

ANNUAL REPORT

2017



VakıfBank
International AG

ANNUAL REPORT

for the business year 2017



VAKIFBANK INTERNATIONAL AKTIENGESELLSCHAFT

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SUPERVISORY BOARD

Ramazan GÜNDÜZ
Chairman until 16.06.2017

Öztürk ORAN
Deputy Chairman until
16.06.2017

Osman DEMREN
Chairman as of 16.06.2017

Şuayyip İLBİLGİ
Deputy Chairman as of
16.06.2017

Mikail HIDİR
Member until 04.08.2017

Mustafa TURAN
Member

Ahmet YILDIZ
Member

Alp Tolga ŞİMŞEK
Member as of 07.07.2017

Ferkan MERDAN
Member as of 07.07.2017

Neslihan TONBUL
Member as of 20.10.2017

MANAGEMENT BOARD

Ahmet Vural BIYIK
Chairman of the Board as of 20.10.2017

Mustafa Seckin ONÜR
Member since 20.02.2017
Chairman of the Board from 22.03.2017 until 20.10.2017

Selcuk GÖZÜAK
Member since 28.02.2017

Ömer KIZILTAŞ
Chairman until 22.03.2017

Uğur YEŞİL
Member until 22.03.2017

Kenneth BORN
Member

Muhammet AYDIN
Treasury & Payment Operations

Murat TÜRKTEKİN
Lean Management & IT

Sema YURTYAPAN - BERGER BSc.
Corporate & Commercial Banking

Christoph LEITNER
Accounting / Reporting

Cornelia PICHLER
Internal Audit

Mag. Franz FASCHING
Risk Management

Friedrich HAMMER
Treasury

Mag. Tarkan CELİK
AML & Compliance

Dr. Thomas HUDETZ
Strategic Risk Management

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Murat BALABAN
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COMPANY PHILOSOPHY AND OWNERSHIP STRUCTURE

The founding meeting of VakıfBank International AG took place on July 23, 1999. The Austrian Ministry of Finance issued a full banking licence on August 4, 1999. 90% of the bank are owned by Türkiye Vakıflar Bankası T.A.O., Istanbul, while 10% are owned by the pension fund of Türkiye Vakıflar Bankası T.A.O.

VakıfBank International AG's main priority is to support European and Turkish exporters and importers, in particular guiding them in their external trade relations, based on the experience, financial strength, and international market presence of its parent company. VakıfBank International AG thereby seeks to provide a positive contribution to intensifying existing mutual trade and investment activities and volumes.

The main focus is placed on the areas of financing and trade transactions (by granting credits to exporters and importers in the shape of syndications, forfeiting, discounting, etc.) and trade services (credit, document, and guarantee business).

Additionally, we offer all traditional banking services such as account management, commercial and private loans, as well as bank transfer services. A special service we offer is a fast and cost-effective handling of money transfers from Austria to Turkey.

Due to a direct connection to our parent company T. Vakıflar Bankası T.A.O, we can ensure very short transfer periods for transfers to approximately 927 branches in Turkey.

Apart from the natural primary regional focus on Turkey, we also focus on the European Union as well as Central and Eastern Europe.

The T. Vakıflar Bankası T.A.O. was founded in 1954. It is the third largest Turkish bank under the influence of the state and operates over 927 branches in Turkey as well as one branch each in New York, Bahrain, and Erbil.

The Türkiye Vakıflar Bankası T.A.O. shareholders are:

43.00 % General Directorate of the Foundations

15.45 % various foundations

16.10 % Türkiye Vakıflar Bankası T.A.O. pension fund

25.20 % free float

0.25 % others

The General Directorate of the Foundations was established in 1924 as a state entity to administer and regulate existing and future charitable foundations and directly reports to the Prime Minister. The General Directorate of Foundations is thus inter alia owner and administrator of the national Turkish cultural heritage (historical buildings, museums, mosques, etc.).

'Various foundations' refers to charitable organisations, some of which were already established during the era of the Ottoman Empire, either by the state or upon a private initiative. These foundations are also administered by the General Directorate of the Foundations.

The Türkiye Vakıflar Bankası T.A.O. pension fund replaces the statutory social insurance in Turkey and is mandatory for all Türkiye Vakıflar Bankası T.A.O. employees.

KEY FIGURES OF THE FINANCIAL YEAR 2017

	(in Mio EUR)	
	2017	2016
Balance Sheet	986,21	949,09
Claims against Customers	523,75	521,17
Claims against Credit Institutions	193,70	165,59
Liabilities to Credit Institutions	63,47	48,60
Liabilities to Customers	773,86	755,84
- hereof: Savings Deposits	410,61	423,10
Net Interest Income	16,56	16,50
Operating Income	16,60	17,30
Operating Expenses	11,20	9,72
Operating Result	5,40	7,58
Income from ordinary activities	4,66	7,89
Annual Profit	5,01	7,57
Equity Resources under Part 2 of EU regulation No. 575/213	133,60	126,08

MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2017

VakifBank International AG was founded on July 23, 1999 and was issued a full banking licence on August 4, 1999 by the Austrian Ministry of Finance. VakifBank International AG (VakifBank) is an economically strong and well-capitalised bank and 90% of the bank are directly owned by Türkiye Vakıflar Bankası T.A.O. (TVB), while 10% are owned by the pension fund of this bank. The TVB is listed on the Istanbul stock exchange and is one of the businesses with the highest turnover in Turkey which is not only very active economically but also socially. The TVB is also represented in the most important Turkish share index ISE-100 and can present several external ratings. It was founded in 1954 and is the third-largest bank under state influence. The main office in Istanbul operates over 900 branches in Turkey as well as a branch in New York, among others.

VakifBank possesses a solid letter of comfort issued by the TVB. The VakifBank business model is characterised by a low degree of complexity. The Vienna main office has around 40 employees. Since its founding in 1999, VakifBank has been active in promoting sustainable support of trade and business relations between Europe and Turkey. One of its advantages compared to other regional competitors in Austria is its ability to also deposit securities in Turkey for domestic loans.

In addition to the main office and two branches in Vienna, VakifBank is also present in Germany with branches in Frankfurt (since 2002) and Cologne (since 2005). One of the main tasks of VakifBank in European countries, and especially in Austria and Germany, is the safe-keeping of deposits. Refinancing is therefore focused on deposit banking.

The Federal Reserve (FED) and the European Central Bank (ECB) continued its monetary policy of a normalisation process in 2017. Inflation remained at under 2% in the developed economies. Capital flows in emerging economies continued to be stable which resulted in an increase of capital flows to China and a boost of optimism for global economic prospects. In 2017, elections in Europe took place in the Netherlands, Germany, and France. US trade protectionism and import tariffs on individual Chinese products led to concerns about global trade wars. The US announcement of terminating the nuclear deal with Iran led to a decline in a willingness to take risks.

The US economy recorded GDP growth rate of 2.3% in 2017. The US economy recorded a GDP growth rate of 2.3% in 2017. The complete consumer price index rose by 2.1% in December 2018 while the core consumer price index increased to 1.8%. The unemployment rate was reduced to 4.1% by the end of 2017. In light of the reinvigorated economic- and job-market rates, the FED raised interest in three steps from 1.25% to 1.5%. The FED predicted another three increases of interest rates in 2018 and at the March meeting 2018 interest was raised by 25bp from 1.5% to 1.75%. Several market players expect four increases of interest rates and a continuation of the normalisation process by the FED in this year.

The Eurozone GDP grew to reach 2.5% on annual basis in 2017. The annual consumer price inflation rate was 1.4% in December. The ECB reduced its monthly bonds (QE – Quantitative Easing) purchase programme amounting to 80 billion EUR to 60 billion EUR and 30 billion EUR beginning 2018. It is expected that the European Central Bank (ECB) will end its QE programme by the end of the year. The European Central Bank (ECB) kept its tender interest rate unchanged at 0% and the deposit rate at -0.4%.

The Turkish economy achieved a strong GDP growth rate of 7.4% in 2017 driven mainly by private consumption which grew by 6.1%. This growth was driven by the credit impulse by the Credit Guarantee Fund (KGR) and fiscal impulses. In December 2017, the consumer price inflation rose to 11.92% and the current account deficit increased to 47 billion USD. In the first quarter of 2018, GDP growth in Turkey remained stable at 7.4%. In 2018 the Central Bank of the Republic of Turkey (CBRT) simplified the monetary policy framework by employing the weekly REPO interest rate as the central interest rate. It is expected that the CBRT will continue its restrictive monetary policy due to the strong devaluation of the Lira and the ongoing high inflation.

VakifBank International AG mainly grants loans to the best and internationally most renowned companies whose headquarters are in Turkey. VakifBank International AG is proud of the fact that it has not had any losses in this area since its founding in 1999. By December 31, 2017 receivables from counterparties with their headquarters in Turkey amounted to 633 million EUR. Based on a balance sum of EUR 986 million this is equivalent to a share of 64%. The risk situation of VakifBank International AG is therefore influenced by the economic developments in Turkey.

Business operations by countries and sectors

VakifBank places a particular emphasis on traditional banking business and wins its clients' trust thanks to its moderate risk and income policies. VakifBank's main income stems from the interest income which can be allocated to the main office in Vienna as this is where a substantial amount of credit is granted. The greater part of these incomes is generated from financial and corporate institutions based in Turkey, Austria, and Germany. Apart from the natural primary regional focus on Turkey, VakifBank is also focused on countries of the European Union as well as Central and Eastern Europe in the long-term. Regarding the various sectors, the income mainly stems from manufacturing and finance companies, though credits are also granted to large conglomerates with good credit ratings and substantial earnings are generated in this sector. In addition, there are also receivables from state and utility companies. The largest expense items, in line with the business model, are interest expenses on deposits in Vienna and Frankfurt and also Cologne, as well as general administrative expenses (particularly personnel and material expenses in about equal parts).

In the area of deposit banking the services offered to clients is significantly determined by the competitive environment. VakifBank also offers its banking services as a direct bank, by using established online banking infrastructures established in the banking sector. VakifBank possesses stable refinancing sources, has additional refinancing possibilities in the interbank market and can, if need be, generate additional liquidity which would be provided by the parent company TVB.

Organisational structure, risk management organisation, and internal controlling system

In all financing matters, VakifBank follows its strict internal credit granting processes. This also goes hand in hand with VakifBank comprehensively following the established ethical principles determined by the parent banking group TVB. VakifBank judges whether the respective business is in accordance with the ethical and sustainable principles and ideals. In this way, only loans are granted which correspond to VakifBank's ethical principles. All responsible VakifBank employees – and especially at the executive level – pay close attention to ensure that should a case of doubt arise regarding a possible controversial financing business – both from a social as well as an ecological perspective – these cases are abandoned.

VakifBank International AG general management is responsible for ensuring a suitable risk management and compliance with the supervisory tasks this requires. The implementation is guaranteed by the aforementioned departments of Strategic Risk Management & Risk Controlling, Special Credit & Monitoring, Treasury and Payment Operations as well as the risk committee of the Supervisory Board, the monthly Active/Passive Committee (ALCO), by liquidity meetings and lastly by the internal auditing. The risk management area is thus appropriately staffed in order to fulfil its duties.

The department of risk management assumes the tasks of central steering, surveillance and controlling of the risk areas of the bank domestically as well as internationally. One of the core tasks of the risk management is reporting to the Board. Thanks to a continuous flow of information on all essential risk situations of the bank, the Board is capable of fulfilling its comprehensive responsibilities in all risk areas and can induce necessary measures in time to steer and minimise risks. Risk reporting is conducted regularly both in individual business matters as well as on the overall bank level spanning all types of risks. Additionally, case-by-case, ad hoc reporting is also provided for. The Credit Risk Management Department is responsible for controlling individual credit business regarding adhering to legal provisions and the internal management of competencies.

An independent risk management function is significant to ensure an appropriate risk control. As part of the internal controlling system each employee is clearly assigned respective tasks and responsibilities. Additionally, a risk-based approach is implemented to measure risk-minimising effects of important control mechanisms. Throughout VakifBank's business activities, risk management is always sufficiently involved.

In accordance with the regulatory requirements, an internal controlling system is in place which encompasses regulations on the organisation of development and implementation as well as risk steering and controlling processes. The IKS provides a process-dependent surveillance and is oriented according to the type, scope, and complexity of the risk content of business activities. This IKS process controlling and the organisation units directly involved, namely Internal Auditing together with Compliance and Strategic Risk Management, constitute VakifBank's internal controlling mechanism.

Risk management, VakifBank AG's internal controlling system, and the implemented methods and steering approaches are regularly tested regarding their efficiency and suitability in light of current business developments.

Overall bank control system

VakifBank's overall bank control system is implemented while taking a balance between key figures from equity, income, expense, liquidity, and risk into account. The Board is regularly informed about the positive and negative earnings drivers in order to identify and take unplanned counteractions early on if necessary.

The comprehensive control system with the goal of an optimal development of the bank is significantly influenced inter alia by the ongoing changes in external conditions and supervisory requirements. VakifBank fulfils the defined regulatory requirements for each type of risk in terms of identifying, assessing, steering, controlling, and limiting risks in the area of the banking business and banking operations as set in art. 39(2) of the BWG. This is implemented by taking the type, scope, and complexity of our banking business into account, including for example when adhering to the guidelines of European regulatory authorities.

Goals and strategies

In 2016, a diversifying strategy was defined in regard to the state of residence of the credit client or the issuer of securities. This is primarily implemented by the Security Investments division and the division of Corporate Banking, while maintaining a very high asset quality and while taking the profit situation of the bank into account. This strategy was also pursued throughout the business year 2017.

Based on this planned diversification, the area of securities investment will therefore be of great strategic significance to VakifBank in the coming years. The diversification of the states of residence will be implemented in particular through a corresponding investment strategy in the area of securities investment. In the future, particular attention will be paid to ensuring that assets suitable for an ECB refinancing will be given priority. A reduction of assets in the Turkey division will be compensated for by purchasing government bonds, company bonds, bank bonds, bonds in the supranational area (such as development and export promotion banks). It will also be compensated for by diversifying the granting of business loans, bonded loans, and syndicated loans to businesses with good ratings. Irrespective of the goal of diversifying the portfolio in regard to risk and earnings, individual investments in Turkey will continue to be considered in order not to ignore profitable opportunities.

VakifBank possesses a coherent business and risk strategy as well as corresponding limit systems which have been approved by the executive and supervisory boards. The business strategy was operationalised within the framework of derived capital and structural limits.

Business performance 2017

The business year 2017 was once again a successful year for VakifBank.

The positive long-term business development in the past has indicated that VakifBank has the necessary specialised knowledge and good client contacts which will allow it to continue to pursue the bank's current strategy successfully. Strategic targets could always be achieved and mostly even surpassed in the past. The continuation of the diversification strategy is planned for the business year 2018.

Research and development

VakifBank does not conduct research and development as set in art. 243 section 3 line 3 UGB.

Risk report

The aim of VakifBank's risk strategy is to ensure the risk-bearing capacity and capital adequacy as well as an optimal risk and income steering. The results of the risk report serve as a basis for management decisions and the steering of the bank. The suitability of the implemented systems, mechanisms, and processes are regularly reviewed and amended if necessary. The risk-bearing capacity is given when all essential risks of an institution are taken into account, considering risk concentrations provided by the available risk-covering assets.

Types of risks

VakifBank's business operations result in certain risks which are identified and assessed jointly by the Board and the responsible departments within the framework of the risk inventory

Risk measurements

The risk measurement in the risk-bearing capacity analysis encompasses a risk assessment and analysis of the quantified risks based on the method of a value-at-risk approach for the expected and unexpected losses which are to be covered by the existing risk-covering assets. The expected credit loss is the amount which VakifBank calculates in the context of loan or investment business operations. The expected loss therefore does not represent an effective risk in the sense of a negative deviation, but rather a calculated, budgeted rate. The unexpected loss is the loss which goes beyond the expected loss, i.e. a theoretical loss with a certain risk observation period and a previously determined non-probability of occurrence (specifically 99.9% in a controlling scenario with a joint risk observation period of one year).

Additionally, stress scenarios in the areas of security, credit rating, change in interest rates, country risks and foreign currency risks are defined with the goal of quantifying losses which can be triggered due to extreme events. This aggregated overall loss potential which results from the assumption of risks is contrasted with the assets available to cover these potential losses (amount of equity, value adjustment balance contrasted with expected credit loss, expected operating results of the ongoing business year) in a multi-step process. Based on the available covering assets in this risk-bearing capacity analysis, the management determines the risk limit. What is more, based on the aforementioned stress scenarios an overall bank stress test is conducted. The results of the risk-bearing capacity analysis are reported to the Board every quarter.

Credit risk

The debtor-specific credit risk is calculated based on the possible losses which can develop based on a low creditworthiness (also known as default- or credit risk) or based on a downgrading of the creditworthiness (also known as migration risk) of the credit client.

In order to quantify the unexpected credit loss, VakifBank employs a basic IRB approach adapted to the risk-bearing capacity analysis (pillar 2/ICAAP), using external rating systems and default probability scales. The bank has ratings for all clients. In the case of non-Turkish clients, the rating is conducted based on confirmed and regularly validated rating tools of the Raiffeisen sector. Regarding Turkish clients who have external ratings from rating agencies, these ratings are also taken into consideration. For Turkish company clients, mainly larger companies, the ratings determined by the Türkiye Vakıflar Bankası TAO analysis department are employed following an internal plausibility check. Loss quotas are principally based on the provisions specified by the Basel III CRR. A new rating process based on the software and databanks of Moody's, as one of the leading rating agencies, was implemented at the start of 2018. This is also intended to achieve an even better quantification of credit risk.

Country and transfer risks are controlled based on limits within the framework of the risk-bearing capacity (ICAAP). In addition, cluster risks of financial clients are limited by individual bank limits. What is more, this cluster risk is quantified in reference to the credit portfolio (credit concentration risk).

Overall bank interest risk

The overall bank interest risk includes the danger that the expected or planned balance sum or long-term cash value earnings are not achieved due to a change in market interest rates. The interest risk generally includes both an income effect (net interest income) as well as a cash value effect. VakifBank has a low risk appetite in the area of interest risks. Future activities are planned to keep interest risks at a low level. In the risk-bearing capacity calculation, the interest risk is simulated based on a change of the cash value with a 200 base point parallel shock of the interest rate curve and economic capital is provided accordingly. We measure, determine, and steer the risks of a possible change in interest rates of business operations in the banking book using appropriate systems and processes.

Currency risk

Currency risk describes the risk of a change of value of the foreign currency position caused by a price variation on the foreign currency spot markets. VakifBank's currency risk is calculated solely based on the outstanding receivables in USD and to a small extent also in GBP and CHF.

No other currencies are used in VakifBank's operating business. In the case of non-essential individual transactions, bank business may be conducted in Turkish Lira. Concerning significant USD receivable items, the required safeguard of the currency risk is performed using the FX swaps, in order to directly refinance these USD positions in the foreign currency. This risk category is measured and limited in the risk-bearing capacity calculation (ICAAP) using a simple value-at-risk approach.

Credit spread risk

The risk due to changes in credit spread risk for securities is the risk of loss due to changes in bond market prices caused by changes in credit spreads or the spread curve compared to the risk-free interest rate. This risk category is measured and limited in the internal capital adequacy assessment process (ICAAP) using a simple value-at-risk approach.

Country risk

Country risk expresses the danger that receivables from cross-border transactions may default due to state measures (transfer and conversion risk) and also the danger that the economic or political situation of the country will have negative effects on the creditworthiness of the debtor. It includes the insolvency or unwillingness to pay of the country itself or of the country to which the business partner/contractor is to be assigned. This allocation is made in bank-wide management (ICAAP) according to the country of domicile principle (political country risk) or according to the principle of liability allocation, for example in the case of interlinkages of the business partner (economic country risk).

Turkey's country risk is part of VakifBank's business model and, following an internal assessment by VakifBank, is also limited on the basis of experience and the careful and conservative selection of counterparts. This is given special consideration in overall bank management. In the context of the aforementioned diversification strategy, VakifBank has an increased appetite for risk regarding EU member states and other EU accession candidates. In the case of Turkey, the country of focus, VakifBank accepts a medium risk appetite in the area of country risk. As part of the diversification strategy, future activities are designed to reduce Turkey's country risk on a pro rata basis. Country risk is conservatively quantified and backed by sufficient economic capital in the risk-bearing capacity calculation (ICAAP).

Operational risk

Operational risk is the risk of loss resulting from inadequate governance or failed internal processes and systems, wilful or negligent actions by employees or external events and includes legal risk. System risks also include cyber security risks, IT risks and business continuity risks. Systems and processes are also meant to cover all precautions relating to money laundering and terrorist financing. In order to reduce the significant risks by means of suitable internal controls, the internal control system is expanded accordingly. In particular, outsourcing risks are addressed through increased internal controls and availability risks are minimised. Internal Audit regularly reviews the suitability of the measures and precautions taken to reduce operational risk. VakifBank assesses and manages operational risk and uses this as a basis for hedging against rare events with serious consequences. VakifBank has contingency plans in place to ensure the continuation of operations and the limitation of losses in the event of a serious business interruption.

Liquidity risk

VakifBank has a low risk appetite in the area of liquidity risk. Future activities are designed to keep liquidity risk at the lowest possible level. The liquidity risk strategy is an integral part of the business and risk strategy.

The internal management instruments to measure and avoid liquidity risks are covered by the ILAAP. The premises specified in AI-RMV §12, applying or specifically interpreting the principle of proportionality or low complexity, the risk profile and the area of activity, apply as an integral component of the risk strategy.

Macroeconomic risk

Macroeconomic risk is only considered the most significant type of risk for credit risk. The quantification assumes a GDP decline and the worsening probability of default (PDs) and the resulting unexpected loss. Based on the increased PDs, the risk potential of macroeconomic risk is calculated in ICAAP (assuming a PD increase of 25% and an increase in unexpected loss).

Other risks

A 'buffer for other risks' (5% of the results from the risk types described above) is calculated under the heading 'Other risks'.

Overall risk profile and set of rules

The risk management system as well as the processes to identify, measure, evaluate, control, monitor and communicate the single risk types are described in the risk management manual and diverse further guidelines of the VakifBank AG as well as supplementary work instructions and orders; A materiality assessment is documented for all risk types and, to the extent required, for the single characteristics.

Results of operations, financial position and net assets

Development of essential balance positions

The most important sectors in which loans exist at the end of 2017 are services, banking/leasing, production and states. The rest of the portfolio is divided roughly equally between construction, energy, transport and trading.

Receivables from customers and banks rose from EUR 687 million to EUR 717 million. By contrast, the volume of fixed-interest securities increased from EUR 142 million to EUR 154 million as a result of the strategy described above, reflecting an increase of 8%.

The German branches are predominantly active in the deposit business and have a balance sheet total of EUR 293 million. Customer deposits in Germany amounted to EUR 275 million at the end of 2017.

Balance sheet equity

Year over year, the balance sheet equity increased by approx. EUR 5 million to a total of roughly EUR 138 million. The liability reserve amounts to EUR 8.25 million.

Net assets and financial position

The fiscal year could thus be concluded with a total balance of EUR 986 million. The receivables from customers demonstrated a decrease in the reporting year by EUR 2.5 million and thus amount to EUR 523 millions.

Loans and advances to banks rose from EUR 166 million to EUR 193 million. The purchase of securities to ensure better refinancing possibilities through repo and ECB financing and to optimise the liquidity coverage ratio contributed to an increase in the balance sheet item bonds and other fixed-interest securities, which had a value of EUR 154 million at the end of the year under review. One year earlier they amounted to EUR 142 million.

Liabilities to customers rose by 2% to EUR 774 million. In the previous year, these amounted to EUR 756 million. Other liabilities including prepaid expenses and provisions fell slightly to EUR 10 million compared to the previous year (EUR 11 million). Overall, the financial year, including the balance sheet profit, closed with equity capital of EUR 138 million. This continues to provide a solid and sufficient capital base for the bank's development.

Profit situation

On the assets side, VakifBank's most important business area is the financing of large Turkish financial institutions and groups. A similarly high net interest income of EUR 16.5 million (PY: EUR 16.5 million) was achieved in the year under review. The commission surplus contributed EUR 0.2 million to the result. Compared to the previous year, general administrative expenses rose by 13% to EUR 10 million at the end of the year due to higher personnel costs and costs due to IT infrastructure investments and rental payments.

VakifBank AG's result from ordinary activities amounted to EUR 4.6 million. Overall, the 2017 financial year closed with a net profit of EUR 5 million.

Liquidity position

The solvency of VakifBank AG was ensured at all times in the 2017 financial year thanks to a planned and balanced liquidity provision and the liquidity ratios prescribed by the supervisory authorities were always significantly exceeded. VakifBank had various refinancing options at its disposal in the past financial year to carry out new business.

Overall position and outlook

Taking into account the increased regulatory requirements and the volatile market conditions, overall, VakifBank AG was able to meet its targets and achieve a satisfactory result. As in the previous year, the Turkish lira depreciated further in 2017. Thanks to its many years of expertise, VakifBank AG was able to achieve satisfactory and risk-adequate returns in this demanding market in 2017 as well.

An important reason for this success is a balanced diversification strategy, a careful and critical credit assessment and precise knowledge of the Turkish market.

Against the background of the aforementioned diversification strategy, however, the comparatively low interest rates throughout the EU are seen as a challenge as they make profitable investment of customer deposit funds more difficult.

The 2018 fiscal year will be marked on the one hand by the implementation of the diversification strategy described and on the other by further organisational improvements. A further focus will be on optimising business processes. Based on this, the central processes will be continuously revised and adapted.

In line with the bank's financial plan, a positive annual result is expected for the 2018 financial year.

Vienna on June 26, 2018

VakifBank International AG

Ahmet V. BIYIK
Chairman of the Board, CEO

M. Seckin ONÜR
Member of the Board, CFO / CRO

The Supervisory Board held regular meetings in the fiscal year of 2017. At these meetings, but also through ongoing reporting by the Management Board, the Supervisory Board was informed about the main management matters, the course of business and the company's situation and status. The Board's reports were acknowledged and the necessary resolutions were passed. The Supervisory Board thus fulfilled the tasks incumbent upon it by the laws and Articles of Association.

The annual financial statements including the Appendix and Management Report for the 2017 financial year were audited by Deloitte Audit Wirtschaftsprüfungs GmbH, commissioned as the auditor of the bank and the annual financial statements, and were supplemented with an unrestricted auditor's opinion.

The final results of the Appendix, the Management Report as well as the conducted audit of the annual financial statements as reviewed by the Supervisory Board following the appropriate preparation and recommendation by the Audit Committee, do not give rise to any objections.

The Supervisory Board concurred with the results of the audit, approved the annual financial statements and Management Report as submitted by the Management Board and approved the annual financial statements for 2017 at its meeting on 28 June 2018, which were thus adopted in accordance with §96 (4) of the German Corporate Governance Act.

The Supervisory Board approves the proposal for the appropriation of profits submitted by the Management Board and thanks the Management Board and the employees for their successful work in 2017.

Vienna on June 28, 2018

Osman DEMREN
Chairman of the Supervisory Board

AUDITOR'S OPINION

for the business year that ended on 31 December of the

VakifBank International AG, Wien

We have audited the annual financial statements (consisting of the balance sheet as of 31 December 2017, the profit and loss account for the business year that ended on this date as well as the appendix) of VakifBank International AG, Vienna.

In our opinion, the attached financial statements comply with the legal requirements and provide a true and fair view of the net assets and financial position as of December 31, 2017, as well as the income situation of the company for the financial year ending on this date, in accordance with Austrian company law and the Austrian Banking Act.

Basis for the audit opinion

We conducted our audit in accordance with Regulation (EU) no 537/2014 (EU-R in the following) and the Austrian principles of proper auditing of financial statements. These principles demand the application of International Standards on Auditing (ISA). For further information on our responsibilities according to these regulations and standards, please see the section 'Responsibilities of the auditor for the audit of annual financial statements', included in our audit opinion. As required under Austrian commercial, banking and professional regulations, we are independent of the company and have fulfilled our other professional duties in accordance with these requirements. We are of the opinion that the audit evidence that we obtained is a sufficient and appropriate basis for our audit opinion.

Particularly important audit issues

Audit issues of particular importance are those that, in our judgement, were most important for our audit of the annual financial statements of the financial year. These matters were considered in the context of our audit of the financial statements as a whole and in the preparation of our audit opinion and we do not express a separate opinion on these matters.

•Evaluation of receivables from customers

Situational facts and problems

The Bank shows loans and advances to customers in the amount of EUR 523.7 million after deduction of value adjustments of EUR 17.9 million. An elaboration on the valuation of receivables from customers can be found in the Appendix on pages 1 and 3.

The assessment of the recoverability of customer receivables and thus their valuation includes the identification of loss events and the estimation of any need for value adjustments. Due to the volume of receivables from customers and the estimation uncertainties, we identified this area as a particularly important audit issue.

The auditor's approach

As part of our audit, we assessed the credit monitoring process of VakifBank International AG and whether it is suitable for recognising default events in good time. To do so, we conducted interviews and discussions with responsible staff members and assessed the relevant internal guidelines as to whether they are suitable to recognise default events and the appropriate determination of risk provisions. In the course of a walk-through, we inspected the implementation of the main control activities. In addition, we examined the effectiveness of relevant controls on a random basis. Using random samples, we reviewed select credit cases, to see whether risks of loss were detected in due time and single value adjustments were made to a sufficient degree. In the event of potential value adjustment needs, we evaluated the assessment of the Management Board with regard to future cash flows and the assumptions made for the valuation of loan collateral.

Responsibilities of the legal representatives and the audit committee for the annual financial statements

The legal representatives are responsible for preparing the annual financial statements and for ensuring that the latter provide a true and fair view of the company's assets, financial and earnings performance in accordance with Austrian company law and the additional requirements of the Austrian Banking Act. In addition, the legal representatives are responsible for the internal controls that they consider as necessary to enable the preparation of financial statements that are free from material misstatements - whether intentional or unintentional. In the preparation of the annual financial statements, it is the responsibility of the legal representatives to assess the company's ability to continue the business activities; provide information related to the continuity of the company's business activities, where applicable; and to apply the accounting principle of continuity of the company's business activities, unless the legal representatives either intend to liquidate the company or discontinue the business activities or have no realistic alternative on the matter.

The audit committee is responsible for the monitoring the company's accounting process.

Auditor's responsibilities for the audit of the annual financial statements

Our objectives are to obtain reasonable assurance that the annual financial statements as a whole are free from material misstatements, whether intentional or unintentional, and to issue an audit report that includes our audit opinion. Reasonable assurance is a high degree of certainty but no guarantee that an audit conducted in accordance with the EU-R and the Austrian principles of proper auditing, which require compliance with the ISA, never fails to reveal a material misstatement, if one exists. Misstatements may result from fraud or errors and are deemed to be material if, individually or collectively, they can reasonably be expected to influence the economic decisions made by users on the basis of these annual financial statements.

As part of conducting an audit in accordance with the EU-R and the Austrian principles of proper auditing, which require compliance with the ISA, we exercise due care and diligence and maintain professional scepticism throughout the entire auditing process.

In addition, the following applies:

- We identify and assess the risks of critical misstatements, whether intentional or unintentional, in the financial statements; plan audit procedures in response to these risks; and perform audits that serve as a sufficient and appropriate basis for our audit opinion. The risk that material misstatements resulting from fraud will not be detected is greater than that for a misstatement resulting from errors, since fraud may include fraudulent co-operation, counterfeiting, deliberate omissions, misleading representations or the overriding of internal controls.
- We gain an understanding of the internal control system relevant to the audit in order to plan audit procedures that are appropriate under the given circumstances; however, our objective is not to issue an opinion on the effectiveness of the company's internal control system.
- We assess the suitability of the accounting methods used by the legal representatives and evaluate whether the estimated values are reasonable as presented by the legal representatives in the financial statements and related information.
- We evaluate the appropriateness of the legal representatives' use of the going concern basis of accounting; we also determine, based on the audit evidence obtained, whether material uncertainty exists in connection with events or circumstances that may cast significant doubt on the Company's capacity to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention in our audit opinion to the related disclosures in the financial statements or, if such disclosures are inappropriate, to modify our opinion. We make our determination on the basis of the audit evidence obtained by the date of our audit opinion. However, future events or circumstances may result in the company's inability to continue as a going concern.
- We assess the overall presentation, structure and content of the annual financial statements, including the information as well as whether the annual financial statements reflect the underlying transactions and events in such a way as to achieve the most accurate reflection as possible.

With the audit committee, we share information on issues including the planned scope and scheduled timing of the audit and significant audit findings, including any significant weaknesses in the internal control system that we detect during our audit.

From the matters which we discussed with the audit committee, we determine those that were most significant for the audit of the annual financial statements of the financial year and are thus especially important audit concerns.

We describe these matters in our audit opinion unless laws or regulations preclude public disclosure or, in extremely rare cases, we determine that a matter should not be disclosed in our audit opinion as it is reasonably expected that the negative consequences of such a disclosure would exceed its benefits to the public interest.

Report on the management report

In accordance with Austrian company law, the management report is examined to determine whether it is consistent with the annual financial statements and whether it was drawn up in compliance with the applicable legal requirements.

The legal representatives of the company are responsible for preparing the management report in line with Austrian company law. We conducted our audit in accordance with professional standards for auditing the management report.

Opinion

In our opinion, the management report has been prepared in accordance with applicable legal requirements and is consistent with the annual financial statements.

Declaration

Based on the findings of the audit of the annual financial statements and an understanding of the company and its environment, we detected no material misstatements in the management report.

Additional information on article 10 of the EU-R


We were commissioned by the Annual General Meeting on October 20, 2017 as auditors for the fiscal year ending December 31, 2017 and appointed by the Supervisory Board to conduct the audit on October 20, 2017. We have been the company's auditors without interruption since the fiscal year that ended on December 31, 1999.

We declare that the audit opinion in the section 'Report on the Financial Statements' is consistent with the additional report to the Audit Committee pursuant to Art 11 of the EU-R.

We declare that we have not provided any prohibited non-audit services pursuant to Art 5 para 1 of the EU-R and that we maintained our independence from the company while carrying out the audit.

Vienna, June 26, 2018

Deloitte Audit Wirtschaftsprüfungs GmbH



Dr. Nikolaus Müller
Wirtschaftsprüfer

Annual financial statements containing our audit report may be published or distributed only if the version of these documents is the one that has been audited by us. This confirmation relates exclusively to the complete German version of the annual financial statements, including the management report. The provisions of section 281(2) of the UGB must be observed for other versions.

VAKIFBANK INTERNATIONAL AG
BALANCE SHEET AS AT DECEMBER 31, 2017
PROFIT AND LOSS ACCOUNT 2017

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APPENDIX TO THE BALANCE SHEET
AND PROFIT AND LOSS ACCOUNT

Balance sheet as of December 31, 2017

Assets

	31.12.2017		31.12.2016	
	EUR	EUR	EUR	EUR
1. <u>Cash in hand and balances with central banks</u>		9.695.324,94		6.591.146,76
2. <u>Treasury bills and other bills eligible for refinancing with central banks</u>		91.416.542,35		99.424.982,01
3. <u>Loans and advances to credit institutions</u>				
a) Repayable on demand	7.473.716,86		9.980.473,97	
b) Other loans and advances	186.228.226,26	193.701.943,12	155.605.619,15	165.586.093,12
4. <u>Loans and advances to customers</u>		523.745.390,92		521.186.452,01
5. <u>Debt securities including fixed-income securities</u>				
a) issued by public bodies	29.906.001,37		27.118.679,79	
b) issued by other borrowers	124.254.745,80	154.160.747,17	115.151.956,04	142.270.635,83
6. <u>Participating interests</u>		3.020,00		2.020,00
7. <u>Intangible fixed assets</u>		66.832,64		6.147,14
8. <u>Tangible fixed assets</u> showing separately: Land and buildings occupied by a credit institution for its own activities: EUR 116.171 (PY: 164 TEUR)		387.908,68		390.762,01
9. <u>Other assets</u>		12.728.120,17		13.307.986,54
10. <u>Prepayments and accrued income</u>		205.976,47		275.900,30
11. <u>Deferred taxes</u>		99.073,39		43.166,13
		986.210.879,85		949.085.291,85
<u>Off balance sheet items</u>				
1. Foreign assets		845.131.869,99		822.761.888,16

Balance sheet as of December 31, 2017

	31.12.2017		31.12.2016	
	EUR	EUR	EUR	EUR
<u>Liabilities</u>				
<u>Liabilities to credit institutions</u>				
a) Repayable on demand	20.966.815,14		21.825.761,18	
b) With agreed maturity dates or periods of notice	42.500.868,66	63.467.683,80	26.774.855,32	48.600.616,50
<u>Liabilities to customers (non-banks)</u>				
a) Savings deposits				
showing separately:				
aa) Repayable on demand	92.238.548,41		80.971.526,79	
ab) With agreed maturity dates or periods of notice	318.371.383,63		342.131.765,65	
b) Other liabilities				
showing separately:				
ba) Repayable on demand	29.560.794,61		32.227.429,67	
bb) With agreed maturity dates or periods of notice	333.688.128,08	773.858.854,73	300.504.497,28	755.835.219,39
<u>Other liabilities</u>		7.173.406,43		8.346.913,16
<u>Accruals and deferred income</u>		1.497.836,85		1.446.326,34
<u>Provisions</u>				
a) Provisions for severance payments	360.000,00		320.000,00	
b) Provisions for taxation	0,00		163.354,22	
c) Other provisions	1.188.488,65	1.548.488,65	714.528,84	1.197.883,06
<u>Subscribed capital</u>		66.000.000,00		66.000.000,00
<u>Capital reserves</u>				
a) Uncommitted		4.000.000,00		4.000.000,00
<u>Retained earnings</u>				
a) Legal reserve	4.900.000,00		4.600.000,00	
b) Other reserves	50.808.333,70	55.708.333,70	43.636.494,15	48.236.494,15
<u>Liability reserve pursuant to Article 23 para. 6 ABA</u>		8.250.000,00		8.250.000,00
<u>Net profit or loss for the year</u>		4.706.275,69		7.171.839,25
		986.210.879,85		949.085.291,85
<u>Off-balance-sheet items</u>				
1. Contingent liabilities		479.234,54		425.747
2. Commitments		20.212.980,37		9.202.031
3. Tier I Capital		133.591.500,76		126.080.347,01
4. Risk weighted assets		840.885.822,05		852.675.805,27
5. Tier I Capital %		15,9%		14,8%
5. Foreign liabilities		306.022.712,69		279.687.972,02

PROFIT AND LOSS STATEMENT FOR THE FINANCIAL YEAR 2017

	EUR	2017	EUR	2016	EUR
1. Interest receivable and similar income showing separately: From fixed-income securities 7.912 TEUR (PY: 5.927 TEUR)			28.230.729,32		28.524.040,24
2. Interest payable and similar expenses			-11.671.097,12		-12.020.046,62
I. NET INTEREST INCOME			16.559.632,20		16.503.993,62
3. Commissions receivable			418.520,46		435.327,25
4. Commissions payable			-231.801,97		-323.090,46
5. Net profit or net loss on financial operations			-244.478,20		162.233,13
6. Other operating income			90.875,93		522.141,65
II. OPERATING INCOME			16.592.748,42		17.300.605,19
7. General administrative expenses					
a) Staff costs					
showing separately:					
aa) Wages and salaries	-4.473.852,41			-3.730.416,39	
bb) Expenses for statutory social contributions and compulsory contributions related to wages and salaries	-952.372,94			-825.887,48	
cc) Other social expenses	-74.030,41			-69.767,46	
dd) Expenses for pensions and assistance	-40.729,71			-38.704,77	
ee) Expenses for severance payments and contributions to severance and retirement funds	-109.099,70		-5.650.085,17	-101.533,08	-4.766.309,18
b) Other administrative expenses			-4.422.848,87		-4.037.093,61
8. Value adjustments in respect of assets 7 and 8			-121.643,18		-126.663,42
9. Other operating expenses			-999.807,21		-788.756,33
III. OPERATING EXPENSES			-11.194.384,43		-9.718.822,54
IV. OPERATING RESULT			5.398.363,99		7.581.782,65
10. Allocation to / Releases of provisions on loan losses and income/loss from sale/valuation of liquidity reserve			-739.845,28		303.955,93
V. PROFIT OR LOSS ON ORDINARY ACTIVITIES			4.658.518,71		7.885.738,58
11. Tax on profit or loss			260.237,26		-195.936,87
12. Other taxes not reported under Item 13			87.519,72		-117.962,46
VI. PROFIT OR LOSS FOR THE YEAR AFTER TAX			5.006.275,69		7.571.839,25
13. Changes in reserves			-300.000,00		-400.000,00
VII. NET INCOME FOR THE YEAR			4.706.275,69		7.171.839,25
14. Profit or loss brought forward			0,00		0,00
VIII. NET PROFIT OR LOSS FOR THE YEAR			4.706.275,69		7.171.839,25

DEVELOPMENT OF FIXED ASSETS POSITIONS

in EUR	Acquisition costs 01.01.2017		Additions	Disposals		Reclassifications	Acquisition costs 31.12.2017		Accumulated Depreciations 01.01.2017	Appreciations of the current financial years		Depreciations of the current financial years	Disposals		Accumulated Depreciations 31.12.2017	Book value		
	EUR	EUR		EUR	EUR		EUR	EUR		EUR	EUR		EUR	EUR		EUR	EUR	EUR
I. FINANCIAL INVESTMENTS																		
a) Securities																		
aa) Issued by public sector	99.782.410,00	3.133.375,00	3.133.375,00	-11.001.883,25	0,00	0,00	91.913.901,75	-357.427,99	66.137,21	1)	-206.068,62	2)	0,00	-497.359,40	99.424.982,01	31.12.2017	91.416.942,35	
bb) Issued by other borrowers	135.056.557,97	19.182.731,29 *	19.182.731,29 *	-7.287.474,17	0,00	0,00	146.951.815,10	-815.922,14	469.070,96	1)	-483.375,55	2)	0,00	-830.226,73	134.240.635,83	31.12.2017	146.121.588,35	
	234.838.967,97	22.316.106,29	22.316.106,29	-18.289.357,42	0,00	0,00	238.865.716,85	-1.173.350,13	535.208,18		-689.444,17		0,00	-1.327.586,13	233.665.617,84		237.538.130,71	
II. SHARES AND OTHER NON-FIXED INTEREST SECURITIE																		
	2.020,00	1.000,00	1.000,00	0,00	0,00	0,00	3.020,00	0,00	0,00		0,00		0,00	0,00	2.020,00		3.020,00	
III. INTANGIBLE FIXED ASSETS																		
a) Rights and licences	308.048,98	73.403,50	73.403,50	0,00	0,00	0,00	381.452,48	-301.901,84	0,00	0,00	-12.718,00	0,00	0,00	-314.619,84	6.147,14	31.12.2017	66.832,64	
b) Startup cost	-	0,00	0,00	0,00	0,00	0,00	-	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	31.12.2017	0,00	
	308.048,98	73.403,50	73.403,50	0,00	0,00	0,00	381.452,48	-301.901,84	0,00	0,00	-12.718,00	0,00	0,00	-314.619,84	6.147,14		66.832,64	
IV. TANGIBLE FIXED ASSETS																		
a) Leasehold improvements	1.248.946,51	0,00	0,00	0,00	0,00	0,00	1.248.946,51	-1.132.774,97	0,00	0,00	-18.368,51	-1,00	-1.151.144,48	116.171,54	31.12.2017	97.802,03		
b) Furniture and equipment	1.128.003,35	101.182,65	101.182,65	0,00	0,00	0,00	1.229.186,00	-853.412,88	0,00	0,00	-85.666,47	0,00	-939.079,35	274.590,47	31.12.2017	290.106,65		
c) Vehicles	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	31.12.2017	0,00	
d) Low value assets	0,00	4.890,20	4.890,20	0,00	0,00	0,00	4.890,20	0,00	0,00	0,00	-4.890,20	0,00	-4.890,20	0,00	0,00	31.12.2017	0,00	
	2.376.949,86	106.072,85	106.072,85	0,00	0,00	0,00	2.483.022,71	-1.986.187,85	0,00	0,00	-108.925,18	-1,00	-2.095.114,03	390.762,01		387.908,68		

1) Appreciation of discount on a pro rata basis of securities valued as financial investment according § 66 (3) ABA

2) Depreciation of discount on a pro rata basis of securities valued as financial investment according § 66 (2) ABA

*) Additions include FX valuation changes in the amount of TEUR 5.118 from securities issued in foreign currency.

APPENDIX TO THE ANNUAL FINANCIAL STATEMENTS 2017

General provisions

The annual financial statements of VakifBank International AG have been prepared in accordance with the principles of proper accounting and the general standard to provide a true and fair view of the company's assets, financial and earnings performance. The accounting, valuation and presentation of the individual items in the annual financial statements have been made in accordance with the provisions of the Austrian Commercial Code and the Austrian Banking Act, as amended.

Accounting and valuation policies

The structure of the balance sheet and the profit and loss account complies with appendix 2 to § 43 of the BWG. Individual items that are not included in the financial year or in the previous year are not shown. In the preparation of the annual financial statements, the principle of completeness was adhered to and the continuation of the company was assumed. The principle of the individual valuation was applied when assessing the individual assets and liabilities.

The principle of prudence was exercised with regard to the specific features of the banking business, as only the profits realised on the balance sheet date were reported and all recognisable risks and impending losses were taken into account. Amounts in foreign currency are valued in accordance with § 58 (1) BWG at the quoted middle exchange rates, foreign currency holdings at the quoted middle exchange rates on the balance sheet date December 31, 2017. The recognition of securities not classified as fixed assets was carried out at the cost of acquisition or lower exchange rates following the strict principle of lower of cost or market value. In the valuation of securities held as fixed assets, the accounting options pursuant to § 56 (2) second sentence BWG and § 56 (3) BWG are used and the diluted lower of cost or market principle is also applied. Tangible and intangible assets are measured at acquisition cost less scheduled straight-line depreciation. An itemised list of the fixed assets and changes in these assets in the reporting year are included in the assets analysis (Appendix 3/1).

Loan receivables are treated as current assets and are therefore valued according to the strict lower of cost or market principle.

VakifBank AG determines the need for individual value adjustments as part of credit monitoring. This is done by continuously monitoring the loan portfolio and adjusting rating levels, which change due to the creditworthiness of the borrowers, their payment behaviour and the valuation of securities.

Scheduled depreciation was based on the following useful life:

TANGIBLE ASSETS	YEARS
Rights and Licenses	10
Investments in third-party buildings	10
Operating and office equipment	4-10
Office machinery and IT equipment	2-4
Vehicle fleet	5

Low-value assets (section 13 of the ESTG) in the amount of EUR 5,000 (previous year (PY) EUR 11,000) were depreciated fully in the acquisition year and are shown in the columns for Additions, Disposals and Depreciation in the financial year.

The provision for severance obligations was determined in accordance with the principles of financial mathematics (based on expert opinions KFS/RL2 issued by the Department of Enterprise Law and Auditing, and on AFRAC opinion 27) on the basis of a pension age of 60 (women) and 65 (men) and an interest rate of 2.5% (PY: 3%).

The 7-year average interest rate for a 15-year remaining term as of December 31, 2017 was applied in accordance with the German provisions of the legal regulations pursuant to § 253(2) of the HGB and an additional 10% deduction was included because of the falling interest rate. In accordance with the prudence principle, the other provisions take into account all risks recognisable at the time the balance sheet was created, as well as the amount or the reason for uncertain liabilities, with the amounts that were necessary according to the company's assessment.

Name and registered office of the parent company

VakifBank International AG is included in the consolidated financial statements of Türkiye Vakıflar Bankası T.A.O., Saray Mahallesi Dr. Adnan Büyükdeniz Caddesi No:7/A-B 34768 Ümraniye/Istanbul. The consolidated financial statements are available at the registered office of the parent company.

Share capital

The share capital is EUR 66 million, which is divided into 66 million shares at a nominal value of EUR 1 each.

The shareholders are Türkiye Vakıflar Bankası T.A.O., Saray Mahallesi Dr. Adnan Büyükdeniz Caddesi No:7/A-B 34768 Ümraniye/Istanbul with 59.40 million shares and Türkiye Vakıflar Bankası T.A.O. Memur ve Hizmetlileri Emekli ve Sağlık Yardım Vakıflar Bankası T.A.O. Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı, Tunus Caddesi No: 67 Kat: 4 06680 Kavaklıdere/Ankara/Türkiye mit Stück 6,60 Mio.

Sandığı Sandığı Vakfı, Tunus Caddesi No: 67 Cat: 4 06680 Kavaklıdere/Ankara/Turkey with 6.60 million shares.

ELABORATIONS ON THE BALANCE SHEET AND INCOME STATEMENT

Breakdown by maturity (§ 64(1) LINE 4 BWG)

The receivables that are not payable on demand included amounts with the following maturity (remaining term)

	Receivables			
	from banks		From non-banks	
	31.12.2017	2016	31.12.2017	2016
	in €	in K€	in €	in K€
Up to 3 months	126,291,348	93,115	85,120,957	54,353
More than 3 months to 1 year	54,836,878	62,491	61,273,617	71,984
More than 1 year up to 5 years	5,100,000	0	343,530,779	356,335
More than 5 years	0.00	0	17,318,201	501
Total	186,228,226	155,606	507,243,554	483,174

The total amount of the assets denominated in other currencies is EUR 119.9 million (PY EUR 119.6 million)

Specific valuation allowances of EUR 17.9 million (PY: EUR 17.4 million) were recognised on loans and advances to customers in the amount of EUR 19.1 million (previous year: EUR 19.0 million). Obligations not due on demand included amounts with the following maturities (remaining term):

	Liabilities			
	towards banks		towards non-banks	
	31.12.2017	2016	31.12.2017	2016
	in €	in K€	in €	in K€
Up to 3 months	42,500,869	24,025	108,109,927	90,420
More than 3 months up to 1 year		2m 750	247,504,594	267,833
More than 1 year up to 5 years	0	0	287,357,531	278,576
More than 5 years	0	0	9,087,460	5,808
Total	42,500,869	26,775	652,059,512	642,636

The total amount of liabilities denominated in other currencies amounts to EUR 5.9 million (previous year: EUR 27.9 million).

DEBT INSTRUMENTS ISSUED BY PUBLIC AUTHORITIES, BONDS AND OTHER FIXED-INTEREST SECURITIES AND SHARES

Debt instruments issued by public authorities amount to EUR 91.42 million, a reduction of EUR 8 million year over year. Bonds and other fixed-interest securities rose by EUR 11.89 million, from EUR 142.27 million to EUR 154.16 million.

Of the bonds, EUR 8 million (PY: EUR 18.8 m) will mature in 2018.

As of the balance sheet date, the available bonds (including debt instruments) with acquisition costs of EUR 239 million (PY: EUR 234.8 million) were valued as investment assets in accordance with § 56(1) of the BWG.

In the case of bonds (including debt instruments) which are accounted for as financial assets and whose acquisition costs are higher than the repayment amount, the difference is written off pro rata temporis and charged to the income statement in accordance with § 56 para. 2(2) BWG. In 2017, depreciation amounted to EUR 689,000 (PY EUR 601,000). The difference to be distributed across the remaining term amounts to EUR 2,906,000 (previous year: EUR 3,023,000).

For bonds (including debt instruments), which are assessed as financial assets and for which acquisition costs are lower than the repayment amount, the difference to be distributed over the remaining term is recorded as income in accordance with § 56(3) of the BWG. In 2017, the appreciation amounted to EUR 535,000 (PY: EUR 294,000). The difference to be distributed over the remaining term is EUR 1,369,000 (PY: EUR 1,996,000).

The securities listed under bonds and other fixed-interest securities are all quoted in the stock exchange. In accordance with § 56(4) of the BWG, bonds (including debt instruments) that are not accounted for as fixed assets show a difference of EUR 473,000 (PY: EUR 54,000) between the acquisition costs and the higher market value on the balance sheet date.

Securities are not held in the trading book.

The classification pursuant to §64(1) line 11 of the BWG was made in compliance with resolutions passed by the Management Board, according to which, in keeping with the business strategy, securities held as current assets are reserved for the liquidity reserve but securities held as fixed assets are retained for long-term investment.

APPENDIX SPECIFICATIONS OF FINANCIAL INSTRUMENTS AS PER §237(1) line 1 UGB:

Financial instruments classified as financial assets that are reported at fair value can be broken down as follows:

in thousand EUR	Book value 31.12.2017	losses	Book value 31.12.2016	losses
Bonds and other fixed-interest securities	33,039	-515	54,528	-1,414

Hidden losses on the bonds can be attributed exclusively to market-price induced fluctuations. No lasting deterioration in the creditworthiness of the issuers could be established.

INFORMATION ON SHAREHOLDINGS AND THE RELATIONSHIP WITH AFFILIATED COMPANIES (§ 45 BWG)

The receivables from affiliated companies included in assets 2 to 5 amount to EUR 62.72 million (PY EUR 95.84 million). Claims against our parent company, T. Vakiflar Bankasi T.AO., amount to EUR 35.92 million (PY EUR 65.94 million), of which EUR 12.39 million are in foreign currency (PY EUR 15.29 million). These primarily refer to short-term receivables listed under items due from banks, as well as to business account balances and securities. A loan was issued to Vakif Finans Factoring Hizmetleri AS. in the amount of EUR 6.14 million (PY EUR 20.67 million) and to Vakif Finansal Kiralama AS. in the amount of EUR 5.00 million (PY: EUR 24.00 million).

Liabilities include liabilities to our parent company in the amount of EUR 23.17 million (PY: EUR 23.49 million), of which EUR 4.96 million (PY: EUR 7.35 million) are in foreign currency. These consist entirely of deposits and clearing balances. In addition, our parent company provides various individual guarantees and guarantees for our customer loans and forfaiting. The investments reported in the balance sheet refer to the shares in S.W.I.F.T. SCRL, Belgium, as well as to the deposit protection schemes of Banken und Bankiersgesellschaft GmbH and the deposit protection of AUSTRIA GmbH.

INFORMATION ABOUT OTHER ASSETS

The item 'Other assets' has a balance sheet value of EUR 12.73 million (PY: EUR 13.31 million). This figure includes accrued interest on bonds, purchases of receivables (forfeiting) and loans of EUR 7.52 million (PY EUR 9.34 million).

DEFERRED ASSETS

Deferred tax assets amount to EUR 99,000 and are recorded under the item 'Active deferred tax assets', in accordance with § 198(9) of the UGB. The previous year's deferred tax assets totalled EUR 43,000. Deferred tax assets result from temporary differences in the corporate and tax treatment of the provision for severance payments, the provision for IT expenses and the securities portfolio. A corporate tax rate of 25% was applied.

INFORMATION ABOUT OTHER LIABILITIES

The item 'Other assets' has a balance sheet value of EUR 7.17 million (PY: EUR 8.35 million). This includes deferred interest of EUR 4.17 million (PY: EUR 2.25 million), capital gains tax liabilities of EUR 1.7 million (PY: EUR 2.4 million) as well as liabilities from 'unrealised exchange losses on forward contracts' in the amount of EUR 25,000 (PY: EUR 2.8 million).

PROVISIONS

Changes in other provisions during the reporting period were as follows:

	As of 01.01.2017	Utilisation	Reversal	Allocation	As of 31.12.2017
	€	€	€	€	€
Holiday provision	251.406,78	80.641,31	15.659,60	95.894,13	251.000,00
Legal, auditing and consulting expenses	88.400,00	72.000,20	11.400,00	109.000,00	114.000,00
IT/ computer	213.294,63	107.195,04	0,00	168.000,00	274.099,59
Various accounts	161.427,43	44.104,63	0,00	432.066,26	549.389,06
	714.528,84	303.940,98	27.059,60	804.960,39	1.188.488,65

OWN CAPITAL

Common core equity (EUR)	31.12.2017	31.12.2016
1. Paid-in share capital in accordance with article 26(1a) CRR	66,000,000	66,000,000
2. Open reserves as per article 28(1e) CRR		
of which capital reserves (with share capital linked to premium)	4,000,000	4,000,000
of which retained earnings	55,408,334	47,836,494
Liability reserve	8,250,000	8,250,000
Deductions under article 36 (1b) CRR - of which		
1. immaterial assets	-66,833	-6,147
Total common core equity (EUR)	133,591,501	126,080,347

BELOW-THE-LINE ITEMS

The below-the-line items include guarantees totalling EUR 0.479 million (PY: EUR 0.4267 million). Unused lines of credit amount to EUR 20.21 million (PY: EUR 9.20 million).

The credit institute has pledged securities and loans with a book value of approximately EUR 42.6 million to secure its repo and tender obligations.

VALUE ADJUSTMENT ON ACCOUNTS RECEIVABLE

The balance of value adjustments to receivables and contingent liabilities had a negative effect of EUR 740,000.

EXPENSES OF THE BANK AUDITOR

Expenses for our bank auditor, Deloitte (and its Austrian network companies), amounted to EUR 226,000 (PY: EUR 225,000) in 2017, including allocation to provisions, and can be broken down into the following areas of activity:

	2017 EUR in thousand	2016 EUR in thousand
Audit of the annual financial statements	95	109
Other audit-related services	14	34
Tax consulting services	63	23
Other services	54	41

OTHER INFORMATION

Obligations arising from the use of tangible assets not disclosed in the balance sheet amount to approximately EUR 432,000 (PY: EUR 437,00) for the following financial year. The total amount of commitments for the following five years is around EUR 1.8 million (PY: EUR 2.1 million). In addition, there is still an obligation for the membership in the deposit insurance company Banken und Bankiers GmbH for deposit protection required by §93 of the BWG. In 2017, the contribution payment for the deposit protection scheme lead to a contribution payment for the Deposit Protection Fund (EiSij) in the amount of EUR 642,000 (PY: EUR 702,000), which was recorded as part of other operational expenses. The leasing expenses for motor vehicles are approximately EUR 31,000 for the following business year (PY: EUR 30,000) and for the following five years EUR 95,000 (PY: EUR 84,000).

The expenses for taxes on income and earnings items amounted to EUR 260,000 (PY: EUR -196,000). The positive effect of the taxes especially results from a corporation tax credit from 2012.

The sum of the forward transactions that had not yet been settled at the balance sheet date, which is made up completely of FX swaps, is EUR 115,95 million (PY: EUR 94.79), and the fair value is EUR 2.1 million (PY: EUR -2.6 million). This figure is accounted for among the other asset items (EUR 2.2 million) and other liabilities (EUR 25,000).

The disclosure according to art. 431 CRR. ff. is available on our website (www.vakifbank.at).

Expenses for severance payments and payments to company employee provision funds include allocations to provisions for severance payments in the amount of EUR 68,000 and the payments to the company provision fund amount to EUR 42,000 (PY: EUR 32,000).

Expenses for severance payments to board members and senior executives did not occur in this business year.

The Management Board will propose to the Annual General Meeting that the balance sheet profit of EUR 4.7 million be included in the profit reserve. The return on total assets in accordance with § 64(1) line 19 of the BWG is 0.51%.

VakifBank AG maintains a branch office in Germany with the following key figures:

Name:	Branch in Germany (DE)
Net interest income:	EUR 779,000
Operating income	EUR 638,000
Number of employees:	12
Annual result, before tax:	- 2.2 million
Taxes on income:	EUR 109,000
Public aid received	EUR 0

VakifBank AG generated interest income from lending transactions in the amount of EUR 14.8 million from its business on the Turkish market and EUR 5.6 million from securities transactions.

The exchange rate of the euro to the New Turkish Lira (TRY) changed from 3.71 on January 1, 2017 to 4.55 on December 31, 2017.

The EUR/TRY exchange rate as at 30 May 2018 reached 5.18. VakifBank AG has no significant TRY receivables in its books and therefore this change has no direct effect on the balance sheet. As of December 31, 2017, receivables from counterparts domiciled in Turkey accounted for approximately 64 % of total assets. This may have indirect effects on the balance sheet due to an increased need for write-downs. Due to the stable financial and earnings position of VakifBank International AG's customers in the large corporate segment, which is also based on realised sales revenues in foreign currencies (natural hedge effects); there were also no indirect accounting effects due to the EUR/TRY exchange rate development after the balance sheet date.

There are no separate, particular events or incidents after the balance sheet date.

INFORMATION ABOUT EXECUTIVE BODIES AND EMPLOYEES

The average number of employees in 2017 was 68 (PY 56).

In 2017, the Management Board comprised the following persons:

Ahmet Vural Biyik, chairman of the board from 20.10.2017
Mustafa Seckin Onür, member since 20.02.2017; chairman of the board from 22.03.2017 to 20.10.2017
Selcuk Gözüak, member since 28.02.2017
Ömer Kiziltas, chairman of the board until 22.03.2017
Ugur Yesil, member until 22.03.2017
Kenneth Born, member

In 2017, the Supervisory Board comprised the following members:

Ramazan Gündüz, chairman until 16.06.2017
Öztürk Oran, deputy chairman until 16.06.2017
Osman Demren, chairman from 16.06.2017
Suayyip Ilbilgi, deputy chairman from 16.06.2017
Mikail Hidir, member until 04.08.2017
Mustafa Turan, member Ahmet Yildiz, member
Alp Tolga Simsek, member from 07.07.2017
Ferkhan Merdan, member from 07.07.2017
Neslihan Tonbul, member from 20.10.2017

Earnings for members of the Management Board and the Supervisory Board in the financial year:

	2017 EUR in thousand	2016 EUR in thousand
Management Board members	744	472
Supervisory Board members	82	98

Vienna, June 26, 2018

VakifBank International AG

Ahmet V. BIYIK
Chairman of the Board, CEO

M. Seckin ONÜR
Board member, CFO / CRO