ANNUAL REPORT 2018

VakıfBank International AG

ANNUAL REPORT

on the 2018 fiscal year

VAKIFBANK INTERNATIONAL AKTIENGESELLSCHAFT

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SUPERVISORY BOARD

Osman DEMREN
Chairman

Şuayyip İLBİLGİ
Deputy Chairman

Mustafa TURAN
member

Alp Tolga ŞİMŞEK
member

Ferkan MERDAN
member

Neslihan TONBUL
member

Ahmet YILDIZ
member until 23.05.2018

Muhammed Onay Özkan
member from 28.06.2018 to 06.08.2018

MANAGEMENT BOARD

Ahmet Vural BIYIK
Chairman of the Board

Mustafa Seckin ONÜR
member

Kenneth BORN
member until 22.03.2018

Selcuk GÖZÜAK
member until 27.02.2018

DEPARTMENT HEADS

Sema YURTYAPAN - BERGER BSc.
Corporate & Commercial Banking

Christoph LEITNER
Accounting/Reporting

Rüdiger WEHRKÖNIG
Internal Audit

Mag. Franz
FASCHING Risk
Management

Murat TÜRKTEKIN
Lean Management & IT

Friedrich HAMMER
Treasury

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Treasury & Payment Operations

Mag. Tarkan CELIK
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BUSINESS PHILOSOPHY AND OWNERSHIP STRUCTURE

The founding meeting of VakifBank International AG took place on 23 July 1999. The Federal Ministry of Finance issued a full banking licence on 4 August 1999. Türkiye Vakıflar Bankası T.A.O., Istanbul owns 90% of the bank, and 10% is owned by the Pension Fund of Türkiye Vakıflar Bankası T.A.O.

VakifBank International AG's objective is to support European and Turkish exporters and importers and in particular to accompany them in their foreign trade business by drawing on the experience, financial strength and international market standing of the parent company. VakifBank International AG thereby strives to make a positive contribution to the intensification of the existing mutual trading and investment volume.

The main focus lies on the areas of financing of trade transactions (by granting loans to exporters and importers in the form of syndication, forfaiting, discounting, etc.) and trade services (letter of credit, documentary and guarantee business, payment transactions).

In addition, we offer all traditional banking services such as accounts and savings accounts, corporate and personal loans and transfer transactions. A special service is our fast and inexpensive payment service for transfers from Austria to Turkey.

Thanks to the direct connection with our parent company T. Vakıflar Bankası T.A.O., we can guarantee very short transfer times for transfers to about 948 branches in Turkey.

In addition to the first regional focus on Turkey, we are concentrating on the European Union and Central and Eastern Europe.

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 948 branches in Turkey as well as one branch in New York, Bahrain, and Erbil.

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

43.00% general Directorate of Foundations

15.45% miscellaneous foundations

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

25.20 % free float

0.25 % other

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 i.a. 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 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 BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT 2018

(in million EUR)

	2018	2017
Balance sheet total	921.22	986.21
Claims against customers	346.96	523.75
Claims against banks	112.85	193.70
Liabilities to banks	35.44	63.47
Liabilities to customers	728.95	773.86
- of which savings deposits:	380.35	410.61
Net interest income	15.67	16.56
Operating income	15.99	16.60
Operating expenses	9.76	11.20
Operating result	6.23	5.40
Income from ordinary activities	9.14	4.66
Annual surplus	8.59	5.01
Equity resources as per Part 2 of EU regulation no. 575/213	145.04	133.60

MANAGEMENT REPORT FOR THE 2018 FINANCIAL YEAR

VakıfBank International AG was founded on 23 July 1999 and was issued a full banking licence on 04 August 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. 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 one branch in Vienna, VakifBank is also present in Germany with a branch in 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.

With an increase in economic output of 3.7%, the global economy reached the peak of its expansion in 2018. Compared to 2017, expansion varied both by region and sector. The reason for the slowdown in global growth was the intensification of political conflicts, a clear change in US policy followed by an increase in economic sanctions, increasing protectionism and the associated trade conflict with China. The gradual normalisation of monetary policy in the industrialised countries, led by the continued increase of the Fed Funds Rate target range in the USA to 2.25% to 2.5% by the end of 2018, led to a tightening of financing conditions, especially for the emerging markets.

At over 2.9%, economic growth in the USA surpassed the previous record level set in 2015. The strong growth was driven by tax cuts and a major spending programme by the US government, which also increased the budget deficit to 5% of GDP and public debt to 100% of GDP.

The GDP of the Euro area grew by 2.5% in 2017 on an annual basis. In 2018, GDP growth slowed to 1.8%. The reasons for the slowdown were the general weakening of global trade and thus a decline in exports. In addition, both the appreciation of the euro against the US dollar in the first months of 2018 and the rise in oil prices were reasons for the weakening. As in 2017, the ECB did not change key interest rates in 2018. However, the ECB's securities purchase programme was terminated in 2018, which may be a first indication of possible interest rate hikes in the euro area as well.

The Turkish economy achieved a strong 7.4% GDP growth in 2017, predominantly driven by private consumption, which grew by 6.1%. In 2018, GDP growth dropped to 5.2%. The main reason for the decline was the drop in domestic demand, which was the main driver of growth in 2017. Due to the devaluation of the Turkish lira in connection with a restrictive financing situation, the growth of industrial production has also declined. Thanks to a recovery in tourism and improved export conditions due to the devaluation of the Turkish lira, the decline in domestic demand was offset by increased growth in the areas mentioned above.

VakifBank grants a substantial part of its loans to the best and most internationally renowned companies based in Turkey. VakifBank is proud of the fact that is has not had any losses in this area since its founding in 1999. By 31.12.2018 receivables from counterparties with their headquarters in Turkey amounted to EUR 436 million. Based on a balance sheet sum of EUR 921 million this corresponds to a share of 47%. The risk situation of VakifBank 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 this income is generated from financial and corporate institutions based in Turkey, Austria, and Germany. In addition to 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 expenses items, in line with the business model, are interest expenses on deposits in Vienna and 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 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 assesses whether the respective business is in accordance with the ethical and sustainable principles and ideals. This way, only loans are granted which correspond to VakifBank's ethical principles. All responsible employees of VakifBank,
– especially at the executive level, pay close attention to ensure that in case of doubt financing that is possibly controversial - both from a social and an ecological point of view - is avoided.

The general management of VakifBank International AG is responsible for ensuring a suitable risk management and compliance with the supervisory tasks this requires. The operational implementation is guaranteed by the 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 asset-liability committee (ALCO), by liquidity meetings and lastly by the internal auditing. The risk management area is thus appropriately staffed in order to fulfil its tasks.

The department of risk management assumes the tasks of central steering, surveillance and controlling of the risk areas of the bank both domestically and internationally. One of the core tasks of risk management is reporting to the Board. The continuous flow of information on all essential risk items of the bank allows the Board to fulfil its comprehensive responsibilities in all risk areas and to 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. In addition, ad-hoc reporting for specific cases is planned. 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 of decisive importance 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 measures 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 (ICS) is in place which encompasses regulations on the organisation of development and implementation as well as risk steering and controlling processes. The ICS provides a process-dependent surveillance and is orientated on the type, scope, and complexity of the risk content of business activities. This ICS process controlling and the organisation units directly involved, namely Internal Auditing together with Compliance and Strategic Risk Management constitute VakifBank's internal control process.

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, expenses, 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 regulatory requirements defined 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 done by taking the type, scope, and complexity of our banking business into account, including inter alia when adhering to the guidelines of European regulatory authorities.

Goals and strategies

As early as 2016, a diversification strategy was defined with regard to the state of registration of credit customers and securities issuers. 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 continued in the 2018 financial year.

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 country of residence will continue to be implemented in the future, in particular through a corresponding investment strategy in the securities area. Particular attention will be paid to ensuring that assets suitable for an ECB refinancing will be given priority. The 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.

VakifBank has a coherent business and risk strategy and associated limit systems approved by the Management the Supervisory Board. The business strategy was operationalised within the framework of derived capital and structural limits.

Business performance in 2018

The 2018 financial year was another successful year for VakifBank.
The positive long-term business development in the past has shown that VakifBank has the necessary specialised knowledge and good client contacts which will also 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 financial year 2019.

Research and Development

VakifBank does not conduct any research and development within the meaning of § 243 para. 3 Z3 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 adapted if necessary. The risk-bearing capacity is given if all material risks of an institution are continuously covered by the available risk cover funds, taking into account risk concentrations.

Types of risk

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 measurement

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. Thus the expected loss does not represent an effective risk in the sense of a negative deviation, but rather a calculated, budgeted amount. The unexpected loss is the loss which goes beyond the expected loss - 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 securities, credit rating, change in interest rates, country risks and foreign currency risks are defined with the goal of quantifying losses which can be triggered by 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 upper 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 with all customers. In the case of non-Turkish clients, the rating is conducted based on confirmed and regularly validated rating tools of the Raiffeisen sector. In the case of Turkish clients who have external ratings from rating agencies, these ratings are also taken into consideration. For Turkish corporate clients, mainly larger companies, the ratings determined by the Türkiye Vakiflar Bankasi TAO analysis department are employed following an internal plausibility check. Average default probabilities based on these ratings are used to quantify credit risk. Loss quotas are principally based on the provisions specified by the Basel III regulation CRR. Since the beginning of 2018, one of the leading rating agencies has been implementing a new rating procedure based on software and databases from Moody’s in order 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. Furthermore, this cluster risk is quantified in reference to the credit portfolio (credit concentration risk).

Overall bank interest rate risk

The overall bank interest rate risk includes the risk that the expected or planned balance sheet value or present value long-term return will not be 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 readiness for risk 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 transactions in the banking book using appropriate systems and processes.

Currency risk

The currency risk describes the risk of a change in the value of foreign currency items due to price shifts on the spot currency markets. VakifBank's currency risk exclusively arises from outstanding receivables in USD and, to a lesser extent, in GBP and CHF.

VakifBank's operations does not use any other currencies. For non-essential, individual transactions, banking transactions may be conducted in Turkish lira. For significant USD receivable items, the required hedging of foreign exchange risk is applied using FX swaps to refinance these USD receivable items directly in foreign currency. This risk category is measured and limited in the risk-bearing capacity calculation (ICAAP) using a simple value-at-risk approach.

Foreign currency credit risk

The appreciation of a currency against the euro increases the credit exposure of a foreign currency loan converted into euro and thus the potential for loss, even if the customer's probability of default remains unchanged. In addition, the increased credit exposure may lead to an increased risk of default by the borrower against a local currency loan. When granting new loans, customers with income and assets in EUR and USD are preferred. That way, the customers have a natural hedge. For such exposures and for currency items that are actually foreign currency financing, the resulting risk is quantified and backed by economic capital.

The exposure in the case of foreign currency loans is additionally increased by the historical annual volatility of the FX exchange rates that are scaled according to the risk-bearing capacity scenario. For a rough estimation of the impact on the foreign currency risk potential in economic capital, 8% of this (basic own funds ratio) is recognised as a risk in the event of a problem, whereby loans and advances to financial institutions and government customers are not recognised due to the assumed own currency hedging.

Credit spread risk

The risk due to changes in credit spreads on securities is the risk of loss due to changes in bond market prices caused by changes in credit spreads or the spread curve compared with the risk-free interest rate. This risk category is measured and limited in the risk-bearing capacity calculation (ICAAP) using a simple value-at-risk approach.

Country risk

The country risk expresses the danger that receivables from cross-border transactions may default due to sovereign acts (transfer and conversion risk) as well as the danger that a country's economic or political situation will have a negative impact on the debtor's creditworthiness. It includes the country's own insolvency or unwillingness to pay or of that country to which the business partner/counterparty is to be assigned. This assignment is done in the overall bank management (ICAAP) according to the country of origin principle (political country risk) or according to the principle of liability allocation, for example in the case of group interdependencies of the business partner (economic country risk).

Turkey's country risk is part of VakifBank's business model and is limited according to VakifBank's internal assessment. This is also based on experience and the careful and conservative selection of contracting parties. The overall bank management gives special consideration to this. As part of the aforementioned diversification strategy, VakifBank has an increased readiness for risk with regard to EU member states and other EU accession candidates. Regarding Turkey, the focus country, VakifBank accepts a medium risk readiness in the area of country risk. As part of the diversification strategy, future activities are designed to reduce the country risk for Turkey proportionately. Country risk is quantified conservatively 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 also 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 steers operational risk and uses this as a basis for hedging against rare events with severe 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 readiness for risk 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 steering 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, steer, monitor and communicate the individual risk types are described in the risk management manual and diverse further guidelines of VakifBank as well as supplementary work instructions and orders; A materiality assessment is documented for all risk types and, to the extent required, for the individual characteristics.

Results of operations, financial position and net assets

Development of key balance items

The most essential sectors in which loans exist at the end of 2018 are services, banking/leasing, production and states. The rest of the portfolio is roughly divided equally between construction, energy, transport and trade.

Receivables from customers and banks dropped from EUR 717 million to EUR 459 million. By contrast, the volume of bonds and other fixed-income securities increased from EUR 154 million to EUR 251 million as a result of the strategy described above, representing an increase of 63%.

The German branch is predominantly active in the deposit business and has a balance sheet total of EUR 281 million. Customer deposits in Germany amounted to EUR 271 million at the end of 2018.

Balance sheet equity

Compared to the previous year, balance sheet equity increased by around EUR 9 million to a total of around EUR 147 million. The liability reserve amounts to EUR 8.25 million.

Net assets and financial position

The financial year was thus concluded with a balance sheet total of EUR 921 million. The receivables to customers decreased by EUR 177 million in the year reported and amounted to EUR 346 million.

Loans and advances to banks dropped from EUR 193 million to EUR 112 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 251 million at the end of the year under review. One year earlier they amounted to EUR 154 million.

Liabilities to customers dropped by 6% to EUR 728 million. In the previous year, these amounted to EUR 774 million. Other liabilities including prepaid expenses and provisions fell slightly to EUR 9.5 million compared to the previous year (EUR 10 million). Overall, the financial year including the balance sheet profit closed with balance sheet equity of EUR 147 million. This continues to represent a solid and sufficient capital base for the bank's development.

Profit situation

On the assets side, VakifBank's most significant business area is the financing of large Turkish financial institutions and groups. Net interest income was slightly lower in the year under review at EUR 15.7 million (PY: EUR 16.6 million). Net commission surplus contributed EUR 0.2 million to the result. Compared to the previous year, general administrative expenses fell by 11% to EUR 9 million at the end of the year due to lower personnel costs and operating expenses.

VakifBank's profit from ordinary activities amounted to EUR 9.1 million. Overall, the 2018 financial year ended with a net profit of EUR 8.6 million.

Liquidity position

The solvency of VakifBank AG was ensured at all times in the 2018 financial year thanks to a planned and balanced liquidity provision and the liquidity ratios prescribed by the supervisory authorities were always significantly exceeded. In the past financial year, VakifBank again had various refinancing options at its disposal for carrying out new business.

Overall position and outlook

Taking into account the increased regulatory requirements and the volatile market conditions, overall, VakifBank was able to meet its targets and achieve a satisfactory result. As in the previous year, the Turkish lira depreciated further in 2018. Thanks to its many years of expertise, VakifBank was able to achieve satisfactory and risk-adequate returns in this demanding market in 2018 as well.

An important reason for this success is a balanced diversification strategy, a careful and critical credit assessment and specific 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 2019 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 2019 financial year.

Vienna, 24 June 2019

VakifBank International AG

Ahmet V. BIYIK	M. Seckin ONÜR
Chairman of the Board, CEO	Board member. CFO / CRO

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board held regular meetings in the fiscal year of 2018. 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 2018 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.

According to the final result of the audit of the annual financial statements, the appendix to the financial statements and the management report carried out by the Supervisory Board after appropriate preparation and recommendation by the Audit Committee in accordance with § 92 (4) of the German Stock Corporation Act, there is no reason for objection.

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 2018 at its meeting on 28 June 2019, which were thus adopted in accordance with §96 (4) of the German Stock Corporation 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 2018.

Vienna, 28 June 2019

Suayyip ILBILGI
Deputy Chairman of the Supervisory Board

AUDITOR'S REPORT

for the business year that ended on 31 December 2018 of the

VakifBank International AG, Vienna

We have audited the annual financial statements which comprises the balance sheet as of 31 December 2018, the profit and loss account for the year ended on this date, and the appendix of VakifBank International AG, Vienna. In our opinion, the accompanying financial statements comply with legal requirements and give a true and fair view of the net assets and financial position of the company as at
31 December 2018 and of its financial performance for the year ending on this date, all in accordance with Austrian company regulations and the Austrian Banking Act.

Basis for the audit opinion

We conducted our audit in accordance with Regulation (EU) no. 537/2014 (hereafter EU REG) and with the Austrian principles of proper auditing of financial statements. These principles require the application of International Standards on Auditing (ISA). Our responsibilities under these rules and standards are further described in the section 'Responsibilities of the auditor for the audit of annual financial statements', included in our audit opinion. We are independent of the company in accordance with Austrian commercial and professional regulations and we have performed our other professional duties in accordance with these requirements. We are of the opinion that the audit evidence that we have 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 forming 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's financial statements show loans and advances to customers totalling EUR 346.96 million, and EUR 7.9 million after Deducting specific value adjustments.

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.

Auditor's approach

As part of our audit, we have assessed the credit monitoring process of VakifBank International AG and evaluated 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 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 Supervisory Board is responsible for monitoring the group’s accounting process.

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

Our objectives are to obtain reasonable assurances 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. Sufficient certainty is a high level of assurance, but not a guarantee that an audit conducted in accordance with the EU REG and Austrian Standards on Auditing of Financial Statements, which require the application of ISAs, will always reveal material misstatements, if any exist. Misstatements may result from fraud or errors and are deemed to be material if, individually or collectively, they can reasonably be expected to affect the economic decisions made by users on the basis of these annual financial statements.

In conducting an audit in accordance with the EU REG and Austrian principles of proper auditing, which require compliance with the ISA, we exercise due care and diligence and maintain professional scepticism throughout the entire engagement.

In addition, the following applies:

•We identify and assess the risks of material 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 specific circumstances; however, our objective is not to issue an opinion on the effectiveness of the company's internal control system.

•We assess the appropriateness 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 assess 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 representation possible.

- With the Supervisory Board, 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 recognise during our audit.

- We also declare to the Supervisory Board that we have complied with the relevant professional independence requirements and exchange views with it on all relationships and other matters that may reasonably be expected to affect our independence and, where appropriate, related safeguards.

- From the matters which we discussed with the Supervisory Board, 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 accordance 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 audit’s findings of the annual financial statements and an acquired understanding of the company and its environment, we detected no material misstatements in the management report.

Additional information pursuant to Article 10 of the EU REG

We were commissioned by the Annual General Meeting on 20 October 2017 as auditors for the fiscal year ending on 31 December 2018 and appointed by the Supervisory Board to conduct the audit on 20 October 2017. We have been the company's auditors without interruption since the fiscal year that ended on 31 December 1999. We declare that the audit opinion in the section ‘Report on the Financial Statements’ is consistent with the additional report to the Supervisory Board pursuant to Art 11 of the EU REG. We declare that we have not provided any prohibited non-audit services pursuant to Art 5 para 1 of the EU REG and that we maintained our independence from the company while carrying out the audit.

Vienna, 25 June 2019

Deloitte Audit Wirtschaftsprüfungs GmbH

Dr. Nikolaus Müller
Wirtschaftsprüfer

Annual financial statements containing our audit report may only be published or distributed if the version is the one we audited. 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 SHEETS AS AT 31 DECEMBER 2018

PROFIT AND LOSS ACCOUNT 2018

APPENDIX TO THE BALANCE SHEET

AND PROFIT AND LOSS ACCOUNT

BALANCE SHEET AS AT 31 DECEMBER 2018

ASSETS	31.12.2018		31.12.2017	
	EUR	EUR	EUR	EUR
1. Cash and cash equivalents with central banks		92,432,820.16		9,695,324.94
2. Debt instruments issued by public authorities		107,121,926.12		91,416,542.35
3. Receivables from banks				
a) repayable on demand	12,053,851.84		7,473,716.86	
b) other receivables	100,794,084.51	112,847,936.35	186,228,226.26	193,701,943.12
4. Receivables from customers		346,962,169.13		523,745,390.92
5. Bonds and other fixed-interest securities				
a) Issued by public bodies	44,766,858.04		29,906,001.37	
b) issued by other entities	206,509,708.54	251,276,566.58	124,254,745.80	154,160,747.17
6. Investments		3,020.00		3,020.00
7. Intangible assets held as fixed assets		55,571.60		66,832.64
8. Tangible fixed assets including: land and buildings used by the credit institution for its own activities: EUR 0 (PY: 116,000 EUR)		221,320.60		387,908.68
9. Other assets		10,018,664.20		12,728,120.17
10. Prepaid expenses and deferred charges		283,753.49		205,976.47
11. Deferred taxes		0.00		99,073.39
		921,223,748.23		**986,210,879.85**

Below-the-line items		
1. Foreign assets	745,168,773.38	845,131,869.99

BALANCE SHEET AS AT 31 DECEMBER 2018

LIABILITIES

	31.12.2018 EUR	31.12.2018 EUR	31.12.2017 EUR	31.12.2017 EUR
1. Liabilities to banks				
a) repayable on demand	10,439,650.82		20,966,815.14	
b) with agreed maturity or period of notice	25,000,000.00	35,439,650.82	42,500,868.66	63,467,683.80
2. Liabilities to customers				
a) Savings deposits, including:				
aa) repayable on demand	87,154,224.74		92,238,548.41	
ab) with agreed maturity or period of notice	293,199,845.09		318,371,383.63	
b) other liabilities including:				
ba) payable on demand	20,429,957.54		29,560,794.61	
bb) with agreed maturity or period of notice	328,165,674.51	728,949,701.88	333,688,128.08	773,858,854.73
3. Other liabilities		6,621,315.11		7,173,406.43
4. Prepaid expenses and deferred charges		1,490,789.25		1,497,836.85
5. Provisions				
a) provisions for severance payments	310,000.00		360,000.00	
b) provisions for taxation	454,000.00		0.00	
of which provisions for deferred tax liabilities	167,000.00		0.00	
c) other provisions	702,000.00	1,466,000.00	1,188,488.65	1,548,488.65
6. Subscribed capital		66,000,000.00		66,000,000.00
7. Capital reserves				
a) uncommitted		4,000,000.00		4,000,000.00
8. Retained earnings				
a) statutory reserve	5,400,000.00		4,900,000.00	
b) other reserves	55,514,609.39	60,914,609.39	50,808,333.70	55,708,333.70
9. Liability reserve pursuant to § 57 para. 5 of the BWG		8,250,000.00		8,250,000.00
10. Net profit		8,091,681.78		4,706,275.69
		921,223,748.23		**986,210,879.85**

	31.12.2018	31.12.2017
Below-the-line items		
1. Contingent liabilities	433,740.30	479,234.54
a) Liabilities from guarantees and indemnities from the provision of securities	433,740.30	479,234.54
2. Credit risks	385,039.76	20,212,980.37
3. Eligible own funds as per part 2 of Regulation (EU) no 575/2013	145,041,965.44	133,591,500.76
including: Supplementary capital pursuant to Part 2 Title I Chapter 4 of Regulation (EU) no 575/2013		
4. Capital requirements pursuant to Art. 92 of Regulation (EU) no 575/2013	686,392,097.57	840,885,822.05
including: Capital requirements pursuant to Art. 92 para. 1 lit. a to c of Regulation (EU) no 575/2013 (CRR)		
common equity tier 1	21.1%	15.9%
tier 1 capital	21.1%	15.9%
total capital ratio	21.1%	15.9%
5. Foreign liabilities	286,763,826.08	306,022,712.69
Return on total capital	0.93%	0.51%

PROFIT AND LOSS ACCOUNT FOR THE 2018 FISCAL YEAR

	2018		2017	
	EUR	EUR	EUR	EUR
1. Interest and similar income including: from fixed-interest securities: EUR 9,227,000 (PY: EUR 7,912,000)		27,188,524.32		28,230,729.32
2. Interest and similar expenses		-11,514,062.47		-11,671,097.12
I. NET INTEREST INCOME		**15,674,461.85**		**16,559,632.20**
3. Commissions receivable		363,228.87		418,520.46
4. Commissions payable		-156,062.70		-231,801.97
5. Net profit or net loss on financial operations		62,912.71		-244,478.20
6. Other operating income		41,548.37		90,875.93
II. OPERATING INCOME		**15,986,089.10**		**16,592,748.42**
7. General administrative expenses a) staff costs, including:				
aa) wages and salaries	-3,607,237.32		-4,473,852.41 bb)	
expenses for statutory social security contributions and payroll-related taxes and contributions	-862,165.57		-952,372.94	
cc) other social security expenses	-77,575.37		-74,030.41	
dd) pension expenses and related benefits	-57,773.86		-40,729.71	
ee) Expenses for severance payments and contributions to company employee pension funds	-77,196.81	-4,681,948.93	-109,099.70	-5,650,085.17
b) other administrative expenses (material expenses)		-4,223,593.17		-4,422,848.87
8. Value adjustments on the assets 7 and 8		-117,499.65		-121,643.18
9. Other operating expenses		-733,125.08		-999,807.21
III. OPERATING EXPENSES		**-9,756,166.83**		**-11,194,384.43**
IV. OPERATING RESULT		**6,229,922.27**		**5,398,363.99**
10. Allocation to / Releases of provisions on loan losses and income/loss from sale/valuation of liquidity reserve		-585,548.00		-739,845.28
11. Valuation result of fixed assets		3,490,710.53		0.00
V. PROFIT OR LOSS ON ORDINARY ACTIVITIES		**9,135,084.80**		**4,658,518.71**
12. Taxes on income and earnings		-521,525.39		260,237.26
13. Other taxes not included in item 12		-21,877.63		87,519.72
VI. NET INCOME FOR THE YEAR		**8,591,681.78**		**5,006,275.69**
14. Changes in reserves including: Allocation to liability reserves in accordance with § 57(5) of the BWG EUR 0; (PY: EUR 0)		-500,000.00		-300,000.00
VII. ANNUAL PROFIT or LOSS		**8,091,681.78**		**4,706,275.69**
15. Profit carried forward		0.00		0.00
VIII. NET PROFIT		**8,091,681.78**		**4,706,275.69**

CHANGES IN FIXED ASSET ITEMS

in EUR	Acquisition cost as of 01.01.2018 EUR	Additions EUR	Disposals EUR	Reclassifications EUR	Acquisition costs as of 31.12.2018 EUR	Accumulated depreciations as of 01.01.2018	Appreciations of the current financial year EUR	depreciations of the current financial year EUR	Disposals EUR	Accumulated depreciation & appreciation as of 31.12.2018 EUR	Book value as at 31.12.2017 EUR	Book value as of 31.12.2018 EUR
I. FINANCIAL ASSETS												
a) Securities												
aa) issued by public authorities	91,913,901.75	55,693,975.00	-40,835,456.88	0.00	106,772,419.87	-497,359.40	116,011.72 1)	-184,446.07 2)	0.00	-565,793.75	91,416,542.35	106,206,626.12
bb) other fixed-interest securities	146,951,815.10	113,172,916.96 *)	-14,982,798.94	0.00	245,141,933.12	-830,226.73	2,397,018.40 1)	-492,158.21 2)	0.00	1,074,633.46	146,121,588.35	246,216,566.58
	238,865,716.85	**168,866,891.96**	**-55,818,255.82**	**0.00**	**351,914,352.99**	**-1,327,586.13**	**2,513,030.12**	**-676,604.28**	**0.00**	**508,839.71**	**237,538,130.70**	**352,423,192.70**
II. INVESTMENTS	**3,020.00**	**0.00**	**0.00**	**0.00**	**3,020.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**3,020.00**	**3,020.00**
III. INTANGIBLE FIXED ASSETS												
a) Rights and licences	381,452.48	0.00	0.00	0.00	381,452.48	-314,619.84	0.00	-11,261.04	0.00	-325,880.88	66,832.64 0	55,571.6
b) Start-up costs	-	0.00	0.00	0.00	-	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	381,452.48	**0.00**	**0.00**	**0.00**	**381,452.48**	**-314,619.84**	**0.00**	**-11,261.04**	**0.00**	**-325,880.88**	**66,832.64**	**55,571.60**
IV. TANGIBLE ASSETS												
a) Adaptations in third-party buildings	1,248,946.51	0.00	-126,596.82	0.00	1,122,349.69	-1,151,144.48	0.00	-15,514.09	44,308.88	-1,122,349.69	97,802.03	0.00
b) Operating and office equipment	1,229,186.00	23,623.21	-13,218.20	0.00	1,239,591.01	-939,079.35	0.00	-87,092.55	7,901.49	1,018,270.41	290,106.65	221,320.60
c) Vehicle fleet	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
d) Low value assets	4,890.20	3,631.97	-8,522.17	0.00	0.00	-4,890.20	0.00	-3,631.97	8,522.17	0.00	0.00	0.00
	2,483,022.71	27,255.18	-148,337.19	0.00	2,361,940.70	-2,095,114.03	0.00	-106,238.61	60,732.54	-2,140,620.10	387,908.68	221,320.60

1) pro rata temporis appreciation of differences in securities valued as financial assets pursuant to § 56 (3) BWG
2) pro rata depreciation of the differences in securities valued as financial assets pursuant to § 56 (2) BWG
*) Additions include price differences of EUR 4.2 million from securities denominated in foreign currencies.

APPENDIX TO THE 2018 ANNUAL FINANCIAL STATEMENTS

General provisions

The annual financial statements of VakifBank International AG (VakifBank) 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 of the §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. In compliance with § 58(1) of the BWG, foreign currency amounts are assessed at the listed foreign currency exchange rates and currency holdings at the listed currency exchange rate as of the balance sheet date, 31.12.2018.

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. For the valuation of securities held as fixed assets, the accounting options pursuant to § 56(2)(2) of the BWG and § 56(3) of the BWG are used and in other cases the lower-value principle is applied. Tangible and intangible assets are measured at acquisition cost less scheduled straight-line depreciation. An itemised list of the fixed assets and their development in the reporting year is included in the assets analysis (Appendix 3/1). Loan receivables are treated as current assets and therefore valued strictly at the lower of cost or market. VakifBank 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. On the basis of statistical empirical values from similar circumstances pursuant to § 201 (2) 7 UGB, a portfolio value adjustment of EUR 350,000 was formed for the first time.

Scheduled depreciation was based on the following useful life:

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

Low-value assets (§ 13 of the ESTG) in the amount of EUR 4,000 (PY EUR 5,000) 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 calculated in accordance with the principles of financial mathematics (based on AFRAC Statement 27) on the basis of a retirement age of 60 (women) or 65 (men) and an interest rate of 2.1% (PY: 2.5%). The 7-year average interest rate for a 15-year remaining term as of 31.12.2018 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 is included in the consolidated financial statements of Türkiye Vakiflar Bankasi T.A.O. (TVB), Saray Mahallesi Dr. Adnan Büyükdeniz Caddesi no:7/A-B 34768 Ümraniye/Istanbul. The consolidated accounts 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 Saglık Yardım Sandıgı Vakfı, Tunus Caddesi no: 67 Kat: 4 06680 Kavaklıdere/Ankara/Türkiye with 6.60 million shares.

ELABORATIONS ON THE BALANCE SHEET AND INCOME STATEMENT

Classification by maturity (§ 64(1)(4) of the BWG)
The receivables that are not payable on demand included amounts with the following maturity (remaining term):

	Receivables			
	from banks		from non-bank financial institutions	
	31.12.2018	2017	**31.12.2018**	2017
	in €	in thousand €	in €	in thousand €
up to 3 months	75,365,847	126,291	20,995,767	85,121
more than 3 months up to 1 year	25,428,237	54,837	28,360,771	61,274
-more than 1 year up to 5 years	0	5,100	273,664,795	343,531
more than 5 years	0	0	23,273,545	17,318
Total	**100,794,084**	186,228	**346,294,878**	507,244

The total amount of the assets denominated in other currencies is EUR 108.1 million.

(PY EUR 119.9 million). Individual value adjustments of EUR 7.9 million (PY: EUR 17.9 million) were made on loans and advances to customers amounting to EUR 8.9 million (PY: EUR 19.1 million).
The liabilities that are not payable on demand included amounts with the following maturity (remaining term):

	from banks		from non-bank financial institutions	
	31.12.2018	2017	**31.12.2018**	2017
	in €	in thousand €	in €	in thousand €
up to 3 months	25,000,000	42,501	100,248,700	108,110
more than 3 months up to 1 year	0	0	224,476,344	247,505
more than 1 year up to 5 years	0	0	292,023,761	287,358
more than 5 years	0	0	4,616,715	9,087
Total	**25,000,000**	42,501	**621,365,520**	652,060

The total amount of liabilities denominated in other currencies is EUR 0.8 million. (PY EUR 5.9 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 relative to the previous 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 are due in 2018 (PY EUR 18.8 million).
Debt instruments issued by public authorities amount to EUR 107.1 million, a reduction of EUR 15,7 million year over year. Bonds and other fixed-interest securities rose by EUR 97.1 million, from EUR 154.2 million to EUR 251.3 million. Of the bonds, EUR 46 million are due in 2019 (PY EUR 8 million).

As of the balance sheet date, the available bonds (including debt instruments) with acquisition costs of EUR 352 million (PY EUR 239 million) were valued as investment assets in accordance with § 56(1) of the BWG.

For bonds (incl. debt instruments), which are assessed as financial assets and for which acquisition costs are higher than the repayment amount, the difference is depreciated on a time-apportioned basis pursuant to section 56(2) of the BWG. In 2018, the depreciation amounted to EUR 677,000 (PY: EUR 689,000). The difference to be distributed over the remaining term amounts to EUR 3,073,000 (PY EUR 2,906,000). For bonds (including debt instruments), which are assessed as financial assets and for which acquisition costs are higher than the repayment amount, the difference to be distributed over the remaining term is recorded as income in accordance with section 56(3) of the BWG. In 2018, the appreciation amounted to EUR 1,005,000 (PY EUR 535,000).
The difference to be distributed over the remaining term is EUR 15,652,000 (PY EUR 1,369,000). 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 404,000 (PYr: EUR 473,000) 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 section 64(1)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 31.12.2018	hidden losses	Book value 31.12.2017	hidden losses
Bonds and other fixed-interest securities	**188,441**	**-7,390**	**33,039**	**-515**

The reasons for the hidden losses on the bonds relate exclusively to market price fluctuations, in particular in connection with the market situation in Turkey. The depreciation mainly affected bonds issued by the Turkish banking sector.

in thousand EUR	Book value 31.12.2018	hidden losses 31.12.2018	hidden losses 30.04.2019
Bonds of the Turkish banking sector	**71,959**	**-4,720**	**-3,808**

A review as to whether the depreciation in value will be of a lasting nature and thus an unscheduled write-down to the lower fair value pursuant to § 204 (2) second sentence UGB is necessary was carried out on the basis of the criteria set out in AFRAC Statement 14 of June 2018.

The result indicates that the depreciation is unlikely to be of a lasting nature and therefore does not have to be carried out as an unscheduled write-down (mitigated lower-of-cost-or-market principle). Furthermore, it can be seen that both price behaviour and creditworthiness are not related to individual issuers, but can be observed for the entire sector. The reason for this is the tense currency and economic situation in Turkey, which is characterised above all by the devaluation of the Turkish LIRA (TYR).

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 70.03 million (PY EUR 62.72 million). Claims against our parent company, TVB amount to EUR 52.03 million (PY EUR 35.92 million), of which EUR 19.01 million are in foreign currency (PY EUR 12.39 million). These refer primarily 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 Finansal Kiralama A.S. in the amount of EUR 18.00 million (PY EUR 20.67 million). Liabilities to our parent company total EUR 10.43 million (PY EUR 23.17 million), of which EUR 0.44 million is in foreign currency (PY EUR 4.96 million). 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 relate to the shares in S.W.I.F.T. SCRL, Belgium, in the deposit insurance of Banken und Bankiers Gesellschaft mbH and in Einlagensicherung AUSTRIA GmbH.

INFORMATION ABOUT OTHER ASSETS

The item 'Other assets' has a balance sheet value of EUR 10.01 million (PY EUR 12.73 million). This figure includes accrued interest on bonds, purchases of receivables (forfaiting) and loans in the amount of EUR 7.13 million (PY EUR 7.52 million).

DEFERRED TAXES

Deferred tax liabilities in accordance with §198(9) of the UGB amount to EUR 167,000 and are recorded under the item ‘Provisions for deferred tax liabilities’. The active deferred taxes from the previous year amounted to EUR 99,000. The deferred tax liabilities result from temporary differences in the treatment under company and tax law of the provisions for severance payments, the provision for IT expenses, the securities portfolio and the portfolio value adjustment. A corporate tax rate of 25% was applied.

INFORMATION ABOUT OTHER LIABILITIES

The item 'Other assets' has a balance sheet value of EUR 6.62 million (PY EUR 7.17 million). This includes deferred interest of EUR 3.43 million (PY EUR 4.17 million), capital gains tax liabilities of EUR 1.5 million (PY EUR 1.7 million) as well as liabilities from 'unrealised exchange losses on forward contracts' in the amount of EUR 790,000 (PY EUR 25,000).

PROVISIONS

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

	As at 01.01.2018	Utilisation	Reversal	Allocation	As at 31.12.2018
	€	€	€	€	€
Holiday provisions	251,000.00	52,227.22	41,297.47	92,858.26	250,333.57
Legal, auditing and consulting exp.	114,000.00	114,000.00	0	119,000.00	119,000.00
IT/Computer	274,099.59	57,286.38	0	58,488.36	275,301.57
various accounts	549,389.06	548,805.07	0	56,780.87	57,364.86
	1,188,488.65	772,318.67	41,297.47	327,127.49	702,000.00

EQUITY CAPITAL

Common equity tier one (EUR)	**31.12.2018**	**31.12.2017** (after consideration of net profit 2017)
1. Paid-in share capital as per article 26(1a) CRR	66,000,000	66,000,000
2. Open reserves pursuant to article 26(e) CRR		
of which capital reserves (with share capital associated with premium)	4,000,000	4,000,000
of which liable reserves	8,250,000	8,250,000
3. Reserves as per Art 26 (1) lit c		
of which retained earnings	60,414,610	60,414,610
of which attributable interim profit as per Art 26 (1) lit c in conj. with para 2 CRR	6,432,928	
Deductions as per article 36 1(b) CRR - thereof		
1. Intangible assets	-55,573	-66,833
Total tier 1 capital (EUR)	145,041,96	138,597,777

BELOW-THE-LINE ITEMS

The below-the-line items include guarantees totalling EUR 0.434 million (PY EUR 0.479 million). Unused lines of credit amount to EUR 0.385 million (PY EUR 20.21 million).

The credit institution has pledged securities with a book value of approximately EUR 46.2 million to secure its repo and tender obligations as well as loans.

VALUE ADJUSTMENT ON ACCOUNTS RECEIVABLE

The balance of value adjustments on receivables and contingent liabilities had a negative effect of EUR 586,000, of which EUR 350,000 was portfolio value adjustments.

EXPENSES OF THE BANK AUDITOR

Expenses for our bank auditor, Deloitte (and its Austrian network companies), amounted to EUR 209,000 (PY EUR 226,000) in 2018, including allocation to provisions, and can be broken down as follows:

	2018 EUR in thousand	**2017 EUR in thousand**
Audit of the annual financial statements	**90**	**95**
Other audit-related services	**63**	**14**
Tax consulting services	**53**	**63**
Other services	**3**	**54**

OTHER DISCLOSURES

Obligations arising from the use of tangible assets not disclosed in the balance sheet amount to approximately EUR 329,000 (PY EUR 362,000) for the following financial year. The total amount of commitments for the following five years is around EUR 1.6 million (PY EUR 1.8 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 2018, the contribution payment for the deposit insurance scheme resulted in a charge for a contribution to the Deposit Protection Fund (EiSij in the amount of EUR 606,000 (PY EUR 642,000), which was recorded as part of other operating expenses. The leasing expenses for motor vehicles are approximately EUR 23,000 for the following year (PY EUR 31,000) and for the following five years EUR 61,000 (PY EUR 95,000). The items for taxes on income and earnings amounted to EUR -522,000 (PY: EUR 260,000).

The total of the forward transactions not yet settled as of the balance sheet date, which consist entirely of FX swaps, amounts to EUR 107.51 million. (PY: EUR 115.95 million), and the fair value is EUR -0.35 million. (PY: EUR 2.1 million). This figure is accounted for among the other asset items (EUR 443,000) and other liabilities (EUR 790,000).

The disclosure, required under art. 431 of the CRR et seqq. is available on our homepage (www.vakifbank.at).

The item ‘Expenses for severance payments and contributions to company pension funds’ includes allocations to severance payment provisions amounting to EUR 37,000, contributions to the company pension fund amount to EUR 41,000 (PY: EUR 42,000). There were no expenses for severance payments to members of the Management Board or senior executives in this financial year.

The Management Board will propose to the Annual General Meeting that the balance sheet profit of EUR 8.1 million be included in the

profit reserve. The return on total assets in accordance with § 64(1) (19) of the BWG is 0.93%.

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

Name:	Branch in Germany (DE)
Net interest income:	EUR 288,000
Operating income	EUR 440,000
Number of employees:	6
Annual pre-tax result:	- 1.1 mil.
Taxes on income:	EUR 0
Public aid received	EUR 0

VakifBank generated interest income from lending transactions in the amount of EUR 11.7 million from its business on the Turkish market and EUR 6.2 million from securities transactions.

The exchange rate of the Euro to the Turkish Lira (TRY) changed from 4.55 as of 01.01.2018 to 6.06 as of 31.12.2018. The EUR/TRY exchange rate as of 31.05.2019 developed to 6.527. VakifBank AG has no TRY receivables worth mentioning in the books and therefore this change has no direct impact on the balance sheet. Receivables from counterparties registered in Turkey accounted for approximately 47% of total assets as of 31.12.2018. Indirect effects on the balance sheet may derive from this due to an increased need for value adjustments. Thanks to the stable financial and earnings position of VakifBank's customers in the Large Corporate segment, which is also based on realised sales revenues in foreign currencies (natural hedge effects), there were no indirect balance sheet effects due to the EUR/TRY exchange rate development after the balance sheet date.

There were no other special events after the balance sheet date.

INFORMATION ABOUT BODIES AND EMPLOYEES

The average number of employees in 2018 was 58 (PY 68).

In 2018, the Management Board consisted of the following persons:

Ahmet Vural Biyik, Chairman of the Board
Mustafa Seckin Onür, member
Kenneth Born, member until 22.03.2018
Selcuk Gözüak, member until 27.02.2018

In 2018, the Supervisory Board consisted of the following persons:

Osman Demren, chairman
Suayyip Ilbilgi, Deputy Chairman
Mustafa Turan, member
Alp Tolga Simsek, member
Ferkan Merdan, member
Neslihan Tonbul, member
Ahmet Yildiz, member until 23.05.2018
Muhammed Onay Özkan, member between 28.06.2018 and 06.08.18

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

	2018 EUR in thousand	**2017 EUR in thousand**
Executive board members	**487**	**744**
Supervisory board members	**67**	**82**

Vienna, 24 June 2019

VakifBank International AG

Ahmet V. BIYIK
Chairman of the Board, CEO

M. Seckin ONÜR
Board member, CFO/CRO