

**TÜRK EKONOMİ BANKASI
ANONİM ŞİRKETİ**

**INTERIM CONSOLIDATED
CONDENSED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED
30 JUNE 2017**



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 2017 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, 11 August 2017

INDEX

| | Page No. |
|---|-----------------|
| Interim Consolidated Condensed Statement of Financial Position | 1 |
| Interim Consolidated Condensed Statement of Income | 2 |
| Interim Consolidated Condensed Statement of Comprehensive Income | 3 |
| Interim Consolidated Condensed Statement of Changes in Shareholders' Equity | 4 |
| Interim Consolidated Condensed Statement of Cash Flows | 5 |
| Notes to the Interim Consolidated Condensed Financial Statements | 6-17 |
| 1. Corporate Information | 6 |
| 2. Basis of Preparation | 7 |
| 3. Significant Events and Transactions During the Period | 10 |
| 4. Segment Information | 11 |
| 5. Loans and Receivables | 12 |
| 6. Explanations on Marketable Securities Issued | 12 |
| 7. Fair Value of Financial Instruments | 12 |
| 8. Related Party Disclosures | 14 |
| 9. Commitments and Contingencies | 15 |
| 10. Earnings Per Share | 16 |
| 11. Subsequent Events | 17 |

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

INTERIM CONSOLIDATED CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

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

| | Notes | 30 June 2017 | 31 December 2016 |
|---|-------|-------------------|-------------------|
| ASSETS | | | |
| Cash and balances with central banks | | 11,355,806 | 11,825,595 |
| Loans and receivables due from banks | | 1,229,035 | 1,898,629 |
| Other money market placements | | 140 | 2,001,067 |
| Financial assets at fair value through profit and loss | | 934,641 | 1,272,822 |
| Derivatives used for hedging purposes | | 180,707 | 195,320 |
| Available-for-sale financial assets | | 3,690,465 | 4,106,390 |
| Loans and receivables | 5 | 59,073,489 | 55,384,925 |
| Remeasurements adjustment on interest rate risk hedged portfolios | | 277 | - |
| Factoring receivables | | 1,405,174 | 1,684,024 |
| Held-to-maturity investments | | 389,146 | 361,508 |
| Premises and equipment | | 232,575 | 245,035 |
| Intangible assets | | 81,158 | 84,699 |
| Goodwill | | 420,645 | 420,645 |
| Deferred tax asset | | 246,038 | 148,211 |
| Other assets | | 2,037,497 | 1,302,130 |
| Total assets | | 81,276,793 | 80,931,000 |
| LIABILITIES AND EQUITY | | | |
| LIABILITIES | | | |
| Due to central banks | | 1,275,888 | - |
| Deposits from other banks | | 309,218 | 180,985 |
| Customers’ deposits | | 49,849,039 | 49,630,201 |
| Other money market deposits | | 370,697 | 1,457,750 |
| Financial liabilities at fair value through profit and loss | | 1,061,735 | 942,614 |
| Derivatives used for hedging purposes | | 177,397 | 284,492 |
| Factoring payables | | 9,919 | 17,688 |
| Debt securities | 6 | 471,558 | 739,302 |
| Funds borrowed: | | | |
| - Subordinated debt | | 2,421,315 | 2,296,100 |
| - Other funds borrowed | | 13,129,651 | 14,486,974 |
| Other liabilities | | 3,221,874 | 2,410,700 |
| Provisions | | 298,747 | 320,185 |
| Income taxes payable | | 58,569 | 1,509 |
| Total liabilities | | 72,655,607 | 72,768,500 |
| EQUITY | | | |
| Equity attributable to owners of the parent | | 8,613,802 | 8,154,677 |
| Share capital issued | | 2,204,390 | 2,204,390 |
| Premium in excess of par | | 2,565 | 2,565 |
| Adjustment to share capital | | 200,262 | 200,262 |
| Unrealized gains/(losses) on available-for-sale investments, net of tax | | (40,994) | (57,484) |
| Reserve for hedging funds, net of tax | | 25,809 | 30,509 |
| Remeasurement on employee benefits | | 33,673 | 33,673 |
| Other reserves | | 1,084,258 | 1,084,258 |
| Retained earnings | | 5,103,839 | 4,656,504 |
| Non-controlling interest | | 7,384 | 7,823 |
| Total equity | | 8,621,186 | 8,162,500 |
| Total liabilities and equity | | 81,276,793 | 80,931,000 |

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

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

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 | 1 January - 30 June 2016 |
|---|-------|-----------------------------|-----------------------------|
| Interest income | | | |
| Interest on loans and receivables | | 3,384,448 | 3,305,994 |
| Interest on securities | | 292,419 | 246,470 |
| -Interest on available-for-sale | | 243,143 | 209,548 |
| -Interest on held for trading | | 17,735 | 22,938 |
| -Interest on held-to-maturity | | 31,541 | 13,984 |
| Interest on due from banks | | 84,995 | 66,517 |
| Interest on other money market placements | | 59,722 | 229 |
| Interest income on hedging derivatives | | 379,583 | 334,820 |
| Other interest income | | 748 | 867 |
| Total interest income | | 4,201,915 | 3,954,897 |
| Interest expense | | | |
| Interest on customer deposits | | (1,536,206) | (1,643,993) |
| Interest on other money market deposits | | (14,462) | (92,277) |
| Interest on debt securities | | (26,149) | (8,070) |
| Interest on funds borrowed and deposits from other banks | | (208,497) | (178,489) |
| Interest on hedging derivatives | | (402,847) | (334,059) |
| Total interest expense | | (2,188,161) | (2,256,888) |
| Net interest income | | 2,013,754 | 1,698,009 |
| Fees and commissions and other operating income | | | |
| Fees and commissions income | | 764,678 | 722,117 |
| Fees and commissions expenses | | (253,281) | (228,619) |
| Net loss on financial instruments at fair value through profit or loss | | (486,358) | (211,054) |
| Net gain on investment securities | | 5,563 | 89,049 |
| Net losses from other activities | | (7,238) | (77,659) |
| Net banking income | | 2,037,118 | 1,991,843 |
| Operating expenses | | | |
| Salaries and employee benefits expense | | (598,214) | (560,882) |
| Other operating expenses | | (396,345) | (387,287) |
| Depreciation and amortization expense | | (66,486) | (66,898) |
| Taxes other than on income | | (50,755) | (43,405) |
| Gross operating income | | 925,318 | 933,371 |
| Provisions for impairment of loan, factoring receivables, net of recoveries | | (360,262) | (357,651) |
| Net operating income | | 565,056 | 575,720 |
| Gains on sale of fixed assets and investment, net | | 122 | 7 |
| Profit from operating activities before income tax | | 565,178 | 575,727 |
| Income tax – current | | (217,261) | (195,204) |
| Income tax – deferred | | 100,003 | 78,060 |
| Net profit for the period from continuing operations | | 447,920 | 458,583 |
| Attributable to : | | | |
| Equity holders of the Parent | | 447,335 | 458,247 |
| Non-controlling interest | | 585 | 336 |
| Net Profit | | 447,920 | 458,583 |
| Basic earnings per share (full TL) | | 0.2029 | 0.2079 |
| Diluted earnings per share (full TL) | | 0.2029 | 0.2079 |
| Basic and diluted earnings per share from continuing operations (full TL) | | 0.2029 | 0.2079 |

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

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

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

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

| | 1 January - 30 June 2017 | 1 January - 30 June 2016 |
|--|-----------------------------|-----------------------------|
| Profit for the period | 447,920 | 458,583 |
| Other comprehensive income | | |
| Items that are or may be reclassified to profit or loss | 11,811 | (124,852) |
| Fair value gains / (losses) on available-for-sale financial assets, (net of tax) | 16,511 | 8,574 |
| Net change in fair values | 20,223 | 73,029 |
| Net amount transferred to income | (3,712) | (64,455) |
| Cash flow hedge (Effective portion of changes in fair value), (net of tax) | (4,700) | (133,426) |
| 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 | (124,852) |
| Total comprehensive income for the period, net of tax | 459,731 | 333,731 |
| Attributable to: | | |
| Owners of the Parent | 459,125 | 333,350 |
| Non-controlling interest | 606 | 381 |
| Total comprehensive income for the period | 459,731 | 333,731 |

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

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

INTERIM CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE PERIOD ENDED 30 JUNE 2017

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

| | Attributable to Owners of the Parent | | | | | | | | | | | Non-controlling Interest | Total equity | |
|---|--------------------------------------|------------------|--------------------------|-----------------------------|------------------------|---|---------------------------|------------------------------|-------------------------------------|----------------|-------------------|--------------------------|--------------|---|
| | No tes | 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 | Currency translation reserve | Remeasurements on employee benefits | Legal reserves | Retained earnings | | | Total equity attributable to equity holders of the Parent |
| At 1 January 2016 | | 2,204,390 | 2,565 | 200,262 | 1,084,258 | (8,059) | 80,943 | - | 37,368 | 230,800 | 3,613,131 | 7,445,658 | 7,470 | 7,453,128 |
| Dividend paid | - | - | - | - | - | - | - | - | - | - | - | - | (815) | (815) |
| Transfer to legal reserves | - | - | - | - | - | - | - | - | - | 46,592 | (46,592) | - | - | - |
| Profit for the period | - | - | - | - | - | - | - | - | - | - | 458,247 | 458,247 | 336 | 458,583 |
| Other comprehensive income for the period | - | - | - | - | - | 8,529 | (133,426) | - | - | - | - | (124,897) | 45 | (124,852) |
| Total comprehensive Income | - | - | - | - | - | 8,529 | (133,426) | - | - | - | - | 333,350 | 381 | 333,731 |
| At 30 June 2016 | | 2,204,390 | 2,565 | 200,262 | 1,084,258 | 470 | (52,483) | - | 37,368 | 277,392 | 4,024,786 | 7,779,008 | 7,036 | 7,786,044 |
| At 1 January 2017 | | 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 |

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

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

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.)

| | Notes | 1 January - 30 June 2017 | 1 January - 30 June 2016 |
|--|-------|-----------------------------|-----------------------------|
| Cash flows from operating activities | | | |
| Interest received | | 4,232,314 | 3,631,221 |
| Interest paid | | (2,080,921) | (1,928,674) |
| Fees and commissions received | | 780,007 | 1,289,439 |
| Trading loss | | (599,620) | (155,856) |
| Recoveries of impairment of loan, lease and factoring receivables | | 334,715 | 265,232 |
| Fees and commissions paid | | (253,281) | (228,619) |
| Cash payments to employees and other parties | | (530,316) | (493,696) |
| Other operating expenses | | (720,274) | (406,774) |
| Income taxes paid | | (158,860) | (112,628) |
| Cash flows from operating activities before changes in operating assets and liabilities | | 1,003,764 | 1,859,645 |
| Changes in operating assets and liabilities | | | |
| Net decrease / (increase) in trading securities | | 30,222 | (463,524) |
| Net (increase) in reserve deposits at central banks | | (261,776) | (1,481,741) |
| Net decrease in loans and receivables due from banks | | 1,473,610 | 761,646 |
| Net (increase) in loans and receivables | | (4,229,526) | (2,863,583) |
| Net decrease / (increase) in factoring receivables | | 273,352 | (86,547) |
| Net (increase) in other assets | | (578,003) | (418,161) |
| Net increase in deposits from banks | | 1,404,125 | 255,064 |
| Net increase in customers' deposits | | 158,468 | 2,458,216 |
| Net (decrease) in other money market deposits | | (1,085,808) | (1,571) |
| Net (decrease) in factoring payables | | (7,769) | (6,099) |
| Net increase / (decrease) in other liabilities | | 690,533 | (575,670) |
| Net cash used in operating activities | | (2,132,572) | (2,421,970) |
| Cash flows from investing activities | | | |
| Purchases of available- for- sale securities | | (1,193,295) | (1,226,415) |
| Proceeds from sale and redemption of available-for-sale securities | | 1,709,012 | 911,980 |
| Purchases of property and equipment | | (31,970) | (14,377) |
| Purchases of intangible assets | | (18,959) | (41,355) |
| Net cash provided / (used in) by investing activities | | 464,788 | (370,167) |
| Cash flows from financing activities | | | |
| Proceeds from funds borrowed and debt securities | | 7,610,119 | 9,523,887 |
| Repayment of funds borrowed and debt securities | | (9,006,105) | (8,018,363) |
| Net cash provided by financing activities | | (1,395,986) | 1,505,524 |
| Effect of net foreign exchange difference on cash and cash equivalents | | 116,136 | (31,980) |
| Net (increase) / decrease in cash and cash equivalents | | (1,943,870) | 541,052 |
| Cash and cash equivalents at the beginning of the period | | 7,420,600 | 3,881,418 |
| Cash and cash equivalents at the end of the period | | 5,476,730 | 4,422,470 |

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

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

NOTES TO THE INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

(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. (previously TEB Mali Yatırımlar 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 merge 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 shareholders holding 96.005% of shares of the Bank, BNP Paribas Fortis Yatırımlar Holding A.Ş., BNP Paribas Yatırımlar Holding A.Ş., BNP Paribas, and TEB Holding A.Ş. acting jointly as the “Controlling Shareholders” according to the Communiqué of the Capital Markets Board No II-27.2 on Squeeze-out and Sell-Out Rights (“Communiqué”). Pursuant to Provisional Article 1 of the Communiqué, sell-out and squeeze-out rights became exercisable upon the acquisition of the additional share by BNP Paribas Fortis Yatırımlar Holding A.Ş., one of the controlling shareholders, on 14 November 2014. After the completion of the related procedures and the positive opinion of the BRSA on 17 June 2015, the shares subject to sell-out were cancelled on 23 June 2015, and on 24 June 2015 share prices were paid to share owners through the Central Registry Agency. On 24 June 2015 new shares were issued in place of the cancelled shares via private placement on behalf of our majority shareholder BNP Paribas Fortis Yatırımlar Holding A.Ş.. Following these transactions, as per the Borsa İstanbul Board of Directors decision dated 19 March 2015, TEB shares were delisted on 17 April 2015 and was permanently removed from trading. On the same date, TEB was removed from the scope of the CMB Law by the CMB. The shareholders’ structure and their respective ownerships are summarized below as of 30 June 2017 together with the comparative information as of 31 December 2016:

| Name of shareholders | 30 June 2017 | | 31 December 2016 | |
|--|------------------|---------------|------------------|---------------|
| | Paid in capital | % | Paid in capital | % |
| TEB Holding A.Ş. (previously TEB Mali Yatırımlar 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 |

As of 30 June 2017, 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 11 August 2017.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

NOTES TO THE INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

(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 2017 and 31 December 2016 are as follows:

| | Place of Incorporation | Effective Shareholding And Voting Rights % | |
|--|---------------------------|---|------------------|
| | | 30 June 2017 | 31 December 2016 |
| 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.

2. BASIS OF PREPARATION

The interim consolidated condensed financial statements as of 30 June 2017 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 2016.

In preparation of the interim condensed consolidated financial statements of the Group, the same accounting policies and methods of computation have been followed as compared to the most recent annual financial statements except for the adoption of new standards and interpretations as of 1 January 2017, noted below.

New and Revised International Financial Reporting Standards

a) Standards, amendments and interpretations applicable as at 30 June 2017

- i) Amendments to IAS 7 ‘Statement of cash flows’ on disclosure initiative, effective from annual periods beginning on or after 1 January 2017. These amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB’s Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. The new disclosures will be made for the first time in the entity’s annual financial statements for the year ended 31 December 2017.
- ii) Amendments IAS 12 ‘Income Taxes’, effective from annual periods beginning on or after 1 January 2017. The amendments on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendment did not have any material impact on these financial statements.
- iii) Annual improvements 2014–2016; IFRS 12, ‘Disclosure of interests in other entities’ regarding clarification of the scope of the standard. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2017. The amendments did not have any material impact on these financial statements.

**NOTES TO THE INTERIM CONSOLIDATED CONDENSED
FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017**

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

2. BASIS OF PREPARATION (continued)

b) Standards, amendments and interpretations effective after 30 June 2017

- i) 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.
- ii) IFRS 9 “Financial Instruments”, issued by the IASB in July 2014, will replace IAS 39 Financial Instruments: recognition and measurement, related to the classification and measurement of financial instruments. It sets out the new principles for the classification and measurement of financial instruments, for impairment for credit risk on financial assets and for general hedge accounting (i.e. micro hedging). IFRS 9 is mandatory for annual periods beginning on or after 1 January 2018.

According to IFRS 9, classification and measurement of financial assets will depend on the business model and the contractual characteristics of the instruments. On initial recognition, financial assets will be measured at amortised cost, at fair value through other comprehensive income, or at fair value through profit or loss. Investments in equity instruments such as shares will be classified as instruments at fair value through profit or loss, or, as an option, as instruments at fair value through other comprehensive income. The only change introduced by IFRS 9 with respect to financial liabilities relates to recognition of changes in fair value attributable to changes in the credit risk of the liabilities designated as at fair value through profit or loss (fair value option), which will be recognised in other comprehensive income and not through profit or loss.

Application of these criteria may lead to different classification and measurement of some financial assets compared with IAS 39. Based on the analysis performed for the classification and measurement phase of the standard, the Group does not expect any significant impact on its financial statements.

IFRS 9 establishes a new credit risk impairment model based on expected losses. Under the impairment model in IAS 39, an impairment loss is recognised when there is an objective evidence of a decrease in value. Counterparties that are not individually impaired are risk-assessed on the basis of portfolios with similar characteristics and groups of counterparties which, as a result of events occurring since inception of the loans present objective indication of impairment, are subject to a portfolio-based impairment. The new impairment model under IFRS 9 requires accounting for 12-month expected credit losses (that result from the risk of default in the next 12 months) on the financial instruments issued or acquired, as of the date of initial recognition on the balance sheet. Expected credit losses at maturity (that result from the risk of default over the life of the financial instrument) must be recognised if the credit risk has increased significantly since initial recognition. This model will apply to loans and debt instruments measured at amortised cost or at fair value through other comprehensive income, to loan commitments and financial guarantees not recognised at fair value, as well as to lease receivables.

The IFRS 9 implementation project for the impairment phase is in process. At this stage, the project focuses mainly on refining the methodology for the new impairment model, key concepts and management judgements, planning the IT infrastructure and assessment of impact on the financial statements.

The focus of the project during the remainder of 2017 will be on finalising processes, governance and controls. IFRS 9 is applied retrospectively, although comparatives are not restated, and adjustments arising from initial application in 2018 will be recognised in opening equity.

- iii) 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 will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.

**NOTES TO THE INTERIM CONSOLIDATED CONDENSED
FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017**

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

2. BASIS OF PREPARATION (Continued)

b) Standards, amendments and interpretations effective after 30 June 2017 (continued)

- iv) 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.
- v) 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.

As a result there will be an increase in both assets and liabilities for transactions currently accounted for as operating leases as at 1 January 2019. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

- vi) 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 will:
- give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
 - give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard — IAS 39.
- vii) 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.
- viii) Annual improvements 2014–2016;
- 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 effective 1 January 2018.
 - IAS 28, ‘Investments in associates and joint ventures’ regarding measuring an associate or joint venture at fair value effective 1 January 2018.
- ix) 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.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

NOTES TO THE INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

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

2. BASIS OF PREPARATION (Continued)

b) Standards, amendments and interpretations effective after 30 June 2017 (continued)

- x) 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.

The new standards, amendments and interpretations which will be effective on or after 1 January 2018 are not expected to have a material impact on the Group's consolidated financial statements except adoption of IFRS 9 as discussed in 2.b.ii.

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 2016.

Impairment Testing

As a Group policy, the management performs impairment test for goodwill on an annual base. 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 2016.

Management believes that all of its management estimates and key assumptions which were used for impairment testing as of 31 December 2016 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 2017.

3. SIGNIFICANT EVENTS AND TRANSACTIONS DURING THE PERIOD

None.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

NOTES TO THE INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

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

4. SEGMENT INFORMATION

Business segments

The Group is organized into four main business 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 2017

| | Retail Banking | Corporate Banking | SME Banking | Treasury/ Head Office | Eliminations | Group |
|---|-------------------|----------------------|----------------|--------------------------|--------------|----------------|
| Net banking income | 440,839 | 259,988 | 918,229 | 419,852 | (1,790) | 2,037,118 |
| Operating expenses | (308,548) | (53,275) | (317,598) | (434,169) | 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 | 91,449 | 131,104 | 356,820 | (14,317) | - | 565,056 |
| Non-operating items | - | - | - | 122 | - | 122 |
| Income from operating activities before income tax | 91,449 | 131,104 | 356,820 | (14,195) | - | 565,178 |

| Assets and liabilities | | | | | | |
|-------------------------------|-------------------|-------------------|-------------------|-------------------|------------------|-------------------|
| Segment assets | 12,880,056 | 15,007,621 | 28,377,208 | 22,328,594 | (334,599) | 78,258,880 |
| Unallocated assets | - | - | - | 3,018,749 | (836) | 3,017,913 |
| Total assets | 12,880,056 | 15,007,621 | 28,377,208 | 25,347,343 | (335,435) | 81,276,793 |
| Segment liabilities | 31,710,536 | 11,855,650 | 9,521,472 | 16,205,013 | (216,254) | 69,076,417 |
| Unallocated liabilities | - | - | - | 3,580,549 | (1,359) | 3,579,190 |
| Total liabilities | 31,710,536 | 11,855,650 | 9,521,472 | 19,785,562 | (217,613) | 72,655,607 |

Other segment information

Capital expenditures

| | | | | | | |
|-------------------------|---|---|---|--------|---|--------|
| Tangible fixed assets | - | - | - | 31,970 | - | 31,970 |
| Intangible fixed assets | - | - | - | 18,959 | - | 18,959 |
| Depreciation | - | - | - | 44,026 | - | 44,026 |
| Amortization | - | - | - | 22,460 | - | 22,460 |

Period ended 30 June 2016

| | Retail Banking | Corporate Banking | SME Banking | Treasury/ Head Office | Eliminations | Group |
|---|-------------------|----------------------|----------------|--------------------------|--------------|----------------|
| Net banking income | 397,310 | 239,325 | 965,076 | 391,686 | (1,554) | 1,991,843 |
| Operating expenses | (315,399) | (47,170) | (315,942) | (381,515) | 1,554 | (1,058,472) |
| Provisions for impairment of loan, factoring receivables, net of recoveries | (69,887) | (22,046) | (265,718) | - | - | (357,651) |
| Operating income | 12,024 | 170,109 | 383,416 | 10,171 | - | 575,720 |
| Non-operating items | - | - | - | 7 | - | 7 |
| Income from operating activities before income tax | 12,024 | 170,109 | 383,416 | 10,178 | - | 575,727 |

Year ended 31 December 2016

| Assets and liabilities | | | | | | |
|-------------------------------|-------------------|-------------------|-------------------|-------------------|------------------|-------------------|
| Segment assets | 12,323,328 | 15,272,207 | 25,280,367 | 26,073,417 | (219,039) | 78,730,280 |
| Unallocated assets | - | - | - | 2,201,145 | (425) | 2,200,720 |
| Total assets | 12,323,328 | 15,272,207 | 25,280,367 | 28,274,562 | (219,464) | 80,931,000 |
| Segment liabilities | 30,514,105 | 12,202,836 | 8,644,258 | 18,775,693 | (100,786) | 70,036,106 |
| Unallocated liabilities | - | - | - | 2,733,344 | (950) | 2,732,394 |
| Total liabilities | 30,514,105 | 12,202,836 | 8,644,258 | 21,509,037 | (101,736) | 72,768,500 |

Other segment information

Capital expenditures

| | | | | | | |
|-------------------------|---|---|---|--------|---|--------|
| Tangible fixed assets | - | - | - | 55,981 | - | 55,981 |
| Intangible fixed assets | - | - | - | 74,532 | - | 74,532 |
| Depreciation | - | - | - | 95,820 | - | 95,820 |
| Amortization | - | - | - | 42,183 | - | 42,183 |

Geographical information

The Group's geographical information are based on the location of Group's assets. The Group's activities are conducted predominantly 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 business segments.

Total assets and total liabilities are based on 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 majority of its business activities with local customers in Turkey.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

NOTES TO THE INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

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

5. LOANS AND RECEIVABLES

| | 30 June 2017 | 31 December 2016 |
|---|-------------------|-------------------|
| Commercial | 42,114,330 | 38,694,211 |
| Consumer | 13,688,014 | 13,486,848 |
| Credit cards | 3,047,938 | 3,029,418 |
| Other | 175,226 | 108,535 |
| Total performing loans | 59,025,508 | 55,319,012 |
| Loans in arrears | 1,938,196 | 1,771,775 |
| Less: Allowance for individually impaired loans | (1,340,305) | (1,217,385) |
| Less: Allowance for collectively impaired loans | (549,910) | (488,477) |
| Total | 59,073,489 | 55,384,925 |

6. DEBT SECURITIES

| | Currency | Maturity | Interest Rate (%) | 30 June 2017 |
|------------|----------|-----------------------------|-------------------|------------------|
| Bank Bonds | TL | May 2017 - November 2017 | 13.23 - 13.75 | 471,558 |
| | Currency | Maturity | Interest Rate (%) | 31 December 2016 |
| Bank Bonds | TL | August 2016 - December 2016 | 9.92 - 10.41 | 739,302 |

7. 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 2017 | 31 December 2016 | 30 June 2017 | 31 December 2016 |
| Financial assets | | | | |
| Loans and receivables due from banks | 1,229,035 | 1,898,629 | 1,229,035 | 1,898,629 |
| Other money market placements | 140 | 2,001,067 | 140 | 2,001,067 |
| Loans and receivables | 59,073,489 | 55,384,925 | 59,543,439 | 54,993,713 |
| Investment securities held-to-maturity | 389,146 | 361,508 | 390,873 | 364,740 |
| Factoring receivables | 1,405,174 | 1,684,024 | 1,405,174 | 1,684,024 |
| Financial liabilities | | | | |
| Deposits from banks and funds borrowed | 17,136,072 | 16,964,059 | 17,136,279 | 16,964,059 |
| Customers' deposits | 49,849,039 | 49,630,201 | 50,091,683 | 49,810,440 |
| Other money market deposits | 370,697 | 1,457,750 | 370,697 | 1,457,750 |
| Debt securities | 471,558 | 739,302 | 471,558 | 739,302 |

Loans and Receivables

Loans and receivables are net of provisions for impairment. The estimated fair value of loans and receivables 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.

Investment Securities Held-to-Maturity

Fair value for investments held-to-maturity is based on market prices or broker/dealer price quotations.

Deposits and Borrowings

The estimated fair value of deposits from other banks and customer deposits 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 receivables 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.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

NOTES TO THE INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

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

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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.

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 2017 | Level 1 | Level 2 | Level 3 | Total |
|--|------------------|------------------|----------------|------------------|
| Financial assets at fair value through profit and loss | 171,739 | 762,902 | - | 934,641 |
| Debt instruments | 171,739 | - | - | 171,739 |
| Derivatives held-for-trading | - | 762,902 | - | 762,902 |
| Derivatives used for hedging purposes | - | 180,707 | - | 180,707 |
| Available-for-sale financial assets | 3,631,216 | 47,383 | - | 3,678,599 |
| Debt instruments | 3,631,216 | 11,882 | - | 3,643,098 |
| Available-for-sale equity securities (*) | - | 35,501 | - | 35,501 |
| Remeasurement adjustment on interest rate risk hedged portfolios | - | 277 | - | 277 |
| Total | 3,802,955 | 991,269 | - | 4,794,224 |
| Financial liabilities at fair value through profit and loss | | | | |
| Derivatives held-for-trading | - | 1,061,735 | - | 1,061,735 |
| Derivatives used for hedging purposes | - | 177,397 | - | 177,397 |
| Total | - | 1,239,132 | - | 1,239,132 |
| 31 December 2016 | Level 1 | Level 2 | Level 3 | Total |
| Financial assets at fair value through profit and loss | 203,194 | 1,069,628 | - | 1,272,822 |
| Debt instruments | 203,194 | - | - | 203,194 |
| Derivatives held-for-trading | - | 1,069,628 | - | 1,069,628 |
| Derivatives used for hedging purposes | - | 195,320 | - | 195,320 |
| Available-for-sale financial assets | 4,051,252 | 43,282 | - | 4,094,534 |
| Debt instruments | 4,051,252 | 11,932 | - | 4,063,184 |
| Available-for-sale equity securities (*) | - | 31,350 | - | 31,350 |
| Remeasurement adjustment on interest rate risk hedged portfolios | - | - | - | - |
| Total | 4,254,446 | 1,308,230 | - | 5,562,676 |
| Financial liabilities at fair value through profit and loss | | | | |
| Derivatives held-for-trading | - | 942,614 | - | 942,614 |
| Derivatives used for hedging purposes | - | 284,492 | - | 284,492 |
| Total | - | 1,227,106 | - | 1,227,106 |

(*) Equity shares amounting to TL 11,866 (31 December 2016: TL 11,856) carried at cost is not included in the table.

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

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

NOTES TO THE INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

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

8. 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 2017:

| 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 | - | - | - | 13,552 | - | - | 4,279 | - | - | - | 792 | 137 | 12,025 |
| Indirect shareholders | - | 137,912 | 4,242,977 | 1,225,147 | 75,809 | 211,253 | - | 527,788 | 46,958,067 | 1,547 | 78,679 | 1,238 | - |
| Others | 45,720 | 263,512 | 1,506,528 | 756,142 | 27,767 | 4,721 | 326 | 788 | 319,802 | 897 | 58,116 | 4,573 | 11,334 |

31 December 2016:

| 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 | - | - | - | 10,309 | - | - | 2,341 | - | - | 1 | 211 | 128 | 12,193 |
| Indirect shareholders | - | 188,104 | 6,491,540 | 1,345,129 | 246,624 | 270,252 | 489 | 210,908 | 28,307,720 | 864 | 87,618 | 748 | - |
| Others | 2,116 | 124,716 | 1,432,448 | 1,095,132 | 102,305 | 568 | 248 | 1,142 | 247,304 | 630 | 40,180 | 3,798 | 9,513 |

(*) "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 2016.

No provisions were required to be recognized in respect of loans given to related parties (31 December 2016: Nil).

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 TL20,670 as of 30 June 2017 (30 June 2016: TL19,524) comprising mainly salaries and other short-term benefits.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

NOTES TO THE INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

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

9. 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 2017 | 31 December 2016 |
|-------------------------------|-------------------|-------------------|
| Letters of guarantee issued | 12,129,627 | 11,625,411 |
| Letters of credit | 1,910,528 | 1,720,120 |
| Acceptance credits | 39,292 | 40,100 |
| Other guarantees | 4,133,544 | 4,136,349 |
| Total non-cash loans | 18,212,991 | 17,521,980 |
| Other commitments | 16,317,203 | 9,525,729 |
| Credit card limit commitments | 5,067,764 | 4,648,912 |
| Total | 39,597,958 | 31,696,621 |

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 portfolio are accounted for at their nominal values. As of 30 June 2017 the total nominal value and number of certificates in circulation and the stock are TL8,682,709 and 8,682,709 thousand (31 December 2016: TL8,254,360 and TL8,254,360) and the total fair value is TL1,737,070 (31 December 2016: TL1,850,454).

The Group has TL17,047 (30 June 2016: TL14,871) fund management commission income.

The Group also manages thirty four 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 2017, in line with the requirements of IGM, letters of guarantee amounting to TL1,439 (31 December 2016: TL1,441) had been obtained from local banks and were provided to IGM for transactions conducted in that market.

As of 30 June 2017, according to the general requirements of the BIST, letters of guarantee amounting to TL51,584 (31 December 2016: TL51,662) had been obtained from various local banks and were provided to BIST for bond and stock market transactions.

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 TL55,176 (31 December 2016: TL53,365) provision for legal cases.

Other

The branch premises that are leased under operational leases periods vary between 1 and 10 years and 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.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

NOTES TO THE INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

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

10. 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 |
| 30 June 2017 | 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 2017 | 30 June 2016 |
|---|--------------|--------------|
| Net profit from continuing operations attributable to ordinary shareholders | 447,335 | 458,247 |
| Weighted average number of ordinary shares for basic earnings per share | 2,204,390 | 2,204,390 |
| From continuing operations attributable to ordinary shareholders for basic earnings per share | 0.2029 | 0.2079 |
| From continuing operations attributable to ordinary shareholders for diluted earnings per share | 0.2029 | 0.2079 |

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these consolidated financial statements.

TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

NOTES TO THE INTERIM CONSOLIDATED CONDENSED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

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

11. SUBSEQUENT EVENTS

- (i) Nimet Elif Akpınar was assigned as Head of Group Risk Management effective from 1 July 2017 replacing Pascal Alfred J. Gilliard.
- (ii) The Board of Directors of Türk Ekonomi Bankası, decided on 19 June 2015 to authorize the Head Office to establish a securitization program and to carry out the necessary transactions for the long term funding through securities backed with financial assets including cash flows from export receivables and foreign payment orders. On 1 June 2017, Stichting TEB Diversified Payment Rights Company has been established to carry out the establishment, management and share control of the company named "TEB Diversified Payment Rights S.A.". TEB Diversified Payment Rights S.A. ("Special Purpose Institution") in which the Stichting TEB Diversified Payment Rights is the only shareholder, was established in Luxembourg on 10 July 2017 with the aim of transferring cash flows from export receivables and foreign payment orders subject to the securitization program.
- (iii) The Parent Bank issued a bond on 12 July 2017, with a nominal value of TL202,500, maturity of 119 days with the ISIN "TRFTEBKK1726".