Nurol Yatırım Bankası Anonim Şirketi And its Subsidiary

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

EY
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Report on the Audit of the Consolidated Financial Statements

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

Opinion

We have audited the consolidated financial statements of Nurol Yatırım Bankası A.Ş. and its subsidiary ("the Group") which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Turkey, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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Impairment of loans and advances

There is a potential risk that loans and advances are impaired and no reasonable impairment losses/provisions are provided in accordance with the requirements of IFRS, accordingly determining the adequacy of impairment allowance on loans and advances to customers is a key area of judgment for the management. Carrying amount of loans and customers might be greater than the estimated recoverable amounts, therefore the impairment test of these loans of advances is a key audit matter. Refer Note 10 to the consolidated financial statements relating to the impairment of loans and advances.

Our audit procedures included among others, selecting samples of loans and advances based on our judgement and considering whether there is objective evidence that impairment exists on these loans and advances. We also assessed whether impairment losses for loans and advances were reasonably determined in accordance with the requirements of IFRS. In addition we considered, assessed and tested the relevant controls over granting, booking, monitoring and settlement, and those relating to the calculation of credit provisions, to confirm the operating effectiveness of the key controls in place, which identify the impaired loans and advances and the required provisions against them.

Responsibilities of the Board of Directors for the consolidated financial statements

The Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner who supervised and concluded this independent auditor's report is Yaşar Bivas.

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

Yaşar Bivas
Partner, SMMM

Istanbul, Turkey
February 16, 2018

TABLE OF CONTENTS

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ

STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2017
(Currency - In thousands of Turkish Lira)

	Note	Audited 31 December 2017	Audited 31 December 2016
Assets			
Cash and cash equivalents	*6*	26,682	136,314
Reserve deposits at Central Bank	*7*	312,292	84,066
Derivative financial assets	*8*	1,665	2,593
Available for sale investments	*9*	136,519	45,514
Loans and advances to customers	*10*	1,060,453	777,401
Property and equipment	*11*	2,322	2,478
Investment property	*13*	4,440	19,920
Intangible assets	*12*	1,375	1,387
Deferred tax assets	*20*	3,256	3,082
Other assets	*14*	145,156	96,796
Total assets		**1,694,160**	**1,169,551**
Liabilities			
Funds borrowed	*15*	462,441	175,961
Debt securities issued	*17*	638,849	525,853
Other liabilities	*18*	279,108	224,100
Derivative financial liabilities	*22*	18,831	12,703
Subordinated debts	*16*	57,267	53,364
Provisions	*19*	2,754	2,712
Current tax liability		5,946	6,640
Deferred tax liability	*20*	-	-
Total liabilities		**1,465,196**	**1,001,233**
Equity			
Share capital	*23*	125,000	45,000
Reserves	*23*	35,488	27,446
Retained earnings		68,476	95,772
Total equity		**228,964**	**168,218**
Total liabilities and equity		**1,694,160**	**1,169,551**

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

(Currency - In thousands of Turkish Lira)

	Note	Audited 1 January 31 December 2017	Audited 1 January 31 December 2016
Interest income	*24*	203,006	139,312
Interest expense	*24*	(99,368)	(56,253)
Net interest income		**103,638**	**83,059**
Fee and commission income	*25*	25,835	19,732
Fee and commission expense	*25*	(16,026)	(5,561)
Net fee and commission income		**9,809**	**14,171**
Net trading income / (loss)	*26*	(13,123)	(28,135)
Other operating income	*27*	8,271	8,150
		(4,852)	**(19,985)**
Operating income		**108,595**	**77,245**
Net impairment/recoveries on loans	*10*	(5,321)	(2,542)
Other provision expenses	*28*	(756)	(232)
Personnel expenses	*29*	(14,618)	(12,231)
Depreciation and amortization		(1,208)	(752)
Administrative expenses	*30*	(18,687)	(11,638)
Profit before income tax		**68,005**	**49,850**
Income tax expense	*20*	(13,714)	(8,767)
Profit from continued operations		**54,291**	**41,083**
Profit for the period		**54,291**	**41,083**
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Available-for-sale financial assets			
Gain / (Loss) arising during the period	*23*	6,619	(3,187)
Income tax relating to components of other comprehensive income	*20*	(164)	1,386
Other comprehensive income (loss) for the period, net of income tax		**6,455**	**(1,801)**
Total comprehensive income for the period		**60,746**	**39,282**

The accompanying notes are an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017
(Currency - In thousands of Turkish Lira)

Audited	Note	Share capital	Fair value reserve of available for sale financial assets	Legal reserves	Retained earnings	Total equity
Balances at 1 January 2016		45,000	26,334	1,972	55,630	128,936
Transfer to reserves		-	-	941	(941)	-
Total comprehensive income for the period						
- Profit for the period		-	-	-	41,083	41,083
Other comprehensive income for the period, net of tax		-	(1,801)	-	-	(1,801)
Total comprehensive income for the period		-	(1,801)	-	41,083	39,282
Balance at 31 December 2016		45,000	24,533	2,913	95,772	168,218
Balances at 1 January 2017		45,000	24,533	2,913	95,772	168,218
Capital increase		80,000	-	-	(80,000)	-
Transfer to reserves		-	-	1,587	(1,587)	-
Total comprehensive income for the period						
- Profit for the period		-	-	-	54,291	54,291
- Other comprehensive income for the period, net of tax		-	6,455	-	-	6,455
Total comprehensive income for the period		-	6,455	-	54,291	60,746
Balance at 31 December 2017		125,000	30,988	4,500	68,476	228,964

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
(Currency - In thousands of Turkish Lira)

	Note	Audited 1 January-31 December 2017 (*)	Audited 1 January-31 December 2016 (*)
Cash flows from operating activities			
Net profit for the period		54,291	41,083
Adjustments:			
Depreciation and amortisation	*11,12*	1,208	752
Current tax expense	*20*	14,052	14,582
Deferred tax (income)/expense	*20*	(338)	(5,815)
Provision for loan losses	*10*	5,321	2,542
Other provisions		756	232
Other accruals		8,173	(3,320)
Foreign exchange loss / (gain)		(7,612)	(6,322)
Fair value gain on investment property		-	(6,964)
Fair value gain on other assets		(6,931)	-
		68,920	**36,770**
Changes in operating assets and liabilities			
Change in derivative financial assets		928	20,456
Change in loans and advances to customers		(286,824)	(348,358)
Change in reserve deposits		(227,697)	(37,593)
Change in other assets		(26,001)	(95,170)
Change in other liabilities		46,785	182,157
Change in derivative financial liabilities		6,128	12,246
Change in borrowings		287,471	14,411
Taxes paid		(16,892)	(5,378)
Net cash provided by / (used in) operating activities		**(216,102)**	**(220,459)**
Cash flows from investing activities			
Purchase of available for sale investments		(1,258,272)	(175,409)
Sale of available for sale investments		1,175,029	161,768
Purchase of property and equipment		(64)	(1,340)
Purchase of intangible assets		(388)	(521)
Proceeds from sale of investments property		10,100	-
Net cash (used in) / provided by investing activities		**(73,595)**	**(15,502)**
Proceeds from debt securities issued		2,320,777	746,690
Repayment from debt securities issued		(2,217,244)	(603,237)
Proceeds from subordinated debts		-	53,364
Net cash provided by /(used in) financing activities		**103,533**	**196,817**
Effect of foreign exchange rate change on cash and cash equivalents		**7,612**	**6,322**
Net increase in cash and cash equivalents		**(109,631)**	**(32,822)**
Cash and cash equivalents at 1 January	*6*	136,314	169,136
Cash and cash equivalents at 31 December	*6*	**26,682**	**136,314**

(*) Cash flows from interest received and paid disclosed together. Interest received is amounting to TL 194,862 (31 December 2016: 131,350) and interest paid is amounting to TL 83,593 (31 December 2016: TL 51,611).

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

(Currency - In thousands of Turkish Lira)

1. Corporate information

General

Nurol Yatırım Bankası A.Ş. (the "Parent 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 June 2017. Nurol Varlık Kiralama A.Ş.'s paid in capital is amounting to TL 50 as of December 31, 2017.

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 Parent Bank is not authorised to receive deposits from customers. The Parent Bank's head office is located at Nurol Plaza in Maslak in İstanbul, Turkey.

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

Shareholders	Total nominal value of the shares	Share percentage (%)
Nurol Holding A.Ş.	97,697	78.16
Nurol İnşaat ve Tic. A.Ş.	19,950	15.96
Other	7,353	5.88

The Parent Bank's paid in capital has been increased by TL 80,000 provided from first dividend share in the current period (January 1- December 31, 2016: None).

The shareholder having direct or indirect control over the shares of the Parent 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.

The Board of Directors of the Parent Bank comprised the following members:

Ziya Akkurt	*Chairman*
M. Oğuz Çarmıklı	*Deputy Chairman of Board*
S. Ceyda Çarmıklı	*Board Member*
Ahmet Şirin	*Board Member (Audit Committee Member)*
Yusuf Serbest	*Board Member*
Mehmet Mete Başol	*Board Member (Corporate Governance Committee Member)*
Özgür Altuntaş	*Board Member – General Manager*
Ahmet Kerim Kemahlı	*Board Member*
Eyüp Sabri Çarmıklı	*Board Member*
Gürhan Çarmıklı	*Board Member*

2. The new standards, amendments and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at 31 December 2017 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of 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 2017 are as follows:

ii) IAS 7 Statement of Cash Flows (Amendments)

The IASB issued amendments to IAS 7 'Statement of Cash Flows'. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The improvements to disclosures require companies to provide information about changes in their financing liabilities. These amendments are to be applied for annual periods beginning on or after 1 January 2017 with earlier application permitted.

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

The IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. These amendments are to be retrospectively applied for annual periods beginning on or after 1 January 2017 with earlier application permitted. However, on initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. The amendments did not have an impact on the financial position or performance of the Group.

Annual Improvements to IFRSs - 2014-2016 Cycle

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

- IFRS 12 Disclosure of Interests in Other Entities: This amendment clarifies that an entity is not required to disclose summarised financial information for interests in subsidiaries, associates or joint ventures that is classified, or included in a disposal group that is classified, as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. These amendments are to be applied for annual periods beginning on or after 1 January 2017.

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

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

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the 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.

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

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

Amendments issued to IFRS 10 and IAS 28, to address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture, to clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary should be recognised only to the extent of unrelated investors' interests in that former subsidiary. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted. An entity shall apply those amendments prospectively. The amendment is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15 Revenue from Contracts with Customers. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). IFRS 15 effective date is 1 January 2018, with early adoption permitted. Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. The amendment will not have an impact on the financial position or performance of the Group.

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

IASB has published final clarifications to IFRS 15 in April 2016. The amendments address three of the five topics identified (identifying performance obligations, principal versus agent considerations, and licensing) and provide some transition relief for modified contracts and completed contracts. The amendments are effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. The amendment will 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. The final version of IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment.

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

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted by applying all requirements of the standard. Alternatively, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL without applying the other requirements in the standard. The Group has performed an impact assessment of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional supportable information being made available to the Group in the future. The impact of standard on all three aspects of IFRS 9 is as follows:

Classification and Measurement of Financial Assets:

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. The equity shares in non-listed companies are intended to be held for the foreseeable future. No impairment losses were recognised in profit or loss during prior periods for these investments. The Group will apply the option to present fair value changes in OCI, and, therefore, the application of IFRS 9 will not have a significant impact.

Loans and receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

Impairment:

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and receivables, either on a 12-month or lifetime basis. The Group has determined that, due to the unsecured nature of its loans and receivables, the loss allowance will increase by TL 17-20 million (Full TL) with corresponding related increase in the deferred tax assets of TL 3,5 – 4 million (Full TL).

Hedge accounting:

As the Group does not have any hedge instruments, IFRS 9 will not have an impact on Group's financial statements.

IFRS 16 Leases

The IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The amendment will not have an impact on the financial position or performance of the Group.

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

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

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

These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendment are not applicable for the Group and will 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 to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The standard is not applicable for the the Group and will 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 to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The Group is in the process of assessing the impact of the amendments on 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 recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. An entity is not required to apply this Interpretation to income taxes; or insurance contracts (including reinsurance contracts) it issues or reinsurance contracts that it holds.

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

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

Annual Improvements to IFRSs - 2014-2016 Cycle

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

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

- IAS 28 Investments in Associates and Joint Ventures: This amendment clarifies that the election to measure an investment in an associate or a joint venture held by, or indirectly through, a venture capital organisation or other qualifying entity at fair value through profit or loss applying IFRS 9 Financial Instruments is available for each associate or joint venture, at the initial recognition of the associate or joint venture. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

The amendments are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

IFRIC 23 Uncertainty over Income Tax Treatments

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

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

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

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

IFRS 17 - The new Standard for insurance contracts

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

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

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*. The amendments clarify that a group applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture.

IFRS 9 Financial Instruments excludes interests in associates and joint ventures accounted for in accordance with 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 group accounts for using the equity method. A group 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 2018, with early application permitted.

The Group has performed a high-level impact assessment of Amendments. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its balance sheet and equity. The amendments are not applicable for the Group and will 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 group 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 Group has performed a high-level impact assessment of Amendments. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its balance sheet and equity. The amendment are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

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

Annual Improvements – 2015–2017 Cycle

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

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements — The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

- IAS 12 Income Taxes — The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.

- IAS 23 Borrowing Costs — The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The 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

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Parent Bank maintains its book of account and prepares their statutory consolidated 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 consolidated financial statements are derived from statutory consolidated 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 its jurisdiction. The accompanying consolidated financial statements are derived from statutory financial statements with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

(Currency - In thousands of Turkish Lira)

4. Significant accounting policies (continued)

The consolidated financial statements were authorised for issue by the Group's management on 16 February 2018. The Group's General Assembly and the other reporting bodies have the power to amend the consolidated financial statements after their issue.

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 at fair value through profit or loss,
- available-for-sale financial instruments.
- 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)
31 December 2017	3.7719	4.5155
31 December 2016	3.5192	3.7099

4.4 Interest 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 financial 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 financial 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.

4. Significant accounting policies (continued)

4.5 Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial 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.

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 profit 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 consolidated financial 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 sufficient taxable profits 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. Since the applicable tax rate has been changed to 22% for the 3 years beginning from 1 January 2018, 22% tax rate is used in the deferred tax calculation of 31 December 2017 for the temporary differences expected to be realized/closed within 3 years (for the years 2018, 2019 and 2020). However, since the corporate tax rate after 2020 is 20%, 20% tax rate is used for the temporary differences expected to be realized/closed after 2020.

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 profit 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 identifiable assets, liabilities and contingent liabilities over cost.

4.9 Financial assets and liabilities

4.9.1 Financial Assets

All financial assets are initially measured at fair value, plus transaction costs.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial 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 financial 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 financial assets designated as at FVTPL.

Financial assets at FVTPL

Financial assets at fair value through profit or loss are financial assets held for trading and financial assets designated under this category upon initial recognition. A financial 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.

4. Significant accounting policies (continued)

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 financial assets and are stated at fair value. The unquoted equity investments that are not traded in an active market but are also classified as available-for-sale financial 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 profit 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 profit 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 financial 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 classified as a finance 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 financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed 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.

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 financial asset or financial asset group. An entity shall assess at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial 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 financial asset or group of financial 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.

4. Significant accounting policies (continued)

The carrying amount of the financial 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 financial assets subsequent to impairment is recognized in directly in equity.

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 insignificant risk of changes in value.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial 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 financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

4. Significant accounting policies (continued)

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 definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

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

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at FVTPL where the financial 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 profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial 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.

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.

Derecognition of financial liabilities

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

Derivative financial instruments

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

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

4. Significant accounting policies (continued)

4.10 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.

4.11 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 benefits exceeding costs beyond one year, are recognized as intangible assets. Costs include the software development employee costs and an appropriate portion of relevant overheads.

4.12 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

4. Significant accounting policies (continued)

4.13 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.

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.

4.14 Leases

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

The Group as lessee

Assets held under finance 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 financial position as a finance 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. Significant accounting policies (continued)

4.15 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.

4.16 Employee benefits

Termination and retirement benefits

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 defined retirement benefit plan as per International Accounting Standard No. 19 (revised) "Employee Benefits" ("IAS 19").

The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation.

Profit-sharing and bonus plans

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

4.17 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.

4.18 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. Significant accounting policies (continued)

4.19 Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3.10.

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk Function.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3.10. For financial instruments that require varying degrees of judgement depending liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

4.20 Functional and presentation currency

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

(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:

31 December 2017	Corporate banking	Other(*)	Total operations of the Group
Operating income	97,915	10,680	108,595
Expenses	(40,590)	-	(40,590)
Profit before income tax	57,325	10,680	68,005
Income tax income/expense	-	-	(13,714)
Profit from continued operations	57,325	10,680	54,291
Profit for the period	**43,611**	**10,680**	**54,291**
Segment assets	1,694,083	77	1,694,160
Non-distributed Asset	-	-	-
Total assets	**1,694,083**	**77**	**1,694,160**
Segment liabilities	1,465,196	-	1,465,196
Shareholders' equity	-	228,964	228,964
Total liabilities	**1,465,196**	**228,964**	**1,694,160**

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

(Currency - In thousands of Turkish Lira)

5. Segment reporting (continued)

2016	Corporate banking	Other(*)	Total operations of the Group
Operating income	67,847	9,398	77,245
Expenses	(27,395)	-	(27,395)
Profit before income tax	40,452	9,398	49,850
Income tax income/expense	-	-	(8,767)
Profit from continued operations	31,685	9,398	41,083
Profit for the period	**31,685**	**9,398**	**41,083**
Segment assets	1,169,447	104	1,169,551
Non-distributed Asset	-	-	-
Total assets	**1,169,447**	**104**	**1,169,551**
Segment liabilities	1,001,333	-	1,001,333
Shareholders' equity	-	168,218	168,218
Total liabilities	**1,001,333**	**168,218**	**1,169,551**

Geographical concentration

	Assets	Liabilities	Non-cash loans	Capital expenditures	Net profit / (loss)
31 December 2017					
Domestic	1,503,181	1,477,895	606,070	2,322	54,291
European Union countries	34,015	131,929	367	-	-
OECD countries	6,933	37,797	-	-	-
USA, Canada	151	-	-	-	-
Other countries	149,880	46,539	-	-	-
Total	**1,694,160**	**1,694,160**	**606,437**	**2,322**	**54,291**
31 December 2016					
Domestic	1,027,598	1,072,859	542,776	2,478	41,083
European Union countries	1,624	35,336	-	-	-
OECD countries	11,473	-	-	-	-
USA, Canada	5,725	35,211	-	-	-
Other countries	123,131	26,145	-	-	-
Total	**1,169,551**	**1,169,551**	**542,776**	**2,478**	**41,083**

(Currency - In thousands of Turkish Lira)

6. Cash and cash equivalents

	31 December 2017	31 December 2016
Cash and balances with central banks	3,452	314
- Cash on hand	99	95
- Balances with central banks	3,353	219
Due from banks and financial institutions	23,230	93,541
Placements at money markets	-	42,459
Cash and cash equivalents in the balance sheet	**26,682**	**136,314**

As at 31 December 2017 and 31 December 2016, the details of the balances with central banks and due from banks and financial institutions are as follows:

	31 December 2017			
	Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Balances with Central Bank	5	3,348	-	-
Due from banks and financial institutions	454	22,776	11.9%	1.2%
Placement at money markets	-	-	-	-
Total	**459**	**26,124**		

	31 December 2016			
	Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Balances with Central Bank	1	218	-	-
Due from banks and financial institutions	40,175	53,366	9.1%	0.8%
Placement at money markets	42,459	-	10.1%	-
Total	**82,635**	**53,584**		

(Currency - In thousands of Turkish Lira)

7. Reserve deposits at Central Bank

	31 December 2017	31 December 2016
Turkish Lira	253,397	57,161
Foreign currency	58,895	26,905
	312,292	**84,066**

As of December 31, 2017, the compulsory rates for the reserve deposits at the Central Bank of Turkey for Turkish Lira are implemented within an interval from 4% to 10.5% depending on the maturity of deposits (December 31, 2016 – 4% to 10.5%) and the compulsory rates for the foreign currency liabilities are within an interval from 4% to 24% depending on the maturity of deposits and other liabilities (December 31, 2016 – 4.5% to 24.5%).

In accordance with the "Communiqué Regarding the Reserve Requirements", the reserve requirements can be maintained as TL, USD, EUR and standard gold.

According to CBRT press release No. 2014-72 dated October 21, 2014, starting from November 2014, interest is paid on reserve requirements held in TL. Additionally, according to T. C. Central Bank press release No. 2015-35 dated May 2, 2015, starting from May 5, 2015 interest is paid on USD reserve deposits, reserve options and unrestricted deposits.

8. Financial assets at fair value through profit or loss

	31 December 2017	31 December 2016
Derivative financial assets-held for trading	1,665	2,593
Total FVTPL	**1,665**	**2,593**

Income and losses comprising the gains and losses related to and liabilities and realised and unrealised fair value changes are reflected in the statement of profit or loss as net trading income / (loss).

(Currency - In thousands of Turkish Lira)

9. Available for sale investments

	31 December 2017		31 December 2016	
	Amount	**Effective interest rate**	**Amount**	**Effective interest rate**
Available-for-sale investments at fair value				
Debt instruments [(a)]	98,897	13.38%	18,991	12.85%
Equity instruments – listed [(b)]	31,384		26,363	
Equity instruments – unlisted	6,238		160	
Total available-for-sale investments at fair value	**136,519**		**45,514**	

(a) Available for sale debt instruments include government bonds denominated in TL amounting to TL 813 (31 December 2016: TL 805), bank bonds amounting to TL 5,042 (31 December 2016: 2,044) and Eurobonds amounting to TL 86,039 (31 December 2016: 3,699) and the remaining portion amounting to TL 7,003 (31 December 2016: TL 12,443) consists of private sector bonds.

(b) The Group holds 15.97% of Nurol Gayrimenkul Yatırım Ortaklığı A.Ş. ("Company")'s shares as of 31 December 2017 and the investment is accounted under available for sale 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 29,167 Thousand is accounted under equity (31 December 2016: TL 24,146 Thousand).

10. Loans and advances to customers

	31 December 2017 Amount		
	TL	**Foreign currency**	**Total**
Finance lease receivables	-	-	-
Factoring receivables	-	-	-
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)

	31 December 2016		
	Amount		
	TL	Foreign currency	Total
Finance lease receivables	-	-	-
Factoring receivables	46,169	-	46,169
Short-term loans	227,222	8,600	235,822
Medium and long-term loans	184,358	310,451	494,809
Total performing loans	**457,749**	**319,051**	**776,800**
Less: Portfolio provision	**5,829**	**-**	**5,829**
Non-performing loans	28	-	28
Less: Reserve for possible loan losses	(28)	-	(28)
Total non-performing loans (net)	**-**	**-**	**-**
Transferred assets (*)	**6,430**	**-**	**6,430**
Total loans, net	**458,350**	**319,051**	**777,401**

(*) 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.

Movements in non-performing loans:

	31 December 2017	31 December 2016
Reserve at beginning of period	5,857	3,311
Provision for possible loan losses	5,339	2,668
Recoveries	(18)	(126)
Provision, net of recoveries	5,321	2,542
Disposal of non-performing loans	-	4
Reserve at end of period	**11,178**	**5,857**

(Currency - In thousands of Turkish Lira)

11. Property and equipment

	Office equipment	Furniture and fixtures	Other fixed assets	Total
Cost				
Balance at 1 January 2017	2,996	330	1,309	4,635
Acquisitions	372	8	188	568
Disposals	-	-	-	-
Balance at 31 December 2017	**3,368**	**338**	**1,497**	**5,203**
Depreciation				
Balance at 1 January 2017	1,480	127	550	2,157
Depreciation charge for the period	439	53	232	724
Disposals	-	-	-	-
Balance at 31 December 2017	**1,919**	**180**	**782**	**2,881**
Carrying value as of 31 December 2017	**1,449**	**158**	**715**	**2,322**

	Office Equipment	Furniture and fixtures	Other fixed assets	Total
Cost				
Balance at 1 January 2016	1,666	319	1,309	3,294
Acquisitions	1,330	11	-	1,340
Disposals	-	-	-	-
Balance at 31 December 2016	**2,996**	**330**	**1,309**	**4,635**
Depreciation				
Balance at 1 January 2016	1,297	76	320	1,693
Depreciation charge for the period	183	51	230	464
Disposals	-	-	-	-
Balance at 31 December 2016	**1,480**	**127**	**550**	**2,157**
Carrying value as of 31 December 2016	**1,516**	**203**	**759**	**2,478**

As of 31 December 2017 tangible assets were insured to the extent to TL 2,322 in total.

The estimated useful lives are as follows:

Motor vehicles	5 - 7 years
Office equipment, furniture and fixtures	5 - 15 years
Leased assets	shorter of 5 - 10 years and the lease term

(Currency - In thousands of Turkish Lira)

12. Intangible assets

	Software	Total
Cost		
Balance at 1 January 2017	4,832	4,832
Additions	472	472
Balance at 31 December 2017	**5,304**	**5,304**
Amortization and impairment		
Balance at 1 January 2017	3,445	3,445
Amortization charge for the period	484	484
Balance at 31 December 2017	**3,929**	**3,929**
Carrying value as of 31 December 2017	**1,375**	**1,375**

	Software	Total
Cost		
Balance at 1 January 2016	4,311	4,311
Additions	521	521
Balance at 31 December 2016	**4,832**	**4,832**
Amortization and impairment		
Balance at 1 January 2016	3,157	3,157
Amortization charge for the period	288	288
Balance at 31 December 2016	**3,445**	**3,445**
Carrying value as of 31 December 2016	**1,387**	**1,387**

(Currency - In thousands of Turkish Lira)

13. Investment property

As of 31 December 2017, the Group has investment property amounting to TL 4,440 (31 December 2016: 19,920). The Group accounts its investment property under fair value model.

14. 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 26.2 million USD. As of 31 December 2017 the first twelve months of agreement has expired and based on the agreement the Group has recognized 26.2 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.

15. Funds borrowed

	31 December 2017			31 December 2016		
	TL	Foreign currency	Total	TL	Foreign currency	Total
Funds borrowed	69,506	332,915	402,421	11,531	148,602	160,133
Obligations under repurchase agreements	1,018	59,002	60,020	15,828	-	15,828
	70,524	**391,917**	**462,441**	**27,359**	**148,602**	**175,961**

The effective interest rate for funds borrowed denominated in USD is 4.51% (31 December 2016 – 0.56%), in EUR is 2.69% (31 December 2016 – 1.02%) and in TL is 12.34% (31 December 2016 – 9.72%).

The Group has not had any defaults of principal, interest or redemption amounts or other breaches of loan covenants as at 31 December 2017 (31 December 2016 – None).

16. Subordinated debts

	31 December 2017			31 December 2016		
	TL	Foreign currency	Total	TL	Foreign currency	Total
Bonds (*)	-	57,267	57,267	-	53,364	53,364
	-	**57,267**	**57,267**	**-**	**53,364**	**53,364**

(*) The Parent Bank has made eurobond issue at a nominal value of USD 10,000,000 with a coupon payment once in 6 months, fixed rate, and 10 years of maturity through sales to qualified investors method on March 31, 2016 and received a loan 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 on December 27, 2016. (31 December 2016: - USD 15,000,000)

(Currency - In thousands of Turkish Lira)

17. Debt securities issued

	31 December 2017			31 December 2016		
	TL	Foreign Currency	Total	TL	Foreign currency	Total
Bonds	559,703	-	559,703	431,659	-	431,659
Bills	79,146	-	79,146	94,194	-	94,194
	638,849	**-**	**638,849**	**525,853**	**-**	**525,853**

As of December 31, 2017, the list of the issued bonds by the Parent Bank are shown below:

ISSUE TYPE	ISSUE DATE	MATURITY DATE	DAYS	NOMINAL VALUE (full TL)	INTEREST RATE
BOND	21.07.2017	12.01.2018	175	74,850,000	13.95%
BOND	07.08.2017	26.01.2018	172	60,000,000	14.00%
BOND	24.08.2017	16.02.2018	176	52,300,000	14.15%
BOND	20.09.2017	14.03.2018	175	50,000,000	14.00%
BOND	11.10.2017	07.02.2018	119	97,500,000	14.00%
BILL	18.10.2017	19.10.2018	366	29,150,000	14.19%
BOND	09.11.2017	08.03.2018	119	163,000,000	14.10%
BOND	24.11.2017	04.04.2018	131	100,000,000	14.25%
BOND	12.12.2017	13.04.2018	122	50,000,000	14.75%
BOND	28.12.2017	03.05.2018	126	50,000,000	15.00%

18. Other liabilities

	31 December 2017	31 December 2016
Cash collaterals (*)	265,129	210,109
Taxes and funds payable	3,831	2,381
Others	10,148	11,610
	279,108	**224,100**

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

(Currency - In thousands of Turkish Lira)

19. Provisions

	31 December 2017	31 December 2016
Provision for non-cash loans	908	906
Employee termination benefits	857	693
Unused vacation accrual	863	660
Provision for lawsuits	126	407
Bonus accrual	-	-
Other	-	46
	2,754	**2,712**

The movement in vacation pay liability is as follows:

	2017	2016
At 1 January	660	460
Provision provided /(reversal)	203	200
At 31 December	**863**	**660**

The movement in provision for bonus accrual is as follows:

	2017	2016
At 1 January	-	1,000
Provision provided	1,000	1,000
Bonus paid	(1,000)	(2,000)
At 31 December	-	-

The movement in provision for employee termination benefits is as follows:

	2017	2016
At 1 January	693	685
Provision provided/(reversal)	164	8
At 31 December	**857**	**693**

19. Provisions (continued)

Employee termination benefits

Under Turkish Labor Law, the Group is required to pay termination benefits to each employee who has completed certain years of service and whose employment is terminated without due cause, who is called up for military service, dies or retires after completing 25 years (20 years for women) of service and reaches the retirement age (58 for women and 60 for men).

The amount payable consists of one month's salary limited to a maximum of TL 4,732.48 for each period of service at 31 December 2017 (2016: TL 4,297.21).

Retirement pay liability is not subject to any kind of funding legally. Provision for retirement pay liability is calculated by estimating the present value of probable liability amount arising due to retirement of employees. IAS 19 *Employee Benefits* stipulates the development of company's liabilities by using actuarial valuation methods under defined benefit plans. In this direction, actuarial assumptions used in calculation of total liabilities are described as follows:

The principal assumption is that the maximum liability for each year of service will increase parallel with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying consolidated financial statements as at 31 December 2017, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated by using 8.00% (31 December 2016: 7.00%) annual inflation rate and 12.00% (31 December 2016: 11.00%) discount rate.

20. 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 20%. However, in accordance with the addition of temporary 10th article to the Corporate Tax Law, 20% corporate tax rate will be applied as 22% to the profits of the entities relating to 2018, 2019 and 2020 tax periods (for the entities with special accounting period will be applied to the tax periods commenced in related year). This rate is applicable to the tax base derived upon exemptions and deductions stated in the tax legislation and by addition of disallowable expenses to the commercial revenues of the companies with respect to the tax legislation. Corporate tax is required to be filed by the twenty-fifth day of the fourth month following the balance sheet date and taxes must be paid in one instalment by the end of the fourth month.

The tax legislation provides for a temporary tax of 20% (will be applied as 22% for 2018, 2019 and 2020 tax periods) to be calculated and paid based on earnings generated for each quarter. The amounts thus 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 5 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.

(Currency - In thousands of Turkish Lira)

20. Taxation (continued)

Income tax recognised in the income statement

The components of income tax expense as stated below:

	31 December 2017	31 December 2016
Current tax		
Current income tax	(14,052)	(14,582)
Deferred income / (expense) tax		
Relating to origination and reversal of temporary differences	338	5,815
Income tax expense reported in the income statement	**(13,714)**	**(8,767)**

Reconciliation of effective tax rate

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate for the years ended 31 December 2017 and 31 December 2016 is as follows:

	31 December 2017	31 December 2016
Profit before income tax	68,005	49,850
Income tax using the domestic corporate tax rate 20%	(13,601)	(9,970)
Other	(113)	1,203
Total income tax expense in the profit or loss	**(13,714)**	**(8,767)**

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

	31 December 2017	31 December 2016
Deferred tax assets / (liability), net at 1 January	3,082	(4,119)
Deferred tax recognised in the profit or loss	338	5,815
Deferred income tax recognised in other comprehensive income	(164)	1,386
Deferred tax assets/(liabilities), net at end of December	**3,256**	**3,082**

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2017			31 December 2016		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Liability for employee benefits	379	-	379	271	-	271
Valuation of available for sale financial assets	-	-	-	68	-	68
Economic life property and equipment	-	(171)	(171)	-	(136)	(136)
Derivatives	3,737	-	3,737	2,022	-	2,022
Prepaid commissions	-	-	-	-	-	-
Other	(689)	-	(689)	1,261	(404)	857
	3,427	**(171)**	**3,256**	**3,622**	**(540)**	**3,082**

(Currency - In thousands of Turkish Lira)

21. 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 31 December 2017; commitments and contingencies comprised the following:

	31 December 2017	31 December 2016
Letters of guarantee	552,202	469,152
Bank acceptance	3,183	65,105
Letters of credit	51,052	8,519
Other commitments	273	249
Total	**606,710**	**543,025**

22. Derivative financial liabilities

As at 31 December 2017; derivative financial instruments are comprised the following. This table shows the fair values of derivative financial liabilities.

	31 December 2017		31 December 2016	
	Fair Value	Notional Amount in TL equivalent	Fair Value	Notional Amount in TL equivalent
Derivative financial liabilities – FVTPL	18,831	1,471,761	12,703	1,031,617
	18,831	**1,471,761**	**12,703**	**1,031,617**

(Currency - In thousands of Turkish Lira)

23. Share capital and reserves

Share capital

As at 31 December 2017 and 31 December 2016, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	31 December 2017		31 December 2016	
	Amount	**%**	**Amount**	**%**
Nurol Holding A.Ş.	97,697	78	35,171	78
Nurol İnşaat ve Tic. A.Ş.	19,950	16	7,182	16
Nurol Otelcilik ve Turizm İşletmeciliği A.Ş.	1,103	1	397	1
Others	6,250	5	2,250	5
Total	**125,000**		**45,000**	

As at 31 December 2017, the authorised share capital comprised of 125,000 ordinary shares having a par value of TL full 1,000 (As at 31 December 2016, the authorised share capital comprised of 45,000 ordinary shares having a par value of TL full 1,000). All issued shares are paid.

Legal reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

As at 31 December 2017, the Group's legal reserves amounted to TL 4,500 (31 December 2016 – TL 2,913).

Available-for-sale reserve

The available-for-sale reserve includes the cumulative net change in the fair value of available-for-sale available for sale investments until the investment is derecognised or impaired.

Movement in available-for-sale reserve is as follows:

At 31 December 2016	**24,533**
At 1 January 2017	24,533
Change in fair value of available-for-sale financial assets (net of tax)	6,455
At 31 December 2017	**30,988**

(Currency - In thousands of Turkish Lira)

24. Net interest income

	31 December 2017	31 December 2016
Interest income		
Loans and advances to customers	185,456	134,659
Deposits with banks and other financial institutions	4,952	2,097
Held for trading and available for sale investments	12,089	2,089
Financial leases	-	26
Other	509	441
	203,006	**139,312**
Interest expense		
Funds borrowed	14,398	5,815
Debt securities issued	81,941	48,441
Interbank funds borrowed	2,211	1,997
Other	818	-
	99,368	**56,253**
Net interest income	**103,638**	**83,059**

25. Net fee and commission income

	31 December 2017	31 December 2016
Fee and commission income		
Non-cash loans	8,368	5,615
Other (*)	17,467	14,117
Total fee and commission income	**25,835**	**19,732**

(*) 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.

Fee and commission expense		
Non-cash loans	746	708
Other	15,280	4,853
Total fee and commission expense	**16,026**	**5,561**
Net fee and commission income	**9,809**	**14,171**

(Currency - In thousands of Turkish Lira)

26. Net trading income/loss

	31 December 2017	31 December 2016
Gain / (loss) on foreign exchange rate fluctuations	14,108	(13,513)
Gain / (loss) from securities	1,546	1,145
Gain / (loss) on derivatives	(28,777)	(15,767)
Total	**(13,123)**	**(28,135)**

27. Other operating income

	31 December 2017	31 December 2016
Gain on Increase in purchase right(*)	6,931	-
Reversal of provision	169	273
Fair value gain on investment properties	-	6,964
Other	1,171	913
	8,271	**8,150**

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

28. Other provision expenses

	1 January-31 December 2017	1 January-31 December 2016
Bonus expenses	-	-
Unused vacation expenses	203	25
Other expenses	28	207
Total	**231**	**232**

29. Personnel expenses

	31 December 2017	31 December 2016
Wages and salaries	10,890	9,389
Compulsory social security obligations	1,002	815
Other benefits	2,725	2,027
Total	**14,618**	**12,231**

(Currency - In thousands of Turkish Lira)

30. Administrative expenses

	31 December 2017	31 December 2016
Nurol Holding re-charges	7,005	4,160
Audit and advisory expenses	2,446	1,148
Taxes and duties expenses	2,336	307
Rent expenses	1,489	1,228
Telecommunication expenses	1,131	661
Computer expenses	923	853
Notary expenses	688	629
Transportation expenses	388	133
Hosting expenses	290	207
Maintenance expenses	201	202
Advertising expenses	95	6
Other various administrative expenses	1,695	2,073
Total	**18,687**	**11,638**

31. 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
- liquidity risks
- operational 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 Group'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

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.

(Currency - In thousands of Turkish Lira)

31. Financial risk management objectives and policies (continued)

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 Group 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 Group 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 Group 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.

Credit risk by risk groups

	Individual	Corporate	Leasing	Total
31 December 2017				
Performing loans	77	1,053,237	-	1,053,304
Factoring loans	-	-	-	-
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**
31 December 2016				
Performing loans	4,265	725,372	-	729,637
Factoring loans	-	46,169	-	46,169
Loans under close monitoring	-	994	-	994
Non-performing loans	-	28	-	28
Gross	**4,265**	**772,563**	**-**	**776,828**
Transferred asset	-	6,430	-	6,430
Reserve for possible loan losses	-	(28)	-	(28)
Collective impairment	-	(5,829)	-	(5,829)
Total	**4,265**	**773,136**	**-**	**777,401**

(Currency - In thousands of Turkish Lira)

31. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Exposure to credit risk

		Due from banks		Loans and advances to customers	
	Notes	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Carrying amount		**23,230**	**136,000**	**1,060,453**	**777,401**
Individually impaired					
- Non-performing financial assets		-	-	3,267	28
Gross amount		-	-	**3,267**	**28**
Reserve for possible loan losses	*10*	-	-	(3,235)	(28)
Collective impairment		-	-	(7,943)	(5,829)
Carrying amount		-	-	**(7,943)**	**(5,829)**
Past due but not impaired		-	-	-	-
Carrying amount		-	-	-	-
Neither past due nor impaired		23,230	136,000	979,959	729,466
Carrying amount		**23,230**	**136,000**	**979,959**	**729,466**
Restructured and rescheduled loans and other receivables		-	-	88,405	53,764
Carrying amount		-	-	**88,405**	**53,764**
Carrying amount (amortised cost)		**23,230**	**136,000**	**1,060,453**	**777,401**

Impaired loans and advances

Individually impaired loans are loans and advances for which the Group determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loan.

Past due but not impaired loans

Past due but not impaired loans are those for which contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

31. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Exposure to credit risk (continued)

Reserve for possible loan losses

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio.

The Group establishes an allowance for impairment losses on assets carried at amortised cost that represents its estimate of incurred losses in its loan portfolio.

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.

(Currency - In thousands of Turkish Lira)

31. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Collateral policy (continued)

The breakdown of performing cash and non-cash loans and advances to customers by type of collateral is as follows:

Cash loans	31 December 2017	31 December 2016
Secured cash loans	915,672	744,178
Secured by cash collateral	*87,537*	*50,999*
3rd party guarantees	*170,358*	*313,617*
Secured by mortgages	*191,273*	*100,650*
Secured by customer cheques & acts	*171,636*	*8,653*
Vehicle pledge	*54,858*	*73,621*
Marketable securities	*96,832*	*115,500*
Assignment of receivables	*143,174*	*81,138*
Non-secured cash loans	122,949	17,905
Accrued interest income on loans	21,832	15,318
Total performing cash loans	**1,060,453**	**777,401**

Non-cash loans(*)	31 December 2017	31 December 2016
Secured non-cash loans	279,887	248,041
Personal guarantees	-	*248,027*
Secured by cash collateral	*1,010*	*14*
Assigment of receivables	*13,250*	-
3rd party guarantees	*227.454*	-
Secured by customer cheques & acts	*18,000*	-
Secured by mortgages,	*455*	-
Vehicle pledge	*37,719*	-
Non-secured non cash loans	254.315	221,111
Total non-cash loans	**552,202**	**469,152**

(*) Other commitments, letters of credit and bank acceptances are not included.

(Currency - In thousands of Turkish Lira)

31. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Segment concentration

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from due from banks and loans and advances to customers at the reporting date is shown below:

	Due from banks		Loans and advances to customers	
	2017	**2016**	**2017**	**2016**
Banks	23,230	136,000	-	-
Manufacturing	-	-	16,568	19,101
Production	-	-	*16,568*	19,101
Construction	-	-	218,505	99,405
Services	-	-	654,845	384,674
Wholesale and retail trade	-	-	*152,797*	*111,627*
Hotel food and beverage services	-	-	*114,965*	-
Financial institutions	-	-	*359,623*	*129,419*
Communication services	-	-	*25,163*	*11,415*
Health and social services	-	-	*2,387*	-
Renting Service	-	-	-	*132,213*
Other	-	-	170,503	274,221
Non-performing loans net	-	-	32	-
Total	**23,230**	**136,000**	**1,060,453**	**771,401**

		Due from banks		Loans and advances to customers	
	Notes	**2017**	**2016**	**2017**	**2016**
Turkey		12,661	134	881,218	636,826
Europe		8,852	1,624	25,163	-
Other		1,717	375	154,042	140,575
	6, 10	**23,230**	**136,000**	**1,060,453**	**777,401**

(Currency - In thousands of Turkish Lira)

31. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Fair value through profit or loss (FVTPL)

At 31 December 2017, the Group has financial assets at FVTPL amounting to TL 1,665 (31 December 2015– TL 2,593). An analysis of the credit quality of the maximum credit exposure is as follows:

	Note	31 December 2017	31 December 2016
Derivatives	*8*	1,665	2,593
Fair value and carrying amount		**1,665**	**2,593**

c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial 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.

Management of liquidity risk

In order to manage this risk, the Group measures and manages its cash flow commitments on a daily basis and maintains liquid assets, which it judges sufficient to meet its commitments.

The calculation method used to measure the banks compliance with the liquidity limit is set by Banking Regulatory and Supervision Agency ("BRSA"). In November 2006, BRSA issued a new communique on the measurement of liquidity adequacy of the banks. The Group's liquidity ratios in 2017 and 2016 are as follows:

	First maturity bracket (weekly)		Second maturity bracket (monthly)	
	Foreign currency (%)	Total (%)	Foreign currency (%)	Total (%)
2017 average	222	253	113	144
2016 average	176	238	106	137

(Currency - In thousands of Turkish Lira)

31. Financial risk management objectives and policies (continued)

c) Liquidity risk (continued)

As at 31 December 2017 and 31 December 2016, the following table provides the contractual maturities of the Group's financial liabilities.

	31 December 2017						
	Carrying Amount	**Contractual cash flows**	**6 month or less**	**6 to 12 months**	**1 to 2 years**	**2 to 5 years**	**more than 5 Years**
Funds borrowed	462,441	510,523	331,959	70,708	-	57,494	50,362
Debt securities Issued	638,849	668,280	573,056	11,974	83,250	-	-
	1,101,290	**1,178,803**	**905,015**	**82,682**	**83,250**	**57,494**	**50,362**

	31 December 2016						
	Carrying Amount	**Contractual cash flows**	**6 month or less**	**6 to 12 months**	**1 to 2 years**	**2 to 5 years**	**more than 5 Years**
Funds borrowed	175,961	214,012	80,793	63,113	17,376	-	52,730
Debt securities Issued	525,853	563,482	477,232	-	3,000	83,250	-
	701,814	**777,494**	**558,025**	**63,113**	**20,376**	**83,250**	**52,730**

Exposure to liquidity risk

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

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	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**
Liquidity gap	**125,418**	**197,716**	**(353,384)**	**(123,714)**	**244,509**	**88,231**	**(188,720)**	**-**
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 in over 5 year line.

(**) Includes Subordinated bonds amounting to TL 38.366 in over 5 year line.

(Currency - In thousands of Turkish Lira)

31. Financial risk management objectives and policies (continued)

c) Liquidity risk (continued)

Exposure to liquidity risk (continued)

31 December 2016	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Unidentified maturity	Total
Cash and cash equivalents	2,736	133,578	-	-	-	-	-	136,314
Reserve deposits	57,161	26,905	-	-	-	-	-	84,066
FVTPL investments	-	1,961	405	-	227	-	-	2,593
Available for sale investments			2,045	7,973	5,276	3,699	26,521	45,514
Loans and advances to customers	-	86,325	2,031	248,268	397,156	43,621	-	777,401
Other assets		98,713					24,950	123,663
Total assets	**59,897**	**347,482**	**4,481**	**256,241**	**402,659**	**47,320**	**51,471**	**1,169,551**
Funds borrowed	-	37,721	22,821	81,112	16,702	35,211	-	193,567
Debt securities issued	-	99,522	191,648	170,858	63,825	35,758	-	561,611
Derivative financial liabilities	-	3,385	4,554	4,764	-	-	-	12,703
Other liabilities	24,164	102,812	111,687	-	17	-	162,990	401,670
Total liabilities	**24,164**	**243,440**	**330,710**	**256,734**	**80,544**	**70,969**	**162,990**	**1,169,551**
Liquidity gap	**35,733**	**104,042**	**(326,229)**	**(493)**	**322,115**	**(23,649)**	**(111,519)**	**-**
Off Balance Sheet Position	**-**	**(1,363)**	**(4,715)**	**593**	**20,358**	**-**	**-**	**14,873**
Receivables from derivatives	**-**	**150,308**	**201,452**	**88,235**	**83,250**	**-**	**-**	**523,245**
Liabilities from derivatives	**-**	**151,671**	**206,167**	**87,642**	**62,892**	**-**	**-**	**508,372**
Non cash loans	**-**	**-**	**-**	**29,936**	**46,302**	**466,537**	**-**	**542,776**

(Currency - In thousands of Turkish Lira)

31. Financial risk management objectives and policies (continued)

d) 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 Group'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.

31 December 2017 and 31 December 2016 calculated as per the statutory financial statements prepared for BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 28337 dated 28 June 2012, are as follows:

	2017			2016		
	Average	**Highest**	**Lowest**	**Average**	**Highest**	**Lowest**
Interest rate risk	4,388	5,523	3,550	1,210	3,965	340
Equity price risk	-	-	-	-	-	-
Currency risk	512	952	80	492	1,056	87
Counter party risk	-	-	-	268	1,647	-
Total value-at-risk	**4,900**	**6,475**	**3,630**	**1,970**	**6,668**	**427**

(Currency - In thousands of Turkish Lira)

31. Financial risk management objectives and policies (continued)

d) Market risk (continued)

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.

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

	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)

31. Financial risk management objectives and policies (continued)

d) Market risk (continued)

Currency risk (continued)

	USD	Euro	Others	Total
2016				
Assets				
Cash and cash equivalents	5,199	21,774	-	26,973
Reserve deposits at Central Bank	36,614	16,883	87	53,584
Loans and advances to customers	50,291	268,760	-	319,051
Available for sale investments	3,699	-	-	3,699
Other assets	89,944	-	-	89,944
Total assets	**185,747**	**307,417**	**87**	**493,251**
Liabilities				
Funds borrowed	44,538	104,064	-	148,602
Subordinated debts	53,364	-	-	53,364
Other liabilities	3,274	206,760	-	210,034
Total liabilities	**101,176**	**310,824**	**-**	**412,000**
Gross exposure	**84,571**	**(3,407)**	**87**	**81,251**
Off-balance sheet position				
Net notional amount of derivatives	**(83,863)**	**4,223**	**-**	**(79,640)**
Net exposure	**708**	**816**	**87**	**1,611**

(Currency - In thousands of Turkish Lira)

31. Financial risk management objectives and policies (continued)

d) Market risk (continued)

Currency risk (continued)

Sensitivity analysis

A 10 percent weakening of TL against the foreign currencies at 31 December 2017 and 31 December 2016 would have effect on the equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2015.

2017	Equity	Profit or loss
EUR	64	64
USD	486	486
Other currencies	15	15
Total	**565**	**565**

2016	Equity	Profit or loss
EUR	82	82
USD	71	71
Other currencies	9	9
Total	**162**	**162**

A 10 percent strengthening of the TL against the foreign currencies at 31 December 2017 and 31 December 2016 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

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.

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.

(Currency - In thousands of Turkish Lira)

31. Financial risk management objectives and policies (continued)

d) Market risk (continued)

Interest rate risk (continued)

The following table indicates the periods in which financial assets and liabilities reprice as of 31 December 2017 and 31 December 2016:

	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 in over 5 year line.

(**) Includes Subordinated bonds amounting to TL 38,366 in over 5 year line.

(***) Derivative financial instruments include in other liabilities.

(Currency - In thousands of Turkish Lira)

31. Financial risk management objectives and policies (continued)

d) 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 2016							
Assets							
Cash and cash equivalents	133,578	-	-	-	-	2,736	136,314
Reserve deposits at Central Bank	26,905	-	-	-	-	57,161	84,066
FVTPL investments	1,961	405	-	227	-	-	2,593
Available for sale investments	-	8,192	1,825	5,276	3,699	26,522	45,514
Loans and advances to customers	86,325	2,031	248,268	397,156	43,621	-	777,401
Other assets						123,663	123,663
Total assets	**248,769**	**10,628**	**250,093**	**402,659**	**47,320**	**210,082**	**1,169,551**
Liabilities							
Funds borrowed(*)	37,722	22,820	81,112	16,702	35,211	-	193,567
Debt securities issued(**)	129,892	227,406	143,180	61,133	-	-	561,611
Other liabilities(***)	99,116	117,138	4,764	506	-	192,849	414,373
Total liabilities	**266,730**	**367,364**	**229,056**	**78,341**	**35,211**	**192,849**	**1,169,551**
On balance sheet interest sensitivity gap	(17,961)	(356,736)	21,037	324,318	12,109	17,223	-
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Total interest sensitivity gap	**(17,961)**	**(356,736)**	**21,037**	**324,318**	**12,109**	**17,223**	**-**

(*) Includes Subordinated loans amounting to TL 17,606 in over 5 year line.

(**) Includes Subordinated bonds amounting to TL 35,758 in over 5 year line.

(***) Derivative financial instruments include in other liabilities.

(Currency - In thousands of Turkish Lira)

31. Financial risk management objectives and policies (continued)

d) Market risk (continued)

Summary of average interest rates

As at 31 December 2017 and 31 December 2016, the summary of average interest rates for different assets and liabilities are as follows:

	31 December 2017			31 December 2016		
	Euro	**USD**	**TL**	**Euro**	**USD**	**TL**
Assets						
Cash and balances with the Central Bank	-	1.5	3.85	-	0.75	2.91
Due from banks	0.05	1.15	11.92	0.03	0.60	9.44
FVTPL investments	-	-	-	-	-	-
Placements at money markets	-	-	-	-	-	-
Available for sale financial assets	-	9.72	14.01	-	8.67	13.46
Loans and advances to customers	6.52	9.81	17.82	6.70	9.20	16.55
Other	-	-	-	-	-	-
Liabilities						
Other money market deposits	-	-	-	-	-	-
Funds borrowed	2.87	5.16	14.13	3.39	2.46	10.99
Debt securities issued	-	10.00	13.11	-	10.00	11.89
Funds from other financial institutions	2.69	4.09	11.94	1.02	0.56	9.72

e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group 's operations and are faced by all business entities.

The operational risk items in the Group are determined in accordance with the definition of operational risk by considering the whole processes, products and departments. The control areas are set for operational risks within the Group and all operational risks are followed by assigning the risks to these control areas. In this context, appropriate monitoring methodology is developed for each control area that covers all operational risks and control frequencies are determined.

The Group calculated the value at operational risk in accordance with the "Computation of Value of Operational Risk" of the circular, "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette no. 28337 dated 28 June 2012 and, using gross profit of the last three years, 2014, 2015 and 2016. The amount calculated as TL 101,003 as at 31 December 2017 (31 December 2016 - TL 64,002) represents the operational risk that the Group may expose and the amount of minimum capital requirement to eliminate this risk.

(Currency - In thousands of Turkish Lira)

31. Financial risk management objectives and policies (continued)

f) Capital management

BRSA, the regulatory body of the banking industry, sets and monitors capital requirements for the Group; 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 Group' 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 available-for-sale financial assets 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 its individually 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:

	31 December 2017	31 December 2016
Amount subject to credit risk (I)	1,449,011	1,171,858
Amount subject to market risk (II)	51,433	50,285
Amount subject to operational risk (III)	101,003	64,002
Total risk-weighted assets and value at market risk and operational risk (IV) = (I+II+II)	**1,601,447**	**1,286,145**
Shareholders' equity:		
Tier 1 capital	219,195	155,851
Tier 2 capital	69,846	67,148
Total regulatory capital	**289,041**	**222,999**
Capital adequacy ratio	**18.05%**	**17.34%**

(Currency - In thousands of Turkish Lira)

31. Financial risk management objectives and policies (continued)

g) Fair values

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets or valuation techniques. However, the Group expects no significant difference between the fair value and carrying value of the financial instruments below since their maturities are short-term.

The table below sets out the Group's classification of each class of financial assets and liabilities and their fair values.

	Notes	Trading	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
2017							
Cash and cash equivalents	*6*	-	26,682	-	-	26,682	26,682
Reserve deposits at Central Bank	*7*	-	312,292	-	-	312,292	312,292
FVTPL investments	*8*	1,665	-	-	-	1,665	1,665
Available for sale investments	*9*	-	-	136,519	-	136,519	136,519
Loans and advances to customers[1]	*10*	-	1,060,453	-	-	1,060,453	1,060,453
Other asset		-	-	-	145,156	145,156	145,156
		1,665	1,399,427	136,519	145,156	1,682,767	1,682,767
Funds borrowed	*15*	-	-	-	462,441	462,441	506,699
Debt securities issued[1]	*17*	-	-	-	638,849	638,849	638,849
Derivative financial liabilities		18,831	-	-	-	18,831	18,831
Other liabilities		-	-	-	265,129	265,129	265,129
		18,831	-	-	1,366,419	1,385,250	1,429,508

(1) The Group management assumes that the fair values of the loans and debt securities issued approximate their carrying values since the majority of them are short-term.

	Notes	Trading	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
2016							
Cash and cash equivalents	*6*	-	136,314	-	-	136,314	136,314
Reserve deposits at Central Bank	*7*	-	84,066	-	-	84,066	84,066
Held for trading investments	*8*	2,593	-	-	-	2,593	2,593
Available for sale investments	*9*	-	-	45,514	-	45,514	45,514
Loans and advances to customers[1]	*10*	-	777,401	-	-	777,401	777,401
Other asset		-	-	-	116,716	116,716	116,716
		2,593	997,781	45,514	116,716	1,162,604	1,162,604
Funds borrowed	*15*	-	-	-	175,961	175,961	214,012
Debt securities issued[1]	*17*	-	-	-	525,853	525,853	525,853
Derivative financial liabilities		12,703	-	-	-	12,703	12,703
Other liabilities		-	-	-	210,111	210,111	210,111
		12,703	-	-	911,925	924,628	924,628

(1) The Group management assumes that the fair values of the loans and debt securities issued approximate their carrying values since the majority of them are short-term.

Loans and advances to customers

Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances to customers represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(Currency - In thousands of Turkish Lira)

31. Financial risk management objectives and policies (continued)

g) Fair values (continued)

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. 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:

31 December 2017	***Note***	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial assets	*8*	-	1,665	-	1,665
Available for sale investments	*9*	136,519	-	-	136,519
Investment property	13	-	-	4,440	4,440
Derivative financial liabilities	22	-	18,831	-	18,831

31 December 2016	***Note***	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial assets	*8*	2,593	-	-	2,593
Available for sale investments	*9*	45,514	-	-	45,514
Investment property	13	-	-	19,920	19,920
Derivative financial liabilities	22	-	12,703	-	12,703

(Currency - In thousands of Turkish Lira)

32. 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:

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

31 December 2016	**Balance**	**Percentage of the financial statement amount (%)**
Non-cash loans	28,142	6%
Funds borrowed / Current accounts of loan customers	9,970	6%

31 December 2017	**Balance**	**Percentage of the financial statement amount (%)**
Interest and commission income	3,842	2%
Other operating expense (-)	-	0%

31 December 2016	**Balance**	**Percentage of the financial statement amount (%)**
Interest and commission income	13,987	9%
Other operating expense (-)	4,160	17%

As at 31 December 2017, no provisions have been recognised in respect of loans given to related parties (2016 – none).

Compensation of key management personnel of the Group

The executive and non-executive member of Board of Directors and management received remuneration and fees amounted to TL 6,658 comprising salaries and other benefits for the period 1 January-31 December 2017 (1 January - 31 December 2016: TL 5,801).

33. Events after balance sheet date

None.