.

(d) Accounting estimates and interpretations

Preparation of consolidated financial statements as per IFRS requires making certain estimates and interpretations which may affect the amounts of reported assets and liabilities, incomes and expenses, and application of accounting principles. Estimates and underlying assumptions are based on past experience, other various factors that are believed to be reasonable, and results which constitute a basis for deciding about the values of assets and liabilities that are not clearly seen in other resources. Actual results may differ from the current estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected of such revisions.

Below are information about assumptions and estimation uncertainties with serious risks that may cause material changes in the next accounting period as well as information about critical decisions which will have the most impact on the amounts presented in the attached financial statements during the application of accounting policies. These explanations appear to support the comments on financial risk management.

Impairment
Assets recognized at amortized cost have been evaluated for impairment as described in Note 3 (i) - *Impairment of financial assets*.

Special provisions within the total reserves allocated for impairment of financial assets, and the relevant financial assets are individually evaluated, and the present value of expected cash flows are based on the best estimate of the management. In the estimation of cash flows, the management decides about the financial status of the debtor and the net realizable value of the security.

2. Basics of presentation (*continued*)

(d) Accounting estimates and interpretations (*continued*)

Elements taken into account for the collective provision within the total provisions;
• Regularly distributed debt groups which are not individually important,
• Groups of assets which are individually important, but have not been impaired.

The collective provision for regularly distributed debt groups are found by using the "default rate" method, or in the case of smaller portfolios about which sufficient information is not available, by using statistical methods such as a formula based on historical loss rate experience. The "default rate" method estimates the amount of loss using the past default data in statistical analysis. The estimate of loss based on past data is reviewed in order to make sure that it reflects the economic positions and the product mix at the report date.

The collective provision for asset groups that are individually important but have not been impaired covers loan losses in the loan and advance portfolios, and held-to-maturity investments with similar credit risk characteristics involving impaired loans and advances, and impaired held-to-maturity investments which cannot be identified. While evaluating the provisions for collective losses, the management takes into account factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required reserve, assumptions are made to define modeling methods for the losses and to determine the required input parameters according to past experience and current economic conditions. The accuracy of provisions is contingent upon future cash flow estimates of counter party special provisions, model assumptions and parameters.

Equity investments have been evaluated for impairment as described in Note 3 (i)-*Impairment of financial assets*. Evaluating whether public debt investments have been impaired or not may be a complex issue. When performing such evaluation, the Group takes the following factors into account:

• Market evaluation of the creditworthiness reflected on bond returns
• Evaluation of creditworthiness by rating agencies
• Adequacy of access to the country's capital markets for the issue of new debt
• Possibility of restructuring of debt through voluntary or mandatory debt relief which results in losses for the holder

Fair value

Determination of fair values of financial assets and liabilities which do not have observable market prices requires using valuation techniques. Because fair value is less objective for financial assets that are rarely traded and have a lower price transparency, a decision has to be made subject to liquidity, concentration, uncertainty of market factors, and other factors affecting pricing assumptions and tools.

Fair value measurements have been addressed in the Group's accounting policy Note 3 (i) Measurement. The Group has calculated fair values of the inputs that were used while performing measurement according to the following hierarchy:

• Level 1: Quoted (non-adjusted) prices in active markets for identical assets.
• Level 2: Valuation methods based on observable inputs and obtained directly from prices, or indirectly from prices. This category includes instruments that are valued using quoted prices in active markets for similar instruments, or quoted prices for identical or similar instruments which are considered to be less active in the market, or all key inputs that are derived directly/indirectly from observable market data by correlation or other means.

2. Basics of presentation (*continued*)

(d) Accounting estimates and interpretations (*continued*)

Fair value (continued)

• Level 3: Valuation methods that use unobservable key inputs. This category includes valuation methods that are not based on observable inputs, and unobservable inputs that have an important effect on the valuation of an instrument. This category includes instruments that are valued using quoted prices that reflect important unobservable changes and assumptions for identical instruments.

The fair values of financial assets and liabilities that are traded on an active market are contingent upon quoted market prices or price quotations. The Group finds fair values of all other financial instruments using valuation methods.

Compared with similar instruments for which observable market prices are available, valuation methods cover net present value and discounted cash flow models. Assumptions and inputs used in valuation methods include interest rates that are risk free and comparable, credit commission rates and other variables used in estimating discount rates, bond and stock prices, foreign exchange rates, stock and stock index prices, expected price fluctuations and correlations. The purpose of valuation methods is to determine the fair value of a financial instrument that reflects its price at the reporting date.

The Group employs valuation methods that use only observable market data and are broadly employed to determine the fair values of financial instruments that are widespread and easier such as interest rates and currency swap which reduce the requirement for the management's decisions and estimations. Observable prices and model inputs for simple over-the-counter derivatives such as debts and stocks, currency swap derivatives, interest swaps are generally available in the markets. Availability of observable market prices and model inputs reduce the need for the management's decision-making and estimation, and reduce the uncertainty in determining fair value. Accessibility of observable market prices changes subject to the product and market, and is open to change subject to specific events and general situation in the financial markets.

As described in Note 4 (d) *Fair value indication*, the fair value of financial instruments shown in the statement have been analyzed as of the end of reporting period according to fair value measurement ranking.

Classification of financial assets and liabilities

The Group's accounting policies specify different accounting categories in certain cases regarding accounts in which assets and liabilities are to be initially recognized.

• When classifying financial assets as "held-for-trading", the Group has decided that assets and liabilities held-for-trading comply with the definition as described in Note 3 (i).
• When determining fair value of financial assets and liabilities through profit or loss, the Group has decided that the Group's criteria specified in Note 3(i) are appropriate.
• When classifying financial assets held to maturity, the Group has decided to hold the assets until maturity as required in Note 3 (I).

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

3. Key accounting policies

(a) Consolidation principles

The accounting policies presented below have been applied consistently in all periods presented comparatively in the attached consolidated financial statements of the Group. The attached consolidated financial statements reflect the accounts of the Bank which is the Parent Company, its subsidiaries and affiliates as shown below. The financial statements of the companies in the scope of consolidation have been prepared as of the same date as that of the consolidated financial statements attached. The information on the companies that are consolidated are given in Note 30.

Subsidiaries

Subsidiaries are companies that are controlled by the Group. Control refers to the power of the Group to play an effective role in decisions regarding the financial and operational policies of a business in order to derive benefit from the operation of the business. While evaluating control, potential voting rights of redeemable or convertible bonds are also taken into account. The financial statements of the subsidiaries are included in the consolidated financial statements from such date control is formed until such date control expires. The financial statements of subsidiaries have been prepared using the same accounting policies for similar transactions and events.

Mutually deleted transactions in consolidation

Intra-group balances and intra-group transactions and unrealized earnings and expenses arising from intra-group transactions are mutually deleted in the preparation of consolidated financial statements.

(b) Foreign currency

Transactions in foreign currencies

Transactions are recorded in the functional currencies. A transaction effected in a foreign currency is recorded at the exchange rate effective at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies have been translated to the functional currency at the exchange rates effective at the reporting date, and translation differences arising from the conversion have been reflected to the attached consolidation comprehensive income statement as foreign exchange gain or loss.

The official buying exchange rates used by the bank in foreign currency operations are as follows:

	Euro/TL	USD / TL	GBP/TL
December 31, 2017	4.494	3.750	5.058
December 31, 2016	3.712	3.509	4.311

Foreign operations

The functional currency of Turkish Bank (UK), the Group's subsidiary abroad is GBP, and the financial statements of the relevant subsidiaries are translated to TL which is the reporting currency for consolidation purposes in accordance with the principles specified in the following paragraphs.

• The assets and liabilities of foreign operations are converted to TL at the exchange rates effective at the end of the reporting period.
• The incomes and expenses of foreign operations are converted to TL at the reporting date with using the annually average exchange rates.

3. Key accounting policies *(continued)*

(b) Foreign currency (*continued*)

Foreign operations (*continued*)

• Conversion differences arising from conversion of the financial statements of net investments abroad into the reporting currency of these consolidated financial statements for consolidation purposes are accounted for under other comprehensive income as foreign currency conversion differences. In case a foreign investment is sold in part or in whole, the relevant amounts in the foreign exchange conversion differences are transferred to the consolidated comprehensive income statement as part of sales profit or loss.

(c) Interest incomes and expenses

Interest incomes and expenses, except overdue loans, are reflected in the comprehensive income statement using the effective interest method. Effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial asset or liability to its carrying amount (where applicable, for shorter periods). In the calculation of the effective interest rate, the Group estimates cash flows taking into account all contractual conditions of the relevant financial instrument without considering future credit losses.

Effective interest rate calculation covers discounts and premiums which are inseparable parts of effective interest, and fees and commissions paid or received, and transaction costs. Transaction costs are additional costs that are related to the acquisition, issue or disposal of a financial asset or liability. In the consolidated comprehensive income statement, interest incomes and expenses include;

• Interests calculated at amortized costs of financial assets and liabilities that are calculated using the effective interest rate method;

• Interests calculated using the effective interest rate method on securities classified as available-for-sale financial assets;

• Interests earned from financial assets reflected at fair value through profit or loss until the same are disposed of.

(d) Fees and commissions

Fee and commission incomes and expenses which are inseparable parts of the effective interest rate of a financial asset or liability are included in the calculation of the effective interest rate.

Other commissions and fees such as account maintenance fee, investment management fee, sales commission, placement and syndication fees and insurance commissions (also see the explanation in accounting policy (s)) are recognized as the relevant services are rendered in accordance with the accrual principle.

If a loan commitment is not expected to result in delinquency, loan commitment fees are recognized linearly throughout the period of commitment. In fact, other fees and commissions comprised of transaction and service fees are expensed at such date the service is provided.

3. Key accounting policies *(continued)*

(e) Net capital market transaction profit

Net capital market transaction profit includes earnings and losses arising from disposal of financial assets reflected at fair value through profit or loss and available-for-sale financial assets, and earnings and losses arising from derivatives held-for-trading.

(f) Dividend

Dividend incomes are recognized when the right to receive relevant dividend occurs. Dividend incomes are shown within other operating income in the attached consolidated financial statements.

(g) Lease payments made

Payments made for operating leases are recorded in the consolidated comprehensive income statement as expenses at equal amounts using the straight line method throughout the lease term.

Minimum lease payments made under financial leasing consist of two parts including financial expenses and amount deductible from existing debt. Financial costs arising from leasing are spread over the periods to constitute a fixed interest rate throughout the lease term.

(h) Income taxes

Income tax expense comprises current year income tax and deferred tax expenses. The current year income tax and deferred tax expenses are accounted for under profit or loss to the extent they are related to elements directly accounted for under equity or other comprehensive income.

Corporation tax

TRNC

Türk Bankası Ltd and Türk Sigorta Ltd pay 10% corporation tax over their taxable income, and 15% income tax over the balance that remains after deducting Corporation tax. Total tax liability is 23.5% (December 31, 2016: 23.5%) This rate is applied to the tax base which is determined by adding non-deductible expenses to the commercial income of the corporation pursuant to the tax laws and deducting the exclusions and discounts set forth in the tax laws.

Subsidiaries established abroad

Turkish Bank (UK) Ltd pays 19.25% corporation tax over its taxable income (December 31, 2016: 20.25%)

Deferred taxes

Deferred tax assets or liabilities are calculated over the "temporary differences" between the amounts of assets and liabilities shown in the consolidated financial statements and the amounts used in calculating the legal tax base, which will be subject to tax or tax discounts in the future. According to the tax legislation, differences which do not affect the financial or commercial profit that arises at the acquisition date of assets or liabilities are excluded from such calculation.

Deferred tax assets and deferred tax liabilities are shown in the consolidated financial statements in net terms only if the Group has a legal right to offset its current tax assets against its current tax obligations and the deferred tax asset and liability is related to the income tax of the same taxable entity.

3. Key accounting policies *(continued)*

(i) Financial Instruments

Recognition

The Group recognizes its loans, advances and deposits at such dates they arise. Purchases and sales of financial assets are recognized at such transaction dates when the Group has promised to purchase or sell such asset. All other financial assets and liabilities are recognized at the date of the commercial transaction when the Group becomes a party to the contractual conditions of the relevant financial asset or liability.

When a financial asset or liability is initially recognized, it is accounted for taking into account its fair value, or in the case of a financial asset or liability reflected at fair value, the transaction cost which can be directly related to acquisition of the relevant financial asset or commitment of the financial liability.

Classification

Financial assets reflected at fair value through profit or loss are comprised of held-for-trading financial assets and derivative financial instruments which the Group has essentially acquired in order to sell at a near date. All held-for-trading derivative financial instruments that are in a net receivable position are shown under the account of financial assets reflected at fair value through profit or loss; whereas held-for-trading derivative financial instruments that are in a net payable position are shown under the account of other obligations and provisions as financial liabilities reflected at fair value through profit or loss.

Held-to-maturity investments are financial assets which the Group has the intention and ability to hold until maturity and which cover fixed or determinable payments and have a fixed maturity. This class covers certain debt securities.

Loans and receivables are non-derivative financial assets which have fixed or determinable payments, which are not listed in any active market and which the Group has not the intention to sell immediately or in near future. Loans and receivables arise from receivables which occur as a result of provision of money, services and goods to debtors by the Group and which the Group does not have the intention to trade. Loans and receivables consist of loans and advances to banks and customers.

When the Group purchases a financial asset and becomes, at the same time, a party to a contract to sell that asset (or a similar asset) at a fixed price in the future ("reverse repo"), the transaction is recorded as a loan and receivable and the asset in question is not included in the Group's consolidated financial statements. Such kind of financial assets are also shown in the consolidated balance-sheet.

Available-for-sale financial assets are financial assets other than loans and receivables to banks and customers, held-to-maturity investments, and financial assets held for trading.

Financial liabilities are liabilities based on a contract that requires the provision of cash or another financial asset to another entity.

3. Key accounting policies *(continued)*

(i) Financial Instruments (*continued*)

Measurement

When a financial asset or liability is initially recognized, it is accounted for taking into account its fair value, or in the case of a financial asset or liability reflected at fair value, the transaction cost which can be directly related to acquisition of the relevant financial asset or commitment of the financial liability.

After recognition, financial assets reflected at fair value through profit or loss and all available-for-sale financial assets are measured at fair value. However, if there is no active price in the market for such financial assets or the fair value cannot be reliably measured, these are accounted for at their acquisition cost which also includes their transaction costs, after deducting provisions for impairment, if any.

Financial liabilities that are not held for trading, loans and receivables and held-to-maturity investments are accounted for at their amortized cost calculated as per the effective interest method, after deducting provisions for impairment, if any. The amortized cost of a financial asset or liability is calculated by adding to or deducting from the initial acquisition cost measured at initial recognition the total amortization amount which is calculated using the effective interest method over the difference between the initial recognition value of the relevant financial asset or liability and its value at maturity and deducting principal payments and provisions for impairment if any.

Fair value measurement principles

Fair values of financial instruments are regarded as the quoted market prices without taking into account the transaction costs at the reporting date. If any quoted market price is not available, the fair value of a financial instrument is estimated using the pricing models or discounted cash flows. In cases where the discounted cash flows technique is used; estimated future cash flow depends on the best estimates to be made by the management, and the discount rate depends on the rates of similar instruments traded in qualified markets which are identical in terms of interest, maturity and similar other conditions. In cases where the pricing models are used, the data to be used in fair value estimation depend on the market data at the reporting date.

The fair values of derivative financial instruments that are not traded in the market are found by estimating the amounts due to or payable by the Group if the contracts expire at the reporting date, taking also into account creditworthiness of the counter party and the current market conditions.

Gains and losses in future valuations

Gains and losses that arise due to changes in fair values of financial assets are accounted for in the capital market transaction profit account in the consolidated comprehensive income statement.

3. Key accounting policies *(continued)*

(i) Financial Instruments (*continued*)

Gains and losses in future valuations (*continued*)

Gains or losses arising from changes in the fair values of available-for-sale financial assets are shown under other comprehensive income as “available-for-sale financial assets valuation differences". Total gains or losses arising in other comprehensive income accounts due to disposal of the relevant financial assets are transferred to the profit/loss accounts. Interests derived from available-for-sale financial assets, held-to-maturity investments and financial assets reflected at fair value through profit or loss are accounted for as interest income in the consolidated financial income statement.

Derecognition

Financial assets are derecognized in case the Group loses its control over the contractual rights in the relevant assets. This situation occurs when these rights materialize, expire or are delivered. Available-for-sale financial assets and financial assets reflected at fair value through profit or loss are derecognized at such date when the Group makes a commitment to sell such assets, and the collections to be made in return for payments by the purchaser in relation thereto are recognized at the same date.

Profits or losses due to disposal of assets are determined according to the basic cost method.

Held-to-maturity financial investments and loans and receivables are derecognized at such date when the same are transferred by the Group to the counter-party.

The Group derecognizes a financial debt only if the contractual liability is fulfilled, cancelled or prescribes.

Netting

Financial assets and liabilities are offset and are shown on a net basis in the consolidated financial statements only if the Group has the right of offset and power of sanction and the Group has the intention to collect/pay the related financial asset and liability on a net basis, or the right to settle the relevant financial asset and liability concurrently.

Incomes and expenses are shown on a net basis only when accounting standards permit so, or for gains and losses arising from similar transactions of the Group such as trading.

Special instruments

Cash and cash equivalents: Cash and cash equivalents that constitute a basis for the preparation of consolidated cash flow statement include cash, foreign currency, cheques, deposits held at TRNC Central Bank and Bank of England, receivables from monetary markets, and short-term loans and receivables to banks with a maturity less than 3 months.

Investments: Investments held to derive short term profits are classified as financial instruments held-for-trading; investments which the Group has the intention and ability to hold until maturity are classified as held-to-maturity financial assets.

3. Key accounting policies *(continued)*

(i) Financial Instruments (*continued*)

Special instruments (*continued*)

Loans and advances to banks and customers: Loans and advances supplied to banks and customers by the Group are classified as loans and receivables, and are shown at estimated collectible amounts which remain after deducting provisions made.

Banks and customer deposits and loans obtained: Banks and customer deposits and loans obtained are the Group's debt sources. Banks and customer deposits and loans obtained are recognized at acquisition cost which also includes the transaction cost, and thereafter, measured at amortized cost according to the effective interest rate method.

Impairment of financial assets

Assets held at amortized cost

In respect of recognition of impairment losses under income items, the Group decides whether there are observable data which show a decrease in the measurable estimated data in the debt portfolio and individual debts.

Objective findings showing that financial assets and asset groups for which observable data are available according to the Group are about the following events;

i) important financial distress suffered by the issuer or debtor;
ii) a breach of contract such as delays in payment of interests and principal which exceed 90 days;
iii) concessions given by the Group for the financial distress that the debtor suffers due to economic and legal reasons;
iv) bankruptcy or likelihood of the debtor to initiate other financial structuring;
v) loss of the active market for the financial asset due to a financial difficulty;
vi) in relation to a financial asset group with a measurable decrease in expected future cash flows although a decrease cannot be determined individually in any financial asset within the group:

• Adverse changes in the solvency of the debtor
• National or local economic conditions that are related to delays of payment relating to assets within the group;

All debts with principal and interest payments past due by 90 days are considered to be impaired, and are individually evaluated.

If there are objective findings that impairment losses have occurred in liabilities and receivables held at amortized cost or in held-to-maturity investments, the amount of loss is measured by calculating the difference between the carrying value of the asset and the estimated recoverable amount of the present value of expected cash flows discounted using the effective interest rate. The estimated recoverable amount of securitized financial assets is measured over the amount at which the mortgage is confiscated, irrespective of whether confiscation of mortgage is likely or not. The carrying value of the asset is reduced by using a provision account. The amount of loss is accounted for under income items.

The Group first evaluates objective findings showing whether individually important financial assets or individually or collectively unimportant financial assets have suffered impairment or not. If there is no objective finding showing that an individually evaluated financial asset is impaired, the asset is included in the group of financial assets which have the same credit risk characteristics. This group is evaluated collectively for impairment. Assets that are evaluated individually for impairment are not subject to a collective evaluation.

3. Key accounting policies *(continued)*

(i) Financial Instruments (*continued*)

Impairment of financial assets (*continued*)

The present value calculation of expected future cash flows of securitized financial assets reflects the cash flows of the amount at which the mortgage is confiscated, irrespective of whether confiscation of mortgage is likely or not. Financial assets are grouped according to the same credit risk characteristics in order to evaluate impairment collectively. These characteristics are related to expected future cash flows of this type of asset groups which show the capacity of a debtor to make all payments according to the contractual conditions.

The future cash flows of a financial asset group which is collectively evaluated for impairment are estimated based on the contractual cash flows of the assets in the Group and the historical lost experience of assets showing similar credit risk characteristics within the Group. To reduce differences between actual losses and estimated losses, the Group regularly reviews the methodologies and assumptions used in estimating future cash flows.

Assets held at cost

If an unlisted stock or a derivative financial instrument linked to an unlisted stock which is not held at fair value since fair value cannot be reliably measured is subject to impairment, the amount of loss is measured as the difference between the carrying value of the asset the present value of the recoverable amount of the asset.

Assets held at fair value

In each reporting period, the Group evaluates the objective findings showing whether a financial asset or a group of financial assets has been subject to impairment or not. Available-for-sale investments are subject to impairment if there is a substantial and continuous decrease in fair values which drop below the cost. If an available-for-sale asset has been impaired, the difference between the cost (net value of principal payment and depreciation) the actual fair value is transferred from equity to income.

(j) Repurchasing agreements

The Group makes sales/purchase agreements in order to repurchase/resell financial assets at a fixed price at a certain future date. Financial assets purchased with a commitment to sell them back in the future are not included in the financial statements. Amounts that are collected as a result of sale of financial instruments under a repurchase commitment are shown in the attached consolidated financial statements under the account of funds derived from repo transactions.

Incomes and expenses arising from sales and repurchase agreements are recognized according to the accrual principal throughout the transaction, and are shown under "interest incomes" and "interest expenses" accounts.

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

3. Key accounting policies *(continued)*

(k) Tangible assets

The costs of tangible assets acquired prior to January 1, 2007 have been adjusted according to effects of inflation pursuant to law no. 66/1999 " Law on Reevaluation of the Capital and Financial Assets of the Businesses" that is specified in the article 12 of the Banking Law for the period from acquisition date of assets until December 31, 2006 which is regarded as the ending date of the hyper inflationary period.

Prior to December 31, 2006, inflation adjustment was performed over the new value which was found by subtracting, if any, exchange rate differences, financing expenses and revaluation increases from the cost of the tangible asset which was to be adjusted for the first time. Tangible assets purchased after December 31, 2006 are recognized at cost.

Gains and losses due to disposal of tangible assets are calculated as the difference between the net sales income and the net carrying value of the relevant tangible asset, and is reflected in the consolidated comprehensive income statement. The expenses incurred for ordinary maintenance and repair of tangible assets are recognized as an expense. For tangible assets, the normal depreciation method is used.

Rates and time periods prescribed as estimated economic lives that are used in the depreciation of tangible assets are as follows:

Tangible Assets	Estimated financial Life (Years)	Depreciation Ratio (%):
Buildings	33	3
Office machinery, furniture, fixtures and	4-10	10-25
Assets obtained via financial leasing	4-5	20-25
Other tangible assets	3-10	10-33

The cost amounts of tangible assets are subject to depreciation using straight line depreciation method based on expected useful life. Expected useful life, residual value and depreciation method are reviewed every reporting period for potential effects of changes in estimations, and if there is any change in estimations, they are recognized prospectively.

(l) Intangible assets

The Group’s intangible assets are comprised of software programs. Intangible assets are recognized at cost.

Costs of intangible assets; the costs of intangible assets acquired prior to January 1, 2007 have been adjusted according to effects of inflation pursuant to law number 66/1999 for the period from acquisition date of assets until December 31, 2006 which is regarded as the ending date of the hyper inflationary period. For intangible assets, the normal depreciation method is used. Economic lives of intangible assets change between 3 – 10 years, and parallel to that, depreciation rates change between 33.33% and 10%.

3. Key accounting policies *(continued)*

(m) Impairment of non-financial assets

The Group evaluates whether there is any indication that a non-financial asset has been subject to impairment as of each reporting date, except deferred tax assets. If there is any such indication for an asset or group of assets, the recoverable amount of the relevant asset is estimated.

A provision for impairment is set aside if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group which can generate cash flows independently of other assets and groups. Impairment losses are accounted for in the consolidated comprehensive income statement.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost of sales. Value-in-use is determined by discounting expected future cash flows to the present value using a pretax discount rate which reflects the risks inherent to the relevant asset and the time value of money.

In each reporting period, it is evaluated that there is no indication that impairment provisions set aside for other assets in the previous years have been reduced or disappeared. Impairment is reversed with a reverse entry in case of a change in the estimates used in the determination of recoverable amount. Provision for impairment may be reversed with a reverse entry unless the carrying value exceeds the off-balance sheet value, net of depreciation, which will be determined in case no impairment exists.

3. Key accounting policies *(continued)*

(n) Employee benefits

Provision for severance pay

According to the labor law effective in the countries where the Bank and its subsidiaries have existence, a severance pay obligation does not arise against the employer if the employer terminates the employee's contract or the employee becomes entitled to retire.

Other employee benefits

The Group has allocated a provision in the attached consolidated financial statements for undiscounted employee benefits which are expected to be paid for services rendered by the employees throughout the accounting period.

(o) Assets held in custody

Assets other than cash deposits which the Group holds on behalf of its customers and public institutions in its capacity as attorney or agent have not been shown in the attached consolidated financial statement since they are not the assets of the Group.

(p) Insurance contracts

The Group signs insurance contracts with customers that contain insurance risks through its partner operating in the insurance sector. Contracts by which the Company assumes an important insurance risk by agreeing to indemnify the policyholder if a pre-defined future event that causes a negative effect on the policyholder (an event secured by insurance) occurs are classified as insurance contracts. Insurance risk covers all risks other than financial risk.

Insurance and investment contracts issued/signed by our subsidiary operating in the insurance sector are recognized as follows:

Earned premiums: Premiums derived from insurance contracts are recognized proportionally throughout the term of the policy for such amount that remains after the premiums assigned to reinsurers are deducted. Such portion of the accrued premiums for insurance contracts in effect that extend over to the next accounting period or periods based on the number of days and on a gross basis without applying any commission or any other discount are recorded as unearned premiums reserve. Premiums are shown without deducting received or given commissions and deferred production costs, the relevant taxes or fees are the net amounts reflected.

Unearned premium reserve: Unearned premium reserve consists of such portion of the accrued premiums for insurance contracts in effect that extend over to the next accounting period or periods based on the number of days and on a gross basis without applying any commission or any other discount. Unearned premium reserve is set aside for all insurance contracts other than insurance contracts for which actuarial reserves are set aside. Unearned premium reserve is shown under "other liabilities and provisions" in the attached consolidated balance-sheet.

3. Key accounting policies *(continued)*

(p) Insurance contracts (*continued*)

Outstanding losses and claims reserve: Outstanding losses and claims reserves are set aside for indemnification amounts that have been incurred, calculated, but not actually paid in previous accounting periods or the current accounting period, or if such an amount could not be calculated, for estimated amounts, and for relevant file expenses. Also, incurred but not reported losses and claims are taken into account as described below. The outstanding losses and claims reserve is shown under other liabilities and provisions in such amount which remains after offsetting the amounts which may be recovered from reinsurers. Forecasts should be made in order to determine absolute amounts for losses reported to the Group as of the reporting date, and incurred but not reported losses and claims. Determining final losses definitely can take a significant period of time. The primary method adopted by the management to estimate incurred but not reported losses and claims is to use past loss development trends to determine future loss development trends ("Actuarial Chain Ladder Method") In each reporting period, loss estimates pertaining to past years are reevaluated in terms of sufficiency, and necessary changes are reflected to the reserves. In addition, the Group reevaluates reported losses and claims on a file basis as of each reporting period. Outstanding losses and claims reserves are not discounted. Unearned losses and claims reserve is shown under "other liabilities and provisions" in the attached consolidated balance-sheet.

Recourse, salvage and similar incomes: After the Group pays for a claim, it obtains a release (a bank receipt showing that the payment has been made) from the insured, and assesses its recourse receivables.

Deferred production costs and deferred commission incomes: Commissions which are paid to agents for the production of insurance policies and renewal of existing policies and which vary accordingly, and other production-related expenses are capitalized as deferred production cost.

Deferred production costs are amortized using the straight-line depreciation method throughout the term of the policy. Deferred production costs are shown within other assets in the attached consolidated balance-sheet.

Commissions obtained in return for premiums assigned to reinsurers are also deferred and are amortized throughout the policy term using the straight-line depreciation method. Deferred commission income is shown under "other liabilities and provisions" in the attached consolidated balance-sheet.

(r) Earning per share

Earnings per share calculated over continuing operations shown in the attached consolidated comprehensive income statement have been calculated by dividing net profit for the period by the number of average weighted number of shares within the period.

(s) Post-reporting events

Post-reporting events (events requiring adjustment) that provide information about the Group's position at the end of the reporting period are reflected in the consolidated financial statements. Important events which occur after the reporting date and do not require adjustment are stated in the footnotes.

3. Key accounting policies *(continued)*

(t) Segment reporting

An operating segment is a component that engages in business activities from which the Group may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components, whose operating results are reviewed regularly by the Board of Directors (as the decision maker), and whose performance can be measured, and for which discrete financial information is available.

(u) Provisions, conditional assets and liabilities

If there is any current liability arising from past events, the fulfillment of the liability is possible and the amount of such liability can be reliably estimated, a provision is accounted for. Provisions are calculated according to the best estimation made by the Group management for the expense to be incurred to fulfill the obligation as of the end of reporting period, and discounted to reduce it to its current value when the effect is significant. When the amount of the obligation cannot be estimated and there is no possibility of an outflow of resources from the Group, it is considered that a "contingent" liability exists and it is disclosed in the related notes to the financial statements.

Contingent assets are those that will be confirmed based on the future occurrence of one or more than one probable event that arises from previous events and is beyond the control of the Group. Group does not reflect the contingent assets in the financial statements, however it continuously evaluate its contingent assets in order to correctly reflect the developments in the financial statements. Where it is almost certain that the economic benefit will be owned by the Group, the related asset and its income are included in the financial statements of the period when the change occurs; and where the economic benefit becomes possible, the contingent asset in question is shown in the footnotes of the financial statements.

(v) Standards issued but not yet effective and not early adopted as at 31 December 2017

New standards, interpretations and amendments to existing standards are not effective at reporting date and earlier application is permitted; however the Group has not early adopted are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, after the new standards and interpretations become in effect.

IFRS 9 Financial Instruments

The last version of IFRS 9, issued in July 2014, replaces the existing guidance in IAS 39 "Financial Instruments: Recognition and Measurement". It also carries forward the guidance on recognition, classification, measurement and derecognition of financial instruments from IAS 39 to IFRS 9. The last version of IFRS 9 includes a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements and also includes guidance issued in previous versions of IFRS 9. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

Explanations for the possible effects of IFRS 9

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

3. Key accounting policies *(continued)*

(v) Standards issued but not yet effective and not early adopted as at 31 December 2017 (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 issued in May 2014 replaces existing IFRS and US GAAP guidance and introduces a new control-based revenue recognition model for contracts with customers. In the new standard, total consideration measured will be the amount to which companies expect to be entitled, rather than fair value and new guidance have been introduced on separating performance obligations for goods and services in a contract and recognition of revenue over time. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

IFRS 16 Leases

On 13 January 2016, IASB issued the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently changes to IAS 40 Investment Properties. IFRS 16 Leases eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice. IFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15 Revenue from Contracts with Customers. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

On 8 December 2016, IASB issued IFRIC 22 Foreign Currency Transactions and Advance Consideration to clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRIC 22.

3. Key accounting policies *(continued)*

(v) Standards issued but not yet effective and not early adopted as at 31 December 2017 (continued)

Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions

IFRS 2 Share-Based Payment has been amended by IASB to improving consistency and resolve some long-standing ambiguities in share-based payment accounting. The amendments cover three accounting areas: i) measurement of cash-settled share-based payments, ii) classification of share-based payments settled net of tax withholdings; and iii) accounting for modification of a share-based payment from cash settled to equity-settled. Also, same approach has been adopted for the measurement of cash-settled share-based payments as equity-settled share-based payments. If certain conditions are met, share-based payments settled net of tax withholdings are accounted for as equity-settled share-based payments. The amendments are effective for periods beginning on or after 1 January 2018, with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 2.

IAS 40 – Transfers of Investment Property

Amendments to IAS 40 - Transfers of Investment Property issued by IASB have been made to clarify uncertainty about that provide evidence of transfer of /from investment property to other asset groups. A change in management's intentions for the use of property does not provide evidence of a change in intended use. Therefore, when an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognised (eliminated from the statement of consolidated financial position) and does not reclassify it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner occupied property during the redevelopment. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 40.

Annual Improvements to IFRSs 2015-2017 Cycle

Improvements to IFRSs

IASB issued Annual Improvements to IFRSs - 2015–2017 Cycle for applicable standards. The amendments are effective as of 1 January 2019. Earlier application is permitted. The Group does not expect that application of these improvements to IFRSs will have significant impact on its consolidated financial statements.

IAS 12 Income Taxes

IAS 12 is amended to clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income (OCI) or equity.

3. Key accounting policies *(continued)*

(v) Standards issued but not yet effective and not early adopted as at 31 December 2017 (continued)

Amendments to IAS 28 – Long-term interests in Associates and Joint Ventures

On 12 October 2017, IASB has issued amendments to IAS 28 to clarify that entities also apply IFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. An entity applies IFRS 9 to such long-term interests before it applies related paragraphs of IAS 28. In applying IFRS 9, the entity does not take into account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 28.

4. Financial risk management

(a) Introduction and general information

This note provides information about the risks that the Group is exposed to, the policies and procedures adopted by the Group to manage and measure each of these risks listed below, and the objectives and capital management policies of the Group. The Group is exposed to the following risks resulting from use of the financial instruments:

• credit risk
• liquidity risk
• market risk
• operational risk:

Risk management structure

The creation and supervision of a risk management structure is the responsibility of the Board of Directors. The Board of Directors monitors the efficiency of the risk management system via its Member Responsible for Internal Systems For this reason, the Bank's Risk Management Unit executes risk management activities which function independently of administrative activities, and reports to the Board of Directors.

The Group's risk management policies have been created to define the Group's potential risks, to determine risk limits and controls, and to track compliance with the limits determined. Risk management policies and systems are regularly reviewed to reflect the changes in the market conditions and the products and services offered.

Risks are measured according to local and international regulations, and internationally recognized methods which are suitable for the Bank's structure, policies and procedures.

(b) Credit risk

Credit risk is defined as the possibility of failure of a borrower or counter party to fulfill its obligations partially or wholly in accordance with the contractual terms agreed upon. Credit risk does not only cover counter party risks arising from loans and notes payable, but also credit risks arising from all transactions that are deemed as credits in the Banking Code of TRNC in a comprehensive manner.

Credit risk management

The Risk Management unit manages credit risk by:

• Determining credit risk policies in coordination with other units of the Bank;

• Determining and tracking concentration limits on a sectoral, geographical and loan type basis;

• Presenting credit risk management reports that include loan portfolio distribution (borrower, sector, geographical region), credit quality (non-performing loans, credit risk degrees and concentrations as well as scenario analysis, stress tests and other analysis to the Board of Directors and senior management.

• Performing studies to create credit risk advance measurement methods.

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL)

4. Financial risk management (*continued*)

(b) Credit risk (*continued*)

Credit risk exposure

	Loans and advances to customers		Other assets exposed to credit risk (including financial assets other than loans and advances to customers)	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Individually impaired loans	4,890,899	4,127,218	53,734	57,332
Special provisions set aside	(4,890,899)	(3,696,118)	(53,734)	(57,332)
Book value	-	431,100	-	-
Overdue but not impaired	24,422,889	280,199	-	-
Restructured loans	-	-	-	-
Book value	24,422,889	280,199	-	-
Not overdue and have not	708,487,278	598,268,093	-	-
Restructured loans	1,104,728	31,952,886	-	-
Book value	709,592,006	630,220,979	-	-
Collective impairment	(505,800)	(431,100)	-	-
Total book value	733,509,095	630,501,178	-	-

There is no provision for impairment set aside by the Group for loans and advances to banks and investment securities as of December 31, 2016 and December 31, 2017.

Sectoral distribution of loans and advances to customers

	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
Consumer loans	482,004,507	65.71	350,595,800	55.61
Personal finance loans	422,509,258	*57.60*	*337,556,128*	53.54
Home loans	34,647,924	*4.72*	*7,546,816*	1.20
Overdraft account	24,080,189	*3.28*	*5,320,214*	0.84
Vehicle loans	767,136	*0.10*	*172,642*	0.03
Financial institutions	86,566,910	11.80	98,043,223	15.55
Production	16,226,264	2.21	15,879,833	2.52
Wholesale and retail trading	54,371,115	7.41	47,929,432	7.60
Hotel, food, beverage services	23,553,892	3.21	46,465,185	7.37
Transportation and communication	11,731,218	1.60	18,943,704	3.00
Construction	10,359,965	1.41	6,038,810	0.96
Credit cards	3,909,610	0.53	3,759,580	0.60
Agriculture and animal husbandry	913,673	0.12	641.998	0.10
Health and social services	1,433,404	0.20	110.130	0.02
Other	42,438,537	5.79	42,093,483	6.67
Total loans and advances to customers	733,509,095	100.00	630,501,178	100.00

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

4. Financial risk management (*continued*)

(b) Credit risk (*continued*)

Impaired loans and receivables

Impaired loans and receivables are loans and receivables for which the Group may face the risk not to collect all principal and interest payments under the conditions set forth in the loan agreements. These loans have been rated from 3 to 5 in the Group's internal credit rating system.

Overdue but not impaired loans

Overdue but not impaired loans are loans and receivables whose principal and interest payment is overdue, but for which the Group believes it is not appropriate to set aside a provision, considering the guarantees and sureties held by it and the collections made in the past relating to such receivables.

Restructured loans

Restructured loans are loans that are restructured due to temporary deterioration in the financial condition of the borrower and upon which the Group and the borrower have reached an agreement.

Special provisions set aside for impaired loans and receivables

The Group sets aside special provisions for estimated losses which the Group may face due to individually impaired loans and receivables within its own loan portfolio.

Derecognition policy

Consolidated subsidiaries derecognize a loan receivable (and if any, special provisions set aside for that loan) after forming an opinion that the receivables related to that loan are not collectible after completing all legal procedures and determining the absolute loss. In forming that opinion, attention is paid to the fact that substantial changes have occurred in the borrower's financial condition preventing the borrower to fulfill its obligation or that the collateral taken is not enough to cover all the risks exposed. If the Bank believes that the credits are unlikely to be paid, all information related to the related loans is submitted to the board of directors and the related credits are deleted. The following table shows gross and net (net of impairment) amounts of impaired assets according to risk ratings.

	Loans and advances to customers		Other assets	
December 31, 2017	Gross	Net	Gross (*)	Net (*)
3rd Group: Impaired	365,775	-	-	-
4th Group: Impaired	638,693	-	-	-
5th Group: Impaired	3,886,431	-	53,734	-
Total	4,890,899	-	53,734	-

	Loans and advances to customers		Other assets	
December 31, 2016	Gross	Net	Gross (*)	Net (*)
3rd Group: Impaired	155,556	-	-	-
4th Group: Impaired	724,880	-	-	-
5th Group: Impaired	3,246,782	431,100	57,332	-
Total	4,127,218	431,100	57,332	-

(*) In the above table, receivables from impaired insurance activities are shown in "Group 4" and "Group 5".

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

4. Financial risk management (*continued*)

(b) Credit risk (*continued*)

Collateral policy

The collaterals held by the Group for loans disbursed to its customers consist of mortgages on property, other bonds and guarantees on assets. Estimated fair values of collaterals taken depend on the value of the relevant asset during disbursement of the loan, and generally, a further evaluation is not performed until the loan is individually subject to impairment.

The distribution of cash loans and advances and non-cash loans to customers according to the collaterals held by the Group is as follows:

Cash loans	December 31, 2017	December 31, 2016
Secured loans:	696,790,410	588,500,996
Real estate secured loans	*516,565,142*	*374,527,260*
Treasury guarantees or securities collateralized by public sector securities	*19,699,335*	*32,269,874*
Other guarantees (pledges on assets, corporate and personal guarantees, bonds)	*145,443,324*	*130,927,313*
Guarantees issued by financial institutions	*16,055*	*32,939*
Cash secured loans	*15,066,554*	*50,743,610*
Unsecured loans	36,718,685	42,000,182
Total loans and advances to customers	733,509,095	630,501,178

Non-Cash Loans	December 31, 2017	December 31, 2016
Secured loans:	8,292,001	16,688,784
Guarantees issued by financial institutions	*56,550*	*52,935*
Cash secured loans	*4,036,526*	*9,751,504*
Other guarantees (pledges on assets, corporate and personal guarantees, bonds)	*1,911,052*	*4,021,819*
Real estate secured loans	*2,287,873*	*2,862,526*
Unsecured loans	136,162	180,649
Total non-Cash Loans	8,428,163	16,869,433

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

4. Financial risk management (*continued*)

(b) Credit risk (*continued*)

Sectoral and regional concentration of impaired loans and receivables

The Bank and its subsidiaries monitor credit risk concentration on a sectoral and regional basis. An analysis of the sectoral and regional concentration of impaired loans and receivables, financial leasing and factoring receivables is presented below.

	December 31, 2017		December 31, 2016	
Sectoral concentration	Amount	%	Amount	%
Consumer loans	1,952,915	39.50	2,878,941	68.80
Service sector	528,516	10.69	62.814	0.22
Agriculture and animal husbandry	21,288	0.43	21.288	0.08
Durable consumer goods	-	0.00	10.149	1.50
Construction	6,056	0.12	9.270	0.51
Food	3,161	0.06	3.161	0.24
Other	2,432,697	49.20	1,198,927	28.65
Total impaired loans and receivables	4,944,633	100.00	4,184,550	100.00

	December 31, 2017		December 31, 2016	
Regional concentration	Amount	%	Amount	%
TRNC	4,767,603	96.42	3,330,972	79.60
United Kingdom	177,030	3.58	853.578	20.40
Total impaired loans and receivables	4,944,633	100.00	4,184,550	100.00

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL)

4. Financial risk management (*continued*)

Offsetting financial assets and liabilities

The following tables contain explanations regarding the following financial assets and financial liabilities:

• Offset in the balance-sheet of the Group; or
• Covering financial instruments which are subject to applicable general netting agreements or similar agreements, whether the instrument has been offset or not in the balance-sheet.

Similar agreements include derivative clearing agreements. Similar financial instruments include derivatives. If financial instruments such as loans and deposits have not been offset in the balance-sheets, they are not shown in the following tables.

The Groups takes and gives cash collaterals for derivatives transactions.

Financial assets and liabilities are subject to netting, applicable master netting arrangements and similar agreements.

					Amounts not offset in the balance-sheet		
	Types of Financial Assets	Gross amounts of financial assets	Gross amounts of financial liabilities recognized on a net basis in the financial statement	Net amounts of financial assets presented in the financial statement	Financial instruments (including non-cash collateral)	Cash collaterals received	Amount
December 31, 2017	Derivatives - Derivative financial assets held-for-trading	256,050	-	256,050	-	256,050	-
December 31, 2016	Derivatives - Derivative financial assets held-for-trading	1,813,418	-	1,813,418	-	1,813,418	-

					Amounts not offset in the balance-sheet		
	Types of Financial Liabilities	Gross amounts of financial assets	Gross amounts of financial liabilities recognized on a net basis in the balance-sheet	Net amounts of financial assets presented in the financial statement	Financial instruments (including non-cash collateral)	Cash collaterals given	Amount
December 31, 2017	Derivatives - Derivative financial liabilities held-for-trading	1,282,698	-	1,282,698	-	1,282,698	-
December 31, 2016	Derivatives - Derivative financial liabilities held-for-trading	878,567	-	878,567	-	878,567	-

4. Financial risk management (*continued*)

(c) Liquidity risk

Liquidity risk is the likelihood that the Group experiences difficulty in meeting its obligations arising from its financial debts.

Liquidity risk management

The Group's approach to liquidity risk management is to have sufficient liquidity to fulfill its obligations in a timely manner without causing unacceptable losses and damaging the Group's reputation both under normal and stressful conditions.

The Bank's Treasury Unit obtains information from other units about the liquidity profile of financial assets and liabilities held by such units, and details of estimated cash flows likely to arise from future transactions. In the light of this information, the Treasury Unit creates a short-term liquid asset portfolio mainly comprised of short-term investment securities, inter-bank money market overnight receivables, short-term investments in domestic and foreign banks in order to make sure that the Group has sufficient liquidity as a whole. Liquidity needs that occur in the units due to short-term fluctuations are satisfied by short-term loans obtained from the Treasury Units, and their long-term structural liquidity requirements are satisfied by long term funding.

The daily liquidity position is monitored, and liquidity stress tests are performed regularly using different scenarios to cover both normal and extraordinary market conditions. All liquidity procedures are subject to supervision and approval of the Asset-Liabilities Committee ("ALCO"). Daily reports include the Bank's liquidity condition.

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

4. Financial risk management (*continued*)

(c) Liquidity risk (*continued*)

Liquidity risk exposure

Breakdown of monetary assets and liabilities according to remaining maturities:

December 31, 2017	Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and above	Book value
Cash and cash equivalents	168,292,243	370,702,781	286,416,335	-	-	-	**825,411,359**
Financial assets reflected at fair value through profit or loss	-	231,698	24,352	-	-	-	**256,050**
Loans and advances to banks	56,621	-	-	8,962,776	-	-	**9,019,397**
Loans and advances to customers	84,203,759	81,161,156	25,439,670	51,080,739	365,591,275	126,032,496	**733,509,095**
Investment securities	45,355	50,089,347	33,891,154	26,377,116	47,022,200	1,517,400	**158,942,572**
Other assets	46,257,229	1,273,669	14,105,783	521,984	5,039,511	50,444,996	**117,643,172**
Total assets	298,855,207	503,458,651	359,877,294	86,942,615	417,652,986	177,994,892	1,844,781,645
Derivative financial liabilities held-for-trading	-	252,900	-	1,029,798	-	-	**1,282,698**
Bank deposits	16,028,512	-	-	-	-	-	**16,028,512**
Customer deposits	567,910,792	614,834,484	202,789,186	189,908,664	29,847,258	-	**1,605,290,384**
Funds derived from repurchasing agreements (Repo transactions)	543,404	-	-	-	-	-	**543,404**
Subordinated loans	-	-	-	-	18,750,000	-	**18,750,000**
Taxes payable	-	1,752,342	-	-	-	-	**1,752,342**
Other liabilities and provisions	50,629,680	1,197,535	5,427,059	384,571	4,157,676	139,337,784	**201,134,305**
Total liabilities	635,112,388	618,037,261	208,216,245	191,323,033	52,754,934	139,337,784	1,844,781,645
Liquidity Deficit	(336,257,181)	(114,578,610)	151,661,049	(104,380,418)	364,898,052	38,657,108	-

December 31, 2016	Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and above	Book value
Cash and cash equivalents	440,414,279	392,718,142	-	-	-	-	833,132,421
Financial assets reflected at fair value through profit or loss	-	1,813,418	-	-	-	-	1,813,418
Loans and advances to banks	-	-	-	7,388,904	-	-	7,388,904
Loans and advances to customers	-	103,481,816	47,640,764	223,323,311	179,217,322	25,612,991	630,501,178
Investment securities	45,355	60,636,841	7,771,617	23,016,058	12,608,013	30,222,393	134,300,277
Other assets	170,789,530	3,918,632	2,421,366	276,040	387,989	-	177,793,557
Total assets	662,474,138	562,568,849	57,833,747	254,004,313	192,213,324	55,835,384	1,784,929,755
Derivative financial liabilities held-for-trading	-	878.567	-	-	-	-	878.567
Bank deposits	16,531,076	-	-	-	-	-	16,531,076
Customer deposits	384,180,988	817,582,786	188,553,963	73,498,250	-	-	1,463,815,987
Funds derived from repurchasing agreements (Repo transactions)	-	19,239,756	-	-	-	-	19,239,756
Subordinated loans	-	-	-	-	17,545,000	-	17,545,000
Taxes payable	-	-	2,148,880	-	-	-	2,148,880
Other liabilities and provisions	168,810,210	6,949,261	2,150,782	1,576,583	-	-	179,486,836
Total liabilities	569,522,274	-	192,853,625	75,074,833	17,545,000	-	1,699,646,102
Liquidity Deficit	92,951,864	(282,081,521)	(135,019,878)	178,929,480	174,668,324	55,835,384	85,283,653

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

4. Financial risk management (*continued*)

(c) Liquidity risk (*continued*)

Distribution of contractual financial liabilities by remaining maturity

December 31, 2017	Book value	Gross nominal amounts	Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and above
Derivative financial liabilities held-for-trading	1,282,698	1,282,698	-	1,282,698	-	-	-	-
Bank deposits	16,028,512	16,028,512	16,028,512	-	-	-	-	-
Customer deposits	1,605,290,384	1,607,620,535	566,580,021	684,031,153	136,681,113	190,480,990	29,847,258	-
Funds from repo transactions	543,404	543,404	543,404	-	-	-	-	-
Subordinated liabilities	18,750,000	18,750,000	-	-	-	-	18,750,000	-
Other liabilities and provisions	17,200,83	17,893,785	4,019,385	3,635,558	4,312,737	1,454,833	4,157,676	313,596
Total	1,659,095,837	1,662,118,935	587,171,323	688,949,409	140,993,850	191,935,823	52,754,934	313,596
Non-Cash Loans	8,428,163	8,428,163	3,378,876	901,265	430,706	3,022,196	445,120	250,000

December 31, 2016	Book value	Gross nominal amounts	Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and above
Derivative financial liabilities held-for-trading	878,567	878,567	-	878,567	-	-	-	-
Bank deposits	16,531,076	16,548,896	16,539,986	8,910	-	-	-	-
Customer deposits	1,463,815,987	1,463,833,807	384,189,899	522,243,363	374,178,724	149,074,390	34,147,431	-
Funds from repo transactions	19,239,756	19,257,576	19,248,666	8,910	-	-	-	-
Subordinated liabilities	17,545,000	17,545,000	-	-	-	-	17,545,000	-
Other liabilities and provisions	8,225,388	8,225,388	-	-	5,199,066	1,668,357	1,357,965	-
Total	1,526,235,774	1,526,289,234	419,978,551	523,139,750	379,377,790	150,742,747	53,050,396	-
Non-Cash Loans	16,869,433	16,869,433	485,433	771,863	7,548,946	6,551,000	1,262,191	250,000

The table above shows undiscounted cash outflows according to potential nearest contract maturity of the Group’s financial liabilities. The expected cash flows of the Group from these liabilities may significantly change according to this analysis.

(d) Market Risk

Changes in market prices, such as market risk, interest rate, stock prices, exchange rates and credit spreads, are the risk of affecting the Group's income or the value of the financial instruments it holds. The aim of the market risk management is to optimize the risk profitability and to control the market risk amount at acceptable parameters.

Management of market risk

The Group separately monitors the market risks to which the portfolio is exposed for trading purposes and not for trading purposes. Traders for trading purposes are mostly held by the Treasury Department and also include positions that result in market makings. "Standard method" and "Risk exposure value method" (VaR) are used to measure the market risk related to the portfolios held for trading purposes. The measurements made within the scope of the standard method are carried out on a monthly basis and are taken into account when calculating capital adequacy. Measurements made within the scope of VaR calculations are carried out on a monthly basis. RMD, Historical Simulation, Monte Carlo Simulation, Parametric Method. The Bank is based on the Monte Carlo simulation VaR results within the framework of the intrinsic management of the market risk and the determination of limits.

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

4. Financial risk management (*continued*)

(d) Market risk (*continued*)

The calculations made by the other two methods are used for comparison and monitoring purposes. In the VaR calculation, a retrospective 1-year market data set is used, with a 99% confidence interval and a 1-day hold-up period (10 days in the calculation of legal capital). Retrospective testing is performed to assess the reliability of the RMD model. Stress tests and scenario analyzes are applied to reflect the large market fluctuations of VaR calculations.

The following tablature details the market risk calculated as of 31 December 2017 in accordance with the principles in the third part of "Regulation on Measurement and Evaluation of Capital Adequacy of Banks" published in Official Gazette No. 29511 dated 23 October 2015.

		Risk Weighted Amounts
	Outright Products	
1	Interest rate risk (general and specific)	2,122,083
2	Equity risk (general and specific)	-
3	Foreign exchange risk	817,855
4	Commodity risk	-
	Options	
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitizations	-
9	Total	2,939,938

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

4. Financial risk management (*continued*)

(d) Market risk (*continued*)

Interest rate risk exposure – non-trading portfolios

The primary risk which non-trading portfolios are exposed to is fluctuation in future cash flows as a result of changes in market risk rates, and loss due to reduction in the fair value of financial assets. Interest rate risk management is conducted by monitoring interest rate interval and determining pre-approved limits for re-pricing time bands. The monitoring of these limits is undertaken by ALCO and supported by Risk Management. The interest rate position for the Group's non-trading portfolios is as follows:

December 31, 2017	Up to 1 month	1-3 month	3-12 month	1-5 years	5 years and above	Non Interest Bearing	Book value
Cash and cash equivalents	667,009,259	26,374,439	-	-	-	132,027,661	825,411,359
Loans and advances to banks	-	-	-	-	-	9,019,397	9,019,397
Loans and advances to customers	396,345,368	24,498,882	186,807,111	46,522,519	20,365,818	58,969,397	733,509,095
Investment securities	50,089,347	33,891,154	26,316,420	47,022,200	1,578,096	45,355	158,942,572
Other assets	231,698	24,352	-	-	-	117,643,172	117,899,222
Total assets	1,113,675,672	84,788,827	213,123,531	93,544,719	21,943,914	317,704,982	1,844,781,645
Derivative financial liabilities held-for-trading	-	-	-	-	-	1,282,698	1,282,698
Bank deposits	15,872,004	-	-	-	-	156,508	16,028,512
Customer deposits	1,150,882,422	134,947,482	187,693,498	31,840,110	-	99,926,872	1,605,290,384
Funds from repo transactions	543,404	-	-	-	-	-	543,404
Subordinated loans	-	-	18,750,000	-	-	-	18,750,000
Corporation tax payable	-	-	-	-	-	1,752,342	1,752,342
Other liabilities and provisions	770,727	486,031	501,841	-	-	199,375,706	201,134,305
Total liabilities	**1,168,068,557**	**135,433,513**	**206,945,339**	**31,840,110**	**-**	**302,494,126**	**1,844,781,645**
Net	**(54,392,885)**	**(50,644,686)**	**6,178,192**	**61,704,609**	**21,943,914**	**15,210,856**	**-**

December 31, 2016	Up to 1 month	1-3 month	3-12 month	1-5 years	5 years and above	Non Interest Bearing	Book value
Cash and cash equivalents	796,829,897	11,195,957	-	-	-	25,106,567	833,132,421
Loans and advances to banks	-	-	7,388,904	-	-	-	7,388,904
Loans and advances to customers	331,305,506	59,850,269	77,287,270	134,365,400	28,546,311	(853,578)	630,501,178
Investment securities	79,695,713	24,809,414	28,348,720	-	-	1,446,430	134,300,277
Other assets	169,264,963	2,405,471	765,942	202,753	-	38,708,468	211,347,597
Total assets	1,377,096,079	98,261,111	113,790,836	134,568,153	28,546,311	64,407,887	1,816,670,377
Derivative financial liabilities held-for-trading	-	-	878,567	-	-	-	878,567
Bank deposits	-	16,399,046	-	-	-	132,030	16,531,076
Customer deposits	747,887,770	376,604,094	149,074,390	34,147,431	-	156,102,302	1,463,815,987
Funds from repo transactions	19,239,756	-	-	-	-	-	19,239,756
Subordinated loans	-	-	17,545,000	-	-	-	17,545,000
Corporation tax payable	-	2,148,880	-	-	-	-	2,148,880
Other liabilities and provisions	-	-	-	-	-	178,761,380	178,761,380
Total liabilities	**767,127,526**	**395,152,020**	**167,497,957**	**34,147,431**	**-**	**334,995,712**	**1,698,920,646**
Net	**609,968,553**	**(296,890,909)**	**(53,707,121)**	**100,420,722**	**28,546,311**	**(270,587,825)**	**117,749,731**

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

4. Financial risk management (*continued*)

(d) Market risk (*continued*)

Interest rate risk measurement frequency

The economic value differences arising from interest rate fluctuations as of December 31, 2017 and December 31, 2016 pursuant to the Regulation regarding measurement and evaluation of interest rate risk arising from banking accounts by the standard shock method are presented in the following table:

Currency – December 31, 2017	Applied Shock (+/- x base points)	Other Earnings / Losses	Gains/Equities-Losses /Equities
Turkish Lira	500	(446,541)	(%0.68)
	(400)	357,233	%0.54
US Dollar	200	(271,433)	(%0.41)
	(200)	271,433	%0.41
British Pound	200	(2,380,942)	(%3.62)
	(200)	2,380,942	%3.62
Euro	200	2,481,641	%3.77
	(200)	(2,481,641)	(%3.77)
Total for Negative Shocks		527,967	%0.80
Total for Positive Shocks		(617,275)	(%0.94)

Currency – December 31, 2016	Applied Shock (+/- x base points)	Other Earnings / Losses	Gains/Equities-Losses /Equities
Turkish Lira	500	1,631,744	2.34%
	(400)	(1,305,395)	(1.86%)
US Dollar	200	264.593	0.38%
	(200)	(264,593)	(0.38%)
British Pound	200	(2,505,252)	(3.58%)
	(200)	2,505,252	3.58%
Euro	200	1,738,828	2.49%
	(200)	(1,738,828)	(2.49%)
Total for Negative Shocks		1,129,913	1.63%
Total for Positive Shocks		(803,564)	(1.15%)

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

4. Financial risk management (*continued*)

(d) Market risk (*continued*)

Exchange risk

The Group is exposed to exchange risk due to transactions in foreign currencies its investments in its foreign operations.

Exchange risk management
The risk policy has been built on transactions within the limits, and it is essential to keep the foreign currency position in balance.

In order to make the tables below comparable, TL equivalents of the relevant currencies have been shown.

December 31, 2017	US Dollar	Euro	British Pound	Other currencies	Total
Cash and cash equivalents	157,627,547	202,170,097	368,919,413	20,525,567	749,242,624
Financial assets reflected at fair value through profit or loss	-	241,313	14,738	-	256,050
Loans and advances to banks	-	8,962,776	-	-	8,962,776
Loans and advances to customers	42,572,328	17,907,419	520,360,788	-	580,840,535
Investment securities	43,301,816	49,430,900	17,609,376	2,589,696	112,931,788
Other assets	10,266,895	8,366,653	37,081,175	-	55,714,723
Total monetary assets in foreign currencies	**253,768,586**	**287,079,158**	**943,985,490**	**23,115,263**	**1,507,948,496**
Bank deposits	2,454,629	1,439,847	6,203,382	5,902,686	16,000,544
Customer deposits	241,841,624	152,229,897	933,644,930	13,663,207	1,341,379,658
Subordinated loans	18,750,000	-	-	-	18,750,000
Other liabilities	2,405,509	2,104,128	12,183,792	76,029	16,769,457
Total monetary liabilities in foreign currencies	**265,451,762**	**155,773,872**	**952,032,104**	**19,641,922**	**1,392,899,659**
Net on-balance sheet position	**(11,683,176)**	**131,305,286**	**(8,046,614)**	**3,473,341**	**115,048,837**
Net off-balance sheet position	**3,778,763**	**(131,404,871)**	**99,970,026**	**40,990,721**	**13,334,639**
Net position	**(7,904,413)**	**(99,586)**	**91,923,412**	**44,464,062**	**128,383,476**

December 31, 2016	US Dollar	Euro	British Pound	Other currencies	Total
Cash and cash equivalents	158,502,988	166,967,449	411,657,515	114.040	737,241,992
Financial assets reflected at fair value through profit or loss	-	1,813,418	-	-	1,813,418
Loans and advances to banks					
Loans and advances to customers	70,993,179	31,382,647	367,776,795	-	470,152,621
Investment securities	39,787,967	27,464,563	14,385,906	-	81,638,436
Other assets	11,044,594	7,132,243	94,606,283	-	112,783,120
Total monetary assets in foreign currencies	**280,328,728**	**234,760,320**	**888,426,499**	**114.040**	**1,403,629,587**
Bank deposits	3,096,514	8,512,964	4,875,527		16,485,005
Customer deposits	251,618,062	129,839,739	839,549,555	1,489	1,221,008,845
Subordinated loans	17,545,000	-	-	-	17,545,000
Other liabilities and provisions	3,026,477	1,964,318	77,935,337	104	82,926,236
Total monetary liabilities in foreign currencies	**275,286,053**	**140,317,021**	**922,360,419**	**1,593**	**1,337,965,086**
Net on-balance sheet position	**5,042,675**	**94,443,299**	**(33,933,920)**	**112,447**	**65,664,501**
Net off-balance sheet position	**(4,468,255)**	**(92,456,594)**	**97,859,700**	**-**	**934,851**
Net position	**574,420**	**1,986,705**	**63,925,780**	**112,447**	**66,599,352**

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

4. Financial risk management (*continued*)

(d) Market risk (*continued*)

Exchange risk exposure

The following table shows the effect which a depreciation of 10 percent in TL against the following currencies will make on the consolidated comprehensive income statement and profit/loss (except tax effect) for the years ended December 31, 2017 and December 31, 2016.

	December 31, 2017		December 31, 2016	
	Profit / loss	Total comprehensive income statement	Profit / loss	Total comprehensive income statement
US Dollar	790,441	790,441	(57.442)	(57.442)
Euro	9,959	9,959	(198,671)	(198,671)
British Pound	(9,192,341)	(9,192,341)	(6,392,578)	(6,392,578)
Other currencies	(4,446,406)	(4,446,406)	(11,245)	(11,245)
Total, net	(12,838,347)	(12,838,347)	(6,659,936)	(6,659,936)

The following table shows the effect which an appreciation of 10 percent in TL against the following currencies will make on the consolidated comprehensive income statement and profit/loss (except tax effect) for the years ended December 31, 2017 and December 31, 2016.

	December 31, 2017		December 31, 2016	
	Profit / loss	Total comprehensive income statement	Profit / loss	Total comprehensive income statement
US Dollar	(790,441)	(790,441)	57.442	57.442
Euro	(9,959)	(9,959)	198,671	198,671
British Pound	9,192,341	9,192,341	6,392,578	6,392,578
Other currencies	4,446,406	4,446,406	11.245	11.245
Total, net	12,838,347	12,838,347	6,659,936	6,659,936

In this analysis, it is assumed that all other variables, in particular interest rates, remain fixed.

Fair value indication

The estimated fair values of financial instruments are determined using current market information and appropriate valuation methodologies where applicable. When determining estimated fair values of financial instruments, it is necessary to interpret market data. When determining estimated fair values of financial instruments, the management uses the available market data, however, considers that such market data might not reflect the fair value, taking the present conditions into consideration.

The Bank management estimates that the fair values of financial assets and liabilities other than loans and advances to customers and held-to-maturity financial assets and that are measured at amortized cost are not significantly different than their carrying values. These financial assets and liabilities include loan and advances to banks, funds derived from repo transactions, bank deposits and other contractual short-term assets and liabilities. The Bank management believes that the carrying values of these financial assets and liabilities approximately reflect their fair values taking into account the time to re-pricing particularly in a manner to reflect market conditions.

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

4. Financial risk management (*continued*)

(d) Market risk (*continued*)

The fair value measurement classifications of financial assets and liabilities measured at fair value are as follows:

December 31, 2017	Level 1	Level 2	Level 3	Total
Financial assets reflected at fair value through profit / loss: *Derivative financial assets held-for-trading*	-	*256,050*	-	***256,050***
Financial assets held-for-investment purposes *Debt securities*	*30,349,192*	*22,982,669*	*45,355*	***53,377,216***
Total financial assets	30,349,192	23,238,719	45,355	53,633,266
Financial liabilities held-for-trading				
Derivative financial liabilities held-for-trading	-	*1,282,698*	-	***1,282,698***
Total financial liabilities	-	1,282,698	-	1,282,698

December 31, 2016	Level 1	Level 2	Level 3	Total
Financial assets reflected at fair value through profit / loss: *Derivative financial assets held-for-trading*	-	*1,813,418*	-	***1,813,418***
Financial assets held-for-investment purposes *Debt securities*	*2,570,000*	*15,260,889*	*45,355*	***17,876,244***
Total financial assets	2,570,000	17,074,307	45,355	19,689,662
Financial liabilities held-for-trading				
Derivative financial liabilities held-for-trading	-	*878,567*	-	***878,567***
Total financial liabilities		878.567		878.567

The movement table of financial assets at Level 3 is presented in below.

	December 31, 2017	December 31, 2016
Balance at the end of the prior period	45,355	42,836
Purchases	-	2,519
Redemption / sale	-	-
Valuation difference	-	-
Transfers	-	-
Balance at the end of the current period	45,355	45,355

4. Financial risk management (*continued*)

(e) Operational risk

Operational risk is the risk of exposure to direct or indirect loss due to the Bank's processes, employees, technology and infrastructure and external factors such as legal and regulatory requirements and generally accepted corporate approaches (except credit, market and liquidity risk). Operational risks arise from all operations of the Bank, and all entities are exposed to such risks.

The Bank's operational risk elements are determined in accordance with the operational risk definition by evaluating all processes, products and units. Control areas are created for the operational risks that the Bank is exposed to, and all operational risks are included in the relevant control areas and monitored. In this context, an appropriate monitoring method has been developed, defining all operational risks and control frequencies.

The Group has used the "Basic Indicator Method" in the calculation of operational risk. In accordance with the Communiqué on Procedures and Principles regarding Measurement and Evaluation of Capital Adequacy of Banks" published in the Official Gazette dated 7 January 2014 and numbered 5, Section 4 "Calculation of Operational Risk Exposure", operational risk exposure is calculated using the basic indicator method as fifteen percent of the year-end gross income averaged over the previous three years, multiplied by twelve and a half in line with the practice in the national legislation . Operational risk exposure was calculated as 12.5 times operational risk exposure and was shown as TL 61,000,000 (December 31, 2016: TL 58,813,000).

The Central Bank of TRNC ("KKTCMB"), the regulatory organization in the banking sector, determines and inspects capital adequacy requirements that the Bank has to satisfy. In satisfying capital requirements, The Central Bank of TRNC requires that the ratio of capital to total risk weighted assets should be minimum 12%. In the framework of the regulations of The Central Bank of TRNC, the Bank's financial statements are taken into account in the calculation of capital adequacy ratios.

The consolidated equities of the Bank and its financial subsidiaries are analyzed in two categories:

• Tier I capital consists of the sum of goodwill, paid-in capital after deducting prepaid expenses and some other costs, legal reserves, statutory reserves, profit reserves, extraordinary reserves, retained earnings, foreign currency translation differences, non-controlling interests.

• Tier II capital consists of general loan reserves, revaluation fund, available-for-sale financial assets, associates and subsidiaries valuation differences, subordinated loans and free provisions set aside.

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

4. Financial risk management (*continued*)

(f) Capital management – regulatory capital adequacy

Banking operations are classified as commercial transactions or banking transactions. It has been determined to reflect various levels of risks which the Bank may face due to risk weighted assets and off-balance sheet liabilities. Capital requirement for operational risk and market risk as of December 31, 2017 and December 31, 2016 has been calculated using the Basic Indicator Approach, and included in capital adequacy calculations.

The Bank's policy is to create a strong capital base to build trust in investors, lenders and the market in order to achieve the targeted growth.

It has been observed that the Bank its operations which are individually subject to separate regulations have complied with necessary capital requirements in the current and the previous years.

The Bank's regulatory capital positions as of December 31, 2017 and December 31, 2016 are as follows:

	December 31, 2017	December 31, 2016
Tier-I capital	90,618,000	86,721,336
Tier-II capital	96,112,000	80,841,395
Deductions from the capital	(115,273,714)	(97,678,000)
Total equity	**71,456,286**	**69,884,731**
Risk weighted assets	305,211,000	329,243,000
Market risk exposure	2,939,938	26,488,000
Operational risk	61,000,000	58,813,000
Capital ratios		
The ratio of total equity to the sum of risk weighted assets, market risk exposure and operational risk exposure	19.36%	16.86%
The ratio of Tier-I capital to the sum of risk weighted assets, market risk exposure and operational risk exposure	24.55%	20.92%

5. Insurance risk management

In an insurance contract, risk is the possibility of the insured event to occur and uncertainty of the amount of loss subject to it. Due to the nature of the insurance contracts, this risk is possible and unpredictable.

In insurance contracts in which the possibility theory is used in pricing and setting aside provisions, the fundamental risk that the Group is subject to is the possibility that losses and the rights and benefits offered to policyholders occur in excess of the technical provisions set aside for insurance contracts as shown in the financial statements. This occurs when the incurred losses and the paid amounts are higher than what is estimated in terms of frequency and size. Events that are subject to insurance are incidental, and the number of losses incurred and the amount of benefits to policyholders may differ year to year from the estimates made using statistical methods.

Experience has shown that the variability of the expected result decreases as the number of similar insurance contracts increase. Moreover, a portfolio with a high variability will be affected from changes in each sub-portfolio.

Pricing policies

The Group’s pricing principles and policies are as follows:

i) when determining risk premiums, the amount of expected loss is taken into account and premium limits are determined accordingly.

ii) in pricing activities which are part of the new product development process, the Group's relevant units are allowed to work in coordination taking into account customer requirements and the competitive conditions in the market.

iii) the aim is to maintain profitability and continuity on a product basis.

The results of pricing efforts are compared against competitors and international examples.

Risk management

The Group manages insurance risk by managing policy writing limits, approval procedures for new products and limit excesses, pricing, product design and reinsurance policies.

The Group’s policy writing strategy aims diversity in order to maintain a balance portfolio, and depends on creating wide portfolios consisting of similar risks in order to reduce variability of the expected result. All non-life insurances are inherently annual, and policyholders are entitled to deny renewal or change contract terms at the renewal stage.

Insurance risk concentration

Subject to the Group’s liabilities, the size of concentration of an insurance risk that determines the dimension of a certain event or series of events that might significantly affect the Group constitutes the mainline of the insurance risk that the Group is faced with. These concentrations may arise from a single contract or a series of contracts which may give rise to occurrence of significant liabilities. Another important issue related to concentration of insurance risk is that the risk may arise from a combination of risks in a series of different insurance classes.

5. Insurance risk management (*continued*)

Insurance risk concentration *(continued)*

The concentration of insurance risk may arise from events which rarely occur, but make a high impact such as natural disasters; the unexpected changes in the Group's trends such as mortality rate, behavioral changes in policyholders; or exposure to a high loss caused by an important legal process or legal risks.

The Group believes that there is no significant risk concentration based on social groups, profession, age or similar criteria in non-life insurances. The highest possibility that may give rise to a substantial damage for the Group arise from natural disasters like floods, storms and earthquakes.

The Group follows the following methods and assumptions to calculate such risks:

• Measuring geographical concentrations;
• Measuring maximum amount of potential loss;
• Excess of loss reinsurance agreements.

Reinsurance

The Group assigns part of its insurance risks to reinsurance companies by executing reinsurance agreements in order to control its risk exposure and protect its capital resources.

Reinsurance companies that offer reinsurance services for life insurance and other risks are important service providers for the Group’s insurance associates. The following criteria are determinant in relationships with reinsurers:

i) financial soundness
ii) a long-term approach in business relationships
iii) competitive prices
iv) capacity provided for optional and non-proportional (catastrophic) reinsurance agreements
v) capabilities provided to the Company for the risk measurement process, product development, trainings and new developments in the sector

Performances of reinsurance companies are evaluated every year in respect of treaties, taking into account criteria such as whether the reinsurer’s share in insurance claims and the balances arising from reinsurance transactions owed to the Group’s insurance partners have been paid on time and in full as well as the capacity supplied to the Group in optional works, the speed in operational reinsurance transactions and technical knowledge and market information transferred to the Group.

6. Segment Reporting

Operating segments

The Group has six reportable operating segments which are defined below and each of which is a strategic business unit. These strategic business units offer different products and services, and are managed separately according to the Group's management and internal reporting structure. The Board of Directors examines internal management reports of each strategic business unit minimum on a quarterly basis. Below is a summary of the activities of each reportable segment of the Group:

Retail banking

It covers loans to retail customers, deposits collected from such customers and other transactions and balances with these customers.

Corporate and commercial banking

It covers loans to corporate customers, deposits collected from such customers and other transactions and balances with these customers.

Investment banking

It covers the Group’s trading activities and corporate financing activities.

This segment assumes the Group’s funding and central risk management activities through liquid asset investments such as loans obtained, issuance of debt securities and short-term investments, government bonds, and private bonds.

Insurance

It covers the Group’s insurance activities.

Other

It covers information about operating segments that do not meet any of the quantitative lower limits.

The operating results for each reporting segment are presented below. Segment performances are measured based on pre-tax profits of segments included in management reports that are reviewed by the Board of Directors. As the Management believes that profits of the relevant segments are the most appropriate information for performing an evaluation by comparing certain segments against other entities operating in the same sectors, segment profits are used as the performance measurement criterion. Inter-segmental pricing is performed on an arm's length basis.

The measurement of assets and liabilities and operating results of the segments is performed according to the accounting policies described in the notes to accounting policies.

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

6. Reporting by segments (*continued*)

Information about operating segments

December 31, 2017	Retail Banking	Corporate Banking	Other Banking Activities	Total Banking Activities	Insurance	Other	Total
Interests from loans and receivables	24,904,921	21,207,273	18,336,330	64,448,524	1,213,257	12,860,515	78,522,296
Interests on deposits	(21,842,543)	(2,903,610)	(3,363,264)	(28,109,417)	-	(2,066,286)	(30,175,703)
Operating profit							
Profit before tax	18,169,571	175,776	(7,824,715)	10,520,632	2,317,024	-	12,837,656
Income tax provisions	(666,559)	(549,208)	(1,397,661)	(2,613,428)	(540,249)	-	(3,153,677)
Net profit for the period	17,503,012	(373,432)	(9,222,376)	7,907,204	1,776,775	-	9,683,979

December 31, 2017							
Segment assets	558,701,562	64,758,070	1,206,976,581	1,830,436,213	14,345,432	-	1,844,781,645
Total assets	558,701,562	64,758,070	1,206,976,581	1,830,436,213	14,345,432	-	1,844,781,645
Segment liabilities	1,357,950,412	126,440,032	177,801,139	1,662,191,583	2,593,049	-	1,664,784,632
Equities including non-controlling interests	-	-	168,244,630	168,244,630	11,752,383	-	179,997,013
Total liabilities and equity	1,357,950,412	126,440,032	346,045,769	1,830,436,213	14,345,432	-	1,844,781,645

December 31, 2017	TRNC	Turkey	Europe	Other	Total
Total Assets	531,733,459	614,100,900	677,338,150	21,609,136	1,844,781,645
Total liabilities	840,750,875	517,168,774	297,971,984	8,893,000	1,664,784,633
Total equity	137,514,870	42,482,142	-	-	179,997,012
Total liabilities and equity	978,265,745	559,650,916	297,971,984	8,893,000	1,844,781,645

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

6. Reporting by segments (*continued*)
Information about operating segments (*continued*)

December 31, 2016	Retail Banking	Corporate Banking	Other Banking Activities	Total Banking Activities	Insurance	Other	Total
Interests from loans and receivables	10,752,020	3,856,771	21,908,204	36,516,995	-	12,739,597	49,256,592
Interests on deposits	(23,617,802)	(2,918,233)	(1,307,667)	(27,843,702)	-	-	(27,843,702)
Operating profit							
Profit before tax	9,245,116	3,569,157	(3,153,878)	9,660,395	1,640,423	-	11,300,818
Income tax provisions	54,858	(533,464)	(2,081,503)	(2,560,109)	(389,693)	-	(2,949,802)
Net profit for the period	**9,299,974**	**3,035,693**	**(5,235,381)**	**7,100,286**	**1,250,730**	**-**	**8,351,016**

December 31, 2016	Retail Banking	Corporate Banking	Other Banking Activities	Total Banking Activities	Insurance	Other	Total
Segment assets	357,456,023	91,995,548	1,358,066,817	1,807,518,388	11,859,817	-	1,696,312,715
Total assets	**357,456,023**	**91,995,548**	**1,358,066,817**	**1,807,518,388**	**11,859,817**	**-**	**1,696,312,715**
Segment liabilities	1,147,393,151	207,619,696	181,362,813	1,536,375,660	1,884,219	-	1,535,966,645
Equities including non-controlling interests	-	-	271,142,728	271,142,728	9,975,598	-	160,346,070
Total liabilities and equity	**1,147,393,151**	**207,619,696**	**452,505,541**	**1,807,518,388**	**11,859,817**	**-**	**1,696,312,715**

December 31, 2016	TRNC	Turkey	Europe	Other	Total
Total Assets	**424,080,984**	**487,402,685**	**784,829,046**	**-**	**1,696,312,715**
Total liabilities	746,599,816	372,333,182	407,135,647	9,898,000	1,535,966,645
Total equity	124,081,939	36,264,131	-	-	160,346,070
Total liabilities and equity	**870,681,755**	**408,597,313**	**407,135,647**	**9,898,000**	**1,696,312,715**

7. Cash and cash equivalents

Details of cash and cash equivalents specified in the consolidated balance-sheet and consolidated cash flow statement as of December 31, 2017 and December 31, 2016 are as follows:

	December 31, 2017	December 31, 2016
Cash	12,232,355	11,277,052
Central Bank deposits other than required reserves	229,627,962	222,605,337
Loans and advances to banks with an original maturity shorter than three months	293,718,731	363,170,541
Inter-bank money market investments	289,832,311	236,079,491
Total cash and cash equivalents included in the consolidated balance-sheet	**825,411,359**	**833,132,421**
Rediscount on cash and cash equivalents	(1,835,713)	(394.100)
Restricted bank deposits(*)	(475,305)	(306.229)
Total cash and cash equivalents included in the consolidated cash flow statement	**823,100,341**	**832,432,092**

(*) As of 31 December 2017, there are no blocked deposits held by the Ministry of Finance of TRNC (December 31, 2016: TL 306,229).

8. Central Bank required reserves

Pursuant to the decision of KKTCMB dated 30 January 2014 and 872 and article 23 of the Central Bank Law of TRNC, the Banks operating in TRNC constitute legal reserves for their liabilities in Turkish Lira and foreign currencies at the rate of 8% for deposits with a maturity up to 3 months, 7% for deposits with a maturity up to 6 months (6th month included), 6% for deposits with a maturity up to 1 year (1 year included), 5% for deposits with a maturity longer than 1 year, and 8% for other liabilities expect deposits.

In the calculation of legal reserves for the year 2013, a single rate, i.e. 8%, was used for foreign currency obligations, and after the amendment of legislation which was made by KKTCMB pursuant to the Decree No. 872, legal reserve rates which varied by maturity were established for foreign currency obligations. The interest rate applied by KKTCMB for legal reserve holdings is 3.5% for Turkish Lira, 0% for USD, 0% for GBP and 0% for EURO.

	December 31, 2017	December 31, 2016
TL	21,621,900	18,370,031
British Pound	33,193,028	28,459,398
Euro	7,633,517	6,458,624
US Dollar	7,241,213	6,283,167
Total	69,689,658	59,571,220

9. Financial assets reflected at fair value through profit or loss

Derivative financial instruments held-for-trading

Financial assets reflected at fair value through profit / loss as of December 31, 2017 and December 31, 2016 are as follows:

	December 31, 2017	December 31, 2016
Derivative Financial Assets Held-For-Trading	256,050	1,813,418
Total financial assets reflected at fair value through profit or loss	256,050	1,813,418

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

9. Financial assets reflected at fair value through profit or loss (*continued*)

Derivative financial instruments held-for-trading *(continued)*

Gains and losses derived from derivative financial instruments and changes in the fair value of financial instruments held-for-trading are accounted for under the net capital market transaction profits account in the attached consolidated comprehensive income statement. The net capital market transaction profits for the reporting period ended December 31, 2017 is TL 59,281 (December 31, 2016: TL 66,354).

A derivative financial instrument is a financial agreement executed between two parties where the payments are contingent upon the price of one or more factors such as the price of the financial instrument, benchmark interest rates, commodity prices or index. The ordinary activities of the Group include various transactions comprising derivative financial instruments. Among the derivative financial instruments used by the group are forward foreign exchange buying and selling transactions and currency swaps.

The below table shows the distribution of nominal amounts of derivative financial instruments by maturity. The nominal amount of a derivative instrument is the amount of the asset which is subject to the derivative transaction, of the benchmark interest or of the index, and constitutes a basis for the measurement of changes in the value of the derivative transaction. The nominal amounts of derivative instruments show the volume of transactions which exist as of the end of the period or year, and do not in any way reflect credit risk or market risk.

Fair values of derivative financial instruments are calculated using the forward rates at the report date. If reliable forward rates cannot be established due to fluctuations in the market, current market rates are taken into account as best estimates in the determination of the present value of forward rates. The maturity analysis of gross nominal values of derivatives is presented below:

	December 31, 2017					
	Up to 1 Month	1 to 3 Months	3 to 12 months	1 to 5 Years	5 Years and Above	Total
Currency swaps:						
Purchase	154,698,478	16,691,400	-	-	-	171,389,878
Sales	153,908,619	16,715,752	-	-	-	170,624,371
Total purchase	154,698,478	16,691,400	-	-	-	171,389,878
Total sale	153,908,619	16,715,752	-	-	-	170,624,371
Total	308,607,097	33,407,152	-	-	-	342,014,249

	December 31, 2016					
	Up to 1 Month	1 to 3 Months	3 to 12 months	1 to 5 Years	5 Years and Above	Total
Currency swaps:						
Purchase	97,859,700					97,859,700
Sales	96,924,849	-	-	-	-	96,924,849
Total purchase	97,859,700	-	-	-	-	97,859,700
Total sale	96,924,849	-	-	-	-	96,924,849
Total	194,784,549	-	-	-	-	194,784,549

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

10. Funds from repo transactions

The Group raises funds through repurchase agreements by repurchasing financial assets that it holds and selling them at a pre-determined interest. Repo transactions are generally used in the short-term financing of interest bearing assets. Financial assets that are subject to repo transactions are as follows:

	December 31, 2017		December 31, 2016	
	Fair value of the asset	Funds from repo transactions	Fair value of the asset	Funds from repo transactions
Funds from repo transactions	543,788	543,404	19,248,415	19,239,756
Total	543,788	543,404	19,248,415	19,239,756

Interest rediscount amount of funds derived from repo transactions calculated as of December 31, 2017 is TL 384 (December 31, 2016: TL 8,659), and is shown among funds derived from repo transactions.

Assets are pledged as security for funds derived from repo agreements, and generally, the carrying values of assets are higher than the carrying values of relevant obligations within margins set between the parties.

11. Loans and advances to banks

Loans and advances to banks consist of balances with a maturity shorter than three months as of the date of purchase, and the breakdown of such balances is as follows at December 31, 2017 and December 31, 2016.

			December 31, 2017
	TL	FX	Total
Domestic banks	56,621	-	56,621
Foreign banks	-	8,962,776	8,962,776
Total	56,621	8,962,776	9,019,397

			December 31, 2016
	TL	FX	Total
Domestic banks	42,960	-	42,960
Foreign banks	-	7,345,944	7,345,944
Total	42,960	7,345,944	7,388,904

As of 31 December 2017, the loans and advances given to banks for 3 months long amounted to TL 8,962,776 (December 31, 2016: TL 7,345,944).

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

12. Loans and advances to customers

The details of loans and advances to customers as of December 31, 2017 and December 31, 2016 are as follows:

	December 31, 2017	December 31, 2016
Commercial loans	579,860,447	460,284,297
Payables to financial institutions	55,604,571	86,200,000
Consumer loans	3,878,610	80,257,301
Credit cards	94,165,467	3,759,580
Total active loans	733,509,095	630,501,178
Impaired loans	5,450,433	4,184,550
Total gross loans	738,959,528	634,685,728
Provision for impairment in Loans and advances to customers	(5,450,433)	(4,184,550)
Provision for impairment	*(4,944,633)*	*(3,753,450)*
Provision for collective impairment	*(505,800)*	*(431,100)*
Loans and advances to customers, net	733,509,095	630,501,178

Provisions for personal impairment include provisions set aside for loans and advances that are specifically considered to be impaired or non-performing.

Collective provision for impairment includes provisions for credit losses arising from possible default situations of the same qualifying loan and advances portfolio.

The movements of the provision for impairment within the period:

	December 31, 2017	December 31, 2016
Amount of provisions for impairment at the beginning of the period	4,184,550	3,830,895
Rate translation differences	(357,894)	(430,841)
Cancellation provisions	1,663,004	896,757
Collections during the period	(527,020)	(948,488)
Provision for impairment set aside within the period	915,422	1,097,613
Provision for impairment, after collections	5,878,062	4,445,936
Loans and advances written off within the year	(427,629)	(261,386)
Amount of provisions for impairment at the end of the period	5,450,433	4,184,550

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

13. Financial assets held-for-investment purposes

Investment securities as of December 31, 2017 and December 31, 2016 are as follows:

	December 31, 2017	December 31, 2016
Available-for-sale financial assets	53,377,216	17,464,635
Held-to-maturity investments	105,565,356	116,835,642
Total investment securities	158,942,572	134,300,277

	December 31, 2017	December 31, 2016
Debt securities:		
Bonds issued by TRNC Development Bank	6,642,630	8,999,555
Private sector bonds	46,734,586	8,465,080
Total available-for-sale financial assets	53,377,216	17,464,635

Held-to-maturity investments:

	December 31, 2017	December 31, 2016
Debt securities:		
Government bonds – TL	63,684,844	77,631,472
Private sector bonds	41,880,512	39,204,170
	105,565,356	116,835,642

The movement of held-to-maturity securities within the period:

	December 31, 2017	December 31, 2016
Balance at the Beginning of the Period	116,835,642	116,967,096
Purchases within the Period	15,575,387	39,510,888
Amortizations (-)	(36,202,690)	(42,852,282)
Rate Differences	5,877,230	1,804,383
Interest Rediscounts	3,479,787	1,405,557
Total at the End of the Period	105,565,356	116,835,642

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

14. Tangible and intangible assets

The movements of tangible and intangible assets between January 1 and December 31, 2017 are as follows:

Tangible assets	1 January 2017	FX Rate Conversion Differences	Inflows	Outflows	December 31, 2017
Cost:					
Buildings and lands	27,716,649	4,044,159	76,902	(139,125)	31,698,585
Motor-vehicles	1,105,206	70,218	1,899,663	(170,793)	2,904,294
Furniture, office equipment and special costs	18,104,036	2,628,570	719,461	(541,853)	20,910,214
Other fixed assets	2,345,829	-	615,094	-	2,960,923
Accumulated depreciation:					
Buildings and lands	14,376,897	1,934,730	1,291,316	(8,437)	17,594,506
Motor-vehicles	772,515	49,302	238,982	(170,793)	890,006
Furniture, office equipment and special costs	15,320,223	1,876,396	1,200,431	(541,723)	17,855,327
Other fixed assets	2,065,682	-	170,956	-	2,236,638
Net book value	16,736,403				19,897,539

Intangible assets	01.Jan.17	FX Rate Conversion Differences	Inflows	Outflows	December 31, 2017
Cost:					
Software programs	13,254,976	1,845,090	5,134,086	-	20,234,152
Accumulated amortization:					
Software programs	9,143,691	1,628,392	1,128,807	-	11,900,890
Net book value	4,111,285				8,333,262

As of December 31, 2017, there is no pledge, lien or other restriction on tangible assets.

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

14. Tangible and intangible assets (*continued*)

The movements of tangible and intangible assets between January 1 and December 31, 2016 are as follows:

Tangible assets	1 January 2016	FX Rate Conversion Differences	Inflows	Outflows	December 31, 2016
Cost:					
Buildings and lands	27,134,059	8,081	574,509		27,716,649
Motor-vehicles	1,096,431	153	8,622	-	1,105,206
Furniture, office equipment and special costs	17,757,391	4,080	625,486	(282.921)	18,104,036
Other fixed assets	2,322,071	-	23,758	-	2,345,829
Accumulated depreciation:					
Buildings and lands	13,350,067	2,427	1,024,403	-	14,376,897
Motor-vehicles	645.002	43	127,470	-	772,515
Furniture, office equipment and special costs	14,297,672	2,097	1,299,659	(279,205)	15,320,223
Other fixed assets	1,883,861	-	181,821	-	2,065,682
Net book value	18,133,350				16,736,403

Intangible assets	1 January 2016	FX Rate Conversion Differences	Inflows	Outflows	December 31, 2016
Cost:					
Software programs	13,006,290	2,447	246,239	-	13,254,976
Accumulated amortization:					
Software programs	7,917,036	1,727	1,224,928	-	9,143,691
Net book value	5,089,254				4,111,285

As of December 31, 2016, there is no pledge, lien or other restriction on tangible assets.

15. Immovable properties held for investment

None (December 31, 2016: None).

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

16. Other assets

The details of other asset accounts as of December 31, 2017 and December 31, 2016 are as follows:

	December 31, 2017	December 31, 2016
Deposits and guarantees given	2,554,101	2,429,260
Prepaid expenses	2,664,937	1,968,886
Receivables from insurance operations	1,754,980	1,359,271
Receivables from cheques not yet due	6,050,415	103,880
Other	6,698,280	2,896,312
Total other assets	19,722,713	8,757,609

17. Derivative Financial liabilities

As of December 31, 2017 and December 31, 2016, financial liabilities held for trading consist of negative differences relating to derivative financial instruments:

	December 31, 2017	December 31, 2016
Swap transactions	1,282,698	878,567
Total	1,282,698	878,567

18. Bank deposits

The details of the bank deposits as of December 31, 2017 and December 31, 2016 are as follows:

	December 31, 2017	December 31, 2016
Demand deposit	16,028,512	16,531,076
Total bank deposits	16,028,512	16,531,076

	December 31, 2017	December 31, 2016
Domestic	156,508	132,032
Foreign	15,872,004	16,399,044
Total	16,028,512	16,531,076

19. Customer deposits

The details of customer deposits as of December 31, 2017, and December 31, 2016 are as follows:

	December 31, 2017		
	Demand deposit	Time deposits	Total
Savings deposits	468,356,108	492,437,255	960,793,363
Foreign exchange deposit account	57,261,564	459,183,473	516,445,037
People residing in the country	*54,302,616*	*419,959,451*	*474,262,067*
People residing abroad	*2,958,948*	*39,224,022*	*42,182,970*
Commercial institutions deposits	37,339,699	83,959,705	121,299,404
Official institutions deposits	4,451,415	866,179	5,317,594
Other	502,006	932,980	1,434,986
Total customer deposits	567,910,792	1,037,379,592	1,605,290,384

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

19. Customer deposits (*continued)*

	December 31, 2016		
	Demand deposit	Time deposits	Total
Savings deposits	420,925,680	439,675,366	860,601,046
Foreign exchange deposit account	51,865,647	399,249,820	451,115,467
People residing in the country	47,701,259	364,362,521	412,063,780
People residing abroad	4,164,388	34,887,299	39,051,687
Commercial institutions deposits	69,887,909	69,239,925	139,127,834
Official institutions deposits	2,546,915	3.423	2,550,338
Other	5,898,313	4,522,989	10,421,302
Total customer deposits	551,124,464	912,691,523	1,463,815,987

20. Subordinated loans

The Group signed a Subordinated Loan agreement on September 10, 2014 with Özyol Holding A.Ş. in the framework of the "Communiqué on Procedures and Principles Regarding Measurement and Evaluation of the Capital Adequacy of Banks" published on the basis of Article 45 of the Banking Law No. 62/2017 (Communiqué").

The amount of loan was USD 5,000,000, annual interest rate was 6 Month USD Libor +5.25%, and the term of the agreement was 6 years after its signature.

As of December 31, 2017, net carrying value of the subordinated loan is TL 18,750,000 (December 31, 2016: TL 17,545,000).

21. Other Liabilities and Provisions

The primary items that constitute other obligations and provisions are as follows:

	December 31, 2017	December 31, 2016
Payment Orders	3,938,293	2,599,553
Various payables	3,489,625	4,381,046
Other liabilities	4,579,333	4,286,715
Insurance technical provisions	3,235,369	1,659,509
Provision for short term employee benefits	1,253,068	860,277
Blocked accounts	411,544	333,983
Other provisions	293,607	267,720
Total other liabilities and provisions	17,200,839	14,388,803

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

21 . Other liabilities and provisions (*continued*)

The movements of insurance technical provisions within the year are detailed in the following tables:

Unearned premium reserve	December 31, 2017	December 31, 2016
Unearned premium reserve, gross	2,479,183	1,786,847
Unearned premium reserve, reinsurer's shares	(1,226,115)	(928,369)
Unearned premium reserve, net	1,253,068	858,478

Unearned premium reserve	December 31, 2017	December 31, 2016
Opening balance	858,478	777,020
Premiums written during the period	4,439,176	3,632,460
Premiums earned during the period	(4,044,586)	(3,551,002)
Balance at the end of the year	1,253,068	858,478

	December 31, 2017	December 31, 2016
Outstanding claims reserve, gross	-	4,496
Outstanding claims reserve, reinsurer's shares	-	(2,697)
Outstanding claims reserve, net	-	1,799

Outstanding claims reserve	December 31, 2017	December 31, 2016
Opening balance	1,799	1,526
Payments during the period	361,503	(277,073)
Increases during the period	(363,302)	277,346
Balance at the end of the year	-	1,799

22. Income taxes

The items that constitute the income tax expense shown in the attached consolidated financial income statement are as follows:

	December 31, 2017	December 31, 2016
Income taxes shown within the net profit for the period		
Current tax expense	(836,790)	(2,551,112)
Deferred tax income / (expense):	(2,316,887)	(398,690)
	(3,153,677)	(2,949,802)
Income taxes shown within other comprehensive income		
Accounted tax within other Comprehensive Income	(975,577)	(74,855)
Accounted deferred tax within other Comprehensive Income	(200,990)	(151,570)
	(1,176,567)	(226,425)
Total tax expenses	(4,330,244)	(3,176,227)

The movements of provision for income tax within the period are detailed in the table below:

	December 31, 2017	December 31, 2016
Opening balance	2,148,880	3,021,597
Income tax expense for the current period	836,790	2,551,112
Income tax accounted for under other comprehensive income	975,577	74,855
Prepaid taxes within the period	(2,208,905)	(3,498,684)
Corporation tax payable	1,752,342	2,148,880

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

22. Income taxes (*continued*)

The reconciliation between the provision for income tax calculated at the legal tax rate over the pretax operating profit of the Group shown in its consolidated financial statements and the actual provision for income tax calculated at the Group's effective tax rate have been detailed in the following table as of December 31, 2017 and December 31, 2016.

	December 31, 2017	Tax rate (%)	December 31, 2016	Tax rate (%)
Net operating profit before tax and non-controlling interests	12,837,656		11,300,818	
Provision for income tax calculated at the legal tax rate	(3,164,748)	%19.25 - %23.5	(2,709,296)	%20.25 - %23.5
Other, net	11,071		(240,506)	
Income tax expense	(3,153,677)		(2,949,802)	

The details of items that result in deferred tax assets and liabilities as of December 31, 2017 and December 31, 2016 are as follows:

	December 31, 2017	December 31, 2016
Other provisions	(58,556)	(652,931)
Valuation differences of financial assets and liabilities	(20,641)	(21,753)
Deferred tax assets	(79,197)	(674,684)
Valuation differences of financial assets and	1,850,983	147,578
KKTCMB and VUY depreciation difference	231,316	405,715
Other temporary differences	1,933,350	1,539,967
Deferred tax liabilities:	4,015,649	2,093,260
Deferred tax liabilities, (net)	3,936,453	1,418,576

23. Earnings per share

Earnings per share are calculated by dividing the Group's net profit for the period by the weighted average number of shares in the period.

The Company has no diluted shares as of December 31, 2017 and December 31, 2016.

The following table shows the calculation of earnings per share:

	December 31, 2017	December 31, 2016
Net profit for the period	8,779,533	8,028,691
Weighted number of shares (100 pieces)	81,072,525	77,211,336
Earnings per 100 shares	0.1083	0.1040

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

24. Equity

Paid-up capital

As of December 31, 2017, the authorized capital of the Bank is TL 82,000,000 (December 31, 2016: TL 78,000,000). As of December 31, 2017, the paid-up capital is TL 81,072,525 (December 31, 2016: TL 77,211,336). The shares representing authorized capital consist of 20,380 “New A” shares each worth 10 Kurus, and 81,997,962 “New B” shares each worth TL 1. “New A” and “New B” shares each have one voting right, and are equal in terms of other rights.

Pursuant to the decision taken at the Bank’s 116th Ordinary General Assembly Meeting held on April 6, 2017; of a sum of TL 6,038,491 which was found by adding the profit carried forward from year 2015 to TL 4,608,187, i.e. net profit for year 2016, TL 461,000 was transferred to the Legal Reserve Account and TL 5,557,491 was transferred to Retained Earnings Account. At the Extraordinary General Assembly Meeting held at the same date, it was decided to capitalize TL 622 from cash and TL 3,860,567 from the Retained Earnings Account and to issue “New B” bonus shares at a rate of 5.00% to shareholders over the nominal values of “New A” and "New B” shares based on the number of shares they held at June 5, 2017.

Legal reserves

Banks have to set aside a reserve for contingencies at the rate of 10% of their annual net profits. This requirement continues until the reserve is equal to total paid-up capital. These reserves are only used in the deduction of losses.

Non-controlling interests

The details of the non-controlling interests as of December 31, 2017 and December 31, 2016, are as follows:

	December 31, 2017	December 31, 2016
Capital and other reserves	9,852,404	9,579,794
Retained earnings	5,929,456	3,882,894
Other comprehensive income	1,936,300	2,319,172
Total	17,718,160	15,781,860

Available-for-sale financial assets valuation differences:

	December 31, 2017	December 31, 2016
Valuation differences at the beginning of the period	1,083,713	346,625
Changes in fair value of available-for-sale financial assets	800,391	644,980
The effect of deferred and corporation tax	(200,990)	(151,570)
Valuation differences of available-for-sale financial assets transferred to profit/loss within the period	4,151,390	318,533
The effect of deferred and corporation tax	(975,577)	(74,855)
Valuation differences at the end of the period	4,858,927	1,083,713

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

25. Related parties

If a party controls another party, or enjoys significant influence on the other party's decisions relating to its activities and operations, then these parties can be called related parties. Shareholders and Group companies are defined as related parties for the purposes of this consolidated financial report. Related parties include also individual shareholders, managers of Group companies, members of the board of directors and their families.

The Group conducts various transactions under commercial conditions with related parties in the scope of its banking activities.

Below are the balances with related parties as of the end of the period and the transactions conducted within the year:

	December 31, 2017			
	Cash loans	Non-Cash Loans	Banks	Deposits
Indirect/direct shareholders	31,584,967	49,094	976,504	13,708,128
Senior Management	204,146	40,000	-	9,391,225
Total	31,789,113	89,094	976,504	23,099,353

	December 31, 2016			
	Cash loans	Non-Cash Loans	Banks	Deposits
Indirect/direct shareholders	29,833,835	67,852	2,400,964	18,036,280
Senior Management	291,478	4,640	-	6,375,714
Total	30,125,313	72,492	2,400,964	24,411,994

	December 31, 2017				
	Commission Incomes	Interest Incomes	Other Incomes	Interest Incomes	Other Operating Expenses
Indirect/direct shareholders	11,825	129,308	172	1,128,463	201,060
Senior Management	10,345	9,682	991	130,856	-
Total	22,170	138,990	1,163	1,259,319	201,060

	December 31, 2016				
	Commission Incomes	Interest Incomes	Other Incomes	Interest Incomes	Other Operating Expenses
Indirect/direct shareholders	6,580	255,236	58	1,127,242	104,949
Senior Management	5,018	29,578	-	130,856	-
Total	11,598	284,814	58	1,258,098	104,949

Transactions
There is no collateral taken from receivables from related parties. There are no impaired receivables from related parties.
Benefits and rights to senior management
Total interests provided to the senior management and board of directors members in the accounting period ended December 31, 2017 amount to TL 5,235,367 (December 31, 2016: TL 4,338,874).

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

26. Other income

The other income as of the years ended December 31, 2017 and December 31, 2016 are as follows:

	December 31, 2017	December 31, 2016
Earned premiums	2,175,377	1,868,305
Written premiums, net of reinsurer's share	*1,780,787*	*1,786,847*
Change in unearned premium reserve	*394,590*	*81,458*
Cancellation provisions	637,493	1,007,611
Prudential Reserves Premium Return	237,630	508,986
Income from sale of fixed assets	131,329	12,879
Fees charged to customers for communication expenses	106,882	109,342
Other	128,943	61,984
Total	3,417,654	3,569,107

27. Personnel expenses

The details of personnel expenses during the periods ended on December 31, 2017 and December 31, 2016 are as follows:

	December 31, 2017	December 31, 2016
Salary and wages	(23,320,140)	(19,515,994)
Social security premiums employer's share	(3,322,988)	(2,671,770)
Other benefits	(1,802,601)	(1,541,052)
Total	(28,445,729)	(23,728,816)

Average number of employees of the Group within the year:

	December 31, 2017	December 31, 2016
Bank	195	196
Subsidiaries	91	92
Turkish Bank UK Ltd	*82*	*82*
Türk Sigorta Ltd	*9*	*10*
Total	286	288

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

28. Other expenses

The details of other expenses during the fiscal years ended on December 31, 2017 and December 31, 2016 are as follows:

	December 31, 2017	December 31, 2016
Consultancy expenses	(4,528,279)	(4,290,298)
Communication expenses	(4,024,871)	(1,442,170)
Saving Deposit Insurance Fund premiums	(3,824,136)	(4,085,409)
Computer usage expenses	(3,271,010)	(2,784,756)
Lease and operating lease expenses	(1,357,038)	(1,165,920)
Lease and operating lease expenses	(1,037,991)	(863,184)
Other various administrative expenses	(629,709)	(2,413,166)
Maintenance and repair expenses	(626,892)	(354,317)
Energy expenses	(515,148)	(419,316)
Advertising expenses	(407,399)	(334,151)
Hospitality expenses	(206,180)	(138,619)
Office material expenses	(203,876)	(192,979)
Vehicles expenses	(174,811)	(180,653)
Cleaning expenses	(114,448)	(108,980)
Losses from write-offs	(64,186)	(63,590)
Total	(20,985,974)	(18,837,508)

29. Off-balance sheet liabilities

As of December 31, 2017 and December 31, 2016, the Bank and its subsidiaries assume various commitments and contingent liabilities which are summarized below, but are not shown in consolidated financial statements during their ordinary activities:

	December 31, 2017	December 31, 2016
Letters of guarantee	7,865,663	10,553,233
Letters of credit	562,500(*)	6,316,200
Total non-Cash Loans	8,428,163	16,869,433
Credit cards expenditure limit commitments	42,156,371	35,692,701
Loan allocation commitments with disbursement guarantees	226,660,151	132,324,971
Payment commitments for cheques	25,029,500	27,096,000
Other Irrevocable Commitments	1,549,231,033	1,286,999,359
Total commitments	1,843,077,055	1,482,113,031
Total commitments and non-cash loans	1,851,505,218	1,498,982,464

(*) On 27 April 2017, the Group secured € 5,000,000 of financing to support the import and export business of the European Bank for Reconstruction and Development under the Foreign Trade Support Program ("TFP"). The relevant amount has been used under the support program.

Information about contingent liabilities and assets

As of December 31, 2017 the amount of provisions set aside for litigation due to a dispute is TL 333,828 (December 31, 2016: TL 537,544). Due to the nature of insurance activities and the nature of the law system which generally favors policyholders, the Group has set aside full reserves for all actions other than actions instituted for non-pecuniary damages and risks that are not covered by insurance policies. Since most of these kinds of important claims are transferred to reinsurance companies through optional agreements, amounts net of reinsurer’s share do not have a significant effect on the Group’s financial position.

(Unless otherwise specified, amounts are expressed in Turkish Lira (TL))

30. Information about consolidated partnerships

Additional information about consolidated partnerships and shareholding interests as of December 31, 2017 and December 31, 2016 is as follows:

December 31, 2017	*Direct shareholding ratio (%)*	*Indirect shareholding ratio (%)*
Subsidiaries		
Turkish Bank (UK) Ltd	83.33	83.33
Türk Sigorta Ltd	51.16	51.16

December 31, 2016	*Direct shareholding ratio (%)*	*Indirect shareholding ratio (%)*
Subsidiaries		
Turkish Bank (UK) Ltd	83.33	83.33
Türk Sigorta Ltd	51.16	51.16

31. Post-reporting events

At the Extraordinary General Assembly Meeting held on April 26, 2018, it has been decided to increase 4,000,000 shares from retained earnings of the authorized capital of Türk Bankası Ltd. to TL 86,000,000.