Nurol Yatırım Bankası Anonim Şirketi

Interim condensed consolidated financial statements at September 30, 2018 together with independent auditor's review report

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors of
Nurol Yatırım Bankası Anonim Şirketi

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Nurol Yatırım Bankası A.Ş. and its subsidiary ("the Group") as at September 30, 2018, comprising of the interim consolidated statement of financial position as at September 30, 2018 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the nine-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 Financial Reporting Standard IAS 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.

Conclusion

Based on our review, 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 November 2018
Istanbul, Turkey

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NUROL YATIRIM BANKASI ANONİM ŞİRKETİ

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 30 SEPTEMBER 2018
(Currency - In thousands of Turkish Lira)

	Note	Reviewed 30 September 2018	Audited 31 December 2017
Assets			
Cash and cash equivalents	*6*	461,998	26,682
Reserve deposits at Central Bank	*7*	68,728	312,292
Derivative financial assets		2,828	1,665
Financial assets measured at fair value through other comprehensive income	*8*	174,185	136,519
Loans and advances to customers	*9*	1,619,409	1,060,453
Property and equipment		4,213	2,322
Investment property	*10*	31,908	4,440
Intangible assets		1,717	1,375
Deferred tax assets	*17*	15,222	3,256
Other assets	*11*	220,581	145,156
Total assets		**2,600,789**	**1,694,160**
Liabilities			
Funds borrowed	*12*	790,581	462,441
Debt securities issued	*13*	822,497	638,849
Other liabilities	*15*	554,311	279,108
Derivative financial liabilities		97,815	18,831
Subordinated debts	*14*	89,466	57,267
Provisions	*16*	6,865	2,754
Current tax liability		10,236	5,946
Total liabilities		**2,371,771**	**1,465,196**
Equity			
Share capital	*19*	160,000	125,000
Reserves		18,396	35,488
Retained earnings		50,622	68,476
Total equity		**229,018**	**228,964**
Total liabilities and equity		**2,600,789**	**1,694,160**

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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE NINE MONTH PERIOD THEN ENDED 30 SEPTEMBER 2018
(Currency - In thousands of Turkish Lira)

	Note	**Reviewed 1 January- 30 September 2018**	**Reviewed 1 January- 30 September 2017**
Interest income	*20*	263,229	135,840
Interest expense	*20*	(141,092)	(66,505)
Net interest income		**122,137**	**69,335**
Fee and commission income	*21*	13,590	21,351
Fee and commission expense	*21*	(8,196)	(11,912)
Net fee and commission income		**5,394**	**9,439**
Net trading income / (loss)	*22*	(38,679)	(9,549)
Net gains/(losses) on financial assets/liabilities at fair value through profit or loss		*(38,579)*	*(9,482)*
Net gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income		*(100)*	*(67)*
Other operating income	*23*	18,247	7,933
		(20,432)	**(1,616)**
Operating income		**107,099**	**77,158**
Net impairment/recoveries on financial assets	9	(16,264)	(7,757)
Other provision expenses		(2,383)	(810)
Personnel expenses	*24*	(11,553)	(9,138)
Depreciation and amortization		(1,439)	(889)
Administrative expenses	*25*	(21,123)	(12,532)
Profit before income tax		**54,337**	**46,032**
Income tax expense	*17*	(14,153)	(8,498)
Profit for the period		**40,184**	**37,534**
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Financial assets measured at fair value through other comprehensive income			
Gain / (Loss) arising during the period		(22,047)	7,224
Income tax relating to components of other comprehensive income	*17*	2,081	(866)
Other comprehensive income (loss) for the period, net of income tax		**(19,966)**	**6,358**
Total comprehensive income for the period		**20,218**	**43,892**

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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTH PERIOD THEN ENDED 30 SEPTEMBER 2018
(Currency - In thousands of Turkish Lira)

Reviewed	Note	Share capital	Fair value reserve of financial assets at fair value through other comprehensive income	Legal reserves	Retained earnings	Total equity
Balances at 1 January 2017		**45,000**	**24,533**	**2,913**	**95,772**	**168,218**
Transfer to reserves		**-**	**-**	**1,587**	**(1,587)**	**-**
Capital Increase		**80,000**	**-**	**-**	**(80,000)**	**-**
- Internal Sources		80,000	-	-	(80,000)	-
Total comprehensive income for the period		-	-	-	-	-
- Profit for the period		-	-	-	37,534	**37,534**
Other comprehensive income for the period, net of tax		-	6,358	-	-	**6,358**
Total comprehensive income for the period		**-**	**6,358**		**37,534**	**43,892**
Balance at 30 September 2017		**125,000**	**30,891**	**4,500**	**131,719**	**212,110**
Reviewed						
Priod period end balance		**125,000**	**30,988**	**4,500**	**68,476**	**228,964**
Impact of adopting IFRS 9 (*)	***4.21***	-	-	-	(20,164)	**(20,164)**
Balances at 1 January 2018		**125,000**	**30,988**	**4,500**	**48,312**	**208,800**
Transfer to reserves		**-**	**-**	**2,874**	**(2,874)**	**-**
Capital Increase		**35,000**	**-**	**-**	**(35,000)**	**-**
Internal Resources		35,000	-	-	(35,000)	-
Total comprehensive income for the period						
- Profit for the period		-	-	-	40,184	**40,184**
- Other comprehensive income for the period, net of tax		-	(19,966)	-	-	**(19,966)**
Total comprehensive income for the period		**-**	**(19,966)**	**-**	**40,184**	**20,218**
Balance at 30 September 2018		**160,000**	**11,022**	**7,374**	**50,622**	**229,018**

(*)The prior period financial statements and related disclosures are not restated as permitted by IFRS 9 transition rules and the difference between the book value of 1 January 2018 at the date of application reflected in the opening aspect of equity. The explanations about the transition effects to IFRS 9 are described in accounting policy 4.21.

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTH PERIOD THEN ENDED 30 SEPTEMBER 2018
(Currency - In thousands of Turkish Lira)

	Note	**Reviewed 1 January-30 September 2018(*)**	**Reviewed 1 January-30 September 2017(*)**
Cash flows from operating activities			
Net profit for the period		40,184	37,534
Adjustments:			
Depreciation and amortisation		1,439	889
Current tax expense	*17*	24,412	8,102
Deferred tax (income)/expense	*17*	(10,259)	396
Provision for loan losses	*9*	16,264	7,066
Other provisions		2,383	810
Other accruals		15,563	(6,623)
Loss from asset sale		-	-
Foreign exchange loss / (gain)		(103,424)	(5,117)
Fair value gain on investment property		(14,307)	-
Fair value gain on other assets	*23*	-	(6,931)
		(27,745)	**36,126**
Changes in operating assets and liabilities			
Change in derivative financial assets		(1,163)	(6,752)
Change in loans and advances to customers		(564,981)	(504,626)
Change in reserve deposits		244,084	(103,300)
Change in other assets		(86,920)	(22,442)
Change in other liabilities		249,293	163,905
Change in derivative financial liabilities		78,984	(1,653)
Change in borrowings		348,666	344,974
Taxes paid		(15,175)	(10,875)
Net cash provided by / (used in) operating activities		**252,788**	**(140,769)**
Cash flows from investing activities			
Purchase of financial assests measured at fair value through other comprehensive income		(3,105,578)	(991,323)
Sale of financial assests measured at fair value through other comprehensive income		3,025,134	822,290
Purchase of property and equipment		(3,214)	(64)
Proceeds from sale of investment property		-	7,100
Purchase of intangible assets		(731)	(388)
Net cash (used in) / provided by investing activities		**(84,389)**	**(162,385)**
Proceeds from debt securities issued		2,707,956	1,546,493
Repayment from debt securities issued		(2,516,718)	(1,390,477)
Proceeds from subordinated debts			-
Net cash provided by /(used in) financing activities		**211,238**	**156,016**
Effect of foreign exchange rate change on cash and cash equivalents		**103,424**	**5,117**
Net increase in cash and cash equivalents		**461,998**	**(105,895)**
Cash and cash equivalents at 1 January	*6*	26,682	136,314
Cash and cash equivalents at 30 September	***6***	**461,998**	**30,419**

(*) Cash flows from interest received and paid disclosed together. Interest received is amounting to TL 253,039 (30 September 2017: 113,916) and interest paid is amounting to TL 120,789 (30 September 2017: 51,211).

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

(Currency - In thousands of Turkish Lira)

1. Corporate information

General

Nurol Yatırım Bankası A.Ş. (the "Bank" or "Nurolbank") was established in 1998 by the permission of the council of Ministers Decree No. 98/11565 dated 6 August 1998, to finance investment and foreign trade activities, and started its financial banking activities in May 1999. Nurolbank is owned controlled by the Nurol Holding A.Ş.

Nurol Varlık Kiralama A.Ş. is established in 2017 to operate in asset leasing sector. Nurol Varlık Kiralama A.Ş. has been registered in trade register as of June 14, 2017 and published in Turkey Trade Registry Gazette numbered 9351 dated 20 September 2017. Nurol Varlık Kiralama A.Ş.'s paid in capital is amounting to TL 50 as of September 30, 2018.

Nature of Activities of the Group

The Group activities include investment banking and corporate services such as asset and financial leasing, lending and trade finance.

Nurolbank operates as an investment bank and according to the current legislation for investment banks, the Bank is not authorised to receive deposits from customers. The Bank's head office is located at Nurol Plaza in Maslak in İstanbul, Turkey.

The shareholders' structure of the Bank is as disclosed below:

Shareholders	Total nominal value of the shares	Share percentage (%)
Nurol Holding A.Ş.	125,052	78.16
Nurol İnşaat ve Tic. A.Ş.	25,536	15.96
Nurol Otelcilik ve Turizm İşletmeciliği A.Ş.	1,408	0.88
Other	8,004	5.00

The Parent Bank's paid in capital has been increased by TL 35,000 provided from internal sources in the current period (January 1- December 31, 2017: The Parent Bank's paid in capital has been increased by TL 80,000 provided from internal resources).

The shareholder having direct or indirect control over the shares of the Bank is Nurol Group. Nurol Group has operations in construction, defence, finance, tourism, health, mining, real estate, marketing and manufacturing industries through 33 firms within the Nurol Group 4 joint ventures and 11 domestic-foreign associates and subsidiaries.

2. The new standards, amendments and interpretations

The accounting policies adopted in preparation of the interim condensed consolidated financial statements as at 30 September 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 permitted by IFRS 9, the Group elected not to restate prior-period information. The adoption of IFRS 9 has resulted in a TL 20.1 million reduction in the Group's IFRS consolidated equity, net of tax as of 1 January 2018. Explanations on adoption of IFRS 9 is explained in Note 4.21.

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.

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.

2. The new standards, amendments and interpretations (continued)

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.

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.

2. The new standards, amendments and interpretations (continued)

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.

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.

2. The new standards, amendments and interpretations (continued)

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.

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.

2. The new standards, amendments and interpretations (continued)

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 Group.

3. Consolidation

3.1 Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Parent Bank and its subsidiary, which is the entity controlled by the Parent Bank. Control is achieved when the Group is exposed, 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. When necessary, adjustments are made to the consolidated financial statements of subsidiary to bring their accounting policies into line with those of the Group. Nurol Yatırım Bankası A.Ş. has 100% ownership of Nurol Varlık Kiralama A.Ş.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

4. Significant accounting policies

4.1 Statement of compliance

These interim condensed consolidated financial statements for the nine month period then ended September 30, 2018 have been prepared in accordance with IAS 34, "Interim Financial Reporting". The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended December 31, 2017.

The Bank maintains its book of account and prepares their statutory financial statements in Turkish Lira ("TL") in accordance with the accounting principles as promulgated by the Banking Regulation and Supervision Agency ("BRSA"), Capital Markets Board of Turkey, the Turkish Commercial Code and tax legislation. The accompanying financial statements are derived from statutory financial statements with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS. The subsidiary maintains its 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 fair presentation in accordance with IFRS. The interim condensed consolidated financial statements were authorised for issue by the Group's management on 9 November 2018.

(Currency - In thousands of Turkish Lira)

4. Significant accounting policies (continued)

4.2 Basis of measurement

The consolidated financial statements have been prepared on historical cost basis except for the following which are measured at fair value:

- derivative financial instruments
- financial instruments measured at fair value through profit or loss,
- financial instruments measured at fair value through other comprehensive income,
- Investment property

4.3 Foreign currency transactions

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

Foreign currency translation rates used by the Group are as follows:

	USD / TL (full)	EUR / TL (full)
30 September 2018	5.9902	6.9505
31 December 2017	3.7719	4.5155

4.4 lnterest income and interest expense

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

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.

4. Significant accounting policies (continued)

4.5 Fees and commission

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.

4.6 Net trading income

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

4.7 Dividends

Dividends are recognised when the shareholders' right to receive the payments is established.

4.8 Taxation and deferred income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profıt as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the fınancial statements and the corresponding tax bases which are used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that suffıcient taxable profıts will be available to allow all or part of the asset to be recovered.

4. Significant accounting policies (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profıt or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifıable assets, liabilities and contingent liabilities over cost.

4.9 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**.**

Initial measurement of financial instruments

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.

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.

4. Significant accounting policies (continued)

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. The Parent Bank tested all financial assets whether their "contractual cash-flows solely represent payments of principal and interest" and assessed the asset classification within the business model.

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 Parent Bank's business models are divided into three categories.

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. Receivables from the Central Bank, Banks, Money Market Placements, investments under financial assets measured at amortized cost, loans, leasing receivables, factoring receivables and other receivables are assessed within this business model.

Business model aimed to collect contractual cash flows and sell financial assets

This is a model whose objective is achieved by both collecting contractual cash flows and selling financial assets: the Parent Bank may hold financial assets in a 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. Financial Assets Measured at Fair Value through Other Comprehensive Income are assessed in this business model.

Other business models

Financial assets are measured at fair value through profit or loss when 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. Financial assets measured at fair value through profit/loss are assessed in this business model.

4.9.1 Financial assets

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

4. Significant accounting policies (continued)

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

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 are accounted under the “Other comprehensive income/expense items to be recycled to profit/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.

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.

Loans and Advances to Customers

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

4. Significant accounting policies (continued)

Due from banks

Due from banks 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 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 financial statements.

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

Repossessed assets

As part of its treatment of defaulted loans and guarantees, the Group in a number of cases takes over assets as security for such exposures. Upon repossession the assets are valued at their presumed realisable value. Any deviation from the carrying value of a defaulted or written down exposure upon takeover is classified as a loan write-down. Repossessed assets are carried according to type. Upon final disposal, the deviation from carrying value is entered in profit or loss based on the asset’s type in the accounts.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignifıcant risk of changes in value.

4.9.2 Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the defınitions of a fınancial 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. The accounting policies adopted for specific fınancial liabilities and equity instruments are set out below.

Financial liabilities are classified as either fınancial liabilities at FVTPL or other fınancial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities are classifıed as at FVTPL where the fınancial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profıt or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other fınancial liabilities, including funds borrowed, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method plus the interest expense recognized on an effective yield basis.

4. Significant accounting policies (continued)

Deposits, funds borrowed and debt securities issued

The Group is not entitled to collect deposits. Current accounts of loan customers and funds borrowed are the Group's sources of debt funding.

Current accounts of loan customers and funds borrowed are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

4.9.3 Derivative financial instruments

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

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

4.10 Expected Credit Loss

As of 1 January 2018, the Group recognizes a loss allowance for expected credit losses on financial 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 expected credit losses on the 12-month default risk. It is calculated 12-month expected credit loss based on a probability of default realized within 12 months after the reporting date. Such expected 12-month probability of default is applied on an expected exposure at default, multiplied with loss given default rate and discounted with the original effective interest rate. Such calculation is performed for each of three scenarios explained above.

4. Significant accounting policies (continued)

Stage 2:

As of the reporting date of the financial asset, 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. Calculation approach is quite similar with approach mentioned above, but probability of default and loss amount in default ratios estimated for the lifetime of instruments.

Stage 3:

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

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

Calculation of expected credit losses

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

Prior to 01 January 2018, the Parent Bank applied portfolio-based valuation method using its historical data for the calculation of impairment allowance for loans and advances as per IAS 39. Based on the historical data, an average PD (Probability of Default) and LGD (Loss Given Default) was determined. (Average PD was 0.85% and Average LGD was 87.76% according to the last calculations made on 31 December 2017). As of 01 January 2018, the Bank has started to apply IFRS 9 for the classification of loans and receivables, measuring credit quality and calculating expected loss provisions. The Bank calculates PDs, LGD and EAD (Exposure at default) and ECL (expected credit losses) for each financial asset, rather than group or portfolio basis. PDs are determined by the bank based on internal rating scores calculated within own model. The Bank's policy is to use standard PDs published based on historical data published by international rating agencies. PDs are available for the next ten years as annual and cumulative basis. Interim periods are calculated by interpolating. For noncash loans, prior to calculating EAD, cash equivalent risk exposures are calculated by a credit conversion factor (CCF). Credit Conversion Factors are determined based on the ratios specified in the "Capital Adequacy Regulation" settled by BRSA. The present value of the ECLs are then calculated using the effective interest rates of the related financial assets.

The bank calculated the average PD and LGD as 1.50% and 25.85%, respectively for cash financial assets, 1.01% and 44.14% for noncash loans as of 30 September 2018. 100% PD is applied for all financial assets in stage 3.

Probability of Default ("PD")

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

4. Significant accounting policies (continued)

In order to measure risk, internal rating systems, credit ratings issued by external rating agencies, payment performance of customers, and risk center credit notes for commercial customers are used to a certain extent.

Historical datas which are issued by international rating agencies are considered in order to calculate probability of default for customers and countries. The probabilities of default are cumulative in the next ten years and are calculated in the interim periods based on the estimation method.

In addition, the probability of default calculation includes historical data, current conditions and prospective macroeconomic they are updated considering expectations.

Loss Given Default (“LGD”)

The LGD represents an estimate of the economic loss at the time of a potential default occurring during the life of a financial instrument. The LGD is calculated taking into account expected future cash flows from collateral and other credit enhancements by considering time value of money.

LGD calculation are also considered collaterals based on specified rate according to ‘Determining the Qualifications of Loans and Other Receivables by Banks Regulation on Procedures and Principles for Provisions’

Exposure at Default (“EAD”)

The EAD represents an estimate of the exposure to credit risk at the time of a potential default occurring during the life of a financial instrument. It represents the cash flows outstanding at the time of default, considering expected repayments, interest payments and accruals, discounted at the effective interest rate.

Consideration of the Macroeconomic Factors

The probability of default is determined by basic macroeconomic factors such as unemployment, GDP growth, inflation and interest rates. Also, Turkey’s 5-year credit risk (CDS Spreads) that has high correlation are based in order to update to “PD”. While updating “PD”, average amount for a year and the end of period value are considered for CDS Spreads.

Calculating the Expected Loss Period

Lifetime ECL is calculated by taking into account maturity extensions, repayment options and the period during which the Parent Bank will be exposed to credit risk. The time in financial guarantees and other irrevocable commitments represents the credit maturity for which the liabilities of the Parent Bank. Estimated periods for the bank's exposure to risk were calculated by considering at historical data for full guarantee letters.

4. Significant accounting policies (continued)

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 assigned for the same loan as of the reporting date. If there is a significant deterioration in PD , it is considered that there is a significant increase in credit risk and the financial asset is classified as stage 2. 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
- When there is a change in the payment plan due to restructuring

4.11 Derecognition of financial instruments

Derecognition of financial assets due to change in contractual terms

Based on IFRS 9, the renegotiation or modification of the contractual cash flows of a financial asset could lead to the derecognition of the existing financial asset. When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a ‘new’ financial asset. When the 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 Parent Bank retains control of the asset, the Parent 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 Parent Bank derecognizes the asset if the contractual rights to cash flows from the financial asset are expired or the related financial asset and all risks and rewards of ownership of the asset are transferred to another party. Except for equity instruments measured at fair value through other comprehensive income, the total amount consisting of the gain or loss arising from the difference between the book value and the amount obtained and any accumulated gain directly accounted in equity shall be recognized in profit/loss.

Derecognition of financial liabilities

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

4. Significant accounting policies (continued)

4.12 Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

4. Significant accounting policies (continued)

4.13 Intangible assets

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefıts exceeding costs beyond one year, are recognized as intangible assets. Costs include the software development employee costs and an appropriate portion of relevant overheads.

4.14 Investment properties

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

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

4. Significant accounting policies (continued)

4.14 Investment properties (continued)

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

4.15 Leases

Leases are classified as fınance 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 lessee

Assets held under fınance leases are initially 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 fınancial position as a fınance lease obligation.

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

The Group as lessor

Amounts due from lessees under finance leases are recognized 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. 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.

4.16 Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

4. Significant accounting policies (continued)

4.17 Employee benefıts

Termination and retirement benefıts

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

Profıt-sharing and bonus plans

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

4.18 Fiduciary assets

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

4.19 Use of estimates and judgments

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

4.20 Key sources of estimation uncertainty

Expected credit loss

Expected credit loss calculation methodology of the Group described in accounting policy 4.10.

Determining fair values

The determination of fair value for financial assets and liabilities of the Group described in accounting policy 4.9.

4.21. 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:

(Currency - In thousands of Turkish Lira)

4. Significant accounting policies (continued)

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	Amortised cost	26,682	Amortised cost	26,682
Reserve deposits at Central Bank	Amortised cost	312,292	Amortised cost	312,292
Marketable securities	Financial assets at measured fair value through other comprehensive income	136,519	Financial assets at measured fair value through other comprehensive income	136,519
	Amortised Cost	-	Amortised Cost	-
Derivative financial assets	Financial assets measured at fair value through profit or loss	1,665	Financial assets measured at fair value through profit or loss	1,665
	Financial assets at measured fair value through other comprehensive income	-	Financial assets at measured fair value through other comprehensive income	-
Loans and advances to customers (Gross)	Amortised Cost	1,061,634	Amortised Cost	1,061,634

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

	Book Value Before IFRS 9 31 December 2017	**Remeasurements**	**Book Value After IFRS 9 1 January 2018**
Loans			
Stage 1 & Stage 2	7,943	(3,364)	4,579
Stage 3	3,235	25,418	28,653
Financial Assets(*)	**-**	**194**	**194**
Non-Cash Loans	**908**	**3,604**	**4,512**
Stage 1 and Stage 2	-	1,468	1,468
Stage 3	908	2,136	3,044
Total	**12,086**	**25,852**	**37,938**

(*)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

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:

After deducting amounting to TL 5,688 positive tax effect, amounting to TL 20,164 which is an expense between the provision for impairment of the previous period of the Group and the provision for loss that is measured in accordance with IFRS 9 impairment model as of 1 January 2018 is classified as "Retained Earnings" in shareholders' equity.

4. Significant accounting policies (continued)

4.22 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.

Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a fınancial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission and placement fees are recognised as the related services are performed.

Fee for bank transfers and other banking transaction services are recorded as income when collected.

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.

4. Significant accounting policies (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.

4. Significant accounting policies (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.

(Currency - In thousands of Turkish Lira)

5. Segment reporting

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

The Group operates in investment, retail and corporate banking and asset leasing. Accordingly, the Group invests with the funds provided by using the capital market instruments and provides consultancy services so as to provide efficient management and sound financial structure to business enterprises.

The Group provides investment and operating loans to its commercial and retail customers and also provides service packages consisting of foreign trade operations, investment products, cash management, financial leasing, factoring, and other banking products.

Major financial statement items according to business lines:

30 September 2018	Corporate banking	Other(*)	Total operations of the Group
Operating income	78,399	17,147	95,546
Other expenses	(41,209)	-	(41,209)
Profit before income tax	37,190	17,147	54,337
Income tax income/expense	-	-	(14,153)
Profit for the period	**23,037**	**17,147**	**40,184**
Segment assets	2,600,755	34	2,600,789
Non-distributed Asset	-	-	-
Total assets	**2,600,755**	**34**	**2,600,789**
Segment liabilities	2,371,771	-	2,371,771
Shareholders’ equity	-	229,018	229,018
Total liabilities	**2,371,771**	**229,018**	**2,600,789**

(*) includes investment, retail and other banking business lines.

30 September 2017	Corporate banking	Other(*)	Total operations of the Group
Operating income	68,530	8,628	77,158
Other expenses	(31,126)	-	(31,126)
Profit before income tax	37,404	8,628	46,032
Income tax income/expense	-	-	(8,498)
Profit for the period	**28,906**	**8,628**	**37,534**
Segment assets	1,896,980	137	1,897,117
Non-distributed Asset	-	-	-
Total assets	**1,896,980**	**137**	**1,897,117**
Segment liabilities	1,685,007	-	1,685,007
Shareholders’ equity	-	212,110	212,110
Total liabilities	**1,685,007**	**212,110**	**1,897,117**

(*) includes investment, retail and other banking business lines.

(Currency - In thousands of Turkish Lira)

6. Cash and cash equivalents

	30 September 2018	31 December 2017
Cash and balances with central banks	2,090	3,452
- Cash on hand	*1,607*	*99*
- Balances with central banks	*483*	*3,353*
Due from banks and financial institutions(*)	385,792	23,230
Placements at money markets(*)	74,116	-
Cash and cash equivalents in the balance sheet	**461,998**	**26,682**

(*)As a result of IFRS 9 adoption, amount of TL 14 provision booked for due from banks and financial institutions and TL 1 provision booked for placement at money markets as of September 30, 2018.

7. Reserve deposits at Central Bank

	30 September 2018	31 December 2017
Turkish Lira	7,411	253,397
Foreign currency	61,317	58,895
	68,728	**312,292**

8. Financial assets measured at fair value through other comprehensive income

	30 September 2018		31 December 2017	
	Amount	Effective interest rate	Amount	Effective interest rate
Financial assets measured at fair value through other comprehensive income				
Debt instruments [(a)]	148,446	14.22%	98,897	13.38%
Equity instruments – listed [(b)]	19,560		31,384	
Equity instruments – unlisted	6,414		6,238	
Financial assets measured at fair value through other comprehensive income	**174,420**		**136,519**	
Expected Credit Losses (-)[(c)]	**(235)**		**-**	

(a) Financial assets measured at fair value through other comprehensive income include government bonds denominated in TL amounting to TL 1,089 (31 December 2017: TL 813), bank bonds amounting to TL 5,105 (31 December 2017: TL 5,042), private sector securities amounting to TL 7,003 as of 31 December 2017, Private sector bonds amounting to TL 142,250 (31 December 2017: TL 86,039).

(b) The Group holds 15.97% of Nurol Gayrimenkul Yatırım Ortaklığı A.Ş. ("Company")'s shares as of 30 September 2018 and the investment is accounted under fair value through other comprehensive income investments, as the Group has no significant influence on the Company. As of the balance sheet date the shares are accounted for using the market price and fair value reserve of TL 18,701 is accounted under equity (31 December 2017: TL 29,167).

(c) The Group began calculating expected credit loss for financial assets measured at fair value through other comprehensive income with the adoption of IFRS 9.

(Currency - In thousands of Turkish Lira)

9. Loans and advances to customers

	30 September 2018		
	Amount		
	TL	**Foreign currency**	**Total**
Short-term loans	767,907	8,478	776,385
Medium and long-term loans	212,548	483,834	696,382
Total performing loans	**980,455**	**492,312**	**1,472,767**
Generic provisions for Stage 1 and Stage 2	**(6,688)**	**-**	**(6,688)**
Non-performing loans (*)	165,180	-	165,180
Provisions for Stage 3 (*)	(11,850)	-	(11,850)
Total non-performing loans (net)	**153,330**	**-**	**153,330**
Total loans, net	**1,127,097**	**492,312**	**1,619,409**

(*)Non performing loans amounting to TL 31,641 has been written off by the Group in 2018.

	31 December 2017		
	Amount		
	TL	**Foreign currency**	**Total**
Short-term loans	504,726	3,004	507,730
Medium and long-term loans	238,454	315,450	553,904
Total performing loans	**743,180**	**318,454**	**1,061,634**
Less: Portfolio provision	**7,943**	**-**	**7,943**
Non-performing loans	3,267	-	3,267
Less: Reserve for possible loan losses	(3,235)	-	(3,235)
Total non-performing loans (net)	**32**	**-**	**32**
Transferred assets (*)	**6,730**	**-**	**6,730**
Total loans, net	**741,999**	**318,454**	**1,060,453**

(*) Transferred assets comprise non-performing loans amounting to TL 9,035, in gross transferred to an asset management company under revenue sharing arrangement in 2015, but have not been derecognized by the Parent Bank as the Parent Bank has retained substantially all the risks and rewards of ownership of the transferred asset. The Parent Bank reflects such loans at amortized cost net of impairment in the statement of financial position.

(Currency - In thousands of Turkish Lira)

9. Loans and advances to customers (continued)

Lending structure of the Group:

	30 September 2018	31 December 2017
Corporate Lending	1,383,500	874,616
SME Lending	20,551	47,078
Other Lending	233,896	149,937
Less: Allowance for ECL/impairment losses	(18,538)	(11,178)
Total	**1,619,409**	**1,060,453**

Expected Credit Loss Expense Movement of the Group:

	30 September 2018			
	ECL allowance			
	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents (including reserves at Central Bank)	(14)	-	-	(14)
Securities	(120)	-	-	(120)
Derivatives	-	-	-	-
Loans and advances to customers	(402)	(1,705)	(14,838)	(16,945)
Other financial assets	(10)	-	-	(10)
Guarantees	(132)	(352)	(1,228)	(744)
LCs and Acceptances	(61)	-	-	(61)
	(597)	**(2,057)**	**(13,610)**	**(16,264)**

Provision movement of the Group as of 30 September 2017:

	30 September 2017
Reserve at beginning of period	5,857
Provision for possible loan losses	1,684
Recoveries	-
Provision, net of recoveries	1,684
Disposal of non-performing loans	-
	-
Reserve at end of period	**7,541**

Expected Credit Loss Measurement of On-Balance Sheet Financial Assets:

	30 September 2018							
	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)	530,741	-	-	530,741	15	-	-	15
Securities	174,420	-	-	174,420	235	-	-	235
Derivatives	2,828	-	-	2,828	-	-	-	-
Loans and advances to customers	1,325,474	140,732	171,741	1,637,947	844	5,844	11,850	18,538
of which : Large corporate clients	*1,071,071*	*140,732*	*171,697*	*1,383,500*	*765*	*5,844*	*11,806*	*18,415*
of which : SME clients	*20,507*	-	*44*	*20,551*	*16*	-	*44*	*60*
of which : Others	*233,896*	-	-	*233,896*	*63*	-	-	*63*
Other financial assets	4,527	-	-	4,527	67	-	-	67
Total on-balance sheet financial assets in scope of ECL requirements	**2,037,975**	**140,732**	**171,741**	**2,350,448**	**1,161**	**5,844**	**11,850**	**18,855**

(Currency - In thousands of Turkish Lira)

9. Loans and advances to customers (continued)

Impairment allowance for loans and advances to customers	30 September 2018			
	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
Performing				
High grade	70	-	-	70
Standard grade	741	182	-	923
Sub-standard grade	33	5,662	-	5,695
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	11,850	11,850
	844	**5,844**	**11,850**	**18,538**

10. Investment Property

As of 30 November 2015, the Parent Bank transferred the loan which is classified in the portfolio of overdue receivables amounting to TL 9,035, to an asset management company through revenue sharing method. The Parent Bank made provision amounting to TL 2,259 to the unguaranteed portion of these transferred receivables before transfer with revenue sharing method. As of 31 December 2017, the Parent Bank recognized aforementioned receivables as transferred asset in "loan and advances to customers" line. In the current period, the Parent Bank purchased the property which was obtained by the asset management company by levy, on account of revenue sharing agreement and receivables. The Parent Bank started monitoring that property under the investment property account with re-evaluating the appraisal report (appraisement value: TL 22,570). As of 30 September 2018, the Group has investment property amounting to TL 31,908 (31 December 2017: 4,440).

The Company accounts its investment property under fair value model.

11. Other Assets

The Group concluded a "Pre-emption agreement" over the real estate property, for the twelve months period with the value of 24.4 million USD and for the eighteen months period with the value of 26.25 million USD. As of 30 September 2018 the first twelve months of agreement has expired and based on the agreement the Group has recognized 26.25 million USD in other assets.

The Group concluded a "Right to repurchase agreement" over the real estate property with the value of 8.5 million USD.

(Currency - In thousands of Turkish Lira)

12. Funds borrowed

	30 September 2018			31 December 2017		
	TL	**Foreign currency**	**Total**	**TL**	**Foreign currency**	**Total**
Funds borrowed	145,153	587,232	732,385	69,506	332,915	402,421
Obligations under repurchase agreements	34,216	23,980	58,196	1,018	59,002	60,020
	179,369	**611,212**	**790,581**	**70,524**	**391,917**	**462,441**

The effective interest rate for funds borrowed denominated in USD is 5.16% (31 December 2017 – 4.51%), in EUR is 3.48% (31 December 2017 – 2.69%) and in TL is 27.21% (31 December 2017 – 12.34 %).

The Group has not had any defaults of principal, interest or redemption amounts or other breaches of loan covenants as at 30 September 2018 (31 December 2017 – None).

13. Debt securities issued

	30 September 2018			31 December 2017		
	TL	**Foreign currency**	**Total**	**TL**	**Foreign currency**	**Total**
Bonds	723,611	-	723,611	559,703	-	559,703
Bills	98,886	-	98,886	79,146	-	79,146
	822,497	**-**	**822,497**	**638,849**	**-**	**638,849**

Debt securities issued – Cash flow movement

	30 September 2018
Balance as at 1 January 2018	638,849
Proceed during the year	2,707,956
Repayments during the year	(2,516,718)
Other non-cash movements	(7,590)
Balance as at 30 September 2018	**822,497**

(Currency - In thousands of Turkish Lira)

13. Debt securities issued (Continued)

As of September 30, 2018, the list of the issued bonds by the Parent Bank in 2018 are shown below:

ISSUE TYPE	ISSUE DATE	MATURITY DATE	DAYS	NOMINAL VALUE (full TL)	INTEREST RATE
BOND	12.01.2018	24.05.2018	132	100,000,000	%15.00
BOND	07.02.2018	18.07.2018	161	100,000,000	%14.75
BOND	08.03.2018	09.08.2018	154	185,000,000	%14.70
BOND	26.01.2018	07.06.2018	132	60,000,000	%14.75
BOND	16.02.2018	03.08.2018	168	40,000,000	%14.75
BOND	14.03.2018	06.09.2018	176	72,000,000	%14.70
BOND	04.04.2018	28.09.2018	177	75,000,000	%14.80
BOND	13.04.2018	05.10.2018	175	51,400,000	%15.00
BOND	03.05.2018	25.10.2018	175	50,000,000	%15.15
BOND	24.05.2018	11.10.2018	140	100,000,000	%16.20
BOND	08.06.2018	19.10.2018	133	50,000,000	%18.85
BOND	18.07.2018	01.11.2018	106	100,000,000	%19.70
BOND	09.08.2018	29.11.2018	112	150,000,000	%19.95
BOND	06.09.2018	07.11.2018	62	50,000,000	%25.00
BOND	28.09.2018	27.12.2018	90	70,000,000	%30.00
BOND	03.08.2018	16.11.2018	105	40,000,000	%19.90
BOND	12.07.2018	27.12.2018	168	96,840,000	%15.15
BOND	16.08.2018	21.11.2018	97	53,820,000	%16.20
BOND	14.09.2018	14.12.2018	91	50,000,000	%18.85

Nurol Varlık Kiralama Şirketi A.Ş. issued “Lease certificates” amounting to TL 200,660,000 (full TL) in 2018.

14. Subordinated debts

	30 September 2018			31 December 2017		
	TL	**Foreign currency**	**Total**	**TL**	**Foreign currency**	**Total**
Bonds (*)	-	59,449	59,449	-	39,472	39,472
Loan (*)	-	30,017	30,017	-	17,795	17,795
	-	**89,466**	**89,466**	**-**	**57,267**	**57,267**

(*) The Bank has issued Eurobond on March 31, 2016 with a nominal value of USD 10,000,000, 10 years maturity and fixed interest rate of 10%, having a coupon payments every six months and received a loan on December 27, 2016 from World Business Capital at an amount of USD 5,000,000 with an interest rate of 6.65%, 10 years maturity, floating rate and quarterly interest payment (31 December 2017 – USD 15,000,000).

15. Other liabilities

	30 September 2018	31 December 2017
Cash collaterals (*)	535,487	265,129
Taxes and funds payable	3,983	3,831
Others	14,841	10,148
	554,311	**279,108**

(*) The balance includes cash collaterals received for the derivative transactions made with the corporate customers.

(Currency - In thousands of Turkish Lira)

16. Provisions

	30 September 2018	31 December 2017
Provision for non - cash loans (*)	3,705	908
Employee termination benefits	1,009	857
Bonus accrual	1,125	-
Unused vacation accrual	963	863
Provision for lawsuits	63	126
	6,865	**2,754**

Expected credit loss measurement of off-balance sheet financial assets:

	30 September 2018							
Expected credit loss measurement	**Carrying Amount**				**ECL Allowance(*)**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Guarantees	820,153	13,618	7,680	841,451	541	1,325	1,815	3,681
LCs and Acceptances	64,775	-	-	64,775	24	-	-	24
Total	**884,928**	**13,618**	**7,680**	**906,226**	**565**	**1,325**	**1,815**	**3,705**

(*) ECL allowance for off-balance sheet financial assets are recognized in Liabilities' "Provisions" line.

Impairment allowance for off-balance sheet financial assets:

	30 September 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Internal rating grade				
Performing				
High grade	15	-	-	15
Standart grade	453	-	-	453
Sub-standart grade	96	1,326	-	1,422
Past due but not impaired	-	-	-	-
Non-performing				
Individually impaired	-	-	1,815	1,815
Total	**564**	**1,326**	**1,815**	**3,705**

Movement for impairment allowance for off-balance sheet financial assets:

	30 September 2018			
	Financial guarantees	**Letters of credit and acceptances**	**Other undrawn commitments**	**Total**
At 1 January 2018	4,426	85	-	4,511
Charge for the year	225	(61)	-	164
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
Unwind of transformed into cash	(970)	-	-	(970)
Unwind of discount (recognized in interest income)	-	-	-	-
At 30 September 2018	**3,681**	**24**	**-**	**3,705**

(Currency - In thousands of Turkish Lira)

17. Taxation

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey.

In Turkey, corporate tax rate is 22%. The tax legislation provides for a temporary tax of 22% to be calculated and paid based on earnings generated for each quarter. The amounts which are calculated and paid are offset against the final corporate tax liability for the year.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the year-end balance sheet date and taxes must be paid in one instalment by the end of the fourth month.

Income tax recognised in the income statement

The components of income tax expense as stated below:

	30 September 2018	30 September 2017
Current tax		
Current income tax	(24,412)	(8,102)
Deferred income / (expense) tax		
Relating to origination and reversal of temporary differences	10,259	396
Income tax expense reported in the income statement	**(14,153)**	**(7,706)**

Reconciliation of effective tax rate

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate for the years ended 30 September 2018 and 30 September 2017 is as follows:

	30 September 2018	30 September 2017
Profit before income tax	54,337	46,032
Income tax using the domestic corporate tax rate	(11,954)	(9,206)
Other	(12,458)	708
Total income tax expense in the profit or loss	**(24,412)**	**(8,498)**

Movement of net deferred tax assets can be presented as follows:

	30 September 2018	30 September 2017
Deferred tax assets / (liability), net at 1 January	2,882	3,082
Deferred tax recognised in the profit or loss	10,259	(396)
Deferred income tax recognised in other comprehensive income	2,081	(866)
Deferred tax assets/(liabilities), net at end of September	**15,222**	**(1,820)**

(Currency - In thousands of Turkish Lira)

17. Taxation (continued)

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	30 September 2018			31 December 2017		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Liability for employee benefits	434	-	434	379	-	379
Valuation of financial assets at FVOCI	-	(1,917)	(1,917)	-	-	-
Economic life property and equipment	-	(201)	(201)	-	(171)	(171)
Derivatives	20,236	-	20,236	3,737	-	3,737
Other	-	(3,330)	(3,330)	(689)	-	(689)
	20,670	**(5,448)**	**15,222**	**3,427**	**(171)**	**3,256**

18. Commitments and contingencies

In the normal course of business, the Group enters into a number of contractual commitments on behalf of its customers and is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. These contractual commitments consist of commitments to extend credit, commercial letters of credit and standby letters of credit and guarantees. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of the conditions established in the contract. Commercial letters of credit ensure payment by a bank to a third party for a customer’s foreign or domestic trade transactions, generally to finance a commercial contract for the shipment of goods.

Standby letters of credit and financial guarantees are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. All of these arrangements are related to the normal lending activities of the Group. The Group’s exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and commercial and standby letters of credit is represented by the contractual notional amount of those instruments. The Group uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

As at 30 September 2018; commitments and contingencies comprised the following:

	30 September 2018	**31 December 2017**
Letters of guarantee	841,451	552,202
Bank acceptance	4,066	3,183
Letters of credit	60,709	51,052
Other commitments	-	273
Total	**906,226**	**606,710**

(Currency - In thousands of Turkish Lira)

19. Share capital and reserves

Share capital

As at 30 September 2018 and 31 December 2017, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	30 September 2018		31 December 2017	
	Amount	**%**	**Amount**	**%**
Nurol Holding A.Ş.	125,052	78	97,697	78
Nurol İnşaat ve Tic. A.Ş.	25,536	16	19,950	16
Nurol Otelcilik ve Turizm İşletmeciliği A.Ş.	1,408	1	1,103	1
Others	8,004	5	6,250	5
Total	**160,000**		**125,000**	

The Parent Bank's paid in capital has been increased by TL 35,000 provided from internal sources in the current period (January 1- December 31, 2017: The Parent Bank's paid in capital has been increased by TL 80,000 provided from internal resources).

As at 30 September 2018, the authorised share capital comprised of 160,000 ordinary shares having a par value of TL full 1,000 (As at 31 December 2017, the authorised share capital comprised of 125,000 ordinary shares having a par value of TL full 1,000). All issued shares are paid.

20. Net interest income

	30 September 2018	30 September 2017
Interest income		
Loans and advances to customers	236,613	125,360
Deposits with banks and other financial institutions	7,535	3,389
Financial assets measured at fair value through profit/loss and financial assets measured at fair value through other comprehensive income	5,493	6,625
Financial leases	-	-
Other	13,588	466
	263,229	**135,840**
Interest expense		
Funds borrowed	(29,129)	8,532
Debt securities issued	(3,745)	56,437
Interbank funds borrowed	(97,394)	1,145
Other	(10,824)	391
	(141,092)	**66,505**
Net interest income	**122,137**	**69,335**

(Currency - In thousands of Turkish Lira)

21. Net fee and commission income

	30 September 2018	30 September 2017
Fee and commission income		
Non-cash loans	9,443	5,919
Other	4,147	15,432
Total fee and commission income	**13,590**	**21,351**
Fee and commission expense		
Non-cash loans	597	571
Other	7,599	11,341
Total fee and commission expense	**8,196**	**11,912**
Net fee and commission income	**5,394**	**9,439**

22. Net trading income/loss

	30 September 2018	30 September 2017
Net gains/(losses) on derecognition of financial assets measured at fair value through other comprehensive income	(100)	(67)
Net gains/(losses) on financial assets/liabilities at fair value through profit or loss	(38,579)	(9,482)
Gain / (losses) from derivatives	*46,271*	*(14,016)*
Gain / (losses) from FX losses	*(84,850)*	*4,534*
Total	**(38,679)**	**(9,549)**

23. Other operating income

	30 September 2018	30 September 2017
Gain on Increase in purchase right (*)	-	6,931
Reversal of provision	-	108
Fair value gain on investment properties (***)	14,387	-
Gain on purchase right (**)	-	-
Communication expenses reflected to the customers	17	18
Other	3,843	876
	18,247	**7,933**

(*) The Bank has gained income from the increase in the value of the purchase right over the real estate is passed into the ownership of the Bank because of the loan debt.

(**) Right to purchase, which is calculated with respect to real estate right to purchase agreement concluded with a company, is recognized as revenue through rediscounting the premium amount.

(***)As of 30 November 2015, the Parent Bank transferred the loan which is classified in the portfolio of overdue receivables amounting to TL 9,035, to an asset management company through revenue sharing method. The Parent Bank made provision amounting to TL 2,259 to the unguaranteed portion of these transferred receivables before transfer with revenue sharing method. As of 31 December 2017, the Parent Bank recognized aforementioned receivables as transferred asset in “loan and advances to customers” line. In the current period, the Parent Bank purchased the property which was obtained by the asset management company by levy, on account of revenue sharing agreement and receivables. The Parent Bank started monitoring that property under the investment property account with re-evaluating the appraisal report (appraisement value: TL 22,570). As of 30 September 2018, the Group has investment property amounting to TL 31,908 (31 December 2017: 4,440). As a result of this transaction the Parent Bank recognized fair value gain amounting to TL 14,387.

(Currency - In thousands of Turkish Lira)

24. Personnel expenses

	30 September 2018	30 September 2017
Wages and salaries	9,716	7,793
Compulsory social security obligations	849	741
Other benefits	988	604
Total	**11,553**	**9,138**

25. Administrative expenses

	30 September 2018	30 September 2017
Nurol Holding re-charges	7,169	5,425
Audit and advisory expenses	2,810	1,821
Rent expenses	1,701	1,057
Taxes and duties expenses	3,168	822
Telecommunication expenses	987	770
Computer expenses	781	695
Hosting expenses	159	602
Maintenance expenses	141	190
Transportation expenses	-	121
Advertising expenses	69	95
Notary expenses	81	521
Other various administrative expenses	4,057	413
Total	**21,123**	**12,532**

26. Financial risk management objectives and policies

a) Introduction and overview

The Group has exposure to the following risks from financial instruments:

- credit risk
- market risks

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Group's risk approach is to achieve sound and sustainable low risk profile, through the identification, the measurement and the monitoring of all types of risks inherent in the nature of the business activities. The main principle of the Group is to manage the credit risk effectively and to eliminate the other types of risk by not carrying positions.

In the course of its normal operations, the Group is exposed to a number of risks such as credit risk, liquidity risk, market risk and operational risk, The Group's risk policy can be summarised as:

- well managing the credit risk through a high standardised credit risk management
- eliminating liquidity risk
- minimising market risk

26. Financial risk management objectives and policies (Continued)

In accordance with the Group's general risk management strategy; the Group aims to eliminate and hedge its currency, interest rate and maturity positions that might create liquidity or market risk to the Group. Additionally, in order to minimise the market risk, marketable securities portfolio is limited proportional to the total assets size.

Board of Directors is the highest authority to set all risk management guidelines, and it is responsible for ensuring that the Group implements all necessary risk management techniques in compliance with the related regulatory requirements in Turkey.

All risk levels are set and approved by the Board of Directors on a regularly basis, and it is announced to the organization.

The Group manages its exposure to all types of risks through the Asset and Liability Committee, comprising members of senior management, and a representative of main shareholder.

In summary, in order not to be exposed to any liquidity, interest rate, market and foreign currency risk, the Bank always keeps its funding structure in line with the asset structure (in terms of currency, maturity and interest rate) and hedges its positions through various derivative transactions, In addition to that, the Bank does not take any speculative positions on currency, interest rate and maturity that might create any liquidity or market risk to the Group.

b) Credit risk

Credit risk represents the risk arising from the counter party's not fulfilling its responsibilities stated in the agreement either partially or totally. Credit Risk Management Committee is responsible for managing credit risk at the Group.

Total amount of credits granted to a group is subject to certain credit risk limits. According to the decision taken by the Board of Directors; the maximum amount of the loan to be granted to a group (cash and non-cash) is limited with the calculation of certain percentages of the shareholders' equity based on the rating of the group. Furthermore, concentration risk is monitored on monthly basis in terms of industry, rating by risk group and customer.

The credibility of the debtors of the Group is assessed periodically. Loan limits of the loan customers are revised periodically in line with the Group's procedures. The Bank analyses the credibility of the loans within the framework of its loan policies and obtains collaterals for loans and other receivables.

The restructured and rescheduled loans are evaluated in the Group's current rating system besides the follow up method determined in the related regulation.

(Currency - In thousands of Turkish Lira)

26. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Credit risk by risk groups

	Individual	Corporate	Total
30 September 2018			
Performing loans	34	1,360,674	1,360,708
Loans under close monitoring	-	112,059	112,059
Non-performing loans	-	165,180	165,180
Gross	**34**	**1,637,913**	**1,637,947**
Transferred asset	-	-	-
Specific provisions for Stage 3	-	(11,850)	(11,850)
Generic provisions for Stage 1 and Stage 2	-	(6,688)	(6,688)
Total	**34**	**1,619,375**	**1,619,409**
31 December 2017			
Performing loans	77	1,053,237	1,053,304
Loans under close monitoring	-	8,320	8,320
Non-performing loans	-	3,267	3,267
Gross	**77**	**1,064,824**	**1,064,901**
Transferred asset	-	6,730	6,730
Reserve for possible loan losses	-	(3,235)	(3,235)
Collective impairment	-	(7,943)	(7,943)
Total	**77**	**1,060,344**	**1,060,453**

Exposure to credit risk

		Due from banks		**Loans and advances to customers**	
	Notes	**30 September 2018**	**31 December 2017**	**30 September 2018**	**31 December 2017**
Carrying amount		**459,923**	**23,230**	**1,619,409**	**1,060,453**
Non-performing financial assets		-	-	165,180	3,267
Gross amount		**-**	**-**	**165,180**	**3,267**
Specific provision for Stage 3	*9*	-	-	(11,850)	(3,235)
Generic provision for Stage 1 and 2	*9*	(15)	-	(6,688)	(7,943)
Neither past due nor impaired		459,908	23,230	1,360,708	979,959
Carrying amount		**459,908**	**23,230**	**1,360,708**	**979,959**
Restructured and rescheduled loans and other receivables		-	-	112,059	88,405
Carrying amount			**-**	**112,059**	**88,405**
Carrying amount (amortised cost)		**459,908**	**23,230**	**1,619,409**	**1,060,453**

(Currency - In thousands of Turkish Lira)

26. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Exposure to credit risk (continued)

Write-off policy
The Group writes off a loan balance and any related allowances for impairment losses, when Group position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not sufficient to pay back the entire exposure.

Collateral policy
The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over due from banks, except when securities are held as part of reverse repurchase and securities borrowing activity. The breakdown of financial assets by type of collateral is as follows:

30 September 2018		Collaterals after rate of consideration								
Type of collateral or credit enhancement	**Maximum exposure to credit risk**	**Cash**	**Securities (Cheques& Acts&Stock Share)**	**Property (Mortgages)**	**Assignment of receivables**	**Vehicle Pledge**	**Other**	**Total collateral**	**Net exposure**	**Associated ECLs**
Financial assets										
Cash and cash equivalents (including reserves at Central Bank)	529,133	-	-	-	-	-	-	-	529,133	15
Loans and advances to customers	2,061,136	563	239,702	176,924	147,603	103,265	2,396	670,453	1,390,682	6,688
of which : Large corporate clients	1,805,592	563	178,009	176,880	139,584	103,265	2,396	600,697	1,204,895	6,609
of which : SME clients	20,551	-	7,707	-	8,019	-	-	15,770	4,781	16
of which : Others	234,993	-	53,986	-	-	-	-	53,986	181,006	63
Other financial assets	4,527	-	-	-	-	-	-	-	4,527	67
Derivative financial instruments	2,828	-	-	-	-	-	-	-	2,828	-
Securities at fair value through OCI	193,274	-	-	-	-	-	-	-	193,524	235
Guarantees (after Credit Conversion Factor)	487,220	20,506	31,840	681	1,232	-	-	54,258	432,961	1,867
LCs and Acceptances (after Credit Conversion Factor)	30,305	2,276	-	523	2,009	-	-	4,808	25,497	24

The Parent Bank's internal credit rating grades

The Bank's independent Credit Risk Department operates its internal rating models. The Bank runs models for its key portfolios in which its customers are rate from 1 to 100 using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. These information sources are first used to determine the PDs within the Bank's IFRS 9 ECL calculation.

(Currency - In thousands of Turkish Lira)

Internal rating grades of the Parent Bank:

Cash Loans

Internal rating grade	Internal rating description	Internal rating category	12 month PD range	Good Rating Agency's rating	Average Exposure at default	Average PDs	Average LGD
Performing							
100-90	Highest	High grade	0.0001-0.02	AAA	105,068	0.00%	45.00%
89-87	Very high+	High grade	0.0001-0.02	AA+	12,423	0.03%	45.00%
86-84	Very high	High grade	0.0001-0.02	AA	144,924	0.00%	45.00%
83-81	Very high-	High grade	0.0001-0.03	AA-	-	-	-
80-78	High+	High grade	0.0001-0.05	A+	324,685	0.01%	45.00%
77-75	High	High grade	0.0002-0.06	A	-	-	-
74-72	High-	High grade	0.0002-0.07	A-	339,681	0.06%	32.68%
71-69	Adequate level+	Standard grade	0.0003-0.12	BBB+	141,725	0.05%	27.75%
68-66	Adequate level	Standard grade	0.0005-0.17	BBB	144,867	0.04%	15.01%
65-63	Adequate level-	Standard grade	0.0007-0.26	BBB-	238,650	0.25%	44.80%
62-60	Depends on economic conditions+	Standard grade	0.001-0.36	BB+	10,017	0.36%	38.98%
59-57	Depends on economic conditions	Standard grade	0.0016-0.58	BB	310,035	1.54%	19.18%
56-54	Depends on economic conditions-	Standard grade	0.0029-1.05	BB-	292,503	0.76%	15.73%
53-51	Low level+	Sub-standard grade	0.0059-2.15	B+	47,779	2.74%	2.68%
50-48	Low level	Sub-standard grade	0.0107-3.89	B	-	-	-
47-45	Low level-	Sub-standard grade	0.0205-7.49	B-	-	-	-
44-36	Possibility of default	Sub-standard grade	0.0734-26.78	CCC	27,805	86.82%	28.76%
35-33	High default risk	Sub-standard grade	0.0734-26.78	CC	-	-	-
32-30	Very high default risk	Sub-standard grade	0.0734-26.78	C	-	-	-
Total Performing					**2,140,164**	**1.50%**	**25.85%**
Non-performing							
29-0	In default		100-100	D	171,741	100.00%	6.90%
Total Nonperforming					**171,741**	**100.00%**	**100.00%**

Noncash Loans

Internal rating grade	Internal rating description	Internal rating category	12 month PD range	Good Rating Agency's rating	Average Exposure at default (after CCF)	Average PDs	Average LGD
Stage 1 & Stage 2							
100-90	Highest	High grade	0.0001-0.02	AAA	-	-	-
89-87	Very high+	High grade	0.0001-0.02	AA+	-	-	-
86-84	Very high	High grade	0.0001-0.02	AA	-	-	-
83-81	Very high-	High grade	0.0001-0.03	AA-	-	-	-
80-78	High+	High grade	0.0001-0.05	A+	44,172	0.04%	43.29%
77-75	High	High grade	0.0002-0.06	A	815	0.04%	45.00%
74-72	High-	High grade	0.0002-0.07	A-	25,417	0.05%	45.00%
71-69	Adequate level+	Standard grade	0.0003-0.12	BBB+	41,407	0.07%	44.36%
68-66	Adequate level	Standard grade	0.0005-0.17	BBB	102,145	0.10%	39.49%
65-63	Adequate level-	Standard grade	0.0007-0.26	BBB-	135,986	0.16%	42.39%
62-60	Depends on economic conditions+	Standard grade	0.001-0.36	BB+	13,175	0.20%	45.00%
59-57	Depends on economic conditions	Standard grade	0.0016-0.58	BB	82,265	0.40%	42.67%
56-54	Depends on economic conditions-	Standard grade	0.0029-1.05	BB-	38,381	0.85%	31.70%
53-51	Low level+	Sub-standard grade	0.0059-2.15	B+	14,355	0.90%	38.87%
50-48	Low level	Sub-standard grade	0.0107-3.89	B	3,942	2.10%	45.00%
47-45	Low level-	Sub-standard grade	0.0205-7.49	B-	-	-	-
44-36	Possibility of default	Sub-standard grade	0.0734-26.78	CCC	9,265	34.15%	45.00%
35-33	High default risk	Sub-standard grade	0.0734-26.78	CC	-	-	-
32-30	Very high default risk	Sub-standard grade	0.0734-26.78	C	-	-	-
Total Stage 1 & 2					**511,325**	**1.01%**	**44.14%**

Noncash Loans

Internal rating grade	Internal rating description	Internal rating category	12 month PD range	Good Rating Agency's rating	Total Exposure	Average PDs	Average LGD
Stage 3							
29-0	In default		100-100	D	7,680	100.00%	23.64%
Total Stage 3					**7,680**	**100.00%**	**23.64%**

(Currency - In thousands of Turkish Lira)

26. Financial risk management objectives and policies (continued)

Fair value through profit or loss (FVTPL)

At 30 September 2018, the Bank has derivative financial assets at FVTPL amounting to TL 2,828 (31 December 2017 – TL 1,665). An analysis of the credit quality of the maximum credit exposure is as follows:

	30 September 2018	31 December 2017
Derivative financial assets	2,828	1,665
Fair value and carrying amount	**2,828**	**1,665**

c) Capital management

BRSA, the regulatory body of the banking industry, sets and monitors capital requirements for the Bank; BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total risk-weighted assets.

The Group’s regulatory capital is analysed into two tiers:

- Tier 1 capital, capital is composed of the total amount of paid up capital, legal, voluntary and extra reserves, profits for the period after tax provisions and profits for previous years. The total amount of banks’ losses for the period and losses for previous years is taken into account as a deduction item, in the calculation of Tier 1 capital.
- Tier 2 capital, is composed of the total amount of general provisions for credits, fixed assets revaluation fund, revaluation of financial assets measured at fair value through other comprehensive income and equity investments, subordinated loans received, free reserves set aside for contingencies and the fund for increase in the value of securities.

Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. Operational risk capital requirement is calculated using Basic Indicator Approach and included in the capital adequacy calculations.

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

The Group and the Group’s regulated operations have complied with externally imposed capital requirements throughout the period.

There have been no material changes in the Group’s management of capital during the period.

The Group’s capital position in accordance with BRSA regulations is as follows:

	30 September 2018	31 December 2017
Amount subject to credit risk (I)	2,185,700	1,449,011
Amount subject to market risk (II)	94,663	51,433
Amount subject to operational risk (III)	140,160	101,003
Total risk-weighted assets and value at market risk and operational risk (IV) = (I+II+II)	**2,420,523**	**1,601,447**
Shareholders’ equity:		
Tier 1 capital	238,234	219,195
Tier 2 capital	98,748	69,846
Total regulatory capital	**336,982**	**289,041**
Capital adequacy ratio	**%13,92**	**18.05%**

26. Financial risk management objectives and policies (continued)

According to regulation No: 10578, dated August 13, 2018:In the calculation of amount subject to credit risk, the foreign exchange bid rate to be used shall be determined as average CBRT's foreign exchange bid rate of 252 business days prior to the calculation date or foreign exchange bid rate used in the preparation of financial statements as of 30 June, 2018. Therefore the buying rates of exchange on the dated of June 30, 2018 was used in calculation of capital adequacy ratios by The Bank.

d) Fair values

Fair values of remaining financial assets and liabilities carried at cost, including cash and cash equivalents, reserve deposits at Central Bank, current account of loan customers and funds borrowed are considered to approximate their respective carrying values due to their short-term nature.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments using valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like forwards and currency swaps, that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

(Currency - In thousands of Turkish Lira)

26. Financial risk management objectives and policies (continued)

d) Fair values (continued)

This table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

30 September 2018	***Note***	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial assets		2,828	-	-	2,828
Financial assets measured at fair value through other comprehensive income	*8*	174,185	-	-	174,185
Investment property		-	31,908	-	31,908
Derivative financial liabilities		-	97,815	-	97,815
		177,013	**129,723**	**-**	**306,736**

31 December 2017	***Note***	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial assets		-	1,665	-	1,665
Available for sale investments	*8*	136,519	-	-	136,519
Investment property		-	-	4,440	4,440
Derivative financial liabilities		-	18,831	-	18,831
		136,519	**20,496**	**4,440**	**161,455**

e) Market risk

Market risk is the risk that changes in market prices such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Bank's income or the value of its holdings of financial instruments.

The Board of Directors of the Group determines the risk limits for primary risks carried by the Group and periodically revises these limits. For the purpose of hedging market risk, the Group primarily aims to balance the foreign currency position, collateralise the loans and manage liquidity.

The market risk arising from trading portfolio is monitored, measured and reported using Standardised Approach to the legal legislation. The monthly market risk report and the weekly currency risk reports prepared are reported to BRSA.

Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency risk indicates the possibility of the potential losses that the Group is subject to due to the exchange rate movements in the market.

Position limit of the Group related with currency risk is determined according to Foreign Currency Net Position Standard ratio determined by BRSA.

(Currency - In thousands of Turkish Lira)

26. Financial risk management objectives and policies (continued)

e) Market risk (continued)

The concentrations of assets, liabilities and off balance sheet items are as follows:

	USD	Euro	Others	Total
2018				
Assets				
Cash and cash equivalents	102,411	151,143	5,798	259,352
Reserve deposits at Central Bank	29,637	31,681	-	61,317
Loans and advances to customers	41,556	450,756	-	492,312
Financial assets measured at fair value through other comprehensive income	124,221	18,029	-	142,250
Other assets	212,133	17	-	212,150
Total assets	**509,958**	**651,626**	**5,798**	**1,167,382**
Liabilities				
Funds borrowed	343,294	262,460	5,392	611,146
Subordinated debts	89,466	-	-	89,466
Other liabilities	15,288	514,430	-	529,718
Total liabilities	**448,048**	**776,890**	**5,392**	**1,230,330**
Gross exposure	**61,910**	**(125,264)**	**406**	**(62,948)**
Off-balance sheet position				
Net notional amount of derivatives	(72,372)	129,231	-	56,859
Net exposure	**(10,462)**	**3,967**	**406**	**(6,089)**

Currency risk (continued)

	USD	Euro	Others	Total
2017				
Assets				
Cash and cash equivalents	15,969	9,988	245	26,201
Reserve deposits at Central Bank	31,958	26,936	-	58,895
Loans and advances to customers	25,181	293,273	-	318,454
Available for sale investments	86,039	-	-	86,039
Other assets	131,716	45	-	131,761
Total assets	**290,863**	**330,242**	**245**	**621,350**
Liabilities				
Funds borrowed	201,747	181,340	8,830	391,917
Subordinated debts	57,267	-	-	57,267
Other liabilities	13,576	248,630	-	262,206
Total liabilities	**272,590**	**429,970**	**8,830**	**711,390**
Gross exposure	**18,273**	**(99,728)**	**(8,585)**	**(90,040)**
Off-balance sheet position				
Net notional amount of derivatives	(13,418)	100,366	8,737	95,685
Net exposure	**4,855**	**638**	**152**	**5,645**

(Currency - In thousands of Turkish Lira)

26. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Interest rate risk

Interest rate risk that would arise from the changes in interest rates depending on the Group's position is managed by the Asset and Liability Committee of the Group.

Interest rate sensitivity of assets, liabilities and off balance sheet items is analysed by top management in the Asset and Liability Committee meetings held every week by taking the market developments into consideration.

The Management of the Group follows the interest rates in the market on a daily basis and revises interest rates of the Group when necessary.

The following table indicates the periods in which financial assets and liabilities reprice as of 30 September 2018 and 31 December 2017:

	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non interest bearing	Total
As at 30 September 2018							
Assets							
Cash and cash equivalents	288,739	-	-	-	-	173,259	461,998
Reserve deposits at Central Bank	61,317	-	-	-	-	7,411	68,728
FVTPL investments	2,808	-	20	-	-	-	2,828
Financial assets at fair value through other comprehensive income	27,438	119,433	809	280	-	26,225	174,185
Loans and advances to customers	722,893	24,852	310,166	361,404	40,202	159,892	1,619,409
Other assets	-	-	-	-	-	273,641	273,641
Total assets	**1,103,195**	**144,285**	**310,995**	**361,684**	**40,202**	**640,428**	**2,600,789**
Liabilities							
Funds borrowed(*)	256,579	112,017	237,683	5,796	57,406	151,116	820,598
Debt securities issued(**)	248,699	498,909	96,956	37,382	-	-	881,946
Other liabilities(***)	393,953	140,040	44,487	22,465	-	297,301	898,245
Total liabilities	**899,231**	**750,966**	**379,126**	**65,643**	**57,406**	**448,417**	**2,600,789**
On balance sheet interest sensitivity gap	203,964	(606,681)	(68,131)	296,041	(17,204)	192,011	-
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Total interest sensitivity gap	**203,964**	**(606,681)**	**(68,131)**	**(296,041)**	**(17,204)**	**192,011**	**-**

(*) Includes subordinated loans amounting to TL 30,017.
(**) Includes subordinated bonds amounting to TL 59,449.
(***) Derivative financial instruments are included in other liabilities.

(Currency - In thousands of Turkish Lira)

26. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Interest rate risk (continued)

	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non interest bearing	Total
As at 31 December 2017							
Assets							
Cash and cash equivalents	11,317	452	-	-	-	14,913	26,682
Reserve deposits at Central Bank	58,895	-	-	-	-	253,397	312,292
FVTPL investments	1,075	590	-	-	-	-	1,665
Available for sale investments	1,975	5,536	86,344	-	5,042	37,622	136,519
Loans and advances to customers	325,081	131,237	160,172	370,650	73,313	-	1,060,453
Other assets	-	-	-	-	-	156,549	156,549
Total assets	**398,343**	**137,815**	**246,516**	**370,650**	**78,355**	**462,481**	**1,694,160**
Liabilities							
Funds borrowed (*)	81,361	123,561	99,632	49,133	37,797	89,858	481,342
Debt securities issued(**)	107,644	292,706	242,577	34,288	-	-	677,215
Other liabilities(***)	7,987	2,496	-	8,348	-	516,772	535,604
Total liabilities	**196,992**	**418,763**	**342,209**	**91,769**	**37,797**	**606,630**	**1,694,160**
On balance sheet interest sensitivity gap	201,351	(280,948)	(95,693)	278,881	40,558	(144,148)	-
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Total interest sensitivity gap	**201,351**	**(280,948)**	**(95,693)**	**278,881**	**40,558**	**(144,148)**	**-**

(*) Includes Subordinated loans amounting to TL 18,901.
(**) Includes Subordinated bonds amounting to TL 38,366.
(***) Derivative financial instruments include in other liabilities.

Summary of average interest rates

As at 30 September 2018 and 31 December 2017, the summary of average interest rates for different assets and liabilities are as follows:

	30 September 2018			31 December 2017		
	Euro	**USD**	**TL**	**Euro**	**USD**	**TL**
Assets						
Cash and balances with the Central Bank	-	1.5	7.5	-	1.5	3.85
Due from banks	0.04	1.83	16.06	0.05	1.15	11.92
FVTPL investments	-	-	-	-	-	-
Placements at money markets	-	-	19.72	-	-	-
FVTOCI investments	8.07	11.17	15.26	-	9.72	14.01
Loans and advances to customers	6.38	10.75	22.96	6.52	9.81	17.82
Other	-	-	-	-	-	-
Liabilities						
Other money market deposits	-	-	-	-	-	-
Funds borrowed	4.01	5.51	16.49	2.87	5.16	14.13
Debt securities issued		10.00	15.21	-	10.00	13.11
Funds from other financial institutions	2.29	4.27	16.57	2.69	4.09	11.94

(Currency - In thousands of Turkish Lira)

26. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its fınancial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk is a substantial risk in the Turkish market, which exhibits significant volatility.

Exposure to liquidity risk

Maturity analysis of monetary assets and liabilities according to their remaining maturities is presented below:

30 September 2018	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Unidentified maturity	Total
Cash and cash equivalents	173,259	288,739	-	-	-	-	-	461,998
Reserve deposits at Central Bank	7,411	61,317	-	-	-	-	-	68,728
FVTPL investments	-	2,808	-	20	-	-	-	2,828
FVOCI investments	-	-	-	24,423	280	123,258	26,224	174,185
Loans and advances to customers	-	722,894	25,029	310,103	401,492	-	159,891	1,619,409
Other assets	-	235,872	-	-	-	-	37,769	273,641
Total assets	**180,670**	**1,311,630**	**25,029**	**334,546**	**401,772**	**123,258**	**223,884**	**2,600,789**
Funds borrowed (*)	151,116	256,579	112,017	237,683	5,796	57,406	-	820,598
Debt securities issued (**)	-	248,698	498,909	37,508	37,382	59,449	-	881,946
Other liabilities(***)	53,043	393,953	140,040	44,487	22,465	-	244,258	898,245
Total liabilities	**204,159**	**899,230**	**750,966**	**319,678**	**65,643**	**116,855**	**244,258**	**2,600,789**
Liquidity gap	**(23,489)**	**412,400**	**(725,937)**	**14,868**	**336,129**	**6,403**	**(20,374)**	**-**
Off Balance Sheet Position	**-**	**(17,651)**	**(8,271)**	**(22,778)**	**(41,098)**	**-**	**-**	**(89,798)**
Receivables from derivatives	-	632,386	134,226	60,002	78,093	-	-	904,707
Liabilities from derivatives	-	650,037	142,497	82,780	119,191	-	-	994,505
Non cash loans	**-**	**12,152**	**10,891**	**206,775**	**13,212**	**663,196**	**-**	**906,226**

(*) Includes subordinated loans amounting to TL 30,017.

(**) Includes subordinated bonds amounting to TL 59,449.

(***) Derivative financial instruments are included in other liabilities.

(Currency - In thousands of Turkish Lira)

26. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Liquidity risk (continued)

31 December 2017	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Unidentified maturity	Total
Cash and cash equivalents	14,913	11,317	452	-	-	-	-	26,682
Reserve deposits at Central Bank	253,397	58,895	-	-	-	-	-	312,292
FVTPL investments	-	1,075	590	-	-	-	-	1,665
Available for sale investments	-	1,075	5,536	305	-	91,081	37,622	136,519
Loans and advances to customers	-	325,049	131,237	160,172	370,650	73,313	32	1,060,453
Other assets	-	146,637	-	-	-	-	9,912	156,549
Total assets	**268,310**	**544,948**	**137,815**	**160,477**	**370,650**	**164,394**	**37,622**	**1,694,160**
Funds borrowed (*)	89,858	81,362	123,560	99,632	49,133	37,797	-	481,342
Debt securities issued (**)	-	107,644	292,706	169,840	68,659	38,366	-	677,215
Other liabilities (***)	53,034	158,226	74,933	14,719	8,349	-	226,342	535,603
Total liabilities	**142,892**	**347,232**	**491,199**	**284,191**	**126,141**	**76,163**	**226,342**	**1,694,160**
	125,418	**197,716**	**(353,384)**	**(123,714)**	**244,509**	**88,231**	**(188,720)**	**-**
Liquidity gap	**-**	**(4,515)**	**(2,891)**	**(395)**	**1,452**	**-**	**-**	**(6,349)**
Off Balance Sheet Position	**-**	**(4,515)**	**(2,891)**	**(395)**	**1,452**	**-**	**-**	**(6,349)**
Receivables from derivatives	-	414,504	158,339	6,425	153,438	-	-	732,706
Liabilities from derivatives	-	419,019	161,230	6,820	151,986	-	-	739,055
Non cash loans	**-**	**-**	**-**	**9,519**	**93,706**	**503,212**	**-**	**606,437**

(*) Includes Subordinated loans amounting to TL 18,901.

(**) Includes Subordinated bonds amounting to TL 38,366.

(***)Derivative financial instruments are included in other liabilities.

(Currency - In thousands of Turkish Lira)

27. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions.

In the course of conducting its banking business, the Group conducted various business transactions with related parties. These include loans, customer accounts, funds borrowed and non-cash transactions. The volumes of related party transactions, outstanding balances at year-end and relating expense and income for the period are as follows:

30 September 2018	**Balance**	**Percentage of the financial statement amount (%)**
Cash loans	-	-
Non-cash loans	19,967	1%
Borrower funds / Funds borrowed	165,382	21%

31 December 2017	**Balance**	**Percentage of the financial statement amount (%)**
Cash loans	-	-
Non-cash loans	16,475	3%
Borrower funds / Funds borrowed	100,707	22%

30 September 2018	**Balance**	**Percentage of the financial statement amount (%)**
Interest income and commissions	32,608	12%
Other operating expense (-)	9,933	44%

30 September 2017	**Balance**	**Percentage of the financial statement amount (%)**
Interest income and commissions	3,842	3%
Other operating expense (-)	-	-

As at 30 September 2018, no provisions have been recognised in respect of loans given to related parties (30 September 2017 – none).

Compensation of key management personnel of the Bank

The executive and non-executive member of Board of Directors and management received remuneration and fees amounted to TL 5,878 comprising salaries and other benefits for the period 1 January-30 September 2018 (1 January - 30 September 2018: TL 3,040).

28. Events after balance sheet date

None.