TÜRKİYE SINAİ KALKINMA BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Interim Condensed Consolidated
Financial Statements
As at and for the Six-Month Period Then Ended
30 June 2018

With Independent Auditors' Report on Review of
Condensed Consolidated Interim
Financial Information

19 October 2018

This report contains 2 pages of independent auditors' report on review of interim condensed consolidated financial information and 65 pages of condensed consolidated interim financial information.

Türkiye Sinai Kalkınma Bankası Anonim Şirketi and Its Subsidiaries

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors of
Türkiye Sınai Kalkınma Bankası Anonim Şirketi

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Türkiye Sınai Kalkınma Bankası A.Ş. and its subsidiaries ("the Group") as at June 30, 2018, comprising of the interim consolidated statement of financial position as at June 30, 2018 and the related interim consolidated 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 consolidated 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 consolidated 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.

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Basis for Qualified Conclusion

The accompanying consolidated financial statements as at 30 June 2018 include a free reserve for possible risks amounting to TL 30,000 thousands, of which TL 60,000 thousands was provided in prior years and TL 30,000 thousands reversed in the current period by the Group management for possible results of the circumstances which may arise from possible changes in the economy and market conditions and include the reversal of deferred tax asset at an amount of TL 13,200 thousands, which was accounted based on the free provision provided in 31 December 2017.
Due to the fact that the above mentioned items do not meet the requirements of TAS 37, the "Retained earnings" as of 30 June 2018 is understated by TL 46,800 thousands after deducting the tax effect and the "pretax income" is overstated by TL 30,000 thousands.

Qualified Conclusion

Based on our review, except for the effect of the matter referred in the "Basis of Qualified Conclusion" paragraph nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated 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, SMMM
Partner

19 October 2018
Istanbul, Turkey

TÜRKİYE SINAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

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

ASSETS	**Notes**	**30 June 2018**
Cash and cash equivalents		543,064
Reserve deposits at central bank	8	968,027
Financial assets at fair value through profit or loss		12,193
Financial assets at fair value through other comprehensive income	11	3,303,566
Financial assets measured at amortized cost		1,634,807
Derivative financial assets	9	816,058
Loans and advances to customers	10	26,921,521
Investments in equity-accounted investees		375,039
Goodwill		383
Property and equipment		244,421
Investment property		243,151
Intangible assets		2,594
Deferred tax assets		50,336
Other assets		624,712
Total assets		**35,739,872**

ASSETS	**Notes**	**31 December 2017**
Cash on hand		24
Balances with central bank	8	15,433
Reserve deposits at central bank	8	831,678
Loans and advances to banks		493,687
Funds lent under repurchase agreements		3
Financial assets at fair value through profit or loss		336,093
- *Trading financial assets*		*9,305*
- *Derivative financial instruments*	*9*	*326,788*
Loans and advances to customers	10	22,304,828
Investment securities		4,628,479
-*Available for sale investment securities*	11	*2,925,182*
-*Available for sale investment securities as pledges*	11	*171,250*
-*Held to maturity investment securities*		*979,969*
-*Held to maturity investment securities as pledges*		*552,078*
Investments in equity-accounted investees		374,425
Goodwill		383
Property, plant and equipment		245,798
Investment property		243,145
Intangible assets		2,580
Deferred tax assets		13,530
Other assets		304,564
Total assets		**29,794,650**

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

TÜRKİYE SINAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

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

LIABILITIES	**Notes**	**30 June 2018**
Funds borrowed		22,679,295
Money market balances		607,064
Debt securities issued	13	6,131,722
Derivative financial liabilities	9	562,712
Derivatives used for hedging purposes	9	227,368
Current account of loan customers		21,302
Taxes and dues payable		14,565
Employee benefits		31,486
Corporate tax liability		27,190
Provisions		39,228
Other liabilities		176,748
Subordinated loan	14	1,364,250
Total liabilities		**31,882,930**
EQUITY		
Share capital		
Nominal paid in capital	16	2,800,000
Inflation adjustment to capital	16	13,563
Total capital		2,813,563
Share premium		428
Legal reserves		273,234
Fair value reserve		(144,691)
Revaluation reserve		214,231
Retained earnings		661,686
Total equity attributable to equity holders of the Bank		**3,818,451**
Non-controlling interests		38,491
Total equity		**3,856,942**
Total liabilities and equity		**35,739,872**
Commitments and contingencies	7	**71,045,937**

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

TÜRKİYE SINAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

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

LIABILITIES	Notes	31 December 2017
Obligations under repurchase agreements		610,775
Derivative liabilities	9	232,403
Funds borrowed		19,001,627
Debts securities issued	13	3,746,229
Payables to money market		701,147
Current account of loan customers		12,901
Derivative liabilities held for hedging purposes	9	78,682
Taxes and dues payable		9,986
Employee benefits		24,886
Corporate tax liability		43,662
Provisions		63,343
Other liabilities		178,282
Subordinated loan	14	1,146,236
Total liabilities		**25,850,159**
EQUITY		
Share capital		
Nominal paid in capital	16	2,400,000
Inflation adjustment to capital	16	13,563
Total capital		2,413,563
Share premium		428
Legal reserves		241,758
Fair value reserve		(24,630)
Revaluation reserve		214,231
Retained earnings		1,046,422
Total equity attributable to equity holders of the Bank		**3,891,772**
Non-controlling interests		52,719
Total equity		**3,944,491**
Total liabilities and equity		**29,794,650**
Commitments and contingencies	7	**49,139,855**

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

TÜRKİYE SINAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIOD THEN ENDED 30 JUNE 2018

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

	Notes	1 January – 30 June 2018
Interest income		
Interest income on loans and advances to customers		927,495
Interest on money market placements		51,584
Interest income on securities		240,127
Interest income on loans and advances to banks		33,778
Interest income on reserve deposits at central banks		4,386
Interest income on finance leases		2,533
Other interest income		2,518
Total interest income		**1,262,421**
Interest expenses		
Interest expense on obligations under repurchase agreements and money market borrowings		(147,172)
Interest expense on funds borrowed and subordinated loan		(241,451)
Interest expense on debt securities issued		(211,403)
Other interest expenses		(479)
Total interest expense		**(600,505)**
Net interest income		**661,916**
Fee and commission income		30,906
Fee and commission expense		(6,332)
Net fee and commission income		**24,574**
Securities trading income / (loss), net		1,392
Derivative trading income / (loss), net		53,158
Foreign exchange gains / (loss), net		(153,190)
Net trading income / (loss), net		**(98,640)**
Net impairment loss		(153,239)
Net operating income after impairment loss		**434,611**
Other operating income		37,242
Other operating expenses		(101,866)
Dividend income		5,062
Share of profit of equity-accounted investees		33,536
Profit before income tax		**408,585**
Income tax expense		(100,466)
Profit for the period		**308,119**

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

TÜRKİYE SINAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIOD THEN ENDED 30 JUNE 2018

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

	Notes	1 January – 30 June 2017
Interest income		
Interest income on loans and advances to customers		594,266
Interest on money market placements		35,168
Interest income on securities		185,511
Interest income on loans and advances to banks		27,594
Interest income on reserve deposits at central banks		2,284
Interest income on finance leases		460
Other interest income		1,094
Total interest income		**846,377**
Interest expenses		
Interest expense on obligations under repurchase agreements and money market borrowings		(121,939)
Interest expense on funds borrowed and subordinated loan		(154,478)
Interest expense on debt securities issued		(116,484)
Other interest expenses		(489)
Total interest expense		**(393,390)**
Net interest income		**452,987**
Fee and commission income		24,487
Fee and commission expense		(5,744)
Net fee and commission income		**18,743**
Securities trading income / (loss), net		2,313
Derivative trading income / (loss), net		(136,219)
Foreign exchange gains / (loss), net		106,843
Net trading income / (loss), net		**(27,063)**
Net impairment loss on financial assets		(9,054)
Net operating income after impairment loss		**435,613**
Other operating income		6,463
Other operating expenses		(85,323)
Dividend income		5,421
Share of profit of equity-accounted investees		22,009
Profit before income tax		**384,183**
Income tax expense		(74,748)
Profit for the period		**309,435**

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

TÜRKİYE SINAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX-MONTH PERIOD THEN ENDED 30 JUNE 2018

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

	Notes	1 January – 30 June 2018
Profit for the period		**308,119**
Items that will never be reclassified to profit or loss:		
Remeasurement of employee termination benefits		-
Revaluation of tangible assets		-
Related tax		-
		-
Items that are or may be reclassified subsequently to profit or loss:		
Net change in fair value of financial assets at fair value through other comprehensive income		(182,457)
Equity-accounted investees - share of OCI		(1,613)
Related tax		40,909
Other comprehensive income for the period, net of tax		**(143,161)**
Total comprehensive income for the period		**164,958**

Profit attributable to:	Notes	1 January – 30 June 2018
Equity holders of the Bank		322,280
Non-controlling interests		(14,161)
Profit for the period		**308,119**
Total comprehensive income attributable to:		
Equity holders of the Bank		179,132
Non-controlling interests		(14,174)
Total comprehensive income for the period		**164,958**
Earnings per share		
Basic earnings per share (in full TL)	*17*	0.1100

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

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

	Notes	1 January – 30 June 2017
Profit for the period		**309,435**
Items that will never be reclassified to profit or loss:		
Remeasurement of employee termination benefits		-
Revaluation of tangible assets		-
Related tax		-
		-
Items that are or may be reclassified subsequently to profit or loss:		
Net change in fair value of available-for-sale financial assets		60,643
Net change in fair value of available-for-sale financial assets transferred to profit or loss		24
Equity-accounted investees - share of OCI		1,874
Related tax		(10,402)
Other comprehensive income for the period, net of tax		**52,139**
Total comprehensive income for the period		**361,574**

Profit attributable to:	Notes	1 January – 30 June 2017
Equity holders of the Bank		313,991
Non-controlling interests		(4,556)
Profit for the period		**309,435**
Total comprehensive income attributable to:		
Equity holders of the Bank		365,840
Non-controlling interests		(4,266)
Total comprehensive income for the period		**361,574**
Earnings per share		
Basic earnings per share (in full TL)	*17*	0.1289

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.

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

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

		Attributable to equity holders of the Bank									
	Notes	**Share Capital**	**Inflation adjustment to capital**	**Share premium**	**Legal reserves**	**Fair value reserve**	**Revaluation reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total Equity**
Balance at 1 January 2017		**2,050,000**	**13,563**	**428**	**216,827**	**(65,888)**	**200,047**	**925,311**	**3,340,288**	**57,969**	**3,398,257**
Total comprehensive income for the period											
Profit for the period		-	-	-	-	-	-	313,991	313,991	(4,556)	309,435
Other comprehensive income											
Remeasurement of defined benefit liability		-	-	-	-	-	-	-	-	-	-
Net change in fair value of available for sale financial assets		-	-	-	-	60,353	-	-	60,353	290	60,643
Net change in fair value of available for sale financial assets transferred to profit or loss		-	-	-	-	24	-	-	24	-	24
Revaluation of tangible assets		-	-	-	-	-	-	-	-	-	-
Equity-accounted investees - share of OCI		-	-	-	-	1,874	-	-	1,874	-	1,874
Tax on other comprehensive income		-	-	-	-	(10,402)	-	-	(10,402)	-	(10,402)
Total other comprehensive income		**-**	**-**	**-**	**-**	**51,849**	**-**	**-**	**51,849**	**290**	**52,139**
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**51,849**	**-**	**313,991**	**365,840**	**(4,266)**	**361,574**
Transactions with owners of the Bank											
Contributions and distributions											
Capital increase	*16*	350,000	-	-	-	-	-	(350,000)	-	-	-
Dividend distribution		-	-	-	-	-	-	(92,801)	(92,801)	-	(92,801)
Transfer to legal reserves		-	-	-	24,931	-	-	(24,931)	-	-	-
Changes in ownership interests											
Acquisition of non-controlling interests without a change in control		-	-	-	-	-	-	-	-	-	-
Total transactions with the owners of the Company		**350,000**	**-**	**-**	**24,931**	**-**	**-**	**(467,732)**	**(92,801)**	**-**	**(92,801)**
Balance at 30 June 2017	*16*	**2,400,000**	**13,563**	**428**	**241,758**	**(14,039)**	**200,047**	**771,570**	**3,613,327**	**53,703**	**3,667,030**

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

TÜRKİYE SINAİ KALKINMA BANKASI AŞ AND ITS SUBSIDIARIES

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

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

	Attributable to equity holders of the Bank										
	Notes	**Share Capital**	**Inflation adjustment to capital**	**Share premium**	**Legal reserves**	**Fair value reserve**	**Revaluation reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total Equity**
Balance at 1 January 2018		**2,400,000**	**13,563**	**428**	**241,758**	**(24,630)**	**214,231**	**1,046,422**	**3,891,772**	**52,719**	**3,944,491**
Corrections and accounting policy changes		**-**	**-**	**-**	**-**	**23,087**	**-**	**(166,035)**	**(142,948)**	**(54)**	**(143,002)**
Balance at 1 January 2018		**2,400,000**	**13,563**	**428**	**241,758**	**(1,543)**	**214,231**	**880,387**	**3,748,824**	**52,665**	**3,801,489**
Total comprehensive income for the period		-	-	-	-	-	-	-	-	-	-
Profit for the period		-	-	-	-	-	-	322,280	322,280	(14,161)	308,119
Other comprehensive income		-	-	-	-	-	-	-	-	-	-
Remeasurement of defined benefit liability		-	-	-	-	-	-	-	-	-	
Net change in fair value financial assets at fair value through other comprehensive income		-	-	-	-	(182,444)	-		(182,444)	(13)	(182,457)
Revaluation of tangible assets		-	-	-	-	-	-	-	-	-	-
Equity-accounted investees - share of OCI		-	-	-	-	(1,613)	-	-	(1,613)	-	(1,613)
Tax on other comprehensive income		-	-	-	-	40,909	-	-	40,909	-	40,909
Total other comprehensive income		**-**	**-**	**-**	**-**	**(143,148)**	**-**	**-**	**(143,148)**	**(13)**	**(143,161)**
Total comprehensive income for the period		**-**	**-**	**-**	**-**	**(143,148)**	**-**	**322,280**	**179,132**	**(14,174)**	**164,958**
Transactions with owners of the Bank											
Contributions and distributions											
Capital increase	*16*	400,000	-	-	-	-	-	(400,000)	-	-	-
Dividend distribution		-	-	-	-	-	-	(109,865)	(109,865)	-	(109,865)
Transfer to legal reserves		-	-	-	31,476	-	-	(31,476)	-	-	-
Changes in ownership interests											
Acquisition of non-controlling interests without a change in control		-	-	-	-	-	-	360	360	-	360
Total transactions with the owners of the Company		**400,000**	**-**	**-**	**31,476**	**-**	**-**	**(540,981)**	**(109,505)**	**-**	**(109,505)**
Balance at 30 June 2018	*16*	**2,800,000**	**13,563**	**428**	**273,234**	**(144,691)**	**214,231**	**661,686**	**3,818,451**	**38,491**	**3,856,942**

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

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

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

	Notes	30 June 2018
Cash flows from operating activities:		
Interests and commissions received		858,308
Other operating activities, net		522,267
Cash payments to employees and suppliers		(73,599)
Interests and commissions paid		(618,508)
Dividends received		5,062
Operating profit before changes in operating assets / liabilities		**693,530**
(Increase)/decrease in operating assets:		
Loans and advances to customers		(871,367)
Balances with central banks		(136,033)
Financial assets at fair value through profit or loss		(6,262)
Other assets		(283,956)
(Increase)/decrease in operating liabilities:		
Funds borrowed		67,707
Obligations under repurchase agreements and money market fundings		(704,977)
Other liabilities		314,624
Net cash outflows from operating activites before taxes and duties paid		**(926,734)**
Income taxes and other duties paid		**(78,920)**
Net cash outflows from operating activities		**(1,005,654)**
Cash flows from investing activities:		
Cash paid for purchase of investment securities		(506,923)
Cash obtained from sale of investment securities		329,364
Proceeds from sale of tangible assets		(7)
Purchase of tangible assets		(1,283)
Other		(594)
Net cash inflows/ outflows from investing activities		**(179,443)**
Cash flows from financing activities:		
Increase in loans and advances from banks and other institutions, net		1,318,590
Dividends paid		(109,865)
Net cash inflows from financing activities		**1,208,725**
Effect of exchange rate changes		**12,617**
Net increase in cash and cash equivalents		36,245
Cash and cash equivalents at 1 January		**504,248**
Cash and cash equivalents at 30 June		**540,493**

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

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

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

	Notes	30 June 2017
Cash flows from operating activities:		
Interests and commissions received		828,406
Other operating activities, net		(4,903)
Cash payments to employees and suppliers		(63,697)
Interests and commissions paid		(433,265)
Dividends received		5,421
Operating profit before changes in operating assets / liabilities		**331,962**
(Increase)/decrease in operating assets:		
Loans and advances to customers		(1,704,725)
Balances with central Banks		(202,310)
Financial assets at fair value through profit or loss		2,430
Other assets		108,187
(Increase)/decrease in operating liabilities:		
Funds borrowed		(147,775)
Obligations under repurchase agreements and money market fundings		(15,319)
Other liabilities		23,150
Net cash outflows from operating activites before taxes and duties paid		**(1,604,400)**
Income taxes and other duties paid		**(47,593)**
Net cash outflows from operating activities		**(1,651,993)**
Cash flows from investing activities:		
Cash paid for purchase of investment securities		(286,088)
Cash obtained from sale of investment securities		744,442
Proceeds from sale of tangible assets		182
Purchase of tangible assets		(1,442)
Other		(379)
Net cash inflows/ outflows from investing activities		**456,715**
Cash flows from financing activities:		
Increase in loans and advances from banks and other institutions, net		1,077,000
Dividends paid		(92,801)
Net cash inflows from financing activities		**984,199**
Effect of exchange rate changes		58
Net increase in cash and cash equivalents		(211,021)
Cash and cash equivalents at 1 January		**913,649**
Cash and cash equivalents at 30 June		**702,628**

Note: The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules. Since, 2017 and 2018 financial statements are prepared on different principles, 2017 financial statements are presented separately.

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

Notes to the interim condensed consolidated financial statements **Page**

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

1. REPORTING ENTITY

Türkiye Sınai Kalkınma Bankası AŞ ("TSKB" or the "Bank") was established on 31 May 1950 with the support of the World Bank and the cooperation of the Government of the Republic of Turkey, the Central Bank of Turkey and the leading Turkish commercial banks of Turkey. TSKB is the first investment and development bank of Turkey. TSKB is operating with the mission of providing assistance to private sector enterprises in all sectors of the economy primarily in the industrial sector, encouraging and assisting the participation of private and foreign capital incorporations established and to be established in Turkey, and assisting the development of the capital markets in Turkey. TSKB and Sınai Yatırım Bankası AŞ ("SYB"), sister bank with similar mission, were merged pursuant to the decisions of the respective shareholders as sanctioned by the Banking Regulation and Supervision Agency ("BRSA") decision no: 659 dated 27 March 2002, in accordance with Article 18 of the Banking Act no: 4389. The registered office of the Bank is at Meclisi Mebusan Cad. 81 Fındıklı, Istanbul, Turkey.

The Bank and its subsidiaries are hereinafter referred to as the "Group".

TSKB started its activities in 1950 financing the private sector investments in Turkey and today it provides loans and project finance with the goal of sustainable development to corporations in different fields. As a leader in meeting the long term finance needs of the private sector, TSKB also continues to offer solutions with respect to the newest needs and client demands. Furthermore, through offering the equity shares of such companies to the public, TSKB has been a significant milestone in this field and thus assumed a prominent and vital role in fostering the development of capital markets.

Türkiye İş Bankası A.Ş. has the authority of managing and controlling power of the Parent Bank directly or indirectly, alone or together with other shareholders. Shareholders of the Parent Bank are as follows:

Current Period **Name Surname/Commercial Title**	**Share Capital**	**Shareholding Rate (%)**	**Paid in Capital**	**Unpaid Capital**
T. İş Bankası A.Ş. Group	1,418,280	50.65	1,418,280	-
T. Vakıflar Bankası T.A.O.	234,570	8.38	234,570	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	1,147,150	40.97	1,147,150	-
Total	**2,800,000**	**100.00**	**2,800,000**	**-**

Prior Period **Name Surname/Commercial Title**	**Share Capital**	**Shareholding Rate (%)**	**Paid in Capital**	**Unpaid Capital**
T. İş Bankası A.Ş. Group	1,217,027	50.71	1,217,027	-
T. Vakıflar Bankası T.A.O.	201,060	8.38	201,060	-
Under Custody at Merkezi Kayıt Kuruluşu (Other Institutions and Individuals)	981,913	40.91	981,913	-
Total	**2,400,000**	**100.00**	**2,400,000**	**-**

The Parent Bank shares are traded in Istanbul Stock Exchange ("BIST") since 26 December 1986. The Parent Bank's 50.65% of the shares belongs to İş Bank Group and 38.86% of these shares are in free floating and traded in BIST National Market with "TSKB" ticker.

The Bank has opened two branches in Izmir and Ankara in April 2006 to enhance marketing and valuation operations.

The interim condensed consolidated financial statements of the Bank as at and for the period ended 30 June 2018 are available upon request from the Bank's registered office and website.

1. REPORTING ENTITY (Continued)

Information about the consolidated subsidiaries and equity accounted associates

Yatırım Finansman Menkul Değerler AŞ

Yatırım Finansman Menkul Değerler AŞ was established and registered with Istanbul Trade Registry on 15 October 1976 and it was announced in the Turkish Trade Registry Gazette No: 81 on 25 October 1976. The company's objective is to perform capital market operations specified in the Company's main contract in accordance with the Capital Markets Board ("CMB") and the related legislation. The company was merged with TSKB Menkul Değerler AŞ on 29 December 2006. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 95.78%. The company's headquarters is located at Istanbul/Turkey.

TSKB Gayrimenkul Yatırım Ortaklığı AŞ

The core business of TSKB Gayrimenkul Yatırım Ortaklığı AŞ ("TSKB GYO") is real estate trust to construct and develop a portfolio of properties and invest in capital market instruments linked to properties. The company was established on 3 February 2006. The company's shares are traded in BIST since April 2010. The share of Türkiye Sınai Kalkınma Bankası A.Ş. is 70.84%. The company's headquarters is located at Istanbul/Turkey.

İş Finansal Kiralama AŞ

İş Finansal Kiralama AŞ was established on 8 February 1988 and it has been performing its operations in accordance with the Financial Leasing, Factoring and Financing Companies Law No: 6361. The company started its leasing operations in July 1998. The company's headquarters is located at Istanbul/Turkey. The share of the Bank in the Company is 29.46%.

İş Faktoring AŞ

İş Faktoring AŞ was incorporated in Turkey on 4 July 1993 and started its operations in October 1993 and is conducting its operations in accordance with the Financial Leasing, Factoring and Financing Companies Law No: 6361. The company's main operation is domestic and export factoring transactions. Its parent company is İş Finansal Kiralama AŞ with 78.23% shareholding. The direct share of Türkiye Sınai Kalkınma Bankası AŞ is 21.75%. The company's headquarters is located at Istanbul/Turkey.

İş Girişim Sermayesi Yatırım Ortaklığı AŞ

The principal business of İş Girişim Sermayesi Yatırım Ortaklığı AŞ is to make long-term investments in existing companies in Turkey or to be established in Turkey, having a development potential and are in need of financing. The direct share of Türkiye Sınai Kalkınma Bankası AŞ is 16.67%. The company's headquarters is located at Istanbul/Turkey.

2. BASIS OF PREPARATION

2.1. Statement of Compliance

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting", and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 December 2017 ("last annual financial statements"). They do not include all the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards. The Bank maintains its books of accounts and prepares its statutory financial statements in accordance with the Banking Law and the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette No. 26333 dated 1 November 2006, which refers to Turkish Accounting Standards and Turkish Financial Reporting Standards issued by Public Oversight Accounting and Auditing Standards Authority "POAASA" and additional explanations and notes related to them and other decrees, notes and explanations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency ("BRSA") and other relevant rules promulgated by the Turkish Commercial Code, Capital Markets Board and Tax Regulations. The subsidiaries maintain their books of accounts based on statutory rules and regulations applicable in their jurisdictions. The accompanying financial statements are derived from statutory financial statements with adjustments and reclassifications for the purpose of presentation in accordance with IFRS. The accompanying consolidated financial statements were authorized for issue by the Bank management on 19 October 2018.

2.2. Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except for the following;

- derivative financial instruments are measured at fair value
- financial assets at fair value through profit or loss are measured at fair value
- financial assets at fair value through other comprehensive income are measured at fair value
- investment property and property and equipment are measured at fair value.

The methods used to measure fair values are discussed further in Note 3.8, 3.10, 3.15, 3.16.

2. BASIS OF PREPARATION (Continued)

2.2. Basis of Measurement (continued)

International Accounting Standard ("IAS") 29, which deals with the effects of inflation in the financial statements, requires that financial statements prepared in the currency of a hyperinflationary economy to be stated in terms of the measuring unit current at the reporting date and the corresponding figures for previous periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three year inflation rate approaching or exceeding 100%.

The cumulative three-year inflation rate in Turkey has been 35.61% at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by Turkish Statistical Institute. This, together with the sustained positive trend in the quantitative factors such as financial and economical stabilization, decrease in the interest rates and the appreciation of TL against the US Dollars ("USD"), have been taken into consideration to categorize Turkey as a non-hyperinflationary economy under IAS 29 effective from 1 January 2006. Therefore, IAS 29 has not been applied to the financial statements of the Company as at and for the year ended 31 December 2006 and thereafter.

2.3 Functional and Presentation Currency

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

2.4 Use of Estimates and Judgments

The preparation of the consolidated financial statements in conformity with IFRS 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 recognized in the period in which the estimate is revised and in any future periods affected.

<u>Critical accounting judgments made in applying the Bank's accounting policies include</u>:

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy Note 3.8.

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about the counterparty's financial situation and the net realizable value of any underlying collateral.

2. BASIS OF PREPARATION (Continued)

2.4 Use of Estimates and Judgments (continued)

Key sources of estimation uncertainty

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument**.**

The Group's accounting policy on fair value measurements is discussed in Note 3.8 – *measurement*.

Income taxes

The Bank is subject to income taxes. Significant estimates are required in determining the provision for income taxes. Management records deferred tax assets to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized. The recoverability of the deferred tax assets is reviewed regularly.

Reserve for employee severance payments

In accordance with the existing social legislation, the Bank is required to make lump-sum payments to employees upon termination of their employment based on certain conditions. In calculating the related liability to be recorded in the financial statements, the Bank uses assumptions such as discount rate, turnover of employees and future change in salaries/limits in order to make the best estimate. These estimations disclosed in Note 3.19 are reviewed regularly.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3.1 Basis of Consolidation

The consolidated financial statements incorporate the consolidated financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group’s equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling share of changes in equity since the date of the combination. The consolidated financial statements of the entities below have been consolidated with those of the Bank in the accompanying consolidated financial statements. The ownership percentages stated below comprise the total of the Group’s holdings used in consolidation:

Subsidiaries	Sector	The Group’s Share (%)
Yatırım Finansman Menkul Değerler AŞ	Securities brokerage	95.78
TSKB Gayrimenkul Yatırım Ortaklığı AŞ	Real estate investment trust	72.18

The financial statements of the companies below are accounted for under the equity method:

Associates	Sector	The Group’s Share (%)
İş Finansal Kiralama AŞ	Leasing	29.46
İş Girişim Sermayesi Yatırım Ortaklığı AŞ	Private equity	21.75
İş Faktoring AŞ	Factoring	16.67

The following equity investments have been accounted at cost; they have not been consolidated their consolidation would not have a material effect on income for the year or on equity.

Entity	Sector	The Group’s Share (%)
TSKB Gayrimenkul Değerleme AŞ	Real-Estate Appraiser	99.99
TSKB Sürdürülebilirlik Danışmanlığı AŞ	Consultancy	99.42

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of Consolidation (continued)

Business Combinations

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Subsidiaries

Subsidiaries are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

Investments in Associates (Equity-accounted Investees)

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

As at the reporting date, the Group has investments in associates with a position to exercise significant influence through participation in the financial and operating policy decisions of the investee. Investments in associates are accounted for using the equity method (equity-accounted investees) and are recognized initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income, after adjustments to align the accounting policies with those of the Group, from the date that significant influence until the date that significant influence ceases.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of Consolidation (continued)

Investments in Associates (Equity-accounted Investees) (continued)

When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of equity instruments measured at fair value through other comprehensive income, which are recognized directly in equity.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Foreign currency (continued)

Foreign currency transactions (continued)

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the accompanying consolidated financial statements, the results and financial position of each entity are expressed in Turkish Lira, which is the functional currency of the Group, and the presentation currency for the accompanying consolidated financial statements.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts, swaps and options (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

As at 30 June 2018 and 31 December 2017, foreign currency assets and liabilities of the Group are mainly in US Dollar and Euro. As at 30 June 2018 and 31 December 2017, exchange rates of US Dollar and Euro are as follows:

	2018		**2017**	
	Period End	**Average**	**Period End**	**Average**
1 US Dollar	4.5475	4.0566	3.7525	3.8195
1 Euro	5.2978	4.9063	4.4824	4.5225

3.3 Interest

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.

If the financial asset is impaired and classified as a non-performing receivable, the Parent 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. It is used effective interest rate 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 to the gross amount.

Interest income and expense presented in the statement of comprehensive income statement include:

- The interest income on fınancial assets and liabilities at amortized cost on an effective interest rate basis
- The interest income on held for trading investments and fair value through other comprehensive income investments.
- Coupons earned on fixed income securities and accrued discount and premium on treasury bills and other discounted instruments

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 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.

3.5 Net trading income

Net trading income includes gains and losses arising from disposals of financial assets at fair value through profit or loss, the disposal of financial assets through other comprehensive income, gains and losses on derivative financial instruments held for trading purpose and foreign exchange differences.

3.6 Dividends

Dividend income is recognized when the right to receive the income is established.

3.7 Income tax

Income tax comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7 Income tax (continued)

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Turkish tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

Tax exposures

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax position and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

3.8 Financial assets and financial liabilities

Initial measurement of financial instruments

Initial recognition of financial instruments the Parent Bank shall recognize a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade date accounting or settlement date accounting. Purchase and sale transactions of securities are accounted at the settlement date.

The classification of financial instruments at initial recognition depends on the contractual conditions and the relevant business model. Except for the assets in the scope of IFRS 15 Revenue from contracts with customers, at initial recognition, the Parent Bank measures financial asset or financial liabilities at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit/loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Classification of financial instruments

On which category a financial instruments shall be classified at initial recognition depends on both the business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Assessment of business model

As per IFRS 9, the Parent Bank's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The business model does not depend on the intent of the management on an individual financial intermediary, so the condition is not a classification approach on the basis of a financial instrument but an evaluation by combining the financial assets. When the business model used for the management of financial assets is being evaluated, all evidence is taken into account. Such evidence includes the following:

- How the performance of financial assets held by the business model and business model is reported by the key executive personnel,
- Risks affecting the performance of the business model (financial assets held within the business model) and, in particular type of management,

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

Assessment of business model (continued)

- How the additional payments to the managers are determined (for example, whether additional payments are determined according to the fair value of the assets being managed or on the contractual cash flows collected).

Business model evaluation is not based on scenarios in which the operator is not expected to be at a reasonable level, such as the "worst case" or "pressure case" scenarios. The same business model does not require a change in the classification of other financial assets as long as the cash flows are realized differently from the expected future date when the business model is assessed, the error correction is made in the financial statements or all relevant information available at the time of the valuation of the business model is taken into account. However, when evaluating the business model for newly created or newly acquired financial assets, information about how past cash flows have been taken into account along with other relevant information is also taken into account. The business models that comprise the bet are composed of three categories. These categories are as follows:

- Business model aimed to hold assets in order to collect contractual cash flows: This is a model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the life of the instrument. The financial assets that are held within the scope of this business model are measured at amortized cost when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- Business model whose objective is to hold assets in order to collect contractual cash flows: The Parent Bank may hold financial assets in this business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Fair value change of the financial assets that are held within the scope of this business model are accounted under other comprehensive income when the contractual terms of the financial asset meet the condition of giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- Other Business Model: Financial assets are measured at fair value through profit or loss if they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets

The contractual cash flows including solely principle and interest on principle

As per IFRS 9, the Parent Bank classifies a financial asset on the basis of its contractual cash flow characteristics if the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In order to assess whether the element provides consideration for only the passage of time, an entity applies judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set. When the contractual conditions are exposed to the risks which are not consistent with the basic lending arrangement or variability of cash flows, the relevant financial asset is measured at fair value through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

3.8.1 Measurement categories of financial assets and liabilities

Financial Assets

As of 1 January 2018, the Bank classified all its financial assets based on the business model for managing the financial assets. Effect of this classification is explained in Note 3.23 in Section Three. In this context, Financial assets are classified in three main categories as listed below:

-Financial assets measured at fair value through profit/loss
-Financial assets measured at fair value through other comprehensive income and
-Financial assets measured at amortized cost

Financial assets at the 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 aimed 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 in case of 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 shortterm 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. According to uniform chart of accounts explanations interest income earned on financial asset and the difference between their acquisition costs and amortized costs are recorded as interest income in the statement of profit or loss. The differences between the amortized costs and the fair values of such assets are recorded under trading account income/losses in the statement of profit or loss. In cases where such assets are sold before their maturities, the gains/losses on such sales are recorded under trading account income/losses.

Financial Assets at Fair Value Through Other Comprehensive Income

In addition to Financial assets within a business model that aims to hold to collect contractual cash flows and aims to hold to sell, financial asset with contractual terms that lead to cash flows are solely payments of principal and interest at certain dates, they are classified as fair value through other comprehensive income.

Financial assets at fair value through other comprehensive income are recognized by adding transaction cost to acquisition cost reflecting the fair value of the financial asset. After the recognition, financial assets at fair value through other comprehensive income are measured 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 Loss 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. Equity securities that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at cost, less provision for impairment.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

3.8.1 Measurement categories of financial assets and liabilities (continued)

Financial Assets (continued)

Financial Assets at Fair Value Through Other Comprehensive Income (Continued)

During initial recognition an entity can choose in a irrecovable was to record the changes of the fair value of the 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 taken into the financial statements as profit or loss.

Financial Assets Measured at Amortized Cost

Financial assets that are held for collection of contractual cash flows where those cash flows 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 method. Interest income obtained from financial assets measured at amortized cost is accounted in income statement.

In the “Fair value through other comprehensive income” and “measured at amortized cost” securities portfolio of the Bank, there are Consumer Price Indexed (CPI) Bonds.

The Parent Bank considered expected inflation index of future cash flows prevailing at the reporting date while calculating internal rate of return of the Consumer Price Indexed (CPI) marketable securities. The effect of this application is accounted as interest received from marketable securities in the consolidated financial statements.These securities are valued and accounted according to the effective interest method based on the real coupon rates and the reference inflation index at the issue date and the estimated inflation rate. As stated in the Investor’s Guide of CPI Government Bonds by Republic of Turkey Undersecretariat of Treasury the reference indices used to calculate the actual coupon payment amounts of these securities are based on the previous two months CPI’s. The Parent Bank determines the estimated inflation rate accordingly. The inflation rate is estimated by considering the expectancies of the Central Bank and the Bank which are updated as needed within the year.

Loans and Advances to Customers

Loans are financial assets that have fixed or determinable payments terms and are not quoted in an active market.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognized and presented within loans and advances.

Loans and advances are initially recognized at acquisition cost plus transaction costs presenting their fair value and thereafter measured at amortized cost using the "Effective Interest Rate (internal rate of return) Method".

All loans and advances of the Parent Bank has classified under Measured at Amortized Cost, after loan portfolio passed the test of “All cash flows from contracts are made only by interest and principal” during the transition period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

3.8.1 Measurement categories of financial assets and liabilities (continued)

Explanations on expected credit losses

As of 1 January 2018, the Group allocates the expected loss provison for impairment on assets and loans measured at amortized cost and fair value through other comprehensive income and loan commitments not measured at fair value through profit/loss based and non cash loans on 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 Group shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition. The Group 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 that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk is recorded in the amount of 12-month expected credit losses.

Stage 2:
In the event of a significant increase in credit risk since initial recognition, 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.

Stage 3:
Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit losses are recognized and interest revenue is calculated on the net carrying amount.

Calculation of expected credit losses

It is calculated expected credit losses based on a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due based on the contract and the cash flows that are expected to be received.

Probability of Default (PD): PD refers to the likelihood that a loan will default, which is usually set at 12 months, given certain characteristics. Based on IFRS 9, it is used two different PDs in order to calculate expected credit losses:

- 12-month PD : as the estimated probability of default occurring within the next 12 months.
- Lifetime PD : as the estimated probability of default occurring over the remaining life of the financial instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

3.8.1 Measurement categories of financial assets and liabilities (continued)

Calculation of expected credit losses

Loss Given Default (LGD): If a loan default occurs, it represents the economic loss incurred on the loan. It is expressed as a percentage.

Exposure at Default (EAD): For cash loans, it corresponds to the amount of loan granted as of the reporting date. For non-cash loans and commitments, it is the value calculated through using credit conversion factors. Credit conversion factor corresponds to the factor which adjusts the potential increase of the exposure between the current date and the default date.

Significant increase in credit risk

The Parent 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).

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 assignedfor 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. In this context, the Parent Bank has calculated thresholds at which point the relative change is a significant deterioration. When determining the significant increase in bank credit risk, The Parent Bank also assessed the absolute change in the PD date on the transaction date and on the reporting date. If the absolute change in the PD ratio is above the threshold values, the related financial asset is classified as stage 2.

The Parent Bank classifies the financial asset as Stage 2 (Significant Increase in Credit Risk) where any of the following conditions are satisfied as a result of a qualitative assessment:

- Loans overdue more than 30 days as of the reporting date
- Loans classified as watchlist
- When there is a change in the payment plan due to restructuring

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

<u>Financial Liabilities</u>

Financial liabilities and equity instruments issued by the Group 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 Group after deducting all of its liabilities. Financial liabilities are classified as either equity instruments or other financial liabilities.

Other financial liabilities

Other financial liabilities, including borrowings, debt securities issued and subordinated liabilities are the Group's sources of debt funding.

Funds borrowed, debt securities issued and subordinated liabilities

Debt securities issued and subordinated liabilities are the Group's main sources of debt funding, funds borrowed, debt securities issued and subordinated liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Group designates liabilities at fair value through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial assets and financial liabilities (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

3.9 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 can 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 Parent 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.

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 Parent 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 asset is derecognized 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 when the obligation specified in the contract is discharged or cancelled or expires.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Derivatives held for risk management purposes and hedge accounting

The Parent Bank is exposed to financial risk which depends on changes in foreign exchange rates and interest rates due to activities and as part of banking activities uses derivative instruments to manage financial risk that especially associated with fluctuations in foreign exchange and interest rate. Mainly derivative instruments used by the Group are foreign currency forwards, swaps, and option agreements.

IFRS 9 permits to defer application of IFRS 9 hedge accounting and continue to apply hedge accounting in accordance with IAS 39 as a policy choice. Accordingly, the Parent Bank continue to apply hedge accounting in accordance with IAS 39 in this context. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

Fair value hedge: A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in income immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in income relating to the hedged item. When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or a liability with corresponding gain or loss recognised in profit or loss. Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to income from that date.

3.11 Repurchase transactions

The Group enters into purchases/sales of investments under agreements to resell/repurchase substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized as receivables from reverse repurchase agreements in the accompanying consolidated financial statements. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognized in the consolidated statement of financial position and are measured in accordance with the accounting policy for either financial assets at fair value through profit or loss, financial assets measured at amortised cost or financial assets at fair value through other comprehensive income as appropriate. The proceeds from the sale of the investments are reported as obligations under repurchase agreements.

Income and expenses arising from the repurchase and resale agreements over investments are recognized on an accruals basis over the period of the transaction and are included in “interest income” or “interest expense”.

3.12 Property and equipment

Recognition and measurement

Items of property and equipment except land and building are measured at cost less accumulated depreciation and accumulated impairment losses.

Items of property and equipment, which have been acquired before 31 December 2005, are measured at restated cost for the effects of inflation as at 31 December 2005, less accumulated depreciation and accumulated impairment losses. Items of property and equipment acquired after 31 December 2005 are measured at cost less accumulated depreciation and accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Property and equipment (continued)

Recognition and measurement

As of the third quarter of the 2015, the Group changed its accounting policy and adopted revaluation method for land and buildings under scope of IAS 16. The useful life of real estates are mentioned in expertise reports. In case of the cost of tangible assets are over the fair value of the assets, within the framework of "Impairment of Assets" (IAS 36), the value of the asset is reduced to its "fair value" and the impairment is recognised in expense accounts. The positive difference between the net book value of real estate property and the expertise values which are determined by the independent expert companies are recognised under shareholders' equity. Related valuation models such as cost model, market value and discounted cash flow projections approaches are used in valuation of real estates.

The initial cost of property and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the assets to its working condition and location for its intended use. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and is recognized in other income/other expenses in profit or loss.

Subsequent costs

The cost of replacing a component of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative years are as follows:

Buildings	50 years
Vehicles	5 years
Furniture and Fittings	5 years
Computer Equipment	4 years
Software	3 years
Leasehold and Leasehold Improvements	lease term or 5 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is stated at its fair value at the reporting date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the year in which they arise. Fair value of investment properties are determined by using market value, discounted cash flow projections approach and cost model.

3.14 Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.15 Intangible assets

Intangible assets acquired before 31 December 2005 are measured at restated cost for the effects of inflation as at 31 December 2005 less accumulated amortisation and accumulated impairment losses. Intangible assets acquired after 31 December 2005 are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognized in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets. The estimated useful life of intangible assets is 3 to 5 years.

Amortisation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16 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 Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group'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 Group's net investment outstanding in respect of the leases. Lease receivables are classified under loans in the accompanying statement of financial position.

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.

The Group as lessee

Assets held under finance leases are recognized as assets of the Group 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. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Impairment of non-financial assets

The carrying amounts of the Group’s non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognized if the carrying amount of an asset or its Cash Generating Unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group’s corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs) and then to reduce the carrying amount of the other assets in the CGU (group of CGUs) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18 Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.19 Employee benefits

Defined benefit plans

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his / her dependants will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

A provision is maintained for the present value of the defined benefit obligation, in respect of service up to the reporting date, based on the projected unit credit method. The charge in the income statement comprises current service cost and interest on the obligation.

"T. Sınai Kalkınma Bankası Memur ve Müstahdemleri Yardım ve Emekli Vakfı" and "T.Sınai Kalkınma Bankası AŞ Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı" (the "Pension Funds") are separate legal entities and foundations recognized by an official decree, providing all qualified Bank employees with pension plan benefits. The Pension Funds are defined benefit plan under which the Bank pays fixed contributions as employer share of monthly premium contributions, and is not obliged to pay any other additional obligation.

The liability to be recognized in the statement of financial position in respect of defined benefit plan is the present value of the defined benefit obligation at the reporting date less the fair value of assets. The Bank does not have the legal right to access the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan, and therefore, no assets are recognized in the accompanying statement of financial position in respect of any surplus in the fund. The defined benefit obligation is calculated annually by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using expected interest rates for Turkish Lira.

Paragraph 1 of the provisional Article 23 of the Banking Act ("Banking Act") No: 5411 published in the Official Gazette No: 25983 on 1 November 2005 requires the transfer of banking funds to the Social Security Institution within 3 years as of the enactment date of the Banking Act.

Under the Banking Act, in order to account for obligations, actuarial calculations will be made considering the income and expenses of those funds by a commission consisting of representatives from various institutions. Such calculated obligation shall be settled in equal instalments in maximum 15 years. Nonetheless, the related Article of the Banking Law was annulled by the Constitutional Court's decision No: E. 2005/39 and K. 2007/33 dated 22 March 2007 that were published in the Official Gazette No: 26479 on 31 March 2007 as of the release of the related decision, and the execution of this article was cancelled as of its publication of the decision and the underlying reasoning for the cancellation of the related article was published in the Official Gazette No: 26731 on 15 December 2007. After the publication of the reasoning of the cancellation decision of the Constitutional Court, articles related with the transfer of banks pension fund participants to Social Security Institution based on Social Security Law numbered 5754 were accepted by the Grand National Assembly of Turkey on 17 April 2008 and published in the Official Gazette No: 26870 on 8 May 2008.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Employee benefits (continued)

Present value for the liabilities of the transferees as of the transfer date would be calculated by a commission that involves representatives of Social Security Institution, Ministry of Finance, Turkish Treasury, State Planning Organization, BRSA, SDIF, banks and banks' pension fund institutions and technical interest rate, used in actuarial account, would be 9.80%. If salaries and benefits paid by the pension fund of banks and income and expenses of the pension funds in respect of the insurance branches, stated in the Law, exceeds the salaries and benefits paid under the regulations of Social Security Institution, such differences would be considered while calculating the present value for the liabilities of the transferees and the transfers are completed within 3 years beginning from 1 January 2008.

According to the provisional Article 20 of 73th article of Law No. 5754 dated 17 April 2008, has become effective on 8 May 2008 and was published in the Official Gazette No: 26870, transfer of Pension Funds to Social Security Institution in three years has been anticipated. Related resolution of the Council of Ministers related to four-year extension was published in the Official Gazette No: 28277 dated 8 March 2012. It has been resolved that the transfer process has been extended two year with Council of Ministers' Decree, has become effective on 9 April 2011 and was published in the Official Gazette No: 27900. The transfer had to be completed until 8 May 2013. Accordingly, it has been resolved that, one more year extension with Council of Minister Decree No:2013/467, has become effective on 3 May 2013 and was published in the Official Gazette No:28636 and transfer need to be completed until 8 May 2014. However, it has been decided to extend the time related to transfer by the decision of the Council of Ministers published in the Official Gazette No. 28987 dated 30 April 2014 for one more year due to not to realize the transfer process.

In accordance with the Health and Safety Law which became effective on 4 April 2015 and published in the Official Gazette No: 29335 and dated 23 April 2015 and together with some amendments and statutory decree, Council of Ministers authorized for the determination of transfer date to the Social Security institution and there is no decision taken by the Cabinet with regards to issue date of financial statements.

Unmet social benefits and payments of the pension fund participants and other employees that receive monthly income although they are within the scope of the related settlement deeds would be met by pension funds and the institutions employ these participants after the transfer of pension funds to the Social Security Institution.

The present value of the liabilities, subject to the transfer to the Social Security Institution, of the Pension Fund as of 31 December 2017 has been calculated by an independent actuary in accordance with the actuarial assumptions in the Law and as per actuarial report dated 16 January 2018. There is no need for technical or actual deficit to book provision as of 31 December 2017.

In addition, the Bank's management anticipates that any liability that may come out during the transfer period and after, in the context expressed above, would be financed by the assets of the Pension Fund and would not cause any extra burden on the Bank. The income tax charge is composed of the sum of current tax and deferred tax.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19 Employee benefits (continued)

Employment termination benefits

In accordance with the existing labour law in Turkey, the Group entities are required to make lump-sum payments to employees who have completed one year of service and whose employment is terminated without cause or who retire, are called up for military service or die. Such payments are calculated on the basis of 30 days' pay maximum of pay ceiling announced by the Government per year of employment at the rate of pay applicable at the date of retirement or termination. Reserve for employee severance indemnity is computed and reflected in the consolidated financial statements on a current basis. The management of the Group used some assumptions in the calculation of the reserve for employee severance indemnity.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognized for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.20 Earnings per share

Earnings per share from continuing operations disclosed in the accompanying consolidated income statement is determined by dividing the net profit for the year by the weighted average number of shares outstanding during the year attributable to the shareholders of the Bank. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (“Bonus Shares”) to existing shareholders from retained earnings. For the purpose of earnings per share computations, such Bonus Shares issued are regarded as issued shares.

3.21 Fiduciary assets

Assets held by the Group in a fiduciary, agency or custodian capacity for its customers are not included in the consolidated statement of financial position, since such items are not treated as assets of the Group.

3.22 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components, whose operating results are reviewed regularly by the Board of Directors (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 Adoption effect of IFRS 9 Financial Instruments

Effective 1 January 2018, the Group 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 Group 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 Group's application of IFRS 9 is stated below:

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

	Before IFRS 9		**IFRS 9**	
	Measurement Method	**Book Value**	**Measurement Method**	**Book Value**
Financial Assets		**31 December 2017**		**1 January 2018**
Cash and cash equivalents (including loans and balances to banks)	Amortised cost	509,147	Amortised cost	509,147
Reserve deposits at Central Bank	Amortised cost	831,678	Amortised cost	831,678
Marketable securities	Financial assets at fair value through profit or loss	9,305	Financial assets at fair value through profit or loss	9,305
	Financial assets at fair value through other comprehensive income	3,096,432	Financial assets at fair value through other comprehensive income	3,096,432
	Amortised Cost	1,532,047	Amortised Cost	1,532,047
Derivative financial assets	Financial assets at fair value through profit or loss	326,788	Financial assets measured at fair value through profit or loss	326,788
	Financial assets at fair value through other comprehensive income	-	Financial assets at measured fair value through other comprehensive income	-
Loans and advances to customers (Gross)	Amortised Cost	22,400,467	Amortised Cost	22,400,467

<u>Reconcilation of the opening balances of the provision for expected credit losses to IFRS 9</u>

	Book Value Before IFRS 9 31 December 2017	**Remeasurements**	**Book Value After IFRS 9 1 January 2018**
Loans			
Stage 1 & Stage 2	96,483	135,441	231,924
Stage 3	52,731	(653)	52,078
Financial Assets(*)	**-**	**3,652**	**3,652**
Other Assets	**-**	**725**	**725**
Non-Cash Loans	**-**	**4,215**	**4,215**
Stage 1 and Stage 2	-	4,215	4,215
Total	**149,214**	**143,380**	**292,594**
Investment in Associates (Net)	**374,425**	**(15,790)**	**358,635**
TOTAL		**159,170**	

(*)Within the scope of IFRS 9, provisions include provisions for Financial Assets Fair Value through Other Comprehensive Income, Receivables from Banks and Receivables from Money Markets

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.23 Adoption effect of IFRS 9 Financial Instruments

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 aspect of equity. The explanations about the transition effects to IFRS 9 presented in the equity items are given below:

As of 1 January 2018, due to first time adoption of IFRS 9, total shareholders’ equity figure increased by TL 127,483 thousands (after tax) composing of negative expected credit losses calculation impact amounting to TL 159,170 thousands and positive deferred tax impact amounting to TL 31,687 thousands.

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

lnterest income and interest expense

Interest income and expense are recognised in the profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of financial instrument, but not future credit losses. The effective interest rate is established on initial recognition of the fınancial asset and liability and is not revised subsequently. The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability. Interest income and expense presented in the statement of comprehensive income statement include:

- the interest income on fınancial assets and liabilities at amortised cost on an effective interest rate basis
- the interest income on held for trading investments and available for sale investments.

Interest income is suspended when loans are impaired and is excluded from interest income until received.

Financial assets and liabilities

a) Financial Assets

All financial assets are initially measured at fair value, plus transaction costs.
Financial assets are classified into the following specified categories: fınancial assets as 'at fair value through profıt or loss' (FVTPL), 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the fınancial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a fınancial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Income is recognized on an effective interest basis for debt instruments other than those fınancial assets designated as at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.24 Explanations on prior period accounting policies not valid for the current period (continued)

Financial assets and liabilities (continued)

a) Financial Assets (continued)

Financial assets at FVTPL

Financial assets at fair value through profıt or loss are fınancial assets held for trading and financial assets designated under this category upon initial recognition. A fınancial asset is classified in this category if acquired principally for the purpose of selling in the short-term or achieved more relevant accounting measurement. Derivatives are also categorized as held for trading unless they are designated as hedges.

Available for sale financial assets

Quoted equity investments and quoted certain debt securities held by the Group that are traded in an active market are classified as being available-for-sale fınancial assets and are stated at fair value. The unquoted equity investments that are not traded in an active market but are also classifıed as available- for-sale fınancial assets are stated at cost since their value cannot be reliably measured. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. Dividends on available for sale equity instruments are recognized in profıt and loss when the Group has the right to receive any payment.

The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the prevailing exchange rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortized cost of the asset is recognized in profıt or loss, and other changes are recognized in equity.

Due from banks and loans and advances to customers

Due from banks and loans and advances to customers are non-derivative fınancial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is classifıed as a fınance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

When the Group purchases a fınancial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fıxed price on a future date ("reverse repo or stock borrowing"), the arrangement is accounted for as amounts due from banks, and the underlying asset is not recognised in the Group's consolidated financial statements.

Due from banks and loans and advances to customers are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.24 Explanations on prior period accounting policies not valid for the current period (continued)

Financial assets and liabilities (continued)

a) Financial Assets (continued)

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss are subject to impairment testing at each balance sheet date to determine whether there is any indication of impairment of fınancial asset or fınancial asset group. An entity shall assess at each balance sheet date whether there is any objective evidence that a fınancial asset or group of fınancial assets is impaired.

A fınancial asset or group of fınancial assets 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 asset and that loss event or events has an impact on the estimated future cash flows of the fınancial asset or group of fınancial assets that can be reliably estimated. For loans and receivables, the amount of impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the fınancial asset is reduced through the use of an allowance account. Changes in allowance accounts are recognized in profit or loss.

With the exception of available for sale equity instruments, 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, the previously recognized impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. Increase in fair value of available for sale fınancial assets subsequent to impairment is recognized in directly in equity.

Derecognition of fınancial assets

The Group derecognizes a fınancial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the fınancial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred fınancial asset, the Group continues to recognize the fınancial asset and also recognizes a collateralized borrowing for the proceeds received.

Derecognition of financial liabilities

The Group derecognizes fınancial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.25 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 2017. The effects of these standards and interpretations on the Group'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 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 Group 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 Group.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. Effective 1 January 2018, the Group 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 of 1 January 2018, due to first time adoption of IFRS 9, total shareholders' equity figure increased by TL 127,483 thousands (after tax) composing of negative expected credit losses calculation impact amounting to TL 159,170 thousands and positive deferred tax impact amounting to TL 31,687 thousands. Explanations on adoption of IFRS 9 is explained in Note 3.23.

IFRS 7 Financial Instruments: Disclosures

IFRS 7, Financial Instruments: Disclosures was updated in line with IFRS 9, Financial Instruments. The Group adopted the revised standard on 1 January 2018. Given the first quarter 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 Group provides the IFRS 9 transition disclosures as set out by IFRS 7 in the first quarter of 2018. A full set of disclosures as required by revised IFRS 7 will be provided in the Group's annual Financial Statements as of and for the year ended 31 December 2018.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.25 The new standards, amendments and interpretations (continued)

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

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 Group and did not have an impact on the financial position or performance of the Group.

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 Group and did not have an impact on the financial position or performance of the Group.

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 Group.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.25 The new standards, amendments and interpretations (continued)

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration (continued)

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

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 Group and did not have an impact on the financial position or performance of the Group.

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 Group 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.

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 Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.25 The new standards, amendments and interpretations (continued)

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

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 Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

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 Group is in the process of assessing the impact of the interpretation on financial position or performance of the Group.

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 Group and did not have an impact on the financial position or performance of the Group.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.25 The new standards, amendments and interpretations (continued)

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

Prepayment Features with Negative Compensation (Amendments to IFRS 9) (continued)

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 Group and will not have an impact on the financial position or performance of the Group.

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 Group 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 Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

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 Group is in the process of assessing the impact of the amendments on financial position or performance of the

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

4. FINANCIAL INSTRUMENTS

Carrying amounts and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value

	Carrying amount			Fair value			
Financial assets	**Loans and receivables**	**Investments, including derivatives**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
30 June 2018							
Financial assets measured at fair value							
Financial assets at fair value through profit or loss	-	12,193	12,193	12,193	-	-	12,193
Derivative financial instruments	-	816,058	816,058	-	816,058	-	816,058
Derivative assets held for hedging purposes	-	-	-	-	-	-	-
Investment securities - Financial assets at fair value through other comprehensive income (*)	-	3,303,566	3,303,566	3,063,068	59,148	170,073	3,292,289
Financial assets not measured at fair value							
Due from banks (including central banks)	1,510,837	-	1,510,837	-	-	-	-
Loans and advances to customers	26,921,521	-	26,921,521	-	-	-	-
Investment securities - Financial assets measured at amortized cost	-	1,634,807	1,634,807	-	-	-	-
	28,432,358	**5,766,624**	**34,198,982**				
31 December 2017							
Financial assets measured at fair value							
Trading assets	-	9,305	9,305	21	9,284	-	9,305
Derivative financial instruments	-	326,788	326,788	-	326,788	-	326,788
Derivative assets held for hedging purposes	-	-	-	-	-	-	-
Investment securities - Available-for-sale	-	3,096,432	3,096,432	2,880,453	51,301	154,716	3,086,470
Financial assets not measured at fair value							
Due from banks (including central banks)	1,340,798	-	1,340,798	-	-	-	-
Loans and advances to customers	22,304,828	-	22,304,828	-	-	-	-
Investment securities - Held-to-maturity	-	1,532,047	1,532,047	-	-	-	-
	23,645,626	**4,964,572**	**28,610,198**				

(*) As of 30 June 2018, securities that are not publicly traded and the determination of fair values could not be obtained reliably amounting to TL 11,277 (31 December 2017: TL 9,962) have been measured at cost.

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

4. FINANCIAL INSTRUMENTS (Continued)

Carrying amounts and fair values (continued)

	Carrying amount			Fair value			
Financial liabilities	**Loans and borrowings**	**Derivatives**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
30 June 2018							
Financial liabilities measured at fair value							
Derivative financial instruments held for trading	-	562,712	562,712	-	562,712	-	562,712
Derivative liabilities held for hedge accounting	-	227,368	227,368	-	227,368	-	227,368
Financial liabilities not measured at fair value							
Obligations under repurchase agreements	297,985	-	297,985	-	-	-	-
Funds borrowed	22,679,295	-	22,679,295	-	-	-	-
Payables to stock exchange money market	309,079	-	309,079	-	-	-	-
Debt securities issued (*)	7,495,972	-	7,495,972	6,928,387	-	-	6,928,387
	30,782,331	**790,080**	**31,572,411**				

31 December 2017							
Financial liabilities measured at fair value							
Derivative financial instruments held for trading	-	232,403	232,403	-	232,403	-	232,403
Derivative liabilities held for hedge accounting	-	78,682	78,682	-	78,682	-	78,682
Financial liabilities not measured at fair value							
Obligations under repurchase agreements	610,775	-	610,775	-	-	-	-
Funds borrowed	19,001,627	-	19,001,627	-	-	-	-
Payables to money market	701,147	-	701,147	-	-	-	-
Debt securities issued	4,892,465	-	4,892,465	4,909,263	-	-	4,909,263
	25,206,014	**311,085**	**25,517,099**				

(*) Includes Tier 2 subordinated bonds which are classified on the balance sheet as subordinated loans.

5. OPERATING SEGMENTS

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Board of Directors (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For management purposes, the Group is currently organized into two operating divisions – "banking" and "stock brokerage and other". These divisions are the basis on which the Group reports its primary segment information.

Principal activities of the Group are as follows:

<u>Banking:</u> investment and development bank with all corporate and commercial banking activities excluding accepting customer deposits.

<u>Stock brokerage and other:</u> intermediary stock brokerage activities, portfolio management and investment management and real estate investment trust activities.

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

5. OPERATING SEGMENTS (Continued)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (1 January – 30 June 2018)	**Banking**	**Stock brokerage and other**	**Combined**	**Eliminations**	**Total**
Interest income	1,234,933	27,511	1,262,444	(23)	1,262,421
Interest expense	(559,253)	(41,275)	(600,528)	23	(600,505)
Net interest income	**675,680**	**(13,764)**	**661,916**	**-**	**661,916**
Net fee and commission income	8,519	16,055	24,574	-	24,574
Net securities trading income / (loss)	1,333	59	1,392	-	1,392
Net derivative trading income / (loss)	87,038	(33,880)	53,158	-	53,158
Net foreign currency gain / (loss)	(154,720)	1,530	(153,190)	-	(153,190)
Net impairment loss on financial assets	(152,236)	(1,003)	(153,239)	-	(153,239)
Net operating income after impairment losses	**465,614**	**(31,003)**	**434,611**	**-**	**434,611**
Other operating income	31,640	12,277	43,917	(6,675)	37,242
Other operating expenses	(81,205)	(26,964)	(108,169)	6,303	(101,866)
Dividend income	3,699	1,363	5,062	-	5,062
Share of profit of equity-accounted investees	33,536	-	33,536	-	33,536
Profit before income tax	**453,284**	**(44,327)**	**408,957**	**(372)**	**408,585**

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

5. OPERATING SEGMENTS (Continued)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (1 January – 30 June 2017)	**Banking**	**Stock brokerage and other**	**Combined**	**Eliminations**	**Total**
Interest income	825,515	20,899	846,414	(37)	846,377
Interest expense	(361,026)	(32,401)	(393,427)	37	(393,390)
Net interest income	**464,489**	**(11,502)**	**452,987**	**-**	**452,987**
Net fee and commission income	5,829	12,914	18,743	-	18,743
Net securities trading income / (loss)	2,352	(39)	2,313	-	2,313
Net derivative trading income / (loss)	(161,800)	27,408	(134,392)	(1,827)	(136,219)
Net foreign currency gain / (loss)	135,359	(28,516)	106,843	-	106,843
Net impairment loss on financial assets	(8,324)	(730)	(9,054)	-	(9,054)
Net operating income after impairment losses	**437,905**	**(465)**	**437,440**	**(1,827)**	**435,613**
Other operating income	1,291	10,358	11,649	(5,186)	6,463
Other operating expenses	(67,326)	(22,797)	(90,123)	4,800	(85,323)
Dividend income	18,002	2,151	20,153	(14,732)	5,421
Share of profit of equity-accounted investees	22,009	-	22,009	-	22,009
Profit before income tax	**411,881**	**(10,753)**	**401,128**	**(16,945)**	**384,183**

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

5. OPERATING SEGMENTS (Continued)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	Banking	Stock brokerage and other	Combined	Eliminations	Total
At 30 June 2018					
Total assets	**34,886,002**	**914,491**	**35,800,493**	**(60,621)**	**35,739,872**
Total liabilities	**31,183,350**	**700,377**	**31,883,727**	**(797)**	**31,882,930**
Equity before net profit & non-controlling interests	3,381,588	260,223	3,641,811	(145,640)	3,496,171
Net profit attributable to equity holders of the Bank	321,064	(46,109)	274,955	47,325	322,280
Non-controlling interests	-	-	-	38,491	38,491
Total equity	**3,702,652**	**214,114**	**3,916,766**	**(59,824)**	**3,856,942**
Total liabilities and equity	**34,886,002**	**914,491**	**35,800,493**	**(60,621)**	**35,739,872**
At 31 December 2017					
Total assets	**28,748,016**	**1,107,446**	**29,855,462**	**(60,812)**	**29,794,650**
Total liabilities	**25,005,260**	**845,635**	**25,850,895**	**(736)**	**25,850,159**
Equity before net profit & non-controlling interests	3,156,275	275,117	3,431,392	(128,757)	3,302,635
Net profit attributable to equity holders of the Bank	586,481	(13,306)	573,175	15,962	589,137
Non-controlling interests	-	-	-	52,719	52,719
Total equity	**3,742,756**	**261,811**	**4,004,567**	**(60,076)**	**3,944,491**
Total liabilities and equity	**28,748,016**	**1,107,446**	**29,855,462**	**(60,812)**	**29,794,650**

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

6. RELATED PARTIES

For the purposes of the accompanying interim condensed consolidated financial statements, shareholders of the Group and related companies, consolidated and non-consolidated equity participations and related companies, directors and key management personnel together with their families and related companies are referred to as "Related Parties" in this report. During the conduct of its business the Group had various significant transactions and balances with Related Parties during the year.

The accompanying condensed consolidated financial statements include the following balances due from or due to related parties:

	30 June 2018	**31 December 2017**
Balances with related parties		
Loans and advances to customers	472,321	334,401
Balances with Parent Bank	-	-
Balances with other related parties	*472,321*	*334,401*
Non-cash loans	3,062	260
Loans and advances to banks	1,695	1,517
Financial assets at fair value through other comprehensive income investment securities	11,653	12,922
Other assets	11	9
Other liabilities	-	69
Derivative financial instruments	653,494	444,536

	1 January – 30 June 2018	**1 January – 30 June 2017**
Transactions with related parties		
Income from associates	33,536	22,009
Dividend income	5,062	5,421
Interest income	13,541	11,566
- *Balances with Parent Bank*	-	*282*
- *Balances with other related parties*	*13,541*	*11,284*
Foreign exchange gain (loss), net	26,583	11,455
Net fee and commission income / (expense), net	161	184
- *Balances with Parent Bank*	-	-
- *Balances with other related parties*	*161*	*184*
Other income	216	195
- *Balances with Parent Bank*	*17*	*15*
- *Balances with other related parties*	*199*	*180*
Derivative financial instruments gains/losses	(8,608)	8,227

Compensation of Key Management Personnel of the Group

Benefits provided to key management personnel in the current period amount to TL 10,820 (30 June 2017: TL 10,410).

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

7. COMMITMENTS AND CONTINGENCIES

	30 June 2018	31 December 2017
Swap and forward agreements	37,489,888	25,047,827
Revocable and irrevocable commitments	6,239,224	6,132,575
Derivative financial instruments for hedging purposes	16,007,200	10,582,050
Option agreements	7,646,654	4,651,972
Letters of guarantee	1,613,090	1,475,645
Letters of credit	1,883,553	1,079,303
Capital commitments for subsidiaries and associates (*)	90,593	78,890
Bank acceptences	10,596	18,763
Other commitments	65,139	72,830
	71,045,937	**49,139,855**

(*) "As of 25 July 2016, the Bank has paid Euro 1.1 Million share for which is promised to buy shares with the nominal value of EUR 20 Million to the fund which is planned to be created by the European Investment Fund – EIF with the targeted size of Euro 335 Million and established with the name of Turkish Growth and Innovation Fund – TGIF."

Fiduciary Activities

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

The nominal values of the assets held by the Group in agency or custodian capacities and financial assets under portfolio management amounted to TL 1,182,433 as at 30 June 2018 (31 December 2017: TL 1,299,527). As at 30 June 2018, securities at custody with market value amounted to TL 3,867,000 (31 December 2017: TL 4,676,000).

Securities Blocked and Letters of Guarantee Given to Borsa Istanbul (BIST) as Collateral for Trading on Markets

As at 30 June 2018, according to the general requirements of the BIST, letters of guarantee amounting to TL 406,700 (31 December 2017: TL 406,700) had been obtained from various local banks and were provided to BIST for bond and stock market transactions. Also, as at 30 June 2018 there is no letter of guarantee were given to the CMB (31 December 2017: none).

The Group's trading securities given as collateral or blocked amounted to TL 299 at the reporting date (31 December 2017: TL 263).

Litigations

In the normal course of its operations, the Group can be constantly faced with legal disputes, claims and complaints. The necessary provision, if any, for those cases are provided based on management estimates and professional advice.

There are 61 legal cases against the Group which are amounting to TL 5,209 as of the reporting date (31 December 2017: TL 4,976 for 56 legal cases). Tax Audit Committee inspectors made an investigation for the years 2008-2011 about the payments made by the Bank and employees to "Türkiye Sınai Kalkınma Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Vakfı" ("the Foundation") established in accordance with the decisions of the Turkish Commercial Law and the Civil Law as made to all foundations in the sector. According to this investigation it has been communicated that the amount the Bank is obliged to pay is a benefit in the nature of fee for the members of the Foundation worked at the time of payment, the amount the Foundation members are obliged to pay should not been deducted from the basis of fee; accordingly tax audit report was issued with the claim that it should be taken penalized income tax surcharge / penalized stump duty deducted from allowance and total amount of TL 17,325 tax penalty notice relating to period in question to the Bank relying on this report.

7. COMMITMENTS AND CONTINGENCIES (Continued)

Litigations (continued)

Some of the lawsuits are decided favourable, remaining of lawsuits are decided unfavourable by the tax courts of first instance. On the other hand, appeal and objection have been requested by the Parent Bank against the decision of the Court with respect to the Parent Bank and by the administration against the decision of the Court with respect to the administration and completion of appeal process is waited. The tax and penalty notices related to the decision of the tax court of first instance against the Parent Bank are accrued by administration depending on legal process and as of 31 July 2014 the Parent Bank has made total payments amounting to TL 22,091.

A similar case has been submitted to the Constitutional Court (AYM) in the form of individual remedies by the main shareholder of the parent Bank in relation to the parent Bank's liabilites to pay, the Constitutional Court gave the decision with court file number 2014/6192. According to court decision published in the Official Gazette dated 21 February 2015 and numbered 29274, the assessments against the parent Bank was contrary to the principle of legality and the Parent Bank's property rights has been violated. This decision is considered to be a precedent for the parent Bank and an amount of TL 12,750 corresponding to the portion that the parent Bank was obliged to pay for the related period is recognised as income in the prior period.

There is a lawsuit for Pendorya Mall of TSKB GYO registered in Pendik, Doğu District, plot 105, map 865, parcel 64 against IBB and Karacan Yapı at Pendik 2nd Court of First Instance Pendorya Mall claiming the road intersects his own property and demanding compensation amounting TL 7. TSKB GYO has been involved in the lawsuit as intervening party.

Relating to immovable property, subject of litigation discovery review and expert reports were submitted to the court file. Objections to the report and statement of TSKB GYO has been given. IBB Presidency has declared that expropriation proceedings related to the subject have been initiated. For this reason, lawsuit was removed from "Possessory Actions" and converted to the "Confiscating without expropriating" by the judge.

Accepting in the new case, the plaintiff claimed compensation from the Administration and in order to determine the amount of compensation the Court decided an expert examination since the information provided by the Land Registry and the Municipality was not deemed sufficient.

Expert reports submitted to the Court on 30 May 2013 and the Court decided to add Pendik Municipality as a defendant in the case. At the latest hearing on 24 December 2013 it was decided to accept the expert reports and Pendik Municipality to pay the relevant amount (TL 645) to the plaintiff. The reasoned decision has been notified, the decision which has been appealed by the appellant and the respondent Pendik Municipality has turned deteriorate the Supreme Court decision was a request for the correction requested by the İstanbul Metropolitan Municipality (IMM). The decision has been requested adjustment by IMM and plaintiff Sağlam Satış ve Paz. A.Ş. (Malazlar A.Ş.). Breaking decision of the Supreme Court is expected to evaluate the requests for correction of decision. The Court decided to apply of Supreme Court's decision to dismiss.

Beyoglu Municipality approved the reclaim of TSKB GYO for the Building II which has the location as 1486 map and 76 parcel in Fındıklı in Beyoglu, Istanbul for the forfeiture because of zoning change. However, Municipality of Beyoglu sued because of no approbation by Istanbul Metropolitan Municipality, in order to keep rights on the subject.

7. COMMITMENTS AND CONTINGENCIES (Continued)

Litigations (continued)

The court made a decision as no solution for the relevant claim due to Beyoglu Municipality approved the reclaim. However, There has to be permission by Istanbul Metropolitan Municipality, and Cultural and Natural Heritage Preservation Board for the exact result. That's why, decision was appealed by the company. The Council of State reversed the judgement based on unappropriate zoning plan changes with the decision of 28 March 2014.

In addition, a new implementation development plan covering the Fındıklı Building II, which has been canceled by the judicial authorities and which is owned by TSKB GYO, is being prepared by the Municipality of Beyoğlu on December 21, 2010, the 1/1000 Scaled Beyoğlu District Protected Urban Site Protected Development Plan. For this content, TSKB GYO's application were made in writing to the Beyoğlu Municipality on 28 October 2014 in order to plan by taking into account the 1/1000 Scale Implementation Plan which is being prepared by the Municipality of Beyoğlu and the Istanbul Metropolitan Municipality. The court requested the Municipality to ask the plan including the immovable subject to the decision of the Council of State is still in force as a result of the decision of dismissal and that the plan canceled by the court in the letter sent from the Municipality is still valid answered in the form. In the case which was started to discuss again in court; an expert opinion examination was made. The Court has ruled in favor of the Parent Bank by canceling the administrative proceeding. Against decision, within the legal period, Beyoglu Municipality has applied for the appeal law and it is expected that the file will be sent to Istanbul Regional Administrative Court for examination and, if necessary, for re-trial.

A lawsuit was filed by one of the investors of TSKB GYO on the cancellation of the 5th, 7th and 9th articles decided at the Ordinary General Assembly meeting on 27 April 2018. Although the request for the case was demanded to stop the execution of the 5th and 7th articles, no decision was taken as of 30 June 2018. Responded with a petition and a legal opinion presented to lawsuit. The trial is ongoing.

According to Legal Department of the Bank, it is not expected that the other lawsuits against the Bank will have a significant impact on the financial statements.

Other

The Group's head office and 9 branches, including branches of subsidiaries, are subject to operational leasing. Additionally, 26 cars and 345 computers are within the context of operational leasing. The Group has no liability for operational leases as of the reporting date (31 December 2017: 9 branches and 24 cars and 291 computers are subject to operational leasing).

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

8. BALANCES WITH CENTRAL BANK

As at 30 June 2018 balances with Central Bank include restricted reserve deposits amounting to TL 968,342 (31 December 2017: TL 831,678) at the Central Bank of Turkey and unrestricted reserve deposits amounting to TL 43,779 (31 December 2017: TL 15,433).

As per the Communiqué numbered 2005/1 “Reserve Deposits” of Central Bank of Republic of Turkey (CBRT), banks keep reserve deposits at the CBRT for their TL and FC liabilities mentioned in the communiqué. Reserves are calculated and set aside every two weeks on Fridays for 14-days periods. In accordance with the related communiqué, no interest is paid for reserve requirements. The CBRT has started to pay interest to the Required Reserves held in Turkish Lira according to regulation released at 5 November 2014.

In accordance with the regulation issued at 27 January 2015, CBRT has began to collect monthly commissions over daily balances of Two Days Notice Deposit Accounts and Required Reserves held in the foreign currencies, to be valid from 1 February 2015. As of 5 May 2015, the CBRT has started to pay interest to the Required reserves, reserve options and unrestricted account held in US dollars according to regulation released at 2 May 2015.

As per the “Communiqué on Amendments to be Made on Communiqué on Required Reserves” of CBRT, numbered 2011/11 and 2011/13, required reserves for Turkish Lira and Foreign currency liabilities are set at CBRT based on rates mentioned below. Reserve rates prevailing at 30 June 2018 are presented in table below:

Reserve Rates for TL Liabilities

Original maturity	**Required Reserve rate (%)**
Other liabilities until 1 year maturity (1 year included)	10.5
Other liabilities until 3 year maturity (3 year included)	7
Other liabilities more than 3 year maturity	4

Reserve Rates for Foreign Currency Liabilities

Original maturity	**Required Reserve rate (%) If the fund borrowed before 28 August 2015**	**Required Reserve rate (%) If the fund borrowed after 28 August 2015**
Other liabilities until 1 year maturity (1 year included)	19	24
Other liabilities until 1-2 year maturity (2 year included)	13	19
Other liabilities until 2-3 year maturity (3 year included)	7	14
Other liabilities until 3-5 year maturity (5 year included)	6	6
Other liabilities more than 5 year maturity	5	4

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

9. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2018 Assets	30 June 2018 Liabilities	31 December 2017 Assets	31 December 2017 Liabilities
Currency swaps	513,683	(295,117)	206,665	(135,793)
Options	71,718	(71,718)	42,519	(42,423)
Foreign currency forward contracts	129,932	(128,954)	21,909	(21,669)
Interest rate swaps	100,725	(66,923)	55,695	(32,518)
	816,058	**(562,712)**	**326,788**	**(232,403)**

Derivatives held for risk management

Due to the Bank and its affiliates' overall interest rate risk position and funding structure, its risk management policies require that it should minimize its exposure to changes in interest rates within certain guidelines. Interest rate swaps are used for this puposes as derivative financial instruments.

In this respect, the fixed rate Eurobond and Greenbond issued by the Bank and a portion of fixed rate funds borrowed are subject to fair value hedge accounting. The Bank enters into interest rate swap agreements in order to hedge the change in fair values of its fixed rate financial liabilities. The changes in the fair value of the hedged fixed rate financial liabilities and hedging interest rate swaps are recognised under the statement of profit/loss. At the beginning and later period of the hedging transaction, the aforementioned hedging transactions are expected to offset changes occurred in the relevant period of the hedging transaction and hedged risk (attributable to hedging risk) and effectiveness tests are performed in this regard.

The fair value of derivatives designated as fair value hedges are as follows:

Instrument type	30 June 2018 Assets	30 June 2018 Liabilities	31 December 2017 Assets	31 December 2017 Liabilities
Interest Rate Swap	-	(227,368)	-	(78,682)
	-	**(227,368)**	**-**	**(78,682)**

The Group is party to a variety of foreign currency forward contracts, swaps and options in the management of its exchange rate exposures. The instruments are primarily denominated in TL, USD and Euro. At the reporting date, the total notional amounts of outstanding derivatives to which the Group is committed are as follows:

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

9. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

	30 June 2018	31 December 2017
Forward foreign exchange contracts – buy	3,449,776	2,413,168
Forward foreign exchange contracts – sell	3,450,445	2,412,937
Currency swaps – buy	7,346,819	3,573,706
Currency swaps – sell	7,121,554	3,433,776
Interest rate swaps – buy	8,060,647	6,607,120
Interest rate swaps – sell	8,060,647	6,607,120
Currency option – buy	3,823,327	2,325,986
Currency option – sell	3,823,327	2,325,986
Other – sell	65,139	72,830

10. LOANS AND ADVANCES TO CUSTOMERS

	30 June 2018	31 December 2017
Short-term and current portion of long term loans	2,196,299	1,509,224
Long-term loans	24,629,335	20,891,243
Total performing loans	**26,825,634**	**22,400,467**
Non-performing loans	524,622	53,575
Total loans	**27,350,256**	**22,454,042**
Less: Specific reserve for impairment losses on loans	(128,343)	(52,731)
Less: Portfolio reserve for impairment losses on loans	(300,392)	(96,483)
Total loans	**26,921,521**	**22,304,828**

Movements in the reserve for impairment losses on loans for the six-month period then ended 30 June 2018 and 2017 are as follows:

	1 January – 30 June 2018	1 January – 30 June 2017
Specific reserve for cash loans:		
As at 31 December	52,731	10,485
Adoption of IFRS 9	(653)	-
As at 1 January	52,078	10,485
Charge for the period	76,875	6,805
Collections	(69)	(836)
Reserve released and write offs	(541)	(1,976)
	128,343	**14,478**
Portfolio reserve for cash loans:		
As at 31 December	96,483	37,628
Adoption of IFRS 9	135,441	-
As at 1 January	231,924	37,628
Charge for the period	68,468	2,089
	300,392	**39,717**
Total reserve for impairment losses on loans	**428,735**	**54,195**

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

11. INVESTMENT SECURITIES

Financial assets at fair value through other comprehensive income

At 30 June 2018 and 31 December 2017, financial assets at fair value through other comprehensive income portfolio comprised the following:

	30 June 2018	31 December 2017
Government bonds and treasury bills in TL	2,027,547	1,821,667
Eurobonds	1,024,029	1,009,955
Debt securities issued by corporations	167,686	186,670
Equity shares	84,304	78,140
Total	**3,303,566**	**3,096,432**

12. EXPECTED CREDIT LOSS

The Group allocates the expected loss provison for impairment on assets and loans measured at amortized cost and fair value through other comprehensive income and loan commitments not measured at fair value through profit/loss based and non cash loans on IFRS 9.

At 30 June 2018 the details of expected credit loss which on-balance sheet financial assets in scope of ECL requirements is as follows;

	Carrying Amount				ECL Allowance			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Cash and cash equivalents (including reserves at Central Bank)	1,511,831	-	-	1,511,831	740	-	-	740
Securities	4,942,187	-	-	4,942,187	3,814	-	-	3,814
Loans and advances to customers	24,977,875	1,847,759	524,622	27,350,256	62,885	237,507	128,343	428,735
Other assets	625,145	-	-	625,145	433	-	-	433
Total	**32,057,038**	**1,847,759**	**524,622**	**34,429,419**	**67,872**	**237,507**	**128,343**	**433,722**

At 30 June 2018 the details of expected credit loss which off-balance sheet financial assets in scope of ECL requirements is as follows;

	Carrying Amount				ECL Allowance			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
LCs and Acceptances	3,496,982	7,292	2,965	3,507,239	4,558	68	727	5,353
Other	4,212,222	145,200	-	4,357,422	1,606	1,696	-	3,302
Total	**7,709,204**	**152,492**	**2,965**	**7,864,661**	**6,164**	**1,764**	**727**	**8,655**

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

13. DEBTS SECURITIES ISSUED

	30 June 2018		31 December 2017	
	TL	**FC**	**TL**	**FC**
Nominal	-	6,139,125	-	3,752,500
Cost	-	6,123,773	-	3,743,915
Book Value	-	6,131,722	-	3,746,229

As of 27 October 2014, the Parent Bank issued the debt instruments which have nominal value of USD 350 Million, redemption date of 30 October 2019 with fixed interest rate of 5.375%, 5 years maturity and semi-annual coupon payment. As of 22 April 2015, the Bank has performed the similar issuance of Eurobond with the nominal amount of USD 350 Million. Interest rate of these debt instruments determined as 5.125% which have the redemption date of 22 April 2020 with fixed interest rate, 5 years maturity and semi-annual coupon payment. Selling of Greenbond which was issued by the Bank in abroad with nominal value of USD 300 Million, 5 years maturity and for financing the green and sustainable projects has been completed on 18 May 2016. The return of these bonds which have the redemption date of 18 May 2021 and 5 years maturity is determined as 5.048% and the coupon rate as 4.875%. As of 16 January 2018, the Parent Bank issued the debt instruments which have nominal value of USD 350 Million, redemption date of 16 January 2023 with fixed interest rate of 5.608%, 5 years maturity and semiannual coupon payment.

14. SUBORDINATED LOAN

As of 28 March 2017, the Parent Bank issued the sustainable subordinated debt securities which have nominal value of USD 300 million, redemption date of 29 March 2022 with fixed interest rate of 7.625% semiannual coupon payment. As of the end of the period, the value of the borrowing instrument is TL 1,364,250. (31 December 2017: 1,146,236).

15. INCOME TAXES

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. Corporate income tax is 22% (for 2018, 2019 and 2020, corporate tax income announced as 22%) on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes as at 30 June 2018 (31 December 2017: 20%). Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Group's results for the period.

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

16. SHARE CAPITAL

	30 June 2018	31 December 2017
TL 1 (in full TL), par value	2,400,000	2,050,000
Share increase	400,000	350,000
Total number of shares	**2,800,000**	**2,400,000**
Paid-in capital	2,800,000	2,400,000
Inflation restatement effect	13,563	13,563
Shared capital issued	**2,813,563**	**2,413,563**

In the meeting of the General Assembly held on 23 March 2018, it has been resolved that, paid-in capital of the Parent Bank will be increased from TL 2,400,000 to TL 2,800,000 by adding TL 400,000. In respect of the resolution of the General Assembly, all of this increase will be incorporated from the profit of the year 2017. The increase in paid-in capital was approved by the BRSA on 26 April 2018 and disclosed in the dated 7 June 2017 and numbered 9605 Turkish Trade Registy Gazette.

In the meeting of the General Assembly held on 23 March 2017, it has been resolved that, paid-in capital of the Parent Bank will be increased from TL 2,050,000 to TL 2,400,000 by adding TL 350,000. In respect of the resolution of the General Assembly, all of this increase will be incorporated from the profit of the year 2016. The increase in paid-in capital was approved by the BRSA on 27 April 2017 and disclosed in the dated 12 June 2017 and numbered 9345 Turkish Trade Registy Gazette.

17. EARNINGS PER SHARE

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

A summary of the weighted average number of shares outstanding for the interim periods ended 30 June 2018 and 2017 and the basic earnings per share calculation is as follows (assuming that the cash increases did not involve a bonus element):

	1 January – 30 June 2018	1 January – 30 June 2017
Number of shares outstanding at 1 January	2,400,000,000	2,050,000,000
New shares issued		
Conversion of existing reserves	400,000,000	350,000,000
Number of shares outstanding at the period end	**2,800,000,000**	**2,400,000,000**
Weighted average number of shares during the period	**2,800,000,000**	**2,400,000,000**
Profit for equity holders of the Bank	308,119	309,435
Basic earnings per share (in full Kurus)	**0.1100**	**0.1289**

There is no dilution of shares as of 30 June 2018.

18. EVENTS AFTER THE REPORTING PERIOD

None.