

**TÜRK BANKASI LIMITED  
AND ITS SUBSIDIARIES**

Consolidated Financial Statements  
As at and for the year ended  
31 December 2018 with  
Independent Auditor's Report Thereon

30 April 2019

This report contains "Independent Auditor's Report"  
comprising 3 pages and "Consolidated Financial  
Statements and Related Disclosures and Footnotes"  
comprising 76 pages

## Türk Bankası Limited and its Subsidiaries

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## Independent Auditors' Report

To the Shareholders of Türk Bankası Limited

### *Opinion*

We have audited the consolidated financial statements of Turk Bankası Limited ("the Bank"), and its subsidiaries (together will be referred as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

### *Basis for Opinion*

We conducted our audit in accordance with 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 Bank or to cease operations, or has no realistic alternative but to do so.

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

### ***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

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:

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



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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



30 April 2019  
İstanbul, Turkey

## Türk Bankası Limited and its Subsidiaries

### Consolidated Statement of Financial Position

As of 31 December 2018

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

	Note	31 December 2018	31 December 2017
<b>ASSETS</b>			
Cash and cash equivalents	9	1,230,332,521	825,411,359
Reserve deposits at central bank	10	73,366,947	69,689,658
Financial assets at fair value through profit or loss	11	10,490,779	256,050
Loans and advances to banks	13	17,536,790	9,019,397
Loans and advances to customers	14	848,250,403	733,509,095
Investment securities	15	193,820,978	158,942,572
Tangible assets	16	21,467,051	19,897,539
Intangible assets	16	10,241,074	8,333,262
Other assets	17	16,235,235	19,722,713
<b>TOTAL ASSETS</b>		<b>2,421,741,778</b>	<b>1,844,781,645</b>
<b>LIABILITIES AND EQUITY</b>			
Derivative financial liabilities	18	523,154	1,282,698
Deposits from banks	19	126,663,668	16,028,512
Deposits from customers	20	2,029,956,436	1,605,290,384
Funds provided under repurchase agreements	12	-	543,404
Subordinated loans	21	26,220,000	18,750,000
Other liabilities and provisions	22	23,757,036	17,200,839
Current tax liability	23	3,102,001	1,752,342
Deferred tax liability	23	4,099,099	3,936,453
<b>TOTAL LIABILITIES</b>		<b>2,214,321,394</b>	<b>1,664,784,632</b>
<b>EQUITY</b>			
Share capital	25	85,126,685	81,072,525
Reserves	25	77,841,750	60,988,569
Retained earnings		22,418,596	20,217,759
<b>TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK</b>		<b>185,387,031</b>	<b>162,278,853</b>
<b>NON-CONTROLLING INTERESTS</b>	25	<b>22,033,353</b>	<b>17,718,160</b>
<b>TOTAL EQUITY</b>		<b>207,420,384</b>	<b>179,997,013</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,421,741,778</b>	<b>1,844,781,645</b>

The accompanying notes are an integral part of these consolidated financial statements.

## Türk Bankası Limited and its Subsidiaries

### Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

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

	Note	31 December 2018	31 December 2017
<b>Interest income</b>			
Interest income on loans and receivables		65,470,186	51,924,557
Interest income on marketable securities		13,492,284	10,858,085
Interest income on deposits		30,233,862	14,997,390
Interest income on interbank and other money market placements		1,199,622	521,940
Other interest income		12,307	220,324
<b>Total interest income</b>		<b>110,408,261</b>	<b>78,522,296</b>
<b>Interest expense</b>			
Interest expense on deposits		(38,795,803)	(28,418,763)
Interest expense on other money market		(73,865)	(18,685)
Interest expense on funds borrowed		(1,830,786)	(1,231,212)
Other interest expense		(633,205)	(507,043)
<b>Total interest expense</b>		<b>(41,333,659)</b>	<b>(30,175,703)</b>
<b>Net interest income</b>		<b>69,074,602</b>	<b>48,346,593</b>
Fees and commission income		14,665,003	12,431,602
Fees and commission expense		(5,474,465)	(3,964,278)
<b>Net fee and commission income</b>		<b>9,190,538</b>	<b>8,467,324</b>
<b>Other operating income</b>			
Net trading income		42,834	59,281
Net foreign exchange gain		6,403,706	7,435,810
Other income	27	4,553,400	3,417,654
<b>Total operating income</b>		<b>10,999,940</b>	<b>10,912,745</b>
<b>Other operating expenses</b>			
Personnel expenses	28	(34,421,131)	(28,445,729)
Impairment on loan losses, net	14	(147,946)	(388,402)
Depreciation and amortization	16	(5,115,821)	(4,030,492)
Taxes other than on income		(34,900)	(1,038,409)
Other expenses	29	(36,698,553)	(20,985,974)
<b>Total operating expenses</b>		<b>(76,418,351)</b>	<b>(54,889,006)</b>
<b>Profit before income tax</b>		<b>12,846,729</b>	<b>12,837,656</b>
Income tax	23	(3,395,787)	(3,153,677)
<b>Profit for the year</b>		<b>9,450,942</b>	<b>9,683,979</b>

The accompanying notes are an integral part of these consolidated financial statements.

## Türk Bankası Limited and its Subsidiaries

### Consolidated Statement of Other Comprehensive Income

For the year ended 31 December 2018

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

	Note	31 December 2018	31 December 2017
<b>Profit for the year</b>		<b>9,450,942</b>	<b>9,683,979</b>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Equity investments at FVOCI – net change in fair value	25	1,332,937	-
Related Tax	25	(205,748)	-
<b>Items that are or may be reclassified to profit or loss</b>			
Foreign operations - Foreign currency translation differences	25	19,557,018	6,191,128
Debt investments at FVOCI – net change in fair value	25	(1,469,064)	
Available-for-sale financial assets – net change in fair value	25	-	800,391
Available-for-sale financial assets – reclassified to profit or loss	25	-	4,151,390
Related tax	25	345,230	(1,176,567)
<b>Other comprehensive income for the period from continued operations, net of income tax</b>		<b>19,560,373</b>	<b>9,966,342</b>
<b>Total comprehensive income for the year</b>		<b>29,011,315</b>	<b>19,650,321</b>
<b>Profit attributable to:</b>			
Owners of the Bank		8,420,007	8,779,533
Non-controlling interests		1,030,935	904,446
<b>Profit for the year</b>		<b>9,450,942</b>	<b>9,683,979</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the Bank		24,720,877	17,714,021
Non-controlling interests		4,290,438	1,936,300
<b>Total comprehensive income for the year</b>		<b>29,011,315</b>	<b>19,650,321</b>
Earnings per 100 share on profit for the year (full TL)	24	0.0989	0.1031

The accompanying notes are an integral part of these consolidated financial statements.



## Türk Bankası Limited and its Subsidiaries

### Consolidated Statement of Changes in Equity For the year ended 31 December 2018

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

	Note	Attributable to Owners of the Bank					Total	Non-controlling Interest	Total Equity
		Reserves							
		Share Capital	Fair Value Reserves, Net of Tax	Translation Reserve	Legal Reserves	Retained Earnings			
<b>Balances at 1 January 2018</b>		<b>81,072,525</b>	<b>4,858,927</b>	<b>38,464,445</b>	<b>17,665,197</b>	<b>20,217,759</b>	<b>162,278,853</b>	<b>17,718,160</b>	<b>179,997,013</b>
Adjustment on initial application of IFRS 9, net of tax	4.1	-	143,311	-	-	(1,756,544)	(1,613,233)	24,755	(1,588,478)
<b>Restated balance at 1 January 2018</b>		<b>81,072,525</b>	<b>5,002,238</b>	<b>38,464,445</b>	<b>17,665,197</b>	<b>18,461,215</b>	<b>160,665,620</b>	<b>17,742,915</b>	<b>178,408,535</b>
<b>Profit for the year</b>		-	-	-	-	8,420,007	<b>8,420,007</b>	1,030,935	<b>9,450,942</b>
<b>Other comprehensive income</b>									
Foreign currency translation differences		-	-	16,297,515	-	-	<b>16,297,515</b>	3,259,503	<b>19,557,018</b>
Equity investments at FVOCI – net change in fair value	25	-	1,127,189	-	-	-	<b>1,127,189</b>	-	<b>1,127,189</b>
Debt investments at FVOCI – net change in fair value	25	-	(1,123,834)	-	-	-	<b>(1,123,834)</b>	-	<b>(1,123,834)</b>
<b>Total other comprehensive income</b>		-	<b>3,355</b>	<b>16,297,515</b>	-	-	<b>16,300,870</b>	<b>3,259,503</b>	<b>19,560,373</b>
<b>Total comprehensive income</b>		-	<b>3,355</b>	<b>16,297,515</b>	-	<b>8,420,007</b>	<b>24,720,877</b>	<b>4,290,438</b>	<b>29,011,315</b>
<b>Transactions with owners of the Bank</b>									
Capital increase	25	4,054,160	-	-	-	(4,053,626)	<b>534</b>	-	<b>534</b>
Transfer to reserves	25	-	-	-	409,000	(409,000)	-	-	-
<b>Total contributions and distributions</b>		<b>4,054,160</b>	-	-	<b>409,000</b>	<b>(4,462,626)</b>	<b>534</b>	-	<b>534</b>
<b>Balances at 31 December 2018</b>		<b>85,126,685</b>	<b>5,005,593</b>	<b>54,761,960</b>	<b>18,074,197</b>	<b>22,418,596</b>	<b>185,387,031</b>	<b>22,033,353</b>	<b>207,420,384</b>

The accompanying notes are an integral part of these consolidated financial statements.

## Türk Bankası Limited and its Subsidiaries

### Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

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

	Note	Attributable to Owners of the Bank					Total	Non-controlling Interest	Total Equity
		Share Capital	Reserves			Retained Earnings			
			Available for Sale Reserve, Net of Tax	Translation Reserve	Legal Reserves				
<b>Balances at 1 January 2017</b>		<b>77,211,336</b>	<b>1,083,713</b>	<b>33,565,246</b>	<b>17,204,197</b>	<b>15,499,718</b>	<b>144,564,210</b>	<b>15,781,860</b>	<b>160,346,070</b>
<b>Profit for the year</b>		-	-	-	-	8,779,533	<b>8,779,533</b>	904,446	<b>9,683,979</b>
<b>Other comprehensive income</b>		-	-	-	-	-	-	-	-
Foreign currency translation differences		-	-	4,899,199	-	260,075	<b>5,159,274</b>	1,031,854	<b>6,191,128</b>
Net change in fair value of available-for-sale financial assets	25	-	599,401	-	-	-	<b>599,401</b>	-	<b>599,401</b>
Net change in fair value of available-for-sale financial assets transferred to profit or loss	25	-	3,175,813	-	-	-	<b>3,175,813</b>	-	<b>3,175,813</b>
<b>Total other comprehensive income</b>		-	<b>3,775,214</b>	<b>4,899,199</b>	-	<b>260,075</b>	<b>8,934,488</b>	<b>1,031,854</b>	<b>9,966,342</b>
<b>Total comprehensive income</b>		-	<b>3,775,214</b>	<b>4,899,199</b>	-	<b>9,039,608</b>	<b>17,714,021</b>	<b>1,936,300</b>	<b>19,650,321</b>
<b>Transactions with owners of the Bank</b>									
Capital increase		3,861,189	-	-	-	(3,860,567)	<b>622</b>	-	<b>622</b>
Transfer to reserves		-	-	-	461,000	(461,000)	-	-	-
<b>Total contributions and distributions</b>		<b>3,861,189</b>	-	-	<b>461,000</b>	<b>(4,321,567)</b>	<b>622</b>	-	<b>622</b>
<b>Balances at 31 December 2017</b>		<b>81,072,525</b>	<b>4,858,927</b>	<b>38,464,445</b>	<b>17,665,197</b>	<b>20,217,759</b>	<b>162,278,853</b>	<b>17,718,160</b>	<b>179,997,013</b>

The accompanying notes are an integral part of these consolidated financial statements.

# Türk Bankası Limited and its Subsidiaries

## Consolidated Statement of Cash Flows

For the year ended 31 December 2018

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

	Note	31 December 2018	31 December 2017
<b>Cash flows from operating activities</b>			
Profit for the year		9,450,942	9,683,979
Adjustments:			
Income taxes expenses	23	3,395,787	3,153,677
Impairment on loans,net	14	147,946	388,402
Depreciation and amortisation	16	5,115,821	4,030,492
Changes in unearned premium provision	28	575,784	394,590
Changes in outstanding claims provision		-	(1,799)
Other provision expenses		6,916,196	3,132,039
Net Interest income		69,074,602	48,346,593
Foreign currency translation differences		19,557,018	6,191,128
		<b>114,132,912</b>	<b>74,999,101</b>
Loans and advances to banks		(8,136,638)	(2,304,671)
Reserve deposits at central bank		(3,677,289)	(10,118,438)
Financial assets at fair value through profit or loss			
Loans and advances to customers		(124,089,328)	(101,823,843)
Other assets		(37,696,216)	(39,467,826)
Deposits from banks		110,635,156	(502,564)
Deposits from customers		422,737,202	140,499,696
Funds provided under repurchase agreements		(543,020)	(18,704,623)
Other liabilities and provisions		(112,422,897)	(91,622,141)
		<b>361,041,066</b>	<b>(49,045,309)</b>
Interest received		14,146,684	10,933,427
Interests paid		(3,807,126)	(2,981,306)
Paid taxes other than on income		(1,312,566)	(2,208,905)
<b>Net cash provided by / (used in) operating activities</b>		<b>369,969,186</b>	<b>(43,302,093)</b>
<b>Cash flows from investing activities</b>			
Acquisition of property and equipment	16	(1,525,672)	(3,311,120)
Sales of property and equipment	16	707,459	851,771
Acquisition of ntangible assets	16	(1,371,014)	(5,134,086)
<b>Net cash provided by / (used in) investing activities</b>		<b>(2,189,227)</b>	<b>(7,593,435)</b>
<b>Cash flows from financing activities</b>			
Proceeds from capital increase	25	534	622
<b>Net cash provided by / (used in) financing activities</b>		<b>534</b>	<b>622</b>
Effect of foreign exchange rate fluctuations on cash and cash equivalents		37,669,370	41,563,155
Net increase /(decrease) in cash and cash equivalents		405,449,863	(9,331,751)
Cash and cash equivalents at the beginning of the year	9	823,100,341	832,432,092
<b>Cash and cash equivalents at the end of the year</b>	<b>9</b>	<b>1,228,550,204</b>	<b>823,100,341</b>

The accompanying notes are an integral part of these consolidated financial statements.

## Notes to the consolidated financial statements

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# Türk Bankası Limited and its Subsidiaries

## Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

### 1. Reporting entity

Türk Bankası Limited (the "Bank") was founded on 1 July 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 85,126,685, Türk Bankası Ltd is a private bank of the Group acting in TRNC, providing services to its customers with its 18 Branches and 24 ATMs.

#### *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.

As at 31 December 2018, the paid-up capital is TL 85,126,685 (31 December 2017: TL 81,072,525).

The shareholding structure of the Bank is as follows:

Trade Name	Share Amounts	Shareholding Interest (%)	Paid-up Shares
T.Özyol Yatırımları Ltd	66,667,607	78.32	66,667,607
Özyol Holding AŞ	10,436,034	12.26	10,436,034
Saray Kredi Şti. Ltd	4,254,894	5.00	4,254,894
Other	3,768,150	4.42	3,768,150
<b>Paid-in Capital</b>	<b>85,126,685</b>	<b>100.00</b>	<b>85,126,685</b>

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

#### As at and for the year ended 31 December 2018

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

## 2. Basis of presentation

### (a) Statement of compliance

The consolidated financial statements of the Bank and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The accompanying consolidated financial statements of the Group were authorized for issue by the Bank's management on 30 April 2019.

This is the first set of the Group's annual financial statements in which IFRS 9 Financial Instruments ("IFRS 9") and IFRS 15 Revenue from Contracts with Customers ("IFRS 15") have been applied.

The Group has started to apply IFRS 9 in the accompanying consolidated financial statements starting from 1 January 2018.

In accordance with the transition rules of IFRS 9, the prior period financial statements and notes are not restated. Accounting policies and valuation principles used for the year 2018 and 2017 periods are separately presented in the footnotes.

IFRS 15 provides single and comprehensive model and guidance regarding recognition of revenue and replaces IAS 18 Revenue standard. The standard is in effect starting from 1 January 2018 and does not have significant impact on the accompanying consolidated financial statements.

The Bank's adoption process continues regarding IFRS 16 Leases ("IFRS 16") which will be in effect starting from 1 January 2019.

### (b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis as adjusted for the effects of inflation, except for the following:

- derivative financial instruments are measured at fair value
- financial assets measured at fair value through profit or loss
- financial assets measured at fair value through other comprehensive income

### (c) Functional and presentation currency

These consolidated financial statements are presented in TL, which is the Bank's functional currency. Except as indicated, financial information presented in TL has been rounded to the nearest thousand.

### (d) Use of estimates and judgments

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

In preparing these consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at 31 December 2017 except than estimations used for expected credit loss calculation according to IFRS 9 explained in Note 3 – Financial instruments- Identification and measurement of impairment

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

# Türk Bankası Limited and its Subsidiaries

## Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

### 3. Significant accounting policies

#### (a) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the Bank, the Bank and its subsidiaries on the basis set out in sections below. The financial statements of the entities included in the consolidation have been prepared as of the date of the consolidated financial statements, using consistent accounting policies. The information on the subsidiaries that are consolidated are given in Note 31.

#### *Subsidiaries*

Subsidiary is the entity over which the Bank has power to govern the financial and operating policies so as to benefit from its activities. This control is normally evidenced when the Bank owns, either directly or indirectly, more than 50% of the voting rights of an entity's share capital. Subsidiary in which the Bank has less than 50% of the voting rights, but has power to govern the financial and operating policies under a statute or agreement or (through the ownership of a golden share) are also consolidated. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiary is fully consolidated from the date of acquisition, being the date on which control is transferred to the Group and ceases to be consolidated from the date on which control is transferred out of the Bank.

#### *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

#### *Non-controlling interests*

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

#### (b) Foreign currency

##### Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at the exchange rates ruling at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the reporting date with the resulting exchange differences recognised in income as foreign exchange gain or loss. Gains and losses arising from foreign currency transactions are reflected in income as realized during the period.

Foreign currency translation rates used by the Group as of 31 December 2018 and 31 December 2017 are as follows:

	Euro/TL	US Dollar / TL	GBP/TL
31 December 2018	6.004	5.244	6.707
31 December 2017	4.494	3.750	5.058

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

### 3. Significant accounting policies (continued)

#### (b) Foreign currency (continued)

##### Foreign operations

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

The functional currency of Turkish Bank (UK) is GBP, and the financial statements of the relevant subsidiary is translated to TL which is the presentation currency of the Group in accordance with the principles specified in the above paragraph.

#### (c) Interest incomes and expenses

Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses (ECL). For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense calculated using the effective interest method presented in the statement of profit or loss and OCI includes

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.



## **Türk Bankası Limited and its Subsidiaries**

### **Notes to the Consolidated Financial Statements**

**As at and for the year ended 31 December 2018**

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

### **3. Significant accounting policies (continued)**

#### **(d) Fees and commissions**

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

Other fee and commission income – including account servicing fees, account maintenance fee, investment management fee, sales commission, placement and syndication fees and insurance commissions (also see the explanation in accounting policy (s)), investment management fees, sales commission, placement fees and syndication fees – is recognized as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognized on a straight-line basis over the commitment period.

A contract with a customer that results in a recognized financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

#### **(e) Net trading income**

Net trading income/(expense) includes gains and losses arising from sale of financial assets measured at fair value through profit or loss (FVPL) and through other comprehensive income (FVOCI) in addition to changes in fair value of financial assets measured at FVPL and derivatives.

#### **(f) Dividends**

Dividend income is recognized when the right to receive income occurs. Dividend incomes are presented within other operating income in the consolidated financial statements.

#### **(g) Lease payments**

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

### 3. Significant accounting policies *(continued)*

#### (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 recognized in the profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted on the reporting date, and any adjustment to tax payable in respect of prior years.

#### Corporate tax

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% (31 December 2017: 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.

Turkish Bank (UK) Ltd pays 19.00% corporation tax over its taxable income (31 December 2017: 19.25%)

#### Deferred taxes

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed on each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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.

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

### 3. Significant accounting policies (continued)

#### (i) Financial Instruments

##### *Recognition*

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

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.

##### *Derecognition*

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

##### *Offsetting*

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

#### ***Classification and measurement of financial instruments***

The classification of financial instruments at the time of initial recognition depends on both the business model for managing the financial assets and contractual cash flow characteristics of the financial asset.

In accordance with IFRS 9, A financial asset is classified on the basis of its contractual cash flow characteristics if the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

In accordance with IFRS 9, the business model is determined at a level that demonstrates how the financial asset groups are managed together to achieve a specific management objective.

As at 1 January 2018, all financial assets are classified based on the business model for managing the financial assets. Accordingly, financial assets are classified in three main categories as listed below:

- Financial assets at fair value through profit or loss ("FVPL")
- Financial assets at fair value through other comprehensive income ("FVOCI")
- Financial assets measured at amortized cost

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

### 3. Significant accounting policies (continued)

#### (i) Financial Instruments (continued)

##### *Classification and measurement of financial instruments (continued)*

##### *Financial assets measured at fair value through profit or loss*

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

##### *Financial assets measured at fair value through other comprehensive income*

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

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

Financial assets measured at fair value through other comprehensive income are recognized by adding transaction cost to acquisition cost reflecting the fair value of the financial asset. After the recognition, financial assets measured at fair value through other comprehensive income are remeasured at fair value. Interest income calculated with effective interest rate method arising from financial assets measured at fair value through other comprehensive income and dividend income from equity securities are recorded to statement of profit or loss. "Unrealized gains and losses" arising from the difference between the amortised cost and the fair value of financial assets measured at fair value through other comprehensive income are not reflected in the statement of profit or loss of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, and impairment of the asset and they are accounted under the "Accumulated other comprehensive income or expense to be reclassified through profit or loss" under shareholders' equity.

Equity securities, which are classified as financial assets measured at fair value through other comprehensive income, are carried at fair value.

At initial recognition, it can be made an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies. Such election is made on an instrument by instrument basis. Amounts presented in other comprehensive income shall not be subsequently recycled to profit or loss. However, the cumulative gain or loss shall be recycled to prior period's profit or loss. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. IFRS 9 impairment requirements are not applicable for equity instruments.

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

### 3. Significant accounting policies *(continued)*

#### (i) Financial Instruments *(continued)*

##### *Classification and measurement of financial instruments (continued)*

##### *Financial assets measured at amortised cost*

Starting from 1 January 2018, financial assets are classified as measured at amortised cost if both of the following conditions are met.

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to the initial recognition, debt securities are measured at amortised cost by using the effective interest rate method. And, Loans are financial assets with fixed or determinable payments and not quoted in an active market. Loans and receivables are recognised at cost and also measured at amortised cost by using the effective interest method.

Financial assets measured at amortised cost are initially recognized at acquisition cost including the transaction costs which reflect the fair value of those instruments and subsequently recognized at amortised cost by using effective interest rate method. Interest income obtained from financial assets measured at amortised cost is accounted in statement of profit or loss.

##### ***Loans***

Loans are non-derivative financial assets that have fixed or determinable payments terms and are not quoted in an active market. Stated loans are initially recognized at acquisition cost plus transaction costs presenting their fair value and thereafter measured at amortised cost using the "Effective Interest Rate (internal rate of return) Method".

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

### 3. Significant accounting policies (continued)

#### (k) Impairment of financial assets

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

#### Expected credit losses

As of 1 January 2018, the Group recognizes provisions for impairment in accordance with IFRS 9 requirements. The expected credit losses are estimated to be unbiased, weighted according to probabilities, and include information that can be supported about past events, current conditions and future economic conditions. Risk parameters used in IFRS 9 calculations are included in the future macroeconomic information. These financial assets are divided into three categories depending on the gradual. The Group calculates expected credit losses based on a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due based on the contract and the cash flows that are expected to be received.

Probability of Default (PD): PD refers to the likelihood that a loan will default within a specified time horizon, which is usually set at 12 months, given certain characteristics. The Group uses two different probability of default rates while calculating expected credit losses as per the IFRS 9.

- 12-month PD: as the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months) following the balance sheet date.
- Lifetime PD: as the estimated probability of default occurring over the remaining life of the financial instrument.

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

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

**Stage 1:** For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk is recorded in the amount of 12-month expected credit losses.

**Stage 2:** Includes financial assets which have a significant increase in credit risk since initial recognition but an unbiased evidence does not occur. Lifetime expected credit losses are recognized for these financial instruments.

**Stage 3:** Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit losses are recognized.

#### Forward-looking macroeconomic information

The Bank incorporates forward-looking macroeconomic information when assessing the significant increase in credit risk and expected credit loss calculation.

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

### 3. Significant accounting policies (continued)

#### (k) Impairment of financial assets (continued)

##### Significant increase in credit risk

In the event of a significant increase in credit risk, the financial asset is transferred to Stage 2.

Qualitative considerations taken into determining the significant increase in the credit risk of a financial asset as follows;

- Delay days as of the reporting date is 30 or more
- Refinancing and restructuring the credit account
- Loans under close monitoring

##### **Definition of default**

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full;
- the borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

#### (l) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

#### (m) Repurchase 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.

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

### 3. Significant accounting policies (continued)

#### (n) Tangible assets

The costs of tangible assets acquired prior to 1 January 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 31 December 2006 which is regarded as the ending date of the hyper inflationary period.

Prior to 31 December 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 31 December 2006 are recognized at cost.

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment is recognized within other income in profit or loss.

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. The tangible assets are amortised based on straight line amortization.

The estimated useful lives for as at 31 December 2018 and 2017 are as follows:

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

The tangible assets are depreciated on a straight-line method based on their useful lives. 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.

#### (o) Intangible assets

The Group intangible assets consist of software programs. Intangible assets are initially recorded at their costs in compliance with the IAS 38 – Intangible Assets.

The intangible assets are recorded at their historical costs. The intangible assets are amortised based on straight line amortization. The useful life of software is determined as 3 – 10 years, and parallel to that, depreciation rates change between 33.33% and 10%.

If there is objective evidence of impairment, the asset's recoverable amount is estimated in accordance with the IAS 36 – Impairment of Assets and if the recoverable amount is less than the carrying value of the related asset, an allowance for impairment losses is recognized.



## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

#### 3. Significant accounting policies *(continued)*

##### **(p) Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated at each reporting date.

An impairment loss is recognized 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 that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in consolidated statement of income. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

##### **(r) Employee benefits**

###### **Reserve for employee termination benefits**

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 provided provision for undiscounted short-term employee benefits earned during the financial period as per services rendered in compliance with the IAS 19 - Employee Benefits in the accompanying consolidated financial statements.

##### **(s) Assets held in trust**

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

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

### 3. Significant accounting policies (continued)

#### (t) 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.

*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.

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

### 3. Significant accounting policies (continued)

#### (t) Insurance contracts (continued)

*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 amortised 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 amortised 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.

#### (u) Earning per share

The Group presents basic and diluted EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Bank by the weighted-average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

#### (v) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the reporting dates (adjusting events) are reflected in the consolidated financial statements. Subsequent events that are not adjusting events are disclosed in the notes when material.

#### (w) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Board of Directors (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

### 3. Significant accounting policies *(continued)*

#### **(x) Provisions, contingent 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.

#### **(y) New standards and interpretations issued but not yet effective and not early adopted**

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 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 23 –Uncertainty over income tax treatments**

On 17 June 2017, IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty in accounting for income taxes. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company’s tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. IFRIC 23 is effective from 1 January 2019, with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRIC 23.

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

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

### 3. Significant accounting policies (continued)

#### (y) New standards and interpretations issued but not yet effective and not early adopted (continued)

##### The revised Conceptual Framework

The revised Conceptual Framework issued on 28 March 2018 by the IASB. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the Board in developing IFRS Standards.

It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The Conceptual Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards. The revised Framework is more comprehensive than the old one – its aim is to provide the Board with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures. For companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction, the revised Conceptual Framework is effective for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.

##### 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.

###### IFRS 3 Business Combinations and IFRS 11 Joint Arrangements

IFRS 3 and IFRS 11 are amended to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value. If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.

###### 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 recognized consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income (OCI) or equity.

###### IAS 23 Borrowing Costs

IAS 23 is amended to clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool.

## **Türk Bankası Limited and its Subsidiaries**

### **Notes to the Consolidated Financial Statements**

**As at and for the year ended 31 December 2018**

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

### **3. Significant accounting policies (continued)**

#### **(y) New standards and interpretations issued but not yet effective and not early adopted (continued)**

##### **Annual Improvements to IFRSs 2015-2017 Cycle (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 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.

##### **Amendments to IFRS 9 - Prepayment Features With Negative Compensation**

On 12 October 2017, IASB has issued amendments to IFRS 9 to clarify those financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9. Under IFRS 9, a prepayment option in a financial asset meets this criterion if the prepayment amount substantially represents unpaid amounts of principal and interest, which may include 'reasonable additional compensation' for early termination of the contract. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted.

##### **Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement**

On 7 February 2018, IASB issued Plan Amendment, Curtailment or Settlement (Amendments to IAS 19). The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs. A company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI). The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted.

##### **Improvements to IFRSs**

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

In October 2018, the IASB issued Definition of Material (Amendments to IAS 1 and IAS 8). The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. Those amendments are prospectively effective for annual periods beginning on or after 1 January 2020 with earlier application permitted.

##### **Amendments to IFRS 3 - Definition of a Business**

Determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. The IASB has issued amendments to IFRS 3 Business Combinations that seek to clarify this matter. The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted. The Group evaluates the effects of these standards, amendments and improvements on the financial statements.

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

#### 4. Explanations for IFRS 9 transition

IFRS 9 “Financial Instruments”, which is effective as at 1 January 2018 replaced IAS 39 Financial Instruments: recognition and measurement, related to the classification and measurement of financial instruments.

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

The Group used the exemption not to restate comparative periods and the differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in the retained earnings and reserves as at 1 January 2018.

Explanation of the effect of the Group’s adoption of IFRS 9 is stated below:

# Türk Bankası Limited and its Subsidiaries

## Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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### 4. Explanations for IFRS 9 transition (continued)

#### 4.1 Classification and measurement of financial assets

	31 December 2017	IFRS 9 Reclassification effect	IFRS 9 Measurement effect	1 January 2018
<b>Assets</b>				
Cash and cash equivalents	825,411,359	-	(249,211)	825,162,148
Reserve deposits at central bank	69,689,658	-	-	69,689,658
Financial assets at fair value through profit or loss	256,050	-	-	256,050
Loans and advances to banks	9,019,397	-	(89,633)	8,929,764
<b>Loans and advances to customers</b>	<b>733,509,095</b>	-	<b>(1,428,338)</b>	<b>732,080,757</b>
<i>Allowance for individually impaired loans</i>	<i>(4,944,633)</i>	<i>4,944,633</i>	-	-
<i>Allowance for collectively impaired loans</i>	<i>(505,800)</i>	<i>505,800</i>	-	-
<b>Expected Credit Loss</b>	-	<b>(5,450,433)</b>	<b>(1,428,338)</b>	<b>(6,878,771)</b>
<i>Stage 1</i>	-	<i>(505,800)</i>	<i>(1,417,347)</i>	<i>(1,923,147)</i>
<i>Stage 2</i>	-	-	<i>(10,991)</i>	<i>(10,991)</i>
<i>Stage 3</i>	-	<i>(4,944,633)</i>	-	<i>(4,944,633)</i>
Investment securities	158,942,572	-	(276,122)	158,666,450
<i>-Available for sale</i>	<i>53,377,216</i>	<i>(53,377,216)</i>	-	-
<i>-Held to maturity</i>	<i>105,565,356</i>	<i>(105,565,356)</i>	-	-
<i>-Financial assets at fair value through other comprehensive income</i>	-	<i>50,787,216</i>	<i>(387,611)</i>	<i>50,399,605</i>
<i>-Financial assets measured at amortised cost</i>	-	<i>108,155,356</i>	<i>111,489</i>	<i>108,266,845</i>
Tangible assets	19,897,539	-	-	19,897,539
Intangible assets	8,333,262	-	-	8,333,262
Deferred tax asset	-	-	539,090	539,090
Other assets	19,722,713	-	(41,582)	19,681,131
<b>TOTAL ASSETS</b>	<b>1,844,781,645</b>	-	<b>(1,545,796)</b>	<b>1,843,235,849</b>
<b>Liabilities</b>				
Derivative financial liabilities	1,282,698	-	-	1,282,698
Deposits from banks	16,028,512	-	-	16,028,512
Deposits from customers	1,605,290,384	-	-	1,605,290,384
Funds provided under repurchase agreements	543,404	-	-	543,404
Subordinated loans	18,750,000	-	-	18,750,000
Other liabilities and provisions	17,200,839	-	42,682	17,243,521
Current tax liability	1,752,342	-	-	1,752,342
Deferred tax liability	3,936,453	-	-	3,936,453
<b>TOTAL LIABILITIES</b>	<b>1,664,784,632</b>	-	<b>42,682</b>	<b>1,664,827,314</b>
<b>Equity</b>				
Share capital	81,072,525	-	-	81,072,525
Reserves	60,988,569	-	143,311	61,131,880
Retained earnings	20,217,759	-	(1,756,544)	18,461,215
<b>Total equity attributable to owners of the Bank</b>	<b>162,278,853</b>	-	<b>(1,613,233)</b>	<b>160,665,620</b>
<b>Non-controlling interests</b>	<b>17,718,160</b>	-	<b>24,755</b>	<b>17,742,915</b>
<b>Total equity</b>	<b>179,997,013</b>	-	<b>(1,588,478)</b>	<b>178,408,535</b>
<b>Total liabilities and equity</b>	<b>1,844,781,645</b>	-	<b>(1,545,796)</b>	<b>1,843,235,849</b>



## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

#### As at and for the year ended 31 December 2018

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

#### 5. Explanations on prior period accounting policies not valid for the current period

"IFRS 9: Financial Instruments" replaced "IAS 39 Financial Instruments: Recognition and Measurement" beginning from 1 January 2018. Accounting policies lost their validity with the transition of IFRS 9 are given below.

#### Financial Instruments

##### 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.

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

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

#### 5. Explanations on prior period accounting policies not valid for the current period *(continued)*

##### 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 amortised cost calculated as per the effective interest method, after deducting provisions for impairment, if any. The amortised 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.

###### Measurement of fair value

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.

## Türk Bankası Limited and its Subsidiaries

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

#### 5. Explanations on prior period accounting policies not valid for the current period *(continued)*

##### Financial Instruments *(continued)*

##### Gains and losses on financial instruments

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.

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 statement of profit or loss.

##### 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.

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

#### 5. Explanations on prior period accounting policies not valid for the current period *(continued)*

##### 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 amortised cost according to the effective interest rate method.

##### Impairment of financial assets

##### *Assets measured at amortised cost*

In respect of recognition of impairment losses under income items, the Group decides whether there are observable data which shown 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 amortised 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.

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

#### 5. Explanations on prior period accounting policies not valid for the current period *(continued)*

##### Financial Instruments *(continued)*

##### Impairment of financial assets *(continued)*

##### *Assets measured at amortised cost (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 measured 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 measured 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.

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

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

#### 6. 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 sectorial, 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.

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

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#### 6. Financial risk management (continued)

##### (b) Credit risk

*Credit risk exposure*

	Notes	31 December 2018			
<b>Financial assets at fair value through profit or loss</b>		-			
<i>Debt and other instruments</i>		-			
<i>Equity and other non-fixed income instruments</i>		-			
<i>Loans and advances</i>		-			
<b>Non-trading financial assets mandatorily at fair value through profit or loss</b>	11	10,490,779			
<i>Loans and advances</i>	11	10,490,779			
<i>Debt and other instruments</i>		-			
<i>Equity and other non-fixed income instruments</i>		-			
<b>Equity investments measured at FVOCI</b>	15	3,340,136			
			<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>
<b>Financial assets at fair value through other comprehensive income</b>		46,517,310	46,517,310	-	-
<i>Debt and other instruments</i>	15	46,517,310	46,517,310	-	-
<i>Equity and other non-fixed income instruments</i>		-	-	-	-
<b>Financial assets at amortised cost</b>		1,630,297,954	1,613,879,894	11,495,318	4,922,742
Balances with central banks excluding reserve deposits	9	613,039,119	613,039,119	-	-
Loans and advances to banks	13	17,684,346	17,684,346	-	-
Loans and advances to customers	14	855,260,282	838,842,222	11,495,318	4,922,742
Debt and other instruments	15	144,314,207	144,314,207	-	-
<b>Total financial assets risk</b>		1,690,646,179			
<i>Total loan commitments and financial guarantees</i>		262,881,157			
<b>Total maximum</b>		1,953,527,336			

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

#### 6. Financial risk management (continued)

##### (b) Credit risk (continued)

Credit risk exposure (continued)

31 December 2017	Loans and advances to customers	Other assets exposed to credit risk (including financial assets other than loans and advances to customers)
Individually impaired loans	4,890,899	53,734
Lifetime ECL impaired credits	-	-
Special provisions set aside for individually impaired credits	(4,890,899)	(53,734)
<b>Book value</b>	<b>-</b>	<b>-</b>
Overdue but not impaired loans	24,422,889	-
Restructured loans	-	-
<b>Book value</b>	<b>24,422,889</b>	<b>-</b>
Not overdue and have not impaired	708,487,278	-
Restructured loans	1,104,728	-
<b>Book value</b>	<b>709,592,006</b>	<b>-</b>
12 month ECL	-	-
Lifetime ECL significant increase in credit risk	-	-
Collective impairment	(505,800)	-
<b>Total book value</b>	<b>733,509,095</b>	<b>-</b>

##### Concentration risk by location

The Group's total risk for loans and advances to customers is mainly concentrated on TRNC.

The Group's monitors concentrations of credit risk for cash loans and advances to customer by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

	31 December 2018		31 December 2017	
	Amount	%	Amount	%
Consumer loans	613,114,144	71.40	482,004,507	65.71
<i>Personal loans</i>	37,906,680	4.41	422,509,258	57.60
<i>Mortgage</i>	539,873,550	62.87	34,647,924	4.72
<i>Overdraft account</i>	34,023,937	3.96	24,080,189	3.28
<i>Vehicle loans</i>	1,309,977	0.15	767,136	0.10
Financial institutions	7,209,826	0.84	86,566,910	11.80
Manufacturing	25,626,505	2.98	16,226,264	2.21
Wholesale and retail trading	71,708,388	8.35	54,371,115	7.41
Hotel, food, beverage services	27,688,446	3.22	23,553,892	3.21
Transportation and communication	13,389,999	1.56	11,731,218	1.60
Construction	11,118,149	1.29	10,359,965	1.41
Credit cards	4,578,243	0.53	3,909,610	0.53
Agriculture and stockbreeding	1,529,588	0.18	913,673	0.12
Health and social services	2,230,145	0.26	1,433,404	0.20
Other	70,056,970	9.38	42,438,537	5.79
<b>Total loans and advances to customers</b>	<b>848,250,403</b>	<b>100.00</b>	<b>733,509,095</b>	<b>100.00</b>



## Türk Bankası Limited and its Subsidiaries

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As at and for the year ended 31 December 2018

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

#### 6. Financial risk management (*continued*)

##### (b) Credit risk (*continued*)

###### *Definition of default*

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full;
- the borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

###### *Allowance for impairment*

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

## Türk Bankası Limited and its Subsidiaries

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

#### 6. Financial risk management (continued)

##### (b) Credit risk (continued)

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with

the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

##### Write-off policy

The Bank writes off a loan balance, and any related allowances for impairment losses, when Bank determines that the loan is uncollectible. This determination is reached after considering information such as occurrence of significant changes in the borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

31 December 2018	Loans and advances to customers		Other assets	
	Gross	Net	Gross (*)	Net (*)
3rd Group: Impaired	511,887	-	-	-
4th Group: Impaired	493,227	-	-	-
5th Group: Impaired	3,917,628	-	-	-
<b>Total</b>	<b>4,922,742</b>	-	-	-

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

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

## Türk Bankası Limited and its Subsidiaries

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As at and for the year ended 31 December 2018

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

#### 6. 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:

	31 December 2018	31 December 2017
<b>Cash loans</b>		
Secured loans:	805,382,347	696,790,410
-Real estate secured loans	659,578,318	516,565,142
-Treasury guarantees or securities collateralized by public sector securities	43,309,945	19,699,335
-Other guarantees (pledges on assets, corporate and personal guarantees, bonds)	81,513,501	145,443,324
-Guarantees issued by financial institutions	-	16,055
-Cash secured loans	20,980,583	15,066,554
Unsecured loans	42,868,056	36,718,685
<b>Total loans and advances to customers</b>	<b>848,250,403</b>	<b>733,509,095</b>

	31 December 2018	31 December 2017
<b>Non-Cash Loans</b>		
Secured loans:	16,536,617	8,292,001
-Guarantees issued by financial institutions	78,660	56,550
-Cash secured loans	4,707,143	4,036,526
-Other guarantees (pledges on assets, corporate and personal guarantees, bonds)	9,751,357	1,911,052
-Real estate secured loans	1,999,457	2,287,873
Unsecured loans	146,426	136,162
<b>Total non-Cash Loans</b>	<b>16,683,043</b>	<b>8,428,163</b>

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

#### 6. Financial risk management (continued)

##### (b) Credit risk (continued)

###### Sectorial and regional concentration of impaired loans and receivables

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

Sectorial concentration	31 December 2018		31 December 2017	
	Amount	%	Amount	%
Consumer loans	1,934,046	39.29	1,952,915	39.50
Service sector	455,915	9.26	528,516	10.69
Agriculture and stockbreeding	21,288	0.43	21,288	0.43
Durable consumption	-	0.00	-	0.00
Construction	6,274	0.13	6,056	0.12
Food	1,596,644	32.43	3,161	0.06
Other	908,575	18.46	2,432,697	49.20
<b>Total impaired loans and receivables</b>	<b>4,922,742</b>	<b>100.00</b>	<b>4,944,633</b>	<b>100.00</b>

Regional concentration	31 December 2018		31 December 2017	
	Amount	%	Amount	%
TRNC	4,687,993	95.23	4,767,603	96.42
United Kingdom	234,749	4.77	177,030	3.58
<b>Total impaired loans and receivables</b>	<b>4,922,742</b>	<b>100.00</b>	<b>4,944,633</b>	<b>100.00</b>

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

#### 6. Financial risk management (continued)

##### Offsetting financial assets and liabilities

The disclosures set out in the following tables include financial assets and financial liabilities that:

- are offset in the Group's statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position

The 'similar agreements' include derivative clearing agreements, global master repurchase agreements and global master securities lending agreements. 'Similar financial instruments' include derivatives, sale-and-repurchase agreements, reverse sale-and-repurchase agreements and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not disclosed in the following tables unless they are offset in the statement of financial position.

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
31 December 2018	Derivatives - Derivative financial assets measured at fair value through profit or loss	-	-	-	-	-	-
31 December 2017	Derivatives - Derivative financial assets held-for-trading	256,050	-	256,050	-	256,050	-
		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
31 December 2018	Derivatives - Derivative financial liabilities measured at fair value through comprehensive income	523,154	-	523,154	-	523,154	-
31 December 2017	Derivatives - Derivative financial liabilities held-for-trading	1,282,698	-	1,282,698	-	1,282,698	-

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

#### 6. 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.

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

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

#### 6. Financial risk management (continued)

##### (c) Liquidity risk (continued)

###### Liquidity risk exposure

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

31 December 2018	Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and above	Carrying Amount
Cash and cash equivalents	784,030,927	317,437,939	128,863,655	-	-	-	1,230,332,521
Financial assets measured at fair value through profit or loss	-	-	-	10,490,779	-	-	10,490,779
Loans and advances to banks	-	5,792,658	-	11,744,132	-	-	17,536,790
Loans and advances to customers	122,002,565	7,629,923	20,413,571	79,195,185	437,631,126	181,378,033	848,250,403
Investment securities	5,644,171	116,007,020	20,272,403	16,487,465	32,069,783	3,340,136	193,820,978
Other assets	42,287,254	-	7,974,742	1,381,663	9,296,041	60,370,607	121,310,307
<b>Total assets</b>	<b>953,964,917</b>	<b>446,867,540</b>	<b>177,524,371</b>	<b>119,299,224</b>	<b>478,996,950</b>	<b>245,088,776</b>	<b>2,421,741,778</b>
Derivative financial liabilities measured at fair value through profit or loss	-	523,154	-	-	-	-	523,154
Bank deposits	126,663,668	-	-	-	-	-	126,663,668
Customer deposits	712,601,079	369,729,684	671,353,392	249,995,219	26,277,062	-	2,029,956,436
Funds provided under repurchase agreements	-	-	-	-	-	-	-
Subordinated loans	-	-	-	26,220,000	-	-	26,220,000
Taxes payable	-	114,129	2,438,045	549,827	-	-	3,102,001
Other liabilities and provisions	220,014,079	2,481,976	2,671,072	(273,198)	7,874,135	2,508,455	235,276,519
<b>Total liabilities</b>	<b>1,059,278,826</b>	<b>372,848,943</b>	<b>676,462,509</b>	<b>276,491,848</b>	<b>34,151,197</b>	<b>2,508,455</b>	<b>2,421,741,778</b>
<b>Liquidity Surplus/(Deficit)</b>	<b>(105,313,909)</b>	<b>74,018,597</b>	<b>(498,938,138)</b>	<b>(157,192,624)</b>	<b>444,845,753</b>	<b>242,580,321</b>	<b>-</b>

31 December 2017	Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and above	Carrying Amount
Cash and cash equivalents	168,292,243	370,702,781	286,416,335	-	-	-	825,411,359
Financial assets measured 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
<b>Total assets</b>	<b>298,855,207</b>	<b>503,458,651</b>	<b>359,877,294</b>	<b>86,942,615</b>	<b>417,652,986</b>	<b>177,994,892</b>	<b>1,844,781,645</b>
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 provided under repurchase agreements	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
<b>Total liabilities</b>	<b>635,112,388</b>	<b>618,037,261</b>	<b>208,216,245</b>	<b>191,323,033</b>	<b>52,754,934</b>	<b>139,337,784</b>	<b>1,844,781,645</b>
<b>Liquidity Surplus/(Deficit)</b>	<b>(336,257,181)</b>	<b>(114,578,610)</b>	<b>151,661,049</b>	<b>(104,380,418)</b>	<b>364,898,052</b>	<b>38,657,108</b>	<b>-</b>

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#### 6. Financial risk management (continued)

##### (c) Liquidity risk (continued)

###### Contractual maturity analysis of liabilities according to remaining maturities

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

31 December 2018	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 measured at fair value through profit or loss	523,154	523,154	-	523,154	-	-	-	-
Bank deposits	126,663,668	126,663,668	126,663,668	-	-	-	-	-
Customer deposits	2,029,956,436	2,029,956,436	712,601,079	369,729,684	671,353,392	249,995,219	26,277,062	-
Funds from repo transactions	-	-	-	-	-	-	-	-
Subordinated loans	26,220,000	26,220,000	-	-	-	26,220,000	-	-
Other liabilities and provisions	23,757,036	23,757,036	10,604,264	1,781,108	2,671,072	826,456	7,874,135	-
<b>Total</b>	<b>2,207,120,294</b>	<b>2,207,120,294</b>	<b>849,869,011</b>	<b>372,033,945</b>	<b>674,024,464</b>	<b>277,041,675</b>	<b>34,151,198</b>	<b>-</b>
<b>Non-Cash Loans</b>	<b>16,683,043</b>	<b>16,683,043</b>	<b>715,848</b>	<b>1,284,269</b>	<b>583,423</b>	<b>12,376,617</b>	<b>1,572,886</b>	<b>150,000</b>
31 December 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 loans	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
<b>Total</b>	<b>1,659,095,837</b>	<b>1,662,118,935</b>	<b>587,171,323</b>	<b>688,949,409</b>	<b>140,993,850</b>	<b>191,935,823</b>	<b>52,754,934</b>	<b>313,596</b>
<b>Non-Cash Loans</b>	<b>8,428,163</b>	<b>8,428,163</b>	<b>3,378,876</b>	<b>901,265</b>	<b>430,706</b>	<b>3,022,196</b>	<b>445,120</b>	<b>250,000</b>

##### (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.



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#### 6. 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 tabature details the market risk calculated as of 31 December 2018 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)	2,032,000
2	Equity risk (general and specific)	-
3	Foreign exchange risk	544,000
4	Commodity risk	-
	Options	
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitizations	-
<b>9</b>	<b>Total</b>	<b>2,576,000</b>

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#### 6. 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:

31 December 2018	Up to 1 month	1-3 month	3-12 month	1-5 years	5 years and above	Non interest bearing	Carrying Amount
Cash and cash equivalents	317,437,939	128,863,655	-	-	-	784,030,927	1,230,332,521
Financial assets at fair value through profit or loss	-	-	10,490,779	-	-	-	10,490,779
Loans and advances to banks	5,792,658	-	11,744,132	-	-	-	17,536,790
Loans and advances to customers	7,629,923	20,413,571	89,685,964	427,140,347	181,378,033	122,002,565	848,250,403
Investment securities	116,007,020	20,272,403	16,487,465	32,069,783	3,340,136	5,644,171	193,820,978
Other assets	-	-	-	-	-	121,310,307	121,310,307
<b>Total assets</b>	<b>446,867,540</b>	<b>169,549,629</b>	<b>128,408,340</b>	<b>459,210,130</b>	<b>184,718,169</b>	<b>1,032,987,970</b>	<b>2,421,741,778</b>
Derivative financial liabilities designated at fair value through profit or loss	523,154	-	-	-	-	-	523,154
Bank deposits	126,455,663	-	-	-	-	208,005	126,663,668
Customer deposits	369,729,684	671,353,392	250,158,561	26,113,720	-	712,601,079	2,029,956,436
Funds from repo transactions	-	-	-	-	-	-	-
Subordinated loans	-	-	-	26,220,000	-	-	26,220,000
Corporation tax payable	-	2,438,045	-	-	-	663,956	3,102,001
Other liabilities and provisions	2,079,959	2,671,072	276,631	7,874,135	2,508,455	219,866,267	235,276,519
<b>Total liabilities</b>	<b>498,788,460</b>	<b>676,462,509</b>	<b>250,435,192</b>	<b>60,207,855</b>	<b>2,508,455</b>	<b>933,339,307</b>	<b>2,421,741,778</b>
<b>Net</b>	<b>(51,920,920)</b>	<b>(506,912,880)</b>	<b>(122,026,852)</b>	<b>399,002,275</b>	<b>182,209,714</b>	<b>99,648,663</b>	<b>-</b>

  

31 December 2017	Up to 1 month	1-3 month	3-12 month	1-5 years	5 years and above	Non interest bearing	Carrying Amount
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
<b>Total assets</b>	<b>1,113,675,672</b>	<b>84,788,827</b>	<b>213,123,531</b>	<b>93,544,719</b>	<b>21,943,914</b>	<b>317,704,982</b>	<b>1,844,781,645</b>
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
<b>Total liabilities</b>	<b>1,168,068,557</b>	<b>135,433,513</b>	<b>206,945,339</b>	<b>31,840,110</b>	<b>-</b>	<b>302,494,126</b>	<b>1,844,781,645</b>
<b>Net</b>	<b>(54,392,885)</b>	<b>(50,644,686)</b>	<b>6,178,192</b>	<b>61,704,609</b>	<b>21,943,914</b>	<b>15,210,856</b>	<b>-</b>

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

#### 6. Financial risk management (continued)

##### (d) Market risk (continued)

###### Interest rate risk measurement frequency

The economic value differences arising from interest rate fluctuations as of 31 December 2018 and 31 December 2017 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 – 31 December 2018	Shock Applied (+/- x basis points)	Gains / Losses	Gains (Losses)/Shareholder's Equity
Turkish Lira	500	29,841,989	0.39%
	(400)	(23,872,791)	(0.32%)
US Dollar	200	20,806,549	1.44%
	(200)	(20,806,549)	(1.44%)
GBP	200	(445,779)	0.04%
	(200)	445,779	(0.04%)
Euro	200	123,887	0.01%
	(200)	(123,887)	(0.01%)
<b>Total (for negative shocks)</b>		<b>51,218,204</b>	<b>1.88%</b>
<b>Total (for negative shocks)</b>		<b>(45,249,006)</b>	<b>(1.81%)</b>

Currency – 31 December 2017	Shock Applied (+/- x basis points)	Gains / Losses	Gains (Losses)/Shareholder's Equity
Turkish Lira	500	(446,541)	(%0.68)
	(400)	357,233	%0.54
US Dollar	200	(271,433)	(%0.41)
	(200)	271,433	%0.41
GBP	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)
<b>Total (for negative shocks)</b>		<b>527,967</b>	<b>%0.80</b>
<b>Total (for negative shocks)</b>		<b>(617,275)</b>	<b>(%0.94)</b>

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

#### 6. Financial risk management (continued)

##### (d) Market risk (continued)

###### Currency risk

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

###### Currency 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.

31 December 2018	US Dollar	Euro	GBP	Other currencies	Total
Cash and cash equivalents	156,329,909	115,559,937	770,852,179	3,070,426	1,045,812,451
Reserve deposits at central bank	9,040,378	10,262,096	35,816,370	-	64,159,222
Financial assets measured at fair value through profit or loss	-	-	-	-	-
Loans and advances to banks	-	11,891,688	-	-	11,891,688
Loans and advances to customers	75,795,977	17,373,548	660,587,517	-	753,757,042
Investment securities	62,485,863	36,191,047	56,188,455	-	154,865,365
Other assets	1,698,773	349,815	79,306,100	-	81,354,688
<b>Total monetary assets in foreign currencies</b>	<b>305,350,900</b>	<b>191,628,131</b>	<b>1,602,750,621</b>	<b>3,070,426</b>	<b>2,111,840,456</b>
Bank deposits	13,838,987	23,589,165	89,206,600	-	126,634,752
Customer deposits	331,437,978	198,444,156	1,204,698,482	2,745,357	1,737,325,973
Subordinated loans	26,220,000	-	-	-	26,220,000
Other liabilities	2,691,201	947,384	15,039,843	34,158	18,712,586
<b>Total monetary liabilities in foreign currencies</b>	<b>374,188,166</b>	<b>222,980,705</b>	<b>1,308,944,925</b>	<b>2,779,515</b>	<b>1,908,893,311</b>
<b>Net on-balance sheet position</b>	<b>(68,837,266)</b>	<b>(31,352,574)</b>	<b>293,805,696</b>	<b>290,911</b>	<b>202,947,145</b>
<b>Net off-balance sheet position</b>	-	-	(33,978,169)	-	(33,978,169)
<b>Net position</b>	<b>(68,837,266)</b>	<b>(31,352,574)</b>	<b>259,827,527</b>	<b>290,911</b>	<b>168,968,976</b>

31 December 2017	US Dollar	Euro	GBP	Other currencies	Total
Cash and cash equivalents	157,627,547	202,170,097	368,919,413	20,525,567	749,242,624
Financial assets measured 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
<b>Total monetary assets in foreign currencies</b>	<b>253,768,586</b>	<b>287,079,158</b>	<b>943,985,490</b>	<b>23,115,263</b>	<b>1,507,948,496</b>
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 and provisions	2,405,509	2,104,128	12,183,792	76,029	16,769,457
<b>Total monetary liabilities in foreign currencies</b>	<b>265,451,762</b>	<b>155,773,872</b>	<b>952,032,104</b>	<b>19,641,922</b>	<b>1,392,899,659</b>
<b>Net on-balance sheet position</b>	<b>(11,683,176)</b>	<b>131,305,286</b>	<b>(8,046,614)</b>	<b>3,473,341</b>	<b>115,048,837</b>
<b>Net off-balance sheet position</b>	<b>3,778,763</b>	<b>(131,404,871)</b>	<b>99,970,026</b>	<b>40,990,721</b>	<b>13,334,639</b>
<b>Net position</b>	<b>(7,904,413)</b>	<b>(99,586)</b>	<b>91,923,412</b>	<b>44,464,062</b>	<b>128,383,476</b>

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

#### 6. Financial risk management (continued)

##### (d) Market risk (continued)

###### Foreign currency 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 31 December 2018 and 31 December 2017.

	31 December 2018		31 December 2017	
	Profit / loss	Total comprehensive income statement	Profit / loss	Total comprehensive income statement
US Dollar	7,787,764	7,787,764	790,441	790,441
Euro	4,161,467	4,161,467	9,959	9,959
GBP	(17,804,069)	(17,804,069)	(9,192,341)	(9,192,341)
Other currencies	(29,091)	(29,091)	(4,446,406)	(4,446,406)
<b>Total, net</b>	<b>(5,883,929)</b>	<b>(5,883,929)</b>	<b>(12,838,347)</b>	<b>(12,838,347)</b>

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 31 December 2018 and 31 December 2017.

	31 December 2018		31 December 2017	
	Profit / loss	Total comprehensive income statement	Profit / loss	Total comprehensive income statement
US Dollar	(7,787,764)	(7,787,764)	(790,441)	(790,441)
Euro	(4,161,467)	(4,161,467)	(9,959)	(9,959)
GBP	17,804,069	17,804,069	9,192,341	9,192,341
Other currencies	29,091	29,091	4,446,406	4,446,406
<b>Total, net</b>	<b>5,883,929</b>	<b>5,883,929</b>	<b>12,838,347</b>	<b>12,838,347</b>

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

###### Fair value

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 amortised 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 repricing particularly in a manner to reflect market conditions.

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

#### 6. Financial risk management (continued)

##### (d) Market risk (continued)

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

31 December 2018	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit / loss:				
-Loans and advances to customers	-	- 10,490,779		10,490,779
Investment securities measured at FVOCI				
-Debt securities	27,803,460	18,713,850	-	46,517,310
-Equity securities	-	3,340,136	-	3,340,136
<b>Total financial assets</b>	<b>27,803,460</b>	<b>22,053,986</b>	<b>10,490,779</b>	<b>60,348,225</b>
Financial liabilities held-for-trading				
Derivative financial liabilities held-for-trading	-	523,154	-	523,154
<b>Total financial liabilities</b>	<b>-</b>	<b>523,154</b>	<b>-</b>	<b>523,154</b>

31 December 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
<b>Total financial assets</b>	<b>30,349,192</b>	<b>23,238,719</b>	<b>45,355</b>	<b>53,633,266</b>
Financial liabilities held-for-trading				
-Derivative financial liabilities held-for-trading	-	1,282,698	-	1,282,698
<b>Total financial liabilities</b>	<b>-</b>	<b>1,282,698</b>	<b>-</b>	<b>1,282,698</b>

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

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

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

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

	31 December 2018	31 December 2017
Balance at the end of the prior period	45,355	45,355
Purchases	-	-
Redemption / sale	(45,355)	-
Valuation difference	-	-
Transfers (*)	10,490,779	-
<b>Balance at the end of the current period</b>	<b>10,490,779</b>	<b>45,355</b>

(\*) Financial assets at fair value through profit or loss include the loan granted to the special purpose entity amounting to TL 10,490,779 as detailed in Note 11.

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

#### 6. 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 70,875,000 (31 December 2017: TL 61,000,000).

The Central Bank of TRNC ("KKTCCB"), 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.

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

#### 6. 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 31 December 2018 and 31 December 2017 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 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	31 December 2017
Tier-I capital	100,132,000	90,618,000
Tier-II capital	159,321,000	96,112,000
Deductions from the capital	(183,776,000)	(115,273,714)
<b>Total equity</b>	<b>75,677,000</b>	<b>71,456,286</b>
Risk weighted assets	371,326,000	305,211,000
Market risk exposure	28,775,000	2,939,938
Operational risk	70,875,000	61,000,000
Capital ratios		
The ratio of total equity to the sum of risk weighted assets, market risk exposure and operational risk exposure	16.07%	19.36%
The ratio of Tier-I capital to the sum of risk weighted assets, market risk exposure and operational risk exposure	21.26%	24.55%



## **Türk Bankası Limited and its Subsidiaries**

### **Notes to the Consolidated Financial Statements**

**As at and for the year ended 31 December 2018**

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

#### **7. 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.

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

#### 7. 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.

## **Türk Bankası Limited and its Subsidiaries**

### **Notes to the Consolidated Financial Statements**

**As at and for the year ended 31 December 2018**

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

## **8. 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.

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

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#### 8. Segment reporting (continued)

##### Information about operating segments

31 December 2018	Retail Banking	Corporate Banking	Other Banking Activities	Total Banking Activities	Insurance	Other	Total
Interests from loans and receivables	54,449,292	7,280,035	3,740,859	65,470,186	-	-	65,470,186
Interests on deposits	(32,292,225)	(5,686,749)	(816,875)	(38,795,849)	-	-	(38,795,849)
Operating profit							
Profit before tax	12,092,656	1,949,000	(3,103,768)	10,937,888	3,112,363	-	14,050,251
Income tax provisions	(3,151,443)	(429,354)	916,910	(2,663,887)	(731,900)	-	(3,395,787)
Net profit for the period	8,941,213	1,519,646	(2,186,858)	8,274,001	2,380,463	-	10,654,464
<b>31 December 2018</b>							
<b>Segment assets</b>	<b>744,424,127</b>	<b>99,010,692</b>	<b>1,560,467,693</b>	<b>2,403,902,512</b>	<b>17,839,266</b>	<b>-</b>	<b>2,421,741,778</b>
<b>Total assets</b>	<b>744,424,127</b>	<b>99,010,692</b>	<b>1,560,467,693</b>	<b>2,403,902,512</b>	<b>17,839,266</b>	<b>-</b>	<b>2,421,741,778</b>
Segment liabilities	1,905,486,165	152,171,262	152,957,953	2,210,615,380	3,706,014	-	2,214,321,394
Equities including non-controlling interests	-	-	209,584,646	193,287,132	14,133,252	-	207,420,384
<b>Total liabilities and equity</b>	<b>1,905,486,165</b>	<b>152,171,262</b>	<b>362,542,599</b>	<b>2,403,902,512</b>	<b>17,839,266</b>	<b>-</b>	<b>2,421,741,778</b>
<b>31 December 2018</b>	<b>TRNC</b>	<b>Turkey</b>	<b>Europe</b>	<b>Other</b>	<b>Total</b>		
<b>Total Assets</b>	<b>575,951,666</b>	<b>628,198,271</b>	<b>1,214,310,841</b>	<b>3,281,000</b>	<b>2,421,741,778</b>		
Total liabilities	1,375,918,591	436,058,536	402,344,267	-	2,214,321,394		
Total equity	183,479,426	23,940,958	-	-	207,420,384		
<b>Total liabilities and equity</b>	<b>1,559,398,017</b>	<b>459,999,494</b>	<b>402,344,267</b>	<b>-</b>	<b>2,421,741,778</b>		

## Türk Bankası Limited and its Subsidiaries

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

#### 8. Segment reporting (continued)

##### Information about operating segments (continued)

31 December 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)
<b>Net profit for the period</b>	<b>17,503,012</b>	<b>(373,432)</b>	<b>(9,222,376)</b>	<b>7,907,204</b>	<b>1,776,775</b>	<b>-</b>	<b>9,683,979</b>

31 December 2017	Retail Banking	Corporate Banking	Other Banking Activities	Total Banking Activities	Insurance	Other	Total
Segment assets	558,701,562	64,758,070	1,206,976,581	1,830,436,213	14,345,432	-	1,844,781,645
<b>Total assets</b>	<b>558,701,562</b>	<b>64,758,070</b>	<b>1,206,976,581</b>	<b>1,830,436,213</b>	<b>14,345,432</b>	<b>-</b>	<b>1,844,781,645</b>
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
<b>Total liabilities and equity</b>	<b>1,357,950,412</b>	<b>126,440,032</b>	<b>346,045,769</b>	<b>1,830,436,213</b>	<b>14,345,432</b>	<b>-</b>	<b>1,844,781,645</b>

31 December 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
<b>Total liabilities and equity</b>	<b>978,265,745</b>	<b>559,650,916</b>	<b>297,971,984</b>	<b>8,893,000</b>	<b>1,844,781,645</b>

## Türk Bankası Limited and its Subsidiaries

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#### 9. Cash and cash equivalents

Details of cash and cash equivalents specified in the consolidated balance-sheet and consolidated cash flow statement as of 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	31 December 2017
Cash	19,630,330	12,232,355
Central Bank deposits other than required reserves	613,039,119	229,627,962
Loans and advances to banks with an original maturity shorter than three months	396,174,876	293,718,731
Inter-bank money market investments	201,488,196	289,832,311
Total cash and cash equivalents included in the consolidated balance-sheet	<b>1,230,332,521</b>	<b>825,411,359</b>
Rediscount on cash and cash equivalents	(1,235,303)	(1,835,713)
Restricted bank deposits <sup>(*)</sup>	(547,014)	(475,305)
<b>Total cash and cash equivalents included in the consolidated cash flow statement</b>	<b>1,228,550,204</b>	<b>823,100,341</b>

(\*)As of 31 December 2018, there are no blocked deposits held by the Ministry of Finance of TRNC (31 December 2017: None).

The credit quality analysis of cash and cash equivalents as of 31 December 2018 is as follows:

	31 December 2018		
	Stage 1	Stage 2	Stage 3
Stage 1: Low-fair risk	1,230,529,386	-	-
Stage 2: Watch list	-	-	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	-
Loss allowance	(196,865)	-	-
<b>Total carrying amount</b>	<b>1,230,332,521</b>	<b>-</b>	<b>-</b>

The movement of loss allowances per asset class for cash and cash equivalents as of 31 December 2018 is as follows:

	31 December 2018		
	Stage 1	Stage 2	Stage 3
<b>Balances at 31 December 2017</b>	-	-	-
Impact of adopting IFRS 9 at 1 January 2018	(249,211)	-	-
<b>Balances at 1 January 2018</b>	<b>(249,211)</b>	<b>-</b>	<b>-</b>
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Debt sales and write-offs	-	-	-
Recoveries and reversals	107,209	-	-
Provision for the period	25,296	-	-
Effects of movements in exchange rates	(29,567)	-	-
<b>Balances at the end of the period</b>	<b>(196,865)</b>	<b>-</b>	<b>-</b>

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

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#### 10. Reserve deposits at Central Bank

Pursuant to the decision of KKTCCB 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 7% for deposits with a maturity up to 3 months, 6% for deposits with a maturity up to 6 months (6th month included), 5% for deposits with a maturity up to 1 year (1 year included), 4% for deposits with a maturity longer than 1 year, and 7% 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 KKTCCB pursuant to the Decree No. 872, legal reserve rates which varied by maturity were established for foreign currency obligations. The interest rate applied by KKTCCB for legal reserve holdings is 13% for Turkish Lira, 0.65% for US Dollar, 0.25% for GBP and 0.125% for EURO.

	31 December 2018	31 December 2017
TL	18,248,103	21,621,900
GBP	35,816,370	33,193,028
Euro	10,262,096	7,633,517
US Dollar	9,040,378	7,241,213
<b>Total</b>	<b>73,366,947</b>	<b>69,689,658</b>

#### 11. Financial assets at fair value through profit or loss

Financial assets measured at fair value through profit / loss as of 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018
Financial Assets measured at fair value through profit or loss	
- Loans and advances to customers <sup>(*)</sup>	10,490,779
<b>Total financial assets at fair value through profit or loss</b>	<b>10,490,779</b>

<sup>(\*)</sup> Within the context of the existing loan agreements, all creditors including the Bank have reached an agreement on restructuring the loans granted to Ojer Telekomünikasyon A.Ş. (OTAŞ) who is the main shareholder of Türk Telekomünikasyon A.Ş. (Türk Telekom) and it is contemplated that Türk Telekom's number of 192,500,000,000 A group shares owned by OTAŞ, representing 55% of its issued share capital corresponding to A group shares have been pledged as a guarantee for the existing facilities would be taken over by a special purpose entity which is incorporated or will be incorporated in the Turkish Republic, and owned by directly or indirectly by all creditors. As per the agreed structure, it is agreed on the corresponding agreements, completed all required corporate and administrative permissions and the transaction is concluded by a transfer of the aforementioned shares to the special purpose entity incorporated in the Turkish Republic, and owned by directly or indirectly by all creditors. In this context, the Bank owned 0.52% number of shares registered in LYY (UK) International Holdco Limited . It includes the loan provided to a special purpose entity. This loan is accounted under loans measured at FVPL based on IFRS 9.

	31 December 2017
Financial Assets at fair value through profit or loss	
- Derivative financial assets	256,050
<b>Total financial assets at fair value through profit or loss</b>	<b>256,050</b>

## Türk Bankası Limited and its Subsidiaries

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

#### 11. Financial assets at fair value through profit or loss (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 31 December 2018 is TL 42,834 (31 December 2017: TL 59,281).

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.

As of 31 December 2018, there are no derivative financial assets measured at fair value through profit or loss. As of 31 December 2017, the maturity analysis of gross nominal values of derivatives is presented below:

	31 December 2017					Total
	Up to 1 Month	1 to 3 Months	3 to 12 months	1 to 5 Years	5 Years and Above	
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
<b>Total</b>	<b>308,607,097</b>	<b>33,407,152</b>	-	-	-	<b>342,014,249</b>



## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

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

#### 12. Funds provided under repurchase agreements

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:

	31 December 2018		31 December 2017	
	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
<b>Total</b>	<b>-</b>	<b>-</b>	<b>543,788</b>	<b>543,404</b>

There are no interest rediscount amount of funds derived from repo transactions as of 31 December 2018 (31 December 2017: TL 384).

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.

#### 13. Loans and advances to banks

The details of loans and advances to banks as of 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018		
	TL	FX	Total
Domestic banks	5,792,658	-	5,792,658
Foreign banks	-	11,891,688	11,891,688
<b>Less: ECL/Impairment losses</b>	<b>-</b>	<b>(147,556)</b>	<b>(147,556)</b>
<b>Total</b>	<b>5,792,658</b>	<b>11,744,132</b>	<b>17,536,790</b>

  

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

As of 31 December 2018, loans and advances to banks contains balances with a maturity longer than three months as of the date of purchase amounted to TL 11,744,132 (31 December 2017: TL 8,962,776).

## Türk Bankası Limited and its Subsidiaries

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

#### 13. Loans and advances to banks (continued)

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

	31 December 2018		
	Stage 1	Stage 2	Stage 3
Stage 1: Low-fair risk	17,684,346	-	-
Stage 2: Watch list	-	-	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	-
Loss allowance	(147,556)	-	-
<b>Total carrying amount</b>	<b>17,536,790</b>	<b>-</b>	<b>-</b>

The movement of loss allowances per asset class for loans and advances to banks as of 31 December 2018 is as follows:

	31 December 2018		
	Stage 1	Stage 2	Stage 3
<b>Balances at 31 December 2017</b>	-	-	-
Impact of adopting IFRS 9 at 1 January 2018	(89,633)	-	-
<b>Balances at 1 January 2018</b>	<b>(89,633)</b>	<b>-</b>	<b>-</b>
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Debt sales and write-offs	-	-	-
Recoveries and reversals	-	-	-
Provision for the period	(27,060)	-	-
Effects of movements in exchange rates	(30,863)	-	-
<b>Balances at the end of the period</b>	<b>(147,556)</b>	<b>-</b>	<b>-</b>

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

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

#### 14. Loans and advances to customers

The details of loans and advances to customers as of 31 December 2018 and 31 December 2017 are as follows:

	<b>31 December 2018</b>
Commercial loans	205,900,275
Consumer loans	623,150,886
Credit cards	4,574,383
Receivables from financial institutions	16,711,995
<b>Total active loans</b>	<b>850,337,539</b>
Impaired loans	4,922,742
<b>Total gross loans</b>	<b>855,260,281</b>
Expected credit losses on loans and advances to customers	(7,009,878)
<i>Stage 1</i>	(1,914,801)
<i>Stage 2</i>	(111,972)
<i>Stage 3</i>	(4,983,105)
<b>Loans and advances to customers, net</b>	<b>848,250,403</b>
	<b>31 December 2017</b>
Commercial loans	579,860,447
Consumer loans	55,604,571
Credit cards	3,878,610
Receivables from financial institutions	94,165,467
<b>Total active loans</b>	<b>733,509,095</b>
Impaired loans	5,450,433
<b>Total gross loans</b>	<b>738,959,528</b>
Provision for impairment in Loans and advances to customers	(5,450,433)
<i>Provision for impairment</i>	(4,944,633)
<i>Provision for collective impairment</i>	(505,800)
<b>Loans and advances to customers, net</b>	<b>733,509,095</b>

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.

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

#### 14. Loans and advances to customers (continued)

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

	31 December 2018		
	Stage 1	Stage 2	Stage 3
Stage 1: Low-fair risk	838,842,222	11,495,318	-
Stage 2: Watch list	-	-	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	4,922,742
Loss allowance	(1,975,165)	(111,972)	(4,922,742)
<b>Total carrying amount</b>	<b>836,867,057</b>	<b>11,383,346</b>	-

The movement of loss allowances per asset class for cash loans and advances to customers as of 31 December 2018 is as follows:

	31 December 2018		
	Stage 1	Stage 2	Stage 3
<b>Balances at 31 December 2017</b>	<b>(505,800)</b>	-	<b>(4,944,633)</b>
Impact of adopting IFRS 9 at 1 January 2018	(1,417,347)	(10,991)	-
<b>Balances at 1 January 2018</b>	<b>(1,923,147)</b>	<b>(10,991)</b>	<b>(4,944,633)</b>
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Debt sales and write-offs	-	-	7,710
Recoveries and reversals	118,725	-	71,900
Provision for the period	50,592	(100,981)	-
Effects of movements in exchange rates	(120,151)	-	(57,719)
<b>Balances at the end of the period</b>	<b>(1,975,165)</b>	<b>(111,972)</b>	<b>(4,922,742)</b>

The movements of the provision for impairment as of 31 December 2017 as follows:

	31 December 2017
Amount of provisions for impairment at the beginning of the period	4,184,550
Rate translation differences	(357,894)
Cancellation provisions	1,663,004
Collections during the period	(527,020)
Provision for impairment set aside within the period	915,422
<b>Provision for impairment, after collections</b>	<b>5,878,062</b>
Loans and advances written off within the year	(427,629)
<b>Amount of provisions for impairment at the end of the period</b>	<b>5,450,433</b>

## Türk Bankası Limited and its Subsidiaries

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#### 15. Investments Securities

Investment securities as of 31 December 2018 and 31 December 2017 are as follows:

	<b>31 December 2018</b>
Debt investment securities measured at FVOCI	46,517,310
Equity investment securities measured at FVOCI	3,340,136
Debt investment securities measured at amortised cost	144,314,207
<b>Expected credit loss</b>	<b>(350,675)</b>
<b>Total investment securities</b>	<b>193,820,978</b>

	<b>31 December 2017</b>
Available-for-sale financial assets	53,377,216
Held-to-maturity investments	105,565,356
<b>Total investment securities</b>	<b>158,942,572</b>

The movement of loss allowances per asset class for investment securities as of 31 December 2018 is as follows:

	<b>31 December 2018</b>		
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>
<b>Balances at 31 December 2017</b>	-	-	-
Impact of adopting IFRS 9 at 1 January 2018	(448,094)	-	-
<b>Balances at 1 January 2018</b>	<b>(448,094)</b>	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Debt sales and write-offs	-	-	-
Recoveries and reversals	97,419	-	-
Provision for the period	-	-	-
Effects of movements in exchange rates	-	-	-
<b>Balances at the end of the period</b>	<b>(350,675)</b>	-	-

## Türk Bankası Limited and its Subsidiaries

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#### 15. Investments Securities (continued)

	31 December 2018
<i>Securities:</i>	
Debt securities-Bonds issued by TRNC Development Bank	10,763,392
Equity securities-Share in Visa Inc./Visa Europe	3,340,136
Debt securities-Private sector bonds	35,753,918
<b>Total investment securities measured at FVOCI</b>	<b>49,857,446</b>

	31 December 2017
<i>Debt securities:</i>	
Bonds issued by TRNC Development Bank	6,642,630
Private sector bonds	46,734,586
<b>Total available-for-sale financial assets</b>	<b>53,377,216</b>

	31 December 2018
<i>Debt securities:</i>	
Government bonds – TL	86,039,947
Private sector bonds	58,274,260
<b>Total debt investment securities measured at amortised cost</b>	<b>144,314,207</b>

	31 December 2017
<i>Debt securities:</i>	
Government bonds – TL	63,684,844
Private sector bonds	41,880,512
<b>Total held-to-maturity investments</b>	<b>105,565,356</b>

The movement of debt investment securities measured at amortised cost as of 31 December 2018 is as follows:

	31 December 2018
<b>Balance at the Beginning of the Period</b>	<b>105,565,356</b>
Purchases within the Period	86,039,947
Amortizations (-)	(76,819,030)
Rate Differences	21,362,915
Interest Rediscounts	8,471,740
Expected credit loss	(306,721)
<b>Total at the End of the Period</b>	<b>144,314,207</b>

## Türk Bankası Limited and its Subsidiaries

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

#### 15. Investments Securities (continued)

The movement of held-to-maturity securities as of 31 December 2017 is as follows:

	31 December 2017
<b>Balance at the Beginning of the Period</b>	<b>116,835,642</b>
Purchases within the Period	15,575,387
Amortizations (-)	(36,202,690)
Rate Differences	5,877,230
Interest Rediscounts	3,479,787
<b>Total at the End of the Period</b>	<b>105,565,356</b>

#### 16. Tangible and intangible assets

The movements of tangible and intangible assets between January 1 and 31 December 2018 are as follows:

	1 January 2018	Rate Conversion Differences	Inflows	Outflows	31 December 2018
<b>Tangible assets</b>					
<i>Cost:</i>					
Buildings and lands	31,698,585	7,192,302	-	232,134	38,658,753
Motor-vehicles	2,904,294	618,657	609,080	368,891	3,763,139
Furniture, office equipment and special costs	20,910,214	3,884,929	813,251	106,435	25,501,958
Other fixed assets	2,960,923	-	103,343	-	3,064,266
<i>Accumulated depreciation:</i>					
Buildings and lands	17,594,506	4,542,302	1,195,755	-	23,332,562
Motor-vehicles	890,006	128,323	716,471	290,052	1,444,747
Furniture, office equipment and special costs	17,855,327	3,360,422	1,119,824	45,450	22,290,122
Other fixed assets	2,236,638	-	216,996	-	2,453,634
<b>Net book value</b>	<b>19,897,539</b>				<b>21,467,051</b>
<b>Intangible assets</b>					
<i>Cost:</i>					
Software programs	20,234,152	5,615,186	1,371,014	(25,422)	27,194,930
<i>Accumulated amortization:</i>					
Software programs	11,900,890	3,209,147	1,866,776	(22,957)	16,953,856
<b>Net book value</b>	<b>8,333,262</b>	<b>2,406,039</b>	<b>(495,762)</b>	<b>(2,465)</b>	<b>10,241,074</b>

As of 31 December 2018, there is no pledge, lien or other restriction on tangible assets.

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

#### 16. Tangible and intangible assets (continued)

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

Tangible assets	1 January 2017	Rate Conversion Differences	Inflows	Outflows	31 December 2017
<b>Cost:</b>					
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
<b>Accumulated depreciation:</b>					
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
<b>Net book value</b>	<b>16,736,403</b>				<b>19,897,539</b>
<b>Intangible assets</b>					
	1 January 2017	Rate Conversion Differences	Inflows	Outflows	31 December 2017
<b>Cost:</b>					
Software programs	13,254,976	1,845,090	5,134,086	-	20,234,152
<b>Accumulated amortization:</b>					
Software programs	9,143,691	1,628,392	1,128,807	-	11,900,890
<b>Net book value</b>	<b>4,111,285</b>				<b>8,333,262</b>

As of 31 December 2018, there is no pledge, lien or other restriction on tangible assets.



## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

#### 17. Other assets

The details of other asset accounts as of 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	31 December 2017
Deposits and guarantees given	4,969,972	4,536,837
Prepaid expenses	999,420	682,201
Receivables from insurance operations	2,785,425	1,754,980
Receivables from cheques not yet due	-	6,050,415
Other	7,511,535	6,698,280
ECL for other assets/Impairment losses	(31,117)	-
<b>Total other assets</b>	<b>16,235,235</b>	<b>19,722,713</b>

The credit quality analysis of other assets as of 31 December 2018 is as follows:

	31 December 2018		
	Stage 1	Stage 2	Stage 3
Stage 1: Low-fair risk	16,266,352	-	-
Stage 2: Watch list	-	-	-
Stage 3.1: Substandard	-	-	-
Stage 3.2: Doubtful	-	-	-
Stage 3.3: Loss	-	-	-
Loss allowance	(31,117)	-	-
<b>Total carrying amount</b>	<b>16,235,235</b>	<b>-</b>	<b>-</b>

The movement of loss allowances per asset class for other assets as of 31 December 2018 is as follows:

	31 December 2018		
	Stage 1	Stage 2	Stage 3
<b>Balances at 31 December 2017</b>	-	-	-
Impact of adopting IFRS 9 at 1 January 2018	(41,582)	-	-
<b>Balances at 1 January 2018</b>	<b>(41,582)</b>	<b>-</b>	<b>-</b>
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Debt sales and write-offs	-	-	-
Recoveries and reversals	10,465	-	-
Provision for the period	-	-	-
Effects of movements in exchange rates	-	-	-
<b>Balances at the end of the period</b>	<b>(31,117)</b>	<b>-</b>	<b>-</b>

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

#### 18. Derivative Financial liabilities

The details of derivative financial liabilities as of 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	31 December 2017
Swap transactions	523,154	1,282,698
<b>Total</b>	<b>523,154</b>	<b>1,282,698</b>

#### 19. Bank deposits

The details of the bank deposits as of 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	31 December 2017
Demand deposit	126,663,668	16,028,512
<b>Total bank deposits</b>	<b>126,663,668</b>	<b>16,028,512</b>

	31 December 2018	31 December 2017
Domestic	208,005	156,508
Foreign	126,455,663	15,872,004
<b>Total</b>	<b>126,663,668</b>	<b>16,028,512</b>

#### 20. Customer deposits

The details of customer deposits as of 31 December 2018, and 31 December 2017 are as follows:

	31 December 2018		
	Demand deposit	Time deposits	Total
Savings deposits	59,183,724	183,116,220	242,299,944
Foreign exchange deposit account	607,581,550	1,019,434,355	1,627,015,905
<i>People residing in the country</i>	<i>257,391,281</i>	<i>687,963,979</i>	<i>945,355,260</i>
<i>People residing abroad</i>	<i>350,190,269</i>	<i>331,470,376</i>	<i>681,660,645</i>
Commercial institutions deposits	43,304,126	90,647,856	133,951,982
Official institutions deposits	1,303,517	735,252	2,038,769
Other	7,123,743	17,526,093	24,649,836
<b>Total customer deposits</b>	<b>718,496,660</b>	<b>1,311,459,776</b>	<b>2,029,956,436</b>

	31 December 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
<i>People residing in the country</i>	<i>54,302,616</i>	<i>419,959,451</i>	<i>474,262,067</i>
<i>People residing abroad</i>	<i>2,958,948</i>	<i>39,224,022</i>	<i>42,182,970</i>
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
<b>Total customer deposits</b>	<b>567,910,792</b>	<b>1,037,379,592</b>	<b>1,605,290,384</b>

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

#### As at and for the year ended 31 December 2018

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

#### 21. 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 US Dollar 5,000,000, annual interest rate was 6 Month US Dollar Libor +5.25%, and the term of the agreement was 6 years after its signature.

As of 31 December 2018, net carrying value of the subordinated loan is TL 26,220,000 (31 December 2017: TL 18,750,000).

#### 22. Other Liabilities and Provisions

The primary items that constitute other liabilities and provisions as of 31 December 2018, and 31 December 2017 are as follows :

	31 December 2018	31 December 2017
Payment Orders	7,462,588	3,489,625
Miscellaneous payables	3,532,361	4,579,333
Other liabilities	9,907,282	3,235,369
Insurance technical provisions	1,828,853	1,253,068
Provision for short term employee benefits	69,204	411,544
Blocked accounts	393,303	293,607
Other provisions	447,364	3,938,293
Expected credit losses from non-cash loans	116,081	-
<b>Total other liabilities and provisions</b>	<b>23,757,036</b>	<b>17,200,839</b>

Movement in expected credit losses from non-cash loans as of 31 December 2018 is as follows

	31 December 2018		
	Stage 1	Stage 2	Stage 3
<b>Balances at 31 December 2017</b>	-	-	-
Impact of adopting IFRS 9 at 1 January 2018	42,682	-	-
<b>Balances at 1 January 2018</b>	<b>42,682</b>	-	-
Transfer to Stage 1	-	-	-
Transfer to Stage 2	-	-	-
Transfer to Stage 3	-	-	-
Debt sales and write-offs	-	-	-
Recoveries and reversals	-	-	-
Provision for the period	73,399	-	-
Effects of movements in exchange rates	-	-	-
<b>Balances at the end of the period</b>	<b>116,081</b>	-	-

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

#### 22 . Other liabilities and provisions (continued)

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

Unearned premium reserve	31 December 2018	31 December 2017
Unearned premium reserve, gross	3,741,107	2,479,183
Unearned premium reserve, reinsurer's shares	(1,912,254)	(1,226,115)
<b>Unearned premium reserve, net</b>	<b>1,828,853</b>	<b>1,253,068</b>

Unearned premium reserve	31 December 2018	31 December 2017
Opening balance	1,253,068	858,478
Premiums written during the period	7,424,505	4,439,176
Premiums earned during the period	(6,848,720)	(4,044,586)
<b>Balance at the end of the year</b>	<b>1,828,853</b>	<b>1,253,068</b>

	31 December 2018	31 December 2017
Outstanding claims reserve, gross	-	-
Outstanding claims reserve, reinsurer's shares	-	-
<b>Outstanding claims reserve, net</b>	<b>-</b>	<b>-</b>

Outstanding claims reserve	31 December 2018	31 December 2017
Opening balance	-	1,799
Payments during the period	911,819	361,503
Increases during the period	(911,819)	(363,302)
<b>Balance at the end of the year</b>	<b>-</b>	<b>-</b>

#### 23. Income taxes

The items that constitute the income tax expense shown in the attached consolidated statements of profit or loss. are as follows:

	31 December 2018	31 December 2017
<b><i>Income taxes shown within the net profit for the period</i></b>		
Current tax expense	(2,662,225)	(836,790)
Deferred tax income / (expense):	(733,562)	(2,316,887)
	<b>(3,395,787)</b>	<b>(3,153,677)</b>
<b><i>Income taxes shown within other comprehensive income</i></b>		
Accounted tax within other Comprehensive Income	-	(975,577)
Accounted deferred tax within other Comprehensive Income	(541,276)	(200,990)
	<b>(541,276)</b>	<b>(1,176,567)</b>
<b>Total tax expenses</b>	<b>(3,937,064)</b>	<b>(4,330,244)</b>

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

	31 December 2018	31 December 2017
Opening balance	1,752,342	2,148,880
Income tax expense for the current period	2,662,225	1,278,490
Income tax accounted for under other comprehensive income	-	975,577
Prepaid taxes within the period	(1,312,566)	(2,650,605)
<b>Corporation tax payable</b>	<b>3,102,001</b>	<b>1,752,342</b>

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

#### 23. 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 31 December 2018 and 31 December 2017.

	31 December 2018	Tax rate (%)	31 December 2017	Tax rate (%)
<b>Net operating profit before tax and non-controlling interests</b>	<b>10,945,027</b>		<b>12,837,656</b>	
Provision for income tax calculated at the legal tax rate	(3,371,824)	%19.00 - %23.5	(3,164,748)	%19.25 - %23.5
Other, net	(23,963)		11,071	
<b>Income tax expense</b>	<b>(3,395,787)</b>		<b>(3,153,677)</b>	

The details of items that result in deferred tax assets and liabilities as of 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	31 December 2017
Other provisions	(46,809)	(58,556)
Valuation differences of financial assets and liabilities	(20,641)	(20,641)
Impact of adopting IFRS 9 deferred tax effect	(533,592)	-
<b>Deferred tax assets</b>	<b>(601,042)</b>	<b>(79,197)</b>
Valuation differences of financial assets and liabilities	2,509,456	1,850,983
KKTCCB and Tax Legislations depreciation differences	1,893,803	231,316
Other temporary differences	296,882	1,933,350
<b>Deferred tax liabilities:</b>	<b>4,700,141</b>	<b>4,015,649</b>
<b>Deferred tax liabilities, (net)</b>	<b>4,099,099</b>	<b>3,936,453</b>

#### 24. 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 31 December 2018 and 31 December 2017.

The following table shows the calculation of earnings per share:

	31 December 2018	31 December 2017
Net profit for the year	8,420,007	8,779,533
Weighted number of shares (100 pieces)	85,126,685	81,072,525
Earnings per 100 shares (*)	0.0989	0.1031

(\*) Due to increase of the Turk Bankası Ltd's capital from TL 82,000,000 to TL 86,000,000 by the share transferring TL 4,000,000 from retained earnings, earning per share restated as of 31 December 2017.

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

#### 25. Equity

##### Share capital

As of 31 December 2018, the authorized capital of the Bank is TL 86,000,000 (31 December 2017: TL 82,000,000). As of 31 December 2018, the share capital is TL 85,126,685 (31 December 2017: TL 81,072,525). The shares representing authorized capital consist of 20,380 "New A" shares each worth 10 Kurus, and 85,997,692 "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.

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

##### 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.

Pursuant to the decision taken at the Bank's 117th Ordinary General Assembly Meeting held on April 18, 2018; sum of TL 5,804,765 which was found by adding the profit carried forward from year 2016 to TL 4,087,842, net profit for year 2017, TL 409,000 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 increase the capital TL 534 from cash and TL 4,053,626 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, 2018.

##### Translation Reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the Turkishbank (UK)'s financial statements into the functional currency of the Bank which is TL. As at 31 December 2018 translation reserve amount is TL 54,761,960 (31 December 2017: TL 38,464,445).

##### Fair value reserves

	31 December 2018	31 December 2017
Balance at the beginning of the period	4,858,927	1,083,713
IFRS 9 initial application impact, net off tax	143,311	-
Net (losses)/gains from changes in fair value	(136,127)	(4,951,781)
The effect of deferred and current tax	139,482	(1,176,567)
<b>Balance at the end of the period</b>	<b>5,005,593</b>	<b>4,858,927</b>

##### Non-controlling interests

The details of the non-controlling interests as of 31 December 2018 and 31 December 2017, are as follows:

	31 December 2018	31 December 2017
Capital and other reserves	11,697,629	9,852,404
Retained earnings	6,045,286	5,929,456
Other comprehensive income	4,290,438	1,936,300
<b>Total</b>	<b>22,033,353</b>	<b>17,718,160</b>

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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

#### 26. 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:

	31 December 2018			
	Cash loans	Non-Cash Loans	Banks	Deposits
Indirect/direct shareholders	19,014,599	98,442	4,450,900	130,918,347
Senior Management	773,110	-	-	2,754,083
<b>Total</b>	<b>19,787,709</b>	<b>98,442</b>	<b>4,450,900</b>	<b>133,672,430</b>

  

	31 December 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
<b>Total</b>	<b>31,789,113</b>	<b>89,094</b>	<b>976,504</b>	<b>23,099,353</b>

	31 December 2018				
	Commission Incomes	Interest Incomes	Other Incomes	Interest Expenses	Other Operating Expenses
Indirect/direct shareholders	48,383	969,846	-	2,292,430	160,201
Senior Management	1,977	36,542	-	50,025	-
<b>Total</b>	<b>50,360</b>	<b>1,006,388</b>	<b>-</b>	<b>2,342,455</b>	<b>160,201</b>

  

	31 December 2017				
	Commission Incomes	Interest Incomes	Other Incomes	Interest Expenses	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	-
<b>Total</b>	<b>22,170</b>	<b>138,990</b>	<b>1,163</b>	<b>1,259,319</b>	<b>201,060</b>

#### 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 salaries and benefits paid to the senior management and Board of Members during the year is TL 4,077,766 (31 December 2017: TL 5,235,367).

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2018

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#### 27. Other income

The details of other income as of 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	31 December 2017
Earned premiums	2,411,715	2,175,377
<i>Written premiums, net of reinsurer's share</i>	<i>1,835,931</i>	<i>1,780,787</i>
<i>Change in unearned premium reserve</i>	<i>575,784</i>	<i>394,590</i>
Reversal	1,416,152	637,493
Prudential Reserves Premium Return	317,179	237,630
Income from sale of fixed assets	133,602	131,329
Fees charged to customers for communication expenses	102,757	106,882
Other	171,995	128,943
<b>Total</b>	<b>4,553,400</b>	<b>3,417,654</b>

#### 28. Personnel expenses

The details of personnel expenses as of 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	31 December 2017
Salary and wages	(26,957,954)	(23,320,140)
Social security premiums employer's share	(3,846,750)	(3,322,988)
Other benefits	(3,616,427)	(1,802,601)
<b>Total</b>	<b>(34,421,131)</b>	<b>(28,445,729)</b>

Average number of employees of the Group within the year:

	31 December 2018	31 December 2017
Bank	194	195
Subsidiaries	92	91
<i>Turkish Bank UK Ltd</i>	<i>82</i>	<i>82</i>
<i>Türk Sigorta Ltd</i>	<i>10</i>	<i>9</i>
<b>Total</b>	<b>286</b>	<b>286</b>



## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

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

#### 29. Other expenses

The details of other expenses as of 31 December 2018 and 31 December 2017 are as follows::

	31 December 2018	31 December 2017
Consultancy expenses	(8,121,250)	(4,528,279)
Computer usage expenses	(5,357,771)	(3,271,010)
Lease and operating lease expenses	(4,949,771)	(1,357,038)
Saving Deposit Insurance Fund premiums	(4,446,269)	(3,824,136)
Other various administrative expenses	(2,609,149)	(629,709)
Communication expenses	(2,022,016)	(4,024,871)
Energy expenses	(919,683)	(515,148)
Cleaning expenses	(523,377)	(114,448)
Maintenance and repair expenses	(481,118)	(626,892)
Office material expenses	(351,955)	(203,876)
Advertising expenses	(308,240)	(407,399)
Insurance expenses	(274,752)	(1,037,991)
Hospitality expenses	(260,209)	(206,180)
Vehicles expenses	(195,357)	(174,811)
Losses from write-offs (*)	(5,978,820)	(64,186)
<b>Total</b>	<b>(36,799,737)</b>	<b>(20,985,974)</b>

(\*) As explained Note 11, it includes TL 4,968,741 write off balance belonging to Ojer Telekomünikasyon A.Ş.

#### 30. Commitments and contingencies

As of 31 December 2018 and 31 December 2017, 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:

	31 December 2018	31 December 2017
Letters of guarantee	8,764,603	7,865,663
Letters of credit	7,918,440	562,500(*)
<b>Total non-Cash Loans</b>	<b>16,683,043</b>	<b>8,428,163</b>
Credit cards expenditure limit commitments	35,365,847	42,156,371
Loan allocation commitments with disbursement guarantees	152,109,416	226,660,151
Payment commitments for cheques	24,783,750	25,029,500
<b>Other Irrevocable Commitments</b>	<b>2,615,316,257</b>	<b>1,549,231,033</b>
<b>Total commitments</b>	<b>2,827,575,270</b>	<b>1,843,077,055</b>
<b>Total commitments and non-cash loans</b>	<b>2,844,258,313</b>	<b>1,851,505,218</b>

(\*) 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.

## Türk Bankası Limited and its Subsidiaries

### Notes to the Consolidated Financial Statements

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

#### Information about contingent assets and liabilities

As of 31 December 2018 the amount of provisions set aside for litigation due to a dispute is TL 624,292 (31 December 2017: TL 338,828). 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.

#### 31. Subsidiaries

31 December 2018	Direct shareholding ratio (%)	Indirect shareholding ratio (%)
<i>Subsidiaries</i>		
Turkish Bank (UK) Ltd	83.33	83.33
Türk Sigorta Ltd	51.16	51.16

  

31 December 2017	Direct shareholding ratio (%)	Indirect shareholding ratio (%)
<i>Subsidiaries</i>		
Turkish Bank (UK) Ltd	83.33	83.33
Türk Sigorta Ltd	51.16	51.16

#### 32. Events after the reporting period

At the Extraordinary General Assembly Meeting held on 25 April 2019, it has been decided to increase capital of Türk Bankası Ltd. to TL 92,000,000, by the share transferring TL 6,000,000 from retained earnings.