Anadolubank Anonim Şirketi
And Its Subsidiaries

Condensed Consolidated Interim Financial Statements
For the six-month period ended 30 June 2018
With Independent Auditors' Review Report Thereon

26 October 2018

This report contains the "Independent Auditors' Report on Review of Condensed Consolidated Interim Financial Statements" comprising 2 pages and; the "Condensed consolidated interim financial statements and their explanatory notes" comprising 31 pages.

Anadolubank Anonim Şirketi and Its Subsidiaries

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Independent Auditors' Report on Review of Condensed Consolidated Interim Financial Statements

To the Board of Directors of Anadolubank Anonim Şirketi:

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Anadolubank Anonim Şirketi (the "Bank") and its subsidiaries (the "Group") as at 30 June 2018, the condensed consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the interim financial statements ("the condensed consolidated interim financial statements"). Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements 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 and consequently 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 condensed consolidated interim financial statements as at and for the six months ended 30 June 2018 are not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of KPMG International Cooperative

Alper Güvenç
Partner

26 October 2018
İstanbul, Turkey

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

(Amounts are expressed in thousand of Turkish Lira ("TRY") unless otherwise indicated.)

	Notes	**Reviewed 30 June 2018**	**Audited 31 December 2017**
ASSETS			
Cash on hand		99,579	59,818
Balances with central bank		432,273	511,426
Reserve deposits at central bank		1,450,680	1,310,653
Loans and advances to banks and other financial institutions		1,109,175	1,043,943
Money market placements		136,716	109,295
Financial assets at fair value through profit or loss	*9*	56,376	
Trading assets	*9*		110,372
Derivative financial assets	*10*	40,930	28,871
Investment securities	*11*	1,214,323	1,236,588
Financial assets at fair value through other comprehensive income		*670,008*	
Financial assets measured at amortized cost		*544,315*	
Available for sale			*1,236,588*
Loans and receivables	*12*	13,304,946	13,077,390
Property and equipment		215,357	219,035
Intangible assets		8,596	8,015
Deferred tax assets		46,149	25,403
Other assets		621,177	409,427
Total assets		**18,736,277**	**18,150,236**
LIABILITIES			
Deposits from banks		406,797	366,325
Deposits from customers		13,446,444	12,980,125
Obligations under repurchase agreements		771,216	827,036
Interbank money market borrowings		207,199	393,731
Funds borrowed	*13*	1,015,294	801,662
Derivative financial liabilities	*10*	17,603	23,420
Current tax liabilities		5,214	22,845
Deferred tax liabilities		-	2,434
Other liabilities and provisions		664,101	564,657
Total liabilities		**16,533,868**	**15,982,235**
EQUITY			
Share capital	*14*	602,619	602,619
Legal reserves		81,945	72,757
Other reserves		60,137	66,010
Translation reserve		237,341	194,666
Fair value reserve		(54,111)	(9,346)
Retained earnings		1,271,268	1,238,484
Total equity attributable to equity holders of the Bank		**2,199,199**	**2,165,190**
Non-controlling interests		**3,210**	**2,811**
Total equity		**2,202,409**	**2,168,001**
Total liabilities and equity		**18,736,277**	**18,150,236**

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

(Amounts are expressed in thousand of Turkish Lira ("TRY") unless otherwise indicated.)

	Notes	**Reviewed 30 June 2018**	**Not reviewed 30 June 2017**
Continuing operations:			
Interest income:			
Interest on loans and receivables		961,801	645,129
Interest on marketable securities		32,374	35,588
Interest on loans and advances to banks and other financial institutions		19,226	9,899
Interest on other money market placements		3,499	8,399
Other interest income		49,453	31,270
Total interest income		**1,066,353**	**730,285**
Interest expenses:			
Interest on deposits		(634,981)	(393,340)
Interest on other money market deposits		(10,889)	(16,976)
Interest on funds borrowed		(31,052)	(22,541)
Other interest expenses		(1,147)	(1,905)
Total interest expenses		**(678,069)**	**(434,762)**
Net interest income		**388,284**	**295,523**
Fee and commission income		105,182	79,885
Fee and commission expenses		(10,608)	(10,099)
Net fee and commission income		**94,574**	**69,786**
Trading (expense)/income from marketable securities		(706)	3,773
Trading gains/(losses) from derivatives, net		11,637	(59,018)
Foreign exchange (loss)/gain, net		(34,287)	32,077
Other income		20,866	7,966
Revenue		**480,368**	**350,107**
Salaries and employee benefits		(139,897)	(123,008)
Provision for possible loan losses, net of recoveries	*12*	(41,898)	(56,388)
Depreciation and amortisation		(6,219)	(6,017)
Taxes other than on income		(12,311)	8,321
Other expenses		(46,568)	(70,236)
Profit before tax		**233,475**	**102,779**
Income tax expense		(50,972)	(21,215)
Profit for the year		**182,503**	**81,564**
Profit for the year attributable to:			
Equity holders of the Bank		182,104	81,468
Non-controlling interests		399	96
Profit for the year		**182,503**	**81,564**
Basic earnings per share from continuing operations (full TL)		0.003035	0.001358

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amounts are expressed in thousand of Turkish Lira ("TRY") unless otherwise indicated.)

	Notes	**Reviewed 30 June 2018**	**Not reviewed 30 June 2017**
Profit for the year		**182,503**	**81,564**
Other comprehensive income:			
Foreign currency translation differences for foreign operations		73,043	25,156
Tangible asset revaluation, net of tax		-	47,734
Fair value reserves, net of tax		(44,765)	37,807
Other comprehensive income for the year, net of tax		**28,278**	**110,697**
Total comprehensive income for the year		**210,781**	**192,261**
Total comprehensive income attributable to:			
Equity holders of the Bank		210,382	192,165
Non-controlling interests		399	96
Total comprehensive income for the year		**210,781**	**192,261**

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

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

(Amounts are expressed in thousand of Turkish Lira ("TRY") unless otherwise indicated.)

	Notes	Attributable to equity holders of the Bank								
		Share capital	Legal reserves	Other reserves	Translation reserve	Fair value reserve	Retained earnings	Total	Non-controlling interests	Total
Balances at 31 December 2016		**602,619**	**63,168**	**(6,065)**	**125,435**	**(41,616)**	**1,052,473**	**1,796,014**	**2,341**	**1,798,355**
Net profit for the year		**-**	**-**	**-**	**-**	**-**	**81,468**	**81,468**	**96**	**81,564**
Total other comprehensive income		**-**	**-**	**47,734**	**25,156**	**37,807**	**-**	**110,697**	**-**	**110,697**
Other comprehensive income		-	-	47,734	-	37,807	-	85,541	-	85,541
Currency translation adjustments		-	-	-	25,156	-	-	25,156	-	25,156
Total comprehensive income for the year		**-**	**-**	**47,734**	**25,156**	**37,807**	**81,468**	**192,165**	**96**	**192,261**
Transactions with owners of the Bank		**-**	**9,589**	**(60)**	**-**	**-**	**(9,589)**	**(60)**	**-**	**(60)**
Transfers to other reserves		-	9,589	(60)	-	-	(9,589)	(60)	-	(60)
Balances at 30 June 2017		**602,619**	**72,757**	**41,609**	**150,591**	**(3,809)**	**1,124,352**	**1,988,119**	**2,437**	**1,990,556**

	Notes	Attributable to equity holders of the Bank								
		Share capital	Legal reserves	Other reserves	Translation reserve	Fair value reserve	Retained earnings	Total	Non-controlling interests	Total
Balances at 31 December 2017		**602,619**	**72,757**	**66,010**	**194,666**	**(9,346)**	**1,238,484**	**2,165,190**	**2,811**	**2,168,001**
Adjustment on initial application of IFRS 9 (net of tax)	*4*	-	-	-	-	-	(140,132)	(140,132)	-	(140,132)
Adjusted balance at 1 January 2018		**602,619**	**72,757**	**66,010**	**194,666**	**(9,346)**	**1,098,352**	**2,025,058**	**2,811**	**2,027,869**
Net profit for the year		**-**	**-**	**-**	**-**	**-**	**182,104**	**182,104**	**399**	**182,503**
Total other comprehensive income		**-**	**-**	**-**	**73,043**	**(44,765)**	**-**	**28,278**	**-**	**28,278**
Other comprehensive income		-	-	-	-	(44,765)	-	(44,765)	-	(44,765)
Currency translation adjustments		-	-	-	73,043	-	-	73,043	-	73,043
Total comprehensive income for the year		**-**	**-**	**-**	**73,043**	**(44,765)**	**182,104**	**210,382**	**399**	**210,781**
Transactions with owners of the Bank		**-**	**9,188**	**(5,873)**	**(30,368)**	**-**	**(9,188)**	**(36,241)**	**-**	**(36,241)**
Transfers to other reserves		-	9,188	(5,873)	(30,368)	-	(9,188)	(36,241)	-	(36,241)
Balances at 30 June 2018		**602,619**	**81,945**	**60,137**	**237,341**	**(54,111)**	**1,271,268**	**2,199,199**	**3,210**	**2,202,409**

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Amounts are expressed in thousand of Turkish Lira ("TL") unless otherwise indicated.)

	Notes	Reviewed 1 January- 30 June 2018	Not reviewed 1 January- 30 June 2017
Cash flows from operating activities:			
Profit for the year		182,503	81,564
Adjustments for:			
Taxation		50,972	21,215
Provision for loan losses	*12*	41,898	56,388
Depreciation and amortisation		6,219	6,017
Provision for retirement pay liability		7,682	1,563
Unused vacation accruals		1,815	1,691
Derivative financial instruments		(17,876)	(5,252)
Currency translation differences		59,406	25,156
Net interest income		(388,284)	(295,523)
Other		(364,828)	39,933
Operating profit before changes in operating assets/liabilities:		**(420,493)**	**(67,248)**
Reserve deposits at the Central Bank		(100,635)	570,144
Financial assets at fair value through profit or loss		53,842	(40,294)
Loans and receivables		(305,548)	(1,805,083)
Change in funds borrowed (net)		210,133	(5,038)
Other assets		(140,982)	33,147
Deposits from other banks and customers		507,664	642,637
Other liabilities and provisions		(251,376)	290,134
		(447,395)	**(381,601)**
Interest paid		(675,740)	(428,269)
Interest received		939,634	737,207
Retirement benefits paid		(3,014)	(584)
Income taxes paid		(64,182)	(43,017)
Cash provided by operating activities		**(250,697)**	**(116,264)**
Cash flows from investing activities			
Acquisition of investment securities measured at amortised cost	*11*	(45,403)	
Proceeds from investment securities measured at amortised cost		6,860	
Acquisition of property and equipment		(1,389)	(1,271)
Proceeds from sale of property and equipment		5,470	196
Acquisition of intangible assets		(1,981)	(2,176)
Acquisitions of financial assets at fair value through other comprehensive income		(8,494)	
Acquisitions of available-for-sale investment securities			(115,884)
Proceeds from financial assets at fair value through other comprehensive income	*11*	181,598	
Proceeds from sale of available-for-sale investment securities			169,592
Other		112	2,100
Cash used in investing activities		**136,773**	**52,557**
Cash flows from financing activities			
Effect of exchange rate fluctuations on cash held		125,194	25,263
Net increase/(decrease) in cash and cash equivalents		11,270	(38,444)
Cash and cash equivalents at the beginning of the year		1,669,037	1,564,549
Cash and cash equivalents at the end of the year		**1,680,307**	**1,526,105**

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

1. Overview of the Bank

Anadolubank Anonim Şirketi (the "Bank"), has commenced its operations on 25 September 1997 in Turkey under the Turkish Banking and Commercial Codes pursuant to the permit of Turkish Undersecretariat of Treasury dated 25 August 1997 and numbered 39692. The Bank provides corporate, commercial and retail banking services through a network of 112 (31 December 2017: 112) domestic branches. The address of the headquarters and registered office of the Bank is Saray Mahallesi Toya Sokak No 3, 34768 Ümraniye/İstanbul-Turkey. The ultimate parent of the Bank is Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ.

The Bank has three consolidating subsidiaries which are Anadolu Yatırım Menkul Kıymetler A.Ş. ("Anadolu Yatırım"), Anadolu Faktoring A.Ş. ("Anadolu Faktoring"), and Anadolubank Nederland N.V. ("Anadolubank Nederland").

The Bank has 91.90% ownership in Anadolu Yatırım, a brokerage and investment company, located in İstanbul. Anadolu Yatırım was established on 21 September 1998 and mainly involved in trading of and investing in securities, stocks, treasury bills and government bonds provided from capital markets; the management of mutual funds and performing intermediary services.

The Bank has acquired 99.99% of Anadolu Faktoring from Habaş Petrol Ürünleri Sanayi ve Ticaret A.Ş. (which is a related party) on 27 October 2008. Anadolu Faktoring was established in Istanbul on 20 March 2007 by obtaining the factoring license which is required to operate in the factoring sector.

The Bank has 100.00% ownership in Anadolubank Nederland, located in Amsterdam – the Netherlands. The Bank engages in banking operations in the Netherlands.

For the purposes of the condensed consolidated financial statements, the Bank and its consolidated subsidiaries are referred to as "the Group".

2. Statement of compliance

The Bank and its subsidiaries located in Turkey maintain their books of account and prepare their statutory financial statements in Turkish Lira ("TL") in accordance with the accounting practices as promulgated by the Banking Regulation and Supervision Agency ("BRSA"), regulations promulgated by the Capital Markets Board of Turkey, the Turkish Commercial Code and also Turkish Tax Legislation. The Bank's subsidiaries located outside of Turkey maintain their books of account and prepare their statutory financial statements in USD and in EUR in accordance with the regulations of the countries in which they operate.

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting".

The condensed consolidated interim financial statements are authorized for issue by the directors on 26 October 2018.

3. Basis of preparation

These condensed consolidated interim financial statements are presented in Turkish Lira ("TL"), which is the Bank's functional currency. Except as otherwise indicated, financial statements presented in TL has been rounded to the nearest thousand.

4. Significant accounting policies

Except as described below, the condensed consolidated interim financial statements as of 30 June 2018 have been prepared in accordance with IAS 34 Interim Financial Reporting and are in compliance with the accounting policies used to prepare the financial statements as of 31 December 2017. Therefore the condensed consolidated financial statements should be read in conjunction with the financial statements of the Group for the year ended 31 December 2017.

Except as described below, the accounting policies set out below have been applied consistently to all periods presented in these consolidated interim financial statements, and have been applied consistently by Group entities. The following changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ended 31 December 2018.

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

Changes in accounting policies

The Group has initially adopted IFRS 9 "*Financial Instruments" and* IFRS 15 "*Revenue from Contracts with Customers"* from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments "Recognition and Measurement".

i. Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments (for derivatives that are used as hedging instruments).

The impact of IFRS 9 on the classification and measurement of financial assets is set out below:

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

4. Significant accounting policies (continued)

Changes in accounting policies (continued)

IFRS 9 Financial Instruments (continued)

i. Classification and measurement of financial assets and financial liabilities (continued)

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses,including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

4. Significant accounting policies (continued)

Changes in accounting policies (continued)

IFRS 9 Financial Instruments (continued)

ii. Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with an expected credit loss ("ECL") model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The financial assets at amortised cost consist of cash and cash equivalents, loans and investment securities.

Under IFRS 9, loss allowances are measured on either of the following bases:

-12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and

-lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Expected credit loss calculation:

The Group considers forward looking and macro economy adjusted PD, LGD and EAD components in the estimation of expected credit loss from a financial asset. Expected credit loss is calculated under three different scenarios with different macroeconomic expectations and final outcome is a weighted average of the calculations.

Expected credit loss is calculated through three stages as described below;

Stage 1: 12 month expected credit loss is calculated for financial assets in stage 1. 12 month expected credit loss represents the expected credit loss that results from default events on a financial instrument that are possible within the 12 months after the reporting date

Stage 2: There is a significant increase in credit risk for a financial assets in stage 2 since their origination and lifetime expected credit loss is calculated for stage 2.

Stage 3: Financial assets considered as impaired are in stage 3. Lifetime expected credit loss is calculated for stage 3.

Probability of default, exposure at default and loss given default models:

Internal Probability of Default ("PD") models consider financial standing and demographical, internal-external behavioral data of customers. The Bank adopts different PD models for customers with different characteristics. Loss Given Default ("LGD") models are segment level models and represent time value of money by calculating present value of all future cash flows by using the effective interest rate. Bank uses future cash flows and behavioral data in estimating exposure at default.

Transfer Logic:

The Bank uses quantitative and qualitative methods in identifying significant increase in credit risk. Change in probability of default value is the main driver of increase in credit risk. The Bank also classifies loans in watchlist or any 30+ days passed due loans in stage 2.

Individual assessment

For financial assets above a threshold in stage 3, the Bank conducts individual assessments client by client in calculation of expected credit loss. The Bank has proper documentation of the calculations and the methodology for individual assessment.

(Amounts are expressed in thousand of Turkish Lira ("TL") unless otherwise indicated.)

4. Significant accounting policies (continued)

Changes in accounting policies (continued)

IFRS 9 Financial Instruments (continued)

The following table set out the impact of adopting IFRS 9 on the statement of financial position and equity:

ASSETS	**31 December 2017**	**IFRS 9 Reclassification effect**	**IFRS 9 Measurement effect**	**1 January 2018**
Cash and cash equivalents	59,818	-	-	59,818
Balances with central bank	511,426	-	-	511,426
Reserve deposits at central bank	1,310,653	-	-	1,310,653
Loans and advances to banks and other financial institutions	1,043,943	-	-	1,043,943
Expected credit losses on loans and advances to banks and other financial institutions		(696)	(1,057)	(1,753)
Money market placements	109,295	-	-	109,295
Trading assets	110,372	(110,372)	-	-
Financial assets at fair value through profit or loss		110,372	-	110,372
Derivative financial assets	28,871	-	-	28,871
Investment securities	1,236,588	-	-	1,236,588
Available for sale	*1,236,588*	*(1,236,588)*	-	-
Financial assets at fair value through other comprehensive income	-	*769,295*	-	*769,295*
Financial assets measured at amortised cost	-	*467,293*	-	*467,293*
Loans and receivables	13,318,545	-	-	13,318,545
Provision for possible loan losses	(241,155)	241,155	-	-
Expected credit losses on loans		(241,155)	(174,828)	(415,983)
Property and equipment	219,035	-	-	219,035
Intangible assets	8,015	-	-	8,015
Deferred tax assets	25,403	-	42,267	67,670
Other assets	409,427	-	-	409,427
Total assets	**18,150,236**	**(696)**	**(133,618)**	**18,015,922**
LIABILITIES				
Deposits from banks	366,325	-	-	366,325
Deposits from customers	12,980,125	-	-	12,980,125
Obligations under repurchase agreements	827,036	-	-	827,036
Interbank money market borrowings	393,731	-	-	393,731
Funds borrowed	801,662	-	-	801,662
Derivative financial liabilities	23,420	-	-	23,420
Current tax liabilities	22,845	-	-	22,845
Deferred tax liabilities	2,434	-	-	2,434
Other liabilities and provisions	564,657	(696)	6,514	570,475
Total liabilities	**15,982,235**	**(696)**	**6,514**	**15,988,053**
EQUITY				
Share capital	602,619	-	-	602,619
Legal reserves	72,757	-	-	72,757
Other reserves	66,010	-	-	66,010
Translation reserve	194,666	-	-	194,666
Fair value reserve	(9,346)	-	-	(9,346)
Retained earnings	1,238,484	-	(140,132)	1,098,352
Total equity attributable to equity holders of the Bank	**2,165,190**	**-**	**(140,132)**	**2,025,058**
Non-controlling interests	**2,811**	**-**	**-**	**2,811**
Total equity	**2,168,001**	**-**	**(140,132)**	**2,027,869**
Total liabilities and equity	**18,150,236**	**(696)**	**(133,618)**	**18,015,922**

4. Significant accounting policies (continued)

Changes in accounting policies (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 "Revenue from Contracts with Customers" is effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

Standards and interpretations issued but not yet effective

Standards issued but not yet effective and not early adopted

New standards, interpretations and amendments to existing standards are not effective at reporting date and earlier application is permitted; however the Group has not early adopted are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, after the new standards and interpretations become in effect.

IFRS 16 Leases

On 13 January 2016, IASB issued the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently changes to IAS 40 *Investment Properties*. IFRS 16 *Leases* eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice. IFRS 16 is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15 Revenue from Contracts with Customers. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16.

IFRIC 23 –Uncertainty over Income Tax Treatments

On 17 June 2017, IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to specify how to reflect uncertainty in accounting for income taxes. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. IFRIC 23 is effective from 1 January 2019, with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRIC 23.

4. Significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

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

IFRS 17 –Insurance Contracts

On 18 May 2017, IASB issued IFRS 17 Insurance Contracts. This first truly globally accepted standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing more useful information to users of financial statements. IFRS 17 has an effective date of 1 January 2021 but companies can apply it earlier.

The Group does not expect that application of IFRS 17 will have significant impact on its consolidated financial statements.

The revised Conceptual Framework

The revised Conceptual Framework issued on 28 March 2018 by the IASB. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the Board in developing IFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The Conceptual Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards. The revised Framework is more comprehensive than the old one – its aim is to provide the Board with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures. For companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction, the revised Conceptual Framework is effective for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.

Annual Improvements to IFRSs 2015-2017 Cycle

Improvements to IFRSs

IASB issued Annual Improvements to IFRSs - 2015–2017 Cycle for applicable standards. The amendments are effective as of 1 January 2019. Earlier application is permitted. The Group does not expect that application of these improvements to IFRSs will have significant impact on its consolidated financial statements.

IFRS 3 Business Combinations and *IFRS 11 Joint Arrangements*

IFRS 3 and IFRS 11 are amended to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value. If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.

IAS 12 Income Taxes

IAS 12 is amended to clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income (OCI) or equity.

IAS 23 Borrowing Costs

IAS 23 is amended to clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool.

4. Significant accounting policies (continued)

Standards and interpretations issued but not yet effective (continued)

Annual Improvements to IFRSs 2015-2017 Cycle (continued)

Amendments to IAS 28- Long-term Interests in Associates and Joint Ventures

On 12 October 2017, IASB has issued amendments to IAS 28 to clarify that entities also apply IFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. An entity applies IFRS 9 to such long-term interests before it applies related paragraphs of IAS 28. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 28.

Amendments to IFRS 9 - Prepayment Features With Negative Compensation

On 12 October 2017, IASB has issued amendments to IFRS 9 to clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income ("FVOCI") if they meet the other relevant requirements of IFRS 9. Under IFRS 9, a prepayment option in a financial asset meets this criterion if the prepayment amount substantially represents unpaid amounts of principal and interest, which may include "reasonable additional compensation" for early termination of the contract. The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 9.

Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement

On 7 February 2018, IASB issued Plan Amendment, Curtailment or Settlement ("Amendments to IAS 19"). The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs. A company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income ("OCI"). The amendments are effective for periods beginning on or after 1 January 2019, with earlier application permitted.

The Group does not expect that application of these amendments to IAS 19 will have significant impact on its consolidated financial statements.

(Amounts are expressed in thousand of Turkish Lira ("TL") unless otherwise indicated.)

5. Basis of consolidation

Methodology

The accompanying condensed consolidated interim financial statements include the accounts of the Bank and its subsidiaries on the basis set out in section below. The financial statements of the subsidiaries included in the consolidation have been prepared as of the date of the condensed consolidated interim financial statements.

For the purposes of the accompanying condensed consolidated interim financial statements, the subsidiaries are those companies over which the Bank has a controlling power on their operating and financial policies through having more than 50% of the ordinary shares held by the Bank.

The major principles of consolidation are as follows:

- The statements of financial position and comprehensive income are consolidated on a line-by-line basis.
- All intercompany investments, receivables, payables, dividends received and paid and other intercompany transactions reflected in the statements of financial position and comprehensive income are eliminated.
- The results of the subsidiaries are included in or excluded from the consolidation from their effective dates of acquisition or disposal, respectively.
- Non-controlling interests in the equity and net profit of the consolidated subsidiaries are separately classified in the condensed consolidated statements of financial position and comprehensive income.

The assets and liabilities of foreign operations are translated to TL at exchange rates at the reporting date. The income and expenses of foreign operations are translated to TL at exchange rates at average exchange rates. Foreign currency differences are recognised directly in equity as currency translation adjustments.

Subsidiaries

The subsidiaries included in the consolidation and their ownership percentages are as follows:

	Place of Incorporation	**Principal Activities**	**Effective Shareholding and Voting Rights (%)**	
			30 June 2018	**31 December 2017**
Anadolubank Nederland NV	Amsterdam / The Netherlands	Banking	100.00	100.00
Anadolu Yatırım	Istanbul / Turkey	Brokerage	91.90	91.90
Anadolu Faktoring	Istanbul / Turkey	Factoring	99.99	99.99

(Amounts are expressed in thousand of Turkish Lira ("TL") unless otherwise indicated.)

6. Estimates

The preparation of condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2017.

7. Financial risk management

The Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements as at and for the year ended 31 December 2017.

The Group's liquidity risk, interest rate sensitivity risk and currency risk are presented below:

Liquidity risk

In order to avoid the liquidity risk, the Group diversifies funding resources as customer deposits and foreign borrowings, considers the maturity mismatch between assets and liabilities and maintains liquid assets to guarantee sufficient liquidity during market fluctuations.

Residual contractual maturities of monetary liabilities:

30 June 2018	**Carrying amount**	**Gross nominal outflow**	**Demand**	**Less than one month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**More than 5 years**
Deposits from banks	406,797	576,960	17,886	465,954	20,711	72,409	-	-
Deposits from customers	13,446,444	13,488,576	1,440,568	8,467,868	2,800,344	435,898	307,390	36,508
Obligations under repurchase agreements	771,216	991,612	-	426,102	445,023	92,757	27,730	-
Funds borrowed	1,015,294	1,020,056	-	385,738	138,503	352,076	143,739	-
Total	**15,639,751**	**16,077,204**	**1,458,454**	**9,745,662**	**3,404,581**	**953,140**	**478,859**	**36,508**

31 December 2017	**Carrying amount**	**Gross nominal outflow**	**Demand**	**Less than one month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**More than 5 years**
Deposits from banks	366,325	368,585	6,410	-	287,704	74,471	-	-
Deposits from customers	12,980,125	13,493,842	1,256,339	824,293	9,901,080	1,005,668	368,662	137,800
Obligations under repurchase agreements	827,036	882,688	-	297,460	331,473	230,265	23,490	-
Funds borrowed	801,662	805,865	-	312,747	231,386	170,542	91,190	-
Total	**14,975,148**	**15,550,980**	**1,262,749**	**1,434,500**	**10,751,643**	**1,480,946**	**483,342**	**137,800**

(Amounts are expressed in thousand of Turkish Lira ("TL") unless otherwise indicated.)

7. Financial risk management (continued)

Interest rate sensitivity

Interest rate sensitivity of the condensed consolidated statement of comprehensive income is the effect of the assumed changes in interest rates on the fair values of financial assets at fair value through profit or loss on the consolidated net interest income as at and for the six-month period ended 30 June 2018. Floating rate non-trading financial assets and financial liabilities held as at 30 June 2018 are also considered in the calculations. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. This analysis is performed on the same basis for the prior period.

Type of currency	Shocks applied (+/- basis points)	Gains/losses	Gains/equity-Losses/equity(*)
TL	(+) 500 bps	(151,608)	(6.44%)
TL	(-) 400 bps	135,389	5.75%
USD	(+) 200 bps	(8,758)	(0.37%)
USD	(-) 200 bps	9,556	0.41%
EUR	(+) 200 bps	(8,776)	(0.37%)
EUR	(-) 200 bps	(611)	(0.03%)
Total (of negative shocks)		**144,334**	**6.13%**
Total (of positive shocks)		**(169,142)**	**(7.18)%**

(*) Equity effect, includes the effect of changes in interest rates on the statement of comprehensive income.

Type of currency	Shocks applied (+/- basis points)	Gains/losses	Gains/equity-Losses/equity(*)
TL	(+) 500 bps	(233,479)	(13.2%)
TL	(-) 400 bps	212,447	12.0%
USD	(+) 200 bps	(9,661)	(0.5%)
USD	(-) 200 bps	10,295	0.6%
EUR	(+) 200 bps	(21,526)	(1.2%)
EUR	(-) 200 bps	(715)	(0.0%)
Total (of negative shocks)		**222,027**	**12.6%**
Total (of positive shocks)		**(264,666)**	**(15.00%)**

(*) Equity effect, includes the effect of changes in interest rates on the statement of comprehensive income.

Currency risk

Currency risk arises when an entity's equity is under threat as a result of exchange rate fluctuations. Naturally, a bank doing business in multiple currencies would be exposed to currency risk unless these risks are properly hedged. Any sizeable transaction that would be causing currency risk is immediately hedged with a banking counterpart, or else smaller transactions are gathered until they form a sizeable amount for hedging.

Foreign exchange gains and losses arising from foreign currency transactions are recorded at transaction dates. At the end of the periods, foreign currency assets and liabilities evaluated with the Bank's spot purchase rates and the differences are recorded as foreign exchange gain or loss in profit or loss except for foreign exchange gain/loss arising from the conversion of the net investments in subsidiaries in foreign countries into TL.

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limit on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

(Amounts are expressed in thousand of Turkish Lira ("TL") unless otherwise indicated.)

7. Financial risk management (continued)

Currency risk (continued)

The Group's exposure to foreign currency exchange rate risk at 30 June 2018 and 31 December 2017, on the basis of the Group's assets and liabilities at carrying amounts, categorised by currency, is shown in the following table.

As at 30 June 2018	USD	Euro	Other currencies	Total
Assets:				
Cash and balances with the Central Bank	1,129,006	213,135	373,003	1,715,144
Loans and advances to banks and other financial institutions	642,033	410,455	23,879	1,076,367
Money market placements	26,218	107,999	-	134,217
Financial assets at fair value through other comprehensive income	565,683	99,268	-	664,951
Financial assets at fair value through profit or loss	483	880	-	1,363
Financial assets at amortised cost	101,827	209,507	-	311,334
Loans and receivables	1,361,698	1,854,165	43,496	3,259,359
Other assets	26,474	4,757	1,863	33,094
Total assets	**3,853,422**	**2,900,166**	**442,241**	**7,195,829**
Liabilities:				
Deposits from other banks	20,209	68,181	13,254	101,644
Deposits from customers	3,503,510	2,361,697	57,116	5,922,323
Other money market deposits	599,050	223,582	15,646	838,278
Funds borrowed	272,966	374,081	-	647,047
Other liabilities and provisions	35,727	7,444	42	43,213
Total liabilities	**4,431,462**	**3,034,985**	**86,058**	**7,552,505**
Net position on the consolidated statement of financial position	**(578,040)**	**(134,819)**	**356,183**	**(356,676)**
Off-balance sheet position:				
Net notional amount of derivatives	575,039	137,048	(357,617)	354,470
Net position	**(3,001)**	**2,229**	**(1,434)**	**(2,206)**

(Amounts are expressed in thousand of Turkish Lira ("TL") unless otherwise indicated.)

7. Financial risk management (continued)

Currency risk (continued)

As at 31 December 2017	USD	Euro	Other currencies	Total
Assets:				
Cash and balances with the Central Bank	1,009,727	145,809	378,724	1,534,260
Loans and advances to banks and other financial institutions	536,039	430,966	27,037	994,042
Money market placements	10,072	99,223	-	109,295
Available for sale	738,645	274,959	-	1,013,604
Financial assets at fair value through profit or loss	460	347	-	807
Investment securities	-	-	-	-
Loans and receivables	1,290,508	1,958,505	32,290	3,281,303
Other assets	18,248	3,621	1,892	23,761
Total assets	**3,603,699**	**2,913,430**	**439,943**	**6,957,072**
Liabilities:				
Deposits from other banks	94,938	5,475	4	100,417
Deposits from customers	3,388,252	1,969,951	57,755	5,415,958
Other money market deposits	476,127	409,229	45,832	931,188
Funds borrowed	234,202	218,297	-	452,499
Other liabilities and provisions	28,457	10,835	38	39,330
Total liabilities	**4,221,976**	**2,613,787**	**103,629**	**6,939,392**
Net position on the consolidated statement of financial position	**(618,277)**	**299,643**	**336,314**	**17,680**
Off-balance sheet position:				
Net notional amount of derivatives	629,745	(212,032)	(337,995)	79,718
Net position	**11,468**	**87,611**	**(1,681)**	**97,398**

Currency risk sensitivity

A 10 percent devaluation of the TL against the following currencies as at 30 June 2018 would have increased/(decreased) equity and profit or loss (without tax effects) by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for the period ended 30 June 2017. In case of a 10 percent appreciation of the TL against the following currencies, the effect will be in opposite direction.

	30 June 2018		30 June 2017	
	Profit or loss	Equity(*)	Profit or loss	Equity(*)
USD	6,501	(300)	5,992	5,210
EUR	417	223	(2,838)	(1,979)
Other currencies	(143)	(143)	(175)	(175)
Total, net	**6,775**	**(220)**	**2,979**	**3,056**

(*) Equity effect also includes profit or loss effect of 10% deviation of the TL against related currencies.

(Amounts are expressed in thousand of Turkish Lira ("TL") unless otherwise indicated.)

8. Operating segments

Information regarding the results of each reportable segment, separated into five categories, is given as follows:

Information on operating segments

30 June 2018	**Retail banking**	**Corporate and commercial banking**	**Treasury**	**Investment banking**	**Others**	**Total**
Net interests, fees and commission income	156,801	248,390	67,424	10,243	-	482,858
Other income and other expenses, net	(80,983)	(128,287)	(34,823)	(5,290)	-	(249,383)
Profit before taxes	**75,818**	**120,103**	**32,601**	**4,953**	**-**	**233,475**

30 June 2018	**Retail banking**	**Corporate and commercial banking**	**Treasury**	**Investment banking**	**Others**	**Total**
Segment assets	5,870,911	9,274,223	2,548,160	394,653	648,330	18,736,277
Total assets	**5,870,911**	**9,274,223**	**2,548,160**	**394,653**	**648,330**	**18,736,277**
Segment liabilities	4,345,678	6,864,826	1,886,161	292,124	3,145,069	16,533,857
Equity and non-controlling interests	-	-	-	-	2,202,420	2,202,420
Total liabilities and equity	**4,345,678**	**6,864,826**	**1,886,161**	**292,124**	**5,347,489**	**18,736,277**

30 June 2017	**Retail banking**	**Corporate and commercial banking**	**Treasury**	**Investment banking**	**Others**	**Total**
Net interests, fees, and commissions income	114,198	194,546	49,105	7,460	-	365,309
Revenue and other expenses, net	(80,822)	(141,675)	(34,753)	(5,280)	-	(262,530)
Profit before taxes	**33,376**	**52,871**	**14,352**	**2,180**	**-**	**102,779**

31 December 2017	**Retail banking**	**Corporate and commercial banking**	**Treasury**	**Investment banking**	**Others**	**Total**
Segment assets	5,687,278	8,984,140	2,468,458	382,309	628,051	18,150,236
Total assets	**5,687,278**	**8,984,140**	**2,468,458**	**382,309**	**628,051**	**18,150,236**
Segment liabilities	4,200,692	6,635,794	1,823,232	282,378	3,040,139	15,982,235
Equity and non-controlling interests	-	-	-	-	2,168,001	2,168,001
Total liabilities and equity	**4,200,692**	**6,635,794**	**1,823,232**	**282,378**	**5,208,140**	**18,150,236**

(Amounts are expressed in thousand of Turkish Lira ("TL") unless otherwise indicated.)

9. Financial assets at fair value through profit or loss

As at 30 June 2018, financial assets at fair value through profit or loss comprised the following:

	30 June 2018	
	Carrying value	**Effective interest rate (%)**
Eurobonds issued by the Turkish Government	55,013	2.44 - 5.88
Government bonds in TL	1,363	2.97 - 6.50
Equity securities	-	-
Eurobonds issued by other Governments, public and private Eurobonds	-	-
Public and private bonds in TL	-	-
Total	**56,376**	

Trading assets

As at 31 December 2017, trading assets comprised the following:

	31 December 2017	
	Carrying value	**Effective interest rate (%)**
Eurobonds issued by the Turkish Government	807	4.24 - 5.84
Government bonds in TL	109,565	13.04 - 14.05
Equity securities	-	-
Eurobonds issued by other Governments, public and private Eurobonds	-	-
Public and private bonds in TL	-	-
Total	**110,372**	

10. Derivative financial instruments

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices. Derivative financial instruments of the Group mainly include foreign currency forwards, cross currency interest rate swaps and foreign currency options.

The table below shows the favourable (assets) and unfavourable (liabilities) fair values of derivative financial instruments together with the notional amounts analyzed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

(Amounts are expressed in thousand of Turkish Lira ("TL") unless otherwise indicated.)

10. Derivative financial instruments (continued)

The fair value of derivative financial instruments is calculated by using forward exchange rates at the reporting date and option pricing models. In the absence of reliable forward rate estimations in a volatile market, current market rate is considered to be the best estimate of the present value of the forward exchange rates.

	30 June 2018								
	Fair value assets	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**More than 5 years**
Derivative financial instruments:									
Forward purchase contract	1,137	1,343	836,294	799,398	14,053	18,797	4,046	-	-
Forward sale contract	-	-	836,491	799,647	14,044	18,759	4,041	-	-
Currency swap purchase	39,793	16,260	1,660,373	464,632	723,506	217,510	71,843	182,882	-
Currency swap sale	-	-	1,652,776	463,930	713,036	223,542	73,213	179,055	-
Interest swap purchase	-	-	679,801	53,310	-	106,619	-	519,872	-
Interest swap sale	-	-	679,801	53,310	-	106,619	-	519,872	-
Put option purchase	-	-	208,115	114,270	66,003	8,996	18,846	-	-
Put option sale	-	-	208,115	114,270	66,003	8,996	18,846	-	-
Total	**40,930**	**17,603**	**6,761,766**	**2,862,767**	**1,596,645**	**709,838**	**190,835**	**1,401,681**	**-**

	31 December 2017								
	Fair value assets	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**More than 5 years**
Derivative financial instruments:									
Forward purchase contract	1,116	1,288	424,376	408,341	10,623	5,412	-	-	-
Forward sale contract	-	-	430,993	414,976	10,616	5,401	-	-	-
Currency swap purchase	27,755	22,132	2,023,645	1,247,237	417,390	62,824	85,990	210,204	-
Currency swap sale	-	-	2,021,494	1,249,355	422,526	62,513	84,063	203,037	-
Interest swap purchase	-	-	483,953	-	-	18,062	135,464	330,427	-
Interest swap sale	-	-	483,953	-	-	18,062	135,464	330,427	-
Put option purchase	-	-	228,934	193,609	35,325	-	-	-	-
Put option sale	-	-	228,934	193,609	35,325	-	-	-	-
Total	**28,871**	**23,420**	**6,326,282**	**3,707,127**	**931,805**	**172,274**	**440,981**	**1,074,095**	**-**

(Amounts are expressed in thousand of Turkish Lira ("TL") unless otherwise indicated.)

11. Investment securities

Financial assets at fair value through other comprehensive income

	30 June 2018	
	Amount	**Effective interest rate (%)**
Debt instruments:		
Eurobonds issued by the Turkish Government	395,500	6.00-8.00
Foreign currency denominated bonds	262,949	1.11-6.00
Equity instruments	11,559	-
Total	**670,008**	

The movement of financial assets at fair value through other comprehensive income is as follows:

	30 June 2018
Balance at beginning of period	**1,236,588**
Reclassification to financial assets measured at amortised cost (IFRS 9 transition)	(457,769)
Foreign currency differences on monetary assets	119,359
Purchases during the period	8,494
Disposals through sales and redemptions	(181,598)
Loss allowances	(25,493)
Changes in amortised cost	(29,573)
Balance at the end of period	**670,008**

Carrying value of financial assets at fair value through other comprehensive income given as collateral under repurchase agreements and for other banking transactions under the normal course of the banking operations are as follows:

	30 June 2018
Deposited at financial institutions for repurchase transactions	501,586
Collaterals	40,926
Other	127,496
Total	**670,008**

As at 30 June 2018, carrying value of financial assets at fair value through other comprehensive income investments collateralised against repurchase agreements is TL 373,232.

(Amounts are expressed in thousand of Turkish Lira ("TL") unless otherwise indicated.)

11. Investment securities (continued)

Available for sale financial assets

	31 December 2017	
	Amount	**Effective interest rate (%)**
Debt instruments:		
Eurobonds issued by the Turkish Government	948,512	12.64-13.60
Foreign currency denominated bonds	278,453	4.00-6.00
Equity instruments	9,623	-
Total	**1,236,588**	

The movement of available for sale financial assets is as follows:

	30 June 2017
Balance at beginning of period	**1,209,472**
Purchases during the period	84,939
Disposals through sales and redemptions	(169,592)
Changes in amortised cost	30,945
Foreign currency differences on monetary assets	-
Balance at the end of period	**1,155,764**

Carrying value of available for sale financial assets given as collateral under repurchase agreements and for other banking transactions under the normal course of the banking operations are as follows:

	31 December 2017
Deposited at financial institutions for repurchase transactions	883,343
Collaterals	69,263
Other	283,982
Total	**1,236,588**

As at 31 December 2017, carrying value of available for sale financial assets collateralised against repurchase agreements is TL 883,343.

(Amounts are expressed in thousand of Turkish Lira ("TL") unless otherwise indicated.)

11. Investment securities (continued)

Financial assets measured at amortised cost

	30 June 2018	
	Amount	**Effective interest rate (%)**
Debt instruments:		
Foreign currency denominated bonds	311,334	1.03-7.43
Goverment bonds TL	232,981	18.08-18.97
Total (*)	**544,315**	

(*) Government bonds amounting to TL 467,293 has been transferred from financial assets at fair value through profit or loss to financial assets measured at amortised cost and presented in the table together with the rediscount on the amortized cost.

The movement of financial assets measured at amortised cost is as follows:

	30 June 2018
Balances at beginning of period	**-**
Reclassification from financial assets at fair value through profit or loss (IFRS 9 transition)	467,293
Foreign currency differences on monetary assets	41,716
Purchases during the period	45,403
Disposals through sales and redemptions	(6,860)
Loss allowances	(13,943)
Changes in amortised cost	10,706
Balances at end of period	**544,315**

	30 June 2018
Deposited at financial institutions for repurchase transactions	433,703
Collaterals	75,400
Other	35,212
Total	**544,315**

Held to maturity financial assets

As of 31 December 2017, there is no held to maturity financial assets of the Bank.

(Amounts are expressed in thousand of Turkish Lira ("TL") unless otherwise indicated.)

12. Loans and receivables

	30 June 2018						
	Amount				Effective interest rate (%)		
	TL	**FC**	**FC indexed**	**Total**	**TL**	**FC**	**FC indexed**
Corporate loans	9,347,769	2,710,083	561,489	12,619,341	3.60-48.00	0.45-6.09	3.60-8.50
Consumer loans	178,933	359	1,505	180,797	1.92-24.84	4.50	4.68-8.28
Credit cards	61,086	4	-	61,090	22.08	-	-
Factoring receivables	453,990	-	-	453,990	12.47-35.50	-	-
Total performing loans	**10,041,778**	**2,710,446**	**562,994**	**13,315,218**			
Non-performing loans	-	-	-	447,609	-	-	-
Allowance for:							
Stage 1	-	-	-	(81,949)	-	-	-
Stage 2	-	-	-	(68,423)	-	-	-
Stage 3	-	-	-	(307,509)	-	-	-
Loans and receivables, net	**-**	**-**	**-**	**13,304,946**	**-**	**-**	**-**

	31 December 2017						
	Amount				Effective interest rate (%)		
	TL	**FC**	**FC indexed**	**Total**	**TL**	**FC**	**FC indexed**
Corporate loans	9,005,471	2,516,917	759,486	12,281,874	3.60-49.50	0.25-7.80	3.60-8.76
Consumer loans	212,950	282	4,586	217,818	4.68-21.60	3.96-6.36	4.68-8.28
Credit cards	61,570	32	-	61,602	16.80-22.08	-	-
Factoring receivables	420,194	-	-	420,194	9.77-41.20	-	-
Total performing loans	**9,700,185**	**2,517,231**	**764,072**	**12,981,488**			
Non-performing loans	-	-	-	337,057	-	-	-
Allowance for:							
Individually impaired loans	-	-	-	(110,081)	-	-	-
Collectively impaired loans	-	-	-	(131,074)	-	-	-
Loans and receivables, net	**-**	**-**	**-**	**13,077,390**	**-**	**-**	**-**

Loans and advances to customers

	30 June 2018		
	Stage 1	**Stage 2**	**Stage 3**
Stage 1 : Low-fair risk	11,745,747	-	-
Stage 2 : Watch list	-	780,335	-
Stage 3.1: Substandard	-	-	90,110
Stage 3.2: Doubtful	-	-	99,042
Stage 3.3: Loss	-	-	231,827
Total loans	11,745,747	780,335	420,979
Income accrual on loans	274,861	60,285	26,630
Loss allowance	(81,949)	(68,423)	(307,509)
Total carrying amount	**11,938,659**	**772,197**	**140,100**

(Amounts are expressed in thousand of Turkish Lira ("TL") unless otherwise indicated.)

12. Loans and receivables (continued)

Loans and advances to customers (continued)

Movements in the reserve for possible loan losses:

	30 June 2018
Balance at 31 December 2017	**241,155**
Adjustment from adoption of IFRS 9	174,828
Adjusted balance at 1 January 2018	**415,983**
Provision for possible loan losses, net of recoveries	41,898
Provision for possible loan losses	127,723
Recoveries	(85,825)
Provision, net of recoveries	**41,898**
Loans written off during the period/year	-
Foreign currency differences on monetary assets	-
Reserve at end of the period/year	**457,881**

	30 June 2017
Balance at 31 December 2016	**239,048**
Provision for possible loan losses, net of recoveries	56,388
Provision for possible loan losses	98,927
Recoveries	(42,539)
Provision, net of recoveries	**56,388**
Loans written off during the period/year	-
Foreign currency differences on monetary assets	-
Reserve at end of the period/year	**295,436**

Factoring receivables

As at 30 June 2018 and 31 December 2017, short-term and long-term factoring receivables included in the loans and receivables are as follows:

	30 June 2018	31 December 2017
Short-term	440,415	417,986
Long-term	13,575	2,208
Total	**453,990**	**420,194**

(Amounts are expressed in thousand of Turkish Lira ("TL") unless otherwise indicated.)

13. Funds borrowed

As at 30 June 2018 and 31 December 2017, fund borrowed are detailed as follows:

	30 June 2018				31 December 2017			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Short-term(*)	367,061	404,304	6.34-6.84	0.25-4.61	349,163	224,190	6.34-6.84	0.25-2.95
Medium/long term(*)	1,186	242,743	6.59-6.84	0.50-4.86	-	228,309	-	0.54-3.75
Total	**368,247**	**647,047**			**349,163**	**452,499**		

(*) Borrowings are presented considering their original maturities.

Repayment plans of funds borrowed are as follows:

	30 June 2018	31 December 2017
2018	743,679	709,700
2019	133,121	1,607
2020	138,494	90,355
Total	**1,015,294**	**801,662**

14. Equity

Share capital

	30 June 2018	31 December 2017
Number of common shares	60,000,000	60,000,000

As of 30 June 2018 and 31 December 2017, the composition of shareholders and their respective percentage of ownership can be summarized as follows:

	30 June 2018		31 December 2017	
	Amount	%	Amount	%
Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ	419,867	69.98	419,867	69.98
Mehmet Rüştü Başaran	163,895	27.32	163,895	27.32
Other shareholders	16,238	2.70	16,238	2.70
Historical amount	**600,000**	**100.00**	**600,000**	**100.00**
Restatement effect per *IAS 29*	2,619		2,619	
Total	**602,619**		**602,619**	

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as the effective portion of any foreign currency differences arising from hedges of a net investment in a foreign operation. As of 30 June 2018 and 31 December 2017, the amounts of translation reserve of the Bank are TL 237,341 and TL 194,666 respectively.

Fair value reserve

The fair value reserve comprises the effective portion of the cumulative net change in the fair value of financial assets at fair value trough other comprehensive income / (net change in the fair value of available for sale financial assets as at 31 December 2017) until the assets are derecognized or impaired. As of 30 June 2018 and 31 December 2017, the amounts of fair value reserve of the Bank are TL (54,111) and TL (9,346) respectively.

(Amounts are expressed in thousand of Turkish Lira ("TL") unless otherwise indicated.)

15. 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 financial and operating decisions. The Group is controlled by Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi A.Ş. which owns 69.98% (31 December 2017: 69.98%) of ordinary shares, and included in Habaş Group of companies. For the purpose of these condensed consolidated financial statements, shareholders and Habaş Group companies are referred to as related parties. Related parties also include individuals that are principal owners and management and members of the Group's Board of Directors and their families.

In the course of conducting its banking business, the Group conducted various business transactions with related parties on commercial terms.

The following significant balances exist and transactions have been entered into with related parties:

Outstanding balances

	30 June 2018	31 December 2017
Cash loans	8,232	2,067
Non-cash loans	148,100	87,195
Deposits received	208,532	185,305

Transactions

	30 June 2018	30 June 2017
Interest income	5,869	6,996
Interest expense	3,133	1,907
Other operating income	-	-

Directors' remuneration

For the six month period ended 30 June 2018, the key management and the members of the Board of Directors received remuneration and fees amounting to TL 15,930 (30 June 2017: TL 13,885).

(Amounts are expressed in thousand of Turkish Lira ("TL") unless otherwise indicated.)

16. Commitment and contingencies

In the normal course of business activities, the Bank and its subsidiaries have various commitments and contingent liabilities as follows:

	30 June 2018	31 December 2017
Letters of guarantee	3,222,583	3,199,553
Letters of credit	496,448	594,787
Acceptance credits	9,920	11,371
Other guarantees	104,072	106,919
Total non-cash loans	**3,833,023**	**3,912,630**
Credit card limit commitments	123,837	113,761
Other commitments	480,943	520,845
Total	**4,437,803**	**4,547,236**

17. Capital management – regulatory capital

The BRSA sets and monitors capital requirements for the Bank as a whole. The parent company and individual banking operations are directly supervised by their local regulators. In implementing current capital requirements, the BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total value at credit, market and operational risks. The Bank and its affiliates' consolidated regulatory capital is analyzed into two tiers:

- Tier 1 capital, which includes paid-in capital, share premium, legal reserves, retained earnings, translation reserve and non-controlling interests after deductions for goodwill and certain cost items.
- Tier 2 capital, which includes qualifying subordinated liabilities, general provisions and the element of the fair value reserve relating to unrealised gain/(loss) on assets classified as financial assets at fair value through other comprehensive income.

Banking operations are categorised as either trading book or banking book, and 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. The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Bank and its individually regulated operations have complied with externally imposed capital requirements throughout the year. There have been no material changes in the Bank's management of capital during the period.

17. Capital management – regulatory capital (continued)

The capital adequacy ratio is calculated within the scope of the “Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (the “Regulation”)”, “Regulation on Credit Risk Mitigation Techniques” and “Regulation on Calculation of Risk Weighted Amounts for Securitisations” published in the Official Gazette no.29511 dated 23 October 2015 and the “Regulation on Equities of Banks” published in the Official Gazette no.28756 dated 5 September 2013. In calculation of capital adequacy ratio, the data prepared from accounting records in compliance with the current legislation are used. Such accounting data is included in the calculation of credit and market risks subsequent to their designation as “trading book” and “banking book” according to the Regulation. The items classified as trading book and the items deducted from the equity are not included in the calculation of credit risk. In the calculation of risk weighted assets, the assets subject to amortisation or impairment, are taken into account on a net basis after being reduced by the related amortisations and stage 3 ECLs. In the calculation of the value at credit risk for the non-cash loans and commitments and the receivables from counterparties in such transactions are weighted after netting with stage 3 ECL amount. The net amounts are then multiplied by the rates stated in the Article 5 of the Regulation, reduced as per the “Regulation on Credit Risk Mitigation Techniques” and then included in the relevant exposure category defined in the article 6 of the Regulation and weighted as per Appendix-1 of the Regulation.

In the calculation of the value at credit risk for the derivative financial instruments and the credit derivatives classified in banking book, the receivables from counterparties are multiplied by the rates stated in the Appendix-2 of the Regulation, reduced as per the “Regulation on Credit Risk Mitigation Techniques” and then included in the relevant exposure category defined in the article 6 of the Regulation and weighted as per Appendix-1 of the Regulation.

As per the article 5 of the Regulation, the “counterparty credit risk” is calculated for repurchase transactions, securities and commodities borrowing agreements.

(Amounts are expressed in thousand of Turkish Lira ("TL") unless otherwise indicated.)

17. Capital management – regulatory capital (continued)

The Bank's and its subsidiaries' regulatory capital position on a consolidated basis as of 30 June 2018 and 31 December 2017 is as follows:

	30 June 2018	31 December 2017
Tier 1 capital	2,279,645	2,104,785
Tier 2 capital	84,494	109,377
Deductions from capital	(1,097)	(1,315)
Total regulatory capital	**2,363,042**	**2,212,847**
Risk-weighted assets	16,235,715	15,448,185
Value at market risk	972,500	1,236,738
Operational risk	1,303,008	1,161,604
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	14.55%	14.32%
Total tier 1 capital expressed as a percentage of risk-weighted assets, value at market risk and operational risk	14.04%	13.64%

18. Events after the reporting period

Fitch Ratings downgraded the Long-Term Issuer Default Ratings ("IDRs") of the Bank to "B+" from "BB-" on 11 September 2018. Fitch Ratings has also downgraded the Viability Ratings ("VRs") of the Bank.

Between 30 June 2018 and 26 October 2018, the date of approval of the financial statements, the Turkish Lira depreciated significantly against certain foreign currencies. The above-mentioned depreciation is 25% against USD and 22% against Euro.

The Monetary Policy Committee of CBRT ("Central Bank of Turkey") decided to increase the benchmark interest rate from 17.75% to 24% on 13 September 2018.