

PASHA YATIRIM BANKASI A.Ş.

**UNAUDITED INTERIM CONDENSED
FINANCIAL STATEMENTS**

**AT 30 JUNE 2017 TOGETHER WITH INDEPENDENT
AUDITOR'S REVIEW REPORT**

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 financial statements of Pasha Yatırım Bankası A.Ş. ("the Bank") as at 30 June 2017, comprising of interim statement of financial position as at 30 June 2017 and the related interim statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Financial Reporting 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 International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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



Yaşar Bivas
Partner

Istanbul, Turkey
August 15, 2017

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PASHA YATIRIM BANKASI A.Ş.**UNAUDITED INTERIM CONDENSED****STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2017**

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

	Note	Unaudited 30 June 2017	Audited 31 December 2016
ASSETS			
Cash and cash equivalents	6	42,316	59,134
Reserve requirements at Central Bank	7	34,488	19,579
Trading securities	8	2,647	-
Derivative financial assets	16	539	281
Investment securities available-for-sale	9	16,422	20,538
Loans to customers and finance lease receivables	10	533,325	402,370
Property and equipment		635	681
Intangible assets		929	981
Deferred tax assets	17	680	989
Other assets	11	16,560	4,604
TOTAL ASSETS		648,541	509,157
LIABILITIES			
Amounts due to customers	12	38,269	3,536
Amounts due to banks and money market deposits	13	38,001	16,344
Funds borrowed	14	235,149	191,897
Employee benefits		1,066	1,702
Derivative financial liabilities	16	196	1,603
Debt securities issued	15	59,848	37,239
Current tax liabilities	17	1,674	2,079
Other liabilities	11	18,018	6,828
Total liabilities		392,221	261,228
EQUITY			
Share capital	18	255,000	255,000
Retained earnings/(Accumulated deficit)	18	977	(7,406)
Other reserves	18	324	324
Unrealised gains/(losses) on investment securities available-for-sale		19	11
Total equity attributable to shareholders of the Bank		256,320	247,929
Total equity		256,320	247,929
TOTAL LIABILITIES AND EQUITY		648,541	509,157

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

PASHA YATIRIM BANKASI A.Ş.**UNAUDITED INTERIM CONDENSED****STATEMENT OF INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017**

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

	Note	Unaudited 30 June 2017	Unaudited 30 June 2016
Interest income			
Loans to customers and finance lease receivables		25,712	15,467
Investment securities available for sale		1,050	867
Money market placements and securities purchased under agreements to resell		272	23
Cash and cash equivalents		172	937
Amounts due from reserve requirements		233	63
Total Interest Income		27,439	17,357
Interest expense			
Amounts due to customers		(170)	-
Funds borrowed		(5,024)	(1,477)
Money market deposits		(1,078)	(398)
Amounts due to the debt securities issued		(2,826)	-
Other		-	(263)
Total Interest Expense		(9,098)	(2,138)
Net interest income		18,341	15,219
Provision for impairment losses on interest bearing assets	10, 20	(71)	(979)
Net interest income after provision for impairment losses		18,270	14,240
Net fee and commission income	21	821	571
Net gains/(losses) on trading securities		160	-
Net gains/(losses) on sale of investment securities available-for-sale		(4)	17
Net gains/(losses) from foreign currencies:		1,148	880
- translation differences		2,441	(23)
- operations with foreign currency derivatives		(1,293)	903
Other income		84	114
Total Non-interest income		2,209	1,582
OPERATING INCOME		20,479	15,822
Personnel expenses	22	(5,099)	(3,942)
General and administrative expenses	22	(4,475)	(3,276)
Depreciation and amortization		(371)	(250)
Other expenses		(3)	-
Non-interest expenses		(9,948)	(7,468)
PROFIT BEFORE INCOME TAX		10,531	8,354
Income tax expense	17	(2,148)	(1,669)
Net profit for the year		8,383	6,685

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

PASHA YATIRIM BANKASI A.Ş.

**UNAUDITED INTERIM CONDENSED STATEMENT OF
COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017**

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

	Unaudited 30 June 2017	Unaudited 30 June 2016
Net profit for the year	8,383	6,685
Other comprehensive income to be reclassified to profit or loss in subsequent periods		
Net gain/(loss) on available-for-sale financial assets	9	130
Tax effect of net (losses)/gains on investment securities available for-sale	(1)	(48)
Other comprehensive income/(loss) for the period, net of tax	8	82
Total comprehensive income for the year	8,391	6,767

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

PASHA YATIRIM BANKASI A.Ş.**UNAUDITED INTERIM CONDENSED****STATEMENT OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017**

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

Unaudited	Share capital	Retained earnings/ (Accumulated deficit)	Net unrealised gain/(losses) on investments securities available-for-sale	Other reserves	Total equity
01 January 2016	255,000	(23,716)	(90)	324	231,518
Net profit for the year	-	6,685	-	-	6,685
Other comprehensive income for the year	-	-	82	-	82
Total comprehensive income for the year, net	-	6,685	82	-	6,767
Dividends paid	-	-	-	-	-
Cash contribution for share capital increase	-	-	-	-	-
30 June 2016	255,000	(17,031)	(8)	324	238,285
01 January 2017	255,000	(7,406)	11	324	247,929
Net profit for the year	-	8,383	-	-	8,383
Other comprehensive income for the year	-	-	8	-	8
Total comprehensive income for the year, net	-	8,383	8	-	8,391
Dividends paid	-	-	-	-	-
Cash contribution for share capital increase	-	-	-	-	-
30 June 2017	255,000	977	19	324	256,320

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

PASHA YATIRIM BANKASI A.Ş.**UNAUDITED INTERIM CONDENSED****STATEMENT OF CASH FLOW FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017**

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

	Note	Unaudited 30 June 2017	Unaudited 30 June 2016
Cash flows from operating activities			
Interest received		21,687	15,295
Interest paid		(3,271)	(1,033)
Fee and commission received		1,254	654
Fee and commission paid		(349)	(89)
Cash payments to employees		(5,735)	(3,215)
Cash received from other operating activities		97	1,253
Cash paid for other operating activities		(4,682)	(6,236)
Income taxes paid		(508)	-
Cash flows from operating activities before changes in operating assets and liabilities		8,493	6,629
Changes in operating assets and liabilities			
Due from banks and reserve requirements		(14,964)	(2,827)
Financial assets at fair value through profit or loss and trading securities		(2,500)	148
Loans to customers		(100,738)	(79,260)
Finance lease receivables		(24,881)	-
Other assets		4,045	4,182
Due to other banks and other money market deposits		21,622	(205)
Due to customers		34,715	108
Net increase/decrease in funds borrowed		40,292	65,597
Other liabilities		(7,124)	(3,598)
Net cash used in/provided by operating activities		(49,533)	(15,855)
Cash flows from investing activities			
Purchases of available for sale investment securities		(14,812)	(8,373)
Proceeds from sale and redemption of available for sale investment securities		19,333	2,196
Acquisitions of property and equipment		(69)	(171)
Proceeds from disposal of property and equipment		1	-
Acquisitions of intangible assets		(208)	(383)
Net cash (used in) provided by / (used in) investing activities		4,245	(6,731)
Cash flows from financing activities			
Proceeds from debt securities issued		109,631	-
Payments of debt securities issued		(89,836)	-
Net cash provided by financing activities		19,795	-
Effect of net foreign exchange differences on cash and cash equivalents		182	(242)
Net increase / (decrease) in cash and cash equivalents		(16,818)	(16,199)
Cash and cash equivalents at the beginning of the year	6	59,134	48,248
Cash and cash equivalents at the end of the year	6	42,316	32,049

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

PASHA YATIRIM BANKASI A.Ş.**NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS****AT 30 JUNE 2017**

(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 "Pasha Yatırım 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.

Partnership structure of the Bank as of 30 June 2017, is stated below:

	Capital	Share Rate
PASHA Bank OJSC	254,795	%99.9196
Other	205	%0.0804
Total	255,000	

The financial statements were authorised for issue by the Board of Directors on 15 August 2017.

2. Basis of presentation**2.1. Statement of compliance**

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

The Bank maintains its books in Turkish Lira in accordance with the Banking Act, Turkish Commercial Code and Turkish Tax Legislation. The subsidiaries maintain their books of accounts based on statutory rules and regulations applicable in their jurisdictions.

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 these 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.

PASHA YATIRIM BANKASI A.Ş.

NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

AT 30 JUNE 2017

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

2. Basis of presentation (continued)

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 at fair value through profit or loss are measured at fair value
- Financial instruments classified as available for sale are measured at fair value through other comprehensive income

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. Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgments, 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 estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in *Note 3*.

2.5. Significant accounting policies

The accounting policies adopted in preparation of the interim condensed financial statements as at June 30, 2017 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of January 1, 2017. The effects of these standards and interpretations on the Bank's financial position and performance have been disclosed in the related paragraphs.

i) The new standards, amendments and interpretations which are effective as at 1 January 2017 are as follows:

IAS 7 Statement of Cash Flows (Amendments)

The IASB issued amendments to IAS 7 'Statement of Cash Flows'. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The improvements to disclosures require companies to provide information about changes in their financing liabilities. These amendments are to be applied for annual periods beginning on or after 1 January 2017 with earlier application permitted. When the Bank first applies those amendments, it is not required to provide comparative information for preceding periods. The Bank is not required to provide additional disclosures in its condensed interim financial statements, but will disclose additional information in its annual financial statements for the year ended 31 December 2017.

PASHA YATIRIM BANKASI A.Ş.

NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

AT 30 JUNE 2017

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

2. Basis of presentation (continued)

IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)

The IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. These amendments are to be retrospectively applied for annual periods beginning on or after 1 January 2017 with earlier application permitted. However, on initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. The amendments 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 12 Disclosure of Interests in Other Entities: This amendment clarifies that an entity is not required to disclose summarised financial information for interests in subsidiaries, associates or joint ventures that is classified, or included in a disposal group that is classified, as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. These amendments are to be applied for annual periods beginning on or after 1 January 2017.

The amendments 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 financial statements are as follows. The Bank will make the necessary changes if not indicated otherwise, which will be affecting the financial statements and disclosures, when the new standards and interpretations become effective.

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

Amendments issued to IFRS 10 and IAS 28, to address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture, to clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary should be recognised only to the extent of unrelated investors' interests in that former subsidiary. 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 amendment is not applicable for the Bank and will not have an impact on the financial position or performance of the Bank.

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, with early adoption permitted. Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. The Bank is in the process of assessing the impact of the standard on financial position or performance of the Bank.

PASHA YATIRIM BANKASI A.Ş.

NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

AT 30 JUNE 2017

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

2. Basis of presentation (continued)

Clarifications to IFRS 15 'Revenue from Contracts with Customers' (Amendment)

IASB has published final clarifications to IFRS 15 in April 2016. The amendments address three of the five topics identified (identifying performance obligations, principal versus agent considerations, and licensing) and provide some transition relief for modified contracts and completed contracts. The amendments are effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. The Bank is in the process of assessing the impact of the standard on 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. The final version of IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted by applying all requirements of the standard. Alternatively, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL without applying the other requirements in the standard. The Bank is in the process of assessing the impact of the standard 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 if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The Bank is in the process of assessing the impact of the standard on financial position or performance of the Bank.

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 to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendments will not have an impact on the financial position or performance of the Bank.

PASHA YATIRIM BANKASI A.Ş.

NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

AT 30 JUNE 2017

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

2. Basis of presentation (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 to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The standard is not applicable for the Bank and will 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 to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendment will not have an 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 recognises 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. Earlier application is permitted. The Bank is in the process of assessing the impact of the interpretation on 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 to be 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 to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

The amendments are not applicable for the Bank and will not have an impact on the 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.

PASHA YATIRIM BANKASI A.Ş.

NOTES TO THE UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

AT 30 JUNE 2017

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

2. Basis of presentation (continued)

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 standard is not applicable for the Bank and will not have an impact on the financial position or performance of the Bank.

3. Critical judgements and estimates

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 given the factual circumstances as of 31 December 2016.

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

Allowances for loans and advances to customers and finance lease receivables

The amount of the allowance for impairment of loans and advances to customers is based upon management's ongoing assessments of the probable estimated losses inherent in the loan portfolio. Assessments are conducted by members of management responsible for various types of loans employing a methodology and guidelines, which are continually monitored and improved.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are and to determine the required input parameters, based on historical experience and current economic conditions.

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3. Critical judgements and estimates (continued)**Fair value of financial instruments**

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. These include present value methods and other models based mainly on observable input parameters and to a small extent to non-observable input parameters.

All valuation models are validated before they are used as a basis for financial reporting, and periodically reviewed thereafter, by qualified personnel independent of the area that created the model.

The Bank applies the models consistently from one period to the next, ensuring comparability and continuity of valuations over time, but estimating fair value inherently involves a significant degree of judgment. Management therefore establishes valuation adjustments to cover the risk associated with the estimation of unobservable input parameters and the assumptions within the models themselves.

Although a significant degree of judgment is, in some cases, required in establishing fair values, management believes the fair values recorded in the statement of financial position and the changes in fair value recorded in the statement of profit or loss are prudent and reflective of the underlying economics, based on the controls and procedural safeguards employed.

4. Reclassifications

In order to comply with 30 June 2017 financial statements, below reclassifications have been adjusted to statement of income and statement of cash flow for the period ended 30 June 2016.

	Previously Reported, June 30, 2016	Reclassifications	June 30, 2016
Statement of income			
<i>Interest income on –</i>			
Amounts due from credit institutions	1,000	(1,000)	-
Amounts due from reserve requirements	-	63	63
Cash and cash equivalents	-	937	937
Personnel expenses	(3,863)	(79)	(3,942)
General and administrative expenses	(3,355)	79	(3,276)
Statement of cash flow			
Fee and commission paid	-	(89)	(89)
Cash paid for other operating activities	(6,325)	89	(6,236)
<i>Changes in operating assets and liabilities –</i>			
Due to customers	-	108	108
Due to other banks and money market deposits	-	(205)	(205)
Other liabilities	(3,695)	97	(3,598)
Acquisitions of property and equipment	(554)	383	(171)
Acquisitions of intangible assets	-	(383)	(383)

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5. Financial risk management**Liquidity risk**

Liquidity ratios realized in the current period:

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 2017				
Average (%)	297	240	96	256
Maximum (%)	1,300	462	177	585
Minimum (%)	52	132	45	159

	First Maturity Tranche (Weekly)		Second Maturity Tranche (Monthly)	
	FC	FC +TL	FC	FC +TL
31 December 2016				
Average (%)	221	377	116	383
Maximum (%)	327	556	167	587
Minimum (%)	144	195	87	279

The table below analyses carrying amount of 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 2017								
Assets								
Cash and cash equivalents	42,316	-	-	-	-	-	-	42,316
Reserve requirements at Central Bank	-	34,488	-	-	-	-	-	34,488
Trading securities	2,647	-	-	-	-	-	-	2,647
Derivative financial assets	-	190	349	-	-	-	-	539
Investment securities available-for-sale	-	993	2,955	-	12,474	-	-	16,422
Loans to customers and finance leases	-	123,375	106,720	139,945	156,215	8,641	(1,571)	533,325
Property and equipment	-	-	-	-	-	-	635	635
Intangible assets	-	-	-	-	-	-	929	929
Deferred tax assets	-	-	-	-	-	-	680	680
Other assets	-	15,771	2	-	-	-	787	16,560
Total Assets	44,963	174,817	110,026	139,945	168,689	8,641	1,460	648,541
Liabilities								
Amounts due to customers	528	36,316	1,425	-	-	-	-	38,269
Amounts due to banks and money market deposits	154	37,847	-	-	-	-	-	38,001
Funds borrowed	-	43,182	65,896	126,071	-	-	-	235,149
Employee benefits	-	-	-	-	-	-	1,066	1,066
Derivative financial liabilities	-	-	90	106	-	-	-	196
Debt securities issued	-	1,013	20,681	38,154	-	-	-	59,848
Current income tax liabilities	-	341	1,333	-	-	-	-	1,674
Other liabilities	-	16,715	-	28	-	-	257,595	274,338
Total Liabilities	682	135,414	89,425	164,359	-	-	258,661	648,541
Net Liquidity Gap	44,281	39,403	20,601	(24,414)	168,689	8,641	(257,201)	-
31 December 2016								
Total Assets	21,471	168,797	69,005	176,322	71,885	-	1,677	509,157
Total Liabilities	3,417	103,450	12,277	138,445	-	-	251,568	509,157
Net Liquidity Gap	18,054	65,347	56,728	37,877	71,885	-	(249,891)	-

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5. Financial risk management (continued)

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

30 June 2017	Up to 1 month	1-3 Month	3-12 Month	1-5 Year	5 Year and Over	Total
Currency forward agreements – purchase	6,355	13,597	16,024	-	-	35,976
Currency forward agreements – sell	(6,153)	(13,053)	(15,307)	-	-	(34,513)
Currency swap agreements – purchase	-	-	-	-	-	-
Currency swap agreements – sell	-	-	-	-	-	-
Net	202	544	717	-	-	1,463
31 December 2016						
Currency forward agreements – purchase	-	13,689	-	-	-	13,689
Currency forward agreements – sell	-	(14,024)	-	-	-	(14,024)
Currency swap agreements – purchase	-	10,419	-	-	-	10,419
Currency swap agreements – sell	-	(11,130)	-	-	-	(11,130)
Net	-	(1,046)	-	-	-	(1,046)

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 2017	1,020	66,979	98,648	707	28,168	113,552	309,074
31 December 2016	176	2,006	78,820	-	26,044	90,875	197,921

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 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	38,269	38,296	36,861	1,435	-	-	-
Amounts due to banks and money market deposits	38,001	38,012	38,012	-	-	-	-
Funds borrowed	235,149	237,216	43,189	66,272	127,755	-	-
Derivative financial liabilities	196	196	-	90	106	-	-
Debt securities issued	59,848	61,819	1,019	21,300	39,500	-	-
Total	371,463	375,539	119,081	89,097	167,361	-	-

31 December 2016	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	3,536	3,536	3,536	-	-	-	-
Amounts due to banks and money market deposits	16,344	16,349	16,349	-	-	-	-
Funds borrowed	191,897	196,691	44,302	9,208	143,181	-	-
Derivative financial liabilities	1,603	1,603	-	1,603	-	-	-
Debt securities issued	37,239	37,500	37,500	-	-	-	-
Total	250,619	255,679	101,687	10,811	143,181	-	-

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5. Financial risk management (continued)**Interest rate sensitivity risk**

Interest rate sensitivity of financial assets and liabilities based on repricing dates is as follows:

30 June 2017	Non-interest bearing	Up to 1 month	1-3 Month	3-12 Month	1-5 Year	5 Year and Over	Total
Financial Assets							
Cash and cash equivalents	42,316	-	-	-	-	-	42,316
Reserve requirements at Central Bank	-	34,488	-	-	-	-	34,488
Trading securities	2,647	-	-	-	-	-	2,647
Derivative financial assets	-	190	349	-	-	-	539
Investment securities available-for-sale	-	993	10,333	-	5,096	-	16,422
Loans to customers and finance lease receivables	(1,571)	170,535	153,336	101,451	100,933	8,641	533,325
Other financial assets	15,771	-	-	-	-	-	15,771
Total	59,163	206,206	164,018	101,451	106,029	8,641	645,508
Financial Liabilities							
Amounts due to customers	528	36,316	1,425	-	-	-	38,269
Amounts due to banks and money market deposits	154	37,847	-	-	-	-	38,001
Funds borrowed	-	43,182	65,896	126,071	-	-	235,149
Derivative financial liabilities	-	-	90	106	-	-	196
Debt securities issued	-	1,013	20,681	38,154	-	-	59,848
Other financial liabilities	15,799	-	-	-	-	-	15,799
Total	16,481	118,358	88,092	164,331	-	-	387,262
Net interest sensitivity gap	42,682	87,848	75,926	(62,880)	106,029	8,641	258,246

31 December 2016	Non-interest bearing	Up to 1 month	1-3 Month	3-12 Month	1-5 Year	5 Year and Over	Total
Financial Assets							
Cash and cash equivalents	21,471	22,530	15,133	-	-	-	59,134
Reserve requirements at Central Bank	-	19,579	-	-	-	-	19,579
Derivative financial assets	-	-	281	-	-	-	281
Investment securities available-for-sale	-	3,724	12,779	4,035	-	-	20,538
Loans to customers and finance lease receivables	(1,500)	178,777	86,269	128,751	10,073	-	402,370
Other financial assets	4,078	-	-	-	-	-	4,078
Total	24,049	224,610	114,462	132,786	10,073	-	505,980
Financial Liabilities							
Amounts due to customers	3,036	500	-	-	-	-	3,536
Amounts due to banks and money market deposits	381	15,963	-	-	-	-	16,344
Funds borrowed	-	44,281	9,171	138,445	-	-	191,897
Derivative financial liabilities	-	-	1,603	-	-	-	1,603
Debt securities issued	-	37,239	-	-	-	-	37,239
Other financial liabilities	5,531	-	-	-	-	-	5,531
Total	8,948	97,983	10,774	138,445	-	-	256,150
Net interest sensitivity gap	15,101	126,627	103,688	(5,659)	10,073	-	249,830

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5. Financial risk management (continued)

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 2017 and 31 December 2016:

	EUR (%)	USD (%)	TL (%)
30 June 2017			
Balances with Central Bank	-	0.93	4.00
Cash and cash equivalents	0.03	0.71	9.93
Loans and advances to customers and finance lease receivables	3.78	5.67	14.40
Available-for sale financial assets	-	-	11.50
Funds borrowed	1.62	3.11	11.20
Debt securities issued	-	-	12.86
	EUR (%)	USD (%)	TL (%)
31 December 2016			
Balances with Central Bank	-	0.75	5.30
Cash and cash equivalents	0.10	1.49	9.55
Loans and advances to customers and finance lease receivables	3.84	4.92	13.65
Available-for sale financial assets	-	-	10.20
Funds borrowed	1.79	3.02	11.01
Debt securities issued	-	-	11.73

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 2017 Type of Currency	Shocks Applied (+/- basis points)	Gains/Losses	Gains/Equity- Losses/Equity (*)
1. TRY	(+) 500 bps	(4,075)	(1.59%)
2. TRY	(-) 400 bps	3,508	1.37%
3. USD	(+) 200 bps	(1,400)	(0.55%)
4. USD	(-) 200 bps	2,123	0.83%
5. EURO	(+) 200 bps	(3,285)	(1.28%)
6. EURO	(-) 200 bps	(669)	(0.26%)
Total (For negative shocks)		4,962	1.94%
Total (For positive shocks)		(8,760)	(3.42%)

31 December 2016 Type of Currency	Shocks Applied (+/- basis points)	Gains/Losses	Gains/Equity- Losses/Equity (*)
1. TRY	(+) 500 bps	(3,093)	(1.25%)
2. TRY	(-) 400 bps	2,676	1.08%
3. USD	(+) 200 bps	965	0.39%
4. USD	(-) 200 bps	(628)	(0.25%)
5. EURO	(+) 200 bps	(925)	(0.37%)
6. EURO	(-) 200 bps	(185)	(0.07%)
Total (For negative shocks)		1,863	0.76%
Total (For positive shocks)		(3,053)	(1.23%)

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

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5. Financial risk management (continued)**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 2017	3.5168	4.0126
31 December 2016	3.5192	3.7099

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 2017	3.5162	3.9435
31 December 2016	3.4935	3.6840

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

30 June 2017	TL	EUR	USD	AZN	Other	Total
Assets						
Cash and cash equivalents	13,065	20,841	8,400	1	9	42,316
Reserve requirements at Central Bank	-	2,788	31,700	-	-	34,488
Trading securities	2,647	-	-	-	-	2,647
Derivative financial assets	539	-	-	-	-	539
Investment securities available-for-sale	9,044	-	-	-	7,378	16,422
Loans to customers and finance lease receivables	333,096	91,797	108,432	-	-	533,325
Other financial assets	15,771	-	-	-	-	15,771
Total Financial Assets	374,162	115,426	148,532	1	7,387	645,508
Liabilities						
Amounts due to customers	3,719	30,113	4,437	-	-	38,269
Amounts due to banks and money market deposits	37,904	-	97	-	-	38,001
Funds borrowed	40,067	70,396	117,340	-	7,346	235,149
Derivative financial liabilities	196	-	-	-	-	196
Debt securities issued	59,848	-	-	-	-	59,848
Other financial liabilities	15,799	-	-	-	-	15,799
Total Financial Liabilities	157,533	100,509	121,874	-	7,346	387,262
Net balance sheet gap	216,629	14,917	26,658	1	41	258,246
Net off-balance sheet gap	28,943	(16,050)	(11,430)	-	-	1,463
Financial Derivative Assets	32,459	-	3,517	-	-	35,976
Financial Derivative Liabilities	3,516	16,050	14,947	-	-	34,513
Non-cash loans	176,574	46,891	72,379	104	12,089	308,037
31 December 2016						
Total Financial Assets	331,988	63,488	103,828	2	6,674	505,980
Total Financial Liabilities	109,187	48,448	91,855	-	6,660	256,150
Net balance sheet gap	222,801	15,040	11,973	2	14	249,830
Net off-balance sheet gap	17,313	(14,840)	(3,519)	-	-	(1,046)
Financial Derivative Assets	20,589	-	3,519	-	-	24,108
Financial Derivative Liabilities	3,276	14,840	7,038	-	-	25,154
Non-cash loans	130,451	27,170	38,576	-	1,713	197,910

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5. Financial risk management (continued)

The possible increases or decreases in the shareholders' equity and the profit/loss as per an assumption of devaluation and appreciation by 10% of TL against currencies mentioned below as of 30 June 2017 and 31 December 2016 are presented in the below table. The other variables, especially the interest rates, are assumed to be fixed in this analysis.

Assuming 10% depreciation of TL:

	30 June 2017		31 December 2016	
	Income statement	Shareholders' equity (*)	Income statement	Shareholders' equity (*)
USD	1,528	1,528	848	848
EUR	(113)	(113)	20	20
Total	1,415	1,415	868	868

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

Fair values of financial assets and liabilitiesFinancial 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 2017	31 December 2016	30 June 2017	31 December 2016
Financial assets				
Cash and cash equivalents	42,316	59,134	42,316	59,134
Reserve requirements at Central Bank	34,488	19,579	34,488	19,579
Loans to customers and finance lease receivables	533,325	402,370	531,369	400,929
Financial liabilities				
Amounts due to customers	38,269	3,536	38,269	3,536
Amounts due to banks and money market deposits	38,001	16,344	38,001	16,344
Funds borrowed	235,149	191,897	234,800	191,672
Debt securities issued	59,848	37,239	59,700	37,209

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.

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5. Financial risk management (continued)**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 2017	Level 1	Level 2	Level 3	Total
Financial Assets				
Trading securities	2,647	-	-	2,647
Investment securities available-for-sale	9,044	-	7,378	16,422
Derivative financial assets	-	539	-	539
Total	11,691	539	7,378	19,608
Financial Liabilities				
Derivative financial liabilities	-	196	-	196

31 December 2016	Level 1	Level 2	Level 3	Total
Financial Assets				
Investment securities available-for-sale	13,864	-	6,674	20,538
Derivative financial assets	-	281	-	281
Total	13,864	281	6,674	20,819
Financial Liabilities				
Derivative financial liabilities	-	1,603	-	1,603

Level 3 financial assets include corporate bonds with floating rates, which are valued using discounted cash flow techniques based on current rates available for debt instruments with similar terms and credit risk characteristics. The movement in the level 3 financial assets is as follows:

	01/01/17 – 30/06/17	01/01/16-31/12/16
Balance at the beginning of the period	6,674	-
Additions	-	6,822
Disposals	-	-
Gains/losses from changes in fair value	16	47
Foreign exchange differences	688	(195)
Balance at the end of the period	7,378	6,674

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 2017	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial Assets					
Cash and cash equivalents	42,316	42,316	-	-	42,316
Reserve requirements at Central Bank	34,488	34,488	-	-	34,488
Loans to customers and finance lease receivables	533,325	-	-	531,369	531,369
Financial Liabilities					
Amounts due to customers	38,269	-	-	38,269	38,269
Amounts due to banks and money market deposits	38,001	-	-	38,001	38,001
Funds borrowed	235,149	-	-	234,800	234,800
Debt securities issued	59,848	-	-	59,700	59,700

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5. Financial risk management (continued)

31 December 2016	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial Assets					
Cash and cash equivalents	59,134	59,134	-	-	59,134
Reserve requirements at Central Bank	19,579	19,579	-	-	19,579
Loans to customers and finance lease receivables	402,370	-	-	400,929	400,929
Financial Liabilities					
Amounts due to customers	3,536	-	-	3,536	3,536
Amounts due to banks and money market deposits	16,344	-	-	16,344	16,344
Funds borrowed	191,897	-	-	191,672	191,672
Debt securities issued	37,239	-	-	37,209	37,209

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" and "Communiqué on Equities of Banks". The Bank's capital adequacy ratio is % 41.07 (31 December 2016: % 53.85) in accordance with the related Communiqué as of 30 June 2017. The Bank has complied with the capital requirements throughout the year and previous year.

	30 June 2017	31 December 2016
Capital requirement for Credit Risk (CRCR)	45,224	34,411
Capital requirement for Market Risk (CRMR)	1,402	804
Capital requirement for Operational Risk (CROR)	3,349	1,643
Total capital requirement	49,975	36,858
Total risk weighted assets (total capital requirement*12.5)	624,690	460,716
Tier 1 capital	250,864	243,610
Tier 2 capital	5,725	4,471
Deductions from capital (-)	-	-
Total capital	256,589	248,081
Total Capital /((CRCR+CRMR+CROR)*12.5)*100	41.07	53.85
Tier 1 Capital/((CRCR+CRMR+CROR)*12.5)*100	40.16	52.88
Common Equity Tier 1		
Capital/((CRCR+CRMR+CROR)*12.5)*10	40.19	52.96

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.

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6. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2017	31 December 2016
Cash on hand	31	30
Current accounts with the Central Bank	13,025	14,827
Money market receivables	-	15,133
Demand Deposits	29,260	6,614
Time deposits up to 90 days	-	22,530
Total cash and cash equivalents	42,316	59,134

As at 31 December 2016, the interest rate for placements with other credit institutions is 10.5% and the interest rates for time deposits vary between 8.5% - 10.0% for TL balances and 0.7% 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.

7. Reserve requirements at Central Bank

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

	30 June 2017	31 December 2016
Reserve requirements with the CBT	34,488	19,579
Total	34,488	19,579

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 2017 (31 December 2016: 4% and 10.5% for all TL liabilities). The reserve rates for foreign currency liabilities vary between 5% and 19% for deposit and other foreign currency liabilities according to their maturities as of 30 June 2017 (31 December 2016: 4.5% and 24.5% for all foreign currency liabilities).

8. Trading securities

Trading securities comprise of private sector mutual funds. As at 30 June 2017, there are no trading securities given as collateral or subject to repo transactions.

9. Investment securities available-for-sale

Investment securities available-for-sale comprise:

	30 June 2017		31 December 2016	
	Carrying value	Nominal value	Carrying value	Nominal value
Turkish Government Bonds	5,096	5,000	6,196	6,100
Financial Institution Bonds	3,948	4,000	7,668	7,743
Corporate Bonds	7,378	7,315	6,674	6,627
Investment securities available-for-sale	16,422	16,315	20,538	20,470

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9. Investment securities available-for-sale (continued)

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

	30 June 2017		31 December 2016	
	%	Maturity	%	Maturity
Turkish Government Bonds	11.37%	July 2018	9.26%-10.64%	Mar 2017 - Jun 2017
Financial Institution Bonds	12.58%-14.50%	Jul 2017 – Sep 2017	11.00%-11.84%	Jan 2017 – Feb 2017
Corporate Bonds	10.86%	Dec 2021	10.38%	Dec 2021

The movement of investment securities available-for-sale is as follows:

	2017	2016
Balance at January 1,	20,538	9,619
Additions	14,124	29,060
Disposals	(19,333)	(18,199)
Gains/losses from changes in fair value	405	253
Foreign exchange differences	688	(195)
Balance at June 30 / December 31,	16,422	20,538

The investment securities available-for-sale subject to repo transactions amount to TL 4,225 as at 30 June 2017 (31 December 2016 – TL 4,803). Securities given as collateral amount to TL 713 (31 December 2016 – TL 1,029).

10. Loans to customers and finance lease receivables

The loans are fully granted to corporate customers. There are consumer loans or credit card balances.

Loans to customers comprise:

	30 June 2017	31 December 2016
Neither past due nor impaired		
- Loans to financial institutions	210,481	205,808
- Corporate loans	299,475	198,062
- Finance lease receivables	24,940	-
Past due not impaired	-	-
Impaired individually	-	-
Loans to customers (gross)	534,896	403,870
- Individual impairment (-)	-	-
- Collective impairment (-)	(1,571)	(1,500)
Loans and advances to customers, net	533,325	402,370

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

	2017	2016
Balance at January 1,	(1,500)	(2,130)
Current year (additions)/reversals	(71)	630
Balance at June 30 / December 31,	(1,571)	(1,500)

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10. Loans to customers and finance lease receivables (continued)

The table below shows the loans according to industry segmentation:

	30 June 2017	31 December 2016
Non-banking credit organizations	210,481	205,808
Construction	82,323	51,857
Trade and services	61,126	30,929
Mining	37,511	-
Energy	24,870	7,633
Manufacturing	23,160	17,938
Real estate and & Rental services	11,819	10,242
Other	83,606	79,463
Total loans to customers, gross	534,896	403,870
Impairment allowance	(1,571)	(1,500)
Total loans to customers, net	533,325	402,370

11. Other assets and liabilities

Other assets comprise:

	30 June 2017	31 December 2016
Other financial assets		
Clearance cheque accounts (*)	15,771	4,078
	15,771	4,078
Other non-financial assets		
Prepayments and receivables	626	396
Collaterals given	119	119
Other non-financial assets	44	11
	789	526
Total other assets	16,560	4,604

Other liabilities comprise:

	30 June 2017	31 December 2016
Other financial liabilities		
Cash collaterals obtained	28	1,453
Clearance cheque accounts (*)	15,771	4,078
	15,799	5,531
Other non-financial liabilities		
Accrued operating expenses	920	279
Deferred income on fee & commissions	765	602
Provisions for Lawsuit	262	262
Miscellaneous payables	-	120
Other non-financial liabilities	272	34
	2,219	1,297
Total other liabilities	18,018	6,828

(*) Amount consists of collateral cheques received from customers and submitted to settlement and custody bank and due as of 30 June 2017 and 31 December 2016.

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12. Amounts due to customers

The amounts due to customers include demand or short-term maturing liabilities. As at 30 June 2017, TL 37,741 (31 December 2016 – TL 500) is short-term natured. As at 30 June 2017, TL 1,424 customer account amount has been pledged against cash and non-cash loans (31 December 2016 – None).

An analysis of customers by economic sectors is as follows:

	30 June 2017	31 December 2016
Mining	30,273	-
Energy	2,998	2,350
Non-banking credit organizations	2,566	687
Trade and services	2,058	16
Real estate and & Rental services	39	409
Manufacturing	38	33
Construction	37	32
Other	260	9
Amounts due to customers	38,269	3,536

13. Amounts due to banks and money market deposits

	30 June 2017		31 December 2016	
	Amount	Maturity & interest rates	Amount	Maturity & interest rates
Payables to Money Market	33,804	14.5-14.65% & Jul 2017	11,306	10.2% & Jan 2017
Payables regarding repurchase agreements	4,043	11.9-13.75% & Jul 2017	4,657	7.5-7.95% & Jan 2017
Due to banks – demand deposits	154		381	
Amounts due to customers	38,001		16,344	

14. Funds borrowed

Information on banks:

	30 June 2017		31 December 2016	
	TL	FC	TL	FC
From Domestic Banks and Institutions	7,002	34,188	15,012	38,612
From Foreign Banks, Institutions and Funds	-	58,875	-	13,711
Due from Parent Bank – Foreign Bank	33,065	102,019	31,362	93,200
Total	40,067	195,082	46,374	145,523

Information on maturity structure of borrowings:

	30 June 2017		31 December 2016	
	TL	FC	TL	FC
Short-term	7,002	80,934	15,012	45,664
Medium and Long-term	33,065	114,148	31,362	99,859
Total	40,067	195,082	46,374	145,523

The borrowings comprise of mainly fixed interest rate instruments.

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15. Debt securities issued

In year 2017, the Bank has performed three TL bond issues as of 30 June 2017. The summary information regarding those issuances are as follows:

Code of issued security	Issue date	Issued nominal amount	Maturity date	Total days	Redeem status
TRQPASH61711	13/02/2017	45,000	08/06/2017	115	Redeemed
TRQPASH91718	07/04/2017	27,000	25/09/2017	171	-
TRFPASHE1710	08/06/2017	40,500	02/10/2017	116	-

16. 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 2017 and 31 December 2016, financial assets at fair value through profit or loss as follows:

	30 June 2017		31 December 2016	
	Notional amount	Carrying value	Notional amount	Carrying value
Currency swaps	-	-	21,549	(878)
Currency forward	70,489	343	27,713	(444)
	70,489	343	49,262	(1,322)

As at 30 June 2017 and 31 December 2016 set out below accruals of derivative instruments:

	Assets		Liabilities	
	30 June 2017	31 December 2016	30 June 2017	31 December 2016
Currency swaps	-	-	-	(878)
Currency forward	539	281	(196)	(725)
Fair value of derivatives	539	281	(196)	(1,603)

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

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17. Taxation

Corporate tax:

The Bank is subject to Turkish corporate taxes. Many clauses of Corporate Tax Law No. 5520 ("Tax Law") which are valid starting from 1 January 2006, were taken into effect after being published in the Official Gazette dated 21 September 2006 No. 26205. According to the Tax Law, the corporate tax rate in Turkey is payable at the rate of 20% since 1 January 2006. The corporate tax rate is calculated on the total income of the Bank after adjusting for certain disallowable expenses, exempt income (such as capital gains derived from the sale of equity investments) and other allowances. No further tax is payable unless the profit is distributed.

The tax expense comprises:

	30 June 2017	30 June 2016
Current tax charge	(1,844)	(1,558)
Deferred tax credit/(charge)	(304)	(111)
Income tax expense	(2,148)	(1,669)
	30 June 2017	30 June 2016
Profit before tax	10,531	8,354
Tax calculated based on the current tax rate of 20%	(2,106)	(1,671)
Net effect of income except/(non-deductible expenses)	(42)	2
Income tax expense	(2,148)	(1,669)

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

	30 June 2017	30 June 2016
Tax effect of net gains/(losses) on investment securities available-for-sale	(5)	(48)
Income tax credited/(charged) to other comprehensive income	(5)	(48)

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

	30 June 2017	30 June 2016
Net gains/(losses) on investment securities available-for-sale	4	-
Income tax credited/(charged) to other comprehensive income	4	-

The movements in the deferred tax asset for the periods ended 30 June 2017 and 31 December 2016 are as follow:

	30 June 2017	31 December 2016
Opening - 1 January	989	1,053
Recognised in profit or loss statement	(304)	(42)
Recognised in other comprehensive income	(5)	(22)
Closing – 30 June / 31 December	680	989

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18. Equity*Share capital:*

As of 30 June 2017, the authorised nominal share capital of PASHA Yatırım Bankası A.Ş. amounted to TL 255,000 (31 December 2016: TL 255,000), comprising 255 million (Full TL) registered shares of one TL 0.01 each.

As of 30 June 2017 the Bank's historical subscribed and issued share capital was TL 255,000 (31 December 2016: TL 255,000).

As of 30 June 2017 and 31 December 2016 the composition of shareholders and their respective percentage of ownership can be summarised as follows:

	30 June 2017		31 December 2016	
	Amount	%	Amount	%
PASHA Bank OJSC	254,795	99.92	254,795	99.92
Others	205	0.08	205	0.08
Total	255,000		255,000	

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. The statutory legal reserve is 324 as of 30 June 2017 and 31 December 2016.

19. Commitments and contingenciesLitigation:

The Bank has provided TL 262 (31 December 2016: 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.

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19. Commitments and contingencies (continued)

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

	30 June 2017	31 December 2016
Letter of credit	5,570	6,984
Letter of guarantee	240,808	171,570
Other guarantees	61,659	19,356
Total non-cash loans	308,037	197,910
Other commitments	1,037	11
Total	309,074	197,921

As at 30 June 2017, TL 740 (31 December 2016: TL 713) has been obtained as collateral against letter of guarantees.

Assets pledged as collaterals:

	30 June 2017	31 December 2016
Reserve requirement with T.R. Central Bank	34,488	19,579
Securities given as collateral	713	1,029
Total	35,201	20,608

Transferred financial assets:

As at 30 June 2017, 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 2017	31 December 2016
Securities sold under repurchase agreements		
Carrying amount of transferred assets	4,225	4,803
Carrying amount of associated liabilities	4,043	4,657

20. Impairment losses on interest bearing assets

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

	2017	
	<i>Corporate lending</i>	<i>Total loans to customers</i>
At 1 January	1,500	1,500
Charge for the year	71	71
At 30 June	1,571	1,571
	2016	
	<i>Corporate lending</i>	<i>Total loans to customers</i>
At 1 January	2,130	2,130
Charge for the year	979	979
At 30 June	3,109	3,109

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21. Net fee and commission income

Net fee and commission income comprise:

	2017	2016
Guarantees and letters of credit	968	554
Money transfer operations	21	54
Settlements operations	5	-
Other	97	51
Fee and commission income	1,091	659
Fee to correspondent banks	(132)	(58)
Commissions for letter of guarantee obtained	(64)	-
Money transfer operations-expenses	(57)	(27)
Settlements operations	(17)	-
Other fee expenses	-	(3)
Fee and commission expense	(270)	(88)
Net fee and commission income	821	571

22. Personnel, general and administrative expenses

Personnel expenses comprise:

	2017	2016
Salaries and bonuses	4,158	3,187
Social security costs	464	305
Other employee related expenses	477	450
Total personnel expenses	5,099	3,942

General and administrative expenses comprise:

	2017	2016
Operating leases	928	722
Professional services	1,185	291
IT and software expenses	786	591
Taxes, other than income tax	290	236
Communications	245	197
Subscription fees	159	103
Transportation and business trip expenses	142	137
Advertising costs	134	376
Security expenses	120	112
Utilities	47	39
Representation	41	94
Insurance expenses	39	1
Stationary	33	19
Repair and maintenance	12	6
Other expenses	314	352
Total general and administrative expenses	4,475	3,276

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23. 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:

Cash loans

	30 June 2017	31 December 2016
PASHA Bank OJSC (Parent)	35	-
	35	-

Non-Cash loans

	30 June 2017	31 December 2016
PASHA Bank OJSC (Parent)	31,756	30,199
	31,756	30,199

Amounts due from banks

	30 June 2017	31 December 2016
PASHA Bank OJSC (Parent)	27,098	-
	27,098	-

Amounts due to banks and funds borrowed

	30 June 2017	31 December 2016
PASHA Bank OJSC (Parent)	135,238	124,943
Kapital Bank ASC (Other)	44,468	7,051
JSC PASHA Bank Georgia (Other)	7,346	6,660
	187,052	138,654

Interest and commission income

	1 January – 30 June 2017	1 January – 30 June 2016
PASHA Bank OJSC(Parent)	134	114
JSC PASHA Bank Georgia(Other)	-	11
	134	125

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23. Related party disclosures (continued)**Interest and commission expense**

	1 January – 30 June 2017	1 January – 30 June 2016
PASHA Bank OJSC (Parent)	3,053	1,123
Kapital Bank ASC (Other)	336	-
JSC PASHA Bank Georgia (Other)	265	-
	3,654	1,123

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 1,204 comprising salaries and other benefits (excluding current period's bonus provisions) for the period ended 30 June 2017 (2016: TL 870). The amount of bonuses paid in cash to executive and non-executive members of Board of Directors and key management related with the prior period is TL 927 as at 30 June 2017 (2016: TL 525)

24. Subsequent events

None.