PASHA YATIRIM BANKASI A.Ş.

UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS AT 30 JUNE 2018 TOGETHER WITH INDEPENDENT AUDITOR'S REVIEW REPORT

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Report on review of interim condensed financial statements

To the Board of Directors of Pasha Yatırım Bankası A.Ş.

Introduction

We have reviewed the accompanying interim condensed statement of financial position of Pasha Yatırım Bankası A.Ş. ("the Bank") as of June 30, 2018 and the interim condensed statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and explanatory notes. Bank Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" (IAS 34). Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements (SRE) 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 of interim financial information is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and the objective of which is to express an opinion on the financial statements. Consequently, a review of the interim financial information does not provide assurance that the audit firm will be aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst &Young Global Limited

Emre Çelik, SMMM
Associate Partner

September 7, 2018
Istanbul, Turkey

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UNAUDITED INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2018

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

	Note	Reviewed 30 June 2018	Audited 31 December 2017
ASSETS			
Cash and cash equivalents	8	118,865	83,516
Reserve requirements at Central Bank	9	96,694	67,673
Financial assets at fair value through profit and loss	10	4,467	4,943
Financial assets at fair value through other comprehensive income	11	11,660	21,308
Loans to customers and finance lease receivables	12	890,600	710,670
Investment property	13	260,916	-
Property and equipment		592	655
Intangible assets		798	869
Deferred tax assets	20	2,343	1,423
Other assets	14	12,953	3,933
TOTAL ASSETS		**1,399,888**	**894,990**
LIABILITIES			
Amounts due to customers	15	12,672	32,041
Amounts due to banks and money market deposits	16	64,388	62,751
Funds borrowed	17	487,424	341,387
Employee benefits		1,508	2,005
Derivative financial liabilities	19	900	1,072
Debt securities issued	18	295,650	181,741
Current tax liabilities	20	4,315	2,524
Expected credit loss for off-balance sheet exposures	5	1,040	-
Other liabilities	14	5,690	5,324
Total liabilities		**873,587**	**628,845**
EQUITY			
Share capital	21	500,000	255,000
Retained earnings/(Accumulated deficit)	21	20,662	10,869
Other reserves	21	5,655	324
Unrealised gains/(losses) on investment securities fair value at other comprehensive income		(16)	(48)
Total equity attributable to shareholders of the Bank		**526,301**	**266,145**
TOTAL LIABILITIES AND EQUITY		**1,399,888**	**894,990**

The financial statements were authorised for issuance by the Board of Directors on 7 September 2018.

The accompanying notes are an integral part of these financial statements.

UNAUDITED INTERIM CONDENSED
STATEMENT OF PROFIT OR LOSS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

	Note	**Reviewed 30 June 2018**	**Reviewed 30 June 2017**
Interest income			
Loans to customers		44,131	24,954
Finance lease receivables		1,840	758
Investment securities at fair value through other comprehensive income		1,476	1,050
Money market placements and securities purchased under agreements to resell		80	272
Bank placements		2,954	172
Amounts due from reserve requirements		728	233
Total Interest Income		**51,209**	**27,439**
Interest expense			
Amounts due to customers		(162)	(170)
Funds borrowed		(7,949)	(5,024)
Money market deposits		(2,529)	(1,078)
Amounts due to the debt securities issued		(8,535)	(2,826)
Total Interest Expense		**(19,175)**	**(9,098)**
Net interest income		**32,034**	**18,341**
Provision/reversal for impairment losses on financial assets	12, 23	(1,570)	(71)
Fee and commission income		1,880	1,091
Fee and commission expense		(498)	(270)
Net fee and commission income	**22**	**1,382**	**821**
Net gains/(losses) on financial assets at fair value through profit and loss		229	160
Net gains/(losses) on derecognition of investment securities at fair value through other comprehensive income		(10)	(4)
Net gains/(losses) from foreign currencies:		1,026	1,148
- translation differences		*2,903*	*2,441*
- operations with foreign currency derivatives		*(1,877)*	*(1,293)*
Reversal for impairment losses on off-balance sheet items		350	-
Other income		64	84
Total Non-interest income		**3,041**	**2,209**
OPERATING INCOME		**33,505**	**20,479**
Personnel expenses	25	(6,286)	(5,099)
General and administrative expenses	25	(4,944)	(4,475)
Depreciation and amortization		(380)	(371)
Other expenses		-	(3)
Non-interest expenses		**(11,610)**	**(9,948)**
PROFIT BEFORE INCOME TAX		**21,895**	**10,531**
Income tax expense	20	**(4,839)**	**(2,148)**
Net profit for the year		**17,056**	**8,383**

The accompanying notes are an integral part of these financial statements.

UNAUDITED INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Currency - in Thousands of Turkish Lira (“TL”) unless otherwise indicated. All other currencies are also expressed in thousands)

	Reviewed 30 June 2018	Reviewed 30 June 2017
Net profit for the year	**17,056**	**8,383**
Other comprehensive income to be reclassified to profit or loss in subsequent periods		
Net gain/(loss) on financial assets at fair value through other comprehensive income	39	9
Tax effect of net (losses)/gains on financial assets at fair value through comprehensive income	(7)	(1)
Other comprehensive income/(loss) for the period, net of tax	32	8
Total comprehensive income for the year	**17,088**	**8,391**

The accompanying notes are an integral part of these financial statements.

UNAUDITED INTERIM CONDENSED
STATEMENT OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

Reviewed	**Note**	**Share capital**	**Fair value reserve of financial assets at fair value through other comprehensive income**	**Legal reserves**	**Retained earnings**	**Total equity**
Balances at 1 January 2017		**255,000**	**11**	**324**	**(7,406)**	**247,929**
Transfer to reserves		**-**	**-**	**-**	**-**	**-**
Total comprehensive income for the period						
Profit for the period		-	-	-	8,383	**8,383**
Other comprehensive income for the period, net of tax		-	8	-	-	**8**
Total comprehensive income for the period		**-**	**8**	**-**	**8,383**	**8,391**
Balance at 30 June 2017		**255,000**	**19**	**324**	**977**	**256,320**
Reviewed						
Prior period end balance		**255,000**	**(48)**	**324**	**10,869**	**266,145**
Impact of adopting IFRS 9 (*)		-	-	-	(1,932)	**(1,932)**
Balances at 1 January 2018		**255,000**	**(48)**	**324**	**8,937**	**264,213**
Transfer to reserves		**-**	**-**	**5,331**	**(5,331)**	**-**
Capital Increase		**245,000**	**-**	**-**	**-**	**245,000**
Total comprehensive income for the period						
Profit for the period		-	-	-	17,056	**17,056**
Other comprehensive income for the period, net of tax		-	32	-	-	**32**
Total comprehensive income for the period		**-**	**32**	**-**	**17,056**	**17,088**
Balance at 30 June 2018		**500,000**	**(16)**	**5,655**	**20,662**	**526,301**

(*) Prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules and the difference between the book value of 1 January 2018 at the date of application reflected in the retained earnings under equity. Explanations regarding the transition effects of IFRS 9 has been disclosed in accounting policy Note 2.10.

The accompanying notes are an integral part of these financial statements.

UNAUDITED INTERIM CONDENSED
STATEMENT OF CASH FLOW FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018
(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

	Note	Unaudited 30 June 2018	Unaudited 30 June 2017
Cash flows from operating activities			
Interest received		44,035	21,687
Interest paid		(9,168)	(3,271)
Fee and commission received		1,998	1,254
Fee and commission paid		(540)	(349)
Cash payments to employees		(6,783)	(5,735)
Cash received from other operating activities		19,241	97
Cash paid for other operating activities		(5,296)	(4,682)
Income taxes paid		(3,446)	(508)
Cash flows from operating activities before changes in operating assets and liabilities		**40,041**	**8,493**
Changes in operating assets and liabilities			
Due from banks and reserve requirements		(29,028)	(14,964)
Financial assets at fair value through profit or loss		387	(2,500)
Loans to customers		(176,233)	(100,738)
Finance lease receivables		11,814	(24,881)
Other assets		(16,817)	4,045
Due to other banks and other money market deposits		1,537	21,622
Due to customers		(19,370)	34,715
Net increase/decrease in funds borrowed		142,124	40,292
Other liabilities		(3,357)	(7,124)
Net cash used in/provided by operating activities		**(88,943)**	**(49,533)**
Cash flows from investing activities			
Purchases of investment securities at fair value through other comprehensive income		(35,983)	(14,812)
Proceeds from sale and redemption of investment securities at fair value through other comprehensive income		46,511	19,333
Acquisitions of property and equipment and investment property		(260,951)	(69)
Proceeds from disposal of property and equipment		-	1
Acquisitions of intangible assets		(211)	(208)
Net cash (used in) provided by / (used in) investing activities		**(250,634)**	**4,245**
Cash flows from financing activities			
Capital injection		245,000	-
Proceeds from debt securities issued		246,193	109,631
Payments of debt securities issued		(155,804)	(89,836)
Net cash provided by financing activities		**335,389**	**19,795**
Effect of net foreign exchange differences on cash and cash equivalents		(481)	182
Net increase / (decrease) in cash and cash equivalents		35,372	(16,818)
Cash and cash equivalents at the beginning of the year	8	83,516	59,134
Cash and cash equivalents at the end of the year	8	**118,888**	**42,316**

The accompanying notes are an integral part of these financial statements.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

1. Principal activities

PASHA Yatırım Bankası A.Ş. ("the Bank", "PASHA Bank"), set up in Istanbul on 25 December 1987 under the title of Yatırım Bank A.Ş., is the first foreign investment bank in Turkey. With the decision taken by the previous parent of the Bank regarding the sale of its shares in the Bank, a share purchase agreement was signed between the Aksoy Holding A.Ş. and previous parent of the Bank on 13 May 2013. Upon the Banking Regulation and Supervision Agency ("BRSA")'s approval dated 26 June 2013, Aksoy Holding A.Ş. acquired the 99.4689% of the shares of the Bank.

PASHA Bank OJSC and Aksoy Holding A.Ş. has agreed on transferring the majority shares of the Bank. Acquisition of TL 28,795 of the Bank's capital by PASHA Bank OJSC and increase in the paid-in capital from TL 80,000 to TL 255,000 upon the acquisition were approved by the BRSA's decision dated 26 December 2014 and numbered 6137. The capital increase from TL 80,000 to TL 175,000 has been completed as at 25 February 2015. Paid-in capital increase from TL 175,000 to TL 255,000, approval of the share transfer and changing the Bank's title as "Pasha Yatırım Bankası A.Ş." have been approved in the extra ordinary general assembly of the Bank dated 27 January 2015. The change of Bank's title as "PashaYatırım Bankası A.Ş." was registered on 2 March 2015 and announced at the Turkish Trade Registry Gazette dated 6 March 2015 and numbered 8773. Acquisition of remaining 51,000 shares of Aksoy Holding A.Ş. by PASHA Bank OJSC by increasing Pasha Bank OJSC shares from %79,9196 to %99,9196 has been approved by the BRSA's resolution dated 23 December 2015 and numbered 18038.

In the Extraordinary General Meeting held on 18 May 2018, it was decided that the outstanding TL 255,000 paid-in capital will be increased to TL 500,000 with cash injection of TL 245,000 committed by Pasha Holding LLC, and the main agreement of the Bank will be revised accordingly. In accordance with the BRSA decision dated 4 May 2018 and numbered 7803, it has been approved that the indirect shareholder Pasha Holding LLC has the right to participated directly by 49% in the Bank. The share capital increase and the total paid-in capital 500,000 TL has been registered by Istanbul Trade Registry Chamber on 6 June 2018. The amendments to main agreement of the Bank has been published by Turkish Trade Registry Gazette's copy dated 12 June 2018 and numbered 9598.

Partnership structure of the Bank as of 30 June 2018, is stated below:

	Capital	**Share Rate**
PASHA Bank OJSC	254,795	50.96%
PASHA Holding LLC	245,000	49.00%
Other	205	0.04%
Total	**500,000**	**100.00%**

2. Basis of preparation

2.1. Statement of compliance

The interim condensed financial statements as of 30 June 2018 have been prepared in accordance with IAS 34 (Interim Financial Reporting). The interim 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 financial statements of the Bank for the year ended 31 December 2017.

The Bank maintains its books in Turkish Lira in accordance with the Banking Act, Turkish Commercial Code and Turkish Tax Legislation.

2. Basis of preparation (continued)

The statutory financial statements are prepared within the scope of the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" related with Banking Act numbered 5411 published in the Official Gazette no.26333 dated 1 November 2006 and in accordance with the regulations, communiqués, interpretations and legislations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency ("BRSA"), and in case where a specific regulation is not made by BRSA, "Turkish Accounting Standards" ("TAS") and "Turkish Financial Reporting Standards" ("TFRS") and related appendices and interpretations put into effect by Public Oversight Accounting and Auditing Standards Authority ("POA"). The format and content of the publicly announced financial statements and notes to above mentioned statements have been prepared in accordance with the "Communiqué on Publicly Announced Financial Statements, Explanations and Notes to These Financial Statements", published in Official Gazette no. 28337, dated 28 June 2012, and amendments to this Communiqué. The accompanying financial statements are derived from statutory financial statements with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

2.2. Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items in the statement of financial position:

- Derivative financial instruments are measured at fair value
- Financial instruments measured at fair value through profit or loss
- Financial instruments measured at fair value through other comprehensive income
- Investment property

2.3. Functional and presentation currency

These financial statements are presented in TL, which is the Bank's functional currency. Except as indicated, financial information presented in TL has been rounded to the nearest thousand.

2.4. Foreign currency transactions

Transactions in currencies other than TL (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign currency differences arising on retranslation are recognised in profit or loss.

2.5. Internet income and expense

Interest income and expense are recognised in the profit or loss using the effective interest method. Interest income is recorded according to the effective interest rate method (rate equal to net present value of future cash flows or financial assets and liabilities) defined in the IFRS 9 "Financial Instruments" standard by applying the effective interest rate to the gross carrying amount of a financial asset except for: purchased or originated credit-impaired financial assets or financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets.

2. Basis of preparation (continued)

If the financial asset is impaired and classified as a non-performing receivable, the Bank applies the effective interest rate on the amortized cost of the asset for subsequent reporting periods. Such interest income calculation is made on an individual contract basis for all financial assets subject to impairment calculation. Effective interest rate method is used during calculation of loss given default rate in expected credit loss models and accordingly, the calculation of expected credit losses includes an interest amount. If the credit risk of the financial instrument improves to the extent that the financial asset is no longer considered as impaired and the improvement can be attributed to an incident that eventually takes place (such as an increase in the loan's credit rating), interest income at subsequent reporting periods are calculated by applying the effective interest rate over gross amount.

Interest income and expense presented in the statement of comprehensive income statement include the interest income on financial assets and liabilities carried at amortized cost on an effective interest rate basis and the interest income on held for trading investments and fair value through other comprehensive income investments.

2.6. Fees and commissions

Except for fees and commissions that are integral part of the effective interest rates of financial instruments measured at amortized costs, the fees and commissions are accounted for in accordance with IFRS 15 Revenue from Contracts with Customers. Except for certain fees related with certain banking transactions and recognized when the related service is given, fees and commissions received or paid, and other fees and commissions paid to financial institutions are accounted under accrual basis of accounting throughout the service period. Income from asset purchases to a third party or by natural or legal persons contracts are recognized in the period they occur.

2.7. Net trading income

Net trading income comprises gains less loss related to derivative financial and liabilities, and includes all realised and unrealised fair value changes and interest. Any realised or unrealised fair value changes and interest of derivative financial assets and liabilities are recorded as trading income.

2.8. Taxation

The income tax charge is composed of the sum of current tax and deferred tax.

The current tax liability is calculated over taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible and it further excludes items that are never taxable or deductible. 20% is used in the calculation of the corporation tax. In accordance with the Provisional Article 10 added to the Corporate Tax Act, 20% of the Corporate Tax will be applied as 22% for corporate earnings for the tax years 2018, 2019 and 2020.

Deferred tax asset or liability is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and currently enacted tax rates are used to determine deferred tax on income. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date. Deferred tax is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

2. Basis of preparation (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized and reflected in the income statement as expense or income. Moreover, if the deferred tax is related with items directly recorded under the equity in the same or different period, deferred tax is also associated directly with equity. Deferred tax assets and liabilities are also offset.

2.9. Financial instruments

The Bank categorizes its financial assets as "Financial Assets at Fair Value Through Profit/Loss", "Financial Assets at Fair Value Through Other Comprehensive Income" or "Financial Assets Measured at Amortized Cost". Such financial assets are recognized or derecognized according to the principles defined in section three of "IFRS 9 Financial Instruments" standard, issued for classification and measurement of the financial instruments. Financial assets are measured at fair value at initial recognition in the financial statements. During the initial recognition of financial assets other than "Financial Assets at Fair Value Through Profit or Loss", transaction costs are added to fair value or deducted from fair value.

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.

Classification and measurement of financial assets

According to IFRS 9 requirements, classification and measurement of the financial assets depend on two fundamental criterias:

- The business model within financial assets are managed and
- The features of contractual cash flow; whether contractual cash flows are based on solely payments of principal and interest or not

Assessment for the business model:

The business model of the Bank represents how the Bank manages its financial assets for generating cash flows. The business model specifies whether cash flows arise from the collection of contractual cash flows or the sale of financial assets, or both. This assessment is based on scenarios the Bank expects to reasonably occur.

Assessment whether contractual cash flows are solely payments of principal and interest:

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making such assessment, the Bank considers contingent events that would change the amount and timing of cash flows, conditions that limit the Bank's claim to cash flows, prepayments and extension terms and features that modify consideration for the time value of money. Such assessments are also briefly defined as contractual cash flow characteristics test.

The Bank fulfils the on-balance sheet classification and measurement criteria by applying the procedures described above for all financial assets.

2. Basis of preparation (continued)

a. Financial assets at fair value through profit or loss:

"Financial Assets at Fair Value Through Profit/Loss" are financial assets other than the ones that are managed with business model that aims to hold to collect contractual cash flows or business model that aims to collect both the contractual cash flows and cash flows arising from the sale of the assets; and if the contractual terms of the financial asset do not lead to cash flows representing solely payments of principal and interest at certain date; that are either acquired for generating a profit from short term fluctuations in prices or are financial assets included in a portfolio aiming to short-term profit making. Financial assets at the fair value through profit or loss are initially recognized at fair value and remeasured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the income statement.

b. Financial assets at fair value through other comprehensive income:

"Financial Assets at Fair Value through Other Comprehensive Income" are financial assets which are managed with business model that aims to hold to collect contractual cash flows and aims to hold to sell; and if the contractual terms of the financial assets lead to cash flows representing solely payments of principal and interest at certain dates.

Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition cost which reflects the fair value of the financial asset. After initial recognition, financial assets at fair value through other comprehensive income are remeasured at fair value. Interest income calculated with effective interest rate method arising from financial assets at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement. "Unrealized gains and losses" arising from the difference between the amortized cost and the fair value of financial assets at fair value through other comprehensive income are not reflected in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, and impairment of the asset and they are accounted under the "Accumulated other comprehensive income or expense to be reclassified through profit or loss" under shareholders' equity.

Equity securities, which are classified as financial assets at fair value through other comprehensive income, that have a quoted market price in an active market and whose fair values can be reliably measured are carried at fair value.

During initial recognition an entity can make an irrecovable choice as to record the changes of the fair value of investment in an equity instrument that is not held for trading purposes in the other comprehensive income. In the case of this preference, the dividend from the investment is recognized in the financial statements as profit or loss.

c. Financial assets measured at amortized cost:

Financial assets that are held for collection of contractual cash flows where those cash fows represent solely payments of principal and interest are classified as financial assets measured at amortized cost.

Financial assets measured at amortized cost are initially recognized at acquisition cost including the transaction costs which reflect the fair value of those instruments and subsequently recognized at amortized cost by using effective interest rate (internal rate of return) method. Interest income obtained from financial assets measured at amortized cost is accounted in the income statement.

d. Loans:

Loans are financial assets that have fixed or determinable payment terms and are not quoted in an active market. Loans are initially recognized at acquisition cost plus transaction costs presenting their fair value and subsequently measured at amortized cost using the effective interest rate (internal rate of return) method. Bank's loans are fully recorded under the "Measured at Amortized Cost" account.

2. Basis of preparation (continued)

e. Financial liabilities:

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Bank after deducting all of its liabilities. Financial liabilities, including funds borrowed, securities issued, customer accounts and money market payables are initially measured at fair value, net of transaction costs. Such financial liabilities are subsequently measured at amortized cost using the effective interest method plus the interest expense recognized on an effective yield basis.

f. Derivative financial instruments:

Derivative financial instruments are initially recognised at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value of derivatives that do not qualify for hedge accounting are recognised in profit or loss.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and valuation techniques, including discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

2.10 Expected credit losses

As of 1 January 2018, the Bank started to recognize a loss allowance for expected credit losses on financial assets and loans measured at amortized cost and fair value through other comprehensive income and non-cash loans in accordance with IFRS 9. IFRS 9 introduces a forward-looking expected credit loss (ECL) approach, which is intended to result in an earlier recognition of credit losses based on an ECL impairment approach compared with the incurred-loss impairment approach for financial instruments under IAS 39, Financial Instruments: Recognition and Measurement and the loss-provisioning approach for financial guarantees and loan commitments.

At each reporting date, the Bank assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. The Bank considers the changes in the default risk of financial instrument, when making the assessment.

The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions. These financial assets are divided into three categories depending on increase in credit risk observed since their initial recognition:

Stage 1:

For the financial assets at initial recognition or for those which do not have a significant increase in credit risk since initial recognition. Allowance for credit risk is recorded in the amount of 12-month expected credit losses.

Stage 2:

As of the reporting date of the financial asset, in the event of a significant increase in credit risk since initial recognition or met criteria below the financial asset is transferred to Stage 2. Impairment for credit risk is determined on the basis of the instrument’s lifetime expected credit losses.

- Loans overdue more than 30 days as of the reporting date
- Two notch downgrades in rating note

2. Basis of preparation (continued)

Stage 3:

Financial assets considered as impaired at the reporting date are classified as stage 3. The probability of default is taken into account as 100% in the calculation of impairment provision and the Bank accounts lifetime expected credit losses. In determining the impairment, the Bank takes into consideration the following criteria:

- Delay of over 90 days
- Do not carry the necessary conditions for Stage 1 and Stage 2

The Bank measured expected credit losses with the reasonable, objective and supportable information based on a probability-weighted including estimations regarding time value of money, past events, current conditions and future economic conditions as of the reporting date, without undue cost or effort. The calculation of expected credit losses consists of three main parameters: probability of default (PD), loss given default (LGD) and exposure at default (EAD).

Prior to 1 January 2018, the Bank did not have any default history track and no historical data for assumptions of PD and LGD. The Bank uses Moody's global default rates corresponding to the ratings of external / internal rating of lenders when there are default probabilities (PDs) to be used to calculate ECLs. The recovery rates of collateralized loss (LGD) rates are calculated taking into account the specific coefficients. Credit risks carried outside of the statement of financial position is included in the ECL calculation using a specific credit conversion rate. Such ECL calculation is modeled taking into Basel criterias.

With the adoption of IFRS 9, the Bank calculates PDs, LGD and EAD (Exposure at default) and ECL (expected credit losses) for each financial asset, rather than group or portfolio basis. PDs are determined by the bank based on internal rating scores calculated by in-house built up model in the absence of external independent rating grades. The Bank's policy is to use standard PDs published by international rating agencies. The PDs in Stage 1 and Stage 2 are considered using the linear projection method (interpolation) for the remaining period of existence of quarters. The Bank would use the same model for stage 2 loans when exists with using life-time PDs. Further; PDs will be %100 for stage 3 loans when there will be non-performing loans. For non-cash loans, prior to calculating EAD, cash equivalent risk exposures are calculated by a credit conversion factor (CCF). Credit Conversion Factors are determined based on the ratios specified in the "Capital Adequacy Regulation" set by BRSA, local regulator. The present value of the ECLs are then calculated using the effective interest rates of the related financial assets. As at 30 June 2018, there are no financial assets classified under stage 2 and stage 3.

The Bank calculated the weighted average of PD and LGD as 0.97% and 42.97%, respectively for on-balance sheet financial assets, 0.99% and 48.40% for non-cash loans as of 30 June 2018.

The PD represents the likelihood of a default over a specified time period. A 12-month PD represents the likelihood of default determined for the next 12 months and a lifetime PD represents the probability of default over the remaining lifetime of the instrument. The lifetime PD calculation is based on a series of 12-month PIT PDs that are derived from TTC PDs and scenario forecasts.

Exposure at Default ("EAD")

The EAD represents an estimate of the exposure to credit risk at the time of a potential default occurring during the life of a financial instrument. It represents the cash flows outstanding at the time of default, considering expected repayments, interest payments and accruals, discounted at the effective interest rate. Future drawdowns on facilities are considered through a credit conversion factor (CCF) that is reflective of historical drawdown and default patterns and the characteristics of the respective portfolios.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

2. Basis of preparation (continued)

Calculating the Expected Loss Period

Lifetime ECL is calculated by taking into account maturity extensions, repayment options and the period during which the Parent Bank will be exposed to credit risk. The time in financial guarantees and other irrevocable commitments represents the credit maturity for which the liabilities of the Bank.

Significant increase in credit risk

The Bank makes qualitative and quantitative assessments regarding assessment of significant increase in credit risk of financial assets to be classified as stage 2 (Significant Increase in Credit Risk). Currently as of 30 June 2018, there are no financial assets classified as stage 2.

Within the scope of quantitative assessment, the quantitative reason explaining the significant increase in the credit risk is based on a comparison of the probability of default calculated at the origination of the loan and the probability of default assigned for the same loan as of the reporting date. If there is a significant deterioration in PD, it is considered that there is a significant increase in credit risk and the financial asset is classified as stage 2.

Adoption effect of IFRS 9 Financial Instruments

Effective 1 January 2018, the Bank adopted IFRS 9, Financial Instruments, which replaces IAS 39, Financial Instruments: Recognition and Measurement and substantially changes the classification, measurement and impairment of financial assets, income statement and balance sheet presentation and disclosure of financial instruments and other arrangements in scope. IFRS 9 sets out the new principles for the classification and measurement of financial instruments, impairment for credit risk on financial assets and general hedge accounting.

In accordance with the transition rules option provided by the IFRS 9 "Financial Instruments", the Bank is not restated the prior period financial statements and recognized the transition effect of the standard as of January 1, 2018 under equity's "Retained earnings" accounts. Explanation of the effect of the Bank's application of IFRS 9 is stated below:

Reconciliation of statement of financial position balances as at the transition of IFRS 9

	IAS 39		IFRS 9	
	Measurement Method	**Book Value**	**Measurement Method**	**Book Value**
Financial Assets		**31 December 2017**		**1 January 2018**
Cash and cash equivalents (Gross)	Amortised cost	83,516	Amortised cost	83,516
Reserve deposits at Central Bank (Gross)	Amortised cost	67,673	Amortised cost	67,673
Marketable securities (Gross)	Investment securities available for sale	21,308	Financial assets at measured fair value through other comprehensive income	21,308
	Trading securities	4,943	Financial assets at measured fair value through profit or loss	4,943
Loans and leasing receivables (Gross)	Amortised Cost	713,048	Amortised Cost	713,048

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

2. Basis of preparation (continued)

Reconciliation of the opening balances of the provision for expected credit losses to IFRS 9:

	Book Value IAS 39 31 December 2017	Remeasurements	Book Value After IFRS 9 1 January 2018
Loans			
Stage 1 & Stage 2	2,378	880	3,258
Stage 3	-	-	-
Financial Assets	**-**	**207**	**207**
Cash and cash equivalents	-	8	8
Reserve requirements	-	19	19
Securities at FVTOCI	-	180	180
Total on-balance sheet	**-**	**1,087**	**3,465**
Non-Cash Loans			
Stage 1 and Stage 2	-	1,390	1,390
Stage 3	-	-	-
Total off-balance sheet	**-**	**1,390**	**1,390**
Total	**2,378**	**2,477**	**4,855**

Effects on equity with IFRS 9 transition

As permitted in IFRS 9, the difference between the book value of 1 January 2018 at the date of application reflected in the opening retained earning's under equity. Explanations regarding the transition effects to IFRS 9 presented in the equity items are given below:

After deducting positive tax effect from the negative difference between the impairment losses of the previous period of the Bank amounting to TL 545, net effect of TL 1,932 provision differences has been recorded under "Retained Earnings" in shareholders' equity.

	Share capital plus legal and valuation reserves	Retained Earnings	Total Equity
As at 31 December 2017,	255,276	10,869	266,145
Effect of re-classification and re-measurement differences of financial instruments	-	-	-
Effect of re-measurement of provision for credit losses	-	(2,477)	(2,477)
Tax effect of differences above	-	545	545
Net effect of IFRS 9 transition	-	(1,932)	(1,932)
As at 1 January 2018,	255,276	8,937	264,213

2.11 Derecognition of financial instruments

Derecognition of financial assets due to change in contractual terms

Based on IFRS 9, the renegotiation or modification of the contractual cash flows of a financial asset could lead to the derecognition of the existing financial asset. When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset. When the Bank assesses the characteristics of the new contractual terms of the financial asset, it evaluates the contractual cash flows including foreign currency rate changes, conversion to equity, counterparty changes and solely principal and interest on principle. When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, it is recalculated the gross carrying amount of the financial asset and recognized a modification gain or loss in profit or loss.

2. Basis of preparation (continued)

Where all risks and rewards of ownership of the asset have not been transferred to another party and the Bank retains control of the asset, the Bank continues to recognize the remaining portion of the asset and liabilities arising from such asset. When the Bank retains substantially all the risks and rewards of ownership of the transferred asset, the transferred asset continues to be recognized in its entirety and the consideration received is recognized as a liability.

Derecognition of financial assets without any change in contractual terms

The Bank derecognizes the asset if the contractual rights to cash flows from the financial asset are expired or the related financial asset and all risks and rewards of ownership of the asset are transferred to another party. Except for equity instruments measured at fair value through other comprehensive income, the total amount consisting of the gain or loss arising from the difference between the book value and the amount obtained and any accumulated gain directly accounted in equity shall be recognized in profit/loss.

Derecognition of financial liabilities

It shall be removed a financial liability (or a part of a financial liability) from the statement of financial position when, and only when, it is extinguished—ie when the obligation specified in the contract is discharged or cancelled or expires.

2.12 Property and equipment

Property and equipment is measured at its cost when initially recognised and any directly attributable costs of setting the asset in working order for its intended use are included in the initial measurement. Subsequently, property and equipment are carried at cost less accumulated depreciation and provision for value decrease, if any. Depreciation is calculated over the cost of property and equipment using the straight-line method. The depreciation rates are stated below:

Office machine, furniture, leasehold improvements and vehicles	3-10 years

The depreciation charge for items remaining in property and equipment for less than an accounting period at the balance sheet date is calculated in proportion to the period the item remained in property and equipment.

Where the carrying amount of an asset is greater than its estimated "recoverable amount", it is written down immediately to its "recoverable amount" and the provision for the diminution in value is charged to the income statement.

Property and equipment are not subject to valuation such that fair value is presented in the financial statements.

Gains and losses on the disposal of property and equipment are determined by deducting the net book value of the property and equipment from its sales revenue.

Expenditures for the regular repair and maintenance of property and equipment are recognised as expense. The capital expenditures made in order to increase the capacity of the tangible asset or to increase its future benefits are capitalised on the cost of the tangible asset. The capital expenditures include the cost components which are used either to increase the useful life or the capacity of the asset, or the quality of the product or to decrease the costs.

There is no pledge, mortgage or commitment on the Bank's property and equipments.

The Bank expects no change with respect to accounting estimates that have significant impact on the current period or may have significant impact on the following periods.

2. Basis of preparation (continued)

2.13 Intangible assets

Intangible assets are measured at cost on initial recognition and any directly attributable costs of setting the asset to work for its intended use are included in the initial measurement. Subsequently, intangible assets are carried at historical costs after the deduction of accumulated amortization and the provision for value decreases, if any.

Intangibles are amortised over their estimated useful lives of three to five years using the straight-line method. The useful life of the asset is determined by assessing the expected useful life of the asset, technical, technological and other kinds of obsolescence and all required maintenance expenses necessary to utilise the economic benefit of the assets.

The Bank expects no change with respect to accounting estimates, amortization period, amortization method, or residual value that will have significant impact on the current or the following periods.

Computer software development expenses that add to the economic benefit and extend the useful life of the software are capitalised. These expenses are amortised over the remaining useful life of the related intangible asset using "the straight-line method".

2.14 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation, including property under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value.

The Bank's investment properties are valued by external, independent valuation companies on a periodic basis. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction. In the absence of available current prices in an active market, the valuations are based on estimated cash flows expected to be received.

Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the period in which they arise. When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting. If owner occupied property becomes an investment property, the Bank accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

2.15 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Bank as lessee

Assets held under finance leases are initially recognized as assets of the Bank at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

2. Basis of preparation (continued)

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets.

The Bank as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Bank's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

2.16 Provisions

Provisions and contingent liabilities except for the financial instruments within the scope of the IFRS 9 or the provisions recognised in accordance with other standards such as IAS 12 and IAS 19 are accounted in accordance with the "IAS 37 Standard for Provisions, Contingent Liabilities and Contingent Assets".

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The provision for contingent liabilities arising from past events should be recognised in the same period of occurrence in accordance with the "Matching principle". When the amount of the obligation cannot be estimated and there is no possibility of an outflow of resources from the Bank, it is considered that a "Contingent" liability exists and it is disclosed in the related notes to the financial statements.

2.17 Employee benefits

Termination and retirement benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Bank. Such payments are considered as being part of defined retirement benefit plan as per International Accounting Standard No. 19 (revised) "Employee Benefits" ("IAS 19"). The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation.

Profit-sharing and bonus plans

The Bank recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.18 Fiduciary and trust activities

The Bank provides fiduciary and trust services to individuals and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Bank receives fee income for providing these services. Trust assets held by the Bank in a fiduciary, agency or custodian capacity for its customers are not recognized in the financial statements, since such items are not as assets of the Bank. The Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

2. Basis of preparation (continued)

2.19 Dividends

Dividends on ordinary shares are recognized as a liability in the period in which they are approved by the Annual General Meeting of the Shareholders of the Bank.

2.20 Use of estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the financial statements. The Bank believes that the judgments, estimates and assumptions used in the preparation of the financial statements are appropriate within the factual circumstances as of 30 June 2018.

The most significant areas, for which judgments, estimates and assumptions are required in applying the Bank's accounting policies, are the following:

- Expected credit losses, as described in Note 2.10,
- Determining fair values, as described in Note 2.9.

2.21 Explanations on prior period accounting policies not valid for the current period

Interest income and expense

Interest income and expenses are recognized in the statement of profit or loss for all interest bearing instruments using the effective interest rate method. Interest income includes interest on loans and advances to customers, finance lease receivables, factoring receivables and due from banks, coupons earned on investment and trading securities and accrued discount and premium on treasury bills and other instruments.

Fees and direct costs relating to a loan origination or acquiring a security, financing or restructuring and to loan commitments are deferred and amortized to interest income over the life of the instrument using the effective interest rate method.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees and commissions

Fee and commission income is generally recognized on an accrual basis over the period the service is provided. Commission and fee arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts.

The fee and commissions paid to other institutions are recognized as transaction cost and recorded using effective interest rate method.

Financial assets and liabilities at fair value through profit or loss ("FVTPL")

This category has the following two sub-categories:

- Trading and
- Financial assets and liabilities designated at fair value through profit or loss.

<u>Trading</u>

The trading category includes securities, which are either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are included in a portfolio in which a pattern of short-term profit taking exists, and derivatives unless they are designated as and are effective hedging instruments. Trading securities may also include securities sold under sale and repurchase agreements.

2. Basis of preparation (continued)

Financial assets and liabilities designated at fair value through profit or loss

The Bank designates at initial recognition certain financial assets or liabilities as at fair value through profit or loss when a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel, for example the Board of Directors and Chief Executive Officer. The fair value designation, once made, is irrevocable.

Measurement

Financial assets and liabilities at fair value through profit or loss (both trading and designated) are initially recognized at fair value and subsequently re-measured at fair value.

Gains and losses realised on disposal or redemption and unrealised gains and losses from changes in the fair value are included in net trading income and results from investment securities.

Interest income generated from financial assets are recognized under net interest income in the statement of profit or loss.

Dividend income is recognized in the statement of profit or loss when the right to receive payment is established. This is the ex-dividend date for equity securities and is separately reported and included in dividend income.

The amount of change during the period, and cumulatively, in the fair values of designated loans and advances to customers that is attributable to changes in their credit risk is determined as the amount of change in the fair value that is not attributable to changes in market conditions that give rise to market risk.

Available for sale investments

Available for sale investments are initially recognized at fair value (including transaction costs) and subsequent to initial recognition are measured at fair value. Unquoted equity instruments whose fair value cannot be reliably estimated are carried at cost. Unrealised gains and losses arising from changes in the fair value of available for sale investment securities are reported in other comprehensive income, net of taxes (where applicable), until such investment is sold, collected or otherwise disposed of, or until such investment is determined to be impaired.

Available for sale investment securities may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates or equity prices. When an available for sale investment security is disposed of or impaired, the accumulated unrealised gain or loss included in other comprehensive income is transferred to the statement of profit or loss for the period and reported as gains / losses from investment securities.

Impairment: The Bank assesses at each reporting date whether there is objective evidence that an available for sale investment security or a group of such securities is impaired.

Particularly for equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of profit or loss) is removed from other comprehensive income and recognized in the statement of profit or loss.

Impairment losses recognized in the statement of profit or loss on equity instruments are not reversed through the statement of profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

2. Basis of preparation (continued)

Interest earned while holding investment securities is reported as interest income.

Dividend income is recognized when the right to receive payment is established (the ex-dividend date) for equity securities and is separately reported and included in dividend income.

Held to maturity investments

Investments held to maturity include securities with fixed or determinable payments and fixed maturity where there is an intention of holding until maturity and the relevant conditions for fulfilment of such intention, including the funding ability exist, other than those that meet the definition of loans and receivables.

Loans and advances to customers

Loans and advances to customers include non–derivative financial assets with fixed or determinable payments that are not quoted in an active market, and the Bank does not intend to sell immediately or in the near term. Loans and advances to customers include those classified as loans and receivables and those designated as fair value though profit or loss.

Loans originated by the Bank are recognized when cash is advanced to borrowers. Loans and advances to customers are initially recorded at fair value, which is usually the net amount disbursed at inception including directly attributable origination costs and certain types of fees or commission (syndication commission, commitment fees and handling charges) that are regarded as an adjustment to the effective interest rate of the loan, and are subsequently measured at amortized cost using the effective interest rate method, unless they are designated as at "fair value through profit or loss".

Impairment losses on loans and advances to customers

The Bank assesses at each reporting date whether there is objective evidence that a loan, or a group of loans is impaired.

A loan (or group of loans) is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan ("loss event") and that loss event (or events) has an impact on the estimated future cash flows of the loan (or group of loans) that can be reliably estimated.

An allowance for impairment is established if there is objective evidence that the Bank will be unable to collect all amounts due according to the original contractual terms.

Objective evidence that a loan (or group of loans) is impaired includes observable data that comes to the attention of the Bank 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 Bank 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) It 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 in the group (e.g. an increased number of delayed payments); or

  ii. national or local economic conditions that correlate with defaults on the assets in the group.

2. Basis of preparation (continued)

The impairment loss is reported through the use of an allowance account on the statement of financial position. Additions to impairment losses are made through impairment losses on loans and advances to customers, finance lease receivables and factoring receivables in the statement of profit or loss.

The Bank assesses whether objective evidence of impairment exists individually for loans that are considered individually significant and individually or collectively for loans that are not considered individually significant.

If there is objective evidence that an impairment loss on loans and advances to customers carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loans' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at a) the loan's original effective interest rate, if the loan bears a fixed interest rate, or b) current effective interest rate, if the loan bears a variable interest rate.

The calculation of the present value of the estimated future cash flows of a collateralized loan reflects the cash flows that may result from obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics. Loans and advances to customers are grouped based on days in arrears or product type. Those characteristics are relevant to the estimation of future cash flows for pools of loans by being indicative of the debtors' ability to pay all amounts due and together with historical loss experience for loans with credit risk characteristics similar to those in the pool form the foundation of the loan loss allowance computation. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects and conditions in the historical period that do not currently exist.

The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

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 impairment losses on loans and advances to customers, finance lease receivables and factoring receivables in the statement of profit or loss.

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 decrease the amount of the provision for loan impairment in the statement of profit or loss.

2.22 The new standards, amendments and interpretations

The accounting policies adopted in preparation of the interim condensed consolidated financial statements as at 30 June 2018 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 1 January 2018. The effects of these standards and interpretations on the Bank's financial position and performance have been disclosed in the related paragraphs.

2. Basis of preparation (continued)

i) The new standards, amendments and interpretations which are effective as at 1 January 2018 are as follows:

IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15 Revenue from Contracts with Customers. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). IFRS 15 effective date is 1 January 2018. The Bank assessed the effect of IFRS 15 "Revenue from Contracts with Customers" standard and the amendments did not have an impact on the financial position or performance of the Bank.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. Effective 1 January 2018, the Bank adopted IFRS 9, Financial Instruments, which replaces IAS 39, Financial Instruments: Recognition and Measurement and substantially changes the classification, measurement and impairment of financial assets, income statement and balance sheet presentation and disclosure of financial instruments and other arrangements in scope. As permitted by IFRS 9, the Bank elected not to restate prior-period information. The adoption of IFRS 9 has resulted in a TL 1,932 reduction in the Bank's IFRS unconsolidated equity, net of tax as of 1 January 2018. Explanations on adoption of IFRS 9 is disclosed in Note 2.9.

2. Basis of preparation (continued)

IFRS 7 Financial Instruments: Disclosures

IFRS 7, Financial Instruments: Disclosures was updated in line with IFRS 9, Financial Instruments. The Bank adopted the revised standard on 1 January 2018. Given the first half of 2018 includes the date of initial application of IFRS 9, and to meet the general disclosure requirements for interim periods to describe the nature and effects of changes to policies and methods made since the last annual reporting, the Bank provides the IFRS 9 transition disclosures as set out by IFRS 7 in the first half of 2018. A full set of disclosures as required by revised IFRS 7 will be provided in the Bank's annual Financial Statements as of and for the year ended 31 December 2018.

IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments)

The IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments, provide requirements on the accounting for:
a. the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
b. share-based payment transactions with a net settlement feature for withholding tax obligations; and
c. a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

These amendments are applied for annual periods beginning on or after 1 January 2018. The amendments are not applicable for the Bank and did not have an impact on the financial position or performance of the Bank.

2. Basis of preparation (continued)

IFRS 4 Insurance Contracts (Amendments)

In September 2016, the IASB issued amendments to IFRS 4 Insurance Contracts. The amendments introduce two approaches: an overlay approach and a deferral approach. These amendments are applied for annual periods beginning on or after 1 January 2018. The amendments are not applicable for the Bank and did not have an impact on the financial position or performance of the Bank.

IAS 40 Investment Property: Transfers of Investment Property (Amendments)

The IASB issued amendments to IAS 40 'Investment Property '. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. These amendments are applied for annual periods beginning on or after 1 January 2018. The amendments did not have a significant impact on the financial position or performance of the Bank.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

The Interpretation states that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. An entity is not required to apply this Interpretation to income taxes; or insurance contracts (including reinsurance contracts) it issues or reinsurance contracts that it holds.

The interpretation is effective for annual reporting periods beginning on or after 1 January 2018. The interpretation is not applicable for the Bank and did not have an impact on the financial position or performance of the Bank.

Annual Improvements to IFRSs - 2014-2016 Cycle

The IASB issued Annual Improvements to IFRS Standards 2014–2016 Cycle, amending the following standards:

- IFRS 1 First-time Adoption of International Financial Reporting Standards: This amendment deletes the short-term exemptions about some IFRS 7 disclosures, IAS 19 transition provisions and IFRS 10 Investment Entities. These amendments are applied for annual periods beginning on or after 1 January 2018.

IAS 28 Investments in Associates and Joint Ventures: This amendment clarifies that the election to measure an investment in an associate or a joint venture held by, or indirectly through, a venture capital organisation or other qualifying entity at fair value through profit or loss applying IFRS 9 Financial Instruments is available for each associate or joint venture, at the initial recognition of the associate or joint venture. These amendments are applied for annual periods beginning on or after 1 January 2018. The amendments are not applicable for the Bank and did not have an impact on the financial position or performance of the Bank.

ii) Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the interim condensed consolidated financial statements are as follows. The Bank will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

2. Basis of preparation (continued)

IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)

In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. An entity shall apply those amendments prospectively. The Bank is in the process of assessing the impact of the amendments on financial position or performance of the Bank.

IFRS 16 Leases

The IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted. The Bank is in the process of assessing the impact of the standard on financial position or performance of the Bank.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation clarifies how to apply the recognition and measurement requirements in "IAS 12 Income Taxes" when there is uncertainty over income tax treatments.

When there is uncertainty over income tax treatments, the interpretation addresses:
(a) whether an entity considers uncertain tax treatments separately;
(b) the assumptions an entity makes about the examination of tax treatments by taxation authorities;
(c) how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
(d) how an entity considers changes in facts and circumstances.

An entity shall apply this Interpretation for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies this Interpretation for an earlier period, it shall disclose that fact. On initial application, an entity shall apply the interpretation either retrospectively applying IAS 8, or retrospectively with the cumulative effect of initially applying the Interpretation recognised at the date of initial application. The Bank is in the process of assessing the impact of the interpretation on financial position or performance of the Bank.

IFRS 17 - The new Standard for insurance contracts

The IASB issued IFRS 17, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 model combines a current balance sheet measurement of insurance contract liabilities with the recognition of profit over the period that services are provided. IFRS 17 will become effective for annual reporting periods beginning on or after 1 January 2021; early application is permitted. The amendments are not applicable for the Bank and did not have an impact on the financial position or performance of the Bank.

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

In October 2017, the IASB issued minor amendments to IFRS 9 Financial Instruments to enable companies to measure some prepayable financial assets at amortised cost.

2. Basis of preparation (continued)

Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss. Applying the amendments, if a specific condition is met, entities will be able to measure at amortised cost some prepayable financial assets with so-called negative compensation.

The amendments are effective from annual periods beginning on or after 1 January 2019, with early application permitted. The amendments are not applicable for the Bank and will not have an impact on the financial position or performance of the Bank.

Amendments to IAS 28 Investments in Associates and Joint Ventures (Amendments)

In October 2017, the IASB issued amendments to IAS 28 Investments in Associates and Joint Ventures. In this amendment the IASB clarified that the exclusion in IFRS 9 applies only to interests a company accounts for using the equity method. A company applies IFRS 9 to other interests in associates and joint ventures, including long-term interests to which the equity method is not applied and that, in substance, form part of the net investment in those associates and joint ventures.

The amendments are effective for annual periods beginning on or after 1 January 2019, with early application permitted. Overall, the Bank expects no significant impact on its balance sheet and equity.

Annual Improvements – 2015–2017 Cycle

In December 2017, the IASB announced Annual Improvements to IFRS Standards 2015–2017 Cycle, containing the following amendments to IFRSs:

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements — The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 Income Taxes — The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.
- IAS 23 Borrowing Costs — The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The amendments are effective from annual periods beginning on or after 1 January 2019, with early application permitted. The Bank is in the process of assessing the impact of the amendments on financial position or performance of the Bank.

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

On 7 February 2018, the IASB published Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" to harmonise accounting practices and to provide more relevant information for decision-making. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement occurs. An entity shall apply these amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. The Bank is in the process of assessing the impact of the amendments on financial position or performance of the Bank.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

3 Critical judgements and estimates

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

The most significant areas, for which judgments, estimates and assumptions are required in applying the Bank's accounting policies, are the following:

- Expected credit losses, as described in Note 2.10,
- Determining fair values, as described in Note 2.9.

4 Financial risk management

Credit risk

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the financial statements, without taking account of any collateral held or other credit enhancements attached. For on balance sheet assets, the exposures set out below are based on net carrying amounts as reported in the statement of financial position.

30 June 2018	Cash and cash equivalents (*)	Reserve requirements	Financial assets at FVTOCI	Loans and lease receivables
Risk exposure	**118,874**	**96,878**	**11,720**	**895,368**
Non-performing financial assets	-	-	-	-
Gross amount	**118,874**	**96,878**	**11,720**	**895,368**
Specific provision for Stage 3	-	-	-	-
Generic provision for Stage 1 and 2	(23)	(184)	(60)	(4,768)
Neither past due nor impaired	118,851	96,694	11,660	890,600
Carrying amount	**118,851**	**96,694**	**11,660**	**890,600**
Restructured and rescheduled loans and other receivables	-	-	-	-
Carrying amount	-	-	-	-
Carrying amount (amortised cost)	**118,851**	**96,694**	**11,660**	**890,600**

31 December 2017	Cash and cash equivalents (*)	Reserve requirements	Financial assets at FVTOCI	Loans and lease receivables
Risk exposure	**83,470**	**67,673**	**21,308**	**713,048**
Non-performing financial assets	-	-	-	-
Gross amount	**83,470**	**67,673**	**21,308**	**713,048**
Specific provision (due IAS 39)	-	-	-	-
General provision (due IAS 39)	-	-	-	(2,378)
Neither past due nor impaired	83,470	67,673	21,308	710,670
Carrying amount	**83,470**	**67,673**	**21,308**	**710,670**
Restructured and rescheduled loans and other receivables	-	-	-	-
Carrying amount	-	-	-	-
Carrying amount (amortised cost)	**83,470**	**67,673**	**21,308**	**710,670**

(*) Cash on hand is excluded.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

4. Financial risk management (continued)

Collateral in detail

The Bank holds collateral against loans and lease receivables to customers in the form of mortgage interests over property, other registered securities over assets, checks and notes receivables and other guarantees. Collateral generally is not held over due from banks, except when securities are held as part of reverse repurchase and securities borrowing activity. The breakdown of financial assets by type of collateral is as follows:

The collateral amounts in the table present the minimum of the fair value of the collateral or the amount of outstanding loan and lease receivable balance against which the collateral acquired. For the calculation of expected credit losses the collateral are recognized during LGD calculation with a rate of consideration.

30 June 2018		Collaterals after rate of consideration								
Type of collateral or credit enhancement	**Maximum exposure to credit risk**	**Cash**	**Bank guarantees**	**Mortgage-property**	**Cheques & Notes receivables**	**Pledges**	**Other**	**Total collateral**	**Net exposure**	**Associated ECLs**
Financial assets										
Cash and cash equivalents (including reserves at Central Bank)	215,752	-		-	-	-	-	-	215,752	207
Loans and advances to customers	895,368	9,398	8,023	92,252	149,384	102,689	946	362,692	532,676	4,768
Securities at fair value through OCI	11,720	-	-	-	-	-	-	-	11,720	60
Off-balance sheet exposures (after Credit Conversion Factor)	305,613	681	18,704	3,457	40,948	0	179	63,969	241,644	1,040

Rating grades and information on expected credit loss components

Financial assets presented on statement of financial position:

Rating note (calibred to Moody's rating) subject to ECL calculation	Internal rating category	12 month PD range	Average Exposure at default	Weighted Average PDs	Weighted Average LGD
Aaa	High grade	0.0001-0.02	1,113	0.005%	45.00%
Aa2	High grade	0.0001-0.02	695	0.017%	45.02%
Baa3	Standard grade	0.004-0.25	2,893	0.112%	21.32%
Ba1	Standard grade	0.012-0.65	10,952	0.356%	39.43%
Ba2	Standard grade	0.013-0.72	7,843	0.332%	45.10%
Ba3	Standard grade	0.032-1.68	16,255	0.718%	50.88%
B1	Standard grade	0.042-2.23	3,252	1.339%	47.61%
B2	Standard grade	0.064-3.40	4,687	1.164%	48.62%
B3	Sub-standard grade	0.10-5.50	1,443	4.060%	42.20%
Caa1	Sub-standard grade	0.12-6.83	6,500	2.235%	1.52%
Ca	Sub-standard grade	0.68-42.53	1,173	38.837%	0.00%
Total			**1,122,855**	**0.97%**	**42.97%**
In default		100-100	-	100.00%	100.00%

Off-balance sheet exposures:

Rating note (calibred to Moody's rating) subject to ECL calculation	Internal rating category	12 month PD range	Average Exposure at default	Weighted Average PDs	Weighted Average LGD
Baa3	Standard grade	0.004-0.25	2,305	0.200%	46.79%
Ba1	Standard grade	0.012-0.65	2,892	0.436%	70.51%
Ba2	Standard grade	0.013-0.72	2,870	0.177%	75.00%
Ba3	Standard grade	0.032-1.68	7,485	1.449%	66.94%
B1	Standard grade	0.042-2.23	4,882	1.912%	19.80%
B2	Standard grade	0.064-3.40	1,930	2.409%	17.37%
B3	Sub-standard grade	0.10-5.50	329	4.743%	44.02%
Caa1	Sub-standard grade	0.12-6.83	422	4.692%	32.15%
Ca	Sub-standard grade	0.68-42.53	2,305	0.200%	46.79%
Total			**379,787**	**0.99%**	**48.40%**
In default		100-100	-	100.00%	100.00%

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

4. Financial risk management (continued)

Liquidity risk

Liquidity ratios realized in the current period:

The table below analyses carrying amount of financial assets and liabilities of the Bank into relevant maturity groupings based on the remaining period to contractual maturity at the balance sheet date.

	Demand	Up to 1 month	1-3 Month	3-12 Month	1-5 Year	5 Year and Over	Unclassified (*)	Total
30 June 2018								
Assets								
Cash and cash equivalents	5,801	113,087	-	-	-	-	(23)	118,865
Reserve requirements at Central Bank	-	96,878	-	-	-	-	(184)	96,694
Financial assets at FVTPL	4,467	-	-	-	-	-	-	4,467
Derivative financial assets	-	-	-	-	-	-	-	-
Financial assets at FVTOCI	-	5,185	-	-	3,966	2,569	(60)	11,660
Loans to customers and finance leases	-	216,048	135,458	196,939	231,168	115,755	(4,768)	890,600
Other financial assets	11,817	-	-	-	-	-	-	11,817
Total Financial Assets	**22,085**	**431,198**	**135,458**	**196,939**	**235,134**	**118,324**	**(5,035)**	**1,134,103**
Liabilities								
Amounts due to customers	9,568	3,104	-	-	-	-	-	12,672
Amounts due to banks and money market deposits	277	64,111	-	-	-	-	-	64,388
Funds borrowed	-	125,006	-	362,418	-	-	-	487,424
Derivative financial liabilities	-	900	-	-	-	-	-	900
Debt securities issued	-	47,846	19,512	-	228,292	-	-	295,650
Other financial liabilities	3,684	-	-	-	-	-	-	3,684
Total Financial Liabilities	**13,529**	**240,967**	**19,512**	**362,418**	**228,292**	**-**	**-**	**864,718**
Net Liquidity Gap	**8,556**	**190,231**	**115,946**	**(165,479)**	**6,842**	**118,324**	**(5,035)**	**269,385**
31 December 2016						-		
Total Financial Assets	33,189	314,969	94,000	216,875	222,530	12,133	(2,378)	891,318
Total Financial Liabilities	23,994	174,142	86,195	167,849	170,048	-	2,005	624,233
Net Financial Liquidity Gap	**9,195**	**140,827**	**7,805**	**49,026**	**52,482**	**12,133**	**(4,383)**	**267,085**

(*) The provisions for expected losses for the financial assets are presented in the unclassified column.

The table below shows nominal amounts of the remaining contractual maturities of derivative financial instruments at the balance sheet date.

30 June 2018	Up to 1 month	1-3 Month	3-12 Month	1-5 Year	5 Year and Over	Total
Currency forward agreements – purchase	20,523	-	-	-	-	20,523
Currency forward agreements – sell	(21,651)	-	-	-	-	(21,651)
Currency swap agreements – purchase	-	-	-	-	-	-
Currency swap agreements – sell	-	-	-	-	-	-
Net	**(1,128)**	**-**	**-**	**-**	**-**	**(1,128)**
31 December 2017						
Currency forward agreements – purchase	2,441	8,307	11,646	-	-	22,394
Currency forward agreements – sell	(2,437)	(8,354)	(11,289)	-	-	(22,080)
Currency swap agreements – purchase	32,061	-	-	-	-	32,061
Currency swap agreements – sell	(32,795)	-	-	-	-	(32,795)
Net	**(730)**	**(47)**	**357**	**-**	**-**	**(420)**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

4. Financial risk management (continued)

The table below shows the expected maturities of commitments and contingencies at the balance sheet date.

	Up to 1 month	1-3 Month	3-12 Month	1-5 Year	5 Year and Over	Maturity Undefined	Total
30 June 2018	23,412	43,738	146,563	60,764	-	113,460	387,937
31 December 2017	4,651	5,493	194,317	51,508	-	109,975	365,944

The table below shows the undiscounted cash flows on the Bank's financial liabilities on the basis of their earliest possible contractual maturity. The Bank's expected cash flows on these instruments vary significantly from this analysis.

30 June 2018	**Carrying amount**	**Gross nominal outflow**	**Up to 1 month**	**1-3 Month**	**3-12 Month**	**1-5 Year**	**5 Year and Over**
Amounts due to customers	12,672	12,673	12,673	-	-	-	-
Amounts due to banks and money market deposits	64,388	64,502	64,502	-	-	-	-
Funds borrowed	487,424	492,385	125,213	-	367,172	-	-
Derivative financial liabilities	900	900	900	-	-	-	-
Debt securities issued	295,650	332,052	48,143	20,060	-	263,849	-
Total	**861,034**	**902,512**	**251,431**	**20,060**	**367172**	**263,849**	**-**

31 December 2017	**Carrying amount**	**Gross nominal outflow**	**Up to 1 month**	**1-3 Month**	**3-12 Month**	**1-5 Year**	**5 Year and Over**
Amounts due to customers	32,041	32,049	32,049	-	-	-	-
Amounts due to banks and money market deposits	62,751	62,821	62,821	-	-	-	-
Funds borrowed	341,387	347,325	70,384	28,081	170,466	78,394	-
Derivative financial liabilities	1,072	1,072	692	187	193	-	-
Debt securities issued	181,741	205,893	29,484	59,244	-	117,165	-
Total	**618,992**	**649,160**	**195,430**	**87,512**	**170,659**	**195,559**	**-**

The below tables are prepared in accordance with BRSA regulations representing the ratio of liquid assets to liabilities within certain time intervals for the last quarter of reporting periods.

	First Maturity Tranche (Weekly)		**Second Maturity Tranche (Monthly)**	
	FC	**FC +TL**	**FC**	**FC +TL**
30 June 2018				
Average (%)	1,192	612	396	406
Maximum (%)	3,732	1,082	738	822
Minimum (%)	171	198	172	211

	First Maturity Tranche (Weekly)		**Second Maturity Tranche (Monthly)**	
	FC	**FC +TL**	**FC**	**FC +TL**
31 December 2017				
Average (%)	595	221	180	157
Maximum (%)	1,137	291	382	220
Minimum (%)	190	156	81	107

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

4. Financial risk management (continued)

Interest rate sensitivity risk

Interest rate sensitivity of financial assets and liabilities based on re-pricing dates is as follows:

30 June 2018	Non-interest bearing	Up to 1 month	1-3 Month	3-12 Month	1-5 Year	5 Year and Over	Unclassified (*)	Total
Financial Assets								
Cash and cash equivalents	5,801	113,087	-	-	-	-	(23)	118,865
Reserve requirements at Central Bank	-	96,878	-	-	-	-	(184)	96,694
Financial assets at FVTPL	4,467	-	-	-	-	-	-	4,467
Derivative financial assets	-	-	-	-	-	-	-	-
Financial assets at FVTOCI	-	9,815	-	-	1,905	-	(60)	11,660
Loans to customers and finance lease receivables	-	337,343	206,996	196,648	128,413	25,968	(4,768)	890,600
Other financial assets	11,817	-	-	-	-	-	-	11,817
Total	**22,085**	**557,123**	**206,996**	**196,648**	**130,318**	**25,968**	**(5,035)**	**1,134,103**
Financial Liabilities								
Amounts due to customers	9,568	3,104	-	-	-	-	-	12,672
Amounts due to banks and money market deposits	277	64,111	-	-	-	-	-	64,388
Funds borrowed	-	125,006	-	362,418	-	-	-	487,424
Derivative financial liabilities	-	900	-	-	-	-	-	900
Debt securities issued	-	47,846	19,512	-	228,292	-	-	295,650
Other financial liabilities	3,684	-	-	-	-	-	-	3,684
Total	**13,529**	**240,967**	**19,512**	**362,418**	**228,292**	**-**	**-**	**864,718**
Net interest sensitivity gap	**8,556**	**316,156**	**187,484**	**(165,770)**	**(97,974)**	**25,968**	**(5,035)**	**269,385**

31 December 2017	Non-interest bearing	Up to 1 month	1-3 Month	3-12 Month	1-5 Year	5 Year and Over	Unclassified (*)	Total
Financial Assets								
Cash and cash equivalents	25,038	58,478	-	-	-	-	-	83,516
Reserve requirements at Central Bank	-	67,673	-	-	-	-	-	67,673
Trading securities	4,943	-	-	-	-	-	-	4,943
Derivative financial assets	-	-	-	-	-	-	-	-
Investment securities available-for-sale	-	2,524	9,303	9,481	-	-	-	21,308
Loans to customers and finance lease receivables	-	254,990	169,508	150,622	128,318	9,610	(2,378)	710,670
Other financial assets	3,208	-	-	-	-	-	-	3,208
Total	**33,189**	**383,665**	**178,811**	**160,103**	**128,318**	**9,610**	**(2,378)**	**891,318**
Financial Liabilities								
Amounts due to customers	20,736	11,305	-	-	-	-	-	32,041
Amounts due to banks and money market deposits	22	62,729	-	-	-	-	-	62,751
Funds borrowed	-	70,164	27,931	167,656	75,636	-	-	341,387
Derivative financial liabilities	-	692	187	193	-	-	-	1,072
Debt securities issued	-	29,252	58,077	-	94,412	-	-	181,741
Other financial liabilities	3,236	-	-	-	-	-	-	3,236
Total	**23,994**	**174,142**	**86,195**	**167,849**	**170,048**	**-**	**-**	**622,228**
Net interest sensitivity gap	**9,195**	**209,523**	**92,616**	**(7,746)**	**(41,730)**	**9,610**	**(2,378)**	**269,090**

(*) The provisions for expected losses for the financial assets are presented in the unclassified column.

The following table indicates the average interest rates by major currencies for the major accounts of the statement of financial position for the periods ending 30 June 2018 and 31 December 2017:

	EUR (%)	USD (%)	TL (%)
30 June 2018			
Balances with Central Bank	-	1.50	5.09
Cash and cash equivalents	0.88	4.39	14.76
Loans and advances to customers and finance lease receivables	5.05	7.08	17.60
Financial assets at FVTOCI	-	-	15.11
Amounts due to money markets	-	2.02	15.22
Funds borrowed	1.25	3.06	15.79
Debt securities issued	-	4.75	15.40

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

4. Financial risk management (continued)

	EUR (%)	USD (%)	TL (%)
31 December 2017			
Balances with Central Bank	-	1.29	4.00
Cash and cash equivalents	0.04	1.21	13.97
Loans to customers and finance lease receivables	4.54	6.09	15.33
Available-for sale financial assets	-	-	12.14
Amounts due to money markets	-	-	13.72
Funds borrowed	1.43	3.17	12.64
Debt securities issued	-	4.85	13.93

The table below shows the economic value differences resulted from interest rate instabilities calculated according to regulation on measurement and evaluation of interest rate risk resulted from banking book as per standard shock method according to BRSA regulations:

30 June 2018 **Type of Currency**	**Shocks Applied (+/- basis points)**	**Gains/Losses**	**Gains/Equity-Losses/Equity (*)**
1. TRY	(+) 500 bps	(5,885)	(1.11%)
2. TRY	(-) 400 bps	5,211	0.98%
3. USD	(+) 200 bps	1,869	0.35%
4. USD	(-) 200 bps	(1,310)	(0.25%)
5. EURO	(+) 200 bps	(806)	(0.15%)
6. EURO	(-) 200 bps	(91)	(0.02%)
Total (For negative shocks)		**3,810**	**0.72%**
Total (For positive shocks)		**(4,822)**	**(0.91%)**

31 December 2017 **Type of Currency**	**Shocks Applied (+/- basis points)**	**Gains/Losses**	**Gains/Equity-Losses/Equity (*)**
1. TRY	(+) 500 bps	(7,942)	(2.97%)
2. TRY	(-) 400 bps	7,145	2.68%
3. USD	(+) 200 bps	2,667	1.00%
4. USD	(-) 200 bps	(1,787)	(0.67%)
5. EURO	(+) 200 bps	(1,654)	(0.62%)
6. EURO	(-) 200 bps	2,602	0.97%
Total (For negative shocks)		**7,959**	**2.98%**
Total (For positive shocks)		**(6,930)**	**(2.59%)**

(*) The equity represents the statutory equity of the Bank subject to capital adequacy calculations prepared in accordance with BRSA regulations.

Currency risk

The Bank's publicly announced foreign exchange bid rates and foreign currency translation rates as of the date of the financial statements:

	USD	**EURO**
30 June 2018	4.5607	5.3092
31 December 2017	3.7719	4.5155

The simple arithmetic average of the Bank's foreign exchange bid rates for the last thirty days preceding the balance sheet date:

	USD	**EURO**
30 June 2018	4.6252	5.4066
31 December 2017	3.8417	4.5496

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

4. Financial risk management (continued)

The following table shows the foreign currency net general position of the bank on the basis of foreign currencies.

30 June 2018	TL	EUR	USD	AZN	Other	Total
Assets						
Cash and cash equivalents	4,081	4,849	109,928	7	-	118,865
Reserve requirements at Central Bank	-	3,683	93,011	-	-	96,694
Financial assets at FVTPL	3,172	-	1,295	-	-	4,467
Derivative financial assets	-	-	-	-	-	-
Financial assets FVTOCI	11,660	-	-	-	-	11,660
Loans to customers and finance lease receivables	487,550	104,923	298,127	-	-	890,600
Other financial assets	3,684	-	8,133	-	-	11,817
Total Financial Assets	**510,147**	**113,455**	**510,494**	**7**	**-**	**1,134,103**
Liabilities						
Amounts due to customers	2,772	7,873	2,027	-	-	12,672
Amounts due to banks and money market deposits	61,560	-	2,828	-	-	64,388
Funds borrowed	81,577	105,695	300,152	-	-	487,424
Derivative financial liabilities	900	-	-	-	-	900
Debt securities issued	67,359	-	228,291	-	-	295,650
Other financial liabilities	3,684	-	-	-	-	3,684
Total Financial Liabilities	**217,852**	**113,568**	**533,298**	**-**	**-**	**864,718**
Net balance sheet gap	**292,295**	**(113)**	**(22,804)**	**7**	**-**	**269,385**
Net off-balance sheet gap	**(21,651)**	**-**	**20,523**	**-**	**-**	**(1,128)**
Financial Derivative Assets	-	-	20,523	-	-	20,523
Financial Derivative Liabilities	(21,651)	-	-	-	-	(21,651)
Non-cash loans	**211,262**	**60,507**	**108,018**	**-**	**-**	**379,787**
31 December 2017						
Total Financial Assets	**479,480**	**117,274**	**287,274**	**1**	**7,289**	**891,318**
Total Financial Liabilities	**202,561**	**93,496**	**318,921**	**-**	**7,250**	**622,228**
Net balance sheet gap	**276,919**	**23,778**	**(31,647)**	**1**	**39**	**269,090**
Net off-balance sheet gap	**(10,401)**	**(22,080)**	**32,061**	**-**	**-**	**(420)**
Financial Derivative Assets	22,394	-	32,061	-	-	54,455
Financial Derivative Liabilities	32,795	22,080	-	-	-	54,875
Non-cash loans	**205,473**	**87,692**	**72,762**	**-**	**-**	**365,927**

The possible increases or decreases in the shareholders' equity and the profit/loss as per an assumption of devaluation by 20% of TL (31 December 2017 – 10%) against currencies mentioned below as of 30 June 2018 are presented in the below table. The other variables, especially the interest rates, are assumed to be fixed in this analysis.

Assuming 20% and 10% depreciation of TL, respectively:

	30 June 2018 20% devaluation of TL		**31 December 2017 10% devaluation of TL**	
	Income statement	Shareholders' equity (*)	Income statement	Shareholders' equity (*)
USD	(456)	(456)	46	46
EUR	(23)	(23)	169	169
Total	**(479)**	**(479)**	**215**	**215**

(*) The effect on shareholders' equity also includes profit/loss effect.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

5. Fair values of financial assets and liabilities

Financial instruments not measured at fair value:

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the statement of financial position at fair value.

	Carrying amount		Fair value	
	30 June 2018	31 December 2017	30 June 2018	31 December 2017
Financial assets				
Cash and cash equivalents	118,865	83,516	118,865	83,516
Reserve requirements at Central Bank	96,694	67,673	96,694	67,673
Loans to customers and finance lease receivables	890,600	710,670	874,097	708,376
Financial liabilities				
Amounts due to customers	12,672	3,536	12,672	3,536
Amounts due to banks and money market deposits	64,388	16,344	64,388	16,344
Funds borrowed	487,424	191,897	486,418	191,672
Debt securities issued	295,650	181,741	295,375	181,598

The following methods and assumptions were used to estimate the fair values of above financial instruments:

The fair value of loans and receivables are determined by calculating the discounted cash flows using the current market interest rates for the fixed loans with fixed interest rates. For the loans with floating interest rates, it is assumed that the carrying value reflects the fair value.

The fair values of debt securities issued are determined based on market prices or when this price is not available, using a discounted cash flow analysis based on current market rates of similar maturity debt securities.

The fair value of funds borrowed are determined by using discounted cash flows based on the current Bank's borrowing interest rates for similar types of borrowing arrangements.

The fair value of remaining financial assets and liabilities such as cash and cash equivalents, amounts due from credit institutions, amounts due to banks and money market deposits and amounts due to customers are estimated to be same with carrying amount due to their short term maturity profile and non-interest earning/bearing characteristics.

Financial instruments measured at fair value:

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or,
- Level 3: Inputs for the asset or liability that is not based on observable market data (unobservable inputs).

30 June 2018	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets at FVTPL	4,467	-	-	4,467
Financial assets at FVTOCI	11,660	-	-	11,660
Derivative financial assets	-	-	-	-
Total	16,127	-	-	16,127
Financial Liabilities				
Derivative financial liabilities	-	900	-	900

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

5. Fair values of financial assets and liabilities (continued)

31 December 2017	Level 1	Level 2	Level 3	Total
Financial Assets				
Trading securities	4,943	-	-	4,943
Investment securities available-for-sale	14,019	-	7,289	21,308
Derivative financial assets	-	-	-	-
Total	18,962	-	7,289	26,251
Financial Liabilities				
Derivative financial liabilities	-	1,072	-	1,072

Level 3 financial assets included corporate bonds with floating rates as at 31 December 2017, which were valued using discounted cash flow techniques based on current rates available for debt instruments with similar terms and credit risk characteristics. Such instrument has been sold in year 2018. The movement in the level 3 financial assets is as follows:

	01/01/18 – 30/06/18	01/01/17-31/12/17
Balance at the beginning of the period	7,289	6,674
Additions	-	-
Disposals	(7,652)	-
Gains/losses from changes in fair value and derecognition	(10)	18
Foreign exchange differences	373	597
Balance at the end of the period	**-**	**7,289**

There are no instruments transferred between the levels.

The table below summarizes the fair value hierarchy of inputs used in fair value disclosure of the instruments that are not carried at fair value:

30 June 2018	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial Assets					
Cash and cash equivalents	118,865	118,865	-	-	118,865
Reserve requirements at Central Bank	96,694	96,694	-	-	96,694
Loans to customers and finance lease receivables	890,600	-	-	874,097	874,097
Financial Liabilities					
Amounts due to customers	12,672	-	-	12,672	12,672
Amounts due to banks and money market deposits	64,388	-	-	64,388	64,388
Funds borrowed	487,424	-	-	486,418	486,418
Debt securities issued	295,650	-	-	295,375	295,375

31 December 2017	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial Assets					
Cash and cash equivalents	83,516	83,516	-	-	83,516
Reserve requirements at Central Bank	67,673	67,673	-	-	67,673
Loans to customers and finance lease receivables	710,670	-	-	708,376	708,376
Financial Liabilities					
Amounts due to customers	32,041	-	-	32,041	32,041
Amounts due to banks and money market deposits	62,751	-	-	62,751	62,751
Funds borrowed	341,387	-	-	341,279	341,279
Debt securities issued	181,741	-	-	181,598	181,598

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

6. Capital adequacy

The method used for risk measurement in determining capital adequacy standard ratio; Capital Adequacy Standard Ratio is calculated in accordance with Banking Regulation and Supervision Agency ("BRSA")'s "Communiqué on Measurement and Assessment of Capital Adequacy of Banks", "Communiqué on Credit Risk Mitigation Techniques", "Communiqué on Calculation of Risk Weighted Amounts for Securitizations" published on 6 September 2014 and Official Gazette numbered 29111 and "Communiqué on Equities of Banks" published on 5 September 2013 in the Official Gazette numbered 28756. The Bank's capital adequacy ratio is % 38.02 (31 December 2017: % 31.36) in accordance with the related Communiqué as of 30 June 2018. The Bank has complied with the capital requirements throughout the year and previous year.

	30 June 2018	**31 December 2017**
Capital requirement for Credit Risk (CRCR)	106,038	64,529
Capital requirement for Market Risk (CRMR)	17	263
Capital requirement for Operational Risk (CROR)	5,452	3,349
Total capital requirement	**111,507**	**68,141**
Total risk weighted assets (total capital requirement*12.5)	**1,393,832**	**851,763**
Tier 1 capital	523,873	259,687
Tier 2 capital	6,075	7,393
Deductions from capital (-)	-	-
Total capital	**529,948**	**267,080**
Total Capital /((CRCR+CRMR+CROR)*12.5)*100	38.02	31.36
Tier 1 Capital/((CRCR+CRMR+CROR)*12.5)*100	37.59	30.49
Common Equity Tier 1 Capital/((CRCR+CRMR+CROR)*12.5)*100	37.59	30.51

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

7. Segment reporting

Information regarding operational segments as at 30 June 2018 and 31 December 2017 are as follows:

Current Period	**Corporate Banking**	**Treasury and Asset Liability Management**	**Total**
Total Assets	**890,600**	**509,288**	**1,399,888**
Total Liabilities	**12,949**	**1,386,939**	**1,399,888**
Net Interest Income/(Loss)	45,971	(13,937)	32,034
Net Fee and Commission Income/(Loss)	1,382	-	1,382
Other Operating Segments Gain/(Loss)	350	1,309	1,659
Provisions for Impairment Losses on Financial Assets (-)	(1,510)	(60)	(1,570)
Other Operating Expenses and Losses	-	(11,610)	(11,610)
Profit Before Tax	**46,193**	**(24,298)**	**21,895**
Tax Provision	-	(4,839)	(4,839)
Net Profit	**46,193**	**(29,137)**	**17,056**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

7. Segment reporting (continued)

Prior Period	Corporate Banking	Treasury and Asset Liability Management	Total
As at 31 December 2017			
Total Assets	**710,670**	**184,320**	**894,990**
Total Liabilities	**32,091**	**862,899**	**894,990**
For the period ended 30 June 2017			
Net Interest Income/(Loss)	25,712	(7,371)	18,341
Net Fee and Commission Income/(Loss)	821	-	821
Other Operating Segments Gain/(Loss)	-	1,388	1,388
Provisions for Loan Losses and Other Receivables(-)	(71)	-	(71)
Other Operating Expense (-)	-	(9,948)	(9,948)
Profit Before Tax	**26,462**	**(15,931)**	**10,531**
Tax Provision	-	(2,148)	(2,148)
Net Profit	**26,462**	**(18,079)**	**8,383**

8. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2018	31 December 2017
Cash on hand	14	46
Current accounts with the Central Bank	3,659	9,854
Demand Deposits	2,128	15,138
Time deposits up to 90 days	113,087	58,478
Expected credit loss	(23)	-
Stage 1	*(23)*	-
Stage 2 & 3	-	-
Total cash and cash equivalents	**118,865**	**83,516**

As at 30 June 2018, all the cash and cash equivalents are classified under Stage 1 in accordance with IFRS 9.

As at 30 June 2018, the interest rates for time deposits vary between 1.70% and 3.36% for USD balances (31 December 2017: 1.25% - 1.65% for USD balances).

For the purposes of the preparation of statement of cash flows, "Cash" includes cash, effectives, and cash in transit, purchased cheques and demand deposits including balances with the Central Bank; and "Cash equivalents" include interbank money market placements and time deposits at banks with original maturity periods of less than three months.

9. Reserve requirements at Central Bank

Amounts due from Central Bank of Turkey held as reserve requirements:

	30 June 2018	31 December 2017
Reserve requirements with the CBT	96,878	67,673
Expected credit loss	(184)	-
Stage 1	*(184)*	-
Stage 2 & 3	-	-
Total	**96,694**	**67,673**

As at 30 June 2018, all the reserve requirements are classified under Stage 1 in accordance with IFRS 9.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

9. Reserve requirements at Central Bank (continued)

According to CBRT's "Required Reserves Announcement" numbered 2005/1, for Turkish currency and foreign currency denominated liabilities, reserve requirement amounts held in CBRT have been included in the above table. The reserve rates for TL liabilities vary between 4% and 10.5% for TL deposits and other liabilities according to their maturities as of 30 June 2018 (31 December 2017: 4% and 10.5% for all TL liabilities). The reserve rates for foreign currency liabilities vary between 4% and 24% for deposit and other foreign currency liabilities according to their maturities as of 30 June 2018 (31 December 2017: 4% and 24% for all foreign currency liabilities).

10. Financial assets at fair value through profit and loss

Trading securities comprise of private sector mutual funds. As at 30 June 2018, there are no trading securities given as collateral or subject to repo transactions (31 December 2017: None).

11. Financial assets at fair value through other comprehensive income

Investment securities available-for-sale comprise:

	30 June 2018		**31 December 2017**	
	Carrying value	**Nominal value**	**Carrying value**	**Nominal value**
Turkish Government Bonds	7,092	7,000	5,080	5,000
Financial Institution Bonds	2,568	2,500	6,924	7,200
Corporate Bonds	2,060	2,000	9,304	9,224
Expected credit loss	(60)	-	-	-
Stage 1	*(60)*	-	-	-
Stage 2 & 3	-	-	-	-
Financial assets at fair value through other comprehensive income	**11,660**	**11,500**	**21,308**	**21,424**

As at 30 June 2018, all the financial assets at fair value through other comprehensive income are classified under Stage 1 in accordance with IFRS 9.

The interest rates per annum and maturities of these securities are as follows:

	30 June 2018		**31 December 2017**	
	%	**Maturity**	**%**	**Maturity**
Turkish Government Bonds	11.37-19.38%%	Jul 2018 – Nov 2019	11.37%	Jul 2018
Financial Institution Bonds	21.31%	Oct 2017	16.68%-17.21%	Jul 2018 – Oct 2027
Corporate Bonds	20.10%	Feb 2020	10.86%-18.28	Feb 2020 – Dec 2021

The movement of investment securities at fair value through other comprehensive income is as follows:

	2018	**2017**
Balance at January 1,	21,308	20,538
Additions	35,620	26,375
Disposals	(45,682)	(26,754)
Gains/losses from changes in fair value	101	552
Foreign exchange differences	373	597
Balance at June 30 / December 31, gross	**11,720**	**21,308**
Expected credit loss	(60)	-
Balance at June 30 / December 31, net	**11,660**	**21,308**

The investment securities at fair value through other comprehensive income subject to repo transactions amount to TL 6,012 as at 30 June 2018 (31 December 2017 – TL 9,922). Securities given as collateral amount to TL 4,474 (31 December 2017 – TL 711).

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

12. Loans to customers and finance lease receivables

The loans are almost fully granted to corporate customers. There are no consumer loans or credit card balances. Loans to customers and finance lease receivables comprise:

	30 June 2018	31 December 2017
Neither past due nor impaired		
Loans to customers	873,279	679,099
- Counterparty financial institutions	320,278	287,975
- Counterparty corporate customers	553,001	391,124
Finance lease receivables	22,089	33,949
- Counterparty financial institutions	8,059	8,904
- Counterparty corporate customers	14,030	25,045
Past due not impaired	-	-
Impaired individually	-	-
Loans to customers and finance lease receivables (gross)	**895,368**	**713,048**
- Individual impairment (-)	-	-
- Expected credit loss / Collective impairment (-)	(4,768)	(2,378)
Loans and advances to customers, net	**890,600**	**710,670**

Movement in allowance for impairment on loans to customers is as follows:

	2018	2017
Balance at January 1,	(2,378)	(1,500)
IFRS 9 transition effect	(880)	
Stage 1	*(880)*	-
Stage 2 & 3	-	-
Current year (additions)/reversals	(1,510)	(878)
Stage 1	*(1,510)*	-
Stage 2 & 3	-	-
Balance at June 30 / December 31,	(4,768)	(2,378)
Stage 1	*(4,768)*	-
Stage 2 & 3	-	-

As at 30 June 2018, all the loans to customers and financial lease receivables are classified under Stage 1 in accordance with IFRS 9.

The table below shows the loans to customers and finance lease receivables according to industry segmentation:

	30 June 2018	31 December 2017
Financial institutions	328,337	296,879
Other corporate lending		
Trade and services	54,256	67,680
Manufacturing	78,811	27,238
Construction	84,975	78,999
Real estate and & Rental services	60,156	46,077
Mining	29,531	37,705
Energy	103,661	39,697
Other	155,641	118,773
Total loans to customers and finance lease receivables, gross	**895,368**	**713,048**
Expected credit loss / Impairment allowance	(4,768)	(2,378)
Total loans to customers and finance lease receivables, net	**890,600**	**710,670**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

13. Investment property

As of 18 June 2018, the Bank has purchased a real estate classified as investment property amounting to TL 260,916 (31 December 2017: None) as of balance sheet date. The Bank also completed all necessary legal proceedings and had fully control on the real estate. Investment properties are measured initially at cost, including transaction costs. Investment property is initially recognized at cost, including transaction costs, and subsequently is stated at cost less accumulated depreciation and any accumulated impairment losses. For disclosure purposes investment property is re-measured at fair value reflecting market conditions at the end of the reporting period.

14. Other assets and liabilities

Other assets comprise:

	30 June 2018	31 December 2017
Other financial assets		
Clearance cheque accounts (*)	3,684	3,208
Payments for securities purchase commitments	8,133	-
	11,817	**3,208**
Other non-financial assets		
Prepayments and receivables	928	595
Collaterals given	130	117
Other non-financial assets	78	13
	1,136	**725**
Total other assets	**12,953**	**3,933**

Other liabilities comprise:

	30 June 2018	31 December 2017
Other financial liabilities		
Cash collaterals obtained	-	28
Clearance cheque accounts (*)	3,684	3,208
	3,684	**3,236**
Other non-financial liabilities		
Miscellaneous payables	11	150
Provisions for Lawsuit	262	262
Accrued operating expenses	193	256
Deferred income on fee & commissions	1,451	1,332
Other non-financial liabilities	89	88
	2,006	**2,088**
Total other liabilities	**5,690**	**5,324**

(*) Amount consists of collateral cheques received from customers and submitted to settlement and custody bank and due as of 30 June 2018 and 31 December 2017.

15. Amounts due to customers

The amounts due to customers include demand or short-term maturing liabilities. As at 30 June 2018, TL 3,104 (31 December 2017 – TL 11,305) is short-term natured.

An analysis of customers by economic sectors is as follows:

	30 June 2018	31 December 2017
Mining	47	4,770
Trade and services	89	754
Construction	216	1,316
Non-banking credit organizations	2,537	1,726
Manufacturing	878	9,420
Real estate and & Rental services	27	3,098
Energy	8,824	3,353
Holding companies	-	7,560
Other	54	44
Amounts due to customers	**12,672**	**32,041**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

16. Amounts due to banks and money market deposits

	30 June 2018		31 December 2017	
	Amount	Maturity & interest rates	Amount	Maturity & interest rates
Payables to Money Market	61,283	18.3-19.3% & Jul 2018	54,672	12-14% & Jan 2018
Payables regarding repurchase agreements	2,828	2% & Jul 2018	8,057	5-10.15% & Jan 2018
Due to banks – demand deposits	277	-	22	-
Amounts due to customers	**64,388**		**62,751**	

17. Funds borrowed

Information on banks:

	30 June 2018				
	TL	Maturity & interest rates	**FC**	Maturity & interest rates	**Total TL and FC**
From Domestic Banks and Institutions	58,563	18.8-20.0% & Jul 2018	-	-	58,563
From Foreign Banks, Institutions and Funds	23,014	15.3-16.6% & Jul 2018	296,465	1.0-3.5% & Jul 2018 – Apr 2019	319,479
Due from Parent Bank – Foreign Bank	-	-	109,382	1.5-2.5% & Oct 2018 – Dec 2018	109,382
Total	**81,577**		**405,847**		**487,424**

	31 December 2017				
	TL	Maturity & interest rates	**FC**	Maturity & interest rates	**Total TL and FC**
From Domestic Banks and Institutions	18,521	13-14.5% & Jan 2018	27,518	0.1-2.5% & Feb 2018	46,039
From Foreign Banks, Institutions and Funds	21,069	12.8-15.2% & Jan 2018	170,168	1.5-7.2% & Jan 2018 – Jan 2019	191,237
Due from Parent Bank – Foreign Bank	-	-	104,111	1.0-2.5% & Jun 2018 – Dec 2018	104,111
Total	**39,590**		**301,797**		**341,387**

Information on maturity structure of borrowings:

	30 June 2018			31 December 2017		
	TL	**FC**	**Total**	**TL**	**FC**	**Total**
Short-term	81,577	32,313	113,890	39,590	62,390	101,980
Medium and Long-term	-	373,534	373,534	-	239,407	239,407
Total	**81,577**	**405,847**	**487,424**	**39,590**	**301,797**	**341,387**

The borrowings comprise of mainly fixed interest rate instruments.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

18. Debt securities issued

In year 2018, the Bank has performed five bond issues as of 30 June 2018. The summary information regarding those issuances are as follows:

As at 30 June 2018 Code of issued security	Type	Issue date	Issued nominal amount	Maturity date	Total days	Redeem status	Carrying amount as at 30 June 2018
AZ2002020173	Couponed	14/06/2018	25,000 USD	14/09/2021	1,188	-	114,159
TRFPASH91810	Discounted	23/05/2018	21,083 TL	04/09/2018	104	-	19,512
TRFPASH51814	Discounted	22/01/2018	36,000 TL	31/05/2018	129	Redemeed	-
TRFPASH71812	Discounted	16/02/2018	32,500 TL	06/07/2018	140	-	27,861
TRFPASH71820	Discounted	01/03/2018	25,000 TL	31/07/2018	157	-	19,985
AZ2001020174	Couponed	22/09/2017	25,000 USD	22/12/2022	1,917	-	114,133
Total debt securities issued at 30 June 2018							**295,650**

As at 31 Dec 2017 Code of issued security	Type	Issue date	Issued nominal amount	Maturity date	Total days	Redeem status	Carrying amount as at 31 Dec 2017
TRQPASH61711	Discounted	13/02/2017	45,000 TL	08/06/2017	115	Redemeed	-
TRQPASH91718	Discounted	07/04/2017	27,000 TL	25/09/2017	171	Redemeed	-
TRFPASHE1710	Discounted	08/06/2017	40,500 TL	02/10/2017	116	Redemeed	-
TRFPASHE1728	Discounted	14/07/2017	38,000 TL	16/10/2017	94	Redemeed	-
AZ2001020174	Couponed	22/09/2017	25,000 USD	22/12/2022	1917	-	94,412
TRFPASH11818	Discounted	25/09/2017	30,000 TL	22/01/2018	119	-	29,252
TRFPASH21817	Discounted	02/10/2017	31,000 TL	16/02/2018	137	-	28,542
TRFPASH31816	Discounted	16/10/2017	31,500 TL	01/03/2018	136	-	29,535
Total debt securities issued at 31 December 2017							**181,741**

19. Derivative financial instruments

The Bank does not have any hedging purpose derivatives. The derivatives are for trading purposes.

The fair value of derivative financial instruments is calculated by using forward exchange rates at the reporting date. In the absence of reliable forward rate estimations in a volatile market, current market rate is considered to be the best estimate of the present value of the forward exchange rates.

As at 30 June 2018 and 31 December 2017, financial assets at fair value through profit or loss as follows:

	30 June 2018		**31 December 2017**	
	Notional amount TL	**Notional amount FC**	**Notional amount TL**	**Notional amount FC**
Currency swap purchases	-	-	-	32,061
Currency swap sales	-	-	32,795	-
Currency forward purchases	-	20,523	22,394	-
Currency forward sales	21,651	-	-	22,080
	21,651	**20,523**	**55,189**	**54,141**

As at 30 June 2018 and 31 December 2017 set out below carrying values of positive and negative differences of derivative instruments:

	Assets		**Liabilities**	
	30 June 2018	**31 December 2017**	**30 June 2018**	**31 December 2017**
Currency swaps	-	-	-	(692)
Currency forward	-	-	(900)	(380)
Fair value of derivatives	**-**	**-**	**(900)**	**(1,072)**

The Bank's derivative financial instruments mostly comprise of OTC derivatives.

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

20. Taxation

The current tax liabilities comprise:

	30 June 2018	31 December 2017
Current income tax liability (*)	3,448	1,673
Banking insurance transactions tax liability	396	278
Value added tax liability	30	162
Social security premiums payable	160	137
Other taxes, duties and premiums payable	281	274
Total	**4,315**	**2,524**

(*) As at 30 June 2018, TL 1,773 prepaid income taxes are net-off (31 December 2017 – TL 3,221).

The tax expense comprises:

	30 June 2018	30 June 2017
Current tax charge	(5,212)	(1,844)
Deferred tax credit/(charge)	373	(304)
Income tax expense	**(4,839)**	**(2,148)**

	30 June 2018	30 June 2017
Profit before tax	**21,895**	**10,531**
Tax calculated based on the current tax rate of 20%	(4,817)	(2,106)
Net effect of income except/(non-deductible expenses)	(22)	(42)
Income tax expense	**(4,839)**	**(2,148)**

Deferred tax related to items credited to other comprehensive income during the year is as follows:

	30 June 2018	30 June 2017
Tax effect of net gains/(losses) on investment securities FVTOCI	2	(5)
Income tax credited/(charged) to other comprehensive income	**2**	**(5)**

Current tax related to items credited to other comprehensive income during the year is as follows:

	30 June 2018	30 June 2017
Net gains/(losses) on investment securities FVTOCI	(9)	4
Income tax credited/(charged) to other comprehensive income	**(9)**	**4**

The movements in the deferred tax asset for the year ended 30 June 2018 and 31 December 2017 are as follow:

	30 June 2018	31 December 2017
Opening - 1 January	1,423	989
IFRS 9 transition effect	545	-
Recognised in profit or loss statement	373	436
Recognised in other comprehensive income	2	(2)
Closing – 30 June / 31 December	**2,343**	**1,423**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

20. Taxation (continued)

Deferred tax assets and liabilities and their movements are as follows:

		Origination and reversal of temporary differences			Origination and reversal of temporary differences		
	1 Jan 2017	In the income statement	In the comprehensive income	31 Dec 2017	In the income statement	In the comprehensive income / retained earnings (*)	30 June 2018
Tax effect of deductible temporary differences							
Provision for loans to customers and finance lease receivables	300	223	-	523	268	545(*)	1,336
Reserve for employee termination benefits and bonus provision	340	101	-	441	227	-	668
Miscellaneous expense accruals	54	2	-	56	(15)	-	41
Other	364	142	-	506	(5)	-	501
Deferred tax asset	1,058	468	-	1,526	475	545	2,546
Tax effect of taxable temporary differences							
Valuation differences of investment securities	-	-	(2)	(2)	-	2	-
Amortization and depreciation differences	(69)	(32)	-	(101)	8	-	(93)
Other	-	-	-	-	(110)	-	(110)
Deferred tax liability	(69)	(32)	(2)	(103)	(102)	2	(203)
Net deferred tax asset/(liability)	**989**	**436**	**(2)**	**1,423**	**373**	**547**	**2,343**

(*) The IFRS 9 transition effect regarding deferred tax asset amounting to TL 545 due from expected credit losses increase in the opening balance sheet is included in this column.

21. Equity

Share capital:

As of 30 June 2018, the authorised nominal share capital of PASHA Yatırım Bankası A.Ş. amounted to TL 500,000 (31 December 2017: TL 255,000), comprising 500 million (Full TL) registered shares of one TL 0.01 each.

In accordance with the decision of Extraordinary General Meeting held at 18 May 2018, and within the approval of BRSA decision dated 4 May 2018 and numbered 7803, the outstanding TL 255,000 paid-in capital as at 31 December 2017 has been increased to TL 500,000 at 6 June 2018 with cash injection of TL 245,000 paid by Pasha Holding LLC.

As of 30 June 2018 the Bank's historical subscribed and issued share capital was TL 500,000 (31 December 2017: TL 255,000).

As of 30 June 2018 and 31 December 2017 the composition of shareholders and their respective percentage of ownership can be summarised as follows:

	30 June 2018		**31 December 2017**	
	Amount	**%**	**Amount**	**%**
PASHA Bank OJSC	254,795	50.96	254,795	99.92
PASHA Holding LLC	245,000	49.00	-	-
Others	205	0.04	205	0.08
Total	**500,000**		**255,000**	

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

21. Equity (continued)

Legal reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted. In the Ordinary General Meeting held at 16 March 2018, it was decided to distribute TL 5,331 from the statutory profit of year 2017 to legal reserves. The statutory legal reserve is TL 5,655 as of 30 June 2018 and TL 324 as of 31 December 2017.

22. Commitments and contingencies

Litigation:

The Bank has provided TL 262 (31 December 2017: TL 262) of provision for the disputed legal cases filed by various persons and institutions, high probability of occurrence and requiring cash outflow. Although there are other ongoing lawsuits that against the Bank, do not expect high possibility of against result and cash outflows related to these cases.

Financial commitments and contingencies:

The Bank enters into various contractual commitments on behalf of its customers and is a party to financial instruments with off-balance sheet risk ("non-cash loans") to meet the financing needs of its customers. These contractual commitments consist of letters of guarantees, letters of credit and other guarantees. All these arrangements are related to the normal lending activities of the Bank. The exposure to credit loss in the event of non-performance of the other party is presented by the contractual notional amount of those instruments.

The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

	30 June 2018	**31 December 2017**
Letter of credit	-	3,301
Letter of guarantee	325,059	328,776
Other guarantees	54,728	33,850
Total non-cash loans	**379,787**	**365,927**
Other commitments	8,150	17
Total	**387,937**	**365,944**

As at 30 June 2018, TL 53 (31 December 2017: TL 122) has been obtained as collateral against letter of guarantees.

Assets pledged as collaterals:

	30 June 2018	**31 December 2017**
Reserve requirement with T.R. Central Bank, gross	96,878	67,673
Securities given as collateral	4,474	711
Total	**101,352**	**68,384**

Transferred financial assets:

As at 30 June 2018, the carrying amount of transferred financial assets, which have been transferred but are subject to continued recognition in full and the associated recognized liabilities are presented below:

	30 June 2018	**31 December 2017**
Securities sold under repurchase agreements		
Carrying amount of transferred assets	6,012	9,922
Carrying amount of associated liabilities	2,828	8,057

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

23. Expected credit / impairment losses on interest bearing assets and off-balance sheet exposures

The Bank started to apply the IFRS 9 standard beginning form 1 January 2018. The movements in expected credit losses on financial assets for year 2018 were as follows:

	Cash and cash equivalents	*Reserve requirements*	*Securities at FVTOCI*	*Corporate lending and leasing*	*Total expected credit losses*
At 31 December 2017	**-**	**-**	**-**	**2,378**	**2,378**
IFRS 9 transition under equity	8	19	180	880	1,087
At 1 January 2018 (*)	**8**	**19**	**180**	**3,258**	**3,465**
Charge/(reversal) for the year	15	165	(120)	1,510	1,570
At 30 June 2018 (*)	**23**	**184**	**60**	**4,768**	**5,035**

(*) All of the financial assets subject to expected credit losses are classified under Stage 1. There has been no movement between stages in year 2018.

The movements in expected credit losses for off-balance sheet exposures for year 2018 were as follows:

	Expected credit losses for off-balance sheet exposures given to corporate customers	*Total expected credit losses for off-balance sheet exposures*
At 31 December 2017	**-**	**-**
IFRS 9 transition under equity	1,390	1,390
At 1 January 2018 (*)	**1,390**	**1,390**
Reversal for the year	(350)	(350)
At 30 June 2018 (*)	**1,040**	**1,040**

(*) All of the off-balance sheet exposures subject to expected credit losses are classified under Stage 1. There has been no movement between stages in year 2018.

The movements in allowance for impairment losses on interest bearing assets for year 2017 were as follows:

	Corporate lending	*Total loans to customers*
At 1 January 2017	**1,500**	**1,500**
Charge for the year	71	71
At 30 June 2017	**1,571**	**1,571**

24. Net fee and commission income

Net fee and commission income comprise:

	2018	**2017**
Guarantees and letters of credit	1,518	968
Money transfer operations	33	21
Settlements operations	58	5
Other	271	97
Fee and commission income	**1,880**	**1,091**
Fee to correspondent banks	(175)	(132)
Commissions for letter of guarantee obtained	(223)	(64)
Money transfer operations-expenses	(57)	(57)
Settlements operations	(43)	(17)
Fee and commission expense	**(498)**	**(270)**
Net fee and commission income	**1,382**	**821**

(Currency - in Thousands of Turkish Lira ("TL") unless otherwise indicated. All other currencies are also expressed in thousands)

25. Personnel, general and administrative expenses

Personnel expenses comprise:

	2018	2017
Salaries and bonuses	5,004	4,158
Social security costs	570	464
Other employee related expenses	712	477
Total personnel expenses	**6,286**	**5,099**

General and administrative expenses comprise:

	2018	2017
Operating leases	989	928
Professional services	619	1,185
IT and software expenses	968	786
Taxes, other than income tax	653	290
Communications	232	245
Subscription fees	444	159
Transportation and business trip expenses	187	142
Advertising costs	108	134
Security expenses	135	120
Utilities	56	47
Representation	96	41
Insurance expenses	65	39
Stationary	33	33
Repair and maintenance	13	12
Other expenses	346	314
Total general and administrative expenses	**4,944**	**4,475**

26. Related party disclosures

A number of transactions were entered into with related parties in the normal course of business. The nature of the related party transactions and balances are presented below.

Balances with related parties - on asset side of the balance sheet:

Cash loans

	30 June 2018	31 December 2017
PASHA Bank OJSC (Parent)	-	555
	-	**555**

Amounts due from banks

	30 June 2018	31 December 2017
PASHA Bank OJSC (Parent)	158	1
	158	**1**

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26. Related party disclosures (continued)

Balances with related parties - on liability side of the balance sheet:

Amounts due to banks and funds borrowed

	30 June 2018	31 December 2017
PASHA Bank OJSC (Parent)	109,399	104,131
JSC PASHA Bank Georgia (Other)	-	7,250
Kapital Bank ASC (Other)	37,883	75,374
	147,282	**186,755**

Debt securities issued

	30 June 2018	31 December 2017
PASHA Life Insurance (Other)	86,513	71,565
PASHA Insurance (Other)	22,826	18,882
PASHA Holding LLC (Parent)	114,159	-
	223,498	**90,447**

Balances with related parties - off balance sheet exposures:

Non-Cash loans

	30 June 2018	31 December 2017
PASHA Bank OJSC (Parent)	37,407	31,699
	37,407	**31,699**

Results recognized in statement of profit and loss:

Interest and commission income

	1 January – 30 June 2018	1 January – 30 June 2017
PASHA Bank OJSC (Parent)	189	134
	189	**134**

Interest and commission expense

	1 January – 30 June 2018	1 January – 30 June 2017
PASHA Bank OJSC (Parent)	1,259	3,053
PASHA Holding LLC (Parent)	141	-
Kapital Bank ASC (Other)	1,003	336
PASHA Life Insurance (Other)	1,988	-
PASHA Insurance (Other)	525	-
JSC PASHA Bank Georgia (Other)	54	265
	4,970	**3,654**

Compensation of key management personnel of the Bank

The executive and non-executive members of Board of Directors and key management received remuneration and fees amounting to TL 2,625 for the period ended 30 June 2018 (30 June 2017: TL 2,131).

27. Subsequent events

None.