Annual Report 2017

Anadolubank Nederland

Table of Content

Vision

To become the bank of choice for customers

As the international banking arm of Habas Group/Anadolubank A.S., our vision is to be recognized for our quality, reliability and excellence and to become the bank of choice for customers.

Mission

Setting new standards

In order to become the bank of choice for customers, we must set new standards for banking operations that benefit our customers, shareholders, society and our own organization. Our principal commitment is to deliver a return on equity on a sustainable basis.

New standards will therefore be at the core of everything we do in the future. The Bank will focus on setting new standards in four areas: the expertise of our team, our knowledge of local and global markets, by carefully building exceptional customer relations, and strong and conservative risk management.

Our Values

Integrity

Be fair, honest, and sincere in all of our business relationships.

Working together

We firmly believe that working together, inspiring each other and to achieve collective strength is essential for banking. We can support each other and serve our clients as one. We want long-term relationships with our customers that create value for both parties.

Products and services

We will always strive for excellence in serving our internal and external customers, through professionalism, innovation and creativity.

Three-year Key Figures

in thousands EUR	2017	2016	2015
Total assets	618,594	552,491	650,768
Loans	396,781	310,414	374,425
Bank loans	106,639	74,075	109,290
Corporate loans	290,142	236,339	265,135
Securities	107,981	124,779	118,557
Deposits	335,020	340,783	381,520
Shareholders' equity (including results after tax)	88,303	82,624	79,327
Operating result before tax and impairments	5,828	5,434	6,716
Impairments	-	-	(6,065)
Result after tax and impairments	4,381	4,085	498
%			
Net return on average equity	5,1	5,0	0,6
Loans/deposit	118,4	91,1	98,1
Cost/income ratio	53,7	53,0	46,8
Cost/average assets	1,2	1,1	1,0
Capital adequacy ratio	18,7	19,9	18,7

Return on average equity

Cost / income ratio %

Capital adequacy ratio %

Supervisory Board Report

General

The most important role of the Supervisory Board is ensuring effective governance. Among other duties, it is an impartial arbiter of corporate conduct and compliance. In general the Supervisory Board is very much involved in its advisory role in the risk appetite of the bank, the strategy and the culture in the organization. Members of the Supervisory Board, in particular the Chairman of the Supervisory Board, have – next to the contacts with the members of the Management Board in the formal meetings – also many informal contacts with the Management Board as a whole or the individual members.

Dutch Corporate Governance Code

It should be noted that the code is applicable to listed companies. Anadolubank Nederland uses the principles in the code as guideline for its structure, policies and procedures.

The Supervisory Board discussed the Corporate Governance Code and the impact of the new code on the bank. The Supervisory Board supports the way in which the bank applies the principles as guideline.

Culture

Supervisory Board and Management Board consider an open and transparent communication structure in the bank of utmost importance. During the last years much time was spent to analyze the culture of the bank and what improvements needed to be considered. Almost all recommendations have been implemented. For 2018 it is foreseen that also the last main item, to further improve and strengthen the HR function, can be finalized.

Strategy

The strategy of Anadolubank Nederland is to focus more on the Dutch and the European corporate market. The strategy has been developed by the Management Board in close cooperation with the Supervisory Board. In 2016 a start with made to implement this new strategy. The effective implementation of the new strategy has been a key priority for 2017.

The Supervisory Board has emphasized that one of the bank's key objectives is to increase profitability in a sustainable and long-term manner, but that this would not be done to the detriment of prudent and stringent risk management. Successful execution of this new strategy is being monitored by Supervisory Board. The Supervisory Board concludes that good progress is made on the implementation of the new strategy and that as per end of 2017 the bank is ahead of the budgeted target.

Risk Appetite

Every year the Supervisory Board discusses the risk appetite with the Managing Board. In its 2-monthly meetings with the Management Board, the Supervisory Board discusses the various risk types and monitors the actual risk profile by means of a dashboard. It is the Supervisory Board's opinion that a low risk appetite protects the bank's reputation, safeguards the continuity of the bank (even under stress) and guarantees the interests of all stakeholders.

Control Framework

Banking may be considered one of the most heavily regulated industries. However, as Anadolubank Nederland N.V. is well capitalized and maintains high liquidity ratios, the Bank is well positioned to meet all necessary requirements.

The bank continuously evaluates the design and effectiveness of risk management, compliance and internal controls. The Management Board is responsible for the control framework and has been working in close collaboration with the Supervisory Board. The Supervisory Board is satisfied with the strength, stability and performance of all those functions that are part of the control framework.

Cooperation with the Managing Board

The Supervisory Board is closely involved, in its advisory role, in the company's business, especially regarding the bank's strategy and the risk appetite. The Chairmen of the Supervisory Board and Managing Board have frequent contact outside of formal meetings. The other Supervisory Board members and Managing Board members also have regular contact outside the meetings.

Supervisory Board Structure

The Supervisory Board has formulated a membership profile that defines its size and composition. The Supervisory Board consists of four Members of which two are independent and two are dependent according to the principles of the Governance code. This composition is in line with the requirement of DNB. All members are jointly and severally liable for the execution of the Supervisory Board's functions. Due to the size of the Supervisory Board and its composition, no separate committees are installed. Instead all members have been assigned specific attention areas. Each attention area is in principle assigned to two members, an independent member together with a dependent member.

Supervisory Board Composition

As per August 1, 2017 **Mr Pulat Akcin** resigned from the service of the parent bank and therefore also from the Supervisory Board of Anadolubank Nederland. We thank Mr Akcin for his dedicated leadership and contribution to Anadolubank Nederland since it's start in 2007.

Mr Taner Ayhan has been a member of the Supervisory Board till December 2017 when he resigned from the parent bank and therefore also from the Supervisory Board of Anadolubank Nederland. We thank Mr Ayhan for all his contributions to the bank and wish him all the best in his future career.

The Annual General Meeting of Shareholders reappointed **Mr Bert Smith** as of April 2017 as Chairman of the Supervisory Board for a period of four years and **Mr Arnoud Star** as per January 1, 2018 as member of the Supervisory Board for a period of four years.

In case of vacancy in the Supervisory Board, an individual job profile based on the defined attention areas and present expertise available in the Supervisory Board, is drawn up.

As per November 2017 **Mr Ferudun Canbay** has been appointed as member of the Supervisory Board to fill the vacancy due to the resignation of Mr Akcin. Mr Canbay holds the position of CFO in Anadolubank Turkey.

Due to the resignation of **Mr Ayhan** a new vacancy existed as per December 31, 2017. **Mr Ali Aridasir** was presented by the parent bank for this position. We are glad to announce that Mr Aridasir has meanwhile been approved by DNB in April 2018 and therefore has started now as member of the Supervisory Board. Mr Aridasir is responsible for Credit allocation in the parent bank and will become a member of the Tier 2 Credit Committee.

Supervisory Board Meetings

During the year 2017 the Supervisory Board met 5 times (in principle once per two months) with the Management Board to review the interim figures, management reports, reports of the internal and external auditors and audits by DNB. Further the Supervisory Board meets at least once a year with the external auditor. In all these meeting the members of the Management Board are present. Further the Supervisory Board meets at least once a year without the presence of the Management Board to perform a self-evaluation. During all these Supervisory Board meetings all members of the Supervisory Board were present.

Lifelong Training

The Supervisory Board members, members of the Management Board and senior officers do participate in an education program to stay on top of new developments in the industry like new regulations, technological developments, and culture issues.

Self-evaluation of the Supervisory Board

One of the principles of the Dutch Corporate Governance Code states that the Supervisory Board is collectively responsible for its own functioning and that an annual self-assessment needs to be conducted.

Due to the changes in the Supervisory Board this self-evaluation over 2017 had another character. At the time of the self-evaluation only two SB members were active during the whole year 2017; one new member was appointed in the last months of 2017. The fourth member resigned from the service of the parent bank as per the end of 2017 and consequently also from the Supervisory Board of Anadolubank Nederland. Therefore the self-evaluation 2017 had more a character of exchanging last year's experiences and discussing some first time impression from the new members.

Adoption of financial statements

We hereby present the annual report and financial statements for the 2017 financial year, as prepared by the Managing Board. The achievements and overall results of 2017 are in line with our vision and with our continuing efforts to maximize the Bank's performance and stability.

The bank has a business model and a structure that are straightforward. The Bank reported net profit of EUR 4.381 thousand for 2017.

The Supervisory Board has discussed the 2017 financial statements with the Managing Board and the independent auditor, Deloitte Accountants N.V., who issued an unqualified opinion. The Supervisory Board members have signed the financial statements in conformity with their statutory obligation. We recommend that the General Meeting of Shareholders adopt the financial statements for 2017 at the General Meeting of Shareholders to be held on May 31, 2018. We propose that the profit after tax and impairments be added to the Bank's reserves. Furthermore, we propose that the General Meeting of Shareholders discharge the members of the Management Board from responsibility for their management and the Supervisory Board from responsibility for their supervision in the 2017 financial year.

Conclusion

The Supervisory Board wishes to express its appreciation to our shareholders and clients for their trust, as well as to our Management Board and our employees for their ongoing commitment to create value and to participate in the long-term growth of our business.

Amsterdam, June 13, 2018

A.J. Smith, *Chairman* **A. Star**, *Member*

F. Canbay, *Member* **A. Aridasir**, *Member*

Management Board Report

We are pleased to present our report for the financial year ended 31 December 2017. Our solid performance resulted in the Bank once again meeting the financial objectives that we established since 2013.

2017 was another good year for the Bank. Each of our business lines delivered strong results – despite, the effects of persistent low interest rates, low client activity levels and elevated regulatory requirements. As at 31 December 2017, Anadolubank N.V.'s net profit is EUR 4.4 million.

We improved operating income and increased to EUR 12.6 million in 2017, compared to EUR 11.6 million in 2016. Our performance is the result of staying focused on our strategy of diversification by business and geography.

Our ongoing focus on, the Bank continued to increase our footprints into Dutch and EU market in line with its business plan. We continue to balance expectations for growth and performance against acceptable levels of risk and capital. Good results in our core commercial banking businesses have contributed to strong Return on Equity (ROE) at the all-Bank level. ROE has improved by approximately 10 bps from 5.0% since 2016 to 5.1% today.

Our corporate loans share in assets is 47%, and we expect to maintain this momentum within our Dutch and EU market segments. For many years, we have been proactively managing our credit risk and benefited from a significant improvement in credit quality as a result, there were no impaired loans in 2017.

We maintained a high level of liquidity and capital which was supported by prudent balance sheet management. This performance is particularly noteworthy in view of the prevailing uncertain economic context and regulatory environment. Over the past five years, the Bank has generated approximately EUR 14.7 million of internal capital.

Our strategy will be to pursue our growth and development through investments and initiatives, as we have done over the last few years.

Given the particularly unpredictable economic and geopolitical environment in which we are operating, we have incorporated into our strategy five initiatives designed to adapt to this context.

- **Profitability**; we will put emphasis on resources dedicated to diversify the statement of financial position structure and to the development of operations with sustainable profitability.
- **Maintaining an essential presence in the EU and Dutch markets**; the Bank has a very clear plan to bring about its strategic repositioning to concentrate and grow in the EU markets and the Dutch market specifically. We are confident that this approach will deliver concrete results over the coming years. As an overall strategy, we continue to believe strongly in our diversified business model, and our geographic mix.
- **Operational efficiency**; to attain our objectives, it is important to optimize the efficiency of our operations at every level. In 2017 we increased IT projects to improve the productivity of key processes and procedures to reduce operational costs.
- **Human resource**; our employees are the most valued asset of the Bank. Further enhance employee engagement through efficient human resources practices and inspiring communications will continue in 2018. The number of staff employed by the Bank as of 31 December 2017 is 45.
- **An effective corporate governance structure and risk culture into corporate strategy**; Sound and effective corporate governance is essential for the long-term success of the Bank and the execution of our strategic vision. We have a very strict risk appetite supported by comprehensive risk frameworks, policies and standards. Responsibilities

for the management of risk and control are aligned to a three lines of defense activity-based model.

We advanced on several important initiatives during 2017 that strengthened our risk management practices and maintained compliance with evolving regulatory requirements. Our Bank has been responsive to changes in regulation and has invested considerably to adapt to the new standards. Our comprehensive risk appetite framework incorporates risk principles aligned with business model, governing financial objectives and frequent risk appetite measures. Flexibility in executing our strategy is key to the Bank's success.

We would like to express our thanks to the many, many people who are contributing to this sustainable growth and financial strength. This includes all our employees for their dedication to our customers and for their contribution to our success. By no means least, we thank you, Supervisory Board and shareholders, for their ongoing support and confidence.

Outlook

For 2018, we believe the Eurozone GDP growth to remain at 2.3% and inflation is expected to remain below 2%. For the banking industry, we expect the continuation of economic growth in 2018, which should result in a favorable environment across all business segments. In 2018, we will continue to execute our strategy and aim to improve profitability and margins.

Regulatory requirements and economic conditions will continue to influence our decisions. Putting the customer at the center of everything we do has been key to our present strength and success, and that will continue to be so going forward.

The Bank is ensuring its long-term stability and growth through active capital, liquidity, funding management by reducing concentration risk.

We are executing our Strategic Plan based on:

- On the financial management side, to have a strong capital and liquidity base,
- Diversifying the asset structure by increasing EU assets exposure,
- Cost efficiency,
- Enhancement of operating performance and focus on asset quality,
- Risk Culture framework to steer business motivation,
- Diversifying funding sources.

Economic Developments

Global economic developments

Global economic activity continues to grow/improve steadily. Economic growth picked up late in 2016 and accelerated during 2017. The International Monetary Fund estimated that global output had grown by 3.7% in 2017.

Financial markets volatility has been unusually low and asset prices have become highly valued. Global financing conditions remain loose, benefiting from an improved global growth outlook and historically low interest rates. Commodities' prices, especially oil, also placed a significant role in this recovery. 2017 has not only surprised in terms of growth, but also in muted inflation.

The U.S. Federal Reserve hiked policy interest rates three times in 2017, by a cumulative 125 basis points since the start of its tightening cycle in December 2015. It has also began to gradually reduce the size of its balance sheet in October 2017, although the target level over the medium-term has not been specified yet.

Eurozone developments

After many years of disappointing growth, Euro Area gained substantial momentum in 2017 and reached an estimated 2.4% growth. Labor markets have also improved. The unemployment rate dropped from above 12% at the start of 2013 to 8.8% in October 2017. The ECB kept its short-term interest rates unchanged to balance concerns over lower inflation with higher economic growth. Thus, the bank lending terms have remained loose.

While a stream of positive economic data continued to flow in, the political situations have affected EUR strength from time to time, of which the main there: In November, coalition talks to form a new government failed in Germany; in Spain, the political situation remains turbulent as a stand-off continues between the central government and Catalan regional authorities.

The EU and the UK Brexit negotiations have started during the summer. Euro area countries are still waiting to see how Brexit negotiations will play out and what impact the result will have on their economies and the region. There is a significant disagreement between the EU and the UK (and inside the UK government) on key issues, such as the amount the UK should pay as compensation for leaving the EU, the rights of EU citizens in the UK and the nature of the final trade deal.

The Netherlands

In 2017, the Dutch economy reached its highest growth rate in ten years. GDP grew by 3.1%, after rising 2.2% in 2016. GDP-growth was driven by different sectors. The external sector did very well, as exports of machines and chemical products rose rapidly supported by strong economic activity in the Netherlands' main trading partner Germany. Corporate investment also picked up. Sentiment in the industrial sector recently reached a record high. This was reflected in increased investments in machines. Furthermore, the improvement of the housing and real estate market boosted construction investments. Thanks to the increase in the investments, employment rose as well. In the fourth quarter the total number of jobs increased by 57.000. The labor market became relatively tight. Unemployment has dropped to 4.4%, the lowest level since 2009. The improved labor market supported consumption. Households spent 1.8% more than in 2016, above all on clothes, furniture and electrical appliances

Turkey

The Turkish economy grew 11.1% year-on-year in the third quarter of 2017. This is a very high percentage comparing to the market consensus, which was 8.5%. This enormous growth was largely due to a very strong base created by a disruption in economic activity after the failed coup attempt in July 2016. Private consumption was again in the driving seat. Such a strong growth and the fact that growth was driven mainly by strong domestic demand caused a rise in inflation to 11.92%. This is the highest level in more than 13 years. These conditions support the case for tighter policies by the Central Bank of the Republic of Turkey.

Financial Institutions

The Bank's Financial Institutions Department (FI) is responsible for maintaining, optimizing and expanding the relationships between Anadolubank Nederland N.V. and other financial institutions. FI focuses on participating in bank and corporate syndications from primary and secondary market, forfeiting trade related assets, such as promissory note, bill of lading, letter of credit, etc. Meanwhile FI is always strives for more products and superior services for our counterparties in order to firm our position in the market.

In 2017, the Financial Institutions Department participated in syndicated loans in the CEE market and Turkey, both at corporate level and on a financial institution basis. Promissory notes and bills of exchange were still one of the main focuses from FI. For issuance of LCs, LGs, BA, FI acted as an intermediary between Bank's customers and International financial institutions. Besides FI has generated wholesale funding with content rate. Origination activities account for approximately 20% of the total Bank's portfolio. The Department has always aims at sustainable profitability while simultaneously assisting other departments. Total transaction volume from 2017 were nearly EUR 1 billion and trading profits were around EUR 1 million.

Trade Finance

Trade Finance business has been one of the key business lines consistently adding value to Anadolubank Nederland N.V. financially and reputation-wise. While diversifying trade finance product range, execution and understanding of customer requirements have also improved drastically. The Trade Finance team's expertise aims for applying the appropriate structure for each transaction with timely and efficient handling of the underlying financial instruments and other related documents. Many steps have been taken to expand the Trade Finance business at Anadolubank Nederland N.V. 2017 was full of adverse geopolitical developments and ever-changing regulatory landscape.

Anadolubank Nederland N.V Trade Finance team, successfully registered another profitable year in 2017. Trade Finance Department excelled in areas such as client acquisition, asset quality, revenues, profits and return on allocated capital. The commission income generated by Trade Finance Department has reached EUR 1.7milion level at the end of the year. Addition of new clients to the customer portfolio as well as activation of some existing inactive customers had a strong positive impact on trade finance volumes. Our efforts to broaden our customer base and sector coverage during 2017 resulted in a greater sector diversification and decreasing country concentration in our non-bank exposures. This strategy will be further pursued during 2018 and new customers from various new geographies as well as existing and prospect sectors will contribute further to the success of the Trade Finance team.

Corporate Banking

Anadolubank Nederland N.V. aims to differentiate in Corporate Banking by offering high quality services, tailor made products, consultancy and excellent service.

Corporate Banking offers its customers an extensive range of products and services, including corporate loans, trade finance products, and project finance products as well as treasury products.

The objective of the Bank's Corporate Banking Department is to create a solid customer portfolio from different sectors.

Despite that 2017 was a difficult year; Corporate Banking Department has had its record growth in financing various projects. These projects are well diversified in different sectors such as marine, real estate, food, chemicals, finance, health and so forth. Our focus on Dutch and European customers stayed strong and this resulted in the increasing number of European clients.

Hence, Corporate Banking Department will continue to enlarge its customer portfolio. Meantime maximizing our clients' satisfaction will still be our priority.

Retail Banking

Retail deposits provide us stable funding base and have been a key focus area for us since commencing operations. The retail banking products of Anadolubank N.V. are straightforward. The Bank offers its customers a savings account and a range of term deposit options with market rates. Retail deposits are collected primarily via Internet and call center channels. In 2017, the Retail Banking Department maintained its focus on fast, reliable and consistent customer service.

Compliance

Anadolubank Nederland N.V. defines compliance risk as the risk of legal or regulatory sanctions, material financial loss or loss to reputation that Anadolubank Nederland N.V. may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory standards, and codes of conducts applicable to its banking activities. Internal policies, procedures and awareness activities are in place to guarantee that co-workers in all functions comply with relevant laws and regulations.

The Compliance Department independently monitors and challenges the extent to which Anadolubank Nederland N.V. complies with laws, regulations and internal policies, with an emphasis on customer due diligence, anti-money laundering, treating customers fairly, preventing and managing conflicts of interest, data protection and the integrity of co-workers.

The Compliance Department reports to a member of the Management Board and has an additional reporting line to the Supervisory Board.

The compliance Department is mandated in the Compliance Charter. A Compliance Monitoring Year Plan is created pursuant the outcome of the annually performed Systematic Integrity Risk Assessment. Compliance risks are identified, assessed, mitigated, monitored and reported via this compliance risk management cycle. Controls to mitigate compliance risks are embedded in business processes.

In 2017 Anadolubank Nederland N.V. continued to enhance its controls related to anti-money laundering, counter terrorist financing, sanctions and the protection of personal data.

To support management in mitigating compliance risks, the Compliance Department educates and supports the business in managing compliance risks related to e.g. money laundering, terrorist financing, sanction and export control compliance, conflicts of interests, misselling, corruption and protection of customers' interests.

Risk categories

Anadolubank Nederland N.V. categorises compliance risk into three conduct-related integrity risk areas:

- Personal conduct related integrity risk: compliance related risks that can arise based on Bank's employee characteristics, conduct, location, etc.: pre-employment screening, handling confidential information, market abuse and personal trading, outside positions held by Bank's employees, gifts or entertainment given or received; bribery, breaches of the Bank's values or Code of Conduct, external incident reporting
- Client conduct related integrity risk: compliance related risks that can arise based on client characteristics, activities, location, etc.: anti-money laundering and anti-terrorism financing, Politically Exposed Person or person with an increased risk reputation, Know your Customer, Clients engagements or transactions with sanctioned countries, Tax evasion by tax payers holding accounts with the Bank (FATCA and CRS);
- Organisational conduct related integrity risk; compliance related risks that can arise as a result of the organisational structure, governance, strategy and decisions: organizational conflicts of interest, market abuse and insider trading, new or modified products and services (e.g. customer base, design) and governance changes

Financial Performance Summary

2017 was a good year for Anadolubank, net profit after tax amounted to EUR 4.4 million with an increase of 7% compared to 2016 (EUR 4.1 million). Net interest income is increased by EUR 1.5 million and the Bank posted EUR 14.6 million net interest income. Net commission income amounted to EUR 1.6 million with an increase of EUR 0.3 million. This increase is driven by the increase on the average loan portfolio in 2017 and due to lower funding cost. Overall, total operating income closed the year 2017 with EUR 12.6 million versus EUR 11.6 million in 2016. The Bank's 2017 statement of profit or loss and other comprehensive income reported a pre-tax and provisions profit of EUR 5.7 million (2016: EUR 3.3 million). EUR 1.3 million of the increased was caused by the increase on the unrealized result of the available-sale-portfolio. The Bank met its operational profit and capital objectives for the year 2017.

The Bank's total assets at 31 December 2017 were EUR 619 million. (2016: EUR 552 million). The main increase on the bank loans (EUR 33 million) and customers loans (EUR 53 million). Despite the significant increase on the loan portfolio, there were no impaired loans in 2017.

Cash and cash equivalents is remained around same level, amounted to EUR 107 million. The Bank continues to focus on maintaining the good level of liquidity. High level of stable funding and with well managed maturity profile the Bank already meets the upcoming liquidity requirements.

Interest bearing securities closed the year with a balance of EUR 108 million at the end of 2017, which decreased by EUR 17 million compared to the previous year. This was mainly as a result of redemption of the securities in the held-to-maturity portfolio.

The increase on the assets is funded by the increase on borrowing from banks. Banks on the liability side, increased by EUR 75 million in 2017 which had a positive impact on the net interest due to relatively lower cost compared to customer deposits. Customer deposits is slightly decreased by EUR 6 million.

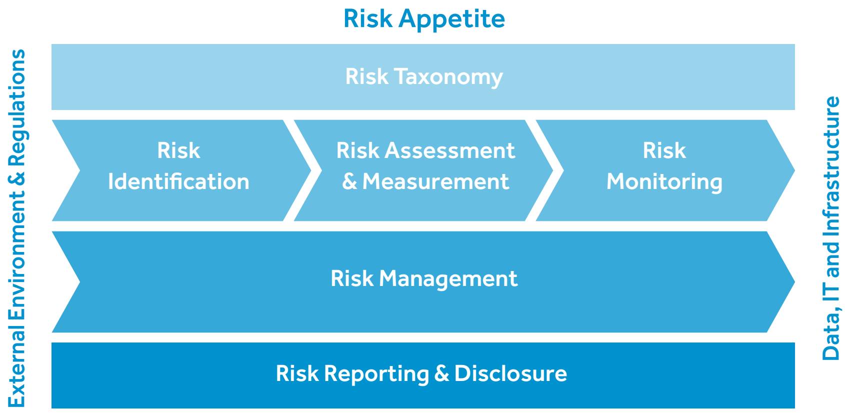
Total administrative expenses were EUR 6.7 million this year, an increase of EUR 0.6 million compared to financial year 2016. EUR 0.2 million was a result of personnel expenses and the rest is caused by the increase on the other operating expenses.

Risk Governance and Management

The Bank has two tier management systems, the Management Board (MB) that is responsible for the day-to-day running of the Bank and the Supervisory Board (SB) that is responsible for the supervision of the Bank. The Bank Supervisory and Management Boards have set policy-level standards in accordance with the regulations of the Dutch Central Bank (De Nederlandsche Bank – DNB) and European Union, and the guidelines published by the Basel Committee and the European Banking Authority.

With the approval of the Supervisory Board, the Management Board has drawn up a Charter which includes its duties, powers and working methods and information on its relationships with the Supervisory Board, the shareholders and the external auditor. The Supervisory Board has drawn up a Charter which includes its duties, powers and working methods and information on its relationships with the Management Board and the shareholders.

The risk management in the bank is based on the three lines of defense principles for segregation of duties. Business units form the first line of defense, the Risk Management Department, the Treasury Mid-office Department, the Internal Control and the Credit Risk Management Department, along with the Compliance Department form the second line of defense. Those departments support the business units in their decision-making, but have also appropriate independence and countervailing power to avoid risk. Internal Audit, as the third line of defense, oversees and assesses the functioning and effectiveness of the first two lines. The risk appetite is established upon the external environment and regulations, and data, IT and infrastructure. It covers the rules and regulations imposed by the national and international regulatory bodies, and provides data aggregation, transparency and consistency. A risk taxonomy is created to provide a common set of definitions on the risk types within the organization. As a result, definition and classification of risks are comparable across the organization. Risk identification is performed to detect the external and internal events that might affect the realization of the strategic objectives. Identified risks are further analyzed through risk assessment & measurement. This process consists of assessing each identified risk using qualitative or quantitative techniques and also demonstrates the interaction of the risk types. Then, risk monitoring helps the business units and boards to understand whether the risks are within acceptable level. The Risk Management Department is responsible for the oversight of the process according to implemented policies and procedures. Risk Reporting & Disclosure ensures that the identified risks are accurately and timely communicated with the internal and external parties. The graph displayed below describes each building block of the risk management framework.



The Supervisory Board has the final authority to approve the risk appetite statement proposed by the Management Board, exercising its oversight of risk management. The oversight of the policies and processes of the Audit Department, the Risk Management Department and the Compliance Department, is the responsibility of the Supervisory Board. They define the risk assessment and management to be carried out within the governance structure. The Supervisory Board also reviews internal control and financial reporting systems that are relied upon to ensure integrated risk measurement and disclosure processes.

In the area of risk management, the Management Board is supported by various committees. The Asset and Liability Committee (ALCO) and Credit Committee are also responsible for the structure of the risk organization and for determining and/or adjusting powers in the context of risk and capital policy. Within the Risk Appetite Framework, the Committees have the following duties.

- Assessing if risk policies are in line with the Bank's risk appetite;
- Assessing specific standards, authorizations and limits for various risks.

The risk appetite established by the Management Board provides the boundaries within which the Bank has to operate. The Management Board acknowledges that the regulators will continue to challenge financial institutions and for that reason continued effort is required to maintain high quality standards in the area of risk management. In this respect, the Bank puts an emphasis on the DNB Supervisory Themes. Also, the Bank initiates yearly objectives to improve the current framework. Building on the previous year, in 2018 the risk culture will be further developed by improving risk knowledge and awareness throughout the organization. Also the operational risk management framework will be further enhanced to increase the effectiveness of the internal controls.

Risk and Capital Management

The all-in Basel III Common Equity Tier 1 ratio was 18.7% as at 31 December 2017, compared to 19.9% last year, and remained well above the regulatory minimum. As of end 2017, capital requirements on credit risk increased due to the expanding lending portfolio. At the same time market risk decreased due to not having trading risk and operational risk remained at the same level.

The Bank yearly performs the calculation of its ICAAP. We define risks the Bank is exposed to such as credit, liquidity, interest, reputational, market and operational risk, and calculate the impact on the Bank's profitability, equity position and solvency ratio. The Bank has established maximum concentration limits in terms of both nominal and capital consumption, over (i) single name concentrations of large (connected) individual counterparties, (ii) significant exposures to sectors and (iii), country concentration to manage concentration risk in its loan portfolio. Extensive stress tests are conducted to analyze the worst case scenario. A comprehensive ICAAP report is presented to the Management Board and the Supervisory Board every year-end. But also in relation to liquidity risk management through its internal liquidity adequacy assessment process (ILAAP) as required by the Liquidity Policy Rule of DNB.

Currently, the Bank is following the Standardized Approach for credit risk, the Basic Indicator Approach for operational risk and the Standardized Duration Approach for market risk for computing the capital adequacy ratio. The Bank computes the Capital Adequacy Ratio according to Basel III rules as per DNB guidelines.

The Bank has a financial recovery plan, yearly updated since 2013, which describes recovery options and represents a well-diversified set of options in a financial or other crisis. The Bank's Recovery Plan framework is embedded in its business-as-usual operations, and is built on existing governance, frameworks, processes and plans. In this way one can regard it as a continuum of the ICAAP and ILAAP plans that include measures and strategic considerations to ensure the Bank's readiness to tackle crises on its own strength. The Supervisory Board reviewed and approved the Bank's Recovery Plan that was developed and improved by the Management Board in consultation with DNB.

The Bank has adopted the new IFRS 9 accounting standard as of 1 January 2018. The Bank started the IFRS 9 project in October 2016 with the involvement of Zanders. The Supervisory Board has approved the framework. IFRS 9 has a one-off impact on the capital of the Bank as of 2018 due to new provisioning rules for expected credit losses. At this stage it is unclear if for regulatory capital calculations the impact can be phased in more gradually.

Anadolubank Nederland N.V.'s Capital and Risk Management Pillar III Disclosures contain information that enables an assessment of the risk profile and capital adequacy of Anadolubank Nederland N.V. This publication fulfils the requirements of the Basel III framework, as stipulated in the Capital Requirements Regulation and Directive IV (CRR/CRDIV). CRD IV was enforced in Dutch law as amendments to the 'Wft' (Wet Financieel Toezicht) and further accompanying regulations as well as Pillar III disclosures.

Anadolubank Nederland N.V. publishes its disclosures on its website. The next Pillar III disclosure will be available during the first half of 2018 based on 31 December 2017 figures.

Capital requirements	**2017**	**2016**
in EUR thousand		
Total risk weighted assets	471,665	414,252
Credit risk	449,250	390,408
Market risk	1,760	3,597
Operational risk	20,655	20,247
Tier 1 capital	**88,272**	**82,562**
Paid-in capital	70,000	70,000
Retained earnings	14,412	10,327
Revaluation reserves	(490)	(1,788)
Net profit	4,381	4,085
Regulatory adjustments	(31)	(62)
Tier 2 capital	**-**	**-**
Total capital	**88,272**	**82,562**
Tier 1 ratio %	18,7 %	19,9 %
Solvency ratio %	18,7 %	19,9 %

Credit Committee

Credit Risk Management expresses the usual three lines of defense model. Decisions about individual proposals stem from the Bank's own business analyses and independent risk assessments.

The Tier-1 Credit Committee (consisting of three managing directors, CRO and head of credit risk management as voting members) is concerned with both the approval of new credit proposals and the renewal of existing facilities (including any type of credit exposure such as loans and bonds), and also decides on sector & country risk proposals within its delegated authorities as well as discussing about the marketing plan on the proposal by applying Pricing Policy.

The committee recommends the Tier-2 Credit Committee (composed of a member of the Board of the Parent Bank, a manager of the Parent Bank's Credit Risk Department and Managing Director/CEO of the Bank) with respect to individual proposals that exceed its approval authorities.

As such, the Tier-2 Credit Committee is the highest approval authority regarding individual credit proposals. Regarding Credit Risk Policies, Tier-1 is the initiator and Tier-2 may be consulted for advice by the Supervisory Board.

Asset & Liability Committee

The Asset & Liability Committee "ALCO" typically comprise the member of the Management Board, CRO and head of finance, and the head of treasury, corporate and institutional banking activities and business heads. The ALCO formally meets on a biweekly basis to review the exposures that lie within the statement of financial position together with market conditions, and decide on strategies to mitigate any undesirable liquidity and market risk. If necessary, additional meetings may be convened.

The Treasury Department is mandated to holistically manage the liquidity mismatch and interest rate risk arising from our asset and liability portfolios on a day-to-day basis. The Treasury Department is required to exercise tight control of funding, liquidity, concentration and interest rate risk on banking book within parameters defined by the board-approved risk appetite policy. The Risk Management Department monitors daily business operations according to risk appetite limits. Weekly reporting to ALCO and the Board includes details of performance against relevant Risk Appetite Statement and key metrics (breaches and trends).

The ALCO discusses a wide variety of issues at its meetings throughout the year including realization of business plan, solvency, liquidity and results of the Bank, projected loans and loan repayments, interest rate risk, foreign currency risk, foreign exchange and main equity markets, macro-economic developments and market outlook in the main markets where the Bank operates and the savings market. The ALCO reviews the results of and progress in implementation of the decisions made in the previous meetings.

The Bank finds it prudent to keep a high level of liquidity and maintains liquidity significantly above the minimum requirements of the Dutch Central Bank. It also keeps an eye on diversification, cost robustness of funding sources and current and new funding structure.

Corporate Governance, Supervisory Board and the Management Board

The Supervisory Board of Anadolubank Nederland N.V. is comprised of four members, two of which also hold positions on the Managing Board of Anadolubank Turkey, the shareholder. 50 percent of the Supervisory Board members are independent, including the chairman of this Board. In 2017 two non-independent members left the Supervisory board because they left the employment with our shareholder. One new member was appointed in 2017, another appointment is realized in April 2018.

The Supervisory Board held seven formal meetings during the year 2017 of which six together with the Management Board. A diverse range of topics were discussed at these meetings, main topics were related to the strategy of the Bank including the political developments in Turkey and Europe specifically, but also the solvency and liquidity, credits and in – and external audit and compliance reports were main topics on the agenda.

The Supervisory Board had a specific focus on supervising the activities of the Management Board with respect to:

- Review and further implementation and maintenance of the Risk Management Framework and internal control system;
- Review risk appetite, limits and authority levels;
- Review of the Compliance monitoring plan and the internal Audit year plan;
- Review the engagement of the external Auditors, particularly in respect of their independence.

The Management Board of Anadolubank Nederland N.V. is comprised of three members. Each member has specific attention areas and together the Management Board is responsible for the day-to-day executive management of the Bank. This includes amongst others the development of strategies, active balance management and the fulfilment of the Bank's obligations towards regulatory bodies.

Although the Dutch Corporate Governance Code is formally not applicable to our bank, the main topics of the code are followed by Anadolubank Nederland N.V. The code changed in 2015 and the year 2016 is the first year the renewed code is applicable. The way Anadolubank Nederland N.V. complies or explains the way the new Governance Code is implemented, is published on the website of the Bank.

The Dutch Banking code (Code Banken) is initiated in 2009 by the Dutch Banking association (NVB). Anadolubank Nederland N.V. is a member of the NVB since its activities started in 2008 so the Banking code is followed by the Bank. One of the topics of this code is that both Supervisory Board and Management Board should have a life-long training education program in place every year. In 2017 all members together and senior managers of the Bank as well, took part of a life-long training session as conducted by the chairman of the Supervisory Board. For 2017 again an external party was invited to perform the life-long training; the subjects covered were governance developments and coming–up changes in the Dutch Supervision act (Wft).

The Supervisory Board was closely involved in the development of the Bank's strategy. They advised and supported the Management Board on this subject actively.

Remuneration

The Bank's Remuneration Policy has been updated/revised to comply with national and international regulations (such as the Banking Code, DNB's regulation on sound remuneration, the Financial Supervision Act and the relevant provisions included in CRDIV).

Remuneration policy complies with Dutch and European legislation, the regulations and guidelines issued by De Nederlandsche Bank (DNB), the Authority for the Financial Markets (AFM) and the European Banking Authority (EBA) and self-regulation codes such as the Banking Code (Code Banken).

The report identifies the following four key principles:

Remuneration is:

- aligned with business strategy of the Bank;
- appropriately balanced between short term and long term;
- differentiated and relative to the realization of performance objectives and the results of the Bank;
- externally competitive and internally fair.

Payments are made only in cash, based on the internal risk assessment which consists of;

- Bank remains unlisted and non-cash payments are not possible or convenient.
- Risks arising from the cash payment are adequately managed; using a calculation of variable remuneration which is based on the sustainable income of the Bank and safeguarding the Bank's right to claim back paid remuneration under certain circumstances.

For the variable remuneration, the Bank awards the relevant staff members, by payment in once in cash and less than one million euro.

Where employees do receive a variable remuneration, the average amounts remain relatively modest, while at the same time the variable remuneration remains below the maximum of 20% of the fixed income of the employee in question.

The variable remuneration pool is 4.1% of 2017 personnel expenses.

Internal Audit

The Internal Audit Department forms the third line of defense and provides independent oversight and advisory function designed to add value to the Bank. Internal Audit Department provides assurance that the activities of the Bank are conducted in accordance with the Law and other applicable legislation and with the internal strategies, policies, principles and targets of the Bank and that the internal control and risk management systems are effective and adequate. With the key progress that the Bank is currently undergoing, the Internal Audit Department's mission is to continually support the management, to ensure that risks are appropriately identified, managed and monitored. The Internal Audit department is also focused on raising awareness of risks and controls, providing advice to management in developing controls, and monitoring the implementation of management's corrective actions to further mitigate risks and enhance controls.

The Internal Audit Department conducts audits in line with the risk-based Annual Audit Plan and issues the audit reports to the relevant management and the Supervisory Board. The assurance and consultancy engagement reports delivered in the previous year, comprising reviews of key bank operations, core corporate and administrative processes, and information technology areas. The Internal Audit Department provided assurance on several data requirements requested by DNB and the Tax Office. Outsourced processes were also included in the scope of the Annual Audit Plan of Internal Audit Department and the key outsourced processes were also audited besides the internal processes. Besides Internal Audit Department, Internal Control Department ensures that control activities are an integral part of the daily activities of the Bank. Internal control is the process to help the Bank perform better through the use of its resources, through internal control system the department will identify the weaknesses and take appropriate measures to overcome the same. The department performs control activities preventative or detective and encompass a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations, physical controls, supervisory controls and human resources controls.

Amsterdam, June 13, 2018

S. Yakar, *CEO*

N. Plotkin, *Managing Director*

A.H. Otten, *Managing Director*

Statement of financial position as at 31 December 2017

in EUR thousand

Assets	Note	31 December 2017	31 December 2016
Cash and cash equivalents	5	106,910	113,106
Derivative financial assets	6	5,985	2,859
Loans and advances to banks	7	106,988	74,075
Loans and advances to customers	8	289,793	236,339
Interest bearing securities	9	107,981	124,779
Property and equipment	10	57	100
Intangible assets	11	31	62
Current tax assets		-	12
Deferred tax assets	26	163	600
Other assets	12	686	559
Total assets		**618,594**	**552,491**
Liabilities			
Derivative financial liabilities	6	2,038	11,172
Deposits from banks	13	191,860	117,083
Deposits from customers	14	335,020	340,783
Current tax liabilities		432	-
Other liabilities	15	941	829
Total liabilities		**530,291**	**469,867**
Equity			
Share capital	16	70,000	70,000
Retained earnings	16	14,412	10,327
Revaluation reserves		(490)	(1,788)
Net profit		4,381	4,085
Shareholders' equity		**88,303**	**82,624**
Total liabilities and equity		**618,594**	**552,491**
Commitments	**17**	**19,600**	**18,188**

The notes on pages 22-53 are an integral part of these financial statements

Statement of profit or loss and other comprehensive income

in EUR thousand

	Note	2017	2016
Interest income	20	20,945	20,111
Interest expense	20	(6,370)	(7,076)
Net interest income	**20**	**14,575**	**13,035**
Fee and commission income	21	1,744	1,391
Fee and commission expense	21	(149)	(125)
Net fee and commission income	**21**	**1,595**	**1,266**
Net trading income	22	649	1,106
Results from financial transactions	23	(4,245)	(3,857)
Operating income		**12,574**	**11,550**
Personnel expenses	24	(4,290)	(4,085)
Depreciation and amortisation	10,11	(81)	(84)
Other expenses	25	(2,375)	(1,947)
Profit before income tax		**5,828**	**5,434**
Tax expense	26	(1,447)	(1,349)
Profit for the year		**4,381**	**4,085**

Other comprehensive income		**2017**	**2016**
Movement in available for sale reserve		1,731	(1,051)
Related tax		(433)	263
Total (after tax)		**1,298**	**(788)**

	2017	**2016**
Profit attributable to:		
Equity holders of the Bank	4,381	4,085
Total comprehensive income (after tax)		
Equity holders of the Bank	5,679	3,297

The notes on pages 22-53 are an integral part of these financial statements

Statement of cash flows

in EUR thousand

Cash flows from operating activities	**Note**	**2017**	**2016**
Profit/(loss) for the period		4,381	4,085
Adjustments for:		-	-
- Depreciation and amortisation	10	81	84
- Net interest income	20	(14,575)	(13,035)
- Results from financial transactions	22,23	3,596	2,751
- Income tax expense	26	1,447	1,349
		(5,070)	**(4,766)**
Movements in operating assets and liabilities			
Change in derivative financial instrument (assets)	6	(3,126)	(2,142)
Change in loans and advances to banks	7	(32,913)	51,209
Change in loans and advances to customers	8	(53,454)	12,802
Change in available for sale and trading portfolio	9	1,690	(8,839)
Change in other assets	12	(127)	29
Change in derivative financial instrument (liabilities)	6	(9,134)	(315)
Change in deposits from banks	13	74,777	(40,669)
Change in deposits from customers	14	(5,763)	(40,737)
Change in other liabilities and provisions	15	112	(19,853)
		(27,938)	**(48,515)**
Acquisition of financial assets at fair value through PL		(2,542)	(3,420)
Proceeds from sales of financial assets at fair value through PL		615	1,140
Interest received	20	22,241	20,172
Interest paid	20	(6,915)	(8,072)
income tax paid		(1,128)	412
Net cash from operating activities		**(20,737)**	**(43,049)**
Cash flows from investing activities			
Acquisition of investment securities	9	(8,911)	(14,126)
Redemptions of investment securities		24,019	17,813
Acquisition of property and equipment	10	(7)	(17)
Acquisition of intangible assets	11	-	(55)
Net cash used in investing activities		**15,101**	**3,615**
Net increase in cash and cash equivalent		(5,636)	(39,434)
Cash and cash equivalents at 1 January	5	113,106	154,201
Effect of exchange rate fluctuations on cash and cash equivalents held		(560)	(1,661)
Cash and cash equivalents at 31 December	**5**	**106,910**	**113,106**

The notes on pages 22-53 are an integral part of these financial statements

Statement of changes in equity

in EUR thousand

	Share capital	Retained earnings	Profit for the year	Revaluation reserves	Total
Balance at 1 January 2016	**70,000**	**9,829**	**498**	**(1,000)**	**79,327**
Profit/(loss) allocation	-	498	(498)	-	-
Net income for the year	-	-	4,085	-	4,085
Revaluation of reserves	-	-	-	(788)	(788)
Balance at 31 December 2016	**70,000**	**10,327**	**4,085**	**(1,788)**	**82,624**

Balance at 1 January 2017	**70,000**	**10,327**	**4,085**	**(1,788)**	**82,624**
Profit/(loss) allocation	-	4,085	(4,085)	-	-
Net income for the year	-	-	4,381	-	4,381
Revaluation of reserves	-	-	-	1,298	1,298
Balance at 31 December 2017	**70,000**	**14,412**	**4,381**	**(490)**	**88,303**

The notes on pages 22-53 are an integral part of these financial statements

Notes to the financial statements

As of December 31, 2017

1. Reporting entity

Anadolubank Nederland N.V. (the "Bank") is a public limited liability company domiciled in the Netherlands. The Bank was established on 5 April 2006 and was granted a full banking license by De Nederlandsche Bank (Dutch Central Bank) on 2 August 2007. The Bank has been operational since early 2008. The Bank primarily is involved in corporate and retail banking – retail banking deposit activities. The registered office of the Bank is De Boelelaan 7, 1083 HJ Amsterdam, the Netherlands. Commercial Register of Amsterdam, number 34239060.

The Bank is 100% owned by Anadolubank A.S. incorporated in Turkey. Anadolubank A.S. belongs to the Habas Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AS, which is one of the biggest industrial conglomerates of Turkey, operating in industrial and medical gases production, LPG and natural gas distribution, electricity generation, iron and steel manufacturing and industrial facilities construction. Anadolubank A.S. is a commercial bank and its branch network is still expanding. The Bank is comparatively young in the industry, but already has reached a leading position in the sector, thanks to the strength of its shareholders, well-chosen experienced management team and most diligent employees.

The Bank provides small to medium sized companies with short-term working capital and trade finance facilities. The financial information of the Bank will be consolidated in the financial statements of Anadolubank A.S.

2. Basis of preparation

(a) Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU) and in accordance with the legal requirements for the annual accounts of banks contained in Part 9, Book 2 of the Dutch Civil Code. They were authorized for issue by the Bank's Supervisory Board and Management Board in 13 June 2018.

(b) Basis of measurement

The financial statements have been prepared under the historical cost convention, except for financial assets designated at fair value through profit and loss and derivative financial instruments that have been measured at fair value. The financial figures and tables are stated in thousands.

(c) Functional and presentation currency

The financial statements are presented in Euros, which is the Bank's functional and presentation currency and all values are rounded to the nearest thousand euro unless otherwise is stated.

(d) Use of estimates and judgments

The preparation of these separate financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

The most significant of judgments and estimates are as follows;

A Judgements

i. Fair value of financial instruments

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates. The discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

ii. Deferred tax assets

Deferred tax assets are recognized for all tax losses to the extent that is probable that taxable profit will be available against which the losses can be utilized.

iii. Impairment of financial instruments

The Bank evaluates the assets, which are accounted for at amortized cost, for impairment. The individual component of the total allowance for impairment applies to financial assets evaluated individually for impairment and is based on best estimate of the present value of the future cash flow. In estimating these cash flows, management makes judgments about a debtor's financial situation and net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Bank.

(e) Going concern

These financial statements have been prepared on the basis of the going concern assumption.

3. Significant accounting policies

(a) Foreign currency transactions

Transactions denominated in foreign currencies are recorded at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted into Euros at the exchange rates ruling at balance sheet date with the resulting exchange differences recognized in the statement of profit or loss and other comprehensive income as foreign exchange gain or loss. Gains and losses arising from foreign currency transactions are reflected in the statement of profit or loss and other comprehensive income as realized during the course of the period.

(b) Interest

Interest income and expense are recognized in the statement of profit or loss and other comprehensive income using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

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

Negative interest in relation to a financial asset is presented as interest expense and negative interest in relation to a financial liability is presented as interest income.

(c) Fees and commission

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

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognized on a straight-line basis over the commitment period.

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

(d) Net trading income

Net trading income consists of the results arising from any trading activity including related interest income and expense and gains and losses from changes in fair value.

The changes in fair value of an interest rate swap include accrued interest gains and losses arising from changes in interest rates. The entire fair value change on a derivative is presented on a net basis.

(e) Lease payments made

Payments made under operating leases are recognized in the statement of profit or loss and other comprehensive income 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.

(f) Income tax

The effective tax rate is determined with consideration of all material timing differences between the profit before tax per commercial accounts and the fiscal profit described per the tax legislation. Tax is calculated according to the current Dutch nominal tax rate of 20% for the first EUR 200,000 and 25% of the remaining amount.

(g) Financial assets and financial liabilities

(i) Recognition

The Bank initially recognizes loans and advances, deposits, available-for-sale portfolio and held-to-maturity investment securities on the date at which they are originated. Financial assets designated at fair value through profit or loss are recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument. From this date any gains and losses arising from changes in fair value of the assets are recognized.

(ii) Classification

Financial assets

The Bank classifies its financial assets into one of the following categories:

- loans and receivables
- held to maturity
- available-for-sale ; and
- at fair value through profit or loss; held for trading

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or fair value through profit or loss.

(iii) Derecognition

The Bank derecognizes 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 Bank is recognized as a separate asset or liability.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a bank of similar transactions such as in the Bank's trading activity.

(v) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition. The principal repayment is deducted and cumulative amortization is applied by using the effective interest method of any difference between the initial amount recognized and the maturity amount. Any reduction for impairment is deducted. Financial instruments are measured initially at cost, including transaction costs. All non-trading financial liabilities, loans and receivables and held-to-maturity investment securities are measured at amortized cost less impairment losses.

(vi) Fair value measurement principles

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio. The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(vii) Identification and measurement of impairment

At each reporting date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset is 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- Significant financial difficulty of the borrower or issuer;
- Default or delinquency by a borrower;
- Restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- Indications that a borrower or issuer will enter bankruptcy;
- Disappearance of an active market for a security; or
- Observable data relating to a bank of assets such as adverse changes in the payment status of borrowers or issuers in the Bank, or economic conditions that correlate with defaults in the Bank.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. In general, the Bank considers a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may be appropriate.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

Impairment losses on assets measured at amortized cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and receivables or held-to- maturity investment securities. Interest on the impaired assets continues to be recognized through the unwinding of the discount. If an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed through profit or loss; otherwise, any increase in fair value is recognized through OCI. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognized in OCI.

The Bank writes off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when the Bank determines that there is no realistic prospect of recovery.

(h) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, 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 Bank in the management of its short-term commitments.

(i) Derivatives held for risk management purposes

Derivative financial instruments consisting of foreign currency contracts and currency swaps are measured at fair value. All derivatives are separately evaluated and carried as assets when each transaction's fair value is positive and as liabilities when each transaction's fair value is negative. Derivative contracts are included in derivative financial instruments lines of assets and liabilities, and changes in the fair value are included in the profit or loss, under net trading income. No hedge accounting has been applied.

(j) Loans and advances to banks and customers

These are financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides funds directly to a debtor with no intention of trading the receivable. Such assets are carried at amortized cost using the effective interest method, less any impairment in value. Interest income and gains and losses with respect to the amortization of the financial assets, as well as derecognition and impairment costs, are recognized in the profit or loss.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognized in the Bank's financial statements.

(k) Investment securities

Investment securities are initially measured at fair value plus, in the case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held to maturity, fair value through profit or loss or available-for-sale.

i) Held-to-maturity

'Held-to-maturity investments' are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortized cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Bank has collected substantially all of the asset's original principal; and
- sales or reclassifications that are attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

ii) Available-for-sale

'Available-for-sale investments' are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit or loss. Impairment losses are recognized in profit or loss.

Other fair value changes, other than impairment losses, are recognized in OCI and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it would otherwise have met the definition of loans and receivables and if the Bank has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

iii) Trading

Trading assets are initially recognized and subsequently measured at fair value in the statement of financial position, with transaction costs recognized in profit or loss. All changes in fair value are recognized as part of net trading income in profit or loss.

(l) Property and equipment

The property and equipment purchased are recorded at their historical costs. Accordingly, property and equipment are carried at cost, less accumulated depreciation and impairment losses, if any.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to the statement of profit or loss and other comprehensive income in the year in which the costs are incurred. Expenditures incurred that have resulted in an increase in the future economic benefits expected from the use of premises are capitalized as an additional cost of property and equipment.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. The yearly depreciation percentages are as follows:

	%	Years
IT equipment	20%	5
Furniture, fixtures and vehicles	20%	5

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property and equipment. Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

(m) Intangible assets

Intangible assets mainly comprise acquired computer software. Costs associated with developing or maintaining computer software programs are recognized as an expense incurred. They are recorded at acquisition cost and are amortized on a straight-line basis over their estimated useful lives for a period not exceeding 5 years from the acquisition date. Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

(n) Repurchase transactions

The Bank enters into purchases/(sales) of investments under agreements to resell/(repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized in loans to either banks or customers. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognized in the statement of financial position and are measured in accordance with the accounting policy for assets held-to-maturity. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

The difference between the sale and repurchase considerations is recognized on an accrual basis over the period of the transaction and is included in interest income.

(o) Provisions

A provision is recognized when, and only when, the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. When discounting is used, the rise in the provision reflecting the passage of time is recognized as cost. A provision for bank levies is recognized when the condition that triggers the payment of the levy is met. If a levy obligation is subject to a minimum activity, then a provision is recognized when that minimum activity threshold is reached.

(p) Employee benefits

The Bank's pension plan is based on defined contribution as a percentage of the annual salary depending on the age of the insured, whereby the terms and conditions of the plan are based on each individual's requirements, under a fixed scheme, also allowing the individual staff members to contribute to their own account. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefits expense when employees have rendered services entitling them to the contributions.

(q) Share capital & reserves

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Bank's shareholders. Dividends for the year that are declared after the balance sheet date are disclosed in the events after balance sheet date note, if any.

(r) Off balance sheet engagements

Transactions that are not currently recognized as assets or liabilities in the statement of financial position but which nonetheless give rise to credit risks, contingencies and commitments are reported off balance sheet. Such transactions include letters of credit, bonds, guarantees, indemnities, acceptances, trade related contingencies such as documentary credit, etc.

Outstanding and unexpired commitments at year-end in respect of these transactions are shown by way of note to the financial statements.

Income on off balance sheet engagements is in form of commission, which is recognized as and when transactions are executed.

(s) Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risk and rewards that are different from those of other segments.

Segment information is presented in respect of the Bank's business and geographical segments. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(t) New standards and interpretations not yet adopted

One of the main changes expected in the coming years is the replacement of IAS 39 Financial Instruments: recognition and measurements by IFRS 9. IFRS 9 will replace IAS 39 'Financial Instruments: Recognition and Measurement' and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and micro hedge accounting. The new requirements become effective as of 1 January 2018. IFRS 9 is effective for annual reporting for the periods beginning on or after 1 January 2018.

There are a few major changes under IFRS 9:

- Classification and measurement of financial assets after initial recognition.
- Impairment of financial assets
- Hedging

Classification and measurement of financial assets after initial recognition

IFRS 9 contains three principal measurement categories for financial assets;

- Amortized cost
- FVOCI
- FVPL

IFRS 9 identifies three business models:

- Held to Collect (HtC)
- Held to Collect & Sell (HtC&S)
- Other/Trading

The following table summarizes the key features of each type of business model and the resultant measurement category:

Business model	**Key features**	**Measurement**
Held to Collect	• Objective is to hold assets to collect contractual cash flows • Sales are incidental to the objective • Typically lowest sales (in frequency and volume)	Amortised cost *(if SPPI criteria are satisfied and 'fair value option' is not applied)*
Both Held to Collect & Sell	• Both collecting contractual cash flows and sales are integral to achieving the objective • Typically more sales (in frequency and volume) compared to hold-to-collect	FVOCI *(if SPPI criteria are satisfied and 'fair value option' is not applied)*
Other business models, including: • Maximizing cash flows through sale • Managing assets on a fair value basis • Trading	• Business model is neither one from above • Collection of contractual cash flows is incidental to the objective of the model	FVTPL *(SPPI criterion is irrelevant)*

An entity assesses all relevant and objective evidence that is available at the date of the assessment to determine the business model for particular financial assets. The standard (IFRS 9.B4.1.2B) lists the following examples of relevant and objective evidence:

- how the performance of the business model (and the financial assets held within that business model) are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and the way those risks are managed; and
- How managers of the business are compensated – e.g. whether the compensation is based on the fair value of the assets managed or the contractual cash flows collected.

The Bank doesn't expect any reclassification from debt and equity securities previously recorded as available for sale securities to fair value through profit or loss. The Bank doesn't expect material impact from reclassification of loan balances previously recorded at amortized cost to fair value through profit or loss.

Impairment allowances

IFRS 9 introduces a three-stage approach for the measurement of ECLs of financial assets (e.g. loans): performing (stage 1), under-performing (stage 2), and impaired (stage 3). For performing assets, i.e. assets with no sign of deterioration in credit quality, banks should estimate the ECLs for the upcoming 12 months. For both under-performing and impaired assets, banks should estimate the ECLs for the lifetime of the credit. Moving an asset (e.g. a loan) from stage 1 to stage 2 (or stage 3) is triggered by a "significant increase in credit risk" (SICR) after the asset was originated. The shift from stage 2 to stage 3 for an asset is triggered by a default event under IFRS 9, which is in line with the loss recognition approach under IAS 39.

The Bank's portfolio consists of Corporates, Financial Institutions and Government exposures. From a credit risk perspective those are approached in a similar, standardized way: All exposures are individually assessed and accompanied with credit ratings which provide indications of default probabilities and LGD ratings which provide indications of losses in case of default. Retail exposures are negligible.

The staging decision process is a combination of a quantitative and a qualitative assessment.

The quantitative assessment is based on the PDs and is derived from the (internal and external) ratings. Basically, a threshold in the form of a simple multiplier (3) is used to assess whether the default probability has 'significantly' increased. Another, absolute, threshold (10%) is used to capture increases that stay below the multiplier criterion but are significant enough in absolute terms to qualify as a significant increase.

The qualitative assessment has several components which are arguably not properly captured in the ratings: pricing information, LGD changes that could impact PDs, forbearance, the watch list process, past due information and collective industry sector assessments.

Stage 1 - 12 month ECL	924
Stage 2 – Lifetime ECL	204
Stage 3 – Lifetime ECL	
Total expected credit loss	1,128

IFRS 16 & 15

In January 2016, the IASB issued IFRS 16 'Leases' the new accounting standard for leases. The new standard is effective for annual periods beginning on or after 1 January 2019 and will replace IAS 17 'Leases' and IFRC 4 'Determining whether an Arrangement contains a Lease'. IFRS 16 is not yet endorsed by the EU. The new standard removes the classification of leases as either operating leases or finance leases, resulting in all leases for lessees being treated comparable to finance leases. All leases will be recognized on the statement of financial position with the exception of short-term leases with a lease term of less than 12 months and leases of low-value assets.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The bank doesn't expect any impact.

4. Operating segments

A segment is a distinguishable component of the Bank. More specifically, segment information is presented in respect of the Bank's operating segments, where the Bank assesses performance and accordingly makes resource allocations. The Bank's primary format for segment reporting is based on operating segments. Measurement of segment assets and liabilities and segment results is based on the accounting policies set out in the accounting policy notes. For geographical segments, refer to Note 27 (b) Credit risk.

The Bank has the following three divisions, which are reportable segments.

Retail Banking – Loans, deposits and other transactions and balances with retail customers

Corporate and Commercial Banking – Loans, deposits and other transactions and balances with corporate customers and bank loans

Treasury – Funding and centralized risk management activities through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities

31 December 2017	Retail Banking	Corporate and Commercial Banking	Treasury	Other	Total
Operating income	(2,621)	13,589	2,073	(467)	12,574
Impairment and expenses	-	-	-	(6,746)	(6,746)
Net operating profit	**(2,621)**	**13,589**	**2,073**	**(7,213)**	**5,828**
Provision for taxes	655	(3,397)	(518)	1,813	(1,447)
Net Profit	**(1,966)**	**10,192**	**1,555**	**(5,400)**	**4,381**
Cash and cash equivalents	-	-	106,910	-	106,910
Loans and advances to banks	-	97,089	9,899	-	106,988
Loans and advances to customers	-	289,793	-	-	289,793
Interest bearing securities	-	-	107,981	-	107,981
Other assets	-	-	-	6,922	6,922
Total assets	**-**	**386,882**	**224,790**	**6,922**	**618,594**
Deposits from banks	-	-	191,860	-	191,860
Deposits from customers	235,896	99,123	-	-	335,020
Other liabilities	-	-	-	3,411	3,411
Shareholder's equity	-	-	-	88,303	88,303
Total liabilities and equity	**235,896**	**99,123**	**191,860**	**91,714**	**618,594**

31 December 2016	Retail Banking	Corporate and Commercial Banking	Treasury	Other	Total
Net interests, fees, and commissions income	(3,744)	12,428	2,856	10	11,550
Other operating income and expenses, net	-	-	-	(6,116)	(6,116)
Net operating profit	**(3,744)**	**12,428**	**2,856**	**(6,106)**	**5,434**
Provision for taxes	936	(3,107)	(714)	1,536	(1,349)
Net Profit	**(2,808)**	**9,321**	**2,142**	**(4,570)**	**4,085**
Cash and cash equivalents	-	-	113,106	-	113,106
Loans and advances to banks	-	62,435	11,640	-	74,075
Loans and advances to customers	-	236,339	-	-	236,339
Interest bearing securities	-	-	124,779	-	124,779
Other assets	-	-	-	4,192	4,192
Total assets	**-**	**298,774**	**249,525**	**4,192**	**552,491**
Deposits from banks	-	-	117,083	-	117,083
Deposits from customers	230,614	110,169	-	-	340,783
Other liabilities	-	-	-	12,001	12,001
Shareholder's equity	-	-	-	82,624	82,624
Total liabilities and equity	**230,614**	**110,169**	**117,083**	**94,625**	**552,491**

5. Cash and cash equivalents

	2017	2016
Cash and balances with banks	5,547	17,981
Unrestricted balances with central banks	89,372	79,093
Money market placements within three months	11,991	16,032
Position as at 31 December	**106,910**	**113,106**

6. Derivatives held for risk management purposes

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

Derivative financial instruments include swaps. The Bank uses derivative financial instruments to manage its exposure to foreign currency risk. The notional amounts and the fair value amounts of the positions in currency and cross currency swaps are:

31 December 2017	Notional Amounts	Up to 1 months	Up to 3 months	Up to 1 year	Over 1 year	Fair value assets	Fair value liabilities
Currency swap purchase	317,568	73,808	57,077	66,956	119,727	5,985	-
Currency swap sale	315,817	74,113	57,103	66,461	118,140	-	2,038
Total	**633,385**	**147,921**	**114,180**	**133,417**	**237,867**	**5,985**	**2,038**

31 December 2016	Notional Amounts	Up to 1 months	Up to 3 months	Up to 1 year	Over 1 year	Fair value assets	Fair value liabilities
Currency swap purchase	224,529	60,172	13,181	52,025	99,151	2,859	-
Currency swap sale	234,088	60,624	13,050	57,769	102,645	-	11,172
Total	**458,617**	**120,796**	**26,231**	**109,794**	**201,796**	**2,859**	**11,172**

7. Loans and advances to banks

	2017	2016
Bank Loans	106,639	62,562
Advances to banks	349	11,448
Balance at 31 December	**106,988**	**74,075**

Loans and advances to banks include all sorts of exposures falling under regulatory supervision as not embodied in the form of debt securities or synthetic instruments

8. Loans and advances to customers

	2017	2016
Corporate loans	289,697	236,258
Retail loans	96	81
Balance at 31 December	**289,793**	**236,339**

Loan impairment charges and allowances	**2017**	**2016**
Balance at 1 January	102	23,158
Amounts written off	(102)	(23,904)
Effect of foreign currency movements	-	848
Balance at 31 December	**-**	**102**

9. Interest bearing securities

	2017	2016
Held-to-maturity	52,015	67,123
Available-for-sale portfolio	55,966	55,591
Trading portfolio	-	2,065
Balance at 31 December	**107,981**	**124,779**

In 2017, there were no reclassifications between the portfolios.

The Bank has given the ECB eligible bonds with carrying values of EUR 14,739 as collateral to DNB (De Nederlandsche Bank) (2016: EUR 21,013).

EUR 70,751 of the securities was under repo and total return swap transactions (2016: EUR 60,551).

Held-to-maturity	**2017**	**2016**
Government bonds	9,397	8,150
Corporate bonds	2,558	7,408
Issued by others	40,060	51,565
Balance at 31 December	**52,015**	**67,123**

Available-for-sale portfolio	**2017**	**2016**
Government bonds	24,537	13,257
Corporate bonds	2,717	6,784
Issued by others	28,712	35,550
Balance at 31 December	**55,966**	**55,591**

Trading portfolio	**2017**	**2016**
Issued by others	-	2,065
Balance at 31 December	**-**	**2,065**

10. Property and equipment

Tangible assets	2017	2016
Balance at 1 January 2017	100	141
Additions	7	17
Depreciation (-)	50	58
Balance at 31 December	**57**	**100**

All property and equipment are stated at historical cost less depreciation. A historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is calculated on the straight-line method to write off the cost of each asset to their residual values over their estimated useful life. For intangible assets amortization is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives in 3 years.

11. Intangible assets

Intangible assets	2017	2016
Balance at 1 January 2017	62	33
Additions	-	55
Amortization (-)	31	26
Balance at 31 December	**31**	**62**

12. Other assets

	2017	2016
Receivable with regard to DGS for DSB Bank	493	493
Suspense accounts	193	66
Balance at 31 December	**686**	**559**

Receivable with regard to DGS for DSB Bank is expected to be received fully until 2027.

13. Deposits from banks

Deposits from banks	31 December 2017	31 December 2016
Sale and repurchase, securities lending and similar agreements	91,173	75,722
Money market deposits	100,687	41,361
Total	**191,860**	**117,083**

14. Deposits from customers

Deposits from customers	31 December 2017	31 December 2016
Retail customers	235,897	230,614
Savings	143,500	106,354
Time deposits	92,377	124,260
Corporate customers	99,123	110,169
Demand deposits	18,757	31,618
Time deposits	80,366	78,551
Total	**335,020**	**340,783**

EUR 4,568 of term deposits served as cash collateral for loans advances extended as of 31 December 2017 (2016: EUR 8,549).

15. Other liabilities

	2017	2016
Transfer orders	9	15
Taxes other than income	230	178
Other provisions	159	134
Short-term employee benefits	299	278
Others	244	224
Balance at 31 December	**941**	**829**

16. Capital and reserves

As at 31 December 2017, the total issued and fully paid-up share capital of the Bank amounted to EUR 70,000.

Dividend payments are subject to the approval of Dutch Central Bank as the regulatory body and are not accounted for until they have been ratified at the Annual General Meeting. No dividend will be proposed for the year 2017. The profit after tax will be added to 'Other reserves'.

17. Commitments

31 December 2017	<= 1 month	1-3 months	> 3 months <= 1 year	> 1 year <= 5 years	> 5 years	Total
Guarantee issued	-	-	3	-	66	69
Irrevocable letter of credit	760	9,937	8,834	-	-	19,531
Total	**760**	**9,937**	**8,837**	**-**	**66**	**19,600**

31 December 2016	<= 1 month	1-3 months	> 3 months <= 1 year	> 1 year <= 5 years	> 5 years	Total
Guarantee issued	-	-	-	-	108	108
Irrevocable letter of credit	123	6,944	11,013	-	-	18,080
Total	**123**	**6,944**	**11,013**	**-**	**108**	**18,188**

18. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party making financial and operating decisions. The Bank is controlled by Anadolubank A.S. which owns 100% of the ordinary shares. Anadolubank A.S. belongs to Habas Group controlled by Habas Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AS. For the purpose of consolidated financial information, shareholders and Habas Group companies are referred to as related parties. Related parties also include individuals that are principal owners and management and members of the Board of Directors and their families.

The following significant balances exist and transactions have been entered into with related parties:

	31 December 2017				
	Parent	Control over the entity	Related parties	Key Management	Total
Assets	**924**	**-**	**-**	**-**	**924**
Cash and cash equivalents	481	-	-	-	481
Banks	443	-	-	-	443
Liabilities	**1,403**	**20,892**	**-**	**-**	**22,295**
Banks	1,403	-	-	-	1,403
Funds Entrusted	-	20,892	-	-	20,892
Interest income	**48**	**-**	**393**	**-**	**441**
Interest expense	**13**	**239**	**-**	**-**	**252**
Other operating expenses	**245**	**-**	**-**	**-**	**-**

	31 December 2016				
	Parent	Control over the entity	Related parties	Key Management	Total
Assets	**3,238**	**1,249**	**-**	**-**	**4,487**
Cash and cash equivalents	184	-	-	-	184
Banks	3,054	-	-	-	3,054
Loans and advances	-	1,249	-	-	1,249
Liabilities	**-**	**9,279**	**-**	**-**	**9,279**
Banks	-	-	-	-	-
Funds Entrusted	-	9,279	-	-	9,279
Interest income	**66**	**-**	**325**	**-**	**391**
Interest expense	**83**	**186**	**3**	**-**	**272**
Other operating expenses	**300**	**-**	**-**	**-**	**-**

The Bank enters into transactions with its parent company and other related parties in ordinary course of business at arm's-length conditions. Balances are not secured.

Key management personnel transactions	2017	2016
Loans and advances	66	40
Deposits to customers	362	276

No impairment loses have been recorded against outstanding balances during the period with key management personnel, and no specific allowance have been made for impairment losses on balances with related parties.

Key management personnel compensation, including managing board members comprised the following.

Key management personnel compensations	2017	2016
Short-term employee benefits	1,727	1,760
Post-employement benefits	56	34
Total	**1,783**	**1,794**

None of the employees have been received remuneration over EUR one million.

19. Lease commitments

The Bank has entered into a long-term financial obligation in 2017 with duration of 5 years. In 2017, EUR 220 has been paid for the rent of the office.

	2017	2016
Less than one year	206	76
Between one and five years	713	-
Total	**919**	**76**

20. Net interest income

Interest income	2017	2016
Cash and cash equivalents	8	6
Loans and advances to banks	4,453	3,199
Loans and advances to customers	12,517	12,164
Interest bearing securities	3,967	4,742
Total interest income	**20,945**	**20,111**

Interest expense	2017	2016
Cash and cash equivalents	300	351
Deposits from banks	1,842	1,308
Deposits from customers	4,228	5,417
Total interest expense	**6,370**	**7,076**

21. Net fee and commission income

Fee and commission income	2017	2016
Corporate/banking credit related fees	1,218	1,030
Other	526	361
Total fee and commission income	**1,744**	**1,391**

Fee and commission expense	2017	2016
Corporate/banking credit related expense	110	78
Interbank transaction fees	39	47
Total fee and commission expense	**149**	**125**

22. Net trading income

Net trading income	2017	2016
Net income from trading securities	107	(433)
Net income from available-for-sale securities	557	1,537
Net income from option	(15)	2
Total trading income	**649**	**1,106**

23. Results from financial transactions

Results from financial transactions	2017	2016
Foreign exchange gain (net)	(4,245)	(3,857)
Other operating income (net)	**(4,245)**	**(3,857)**

Results from foreign currency exchange transactions comprises all (un)realized gains and losses arising from foreign currency positions in relation to exchange rate changes. Foreign currency positions generally relate to assets, liabilities or derivative transactions. The mentioned gains and losses show the total result without indicating the underlying position.

24. Personnel expenses

Personnel expenses	2017	2016
Wages and salaries	3,586	3,417
Compulsory social security obligations	422	396
Contributions to defined contribution plans	239	237
Other fringe benefits	43	35
Total	**4,290**	**4,085**

The number of staff employed by the Bank as of 31 December 2017 is 45 (2016:43).

The Bank has a defined contribution plan for the majority of staff; the pension scheme is insured at an insurance company.

The remuneration and fees of the members of the Board of Supervisory Directors and Management Board for the year ended 31 December 2017 are as follows:

2017	Base salary	Other benefits	Variable renumeration	Total
Board of Supervisory Directors	90	-	-	90
Managing Board Directors	504	49	62	615

2016	Base salary	Other benefits	Variable renumeration	Total
Board of Supervisory Directors	89	-	-	89
Managing Board Directors	496	39	58	593

The amounts are not disclosed individually since the Bank meets the criteria of article 383b of the Dutch Civil Code.

25. Other expenses

	2017	2016
Operating lease expense	232	238
Communication expenses	97	105
Business travel & acommodation	36	34
Sofware licening and other information technology expenses	565	551
Paid taxes other than income	89	68
Tax advisory	30	15
Other consultancy	206	217
Regulatory supervision expenses	302	278
Legal expenses	73	206
Deposit Guarantie Scheme	336	336
Release on provisions	-	(376)
Other	409	446
Total	**2,375**	**2,118**

In 2016, release on provisions is related to the receivable with regard to a legal case.

Audit-related fees	**2017**	**2016**
Audit fees related to previous year	114	108
Audit fees related to current year	86	63
Total audit fees	**200**	**171**
Statutory audit	114	124
Other assurances	86	47
Total audit fees	**200**	**171**

26. Income tax expense

Major components of income tax expense:

Reconciliation of income tax	**2017**	**2016**
Operating profit before tax	5,828	5,434
Weighted average statutory tax rate	24,8%	23,5%
Weighted average statutory tax amount	**1,447**	**1,349**
Expenses not deductible for tax purposes	-	-
Effective tax amount	**1,447**	**1,349**
Effective tax rate	**24,8%**	**23,5%**

Tax is calculated according to the current Dutch nominal tax rate of 20% for the first EUR 200,000 and 25% of the remaining amount.

Deferred tax assets	2017	2016
Available for sale securities	163	600
Total	**163**	**600**

Deferred tax amount is 25% of the unrealized loss of available for sale portfolio.

27. Fair value information

See accounting policy in Note 3 (g).

(a) Valuation models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- **Level 1**
  Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- **Level 2**
  Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- **Level 3**
  Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments

Valuation techniques include net present value and discounted cash flow models and comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include benchmark interest rates, credit spreads, bond prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

As at 31 December 2017 and at 31 December 2016, the fair value of the securities measured at fair value represents closing bid price quoted in an active market. Actively traded quoted securities are classified as Level 1. The Bank also held financial instruments classified as level 2 of the fair value hierarchy. A description of the valuation technique(s) and the inputs used in the fair value measurements in included below.

b) Financial instruments measured at fair value

31 December 2017	Total	Level 1	Level 2
Assets			
Derivative financial assets	5,985	-	5,985
Securities measured at fair value	55,966	30,589	25,377
Total assets	**61,951**	**30,589**	**31,362**
Liabilities			
Derivative financial liabilites	2,038	-	2,038
Total liabilities	**2,038**	**-**	**2,038**

31 December 2016	Total	Level 1	Level 2
Assets			
Derivative financial assets	2,859	-	2,859
Securities measured at fair value	57,656	16,546	41,110
Total assets	**60,515**	**16,546**	**43,969**
Liabilities			
Derivative financial liabilites	11,172	-	11,172
Total liabilities	**11,172**	**-**	**11,172**

The Bank does not have any financial instrument measured at level 3 fair value as of 31 December 2017.

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized.

c) Financial instruments not measured at fair value

31 December 2017	Fair value	Level 1	Level 2	Level 3	Carrying value
Assets					
Cash and cash equivalents	106,910	106,910	-	-	106,910
Loans	395,856	-	-	395,856	396,781
Held-to-maturity	54,824	24,520	30,304	-	52,015
Total assets	**557,590**	**131,430**	**30,304**	**395,856**	**555,706**
Liabilities					
Banks	192,310	-	-	192,310	191,860
Funds entrusted	344,095	-	-	344,095	335,020
Total liabilities	**536,405**	**-**	**-**	**536,405**	**526,880**

31 December 2016	Fair value	Level 1	Level 2	Level 3	Carrying value
Assets					
Cash and cash equivalents	113,106	113,106	-	-	113,106
Loans	310,392	-	-	310,392	310,414
Held-to-maturity	69,651	25,678	43,973	-	67,123
Total assets	**493,149**	**138,784**	**43,973**	**310,392**	**490,643**
Liabilities					
Banks	117,673	-	-	117,673	117,083
Funds entrusted	350,276	-	-	350,276	340,783
Total liabilities	**467,949**	**-**	**-**	**467,949**	**457,866**

28. Financial risk management

(a) Introduction and overview

This note presents information about the Bank's exposure to each of the below mentioned risks, the Bank's objectives, policies and processes for measuring and managing risks, and the Bank's management of capital. The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk
- currency risk
- capital management

Risk management framework

The Management Board has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Management Board monitors the effectiveness of the risk management system through the several committees, such as Asset and Liability Committee and Credit Risk Committee. These committees are responsible for establishing and monitoring the relevant risk measures on a regular basis.

The Supervisory Board of the Bank supervises the risk management activities to ensure that such activities pursued by the Management Board are in line with the Bank's risk profile, long-term strategies and goals. At least once a year, the risk appetite statement is reviewed by the Management Board and submitted to the Supervisory Board for approval.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The risks are measured with the internationally accepted methodologies in compliance with local and international regulations, the Bank's structure, policy and procedures. They are effectively managed and assessed in a continuously growing manner.

(b) Credit risk

Credit risk is defined as the probability of loss if the customer or counterparty fails to meet its obligations partially or completely on the terms set. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Maximum exposure subject to credit risk	December 31, 2017	December 31, 2016
Cash and cash equivalents	106,910	113,106
Loans and advances to customers	289,793	236,339
Loans and advances to banks	106,988	74,075
Interest bearing securities	107,981	124,779
Derivative financial assets	5,985	2,859
Total balance Sheet	**617,657**	**551,158**
Commitments	19,600	18,188
Total credit risk exposure	**637,257**	**569,346**

Past due and non-performing loans

Impaired loans and securities are loans and advances and investment debt securities (other than those carried at fair value through profit or loss) for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / investment security agreement(s). These loans are graded 6-8 in the Bank's internal credit risk grading system. In 2017, there were no impaired loans.

Loans and advances to customers	Not past due	Past due <= 30 days	Past due > 30 days <= 60 days	Past due > 60 days <= 90 days	Past due > 90 days	Impairment
December 31, 2017	286,186	3,607	-	-	-	-
December 31, 2016	273,806	-	-	-	16,089	(102)

The Bank had one past due loan as of 31 December 2017. The loan is repaid in April 2018.

In 2016, EUR 15.987 of total exposure was past due but not impaired and sold in March 2017.

Forbearance loans

The Bank had no forbearance loans and advances as of 31 December 2017.

Collateral policy

The Bank holds collateral against loans and advances to customers in the form of cash, mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

The breakdown of performing cash loans and advances by type of collaterals is as follows:

	Loans and advances to customers		Loans and advances to banks		Interest bearing securities		Cash and cash equivalents		Commitments	
Collateral analysis	**Dec-17**	**Dec-16**	**Dec-17**	**Dec-16**	**Dec-17**	**Dec-16**	**Dec-17**	**Dec-16**	**Dec-17**	**Dec-16**
Secured by cash collateral	4,567	7,823	-	-	-	-	-	-	-	42
Secured by cash bonds	-	-	-	-	-	-	-	-	-	-
Secured by mortgages	42,205	33,526	-	-	-	-	-	-	-	-
Other collateral	154,121	158,616	-	-	-	-	-	-	19,534	18,079
Uncollateralized exposure	88,900	36,374	106,988	74,075	107,981	124,779	106,910	113,106	66	66
Carrying amount	**289,793**	**236,339**	**106,988**	**74,075**	**107,981**	**124,779**	**106,910**	**113,106**	**19,600**	**18,188**

Sectorial and geographical concentration of loans & advances and investment securities

The Bank monitors concentrations of credit risk by sector and geographic location. An analysis of concentrations of credit risk from loans and advances and investments securities at balance sheet date is shown below:

	Loans and advances to customers		Loans and advances to banks		Interest bearing securities		Cash and cash equivalents		Derivative financial assets		Commitments	
Concentration by sector	**Dec-17**	**Dec-16**	**Dec-17**	**Dec-16**	**Dec-17**	**Dec-16**	**Dec-17**	**Dec-16**	**Dec-17**	**Dec-16**	**Dec-17**	**Dec-16**
Corporate:												
Basic materials	17,496	7,857	-	-	-	-	-	-	5	2	1,244	2,527
Consumer products non-food	17,438	11,596	-	-	-	-	-	-	-	-	1,779	2,258
Building materials	-	-	-	-	-	-	-	-	-	-	-	-
Private individuals	96	81	-	-	-	-	-	-	-	-	3	-
Technology	-	-	-	-	170	-	-	-	-	-	9,464	9,793
Financial intermediation	67,893	39,230	-	-	2,153	8,615	-	-	-	-	-	-
Construction& Infrastructure	12,851	11,376	-	-	-	-	-	-	-	-	-	-
Automotive	7,482	6,257	-	-	-	-	-	-	-	-	-	-
Transport&Logistics	56,886	58,688	-	-	-	-	-	-	-	-	-	-
Food, Beverages&Tobacco	18,597	4,294	-	-	-	-	-	-	-	-	-	42
Agriculture &Fishing	11,737	11,279	-	-	-	-	-	-	-	-	-	-
Chemicals	40,047	38,633	-	-	-	-	-	-	-	-	5,655	2,824
Oil&Gas	9,134	8,359	-	-	5,105	11,424	-	-	-	-	1,389	-
Telecom	8,226	15,987	-	-	-	-	-	-	-	-	-	-
Others	2,881	2,641	-	-	-	4,961	-	-	-	-	-	678
Utilities	5,592	7,524	-	-	-	-	-	-	-	-	-	-
Healthcare (Inc. Social Work)	3,003	2,130	-	-	-	-	-	-	-	-	-	-
Real Estate	10,434	10,407	-	-	-	-	-	-	-	-	-	-
Central Bank	-	-	-	-	-	-	89,372	79,093	-	-	-	-
Government	-	-	-	-	33,933	21,407	-	-	-	-	-	-
Bank	-	-	106,988	74,075	66,620	78,372	17,538	34,013	5,980	2,857	66	66
Total Exposure	**289,793**	**236,339**	**106,988**	**74,075**	**107,981**	**124,779**	**106,910**	**113,106**	**5,985**	**2,859**	**19,600**	**18,188**

December 31, 2017

Geographical concentration	Eu Countries	Turkey	Other countries	Total Exposure
Cash and cash equivalents	102,133	481	4,296	106,910
Loans and advances to customers	147,341	83,573	58,879	289,793
Loans and advances to banks	30,511	76,477	-	106,988
Interest bearing securities	61,972	33,629	12,380	107,981
Derivative financial assets	5,105	880	-	5,985
Total balance Sheet	**347,062**	**195,040**	**75,555**	**617,657**
Commitments	19,533	66	-	19,600
Total credit risk exposure	**366,595**	**195,106**	**75,555**	**637,257**

December 31, 2016

Geographical concentration	Eu Countries	Turkey	Other countries	Total Exposure
Cash and cash equivalents	89,543	5,207	18,356	113,106
Loans and advances to customers	96,625	56,105	83,609	236,339
Loans and advances to banks	27,819	38,589	7,668	74,075
Interest bearing securities	51,735	53,579	19,465	124,779
Derivative financial assets	2,834	25	-	2,859
Total balance Sheet	**268,556**	**153,505**	**129,098**	**551,158**
Commitments	15,195	2,315	678	18,188
Total credit risk exposure	**283,751**	**155,820**	**129,776**	**569,346**

Concentration by location for assets is measured based on the risk driven country of the asset, which has a high correlation with the location of the borrower.

The table below sets out the credit quality of the financial assets and based on the external rating of the borrower.

	Loans and advances to customers		Loans and advances to banks		Interest bearing securities		Cash and cash equivalents		Derivative financial assets		Commitments	
Credit quality analysis	**Dec-17**	**Dec-16**	**Dec-17**	**Dec-16**	**Dec-17**	**Dec-16**	**Dec-17**	**Dec-16**	**Dec-17**	**Dec-16**	**Dec-17**	**Dec-16**
Rated BBB- to AA	17,049	9,909	26,522	23,053	73,724	78,895	101,400	98,395	5,414	2,830	-	-
Rated B- to BB+	26,181	8,055	76,818	35,371	32,104	45,354	5,486	795	327	-	66	66
CCC	-	-	-	-	-	-	-	-	-	-	-	-
Unrated	246,563	218,375	3,648	15,651	2,153	530	24	13,916	239	27	19,534	18,121
Carrying amount	**289,793**	**236,339**	**106,988**	**74,075**	**107,981**	**124,779**	**106,910**	**113,106**	**5,980**	**2,857**	**19,600**	**18,188**

(c) Liquidity risk

Liquidity risk is commonly defined as the ability of an institution to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses.

The Bank's liquidity risk is managed centrally by Treasury Department and is monitored by Risk Management Department while the Bank's Internal Audit function assesses whether the liquidity management process is designed properly and operating effectively.

The Bank monitors intraday liquidity risk, short-term 30 day liquidity risk, liquidity risk for one year horizon and risk arising from mismatches of longer term assets and liabilities. The Bank's liquidity management process includes: projecting expected cash flows in a maturity profile rather than relying merely on contractual maturities; monitoring balance sheet liquidity; monitoring and managing the maturity profile of liabilities and off-balance sheet commitments; monitoring the concentration of liquidity risk in order to avoid undue reliance on large financing counterparties projecting cash flows arising from future business; and, maintaining liquidity and contingency plans which outline measures to take in the event of difficulties arising from liquidity crisis.

The Liquidity Risk Policy is built on international standards on liquidity risk measurements developed by the Basel Committee on Banking Supervision (e.g. the Liquidity Coverage ratio (LCR) and the Net Stable Funding Ratio (NSFR)) and it also applies measurements that best suit the operating environment of the Bank.

Various stress tests have been constructed to measure how different scenarios affect the liquidity position and liquidity risk of the Bank. The stress tests are conducted monthly and measure the Bank's ability to withstand deposit withdrawals under various levels of adverse conditions. These stress tests are set up to measure the Bank's ability to operate in its current economic environment.

The Bank's ALCO sets limits for liquidity risk tolerance through the Liquidity Risk Policy by determining an acceptable level of liquidity position under normal and stressed business conditions. ALCO is also responsible for deciding on strategies, policies and practices on liquidity risk in accordance with the risk tolerance while taking into account key business units, products, legal structures and regulatory requirements.

Furthermore, the Bank has carried out an internal liquidity adequacy assessment process (ILAAP) based on DNB's ILAAP Policy Rule and submitted the required documentation to DNB for purposes of Supervisory Review and Evaluation Process (SREP). The internal process, governance and consultative dialogue with the regulatory supervisory body required to meet the ILAAP rules are similar to the ICAAP.

The ILAAP Supervision Manual is the main reference for the Bank's liquidity risk management. It gives an all-encompassing qualitative and quantitative guidance for liquidity risks management as well for the implementation of the liquidity regulation with the Basel III accord.

Residual contractual maturities of financial assets and liabilities

The tables below show the undiscounted cash flows on the Bank's financial liabilities on the basis of their earliest possible contractual maturity, comparing 31 December 2017 figures with those of 31 December 2016. The Bank's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or an increasing balance. Daily liquidity and the liquidity maturity calendar are part of the Bank's Risk Management. Liquidity tests and stress test scenarios are made under ICAAP, ILAAP and Recovery Plan.

The liquidity test and the stress test scenario show that the liquidity is sufficiently above the requirements.

The following table provides a maturity analysis of assets and liabilities according to their undiscounted contractual amount based on their remaining maturity:

31 December 2017

Assets	Total	Demand	<= 1 month	1-3 months	> 3 months <= 1 year	> 1 year <= 5 years	> 5 years	Not distributable
Cash and cash equivalents	106,910	94,919	11,991	-	-	-	-	-
Banks	106,988	-	14,933	27,214	51,953	12,888	-	-
Loans and advances	289,793	-	75,795	72,406	51,379	88,827	1,386	-
Interest bearing securities	107,981	-	-	5,763	14,579	49,054	38,585	-
Current tax assets	-	-	-	-	-	-	-	-
Deferred tax assets	163	-	-	-	-	163	-	-
Other assets	6,759	-	-	-	-	5,985	-	774
Total assets	**618,594**	**94,919**	**102,719**	**105,383**	**117,911**	**156,917**	**39,971**	**774**

Liabilities								
Banks	191,860	23,273	30,871	85,535	26,977	25,204	-	-
Funds entrusted *	335,020	143,519	69,768	33,970	35,059	47,775	4,929	-
Current tax liabilites	432	-	-	-	-	-	-	432
Other liabilites	2,979	-	2,038	-	-	-	-	941
Total liabilities	**530,291**	**166,792**	**102,677**	**119,505**	**62,036**	**72,979**	**4,929**	**1,373**
Shareholders' equity	88,303	-	-	-	-	-	-	88,303
Total liabilities and equity	**618,594**	**166,792**	**102,677**	**119,505**	**62,036**	**72,979**	**4,929**	**89,676**
Net liquidity		**(71,873)**	**42**	**(14,122)**	**55,875**	**83,938**	**35,042**	**(88,902)**

** Including on demand saving accounts which has on average a longer term characteristic*

31 December 2016	Total	Demand	<= 1 month	1-3 months	> 3 months <= 1 year	> 1 year <= 5 years	> 5 years	Not distrib-utable
Total assets	552,491	97,073	59,130	65,563	77,951	198,632	53,421	721
Total liabilities	552,491	116,354	130,477	51,324	83,703	87,180	-	83,453
Net liquidity		**(19,281)**	**(71,347)**	**14,239**	**(5,752)**	**111,452**	**53,421**	**(82,732)**

(d) Operational risk

The operational risk framework adopted by the Bank sets out a structured and consistent approach for the management of operational risk across the Bank. The comprehensive risk management approach involves identifying, assessing, managing, mitigating, monitoring and measuring the risks associated with operations, enabling a comprehensive view, analysis and reporting of the Bank's operational risk profile.

The objective in managing operational risk is to increase the efficiency and effectiveness of the Bank's resources, minimize operational losses and exploit opportunities. The Risk Management Department has initiated a project to the self-assessment processes and to enhance the resulting qualitative risk management information set. This will align, connect and integrate key non-financial risk assessment processes.

The Bank continuously collects the operational risk loss events, as a requirement for operational risk management, includes detailed analyses, the identification of mitigating actions, and timely information of the Board.

Business resilience includes business continuity management and crisis management is in place. The Bank reviews recovery of its business operations and supporting technology, Business Continuity Management ("BCM"), as a critical and fundamental part of its ability to fulfill its fiduciary responsibilities to clients every year. As such, significant resources and effort are dedicated to these programs.

(e) Market risk

Market risk is the risk of changes in market prices. Interest rate, equity prices, foreign exchange rates and credit spreads will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risk

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are mainly held by the Treasury Department, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Exposure to interest rate risk – non-trading portfolios

Since IRRBB is not separately identified by Pillar I regulatory capital, the bank captures this under Pillar II in the ICAAP. Anadolubank has, to a large extent, a linear interest position. The only significant behavioural elements in its balance sheet are the retail savings accounts. Assumptions are made on their interest sensitivity but essentially these will be short term and as a result will not have an undue large impact on its interest position.

Anadolubank measures interest rate risk both on an Economic Value of Equity (EVE) basis as well as an Earnings-at-Risk (EaR) basis.

Additionally, the bank has "minor" risk tolerance towards interest rate risk in its banking book. The risk appetite is quantified such that "change in the fair value of the equity, under a 200 bps standard interest rate shock, should not exceed 7% of the total own funds. The interest rate risk position is discussed in the regular ALCO meetings by presenting the EVE and EAR results on currency basis. If necessary, ALCO takes necessary actions to adjust the on- and off- balance sheet asset and liability positions, so that the bank is able to keep its liquidity and interest rate risk below the pre-determined limits. That said, as of December 2017 the gross IRRBB accounts for 3.6% of the total capital required.

Economic Value of Equity

The EVE basis measures value changes in the entire balance sheet as a result of interest rate changes. Anadolubank's balance sheet is fairly well hedged except in the over 5 years' buckets. The over 5 years' position is primarily derived from the exposures in long dated securities in the Available-for-Sale portfolio. By nature, this portfolio represents a flexible position which can be adapted according to market conditions. The core assets, its loan book and the HTM securities portfolio, are fairly well hedged by its liabilities.

Earnings at Risk

The EaR basis measures earnings changes as a result of interest rate changes under the assumption of a stable portfolio. EaR should be limited to achieve stable earnings but it should not result in a large interest position (basis point value (bpv), an EVE measure).

The EaR is calculated over a 1 year and 2 year horizon, under an assumed stable portfolio.

The bank uses the results derived from EVE to calculate the capital charge of the interest rate risk under Pillar II. Improvements in the management of the interest rate risk position decreased the volatility of the position in 2017.

The EaR is calculated with scenarios of 200 bps up and down and both in a scenario where the shift takes place gradually as well as instantly, while the EVE assesses the impact of flat upward and downward shift of 200 bps.

Per end 2017, a 200 bps sudden up shift results in a decrease in the equity of EUR 3.2 million (in 2016: EUR 5.8 million). The sudden 200 bps down scenario results in an increase of EUR 4.6 million (in 2016: EUR 7.6 million) in the equity.

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by the Treasury Department in its day-to-day monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

31 December 2017	Total	<= 3 months	3-6 months	>6 months <= 1 year	> 1 year	Non interest
Assets						
Cash and cash equivalents	106,910	11,992	-	-	-	94,918
Banks	106,988	42,147	38,009	13,944	12,888	-
Loans and advances	289,793	148,201	23,122	28,257	90,213	-
Interest bearing securities	107,981	5,763	1,259	13,321	87,638	-
Current tax assets	-	-	-	-	-	-
Deferred tax assets	163	-	-	-	-	163
Other assets	6,759	-	-	-	5,985	774
Total assets	**618,594**	**208,103**	**62,390**	**55,522**	**196,724**	**95,855**
Liabilities						
Banks	191,860	116,406	20,968	6,009	25,204	23,273
Funds entrusted	335,020	228,500	11,250	23,809	52,703	18,758
Current tax liabilities	432	-	-	-	-	432
Other liabilities	2,979	2,038	-	-	-	941
Total liabilities	**530,291**	**346,944**	**32,218**	**29,818**	**77,907**	**43,404**
Surplus/deficit	**88,303**	**(138,841)**	**30,172**	**25,704**	**118,817**	**52,451**

31 December 2016	Total	<= 3 months	3-6 months	>6 months <= 1 year	> 1 year	Non interest
Total assets	552,491	161,035	64,234	40,166	188,663	98,393
Total liabilities	469,867	256,537	47,110	36,592	87,180	42,448
Surplus/deficit	**82,624**	**(95,502)**	**17,124**	**3,574**	**101,483**	**55,945**

(f) Currency risk

Currency risk arises when an entity's equity is under threat as a result of exchange rate fluctuations. Naturally, a bank doing business in multiple currencies would be exposed to currency risk unless these risks are properly hedged. Any sizeable transaction that would be causing currency risk is immediately hedged with a banking counterpart, or smaller transactions are gathered until they form a sizeable amount for hedging.

Foreign exchange gains and losses arising from foreign currency transactions are recorded at transaction dates. At the end of the periods, foreign currency assets and liabilities evaluated with the Bank's spot purchase rates and the differences are recorded as foreign exchange gain or loss in the statement of profit or loss and other comprehensive income.

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Bank's exposure to foreign currency exchange rate risk at 31 December 2017, on the basis of the Bank's assets and liabilities at carrying amounts, categorized by currency, is shown in the following table:

For purposes of the evaluation of the table above, the figures present the EUR-equivalent of the related currencies.

31 December 2017

Assets	EUR	USD	TRY	Other	Total
Cash and cash equivalents	100,223	6,428	165	94	106,910
Banks	60,945	45,831	-	212	106,988
Loans and advances	161,399	80,007	42,734	5,653	289,793
Interest bearing securities	58,363	49,618	-	-	107,981
Current tax assets	-	-	-	-	-
Deferred tax assets	163	-	-	-	163
Property and equipment	57	-	-	-	57
Derivative financial assets	5,985	-	-	-	5,985
Intangible assets	31	-	-	-	31
Other assets	686	-	-	-	686
Total assets	**387,852**	**181,884**	**42,899**	**5,959**	**618,594**
Liabilities					
Banks	125,984	52,561	3,165	10,150	191,860
Funds entrusted	254,095	68,797	12,063	65	335,020
Current tax liabilities	432	-	-	-	432
Deferred tax liabilities	-	-	-	-	-
Derivative financial liabilites	2,002	26	-	10	2,038
Share capital	70,000	-	-	-	70,000
Retained earnings	14,412	-	-	-	14,412
Revaluation reserves	(170)	(320)	-	-	(490)
Net Profit	4,381	-	-	-	4,381
Other liabilities	847	89	5	-	941
Total liabilities	**471,983**	**121,153**	**15,233**	**10,225**	**618,594**
Net on balance sheet position	**(84,131)**	**60,731**	**27,666**	**(4,266)**	**-**
Net notional amount of derivatives	**86,396**	**(62,439)**	**(26,434)**	**4,227**	**1,750**
Net position	**2,265**	**(1,708)**	**1,232**	**(39)**	**1,750**

31 December 2016	EUR	USD	TRY	Other	Total
Total assets	317,000	203,858	31,001	632	552,491
Total liabilities	402,414	135,587	8,357	6,133	552,491
Net on balance sheet position	**(85,414)**	**68,271**	**22,644**	**(5,501)**	**-**
Net notional amount of derivatives	**77,928**	**(70,487)**	**(22,500)**	**5,501**	**(9,558)**
Net position	**(7,486)**	**(2,216)**	**144**	**-**	**(9,558)**

Management uses regulatory capital ratios in order to monitor its capital base and the capital ratios remain within the international standards for measuring capital adequacy. The Bank ensures that regulatory capital requirements are met during its business planning process and as such controls compliance throughout the year.

The Bank has taken part in the Basel III Monitoring Exercises since 2011, supervised by DNB and the Basel Committee. The results of these analyses indicate that the Bank is well-placed for the regulatory changes. The impact of the changes in the definition of capital, as well as the minimum capital requirements, is expected to be limited given that the Bank has a high common equity Tier I ratio. The Bank comfortably meets the leverage ratio requirement, as determined in the monitoring exercises. Finally, the Bank maintains a high liquidity buffer and given its strong retail funding base, the Bank expects to have a smooth transition and meet both liquidity requirements.

	2017	2016
Tier 1 capital	**88,272**	**82,562**
Paid-in capital	70,000	70,000
Retained earnings	14,412	10,327
Revaluation reserves	(490)	(1,788)
Net profit	4,381	4,085
Regulatory adjustments	(31)	(62)
Tier 2 capital	**-**	**-**
Total capital	**88,272**	**82,562**
Tier 1 ratio %	**18,7%**	**19,9%**
Solvency ratio %	**18,7%**	**19,9%**

29. Subsequent events

There has been no subsequent event between the balance sheet date and the date of approval of these accounts which would be reported by the Bank.

Other information

Provisions of the articles of association concerning the appropriation of the result

The appropriation of profit is governed by Article 23 of the articles of association, the profit is at free disposal of the general meeting. The general meeting may decide to pay dividend (if the Company is profitable), only after adoption of the annual accounts and if profit so permits

Deloitte Accountants B.V.
Gustav Mahlerlaan 2970
1081 LA Amsterdam
P.O.Box 58110
1040 HC Amsterdam
Netherlands

Tel: +31 (0)88 288 2888
Fax: +31 (0)88 288 9737
www.deloitte.nl

Independent auditor's report

To the shareholder of Anadolubank Nederland N.V.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS 2017 INCLUDED IN ANNUAL REPORT

Our opinion

We have audited the accompanying financial statements 2017 of Anadolubank Nederland N.V., based in Amsterdam.

In our opinion the accompanying financial statements give a true and fair view of the financial position of Anadolubank Nederland N.V. as at December 31, 2017, and of its result and its cash flows for 2017 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

What have we audited:

The financial statements comprise:

1. The statement of financial position as at December 31, 2017.

2. The following statements for 2017: statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows.

3. The notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the “Our responsibilities for the audit of the financial statements” section of our report.

We are independent of Anadolubank Nederland N.V. in accordance with the “Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten” (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the “Verordening gedrags- en beroepsregels accountants” (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Deloitte.

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 550,000. The materiality is based on 10% of profit before tax. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

Overview materiality	
Materiality for the financial statements as a whole	EUR 550,000
Benchmark for materiality	Profit before tax
Threshold for clearly trivial misstatements	EUR 27,000

We agreed with the Management Board and Supervisory Board that misstatements in excess of EUR 27,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Management Board and Supervisory Board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Counterparty credit risk	
Description of key audit matter	**How our audit addressed the key audit matter**
Anadolubank Nederland N.V. has a loan portfolio without a significant loan loss provision. We refer to note 28b of the financial statements. Because of the remaining uncertainty and risk in a number of areas when determining the loan loss provisioning for the loan portfolio, loan impairment provisions continue to be an important estimate in determining Anadolubank Nederland N.V.'s results. The economic environment continues to be challenging. Determining appropriate provisions for loan impairments requires considerable judgment.	We have tested the controls over the credit function to ensure that such controls operate effectively and reviewed key judgments made as at year-end, including a review of a sample of loan files – both "performing" and "non-performing" loans - to assess the requirement for any specific impairment provisions. We also performed analytical procedures to compare and assess the appropriateness of provisioning levels compared to actual levels of default.

Deloitte.

Valuation of derivatives	
Description of key audit matter	How our audit addressed the key audit matter
Anadolubank Nederland N.V. has derivative positions to service their clients. We refer to note 6 of the financial statements. Client positions are offset by external trades. Anadolubank has a model in place to calculate the Fair Value of the derivatives. The risk exists that the model is not updated properly and the fair value is not calculated correctly.	We assessed the design and implementation of the control measures relating to Independent Price Verification process of the derivatives. We used valuation experts in the valuation of financial instruments. We paid specific attention, on the model used to value the derivatives. This includes an evaluation of the model, the inputs like (multiple) interest curves, collateral assumptions and the application of CVA/DVA.

REPORT ON THE OTHER INFORMATION INCLUDED IN ANNUAL REPORT

In addition to the financial statements and our auditor's report thereon, annual report contains Other Information that consists of:

- Mission, vision, values
- Supervisory Board report
- Management Board report
- Other Information as required by International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the Other Information:

- Is consistent with the financial statements and does not contain material misstatements.

- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the Other Information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the Other Information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the Other Information, including the Management Board's report in accordance with Part 9 of Book 2 of the Dutch Civil Code, and the Other Information as required by Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Engagement

We were engaged by the Management Board and Supervisory Board as auditor of Anadolubank Nederland N.V. on July 31, 2017, as of the audit for the year 2017 and have operated as statutory auditor ever since the year 2016.

Deloitte.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

DESCRIPTION OF RESPONSIBILITIES REGARDING THE FINANCIAL STATEMENTS

Responsibilities of management and the Supervisory Board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

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 financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining 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.

- Obtaining 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 company's internal control.

- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Concluding 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 company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.

- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identified during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

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

From the matters communicated with the Management Board and Supervisory Board, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, June 13, 2018

Deloitte Accountants B.V.

Signed on the original: A. den Hertog

Anadolubank Nederland

Directory Anadolubank N.V.

Officia I, De Boelelaan 7,

1083 HJ Amsterdam,

The Netherlands

K.v.K nr. 34239060

Anadolubank
Nederland