Nurol Yatırım Bankası Anonim Şirketi

Interim condensed consolidated financial statements at September 30, 2017 together with independent auditor's review report

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors of
Nurol Yatırım Bankası Anonim Şirketi

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Nurol Yatırım Bankası A.Ş. and its subsidiary ("the Group") as at September 30, 2017, comprising of the interim consolidated statement of financial position as at September 30, 2017 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the nine-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, "Interim financial reporting" (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

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

Yaşar Bivas, SMMM
Partner

10 November 2017
Istanbul, Turkey

TABLE OF CONTENTS

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 30 SEPTEMBER 2017
(Currency - In thousands of Turkish Lira)

	Note	Reviewed 30 September 2017	Audited 31 December 2016
Assets			
Cash and cash equivalents	*6*	30,419	136,314
Reserve deposits at Central Bank	*7*	187,776	84,066
Derivative financial assets		9,345	2,593
Available for sale investments	*8*	231,160	45,514
Loans and advances to customers	*9*	1,287,123	777,401
Property and equipment		2,004	2,478
Investment property	*10*	4,440	19,920
Intangible assets		1,423	1,387
Deferred tax assets	*17*	1,820	3,082
Other assets	*11*	141,607	96,796
Total assets		**1,897,117**	**1,169,551**
Liabilities			
Funds borrowed	*12*	523,113	175,961
Debt securities issued	*13*	695,536	525,853
Other liabilities	*15*	394,326	224,100
Derivative financial instruments		11,050	12,703
Subordinated debts	*14*	53,031	53,364
Provisions	*16*	3,441	2,712
Current tax liability		4,510	6,640
Deferred Tax Liabilities	*17*	-	-
Total liabilities		**1,685,007**	**1,001,333**
Equity			
Share capital	*19*	125,000	45,000
Reserves		35,391	27,446
Retained earnings		51,719	95,772
Total equity		**212,110**	**168,218**
Total liabilities and equity		**1,897,117**	**1,169,551**

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE PERIOD ENDED 30 SEPTEMBER 2017
(Currency - In thousands of Turkish Lira)

	Note	Reviewed 1 January- 30 September 2017	Reviewed 1 January- 30 September 2016
Interest income	*20*	135,840	96,890
Interest expense	*20*	(66,505)	(40,423)
Net interest income		**69,335**	**56,467**
Fee and commission income	*21*	21,351	12,046
Fee and commission expense	*21*	(11,912)	(2,794)
Net fee and commission income		**9,439**	**9,252**
Net trading income / (loss)	*22*	(9,549)	(21,992)
Other operating income	*23*	7,933	8,184
		(1,616)	**(13,808)**
Operating income		**77,158**	**51,911**
Net impairment/recoveries on financial assets		(7,757)	(3,937)
Other provision expenses		(810)	(812)
Personnel expenses	*24*	(9,138)	(7,746)
Depreciation and amortization		(889)	(526)
Administrative expenses	*25*	(12,532)	(7,838)
Profit before income tax		**46,032**	**31,052**
Income tax expense	*17*	(8,498)	(5,023)
Profit for the period		**37,534**	**26,029**
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Available-for-sale financial assets			
Gain / (Loss) arising during the period		7,224	(755)
Income tax relating to components of other comprehensive income	*17*	(866)	47
Other comprehensive income (loss) for the period, net of income tax		**6,358**	**(708)**
Total comprehensive income for the period		**43,892**	**25,321**

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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 SEPTEMBER 2017

(Currency - In thousands of Turkish Lira)

Reviewed	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		-	-	-	26,029	**26,029**
Other comprehensive income for the period, net of tax		-	(708)	-	-	**(708)**
Total comprehensive income for the period		**-**	**(708)**	**-**	**26,029**	**25,321**
Balance at 30 September 2016		**45,000**	**25,626**	**2,913**	**80,718**	**154,257**
Reviewed						
Balances at 1 January 2017		**45,000**	**24,533**	**2,913**	**95,772**	**168,218**
Transfer to reserves		**-**	**-**	**1,587**	**(1,587)**	**-**
Capital Increase		**80,000**	**-**	**-**	**(80,000)**	**-**
- Internal Sources		80,000	-	-	(80,000)	-
Total comprehensive income for the period						
- Profit for the period		-	-	-	37,534	**37,534**
- Other comprehensive income for the period, net of tax		-	6,358	-	-	**6,358**
Total comprehensive income for the period		**-**	**6,358**	**-**	**37,534**	**43,892**
Balance at 30 September 2017		**125,000**	**30,891**	**4,500**	**131,719**	**212,110**

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 30 SEPTEMBER 2017

(Currency - In thousands of Turkish Lira)

	Note	Reviewed 1 January-30 September 2017(*)	Reviewed 1 January-30 September 2016(*)
Cash flows from operating activities			
Net profit for the period		37,534	26,029
Adjustments:			
Depreciation and amortisation		889	526
Current tax expense	*17*	8,102	7,920
Deferred tax (income)/expense	*17*	396	(2,897)
Provision for loan losses	*9*	7,066	3,937
Other provisions		810	812
Other accruals		(6,623)	(13,221)
Loss from asset sale		-	-
Foreign exchange loss / (gain)		(5,117)	(760)
Fair value gain on investment property		-	(6,964)
Fair value gain on other assets	*23*	(6,931)	-
		36,126	**15,832**
Changes in operating assets and liabilities			
Change in derivative financial assets		(6,752)	14,639
Change in loans and advances to customers		(504,626)	(519,677)
Change in reserve deposits		(103,300)	(10,264)
Change in other assets		(22,442)	(96,428)
Change in other liabilities		163,905	355,725
Change in derivative financial liabilities		(1,653)	1,734
Change in borrowings		344,974	53,878
Taxes paid		(10,875)	(4,378)
Net cash provided by / (used in) operating activities		**(140,769)**	**(204,771)**
Cash flows from investing activities			
Purchase of available for sale investments		(991,323)	(74,265)
Sale of available for sale investments		822,290	69,667
Purchase of property and equipment		(64)	(44)
Proceeds from sale of investment property		7,100	-
Purchase of intangible assets		(388)	(288)
Net cash (used in) / provided by investing activities		**(162,385)**	**(4,930)**
Proceeds from debt securities issued		1,546,493	478,000
Repayment from debt securities issued		(1,390,477)	(468,661)
Proceeds from subordinated debts		-	29,725
Net cash provided by /(used in) financing activities		**156,016**	**48,064**
Effect of foreign exchange rate change on cash and cash equivalents		**5,117**	**760**
Net increase in cash and cash equivalents		**(105,895)**	**(145,495)**
Cash and cash equivalents at 1 January	*6*	136,314	169,136
Cash and cash equivalents at 30 September	***6***	**30,419**	**23,641**

(*) Cash flows from interest received and paid disclosed together. Interest received is amounting to TL 113,916 (30 September 2016: 85,338) and interest paid is amounting to TL 51,211 (30 September 2016: 42,046).

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

(Currency - In thousands of Turkish Lira)

1. Corporate information

General

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

Nature of Activities of the Bank / Group

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

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

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

Shareholders	Total nominal value of the shares	Share percentage (%)
Nurol Holding A.Ş.	97,697	78.16
Nurol İnşaat ve Tic. A.Ş.	19,950	15.96
Nurol Otelcilik ve Turizm İşletmeciliği A.Ş.	1,103	0.88
Other	6,250	5.87

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

2. The new standards, amendments and interpretations

The accounting policies adopted in preparation of the interim condensed consolidated financial statements as at 30 September 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:

IAS 7 Statement of Cash Flows (Amendments)

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

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. If the Group applies this relief, it shall disclose that fact. 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.

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

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

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

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

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

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

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. The final version of IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted by applying all requirements of the standard. Alternatively, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL without applying the other requirements in the standard. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

IFRS 16 Leases

The IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

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

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

IFRS 4 Insurance Contracts (Amendments)

In September 2016, the IASB issued amendments to IFRS 4 Insurance Contracts. The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard will:

a. give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 Financial instruments is applied before the new insurance contracts Standard is issued; and

b. give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 Financial instruments until 2021. The entities that defer the application of IFRS 9 Financial instruments will continue to apply the existing financial instruments Standard—IAS 39.

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 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.

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.

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

Annual Improvements to IFRSs - 2014-2016 Cycle (continued)

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

IFRIC 23 Uncertainty over Income Tax Treatments

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

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

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

IFRS 17 - The new Standard for insurance contracts

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

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

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

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

The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted.

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

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

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

Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss. Applying the amendments, if a specific condition is met, entities will be able to measure at amortised cost some prepayable financial assets with so-called negative compensation. The amendments are effective from annual periods beginning on or after 1 January 2019, with early application permitted.

The 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 Bank and its subsidiary, which are entities controlled by the 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 financial statements of subsidiary to bring their accounting policies into line with those of the Group.

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

4. Significant accounting policies

4.1 Statement of compliance

These interim condensed consolidated financial statements for the period ended September 30, 2017 have been prepared in accordance with IAS 34, "Interim Financial Reporting". The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended December 31, 2016.

The Bank maintains its book of account and prepares their statutory financial statements in Turkish Lira ("TL") in accordance with the accounting principles as promulgated by the Banking Regulation and Supervision Agency ("BRSA"), Capital Markets Board of Turkey, the Turkish Commercial Code and tax legislation. The accompanying financial statements are derived from statutory financial statements with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

(Currency - In thousands of Turkish Lira)

4. Significant accounting policies (continued)

The subsidiary maintains its books of accounts based on statutory rules and regulations applicable in their jurisdictions. The accompanying financial statements are derived from statutory financial statements with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

The interim condensed consolidated financial statements were authorised for issue by the Group's management on 10 November 2017.

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)
30 September 2017	3.5521	4.1924
31 December 2016	3.5192	3.7099

4.4 lnterest income and interest expense

Interest income and expense are recognised in the profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of financial instrument, but not future credit losses. The effective interest rate is established on initial recognition of the 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 fınancial asset or liability are included in the measurement of the effective interest rate.

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

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

4.6 Net trading income

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

4.7 Dividends

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

4.8 Taxation and deferred income taxes

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

Current tax

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

4. Significant accounting policies (continued)

Deferred tax

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

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

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

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

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside 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.

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.

4. Significant accounting policies (continued)

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 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.

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.

4. Significant accounting policies (continued)

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.

4.9.2 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.

4. Significant accounting policies (continued)

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.

4.10 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. Significant accounting policies (continued)

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 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.

4.13 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.

4. Significant accounting policies (continued)

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.

4.14 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.

4.15 Employee benefıts

Termination and retirement benefıts

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

Profıt-sharing and bonus plans

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

(Currency - In thousands of Turkish Lira)

4. Significant accounting policies (continued)

4.16 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.

4.17 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.

5. Segment reporting

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

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

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

Major financial statement items according to business lines:

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

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

(Currency - In thousands of Turkish Lira)

30 September 2016	Corporate banking	Other(*)	Total operations of the Group
Operating income	43,556	8,355	51,911
Other expenses	(20,859)	-	(20,859)
Profit before income tax	22,697	8,355	31,052
Income tax income/expense	-	-	(5,023)
Profit from continued operations	17,674	8,355	26,029
Profit for the period	**17,674**	**8,355**	**26,029**
Segment assets	1,160,153	9,398	1,169,551
Non-distributed Asset	-	-	-
Total assets	**1,160,153**	**9,398**	**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**

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

6. Cash and cash equivalents

	30 September 2017	31 December 2016
Cash and balances with central banks	192	314
- *Cash on hand*	*94*	*95*
- *Balances with central banks*	*98*	*219*
Due from banks and financial institutions	30,227	93,541
Placements at money markets	-	42,459
Cash and cash equivalents in the balance sheet	**30,419**	**136,314**

7. Reserve deposits at Central Bank

	30 September 2017	31 December 2016
Turkish Lira	128,213	57,161
Foreign currency	59,563	26,905
	187,776	**84,066**

(Currency - In thousands of Turkish Lira)

8. Available for sale investments

	30 September 2017		31 December 2016	
	Amount	**Effective interest rate**	**Amount**	**Effective interest rate**
Available-for-sale investments at fair value				
Debt instruments [a]	196,444	13.10%	18,991	12.85%
Equity instruments – listed [b]	28,478		26,363	
Equity instruments – unlisted	6,238		160	
Total available-for-sale investments at fair value	**231,160**		**45,514**	

(a) Available for sale debt instruments include government bonds denominated in TL amounting to TL 792 (31 December 2016: TL 805), Eurobond amounting to TL 191,708 (31 December 2016: 3,699) and the remaining portion amounting to TL 3,944 Thousand (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 30 September 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 26,261 is accounted under equity (31 December 2016: TL 24,146).

9. Loans and advances to customers

	30 September 2017		
	Amount		
	TL	**Foreign currency**	**Total**
Short-term loans	678,249	24,176	702,425
Medium and long-term loans	155,935	431,808	587,743
Total performing loans	**834,184**	**455,984**	**1,290,168**
Less: Portfolio provision	**(9,700)**	**-**	**(9,700)**
Non-performing loans	3,223	-	3,223
Less: Reserve for possible loan losses	(3,223)	-	(3,223)
Total non-performing loans (net)	**-**	**-**	**-**
Transferred assets	**6,655**	**-**	**6,655**
Total loans, net	**831,139**	**455,984**	**1,287,123**

(Currency - In thousands of Turkish Lira)

	31 December 2016		
	Amount		
	TL	**Foreign currency**	**Total**
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**

Movements in non-performing loans:

	30 September 2017	**30 September 2016**
Reserve at beginning of period	5,857	3,311
Provision for possible loan losses	7,084	4,063
Recoveries	(15)	(126)
Provision, net of recoveries	7,066	3,937
Disposal of non-performing loans	(3)	-
Reserve at end of period	**12,923**	**7,248**

10. Investment Property

As of 30 September 2017, the Group has investment property amounting to TL 4,440 (31 December 2016: 19,920).

The Company accounts its investment property under fair value model.

11. Other Assets

The Group concluded a “Pre-emption agreement” over the real estate property, for the twelve months period with the value of 24.4 million USD and for the eighteen months period with the value of 26.25 million USD. As of 30 September 2017 the first twelve months of agreement has expired and based on the agreement the Group has recognized 26.25 million USD in other assets.

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

(Currency - In thousands of Turkish Lira)

12. Funds borrowed

	30 September 2017			31 December 2016		
	TL	**Foreign currency**	**Total**	**TL**	**Foreign currency**	**Total**
Funds borrowed	7,834	467,585	475,419	11,531	148,602	160,133
Obligations under repurchase agreements	32,894	14,800	47,694	15,828	-	15,828
	40,728	**482,385**	**523,113**	**27,359**	**148,602**	**175,961**

The effective interest rate for funds borrowed denominated in USD is 1.03% (31 December 2016 – 0.56%), in EUR is 2.14% (31 December 2016 – 1.02%) and in TL is 13.03% (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 30 September 2017 (31 December 2016 – None).

13. Debt securities issued

The Group has issued bonds on July 6, 2017 with a nominal value of TL 50,300, interest rate of 13.80% and 175 days maturity; on June 19, 2017 with a nominal value of TL 51,700, interest rate of 13.80%, 176 days maturity; on July 12, 2017 with a nominal value of TL 92,350, interest rate 13.95% and 175 days maturity; on July 21, 2017 with a nominal value of TL 74,850 , interest rate 13.95% and 175 days maturity; on August 7, 2017 with a nominal value of TL 59,958 , interest rate 14.00% and 172 days maturity; on May 17, 2017 with a nominal value of TL 122,000, interest rate of 13,90% and 176 days maturity; on November 29, 2016 with a nominal value of TL 37,500,interest rate 13.55% and 911 days maturity discounted bond; on November 29, 2016 with a nominal value of TL 3,000,interest rate 13.55% and 911 days maturity discounted bond, on November 29, 2016 with a nominal value of TL 42,750,interest rate 13.80% and 1095 days maturity discounted bond; on June 1, 2017 with a nominal value of TL 94,944, interest rate of 13.90% and 175 days maturity bond; on August 24, 2017 with a nominal value TL 52,300 interest rate 14,15% and 176 days maturity bond and on September 2, 2016, with nominal value TL 3,000, interest rate 11.75% and 483 days maturity discounted bond.

	30 September 2017			31 December 2016		
	TL	**Foreign currency**	**Total**	**TL**	**Foreign currency**	**Total**
Bonds	695,536	-	695,536	525,853	-	525,853
	695,536	**-**	**695,536**	**525,853**	**-**	**525,853**

(Currency - In thousands of Turkish Lira)

14. Subordinated debts

	30 September 2017			31 December 2016		
	TL	**Foreign currency**	**Total**	**TL**	**Foreign currency**	**Total**
Bonds (*)	-	53,031	53,031	-	53,364	53,364
	-	**53,031**	**53,031**	**-**	**53,364**	**53,364**

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

15. Other liabilities

	30 September 2017	**31 December 2016**
Cash collaterals (*)	381,057	210,109
Taxes and funds payable	1,603	2,381
Others	11,666	11,610
	394,326	**224,100**

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

16. Provisions

	30 September 2017	**31 December 2016**
Provision for non -cash loans	908	906
Employee termination benefits	890	693
Bonus accrual	750	46
Unused vacation accrual	720	660
Provision for lawsuits	173	407
	3,441	**2,712**

17. Taxation

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

In Turkey, corporate tax rate is 20%. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts which are calculated and paid are offset against the final corporate tax liability for the year.

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

(Currency - In thousands of Turkish Lira)

Income tax recognised in the income statement

The components of income tax expense as stated below:

	30 September 2017	30 September 2016
Current tax		
Current income tax	(8,102)	(7,920)
Deferred income / (expense) tax		
Relating to origination and reversal of temporary differences	(396)	2,897
Income tax expense reported in the income statement	**(8,498)**	**(5,023)**

Reconciliation of effective tax rate

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate for the years ended 30 September 2017 and 30 September 2016 is as follows:

	30 September 2017	30 September 2016
Profit before income tax	46,032	31,052
Income tax using the domestic corporate tax rate 20%	(9,206)	(6,210)
Other	708	1,187
Total income tax expense in the profit or loss	**(8,498)**	**(5,023)**

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

	30 September 2017	30 September 2016
Deferred tax assets / (liability), net at 1 January	3,082	(4,119)
Deferred tax recognised in the profit or loss	(396)	2,897
Deferred income tax recognised in other comprehensive income	(866)	47
Deferred tax assets/(liabilities), net at end of September	**(1,820)**	**(1,175)**

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	30 September 2017			**31 December 2016**		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Liability for employee benefits	472	-	472	271	-	271
Valuation of available for sale financial assets	866	-	866	68	-	68
Economic life property and equipment	-	(134)	(134)	-	(136)	(136)
Derivatives	341	-	341	2,022	-	2,022
Other	275	-	275	1,261	(404)	857
	1,954	**(134)**	**(1,820)**	**3,622**	**(540)**	**3,082**

(Currency - In thousands of Turkish Lira)

18. Commitments and contingencies

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

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

As at 30 September 2017; commitments and contingencies comprised the following:

	30 September 2017	**31 December 2016**
Letters of guarantee	506,890	469,152
Bank acceptance	2,997	65,105
Letters of credit	36,153	8,519
Other commitments	273	249
Total	**546,313**	**543,025**

19. Share capital and reserves

Share capital

As at 30 September 2017 and 31 December 2016, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	30 September 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 30 September 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.

(Currency - In thousands of Turkish Lira)

20. Net interest income

	30 September 2017	30 September 2016
Interest income		
Loans and advances to customers	125,360	93,438
Deposits with banks and other financial institutions	3,389	1,269
Held for trading and available for sale investments	6,625	1,847
Financial leases	-	26
Other	466	310
	135,840	**96,890**
Interest expense		
Funds borrowed	8,532	4,200
Debt securities issued	56,437	34,750
Interbank funds borrowed	1,145	1,473
Other	391	-
	66,505	**40,423**
Net interest income	**69,335**	**56,467**

21. Net fee and commission income

	30 September 2017	30 September 2016
Fee and commission income		
Non-cash loans	5,919	3,64
Other (*)	15,432	8,406
Total fee and commission income	**21,351**	**12,046**

(*) 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	571	511
Other	11,341	2,283
Total fee and commission expense	**11,912**	**2,794**
Net fee and commission income	**9,439**	**9,252**

22. Net trading income/loss

	30 September 2017	30 September 2017
Gain / (loss) on foreign exchange rate fluctuations	4,534	1,523
Gain / (loss) from securities	(67)	1,121
Gain / (loss) on derivatives	(14,016)	(24,636)
Total	**(9,549)**	**(21,992)**

(Currency - In thousands of Turkish Lira)

23. Other operating income

	30 September 2017	30 September 2016
Gain on Increase in purchase right(*)	6,931	-
Reversal of provision	108	273
Fair value gain on investment properties	-	6,964
Other	894	947
	7,933	**8,184**

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

24. Personnel expenses

	30 September 2017	30 September 2016
Wages and salaries	7,793	6,703
Compulsory social security obligations	741	604
Other benefits	604	439
Total	**9,138**	**7,746**

25. Administrative expenses

	30 September 2017	30 September 2016
Nurol Holding re-charges	5,425	3,092
Audit and advisory expenses	1,821	546
Rent expenses	1,057	721
Taxes and duties expenses	822	733
Telecommunication expenses	770	490
Computer expenses	695	556
Hosting expenses	602	181
Notary Expenses	521	-
Maintenance expenses	190	136
Transportation expenses	121	95
Advertising expenses	95	6
Other various administrative expenses	413	1,282
Total	**12,532**	**7,838**

26. Financial risk management objectives and policies

a) Introduction and overview

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

- credit risk
- market risks

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

Risk management framework

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

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

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

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

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

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

(Currency - In thousands of Turkish Lira)

26. Financial risk management objectives and policies (continued)

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

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

b) Credit risk

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

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

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

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

Credit risk by risk groups

	Individual	Corporate	Leasing	Total
30 September 2017				
Performing loans	140	1,280,887	-	1,281,027
Factoring loans	-	-	-	-
Loans under close monitoring	-	9,141	-	9,141
Non-performing loans	-	3,223	-	3,223
Gross	**140**	**1,293,251**	**-**	**1,293,391**
Transferred asset	-	6,655	-	6,655
Reserve for possible loan losses	-	(3,223)	-	(3,223)
Collective impairment	-	(9,700)	-	(9,700)
Total	**140**	**1,286,983**	**-**	**1,287,123**
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)

26. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Exposure to credit risk

		Due from banks		**Loans and advances to customers**	
	Notes	**30 September 2017**	**31 December 2016**	**30 September 2017**	**31 December 2016**
Carrying amount		**30,227**	**136,000**	**1,287,123**	**777,401**
Individually impaired					
- Non-performing financial assets		-	-	3,223	28
Gross amount		**-**	**-**	**3,223**	**28**
Reserve for possible loan losses	*9*	-	-	(3,223)	(28)
Collective impairment		-	-	(9,700)	(5,829)
Carrying amount		**-**	**-**	**(9,700)**	**(5,829)**
Past due but not impaired		-	-	-	-
Carrying amount		**-**	**-**	**-**	**-**
Neither past due nor impaired		30,227	136,000	1,239,514	729,466
Carrying amount		**30,227**	**136,000**	**1,239,514**	**729,466**
Restructured and rescheduled loans and other receivables		-	-	57,309	53,764
Carrying amount		**-**	**-**	**57,309**	**53,764**
Carrying amount (amortised cost)		**30,227**	**136,000**	**1,287,123**	**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.

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.

(Currency - In thousands of Turkish Lira)

26. Financial risk management objectives and policies (continued)

b) Credit risk (continued)

Exposure to credit risk (continued)

Write-off policy

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

Collateral policy

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

Cash loans	**30 September 2017**	**31 December 2016**
Secured cash loans	1,091,590	744,178
Secured by cash collateral	*90,802*	*50,999*
3rd party guarantees	*288,096*	*313,617*
Secured by mortgages	*247,029*	*100,650*
Secured by customer cheques & acts	*207,316*	*8,653*
Vehicle pledge	*68,836*	*73,621*
Marketable securities	*94,920*	*115,500*
Assignment of receivables	*94,591*	*81,138*
Non-secured cash loans	171,739	17,905
Accrued interest income on loans	23,794	15,318
Total performing cash loans	**1,287,123**	**777,401**

Non-cash loans[(1)]	**30 September 2017**	**31 December 2016**
Secured non-cash loans	297,792	248,041
Personal guarantees	*257,850*	*248,027*
Secured by cash collateral	*350*	*14*
Assignment of receivables	*853*	-
Secured by mortgages	*3,228*	-
Vehicle pledge	*35,521*	-
Non-secured non cash loans	209,098	221,111
Total non-cash loans	**506,890**	**469,152**

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

Fair value through profit or loss (FVTPL)

At 30 September 2017, the Bank has financial assets at FVTPL amounting to TL 9,345 (31 December 2016 – TL 2,593). An analysis of the credit quality of the maximum credit exposure is as follows:

	30 September 2017	**31 December 2016**
Derivatives	9,345	2,593
Fair value and carrying amount	**9,345**	**2,593**

(Currency - In thousands of Turkish Lira)

26. Financial risk management objectives and policies (continued)

c) Capital management

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

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

- Tier 1 capital, capital is composed of the total amount of paid up capital, legal, voluntary and extra reserves, profits for the period after tax provisions and profits for previous years. The total amount of banks' losses for the period and losses for previous years is taken into account as a deduction item, in the calculation of Tier 1 capital.
- Tier 2 capital, is composed of the total amount of general provisions for credits, fixed assets revaluation fund, revaluation of 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 the Group's regulated operations have complied with externally imposed capital requirements throughout the period.

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

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

	30 September 2017	31 December 2016
Amount subject to credit risk (I)	1,578,228	1,171,858
Amount subject to market risk (II)	66,835	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)	**1,746,066**	**1,286,145**
Shareholders' equity:		
Tier 1 capital	203,634	155,851
Tier 2 capital	69,015	67,148
Total regulatory capital	**272,649**	**222,999**
Capital adequacy ratio	**15.62%**	**17.34%**

(Currency - In thousands of Turkish Lira)

26. Financial risk management objectives and policies (continued)

d) Fair values

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

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

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

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

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

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

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

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

30 September 2017	***Note***	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial assets		9,345	-	-	9,345
Available for sale investments	*8*	231,160	-	-	231,160
Derivative financial liabilities		-	(11,050)	-	(11,050)
		240,505	**(11,050)**	**-**	**229,455**

31 December 2016	***Note***	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative financial assets		2,593	-	-	2,593
Available for sale investments	*8*	45,514	-	-	45,514
Derivative financial liabilities		-	(12,703)	-	(12,703)
		48,107	**(12,703)**	**-**	**35,404**

(Currency - In thousands of Turkish Lira)

26. Financial risk management objectives and policies (continued)

e) Market risk

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

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

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

Currency risk

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

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

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

	USD	Euro	Others	Total
2017				
Assets				
Cash and cash equivalents	4,795	24,536	669	30,000
Reserve deposits at Central Bank	22,174	34,389	-	59,563
Loans and advances to customers	189,146	236,838	-	455,984
Available for sale investments	191,707	-	-	191,707
Other assets	124,806	13	-	124,819
Total assets	**532,628**	**328,776**	**669**	**862,073**
Liabilities				
Funds borrowed	240,431	235,988	5,228	481,647
Subordinated debts	53,031	-	-	53,031
Other liabilities	26,887	358,160	23	385,060
Total liabilities	**320,339**	**594,148**	**5,251**	**919,738**
Gross exposure	**212,289**	**(265,372)**	**(4,582)**	**(57,665)**
Off-balance sheet position				
Net notional amount of derivatives	(205,007)	266,096	4,748	(65,837)
Net exposure	**7,282**	**724**	**166**	**8,172**

(Currency - In thousands of Turkish Lira)

26. Financial risk management objectives and policies (continued)

e) 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**

Interest rate risk

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

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

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

(Currency - In thousands of Turkish Lira)

26. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Interest rate risk (continued)

The following table indicates the periods in which financial assets and liabilities reprice as of 30 September 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 30 September 2017							
Assets							
Cash and cash equivalents	11,730	-	419	-	-	18,270	30,419
Reserve deposits at Central Bank	59,563	-	-	-	-	128,213	187,776
FVTPL investments	5,261	3,147	937	-	-	-	9,345
Available for sale investments	3,868	189,880	2,694	-	-	34,718	231,160
Loans and advances to customers	508,187	130,047	334,604	246,127	68,158	-	1,287,123
Other assets	-	-	-	-	-	151,294	151,294
Total assets	**588,609**	**323,074**	**338,654**	**246,127**	**68,158**	**332,495**	**1,897,117**
Liabilities							
Funds borrowed	168,891	48,314	122,212	-	17,791	165,905	523,113
Debt securities issued (1)	315,055	257,034	66,680	-	17,795	92,003	748,567
Other liabilities(2)	149,262	73,598	14,847	2,678	-	385,052	625,437
Total liabilities	**633,208**	**378,946**	**203,739**	**2,678**	**35,586**	**642,960**	**1,897,117**
On balance sheet interest sensitivity gap	(44,599)	(55,872)	134,915	243,449	32,572	310,465	-
Off balance sheet interest sensitivity gap							
Total interest sensitivity gap	**(44,599)**	**(55,872)**	**134,915**	**243,449**	**32.572**	**(310,465)**	**-**

(1) Includes subordinated debts amounting to TL 53,031 in 1-5 years line.

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

	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(1)	129,892	227,406	143,180	61,133	-	-	561,611
Other liabilities(2)	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	17,233	-
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Total interest sensitivity gap	**(17,961)**	**(356,736)**	**21,037**	**324,318**	**12,109**	**17,233**	**-**

(1) Includes subordinated debts amounting to TL 53,364 in 1-5 years line.

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

(Currency - In thousands of Turkish Lira)

26. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Interest rate risk (continued)

Summary of average interest rates

As at 30 September 2017 and 31 December 2016, the summary of average interest rates for different assets and liabilities are as follows:

	30 September 2017			31 December 2016		
	Euro	**USD**	**TL**	**Euro**	**USD**	**TL**
Assets						
Cash and balances with the Central Bank	-	-	-	-	-	-
Due from banks	0.05	1.12	11.65	0.03	0.60	9.44
FVTPL investments	-	-	-	-	-	-
Placements at money markets	-	-	-	-	-	10.08
Available for sale financial assets	-	9.71	13.71	-	8.67	13.46
Loans and advances to customers	6.71	9.77	17.82	6.70	9.20	16.55
Other	-	-	-	-	-	-
Liabilities						
Other money market deposits	-	-	-	-	-	-
Funds borrowed	2.66	5.15	13.02	3.39	2.46	10.99
Debt securities issued	-	10.00	12.75	-	10.00	11.89
Funds from other financial institutions	2,78	4.22	11.63	1.02	0.56	9.72

(Currency - In thousands of Turkish Lira)

26. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Liquidity risk

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

Exposure to liquidity risk

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

30 September 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	18,270	11,730	-	419	-	-	-	30,419
Reserve deposits at Central Bank	128,213	59,563	-	-	-	-	-	187,776
FVTPL investments	-	5,261	3,147	937	-	-	-	9,345
Available for sale investments	-	-	2,040	2,694	-	191,708	34,718	231,160
Loans and advances to customers	-	508,187	130,047	334,604	246,127	68,158	-	1,287,123
Other assets	9,687	141,607	-	-	-	-	-	151,294
Total assets	**156,170**	**726,348**	**135,234**	**338,654**	**246,127**	**259,866**	**34,718**	**1,897,117**
Funds borrowed	165,905	168,891	48,314	122,212	-	17,791	-	523,113
Debt securities issued(1)	-	92,003	315,055	221,798	66,680	53,031	-	748,567
Other liabilities(2)	169,140	153,064	73,598	14,847	2,678	-	212.110	625,437
Total liabilities	**335,045**	**413,958**	**436,967**	**358,857**	**69,358**	**70,822**	**212.110**	**1,897,117**
Liquidity gap	**(178,875)**	**312,390**	**(301,733)**	**(20,203)**	**176,769**	**189,044**	**(177,392)**	**-**

(1) Includes subordinated debts amounting to TL 53,031.

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

(Currency - In thousands of Turkish Lira)

26. Financial risk management objectives and policies (continued)

e) Market risk (continued)

Liquidity risk (continued)

31 December 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 at Central Bank	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[(1)]	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)**	**-**

[(1)]Derivative financial instruments are included in other liabilities.

(Currency - In thousands of Turkish Lira)

27. Related parties

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

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

30 September 2017	**Balance**	**Percentage of the financial statement amount (%)**
Cash loans	-	-
Non-cash loans	17,423	3%
Funds borrowed / Current accounts of loan customers	47,668	9%

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

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

30 September 2016	**Balance**	**Percentage of the financial statement amount (%)**
Interest income and commissions	11,898	12%
Interest expense	-	-
Other operating expense (-)	2,985	19%

As at 30 September 2017, no provisions have been recognised in respect of loans given to related parties (30 September 2016 – none).

Compensation of key management personnel of the Bank

The executive and non-executive member of Board of Directors and management received remuneration and fees amounted to TL 4,440 comprising salaries and other benefits for the period 1 January-30 September 2017 (1 January -30 September 2016: TL 4,089).

28. Events after balance sheet date

None.