TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2018

REPORT ON REVIEW OF INTERIM CONSOLIDATED CONDENSED FINANCIAL INFORMATION

To the Board of Directors of Türk Ekonomi Bankası A.Ş.

Introduction

1. We have reviewed the accompanying interim consolidated condensed statement of financial position of Türk Ekonomi Bankası A.Ş., and its subsidiaries (collectively referred to as the "Group") as of 30 June 2018 and the related consolidated condensed statements of income, comprehensive income, changes in shareholders' equity and cash flows for six-month period then ended. Management is responsible for the preparation and presentation of this interim consolidated condensed financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim consolidated condensed financial information based on our review.

Scope of Review

2. We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

3. Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated condensed financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

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

Didem Demer Kaya, SMMM
Partner

Istanbul, 17 August 2018

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TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

INTERIM CONSOLIDATED CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Notes	30 June 2018
ASSETS		
Cash and balances with central banks		14,221,712
Financial assets at fair value through profit and loss ("FVPL")		3,499,942
Securities		966,700
Derivative financial instruments		2,533,242
Derivatives used for hedging purposes		563,799
Financial assets at fair value through other comprehensive income ("FVOCI")		3,526,655
Debt securities		3,521,040
Equity securities		5,615
Financial assets at amortised cost ("AC")		78,686,612
Loans and advances due from banks		4,743,282
Loans and advances to customers	6	69,280,103
Factoring receivables		1,973,989
Debt securities		2,689,238
Current tax asset		273
Deferred tax asset		152,319
Premises and equipment		247,371
Intangible assets		100,451
Goodwill		420,645
Other assets		1,353,972
Total assets		**102,773,751**
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits from other banks		480,149
Financial liabilities at fair value through profit and loss		2,429,601
Derivative financial instruments		2,429,601
Derivatives used for hedging purposes		34,566
Financial liabilities at amortised cost		86,676,834
Deposits from credit institutions		591,495
Customers' deposits		64,655,337
Other money market deposits		79,778
Funds borrowed		16,929,167
Debt securities	7	1,983,998
Subordinated debts		2,437,059
Current tax liability		83,776
Provisions		353,543
Other liabilities		3,011,062
Total liabilities		**93,069,531**
EQUITY		
Equity attributable to owners of the parent		**9,696,490**
Share capital issued		2,204,390
Premium in excess of par		2,565
Revaluation reserves FVOCI		(128,025)
Adjustment to share capital		200,262
Reserve for hedging funds, net of tax		382,914
Remeasurement on employee benefits		58,351
Retained earnings		6,976,033
Non-controlling interest		**7,730**
Total equity		**9,704,220**
Total liabilities and equity		**102,773,751**

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules. Due to the impracticality 2017 financial statements are presented separately.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Notes	31 December 2017
ASSETS		
Cash and balances with central banks		11,260,717
Loans and receivables due from banks		2,986,772
Other money market placements		64
Financial assets at fair value through profit and loss		1,406,172
Derivatives used for hedging purposes		87,275
Available-for-sale financial assets		4,697,133
Loans and receivables	6	61,952,197
Remeasurements adjustment on interest rate risk hedged portfolios		99
Factoring receivables		2,007,061
Held-to-maturity investments		401,854
Premises and equipment		274,634
Intangible assets		102,108
Goodwill		420,645
Deferred tax asset		216,989
Other assets		1,422,793
Total assets		**87,236,513**
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits from other banks		279,370
Customers' deposits		55,254,483
Other money market deposits		105,206
Financial liabilities at fair value through profit and loss		958,077
Derivatives used for hedging purposes		443,331
Factoring payables		3,436
Debt securities	7	1,289,688
Funds borrowed:		
- Subordinated debt		2,311,415
- Other funds borrowed		14,724,400
Other liabilities		2,291,684
Provisions		282,010
Income taxes payable		80,308
Total liabilities		**78,023,408**
EQUITY		
Equity attributable to owners of the parent		**9,204,711**
Share capital issued		2,204,390
Premium in excess of par		2,565
Adjustment to share capital		200,262
Unrealized gains/(losses) on available-for-sale investments, net of tax		(38,188)
Reserve for hedging funds, net of tax		136,593
Remeasurement on employee benefits		58,351
Other reserves		1,084,258
Retained earnings		5,556,480
Non-controlling interest		**8,394**
Total equity		**9,213,105**
Total liabilities and equity		**87,236,513**

INTERIM CONSOLIDATED CONDENSED STATEMENT OF INCOME FOR THE PERIOD ENDED 30 JUNE 2018

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Notes	1 January - 30 June 2018
Interest income		
Interest income on loans measured at AC		4,432,156
Interest income on debt securities measured at AC		165,477
Interest income on debt securities at FVOCI		188,761
Interest income on debt securities at FVPL		65,306
Interest on loans and receivables due from banks measured at AC		165,551
Interest on other money market placements measured at AC		61,506
Interest on hedging derivatives		536,744
Total interest income		**5,615,501**
Interest expense		
Interest expense on customer deposits		(2,204,916)
Interest expense on subordinated debt issued		(60,056)
Interest on other money market deposits		(5,290)
Interest on marketable securities issued		(132,577)
Interest on funds borrowed and deposits from other banks		(401,626)
Interest on hedging derivatives		(506,836)
Total interest expense		**(3,311,301)**
Net interest income		**2,304,200**
Fees and commissions and other operating income		
Fees and commissions income		917,490
Fees and commissions expenses		(329,784)
Net loss on financial instruments at fair value through profit or loss		(350,965)
Net gain on investment securities		149
Net losses from other activities		(791)
Net banking income		**2,540,299**
Operating expenses		
Salaries and employee benefits expense		(662,935)
Other operating expenses		(433,401)
Depreciation and amortization expense		(68,911)
Taxes other than on income		(37,313)
Gross operating income		**1,337,739**
Provisions for impairment of loan, factoring receivables, net of recoveries		(388,216)
Operating income		**949,523**
Gains on sale of fixed assets and investment, net		7
Pre-tax income		**949,530**
Income tax – current		(97,644)
Income tax – deferred		(112,120)
Net profit for the period from continuing operations		**739,766**
Attributable to:		
Equity holders of the Parent		738,934
Non-controlling interest		832
Net Profit		**739,766**
Basic earnings per share (full TL)		0.3352
Diluted earnings per share (full TL)		0.3352
Basic and diluted earnings per share from continuing operations (full TL)		0.3352

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules. Due to the impracticality 2017 financial statements are presented separately.

INTERIM CONSOLIDATED CONDENSED STATEMENT OF INCOME FOR THE PERIOD ENDED 30 JUNE 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Notes	1 January - 30 June 2017
Interest income		
Interest on loans and receivables		3,384,448
Interest on securities		292,419
-Interest on available-for-sale		243,143
-Interest on held for trading		17,735
-Interest on held-to-maturity		31,541
Interest on due from banks		84,995
Interest on other money market placements		59,722
Interest income on hedging derivatives		379,583
Other interest income		748
Total interest income		**4,201,915**
Interest expense		
Interest on customer deposits		(1,536,206)
Interest on other money market deposits		(14,462)
Interest on debt securities		(26,149)
Interest on funds borrowed and deposits from other banks		(208,497)
Interest on hedging derivatives		(402,847)
Total interest expense		**(2,188,161)**
Net interest income		**2,013,754**
Fees and commissions and other operating income		
Fees and commissions income		764,678
Fees and commissions expenses		(253,281)
Net loss on financial instruments at fair value through profit or loss		(486,358)
Net gain on investment securities		5,563
Net losses from other activities		(7,238)
Net banking income		**2,037,118**
Operating expenses		
Salaries and employee benefits expense		(598,214)
Other operating expenses		(396,345)
Depreciation and amortization expense		(66,486)
Taxes other than on income		(50,755)
Gross operating income		**925,318**
Provisions for impairment of loan, factoring receivables, net of recoveries		(360,262)
Net operating income		**565,056**
Gains on sale of fixed assets and investment, net		122
Profit from operating activities before income tax		**565,178**
Income tax – current		(217,261)
Income tax – deferred		100,003
Net profit for the period from continuing operations		**447,920**
Attributable to :		
Equity holders of the Parent		447,335
Non-controlling interest		585
Net Profit		**447,920**
Basic earnings per share (full TL)		0.2029
Diluted earnings per share (full TL)		0.2029
Basic and diluted earnings per share from continuing operations (full TL)		0.2029

The accompanying policies and explanatory notes are an integral part of these consolidated condensed financial statements.

INTERIM CONSOLIDATED CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 JUNE 2018

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	1 January - 30 June 2018
Profit for the period	**739,766**
Other comprehensive income	
Items that are or may be reclassified to profit or loss	**152,061**
Fair value gains / (losses) on financial assets at fair value through other comprehensive income (net of tax)	(94,260)
Net change in fair values	(94,260)
Net amount transferred to income	-
Cash flow hedge (Effective portion of changes in fair value), (net of tax)	246,321
Items that will not be reclassified to profit or loss	**-**
Remeasurement of post-employment benefits obligation, (net of tax)	-
Other comprehensive (loss) / income for the period, net of tax	**152,061**
Total comprehensive income for the period, net of tax	**891,827**
Attributable to:	
Owners of the Parent	891,065
Non-controlling interest	762
Total comprehensive income for the period	**891,827**

	1 January - 30 June 2017
Profit for the period	**447,920**
Other comprehensive income	
Items that are or may be reclassified to profit or loss	**11,811**
Fair value gains / (losses) on available-for-sale financial assets, (net of tax)	16,511
Net change in fair values	20,223
Net amount transferred to income	(3,712)
Cash flow hedge (Effective portion of changes in fair value), (net of tax)	(4,700)
Items that will not be reclassified to profit or loss	-
Remeasurement of post-employment benefits obligation, (net of tax)	-
Other comprehensive (loss) / income for the period, net of tax	**11,811**
Total comprehensive income for the period, net of tax	**459,731**
Attributable to:	
Owners of the Parent	459,125
Non-controlling interest	606
Total comprehensive income for the period	**459,731**

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules. Due to the impracticality 2017 financial statements are presented separately.

The accompanying policies and explanatory notes are an integral part of these consolidated condensed financial statements.

INTERIM CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIOD ENDED 30 JUNE 2018

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

		Attributable to owners of the parent											
	Notes	Share capital	Premium in excess of par	Adjustment to share capital	Other capital reserves	Unrealized gains/(losses) on available-for-sale investments, net of tax	Reserve for hedging funds	Remeasurements on employee benefits	Legal reserves	Retained earnings	Total equity attributable to equity holders of the Parent	Non-controlling Interest	Total equity
At 31 December 2016		**2,204,390**	**2,565**	**200,262**	**1,084,258**	**(57,484)**	**30,509**	**33,673**	**277,392**	**4,379,112**	**8,154,677**	**7,823**	**8,162,500**
Dividend paid		-	-	-	-	-	-	-	-	-	-	(1,045)	(1,045)
Transfer to legal reserves		-	-	-	-	-	-	-	49,338	(49,338)	-	-	-
Profit for the period		-	-	-	-	-	-	-	-	447,335	447,335	585	447,920
Other comprehensive income for the period		-	-	-	-	16,490	(4,700)	-	-	-	11,790	21	11,811
Total comprehensive income		-	-	-	-	16,490	(4,700)	-	-	447,335	459,125	606	459,731
At 30 June 2017		**2,204,390**	**2,565**	**200,262**	**1,084,258**	**(40,994)**	**25,809**	**33,673**	**326,730**	**4,777,109**	**8,613,802**	**7,384**	**8,621,186**

		Attributable to owners of the parent											
	Notes	Share capital	Premium in excess of par	Adjustment to share capital	Other capital reserves	Financial instruments designated as at fair value through equity	Reserve for hedging funds	Remeasurements on employee benefits	Legal reserves	Retained earnings	Total equity attributable to equity holders of the Parent	Non-controlling Interest	Total equity
At 31 December 2017		**2,204,390**	**2,565**	**200,262**	**1,084,258**	**(38,188)**	**136,593**	**58,351**	**326,730**	**5,229,750**	**9,204,711**	**8,394**	**9,213,105**
First time adoption impact of IFRS 9,net	4	-	-	-	-	4,353	-	-	-	(303,639)	(299,286)	-	(299,286)
At 1 January 2018		**2,204,390**	**2,565**	**200,262**	**1,084,258**	**(33,835)**	**136,593**	**58,351**	**326,730**	**4,926,111**	**8,905,425**	**8,394**	**8,913,819**
Dividend paid		-	-	-	-	-	-	-	-	(100,000)	(100,000)	(1,426)	(101,426)
Transfer to legal reserves		-	-	-	-	-	-	-	55,613	(55,613)	-	-	-
Profit for the period		-	-	-	-	-	-	-	-	738,934	738,934	832	739,766
Other comprehensive income for the period		-	-	-	-	(94,190)	246,321	-	-	-	152,131	(70)	152,061
Total comprehensive income		-	-	-	-	(94,190)	246,321	-	-	738,934	891,065	762	891,827
At 30 June 2018		**2,204,390**	**2,565**	**200,262**	**1,084,258**	**(128,025)**	**382,914**	**58,351**	**382,343**	**5,509,432**	**9,696,490**	**7,730**	**9,704,220**

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules. Due to the impracticality 2017 financial statements are presented separately.

The accompanying policies and explanatory notes are an integral part of these consolidated condensed financial statements.

INTERIM CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2018

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	1 January - 30 June 2018
Cash flows from operating activities	
Interest received	5,203,224
Interest paid	(3,187,379)
Fees and commissions received	931,744
Trading loss	(1,829,239)
Collection from impaired loans	472,506
Fees and commissions paid	(329,784)
Cash payments to employees and other parties	(652,176)
Other operating expenses	(1,028,831)
Income taxes paid	(89,816)
Cash flows from operating activities before changes in operating assets and liabilities	**(509,751)**
Changes in operating assets and liabilities	
Net (increase) in financial assets through profit and loss	(493,087)
Net (increase) in reserve deposits at central banks	(1,920,144)
Net decrease in loans and advances due from banks	134,688
Net (increase) in loans and advances to customers	(7,857,554)
Net decrease in factoring receivables	27,142
Net (increase) in other assets	(34,652)
Net increase in deposits from credit institutions	792,181
Net increase in deposits from customers	9,330,597
Net (decrease) in other money market deposits	(25,400)
Net (decrease) in factoring payables	(543)
Net increase in other liabilities	1,020,093
Net cash used in operating activities	**973,321**
Cash flows from investing activities	
Purchases of securities at FVOCI	(958,041)
Proceeds from sale and redemption of securities at FVOCI	315,231
Purchases of securities at amortised cost	(319,022)
Proceeds from sale and redemption of securities at amortised cost	41,885
Purchases of property, plant and equipment	(12,630)
Proceeds from the sale of premises and equipment	26
Purchases of intangible assets	(27,215)
Net cash provided / (used in) by investing activities	**(959,766)**
Cash flows from financing activities	
Proceeds from funds borrowed and issued debt securities	14,954,547
Repayment of funds borrowed and issued debt securities	(11,595,659)
Dividends paid to equity holders of the parent	(101,426)
Net cash provided by financing activities	**3,257,462**
Effect of net foreign exchange difference on cash and cash equivalents	161,126
Net (increase) / decrease in cash and cash equivalents	2,922,392
Cash and cash equivalents at the beginning of the period	5,960,236
Cash and cash equivalents at the end of the period	**8,882,628**

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules. Due to the impracticality 2017 financial statements are presented separately.

INTERIM CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 JUNE 2017

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	1 January - 30 June 2017
Cash flows from operating activities	
Interest received	4,232,314
Interest paid	(2,080,921)
Fees and commissions received	780,007
Trading loss	(599,620)
Recoveries of impairment of loan, lease and factoring receivables	334,715
Fees and commissions paid	(253,281)
Cash payments to employees and other parties	(530,316)
Other operating expenses	(720,274)
Income taxes paid	(158,860)
Cash flows from operating activities before changes in operating assets and liabilities	**1,003,764**
Changes in operating assets and liabilities	
Net decrease in trading securities	30,222
Net (increase) in reserve deposits at central banks	(261,776)
Net decrease in loans and receivables due from banks	1,473,610
Net (increase) in loans and receivables	(4,229,526)
Net decrease in factoring receivables	273,352
Net (increase) in other assets	(578,003)
Net increase in deposits from banks	1,404,125
Net increase in customers' deposits	158,468
Net (decrease) in other money market deposits	(1,085,808)
Net (decrease) in factoring payables	(7,769)
Net increase in other liabilities	690,533
Net cash used in operating activities	**(2,132,572)**
Cash flows from investing activities	
Purchases of available- for- sale securities	(1,193,295)
Proceeds from sale and redemption of available-for-sale securities	1,709,012
Purchases of property and equipment	(31,970)
Purchases of intangible assets	(18,959)
Net cash provided / (used in) by investing activities	**464,788**
Cash flows from financing activities	
Proceeds from funds borrowed and debt securities	7,610,119
Repayment of funds borrowed and debt securities	(9,006,105)
Net cash provided by financing activities	**(1,395,986)**
Effect of net foreign exchange difference on cash and cash equivalents	116,136
Net (increase) / decrease in cash and cash equivalents	(1,943,870)
Cash and cash equivalents at the beginning of the period	7,420,600
Cash and cash equivalents at the end of the period	**5,476,730**

The accompanying policies and explanatory notes are an integral part of these consolidated condensed financial statements.

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

1. CORPORATE INFORMATION

General

Türk Ekonomi Bankası Anonim Şirketi ("TEB" or "The Bank"), which had been a local bank incorporated in Kocaeli in 1927 under the name of Kocaeli Halk Bankası T.A.Ş., was acquired by the Çolakoğlu Group in 1982. Its title was changed as Türk Ekonomi Bankası A.Ş. and its headquarters moved to İstanbul. On 10 February 2005, BNP Paribas took over 50% of shares of TEB Holding A.Ş. Consequently, BNP Paribas became indirect shareholder of TEB with 42.125% ownership. In 2009, BNP Paribas Group successively acquired 75% of Fortis Bank Belgium and 66% of Fortis Bank Luxembourg and became the shareholder holding the majority of the shares of Fortis Bank Turkey. The indirect majority shareholders of TEB which are BNP Paribas and Çolakoğlu Group have agreed on the merger of TEB and Fortis Bank under the trademark of TEB and following the authorizations obtained from the regulatory authorities on 14 February 2011 the legal merge of two banks has been performed. As a result of the merger TEB Holding has the majority stake of 55% in TEB and Çolakoğlu Group and BNP Paribas have 50% shares in TEB Holding.

The shareholders' structure and their respective ownerships are summarized below as of 30 June 2018 together with the comparative information as of 31 December 2017:

	30 June 2018		31 December 2017	
Name of shareholders	**Paid in capital**	**%**	**Paid in capital**	**%**
TEB Holding A.Ş.	1,212,415	55.00	1,212,415	55.00
BNP Yatırımlar Holding A.Ş.	518,342	23.51	518,342	23.51
BNP Paribas Fortis Yatırımlar Holding A.Ş.	467,879	21.23	467,879	21.23
BNP Paribas SA	5,253	0.24	5,253	0.24
Kocaeli Ticaret Odası	501	0.02	501	0.02
	2,204,390	**100.00**	**2,204,390**	**100.00**

TEB Holding A.Ş. is a member of both Çolakoğlu and BNP Paribas groups. 50% of the shares of TEB Holding A.Ş. are controlled by BNP Paribas, while the remaining 50% is controlled by Çolakoğlu Group. BNP Paribas Fortis Yatırımlar Holding A.Ş. is controlled by BNP Paribas Fortis NV/SA whose shareholders are BNP Paribas Fortis NV/SA by 100% shares, respectively. 100% of the shares of BNP Yatırımlar Holding are controlled by BNP Paribas SA.

As of 30 June 2018, the Bank's paid-in-capital consists of 2,204,390,000 shares of TL1.00 (full TL) nominal each.

The registered office address of TEB is TEB Kampüs C ve D Blok, Saray Mahallesi, Sokullu Caddesi, No: 7A-7B Ümraniye-İstanbul/Turkey.

For the purposes of the accompanying consolidated financial statements, the Bank and its consolidated subsidiaries are referred to as the "Group".

The interim consolidated condensed financial statements of the Group were authorized for issuance by Board of Directors on 17 August 2018.

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

1. CORPORATE INFORMATION (continued)

Nature of Activities of the Group

The operations of the Group consist of banking, factoring, securities brokerage and portfolio management, which are conducted mainly for local customers.

The subsidiaries included in the consolidation and the effective shareholding percentages of the Group as of 30 June 2018 and 31 December 2017 are as follows:

	Place of Incorporation	**Effective Shareholding And Voting Rights %**	
		30 June 2018	**31 December 2017**
TEB Yatırım Menkul Değerler A.Ş. (TEB Yatırım)	Turkey	100.00	100.00
TEB Faktoring A.Ş.	Turkey	100.00	100.00
TEB Portföy Yönetimi A.Ş. (TEB Portföy)	Turkey	54.74	54.74

The principal activities of the consolidated subsidiaries are as follows:

TEB Yatırım – Rendering fixed income and equity brokerage and corporate finance services in line with the rules of the Capital Markets Board of Turkey.

TEB Faktoring – Providing both domestic and export factoring services to industrial and commercial enterprises in Turkey.

TEB Portföy – Managing individual customer portfolios and mutual funds which consist of capital market instruments.

Stichting TEB Diversified Payment Rights and TEB Diversified Payment Rights S.A., which are not subsidiary of the Bank but over which the Bank has controlling power, have been included in the consolidation due to the reason that these companies are "Structured Entity".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The interim consolidated condensed financial statements as of 30 June 2018 have been prepared in accordance with IAS 34 (Interim Financial Reporting). The interim consolidated condensed financial statements do not include all the information and disclosures required in the annual financial statement and should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2017. The accounting policies and methods of computation adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:

- IFRS 9 *Financial Instruments,* and
- IFRS 15 *Revenue from Contracts with Customers.*

The impact of the adoption of these standards and the new accounting policies are disclosed below in note 4 and 2.2 respectively. The other standards did not have any impact on the Group's accounting policies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Accounting Policies, Judgements and Estimates

Financial Assets

The Group classifies and recognizes its financial assets as “Financial Assets at Fair Value Through Profit or Loss”, “Financial Assets Measured at Fair Value Through Other Comprehensive Income” or “Financial Assets Measured at Amortised Cost”. The financial assets are recognized or derecognized in accordance with the “Recognition and Derecognition” principles defined in Section 3 related to the classification and measurement of financial instruments of "IFRS 9 Financial Instruments". At initial recognition, financial assets are measured at fair value. In the case if financial assets are not measured at fair value through profit or loss, transaction costs are added or deducted to/from their fair value.

The Group recognizes a financial asset in the financial statements when, and only when, the Group becomes a party to the contractual provisions of the instrument. When the Group first recognizes a financial asset, the business model and the characteristics of contractual cash flows of the financial asset are considered by management.

Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss are financial assets that are managed by business model other than the business model that aims to “hold to collect” and “hold & sell” the contractual cash flows; acquired for the purpose of generating profit from short-term fluctuations in price, or regardless of this purpose, the financial assets that are a part of a portfolio with evidence of short-time profit-taking; and the financial assets, whose terms do not give rise to cash flows that are solely payments of principal of interest. Financial assets at fair value through profit or loss are initially recognized at fair value and are subsequently measured at fair value. Gains and losses upon their revaluation are recognized in profit or loss.

Equity securities classified as financial assets at fair value through profit or loss are carried at fair value.

Financial Assets at Fair Value Through Other Comprehensive Income

Debt instruments are classified as financial assets at fair value through other comprehensive income where the business models aim to hold financial assets in order to collect the contractual cash flows and selling assets and the terms of financial asset give rise to cash flows that are solely payments of principal of interest.

Financial assets at fair value through other comprehensive income are initially recognized at their fair value plus transaction costs, if any. Financial assets at fair value through other comprehensive income are subsequently measured at their fair value. The interest income on debt instruments at fair value through other comprehensive income that is calculated using the effective interest method is reflected in the statement of income. The difference between the fair value of the debt instruments at fair value through other comprehensive income and the amortized cost of the financial assets, net of expected loss impairment allowance, i.e. "Unrealized gains and losses", is not recognized in the statement of income until the realization of the financial asset, i.e. the sale of the asset or its other disposal.

The Group may elect, at initial recognition, to irrevocably designate an equity investments at fair value through other comprehensive income where those investments are held for purposes other than to generate investments returns. When this election is used, fair value gains and losses are recognized in other comprehensive income and are not subsequently reclassified to profit or loss. Dividends that represent a return on the investment continue to be recognized in profit or loss in the financial statements.

All equity instruments classified as financial assets at fair value through other comprehensive income are measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Accounting Policies, Judgements and Estimates (continued)

Financial Assets (continued)

Financial Assets Measured at Amortised Cost

Financial investments measured at amortised cost:

A financial asset is classified as a financial asset measured at amortized cost when it is held within a business model to collect contractual cash flows and the terms give rise to cash flows that are solely payments of principal of interest.

Financial assets measured at amortised cost are initially recognized at fair value plus transaction costs, if any, and are subsequently measured at amortised cost by using the effective interest method. Interest income on financial assets measured at amortized cost is recognized in the statement of income.

Loans:

Loans are classified as a financial asset measured at amortized cost when it is held within a business model to collect contractual cash flows and the terms give rise to cash flows that are solely payments of principal of interest. Loans that give rise to cash flows that are not solely payments of principal and interest are carried at fair value through profit or loss.

Recognition and Derecognition of Financial Instruments

The Group recognizes a financial asset or financial liability in the statement of financial position only when it becomes a party to the contractual provisions of the instrument.

The Group recognizes all regular way purchases and sales of financial assets on the settlement date i.e. the date that the asset is delivered. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets i.e. for assets carried at cost or amortized cost; change in value is not recognized.

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when the rights to receive cash flows from the asset have expired; or while retaining the right to receive cash flows from the asset the Group has also assumed an obligation to pay them in full without material delay to a third party; or the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has transferred the control of the asset.

The Group does not have any assets where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset that is recognized to the extent of the Group's continuing involvement in the asset.

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expires.

When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Accounting Policies, Judgements and Estimates (continued)

Impairment Of Financial Assets Measured At Amortised Cost And Debt Instruments Measured At Fair Value Through Shareholders' Equity

The Group has replaced its credit calculation method with the expected credit loss model as of 1 January 2018. Expected credit losses include an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. The model considers reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions and the time value of money.

This model applies to loans and debt instruments measured at amortized cost or fair value through equity, to loan commitments and financial guarantee contracts that are not recognized at fair value.

General model

The Group identifies three ‘stages’ that correspond each to a specific status with regards to the evolution of counterparty credit risk since the initial recognition of the asset.

- 12-month expected credit losses (‘stage 1’): If at the reporting date, the credit risk of the financial instrument has not increased significantly since its initial recognition, this instrument is impaired at an amount equal to 12-month expected credit losses (resulting from the risk of default within the next 12 months).

- Lifetime expected credit losses for non-impaired assets (‘stage 2’): The loss allowance is measured at an amount equal to the lifetime expected credit losses if the credit risk of the financial instrument has increased significantly since initial recognition, but the financial asset is not credit impaired.

- Lifetime expected credit losses for credit-impaired financial assets (‘stage 3’): when an asset is “credit-impaired”, the loss allowance is also measured for an amount equal to the lifetime expected credit losses.

This general model is applied to all instruments within the scope of IFRS 9 impairment.

The IFRS 9 expected credit loss approach is symmetrical, i.e. if lifetime expected credit losses have been recognized in a previous reporting period, and if it is assessed in the current reporting period that there is no longer any significant increase in credit risk since initial recognition, the loss allowance reverts to a 12-months expected credit loss.

Definition of default

The definition of default is aligned with the BRSA regulatory default definition, with a rebuttable presumption that the default occurs no later than 90 days past-due. The definition of default is used consistently for assessing the increase in credit risk and measuring expected credit losses.

Credit impaired financial assets
Definition

A financial asset is credit-impaired and classified in ‘stage 3’ when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

At an individual level, objective evidence that a financial asset is credit impaired includes observable data regarding the following events: the existence of accounts that are more than 90 days past due; knowledge or indications that the borrower meets significant financial difficulties, such that a risk can be considered to have arisen regardless of whether the borrower has missed any payments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Accounting Policies, Judgements and Estimates (continued)

Impairment Of Financial Assets Measured At Amortised Cost And Debt Instruments Measured At Fair Value Through Shareholders' Equity (continued)

Significant increase in credit risk

Significant increase in credit risk is assessed on an individual basis taking into account all reasonable and supportable information and comparing the risk of default of the financial instrument at the reporting date with the risk of default of the financial instrument at the date of initial recognition.

Assessment of deterioration is based on the comparison of the probabilities of default or the ratings on the date of initial recognition with those existing at the reporting date.

There is also, according to the standard, a rebuttable presumption that the credit risk of an instrument has significantly increased since initial recognition when the contractual payments are more than 30 days past due.

Measurement of expected credit losses

Expected credit losses are defined as an estimate of credit losses (i.e. the present value of all cash shortfalls) weighted by the probability of occurrence of these losses over the expected life of financial instrument. They are measured on an individual basis, for all exposures.

In practice, for exposures classified in stage 1 and stage 2, expected credit losses are measured as the product of the probability of default (“PD”), loss given default (“LGD”) and exposure at default (“EAD”), discounted at the effective interest rate of the exposure (EIR). They result from the risk of default within the next 12 months (stage 1), or from the risk of default over the maturity of the facility (stage 2).

For exposures classified in stage 3, expected credit losses are measured as the value, discounted at the effective interest rate, of all cash shortfalls over the life of the financial instrument. Cash shortfalls represent the difference between the cash-flows that are due in accordance with the contract, and the cash-flows that are expected to be received.

Maturity

All contractual terms of the financial instrument (including prepayment, extension and similar options) over the life of the instrument are taken into account.

The Standard specifies that the maximum period to consider when measuring expected credit losses is the maximum contractual period. However, for some products, in accordance with the exception provided by IFRS 9, the maturity assumptions are utilized, like revolving loans, credit cards, etc.

Probabilities of Default (PD)

The Probability of Default is an estimate of the likelihood of default over a given time horizon.

The measurement of expected credit losses requires the estimation of both 1 year probabilities of default and lifetime probabilities of default:

- 1 year PDs are derived from long term average “through the cycle” PDs to reflect the current situation (“point in time” or “PIT”).
- Lifetime PDs are determined from the rating migration matrices reflecting the expected rating evolution of the exposure until maturity, and the associated probabilities of default.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Accounting Policies, Judgements and Estimates (continued)

Impairment Of Financial Assets Measured At Amortised Cost And Debt Instruments Measured At Fair Value Through Shareholders' Equity (continued)

Loss Given Default (LGD)

The Loss Given Default is the difference between the contractual cash-flows and the expected cash-flows, discounted using the effective interest rate at the default date. The LGD is expressed as a percentage of the EAD.

Exposure at Default (EAD)

The Exposure at Default (EAD) of an instrument is the anticipated outstanding amount owed by the obligor at the time of default.

Forward looking

The amount of expected credit losses is measured on the basis of probability-weighted scenarios, in view of past events, current conditions and reasonable and supportable economic forecasts.

Fees and Commission Income and Expenses

Fees and commissions other than those that are an integral part of the effective interest of the financial instruments measured at amortized cost are accounted in accordance with the Standard IFRS 15, Revenue from Contracts with Customers.

Fees and commissions on banking services, which are not an integral part of the effective interest, are recorded as income when they are earned.

All types of fees and commissions from customers related to cash loans, net of related transaction costs, are deferred in “commissions on cash loans” account and are recognized as part of interest income over the period of the loan using the effective interest method.

Bank assurance commission income from insurance companies are recognised as income on an accrual basis as the related service is provided.

The commissions on guarantees and credit related commitments or fees for periodic banking services, are deferred and recorded as income over the commitment period, except when a loan commitment is expected to result in a specific loan, in which case the fees is an integral part of the effective interest method. Credit fees and commission expenses paid to other companies and institutions regarding financial liabilities are discounted by effective interest rate and are recorded as expenses in the relevant period on accrual basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Explanations on Prior Period Accounting Policies not Valid for the Current Period

Financial Assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments and available-for-sale financial assets. When financial assets are recognized initially, they are measured at fair value. The Group determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets classified as held-for-trading are included in this category. Trading securities are securities, which were either acquired for generating a profit from short term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short term profit taking exist. Derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. The financial assets held for trading are recognized as at fair value and gains or losses upon valuation are recognized in profit/loss. Interest on trading securities calculated using the effective interest method is presented in profit or loss as interest income.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an undefined period are not included in this classification. The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgments. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances such as selling an insignificant amount close to maturity - it will be required to classify the entire class as available-for-sale. The investments would therefore be measured at fair value; not amortized cost. There has been no tainting in the held-to-maturity portfolio during the current period.

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

Interest earned whilst holding held-to-maturity securities is reported as interest income.

When financial assets are transferred to held-to-maturity category from available-for-sale portfolio, as a result of a change in intention, the fair value carrying amount of the related financial assets becomes the new amortized cost. Any previous gain or losses on those assets that have been recognized in equity are amortized over the remaining life of the held-to-maturity investments using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Explanations on Prior Period Accounting Policies not Valid for the Current Period (continued)

Impairment of Financial Assets

a) Assets carried at amortized cost

In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated amounts recoverable from a portfolio of loans and individual loans. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

(a) significant financial difficulty of the issuer or obligor;
(b) a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
(c) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
(d) becoming probable that the borrower will enter bankruptcy or other financial reorganization;
(e) the disappearance of an active market for that financial asset because of financial difficulties; or
(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
    (i) adverse changes in the payment status of borrowers; or
    (ii) national or local economic conditions that correlate with defaults on the assets in the group.

Loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured based on the difference between the carrying amount and the estimated recoverable amount of the asset, determined by the net present value of the expected future cash flows discounted at the loan's original effective interest rate. The estimated recoverable amount of a collateralized financial asset is measured based on the amount that is expected to be realized from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in the income statement.

The Group first assesses whether objective evidence for impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence for impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognized in income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

A write off is made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Write offs are charged against previously established allowances and reduce the principal amount of a loan. Subsequent recoveries of amounts previously written off are included in income.

The methodology and assumptions used for estimating both the amount and timing of recoverable amounts are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The total carrying value of such loans and factoring receivables as of 31 December 2017 is TL63,959,258 (31 December 2016: TL57,068,949) with the impairment allowance of TL1,887,228 (31 December 2016: TL1,737,021).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Explanations on Prior Period Accounting Policies not Valid for the Current Period (continued)

Impairment of Financial Assets (continued)

b) Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value since its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the carrying amount and the present value of the recoverable amount of the asset. There is no impairment recorded related to assets carried at cost.

c) Available-for-sale financial assets

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from other comprehensive income to the income statement. Reversals of impairment losses on debt instruments are reversed through profit or loss; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Such assets are carried at amortized cost using the effective interest method less any impairment in value. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned on such loans and receivables is reported as interest income.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses on remeasurement to fair value are recognized as a separate component of other comprehensive income until the investment is derecognized, or until the investment is determined to be impaired, at the time the cumulative gain or loss previously reported in other comprehensive income is included in the income statement. However, interest calculated on available-for-sale financial assets using effective interest method is reported as interest income.

For investments that are traded in an active market, fair value is determined by reference to stock exchange or current market bid prices, at the close of business on the balance sheet date. For investments where there is no market price or market price is not an indicator of the fair value of the instrument, fair value is determined by reference to the current market value of substantially the same instrument, by recent arm's length transactions, by discounted cash flow analysis or through other valuation techniques commonly used.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 New and Revised International Financial Reporting Standards

a) Standards, amendments and interpretations applicable as at 30 June 2018:

i) **IFRS 9, 'Financial instruments';** effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model. Refer to the section 2.2 for new accounting policies based on IFRS 9.

ii) **IFRS 15, 'Revenue from contracts with customers';** effective from annual periods beginning on or after 1 January 2018. IFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard improves the financial reporting of revenue and comparability of the top line in financial statements globally.

iii) **Amendment to IFRS 15, 'Revenue from contracts with customers'**, effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.

iv) **Amendments to IFRS 4, 'Insurance contracts'** regarding the implementation of IFRS 9, 'Financial Instruments'; effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard is not relevant to the Group.

v) **Amendment to IAS 40, 'Investment property'** relating to transfers of investment property; effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

vi) **Amendments to IFRS 2, 'Share based payments'** on clarifying how to account for certain types of share-based payment transactions; effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

vii) **Annual improvements 2014-2016;** effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:

- IFRS 1, 'First time adoption of IFRS', regarding the deletion of short-term exemptions for first-time adopters regarding IFRS 7, IAS 19 and IFRS 10,

- IAS 28, 'Investments in associates and joint venture' regarding measuring an associate or joint venture at fair value.

viii) **IFRIC 22, 'Foreign currency transactions and advance consideration';** effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 New and Revised International Financial Reporting Standards (continued)

b) ***Standards, amendments and interpretations that are issued but not effective as at 30 June 2018:***

i) **Amendment to IFRS 9, 'Financial instruments';** effective from annual periods beginning on or after 1 January 2019. This amendment confirms that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.

ii) **Amendment to IAS 28, 'Investments in associates and joint venture';** effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using IFRS 9.

iii) **IFRS 16, 'Leases';** effective from annual periods beginning on or after 1 January 2019, with earlier application permitted if IFRS 15'Revenue from Contracts with Customers' is also applied. This standard replaces the current guidance in IAS 17 and is a far- reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right of use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Bank has started to work on compliance with the IFRS 16 Leases Standard effective from 1 January 2019 and continues its works in order to comply with related standard.

iv) **IFRIC 23, 'Uncertainty over income tax treatments';** effective from annual periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The IFRS IC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

v) **IFRS 17, 'Insurance contracts';** effective from annual periods beginning on or after 1 January 2021. This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 New and Revised International Financial Reporting Standards (continued)

b) ***Standards, amendments and interpretations that are issued but not effective as at 30 June 2018: (continued)***

vi) **Annual improvements 2015-2017;** effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:

- IFRS 3, 'Business combinations', – a company remeasures its previously held interest in a joint operation when it obtains control of the business.
- IFRS 11, 'Joint arrangements', – a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- IAS 12, 'Income taxes' – a company accounts for all income tax consequences of dividend payments in the same way.
- IAS 23, 'Borrowing costs' – a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

vii) **Amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement';** effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:

- use updated assumptions to determine current service cost and net interest for the reminder of the period after a plan amendment, curtailment or settlement; and
- recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

The new standards, amendments and interpretations which will be effective after 1 January 2018 are not expected to have a material impact on the Group's consolidated financial statements, except IFRS 16. The Group is still assessing the impact of IFRS 16 Leases Standard, which will be effective from 1 January 2019.

The preparation of interim consolidated condensed financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these interim consolidated condensed financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017, except for the adoption of IFRS 9, Financial Instruments.

Impairment testing

As a Group policy, management performs impairment test for goodwill on an annual basis. The recoverable amount of cash generating units, which is determined by discounting the future cash flows, exceeded the carrying amount of the cash generating units including goodwill. Accordingly no grounds were identified for impairment charge as of 31 December 2017.

Management believes that all of its management estimates and key assumptions which were used for impairment testing as of 31 December 2017 are still reasonable and there is no significant change in any of the key assumptions which would cause the carrying value materially to exceed its recoverable amount as of 30 June 2018.

3. SIGNIFICANT EVENTS AND TRANSACTIONS DURING THE PERIOD

None.

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

4. IMPACTS OF PRESENTATION CHANGES AND OF THE FIRST TIME ADOPTION OF IFRS 9

"IFRS 9 Financial Instruments", which is effective from 1 January 2018 has been applied. The aim of the standard is to determine the financial reporting principles on financial assets and financial liabilities. The Group has applied the classification, measurement and impairment requirements by adjusting the opening balance sheet and opening equity at 1 January 2018, without restatement of the comparative financial statements.

IFRS 9 sets out the new principles for the classification and measurement of financial instruments, impairment for credit risk on financial assets and hedge accounting. IFRS 9 permits not to apply the standard's principles on hedge accounting and to continue to apply hedge accounting principles of IAS 39. The Bank continues to comply with all principles of IAS 39 for hedge accounting based on the analyzes made so far.

The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules. Due to the impracticality 2017 financial statements are presented separately.

a) Classification and measurement of financial instruments

According to IFRS 9, each financial asset will be classified as either amortized cost, fair value through profit or loss ("FVPL"), or fair value through other comprehensive income ("FVOCI") in accordance with the business model and the contractual cash flow characteristics. The business model is determined by the Bank in terms of the manner in which assets are managed and their performance is reported.

	Before IFRS 9		**After IFRS 9**	
	Basis of Measurement	**Book value**	**Basis of Measurement**	**Book value**
Financial Assets		**31 December 2017**		**1 January 2018**
Cash and balances with central banks	Amortised cost	11,260,717	Amortised cost	11,258,408
Loans and advances due from banks	Amortised cost	2,986,772	Amortised cost	2,979,799
Securities	Fair value through comprehensive income	4,697,133	Fair value through comprehensive income	2,681,908
	Fair value through profit or loss	460,928	Fair value through profit or loss	525,297
	Amortised cost	401,854	Amortised cost	2,370,745
Derivative financial instruments held for trading	Fair value through profit or loss	945,244	Fair value through profit or loss	945,244
Derivatives used for hedging purposes	Fair value through comprehensive income	87,275	Fair value through comprehensive income	87,275
Loans and advances to customers (Net)	Amortised cost	61,952,197	Amortised cost	61,611,052
Factoring receivables (Net)	Amortised cost	2,007,061	Amortised cost	2,006,213

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

4. IMPACTS OF PRESENTATION CHANGES AND OF THE FIRST TIME ADOPTION OF IFRS 9 (continued)

b) Financial statement confirmation of financial assets at IFRS 9 transition:

	Book Value Before IFRS 9	Reclassifications	Remeasurement	Book Value After IFRS 9
Financial Assets	**31 December 2017**			**1 January 2018**
Cash and balances with central banks				
Book value in accordance with IAS 39	11,260,717			
Remeasurement: Provision provided for expected credit losses	-		(2,309)	
Book value in accordance with IFRS 9				11,258,408
Loans and advances due from banks				
Book value in accordance with IAS 39	2,986,772			
Remeasurement: Provision provided for expected credit losses	-		(6,973)	
Book value in accordance with IFRS 9				2,979,799
Financial assets at fair value through other comprehensive income				
Balances before reclassification (available for sale)	4,697,133			
Disposal: to hold to collect portfolio		(1,963,540)		
Disposal: to other portfolio		(52,235)		
Remeasurement: Fair value differences			1,152	
Remeasurement: Provision provided for expected credit losses	-		(602)	
Book value in accordance with IFRS 9				2,681,908
Financial assets at fair value through profit and loss				
Book value in accordance with IAS 39	460,928			
Addition: from available for sale portfolio		52,235		
Remeasurement: Fair value differences		12,134		
Book value in accordance with IFRS 9				525,297
Financial assets at amortised cost				
Balances before reclassification (held to maturity)	401,854			
Addition: from available for sale portfolio		1,969,425		
Remeasurement: Provision provided for expected credit losses	-		(534)	
Book value in accordance with IFRS 9				2,370,745
Loans and advances to customers				
Book value (Net)	61,952,197			
Remeasurement: Provision provided for expected credit losses			(341,145)	
Book value in accordance with IFRS 9 (Net)				61,611,052
Factoring receivables				
Book value (Net)	2,007,061			
Remeasurement: Provision provided for expected credit losses			(848)	
Book value in accordance with IFRS 9 (Net)				2,006,213

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

4. IMPACTS OF PRESENTATION CHANGES AND OF THE FIRST TIME ADOPTION OF IFRS 9 (continued)

In accordance with IFRS 9 classification and measurement requirements, the Bank has performed some reclassifications as above. The reasons of these reclassifications are explained below:

1) Financial assets classified as measured at amortized cost in accordance with IFRS 9 standard:

The Bank reassessed its business model in order to hold the financial assets to collect contractual cash flow or to both collect the contractual cash flows and sell the assets. At the date of initial application of IFRS 9, the Bank assessed the appropriate business model for its debt securities amounting to TL1,963,540, which were previously classified as available-for-sale and measured at fair value, as to collect the contractual cash flows and measured at amortised cost.

2) Equity securities at fair value through profit or loss in accordance with IFRS 9 standard:

From the date of initial application of IFRS 9, the Bank has classified its equity securities amounting to TL52,235 as financial assets measured at fair value through profit or loss. These were previously classified as financial assets available-for-sale. The Bank has designated its equity securities amounting to TL5,059 as financial assets at fair value through other comprehensive income at the date of initial application of IFRS 9.

c) Reconciliation of the opening balance of the provisions for impairment at IFRS 9 transition

The following table presents the reconciliation between provisions for impairment of the Bank as of 31 December 2017 and the provision provided for expected credit losses measured in accordance with IFRS 9 expected loss model as of 1 January 2018.

	Book Value before IFRS 9	**Remeasurement**	**Book Value after IFRS 9**
	31 December 2017		**1 January 2018**
Cash and balances with central bank	**-**	**2,309**	**2,309**
Stage 1	-	2,309	2,309
Loans and advances due from banks	**-**	**6,973**	**6,973**
Stage 1	-	6,973	6,973
Debt securities	**-**	**1,136**	**1,136**
At fair value through other comprehensive income			
Stage 1	-	602	602
At amortised cost			
Stage 1	-	534	534
Loans and advances to customers	**1,845,245**	**341,145**	**2,186,390**
Stage 1	189,308	85,002	274,310
Stage 2	387,372	256,143	643,515
Stage 3	1,268,565	-	1,268,565
Guarantees and loan commitments	**43,210**	**70,464**	**113,674**
Stage 1	6,996	32,877	39,873
Stage 2	14,422	37,587	52,009
Stage 3	21,792	-	21,792
Factoring receivables	**41,983**	**848**	**42,831**
Stage 1	2,062	(291)	1,771
Stage 2	-	1,139	1,139
Stage 3	39,921	-	39,921

4. IMPACTS OF PRESENTATION CHANGES AND OF THE FIRST TIME ADOPTION OF IFRS 9 (continued)

d) Equity impacts of IFRS 9 transition

According to paragraph 15 of Article 7 of IFRS 9 Financial Instruments Standards, it is not compulsory to restate previous period information at initial application of IFRS 9 and if the previous period information is not restated, the differences between the book values of 1 January 2018, the date of initial application, should be reflected in the opening balance of equity. The explanations about the initial application effects of IFRS 9, amounting to TL299,286 decrease, on equity are presented below.

The negative difference amounting to TL422,875 between provisions for impairment provided in accordance with IAS 39 and provisions provided for the expected credit losses measured in accordance with the IFRS 9 expected loss model as of 1 January 2018, has been classified under "Retained earnings" in shareholders' equity.

Deferred tax assets amounting to TL94,203 have been reflected to the opening financials as of 1 January 2018 and the related amount has been classified under "Retained earnings" in shareholders' equity.

Equity securities classified as available-for-sale financial assets before 1 January 2018 has been classified as the financial asset at fair value through profit or loss. TL31,021 net off tax effect have been classified under "Retained earnings" in equity. In addition, the positive difference amounting to TL550 due to the remeasurement of equity securities classified as financial assets at fair value through other comprehensive income has been accounted under "Retained earnings" in equity.

For the available-for-sale financial assets, debt securities valuation differences amounting to TL2,185 with a deducted tax effect has been canceled due to the change of business model with IFRS 9 transition.

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

5. SEGMENT INFORMATION

Operating segments

The Group is organized into four main segments which are organized and managed separately according to the nature of the products and services provided.

As of and for the period ended 30 June 2018

	Retail Banking	Corporate Banking	SME Banking	Other	Eliminations	Group
Net banking income	715,675	655,698	1,152,467	18,770	(2,311)	2,540,299
Operating expenses	(468,913)	(152,012)	(501,062)	(82,884)	2,311	(1,202,560)
Provisions for impairment of loan, factoring receivables, net of recoveries	(80,822)	(96,389)	(202,791)	(8,214)	-	(388,216)
Operating income	**165,940**	**407,297**	**448,614**	**(72,328)**	**-**	**949,523**
Non-operating items	-	-	-	7	-	7
Pre-tax income	**165,940**	**407,297**	**448,614**	**(72,321)**	**-**	**949,530**
Assets and liabilities						
Segment assets	13,476,856	23,315,873	30,030,436	33,874,740	(199,185)	100,498,720
Unallocated assets	-	-	-	2,275,955	(924)	2,275,031
Total assets	**13,476,856**	**23,315,873**	**30,030,436**	**36,150,695**	**(200,109)**	**102,773,751**
Segment liabilities	38,763,486	16,642,100	12,069,374	22,226,013	(79,823)	89,621,150
Unallocated liabilities	-	-	-	3,449,796	(1,415)	3,448,381
Total liabilities	**38,763,486**	**16,642,100**	**12,069,374**	**25,675,809**	**(81,238)**	**93,069,531**
Other segment information						
Capital expenditures						
Tangible fixed assets	-	-	-	12,630	-	12,630
Intangible fixed assets	-	-	-	27,215	-	27,215
Depreciation	-	-	-	40,039	-	40,039
Amortization	-	-	-	28,872	-	28,872

Period ended 30 June 2017

	Retail Banking	Corporate Banking	SME Banking	Treasury/ Head Office	Eliminations	Group
Net banking income	568,010	433,096	993,942	43,860	(1,790)	2,037,118
Operating expenses	(427,898)	(134,218)	(461,656)	(89,818)	1,790	(1,111,800)
Provisions for impairment of loan, factoring receivables, net of recoveries	(40,842)	(75,609)	(243,811)	-	-	(360,262)
Operating income	**99,270**	**223,269**	**288,475**	**(45,958)**	**-**	**565,056**
Non-operating items	-	-	-	122	-	122
Income before income tax	**99,270**	**223,269**	**288,475**	**(45,836)**	**-**	**565,178**
Year ended 31 December 2017						
Assets and liabilities						
Segment assets	12,649,219	18,437,000	28,448,848	25,558,539	(294,262)	84,799,344
Unallocated assets	-	-	-	2,437,835	(666)	2,437,169
Total assets	**12,649,219**	**18,437,000**	**28,448,848**	**27,996,374**	**(294,928)**	**87,236,513**
Segment liabilities	32,362,472	14,577,029	10,440,952	18,164,810	(175,857)	75,369,406
Unallocated liabilities	-	-	-	2,655,190	(1,188)	2,654,002
Total liabilities	**32,362,472**	**14,577,029**	**10,440,952**	**20,820,000**	**(177,045)**	**78,023,408**
Other segment information						
Capital expenditures						
Tangible fixed assets	-	-	-	116,143	-	116,143
Intangible fixed assets	-	-	-	64,860	-	64,860
Depreciation	-	-	-	85,923	-	85,923
Amortization	-	-	-	47,416	-	47,416

Geographical information

The Group's geographical information is based on the location of Group's assets. Substantially all of the Group's activities are conducted in Turkey and Turkey is the home country of the Bank, which is also the main operating company. The areas of operation include all the primary operating segments.

Total assets and total liabilities are allocated to the country in which the branch or subsidiary is located. Segment revenue from external customers included in operating income is based on the geographical location of customers or counterparties. The Group conducts substantially all of its business activities with local customers in Turkey.

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

6. LOANS AND ADVANCES TO CUSTOMERS

	30 June 2018	Stage 1	Stage 2
Commercial	51,304,678	44,252,121	7,052,557
Consumer	14,213,041	10,888,626	3,324,415
Credit cards	3,817,650	3,195,807	621,843
Other	201,378	201,378	-
Total performing loans	**69,536,747**	**58,537,932**	**10,998,815**
Non-performing loans (Stage 3)	2,092,250		
Less: Stage 1 provisions	(321,831)		
Less: Stage 2 provisions	(669,507)		
Less: Stage 3 provisions	(1,357,556)		
Total	**69,280,103**		

	31 December 2017
Commercial	44,678,681
Consumer	13,549,537
Credit cards	3,455,251
Other	167,348
Total performing loans	**61,850,817**
Non-performing loans	1,946,625
Less: Allowance for individually impaired loans	(1,268,565)
Less: Allowance for collectively impaired loans	(576,680)
Total	**61,952,197**

	1 January 2018	30 June 2018
Stage 1 provision	(274,310)	(321,831)
Stage 2 provision	(643,515)	(669,507)
Stage 3 provision	(1,268,565)	(1,357,556)
Total Provisions	**(2,186,390)**	**(2,348,894)**

7. ISSUED DEBT SECURITIES

	Currency	Maturity	Interest Rate (%)	30 June 2018
Bank Bonds	TL	July 2018 – October 2018	14.40-19.10	1,957,288
Bank Bonds	EUR	July 2018	-	26,710

	Currency	Maturity	Interest Rate (%)	31 December 2017
Bank Bonds	TL	February 2018-May 2018	13.80 - 14.20	1,289,688

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Values

Set out below is a comparison by category of carrying amounts and fair values of the Group’s major financial instruments that are carried in the financial statements at other than fair values.

	Carrying amount	Fair Value
	30 June 2018	30 June 2018
Financial assets at amortised cost		
Loans and advances due from banks	4,743,282	4,743,282
Other money market placements	488,215	488,215
Loans and advances to customers	69,280,103	68,405,965
Debt securities	2,689,238	2,830,342
Factoring receivables	1,973,989	1,973,989
Financial liabilities at amortised cost		
Deposits from other banks and funds borrowed	20,437,870	20,437,870
Deposits from customers	64,655,337	65,043,282
Other money market deposits	79,778	79,778
Issued debt securities	1,983,998	1,983,998

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

8. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair Values (continued)

	Carrying amount 31 December 2017	Fair Value 31 December 2017
Financial assets		
Loans and receivables due from banks	2,986,772	2,986,772
Other money market placements	64	64
Loans and receivables	61,952,197	61,479,771
Investment securities held-to-maturity	401,854	403,707
Factoring receivables	2,007,061	2,007,061
Financial liabilities		
Deposits from banks and funds borrowed	17,315,185	17,345,907
Customers' deposits	55,254,483	55,560,619
Other money market deposits	105,206	105,206
Debt securities	1,289,688	1,289,688

Loans and Advances to Customers

Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances to customers represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Debt Securities Measured at Amortised Cost

Fair value for debt securities at amortised cost is based on market prices or broker/dealer price quotations.

Deposits and Borrowings

The estimated fair value of deposits from credit institutions and deposits from customers with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest bearing deposits and funds borrowed without quoted market price is based on discounted cash flows using interest rates for new deposits and debts with similar remaining maturity.

Fair values of remaining financial assets and liabilities carried at amortized cost, including balances with central banks, loans and advances due from banks, other money market placements, factoring receivables and payables are considered to approximate their respective carrying values due to their short-term nature.

Fair Value of Financial Instruments

The fair values of financial assets and financial liabilities are determined as follows:

- Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- Level 2: the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other variables used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length; and
- Level 3: the fair value of the financial assets and financial liabilities where there is no observable market data. The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, estimate is made based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. An unobservable input is a parameter for which there are no market data available and that is therefore derived from proprietary assumptions about what other market participants would consider when assessing fair value.

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

8. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- the use of quoted market prices or dealer quotes for similar instruments
- the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves
- the fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis.

30 June 2018	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss	966,700	2,533,242	-	3,499,942
Securities	966,700	-	-	966,700
Derivative financial instruments	-	2,533,242	-	2,533,242
Derivatives used for hedging purposes	-	563,799	-	563,799
Financial assets at fair value through equity	3,504,081	17,751	-	3,521,040
Debt Securities	3,504,081	17,751	-	3,521,040
Equity Securities (*)	-	-	-	-
Remeasurement adjustment on interest rate risk hedged portfolios	-	-	-	-
Total	**4,470,781**	**3,114,792**	**-**	**7,584,781**
Financial liabilities at fair value through profit and loss				
Derivative financial instruments	-	2,429,601	-	2,429,601
Derivatives used for hedging purposes	-	34,566	-	34,566
Total	**-**	**2,464,167**	**-**	**2,464,167**

31 December 2017	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss	460,928	945,244	-	1,406,172
Debt instruments	460,928	-	-	460,928
Derivatives held-for-trading	-	945,244	-	945,244
Derivatives used for hedging purposes	-	87,275	-	87,275
Available-for-sale financial assets	4,626,342	65,577	-	4,691,919
Debt instruments	4,626,342	13,497	-	4,639,839
Available-for-sale equity securities (*)	-	52,080	-	52,080
Remeasurement adjustment on interest rate risk hedged portfolios	-	99	-	99
Total	**5,087,270**	**1,098,195**	**-**	**6,185,465**
Financial liabilities at fair value through profit and loss				
Derivatives held-for-trading	-	958,077	-	958,077
Derivatives used for hedging purposes	-	443,331	-	443,331
Total	**-**	**1,401,408**	**-**	**1,401,408**

(*) Equity shares amounting to TL5,615 (31 December 2017: TL5,214) are not included in the table.

There were no reclassifications between the levels in the current and the previous period.

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

9. RELATED PARTY DISCLOSURES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. The Group is controlled by the Çolakoğlu family and BNP Paribas Group each of which directly or indirectly own 50% of the shares of the Bank. For the purpose of these consolidated financial statements, associates, shareholders, Çolakoğlu Group companies, and BNP Paribas Group entities including Fortis Bank Group are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Group's Board of Directors and their families.

In the normal course of its business, the Group conducted various business transactions with related parties on normal commercial terms and conditions. These transactions primarily include loans, deposits and borrowing transactions. The significant outstanding balances and transactions with related parties at period-ends and relating expense and income for the period are as follows:

30 June 2018:

Related party (*)	Cash loans	Non-cash loans	Funds borrowed	Deposits taken	Deposits with banks	Derivative financial instruments assets	Other liabilities	Derivative financial instruments liabilities	Notional amount of derivative transactions	Interest income	Interest expense	Other operating income	Other operating expense
Direct shareholders	-	-	-	129,407	-	-	4,533	-	-	-	3,081	427	13,336
Indirect shareholders	1	248,851	5,405,881	1,651,477	311,010	645,659	4,877	501,700	49,153,001	4,141	128,875	983	-
Others	20,313	26,096	1,113,913	1,188,188	263,282	137	3,070	17,599	438,080	2,983	72,242	8,642	13,352

31 December 2017:

Related party (*)	Cash loans	Non-cash loans	Funds borrowed	Deposits taken	Deposits with banks	Derivative financial assets	Other liabilities	Derivative financial instruments liabilities	Notional amount of derivative transactions	Interest income (**)	Interest expense (**)	Other operating income (**)	Other operating expense (**)
Direct shareholders	-	-	-	17,718	-	-	2,811	-	-	-	792	137	12,025
Indirect shareholders	100,051	301,623	4,541,511	1,506,588	71,522	300,448	2,093	396,407	35,229,756	1,547	78,679	1,238	-
Others	111,207	134,644	1,689,255	756,839	264,429	3,296	308	1,142	655,880	897	58,116	4,573	11,334

(*) "Direct shareholders" of the Group corresponds to TEB Holding A.Ş., BNP Yatırımlar Holding A.Ş. and BNP Paribas Fortis Yatırımlar Holding A.Ş.. "Indirect shareholders" of the Group corresponds to BNP Paribas SA, Çolakoğlu family members, Denak Depoculuk ve Nakliyecilik A.Ş., Çolakoğlu Metalurji A.Ş., Galata Yatırım Holding A.Ş.. "Others" corresponds to all other Çolakoğlu Group companies and BNP Paribas Group companies.

(**) Figures indicate results for six months ended 30 June 2017.

Compensation of Key Management Personnel of the Group

The executive and non-executive members of Board of Directors and management received remuneration and fees totaling approximately TL26,278 for the six months period ended 30 June 2018 (30 June 2017: TL20,670) comprising mainly salaries and other short-term benefits.

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

10. COMMITMENTS AND CONTINGENCIES

In the normal course of business activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including:

	30 June 2018
Letters of guarantee issued	13,896,045
Letters of credit	2,937,235
Acceptance credits	34,701
Other guarantees	5,581,889
Total non-cash loans	**22,449,870**
Asset Purchase and Sale Commitments	6,742,240
Credit card limit commitments	6,192,490
Loan Granting Commitments	4,769,944
Payment Commitment for Checks	2,789,831
Other commitments	553,540
Total	**43,497,915**

	31 December 2017
Letters of guarantee issued	13,039,280
Letters of credit	2,396,568
Acceptance credits	42,316
Other guarantees	5,106,476
Total non-cash loans	**20,584,640**
Asset Purchase and Sale Commitments	7,314,209
Credit card limit commitments	5,411,646
Loan Granting Commitments	4,631,069
Payment Commitment for Checks	2,387,642
Other commitments	236,169
Total	**40,565,375**

Fiduciary Activities

The Group provides custody, investment management and advisory services to third parties. Those assets that are held in a fiduciary capacity are not included in the accompanying consolidated financial statements.

Investment fund participation certificates held in custody which belong to the customers and the related portfolio are not recognized on the statement of financial position. As of 30 June 2018 the total nominal value and number of certificates are TL7,796,922 and 7,796,922 thousand, respectively (31 December 2017: TL8,117,665 and 8,117,665 thousand, respectively) and the total fair value is TL1,929,555 (31 December 2017: TL2,234,379).

The Group has earned TL20,108 (30 June 2017: TL17,047) fund management commission income for six months ended 30 June 2018.

The Group also manages thirty three investment funds, which were established under the regulations of the Turkish Capital Markets Board. In accordance with the funds' charters, the Group purchases and sells marketable securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations.

Letters of Guarantee Given to Borsa Istanbul (BIST) and Istanbul Gold Market (IGM)

As of 30 June 2018, in line with the requirements of IGM, letters of guarantee amounting to TL1,874 (31 December 2017: TL1,551) had been obtained from local banks and were provided to IGM for transactions conducted in that market.

As of 30 June 2018, according to the general requirements of the BIST, letters of guarantee amounting to TL67,008 (31 December 2017: TL55,547) had been obtained from various local banks and were provided to BIST for bond and stock market transactions.

As of 30 June 2018, according to the general requirements of the Takasbank, letters of guarantee amounting to TL60,000 (31 December 2017: nil) had been obtained from a local bank and were provided to Takasbank for transactions.

10. COMMITMENTS AND CONTINGENCIES (continued)

Litigation

In the normal course of its operations, the Group can be constantly faced with legal disputes, claims and complaints. The necessary provision, if any, for those cases are provided based on management estimates and professional advice. The Group has provided TL63,282 (31 December 2017: TL58,308) provision for legal cases.

Other

The branch premises are leased under operating leases with lease terms varying between 1 and 10 years. The lease agreements are cancellable subject to a period of notice which does not exceed 6 months. There are no restrictions placed upon the lessee by entering into these leases.

(Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated.)

11. EARNINGS PER SHARE

Basic earnings per share (EPS) are calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

In Turkey, companies can increase their share capital by making a pro rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from profit reserves such as retained earnings and revaluation surplus. For the purpose of the EPS calculation such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank, are regarded similarly. Accordingly the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares, which are shown in the table below.

	Opening	Cash	Increase Related to Merger	Transfers from Retained Earnings	Transfers From Revaluation Surplus	Reinvestment of Dividend Payments	Total	Closing
Before 1995	-	150	-	3,000	250	-	3,400	3,400
1996	3,400	-	-	-	330	1,270	1,600	5,000
1997	5,000	-	-	1,022	596	4,382	6,000	11,000
1998	11,000	5,512	-	529	682	7,277	14,000	25,000
1999	25,000	-	-	600	2,062	16,338	19,000	44,000
2000	44,000	40,182	-	-	-	26,068	66,250	110,250
2001	110,250	-	-	-	-	-	-	110,250
2002	110,250	-	-	-	-	-	-	110,250
2003	110,250	-	-	5,350	-	-	5,350	115,600
2004	115,600	-	-	-	-	-	-	115,600
2005	115,600	-	-	-	-	-	-	115,600
2006	57,800	18,700	-	-	-	-	18,700	76,500
2007	76,500	210,000	-	216,750	251,750	-	678,500	755,000
2008	755,000	345,000	-	-	-	-	345,000	1,100,000
2009	1,100,000	-	-	-	-	-	-	1,100,000
2010	1,100,000	-	-	-	-	-	-	1,100,000
2011	1,100,000	-	1,050,000	54,390	-	-	1,104,390	2,204,390
2012	2,204,390	-	-	-	-	-	-	2,204,390
2013	2,204,390	-	-	-	-	-	-	2,204,390
2014	2,204,390	-	-	-	-	-	-	2,204,390
2015	2,204,390	-	-	-	-	-	-	2,204,390
2016	2,204,390	-	-	-	-	-	-	2,204,390
2017	2,204,390	-	-	-	-	-	-	2,204,390
30 June 2018	2,204,390	-	-	-	-	-	-	2,204,390

The following reflects the income (in full TL) and share data (in thousand) used in the basic earnings per share computations:

	30 June 2018	30 June 2017
Net profit attributable to ordinary shareholders	738,934	447,335
Weighted average number of ordinary shares for basic earnings per share	2,204,390	2,204,390
Basic earnings per share	0.3352	0.2029
Diluted earnings per share	0.3352	0.2029

There have been no other transactions involving ordinary shares or potential ordinary shares since the end of the reporting period and before the authorization of these consolidated financial statements for issue.

12. SUBSEQUENT EVENTS

i) The Bank issued a bond on 5 July 2018, with a nominal value of TL307,904 and maturity of 98 days with the ISIN code TRFTEBKE1831.

ii) The bond with a nominal value of TL342,571 with a maturity of 119 days and the ISIN Code of TRFTEBK71816, issued by the Bank via the book building method at the dates of 5-6 March 2018, matured as of 5 July 2018 and was redeemed.

iii) The bond with a nominal value of TL4,650 with a maturity of 123 days and the ISIN Code of TR0TEBK00QJ6, issued by the Bank via the book building method at the dates of 7-8 March 2018, matured as of 9 July 2018 and was redeemed.

iv) The Bank issued a bond on 12 July 2018, with a nominal value of TL356,266 maturity of 98 days with the ISIN code TRFTEBKE1849.

v) The bond with a nominal value of TL272,940 with a maturity of 119 days and the ISIN Code of TRFTEBK71824, issued by the Bank via the book building method at the dates of 12-13 March 2018, matured as of 12 July 2018 and was redeemed.

vi) The bond with a nominal value of EUR5.000.000 with a maturity of 181 days and the ISIN Code of XS1755226625, issued by the Bank via the book building method, matured as of 19 July 2018 and was redeemed.

vii) The Bank issued a bond on 20 July 2018, with a nominal value of TL11,107 maturity of 122 days with the ISIN code TR0TEBK00W57.

viii) On July 13, 2018 after Turkey's rating was downgraded, Fitch Ratings has changed the rating of the following notes of the Bank:

- Long-Term Foreign Currency from "BBB- in Negative Watch" to "BB / Negative Outlook level;
- Short- Term Foreign Currency from "F3 in Negative Watch " to "B" level;
- Long Term Local Currency from "BBB- / Stable outlook" to "BB + / Negative Outlook" level;
- Short Term Local Currency from "F3" to "B";
- Financial Capacity Rating from "bb+" to "Negative Monitoring bb-" level;
- Support rating from “Negative Monitoring 2” to “3”.

ix) The bond with a nominal value of TL477,861 with a maturity of 119 days and the ISIN Code of TRFTEBK81815, issued by the Bank via the book building method at the dates of 2-3 April 2018, matured on 2 August 2018 and was redeemed.

x) The Bank issued a bond on 2 August 2018, with a nominal value of TL587,083 maturity of 91 days with the ISIN code TRFTEBKK1817.