YAPI KREDİ YATIRIM MENKUL DEĞERLER A.Ş.
AND ITS SUBSIDIARY

CONVENIENCE TRANSLATION INTO ENGLISH OF
CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY - 30 JUNE 2018
TOGETHER WITH INDEPENDENT AUDITOR'S REVIEW REPORT
ORIGINALLY ISSUED IN TURKISH

CONVENIENCE TRANSLATION INTO ENGLISH OF REPORT ON REVIEW OF CONSOLIDATED INTERIM FINANCIAL INFORMATION ORIGINALLY ISSUED IN TURKISH

To the General Assembly of Yapı Kredi Yatırım Menkul Değerler A.Ş.

Introduction

We have reviewed the accompanying consolidated statement of financial position of Yapı Kredi Yatırım Menkul Değerler A.Ş. and its subsidiary (collectively referred to as the "Group") as at 30 June 2018 and the related consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the six-month period then ended and a summary of significant accounting policies and other explanatory notes. The Group management is responsible for the preparation and fair presentation of this interim consolidated financial information in accordance with Turkish Accounting Standard 34, "Interim Financial Reporting" ("TAS 34"). Our responsibility is to express a conclusion on this interim consolidated financial information based on our review.

Scope of review

We conducted our review in accordance with the 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 Standards on Auditing and the objective of which is to express an opinion on the financial statements. Consequently, a review on the interim financial information does not provide assurance that the audit firm will be aware of all significant matters which would have been identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, the consolidated financial statements present fairly, in all material respects, the financial position of Yapı Kredi Yatırım Menkul Değerler A.Ş. and its subsidiary as at 30 June 2018 and their financial performance and cash flows for the six-month period then ended in accordance with TAS 34.

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.

Didem Demer Kaya, SMMM
Partner

Istanbul, 27 July 2018

YAPI KREDİ YATIRIM MENKUL DEĞERLER A.Ş. AND ITS SUBSIDIARY

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE INTERIM PERIOD 1 JANUARY - 30 JUNE 2018 ORIGINALLY ISSUED IN TURKISH

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CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2018 ORIGINALLY ISSUED IN TURKISH

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

Assets	Notes	*(Reviewed)* 30 June 2018	*(Audited)* 31 December 2017
Current assets			
Cash and cash equivalents	6	3,985,830,023	4,133,674,967
Financial investments	7	69,859,226	84,626,764
- Financial assets measured at fair value through profit or loss		*26,395,088*	*45,582,488*
- Financial assets measured at fair value through other comprehensive income		*8,466,795*	*16,276,067*
- Financial assets measured at amortised cost		*34,997,343*	*22,768,209*
Trade receivables	10	440,221,634	467,498,048
- Trade receivables due from related parties	*28*	-	*592,860*
- Trade receivables due from other parties		*440,221,634*	*466,905,188*
Receivables from financial activities	11	7,966,715	13,052,034
- Receivables from financial activities due from related parties	*28*	*6,486,373*	*13,001,319*
- Receivables from financial activities due from other parties		*1,480,342*	*50,715*
Other receivables	12	129,113,357	77,514,382
- Other receivables due from other parties		*129,113,357*	*77,514,382*
Derivatives	16	77,226,356	63,844,422
- Derivatives held for trading		*77,226,356*	*63,844,422*
Prepaid expenses	19	4,160,945	4,798,824
- Prepaid expenses due to related parties	*28*	-	*107,539*
- Prepaid expenses due to other parties		*4,160,945*	*4,691,285*
Current income tax assets	22	40,430,210	58,299,605
Other current assets		40,491	14,237
- Other current assets due from other parties		*40,491*	*14,237*
Total current assets		**4,754,848,957**	**4,903,323,283**
Non-current assets			
Financial investments	7	76,028,853	68,947,495
- Financial assets measured at fair value through other comprehensive income		*76,028,853*	*68,947,495*
Property, plant and equipment	13	7,593,142	8,226,214
Intangible assets	14	28,257,427	26,986,668
Deferred tax assets	22	1,010,346	748,648
Total non-current assets		**112,889,768**	**104,909,025**
Total assets		**4,867,738,725**	**5,008,232,308**

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2018 ORIGINALLY ISSUED IN TURKISH

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

Liabilities	**Notes**	***(Reviewed)*** **30 June 2018**	***(Audited)*** **31 December 2017**
Short terms liabilities			
Short term liabilities	9	3,953,367,784	4,164,699,945
- Short term liabilities due to other parties		*3,953,367,784*	*4,164,699,945*
Trade payables	10	262,136,295	203,430,761
- Trade payables due to related parties	*28*	*6,417,790*	*7,671,381*
- Trade payables due to other parties		*255,718,505*	*195,759,380*
Liabilities for employee benefits	18	2,904,389	2,730,418
Other payables	12	30,490,588	21,955,019
- Other payables due to related parties	*28*	*109,812*	-
- Other payables due to other parties		*30,380,776*	*21,955,019*
Derivatives	16	16,484,508	7,324,981
- Derivatives held for trading		*16,484,508*	*7,324,981*
Tax liability for the period	22	2,023,058	3,236,732
Short term provisions		10,174,690	20,853,239
- Short term provisions for employee benefits	*17*	*8,358,000*	*18,862,294*
- Other short term provisions	*15*	*1,816,690*	*1,990,945*
Other short term liabilities	20	10,080,300	7,141,104
- Other short term liabilities due to other parties		*10,080,300*	*7,141,104*
Total short term liabilities		**4,287,661,612**	**4,431,372,199**
Long term liabilities			
Long term provisions		12,052,286	9,970,995
- Provisions for employee benefits	*17*	*12,052,286*	*9,970,995*
Deferred tax liabilities	22	10,707,624	9,691,380
Total long term liabilities		**22,759,910**	**19,662,375**
Total liabilities		**4,310,421,522**	**4,451,034,574**
Shareholder's equity			
Paid in capital	21	98,918,083	98,918,083
Adjustments to share capital	21	63,078,001	63,078,001
Accumulated other comprehensive income or (expenses) that will be reclassified to profit or loss		1,872,329	27,235
- Revaluation and reclassification gains (losses)		*1,872,329*	*27,235*
Accumulated other comprehensive income or (expenses) that will not be reclassified to profit or loss		(3,055,460)	(2,500,064)
- Revaluation and remeasurement gains (losses)		*(3,055,460)*	*(2,500,064)*
Restricted reserves	21	234,277,667	236,535,668
Retained earnings		96,823,819	55,548,498
Net income for the period		59,223,572	97,326,500
Equity attributable to owners of the parent		**551,138,011**	**548,933,921**
Non-controlling interests	**21**	**6,179,192**	**8,263,813**
Total shareholder's equity		**557,317,203**	**557,197,734**
Total liabilities and shareholder's equity		**4,867,738,725**	**5,008,232,308**

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE INTERIM PERIOD 1 JANUARY - 30 JUNE 2018 ORIGINALLY ISSUED IN TURKISH

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

	Notes	*(Reviewed)* **1 January - 30 June 2018**	*(Not Reviewed)* **1 April - 30 June 2018**	*(Reviewed)* **1 January - 30 June 2017**	*(Not Reviewed)* **1 April - 30 June 2017**
PROFIT OR LOSS					
Revenue	23	6,053,714,310	2,346,462,161	3,974,158,295	2,096,033,253
Cost of sales (-)	23	(6,002,400,343)	(2,328,106,329)	(3,931,315,611)	(2,072,559,311)
Gross profit from business operations		**51,313,967**	**18,355,832**	**42,842,684**	**23,473,942**
Revenue from financial activities	24	37,774,206	18,791,555	33,225,989	18,035,330
Cost of financial activities (-)	24	(5,012,928)	(2,804,134)	(3,723,603)	(1,947,240)
Gross profit from financial activities		**32,761,278**	**15,987,421**	**29,502,386**	**16,088,090**
Gross profit/loss		**84,075,245**	**34,343,253**	**72,345,070**	**39,562,032**
General administrative expenses (-)	25	(60,211,710)	(31,125,532)	(54,057,375)	(26,592,594)
Marketing, selling and distribution expenses (-)	25	(16,134,838)	(10,134,341)	(6,302,170)	(3,084,744)
Other income from operating activities	26	466,381,028	145,099,793	363,016,385	128,490,862
Other expense from operating activities	27	(397,799,397)	(95,563,823)	(312,601,275)	(98,421,188)
Operating profit		**76,310,328**	**42,619,350**	**62,400,635**	**39,954,368**
Tax expense from continuing operations (-)		**(14,861,378)**	**(8,064,974)**	**(11,379,423)**	**(6,375,342)**
- Tax expense for the period (-)	22	(10,460,054)	21,596,070	(5,308,085)	(3,471,072)
- Deferred tax expense (-)	22	(4,401,324)	(29,661,044)	(6,071,338)	(2,904,270)
Total profit		**61,448,950**	**34,554,376**	**51,021,212**	**33,579,026**
Total profit attributable to:		**61,448,950**	**34,554,376**	**51,021,212**	**33,579,026**
Non-controlling interests	21	2,225,378	1,011,712	1,904,746	1,082,158
Equity holders of the parent		59,223,572	33,542,664	49,116,466	32,496,868
Earnings per share from continuing operations		0.62	0.35	0.52	0,34

The accompanying explanations and notes form an integral part of these consolidated financial statements..

CONVENIENCE TRANSLATION INTO ENGLISH OF CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE INTERIM PERIOD 1 JANUARY - 30 JUNE 2018 ORIGINALLY ISSUED IN TURKISH

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

	Notes	*(Reviewed)* 1 January 30 June 2018	*(Not reviewed)* 1 April - 30 June 2018	*(Reviewed)* 1 January - 30 June 2017	*(Not reviewed)* 1 April - 30 June 2017
OTHER COMPREHENSIVE INCOME					
Total profit/loss		**61,448,950**	**34,554,376**	**51,021,212**	**33,579,026**
Items that will be reclassified to profit or loss		**1,845,094**	**(147,337)**	**17,460**	**3,667**
Revaluation and/or reclassification gains/losses of financial assets measured at fair value through other comprehensive income		2,365,505	(188,894)	21,826	4,584
Taxes related other comprehensive income that will be reclassified to profit or loss		(520,411)	41,557	(4,366)	(917)
- Deferred tax income (expense)	22	(520,411)	41,557	(4,366)	(917)
Items that will not be reclassified to profit or loss		**(555,396)**	**(555,396)**	**(195,647)**	**(195,647)**
Defined benefits plans remeasurement gains (losses)		(712,047)	(712,047)	(244,559)	(244,559)
Taxes related other comprehensive income that will not be reclassified to profit or loss		156,651	156,651	48,912	48,912
- Deferred tax income	22	156,651	156,651	48,912	48,912
Other comprehensive income (expense)		**1,289,698**	**(702,733)**	**(178,187)**	**(191,980)**
Total comprehensive income		**62,738,648**	**33,851,643**	**50,843,025**	**33,387,046**
Total comprehensive income attributable to:		**62,738,648**	**33,851,643**	**50,843,025**	**33,387,046**
Non-controlling interests		2,225,378	1,011,712	1,904,746	1,082,158
Equity holders of the parent		60,513,270	32,839,931	48,938,279	32,304,888
Total comprehensive income per share from continuing operations (Krş)		0.63	0.34	0.51	0.34

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE INTERIM PERIOD 1 JANUARY - 30 JUNE 2018

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

	Notes	Paid capital	Adjustments to share capital	Accumulated other Comprehensive income or expenses will be reclassified to profit or loss Revaluation and reclassification gains / losses	Accumulated other Comprehensive income or expenses will not be reclassified to profit or loss Defined benefit plans remeasurement gains / losses	Restricted reserves	Accumulated profits Retained earnings	Accumulated profits Net profit/loss for the year	Equity attributable to owners of the parent	Non controlling interests	Total equity
Balance at 1 January 2017 (Beginning of the period)		**98,918,083**	**63,078,001**	**(12,139,553)**	**291,196**	**236,738,667**	**55,545,320**	**66,470,179**	**508,901,893**	**6,847,426**	**515,749,319**
Transfers		-	-	-	-	-	66,470,179	(66,470,179)	-	-	-
Dividends	21	-	-	-	-	(202,999)	(66,467,001)	-	(66,670,000)	(3,422,646)	(70,092,646)
Total comprehensive income		-	-	17,460	(195,647)	-	-	49,116,466	48,938,279	1,904,746	50,843,025
- Net income (loss) for the period		-	-	-	-	-	-	49,116,466	49,116,466	1,904,746	51,021,212
- Other comprehensive income (expense)		-	-	17,460	(195,647)	-	-	-	(178,187)	-	(178,187)
Balance at 30 June 2017 (Ending period)	**21**	**98,918,083**	**63,078,001**	**(12,122,093)**	**95,549**	**236,535,668**	**55,548,498**	**49,116,466**	**491,170,172**	**5,329,526**	**496,499,698**
Balance at 31 December 2017 (Beginning of the period)		**98,918,083**	**63,078,001**	**27,235**	**(2,500,064)**	**236,535,668**	**55,548,498**	**97,326,500**	**548,933,921**	**8,263,813**	**557,197,734**
Changes of accounting policies (Note 2)		-	-	-	-	-	(14,219,180)	-	(14,219,180)	-	(14,219,180)
Reorganized balances as the date of 1 January 2018 (Beginning of the period)		**98,918,083**	**63,078,001**	**27,235**	**(2,500,064)**	**236,535,668**	**41,329,318**	**97,326,500**	**534,714,741**	**8,263,813**	**542,978,554**
Transfers		-	-	-	-	-	97,326,500	(97,326,500)	-	-	-
Dividends	21	-	-	-	-	(2,258,001)	(41,831,999)	-	(44,090,000)	(4,309,999)	(48,399,999)
Total comprehensive income		-	-	1,845,094	(555,396)	-	-	59,223,572	60,513,270	2,225,378	62,738,648
- Net income (loss) for the period		-	-	-	-	-	-	59,223,572	59,223,572	2,225,378	61,448,950
- Other comprehensive income (expense)		-	-	1,845,094	(555,396)	-	-	-	1,289,698	-	1,289,698
Balance at 30 June 2018 (Ending period)	**21**	**98,918,083**	**63,078,001**	**1,872,329**	**(3,055,460)**	**234,277,667**	**96,823,819**	**59,223,572**	**551,138,011**	**6,179,192**	**557,317,203**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE INTERIM PERIOD 1 JANUARY - 30 JUNE 2018

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

	Notes	*(Reviewed)* **1 January- 30 June 2018**	*(Reviewed)* **1 January- 30 Jnue 2017**
A. Cash flows from operating activities		**119,483,377**	**(84,508,445)**
Net profit for the period		**61,448,950**	**51,021,212**
Adjustments for to reconcile net income/loss to net cash provided by operating activities		**(26,501,700)**	**(86,913,044)**
Adjustments for depreciation and amortization	13.14	2,233,737	1,492,198
Adjustments for provisions		11,029,871	5,635,094
- Adjustments for provision for employee benefits		*11,042,571*	*5,478,206*
- Adjustments for lawsuit provisions		*(12,700)*	*156,888*
Adjustments for interest income and expenses		238,068,065	103,071,700
- Adjustments for interest income		*(63,898,353)*	*(136,398,929)*
- Adjustments for interest expenses		*301,966,418*	*239,470,629*
Adjustments for unrealized foreign currency translation differences		5,238,735	1,158,669
Adjustments for fair value losses (gains)		(297,933,486)	(209,650,128)
- Adjustments for financial assets fair value losses (gains)		*7,296,371*	*231,300*
- Adjustments for derivatives fair value losses (gains)		*(305,229,857)*	*(209,881,428)*
Adjustments for tax income/expense	22	14,861,378	11,379,423
Changes in operating profit		**92,299,314**	**(125,029,558)**
Adjustments for decrease (increase) in financial investments		11,786,253	(46,162,223)
Adjustments for increase/decrease in trade receivables		27,276,414	(11,213,095)
- Adjustments for decrease (increase) in trade receivables due from related parties		*592,860*	*(163,525)*
- Adjustments for decrease (increase) in trade receivables due from other parties (-)		*26,683,554*	*(11,049,570)*
Adjustments for decrease in receivables from financial activities		5,085,319	3,414,724
Adjustments for increase/decrease in other receivables		(51,598,975)	(82,157,409)
- Adjustments for (increase) in other receivables due from related parties		*(51,598,975)*	*(18,215)*
- Adjustments for (increase) in other receivables due from other parties		-	*(82,139,194)*
Adjustments for decrease *(increase)* in derivatives		(13,381,934)	5,720,855
Adjustments for increase in prepaid expenses (-)		637,879	194,008
Adjustments for increase/decrease in trade payables		58,705,534	22,533,544
- Adjustments for (decrease) increase in trade payables due to related parties		*(1,253,591)*	*227,048*
- Adjustments for increase in trade payables due to other parties		*59,959,125*	*22,306,496*
Adjustments for increase in payables due to employee benefits (-)		173,971	82,104
Adjustments for increase/decrease in other payables		8,535,569	(7,487,667)
- Adjustments for increase in other payables due to related parties		*109,812*	*31,699*
- Adjustments for increase/(decrease) in other payables due to other parties		*8,425,757*	*(7,519,366)*
Adjustments for increase (decrease) in derivative liabilities		9,159,527	(41,461,408)
Adjustments for other increase/decrease in operating capital		35,919,757	31,507,009
- Adjustments for other decrease in operating activities		*35,919,757*	*31,507,009*
Other cash flows from operating activities		**127,246,564**	**(160,921,390)**
Payments for provision for employee benefits		(19,178,358)	(12,057,635)
Dividend received		3,069,681	8,064,543
Interest received		60,828,672	128,334,386
Taxes paid		(52,483,182)	(47,771,988)
Other cash inflows (outflows)		-	(156,361)
B. Cash flows from investing activities		**(2,871,424)**	**(2,289,187)**
Cash outflows from purchase of property, equipment and intangible assets		(2,871,424)	(2,289,187)
- Cash outflows from purchase of property and equipment	*13*	*(160,969)*	*(238,288)*
- Cash outflows from purchase of intangible assets	*14*	*(2,710,455)*	*(2,050,899)*
C. Cash flows from financing activities		**(262,119,186)**	**227,849,843**
Dividend paid	21	(48,399,999)	(70,092,646)
Cash inflows from borrowings		21,783,637,014	27,169,558,288
- Cash inflows from loans		*19,872,208,250*	*25,978,842,255*
- Cash inflows from issued bonds		*1,911,428,764*	*1,190,716,033*
Cash outflows from debt payments		(22,004,000,114)	(26,841,337,651)
- Cash outflows from loan repayments		*(19,756,254,956)*	*(25,839,332,758)*
- Cash outflows from issued bonds repayments		*(2,247,745,158)*	*(1,002,004,893)*
Cash inflows from derivative instruments		382,186,938	222,631,830
Cash outflows from derivative instruments		(76,957,081)	(12,750,402)
Interest paid		(298,585,944)	(239,470,629)
Other cash inflows (outflows)		-	(688,947)
Net increase/decrease in cash and cash equivalents before exchange currency effect (A+B+C)		**(145,507,233)**	**141,052,211**
D Exchange currency effect on cash and cash equivalents		**(5,238,735)**	**(1,158,669)**
Net increase/decrease in cash and cash equivalents (A+B+C+D)		**(150,745,968)**	**139,893,542**
E. Cash and cash equivalents at the beginning of the period		**4,101,828,110**	**4,029,683,610**
Cash and cash equivalents at the end of the period (A+B+C+D+E)	**6**	**3,951,082,142**	**4,169,577,152**

The accompanying explanations and notes form an integral part of these consolidated financial statements.

1. ORGANISATION AND NATURE OF OPERATIONS

Yapı Kredi Yatırım Menkul Değerler A.Ş. (named as "the Company" or the "Group" with its subsidiary in these consolidated financial statements) was established on 15 September 1989 under the name of Finanscorp Finansman Yatırım Anonim Şirketi, to engage in capital markets transactions and to serve as a brokerage company in accordance with the Law No. 2499 "Capital Market Law" and related legislation. In 1996, 99.6% of the shares of the Company were transferred to Yapı ve Kredi Bankası Anonim Şirketi ("Bank"). The name of the Company was changed to Yapı Kredi Yatırım Anonim Şirketi on 9 September 1996 and Yapı Kredi Yatırım Menkul Değerler Anonim Şirketi on 5 October 1998.

As of 28 September 2005, 57.4% of the shares of Yapı ve Kredi Bankası A.Ş., the main shareholder of the Company, were sold in accordance with the share purchase agreement between Çukurova Holding A.Ş., several Çukurova Group Companies, Mehmet Emin Karamehmet and Koç Finansal Hizmetler A.Ş. ("KFH"), Koçbank N.V. and Koçbank A.Ş. In the framework of the agreement, KFH became the ultimate parent company of Yapı ve Kredi Bankası A.Ş. with 57.4% shares. The main shareholder of the Company is Yapı ve Kredi Bankası A.Ş.(YKB) and ultimate parent of the Company is KFH.

At the Extraordinary General Assembly of the Company at 29 December 2006 the decision to legally merge with Koç Yatırım Menkul Değerler A.Ş. ("Koç Yatırım") in accordance with the related articles of Turkish Commercial Code, Corporate Tax Law, and Capital Market Law and permission of Capital Markets Board No. B.02.1.SPK.0.16-1955 dated 15 December 2006 and to approve the merger agreement has been taken. Accordingly, all rights, receivables, liabilities and obligations were transferred to the Company due to consequential dissolution without liquidation of Koç Yatırım Menkul Değerler A.Ş.

Commercial Registration Office of Istanbul has registered the Extraordinary General Assembly decision dated 29 December 2006 and the merger agreement as of 12 January 2007 and announced the registration at Trade Registry Gazette No. 6724 and dated 16 January 2007.

The main operations of the Company can be summarized as follows without lending money, except where legislation allows:

a) Buying and selling of capital market instruments within the scope of Capital Market Legislation in the name and account of the customer, in their own name and account or in their own name and in the account of the customer,
b) According to the Capital Market Law and Capital Market Board's Regulations ("SPK" or "Board") and "Intermediary Firm with Broad Authority" the Company have the following activities:

- Intermediation Activities (Domestic and Foreign),
- Shares,
- Other Securities,
- Derivatives Based on Shares,
- Derivatives Based on Share Indices,
- Other Derivatives,
- Portfolio Management Activities (Domestic),
- Shares,
- Other Securities,
- Leverage Trading,
- Derivatives Based on Shares,
- Derivatives Based on Share Indices,
- Other Derivatives,
- Investment Consulting Activities,
- Intermediation for Public Offering,
- Underwriting,
- Best Effort Underwriting,
- Limited Custodian Service.

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

1. ORGANISATION AND NATURE OF OPERATIONS (Continued)

c) Performing transactions in exchange markets by being a member of exchanges,

d) Buying and selling of securities with repurchase and sale commitment,

e) Using the right to receive the bonus shares, the payment of capital, interest, dividends and similar incomes of the capital market instruments on its customers behalf and accounts in accordance with the authorization given by the customers,

f) Margin trading, short selling and borrowing and lending the financial instruments.

The Company has 33 investment funds (31 December 2017: 33). As of 30 June 2018 The Group has 271 employees (31 December 2017: 280).

The head office of the Company is located at, Levent Mah. Cömert Sk. No:1A A Blok D:21-22-23-24-25-27 Levent, Beşiktaş - İstanbul.

Subsidiary;

As of 30 June 2018 and 31 December 2017, details of the subsidiary of the Group are as follows:

	30 June 2018	**31 December 2017**	
Name of the shareholder	**Share in capital**	**Share in capital**	**Main activity**
Yapı Kredi Portföy Yönetimi A.Ş. (Subsidiary)	87.32%	87.32%	Portfolio Management

Yapı Kredi Portföy Yönetimi A.Ş. ("Yapı Kredi Portföy" or "subsidiary") is subject to full scope consolidation as the Company is the main shareholder and has control rights over subsidiary.

The Company's subsidiary Koç Portföy Yönetimi A.Ş. has legally merged with Yapı Kredi Portföy Yönetimi A.Ş. on December 29, 2006. Accordingly, all rights, receivables, liabilities and obligations of Yapı Kredi Portföy were transferred to Koç Portföy. After merger, the Subsidiary has changed its title as Yapı Kredi Portföy Yönetimi A.Ş. and accordingly the Company has an interest of 87.32% (31 December 2017: 87.32%) of the voting rights.

Within the context of the Capital Markets Board regulations, the Subsidiary's principal activities are managing mutual and private funds and performing discretionary portfolio management ("DPM") for institutions, endowments and individuals.

Approval of financial statements:

Consolidated financial statements prepared as of 30 June 2018 have been approved by the Board of Directors of the Company at 27 July 2018. General Assembly and regulatory bodies have the right to amend the approved financial statements.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis Of Presentation

2.1.1 Accounting standards and the compliance to TAS

Attached consolidated financial statements had been prepared in accordance with clauses of "Principles Statement Related To Financial Reporting In Capital Market" Serie II-14.1, which had been published in Official Gazette dated 13 June 2013 no. 28676 by CMB. Turkish Accounting Standards / Turkish Financial Reporting Standards ("TAS/TFRS") and additions and comments related to these standards ("TAS/TFRS") which had been constituted by Public Oversight Accounting And Auditing Standards Board ("POA") had been grounded on relying on the 5th article of this communiqué.

The consolidated financial statements were based on the legal records of the Group and expressed in Turkish Lira; and they have been subject to certain adjustments and classifications in order to fairly present the financial position of the Group in accordance with the Turkish accounting standards issued by POA.

The Company has prepared the consolidated financial statements in accordance with the 2016 TMS Taxonomy approved by the Board decision dated 2 June 2016 and numbered 30, developed on the basis of Article 9 (b) of the Legislation Decree numbered 660 by Public Oversight Accounting and Auditing Standards Authority.

2.1.2 Financial statement amendments in hyperinflation economies

With the decision taken on March 17, 2005, the CMB announced that, effective from January 1, 2005, the application of inflation accounting is no longer required for listed companies in Turkey. The Group's financial statements have been prepared in accordance with this decision.

2.1.3 Offsetting

Financial assets and liabilities are offset and the net amount reported in the financial statements when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.1.4 Going concern

The Group prepared its consolidated financial statements based on going concern principle.

2.1.5 Comparative figures and the reclassification to the financial statements of the prior period

In order to determine the financial status and performance trends, the consolidated financial statements of the Group have been prepared in comparison with the consolidation financial statements of previous periods. Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current period.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.1 Basis Of Presentation (Continued)

2.1.6 New standards, amendments and interpretations

The Group adopted the standards, amendments and interpretations published by TAS and TFRS and which are mandatory for the accounting periods beginning on or after 30 June 2018.

a. ***New standards, amendments and interpretations effective as of 30 June 2018***

- **TFRS 9 'Financial instruments'**, effective from annual periods beginning on or after 1 January 2018. This standard replaces the guidance in TAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

- **TFRS 15 'Revenue from contracts with customers'**, effective from annual periods beginning on or after 1 January 2018. TFRS 15, 'Revenue from contracts with customers' is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.

- **TFRS 15, 'Revenue from contracts with customers'**, effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.

- **Amendments to TFRS 4, 'Insurance contracts'** regarding the implementation of TFRS 9, 'Financial Instruments', effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:

    - 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 TFRS 9 is applied before the new insurance contracts standard is issued; and
    - give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying TFRS 9 until 2021. The entities that defer the application of TFRS 9 will continue to apply the existing financial instruments standard - TAS 39.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.1 Basis Of Presentation (Continued)

- **Amendment to TAS 40, 'Investment property'** relating to transfers of investment property, effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

- **Amendments to TFRS 2, 'Share based payments'** on clarifying how to account for certain types of share-based payment transactions, effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in TFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

  Annual improvements 2014-2016; effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards.

  - TFRS 1, "First time adoption of TFRS", regarding the deletion of short-term exemptions for first-time adopters regarding TFRS 7, TAS 19 and TFRS 10,
  - TAS 28, "Investments in associates and joint venture" regarding measuring an associate or joint venture at fair value.

- **TFRIC 22, 'Foreign currency transactions and advance consideration'**, effective from annual periods beginning on or after 1 January 2018. This TFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

b. ***Standards, amendments and interpretations that are issued but not effective as at 30 June 2018:***

- **Amendment to TFRS 9, 'Financial instruments';** effective from annual periods beginning on or after 1 January 2019. This amendment confirm that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.1 Basis Of Presentation (Continued)

- **Amendment to IAS 28**, 'Investments in associates and joint venture'; effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies account for long-term interests in associate or joint venture to which the equity method is not applied using TFRS 9.

- **TFRS 16 'Leases'**, effective from annual periods beginning on or after 1 January 2019 with earlier application permitted if TFRS 15, 'Revenue from Contracts with Customers', is also applied. This standard replaces the current guidance in TAS 17 and is a far-reaching change in accounting by lessees in particular. Under TAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). TFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under TFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

  IFRIC 23, 'Uncertainty over income tax treatments'; effective from annual reporting periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments. The TFRS IC had clarified previously that IAS 37 'Provisions, contingent liabilities and contingent assets', not IAS 12 should be applied to accounting for uncertain income tax treatments. IFRIC 23 clarifies how to measure and account deferred income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

- **TFRS 17, 'Insurance contracts'**, effective from annual periods beginning on or after 1 January 2021. This standard replaces TFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. TFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.1 Basis Of Presentation (Continued)

Annual improvements 2015-2017; effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:

- TFRS 3, 'Business combinations', - a company remeasures its previously held interest in a joint operation when it obtains control of the business.
- TFRS 11, 'Joint arrangements', - a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- TAS 12, 'Income taxes' - a company accounts for all income tax consequences of dividend payments in the same way.
- TAS 23, 'Borrowing costs' - a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale

- **Amendments to IAS 19, 'Employee benefits' on plan amendment, curtailment or settlement';** effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:

    - use updated assumptions to determine current service cost and net interest for the reminder of the period after a plan amendment, curtailment or settlement; and;
    - recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

The Group management does not foresee any material impact of adoption of the aforementioned standards and interpretations on the financial statements of the Group in the upcoming periods.

2.2. Changes in Accounting Policies and Errors

Accounting policy changes arising from the initial application of a new TAS / TFRS are applied retroactively or in accordance with the transition provisions of TAS / TFRS, if applicable. Changes which are not included in any transition decree, significant changes in accounting policy or detected accounting errors are applied retrospectively and the prior period financial statements are restated. There has been no change in accounting policies in 2018, except for the Group's accounting policy changes required by TFRS 9 "Financial Instruments".

2.2.1 Effects on Consolidated Financial Statements

In the accounting period beginning on January 1, 2018, the Group has applied the TFRS 9, "Financial Instruments" standard, which has replaced with IAS 39, "Financial Instruments: Recognition and Measurement".

With the adoption of TFRS 9 Financial Instruments Standard, the Group has benefited from the exception, which allows to the presentation of comparative information related to prior periods' changes about classification and measurement (including impairment) without rearranging. The differences that occured in the carrying amount of financial assets and liabilities arising from the adoption of TFRS 9 are accounted for as of 1 January 2018 in retained earnings.

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2. Changes in Accounting Policies and Errors (Continued)

The amendments regarding the classification of financial assets and liabilities within the scope of TFRS 9 are summarized below. Aforementioned classification differences do not have an effect on the measurement of the financial assets listed below:

Financial assest	Prior classification according to TAS 39	New classification according to TFRS 9
Cash and cash equivalents	Loans and receivables	Amortised cost
Trade receivables	Loans and receivables	Amortised cost
Derivative financial assets	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through profit or loss
Financial investments	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through profit or loss
Financial investments	Available-for-sale financial asset	Financial assets measured at fair value through other comprehensive income

Financial liabilities	Prior classification according to TAS 39	New classification according to TFRS 9
Derivative financial liabilities	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through profit or loss
Loans	Amortised cost	Amortised cost
Trade payables	Amortised cost	Amortised cost

The following table reconciles the changes for impairment of financial assets between previous measurement category in accordance with TAS 39 as of December 31, 2017 to new measurement categories upon transition to TFRS 9 as of January 1, 2018:

According to TAS 39		According to TFRS 9	
Measurement category	**31 December 2017**	**Measurement category**	**1 January 2018**
Financial assest		**Financial assest**	
Cash and cash equivalents	4,133,674,967	Cash and cash equivalents	4,115,527,184
Available-for-sale financial assets	85,223,562	Financial assets measured at fair value through other comprehensive income	85,172,603
Financial assets held to maturity	22,768,209	Financial assets measured at amortised cost	22,737,234
Total	**4,241,666,738**	**Total**	**4,223,437,021**

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2. Changes in Accounting Policies and Errors (Continued)

The table below summarizes the statement of income of the application of TFRS 9 to the statement of financial position at 30 June 2018 and the consolidated statement of income for the six-month period ended on the same date.

Assets	**30 June 2018**	**TFRS 9 Effects**	**(Excluding effects) 30 June 2018**
Current assets			
Cash and cash equivalents	3,985,830,023	(17,599,654)	4,003,429,677
Financial investments	69,859,226	(59,212)	69,918,438
- Financial assets measured at fair value through profit or loss	*26,395,088*	-	*26,395,088*
- Financial assets measured at fair value through other comprehensive income	*8,466,795*	*(11,535)*	*8,478,330*
- Financial assets measured at amortised cost	*34,997,343*	*(47,677)*	*35,045,020*
Trade receivables	440,221,634	-	440,221,634
- Trade receivables due from related parties	-	-	-
- Trade receivables due from other parties	*440,221,634*	-	*440,221,634*
Receivables from financial activities	7,966,715	-	7,966,715
- Receivables from financial activities due from related parties	*6,486,373*	-	*6,486,373*
- Receivables from financial activities due from other parties	*1,480,342*	- -	*1,480,342*
Other receivables	129,113,357	-	129,113,357
- Other receivables due from other parties	*129,113,357*	-	*129,113,357*
Derivatives	77,226,356	-	77,226,356
- Derivatives held for trading	*77,226,356*	-	*77,226,356*
Prepaid expenses	4,160,945	-	4,160,945
- Prepaid expenses due to related parties	-	-	-
- Prepaid expenses due to other parties	*4,160,945*	-	*4,160,945*
Current income tax assets	40,430,210	-	40,430,210
Other current assets	40,491	-	40,491
- Other current assets due from other parties	*40,491*	-	*40,491*
Total current assets	**4,754,848,957**	**(17,658,866)**	**4,772,507,823**
Non-current assets			
Financial investments	76,028,853	(35,274)	76,064,127
- Financial assets measured at fair value through other comprehensive income	*76,028,853*	(35,274)	*76,064,127*
Property, plant and equipment	7,593,142	-	7,593,142
Intangible assets	28,257,427	-	28,257,427
Deferred tax assets	1,010,346	-	1,010,346
Total non-current assets	**112,889,768**	**(35,274)**	**112,925,042**
Total assets	**4,867,738,725**	**(17,694,140)**	**4,885,432,865**

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2. Changes in Accounting Policies and Errors (Continued)

Liabilities	**30 June 2018**	**TFRS 9 Effects**	**(Excluding effects) 30 June 2018**
Short term liabilities			
Short term liabilities	3,953,367,784	-	3,953,367,784
- Short term liabilities due to other parties	*3,953,367,784*	-	*3,953,367,784*
Trade payables	262,136,295	-	262,136,295
- Trade payables due to related parties	*6,417,790*	-	*6,417,790*
- Trade payables due to other parties	*255,718,505*	-	*255,718,505*
Liabilities for employee benefits	2,904,389	-	2,904,389
Other payables	30,490,588	-	30,490,588
- Other payables due to related parties	*109,812*	-	*109,812*
- Other payables due to other parties	*30,380,776*	-	*30,380,776*
Derivatives	16,484,508	-	16,484,508
- Derivatives held for trading	*16,484,508*	-	*16,484,508*
Tax liability for the period	2,023,058	-	2,023,058
Short term provisions	10,174,690	-	10,174,690
- Short term provisions for employee benefits	*8,358,000*	-	*8,358,000*
- Other short term provisions	*1,816,690*	-	*1,816,690*
Other short term liabilities	10,080,300	-	10,080,300
- Other short term liabilities due to other parties	*10,080,300*	-	*10,080,300*
Total short term liabilities	**4,287,661,612**	**-**	**4,287,661,612**
Long term liabilities			
Long term provisions	12,052,286	-	12,052,286
- Provisions for employee benefits	*12,052,286*	-	*12,052,286*
Deferred tax liabilities	10,707,624	(3,892,711)	14,600,335
Total long term liabilities	**22,759,910**	**(3,892,711)**	**26,652,621**
Total liabilities	**4,310,421,522**	**(3,892,711)**	**4,314,314,233**
Shareholder's equity			
Paid in capital	98,918,083	-	98,918,083
Adjustments to share capital	63,078,001	-	63,078,001
Accumulated other comprehensive income or (expensens) that will be reclassified to profit or loss	1,872,329	3,237	1,869,092
- Revaluation and reclassification gains (losses)	*1,872,329*	*3,237*	*1,869,092*
Accumulated other comprehensive income or (expenses) that will not be reclassified to profit or loss	(3,055,460)	-	(3,055,460)
- Revaluation and remeasurement gains (losses)	*(3,055,460)*	-	*(3,055,460)*
Restricted reserves	234,277,667	-	234,277,667
Retained earnings	96,823,819	(14,219,180)	111,042,999
Net income for the period	59,223,572	414,514	58,809,058
Equity attributable to owners of the parent	**551,138,011**	**(13,801,429)**	**564,939,440**
Non-controlling interests	**6,179,192**	**-**	**6,179,192**
Total shareholder's equity	**557,317,203**	**(13,801,429)**	**571,118,632**
Total liabilities and shareholder's equity	**4,867,738,725**	**(17,694,140)**	**4,885,432,865**

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2. Changes in Accounting Policies and Errors (Continued)

	30 June 2018	TFRS 9 Effects	(Excluding effects) 30 June 2018
PROFIT OR LOSS			
Revenue	6,053,714,310	-	6,053,714,310
Cost of sales (-)	(6,002,400,343)	-	(6,002,400,343)
Gross profit from business operations	**51,313,967**	**-**	**51,313,967**
Revenue from financial activities	37,774,206	-	37,774,206
Cost of financial activities (-)	(5,012,928)	-	(5,012,928)
Gross profit from financial activities	**32,761,278**	**-**	**32,761,278**
Gross profit/loss	**84,075,245**	**-**	**84,075,245**
General administrative expenses (-)	(60,211,710)	-	(60,211,710)
Marketing, selling and distribution expenses (-)	(16,134,838)	-	(16,134,838)
Other income from operating activities	466,381,028	-	466,381,028
Other expense from operating activities (-)	(397,799,397)	531,428	(398,330,825)
Operating profit	**76,310,328**	**531,428**	**75,778,900**
Tax expense from continuing operations (-)	**(14,861,378)**	**(116,914)**	**(14,744,464)**
- Tax expense for the period (-)	(10,460,054)	-	(10,460,054)
- Deferred tax expense (-)	(4,401,324)	(116,914)	(4,284,410)
Total profit	**61,448,950**	**414,514**	**61,034,436**
Total profit attributable to	**61,448,950**	**414,514**	**61,034,436**
Non-controlling interests	2,225,378	-	2,225,378
Equity holders of the parent	59,223,572	414,514	58,809,058

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2. Changes in Accounting Policies and Errors (Continued)

	1 January - 30 June 2018	TFRS 9 Effects	(Excluding effects 1 January - 30 June 2018
OTHER COMPREHENSIVE INCOME			
Total profit/loss	**61,448,950**	**-**	**61,448,950**
Items that will be reclassified to profit or loss	**1,845,094**	**(3,237)**	**1,848,331**
Revaluation and/or classification gains/losses of Financial assets measured at fair value through other comprehensive income	2,365,505		2,369,655
Taxes related to other comprehensive income that will be reclassified to profit or loss	(520,411)	913	(521,324)
- Deferred tax (expense)/income	(520,411)	913	(521,324)
Items that will not be reclassified to profit or loss	**(555,396)**	**-**	**(555,396)**
Defined benefits plans remeasurement gains (losses)	(712,047)	-	(712,047)
Taxes related other comprehensive income that will not be reclassified to profit or loss	156,651	-	156,651
- Deferred tax (expense) income	156,651	-	156,651
Other comprehensive income	**1,289,698**	**(3,237)**	**1,292,935**
Total comprehensive income	**62,738,648**	**(3,237)**	**62,741,885**
Total comprehensive income attributable to			
Non-controlling interests	2,225,378	-	2,225,378
Equity holders of the parent	60,513,270	(3,237)	60,516,507

2.2.2 Measurement of effects of TFRS 9 Financial instruments

The Group has changed the methodology for the separation of impairment of financial assets in accordance with TFRS 9's new anticipated credit loss model. The effect of the change on the Group's retained earnings for the years ended January 1, 2018 is as follows.

Retained earnings - 31 December 2017	**55,548,498**
Increase in provision of credit impairment related to cash and cash equivalents	(18,147,783)
Increase in provision for impairment of financial assets measured at fair value through profit or loss	(50,959)
Increase in provision of loan impairment of financial assets measured at amortised cost	(30,975)
Deferred tax effect	4,010,537
Retained earnings - 1 January 2018 - including TFRS 9 effects	**41,329,318**

The Group allocates impairment provision for the following financial assets according to the expected credit loss model:

- Cash and cash equivalents
- Financial investments

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.3 Changes in Accounting Estimates

If the changes in the accounting estimates are related to only one period; changes are made only in the related period, if the changes in the accounting estimates related to future periods; changes are made both for the current and future periods, oriented to future periods. There has been no significant change in the Group's accounting estimates in the current period.

2.4 Summary of Significant Accounting Policies

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its Subsidiary. Control is exercised when a company has power over financial and operational policies of a business with the purpose of benefiting from the business' operations.

As of 30 June 2018 and 31 December 2017, details of the subsidiary and associate of the Group are as follows:

Legal entity	30 June 2018 Ratio of shares in capital	31 December 2017 Ratio of shares in capital	Service Line
Yapı Kredi Portföy Yönetimi A.Ş. (Subsidiary)	87.32%	87.32%	Portfolio Management

Subsidiary

Yapı Kredi Portföy Yönetimi A.Ş. ("Yapı Kredi Portföy" or "subsidiary") is subject to full consolidation as the Company is the main shareholder and has control rights over subsidiary.

The Company's subsidiary Koç Portföy Yönetimi A.Ş. has legally merged with Yapı Kredi Portföy Yönetimi A.Ş. on December 29, 2006. Accordingly, all rights, receivables, liabilities and obligations of Yapı Kredi Portföy were transferred to Koç Portföy. After merger, the Subsidiary has changed its title as Yapı Kredi Portföy Yönetimi A.Ş. and accordingly the Company has an interest of 87.32% (31 December 2017: 87.32%) of the voting rights.

Within the context of the Capital Markets Board regulations, the Subsidiary's principal activities are managing mutual and private funds and performing discretionary portfolio management ("DPM") for institutions, endowments and individuals.

The balance sheets and statements of income of the subsidiary are consolidated on a line-by-line basis and the carrying value of the investment held by the Company is eliminated against the related equity.

The minority shares in net assets and operating results are classified as "minority interest". Intercompany transactions and balances between the Company and the subsidiary are eliminated during consolidation. Subsidiary is consolidated from the date on which control is transferred to the Company and will no longer be consolidated from the date that control ceases.

Where necessary, accounting policies of the subsidiary have been changed to ensure consistency with the policies adopted by the Company.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

(b) Revenue recognition

(I) Fee and commission income and expenses

Fees and commissions are recognized in the income statement when they are collected or paid. However, fund management, investment consulting fees, intermediary commissions and portfolio management commissions are recognized on an accrual basis. Common stock transaction commissions are netted off with commission rebates.

(ii) Interest income and expenses and dividend income

Interest income and expenses are recognized in the income statement in the period to which they relate on an accrual basis. Interest income consists of income derived from coupons of fixed-rate and variable-rate instruments, income arising from the valuation of discounted government securities on an internal rate of return basis, and interest rates arising from the Money Market and reverse repurchase transactions.

Dividend income from common stock investments are recognized when the shareholders have the right to take the dividend.

(c) Trade receivables

Trading receivables that arise as a result of providing services to the receiver by the Group are disclosed by offsetting unearned financing income. After the unearned financing income, trading receivables are calculated with the discounted amounts of receivables that are recorded with their original invoice value and realized in next periods with the effective interest method. Short term receivables that do not have any specified interest rate are disclosed with their cost values when there is no major effect of using original effective interest rate.

(d) Financial assets

The Group classifies and accounts its financial assets as "Financial assets measured at fair value through profit or loss", "Financial assets measured at fair value through other comprehensive income, "Financial assets measured at amortised cost" and "Loans and receivables".

Sales and purchases of the financial assets mentioned above are recognized at the "settlement dates".

The appropriate classification of financial assets of the Group is determined at the time of purchase and according to the "market risk policies" by the Group management, taking into consideration the purpose of holding the investment.

All financial assets initially are recognized at fair value with purchase expenses of investment, except financial assets at fair value through profit or loss.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

(i) Financial assets at fair value through profit and loss

In the Group, financial assets which are classified as "financial assets at fair value through profit or loss" are trading financial assets and are either acquired for generating profit from short-term fluctuations in the price or dealer's margin, or are the financial assets included in a portfolio in which a pattern of short-term profit making exists independent from the acquisition purpose.

Trading financial assets are initially recognized at fair value and are subsequently re-measured at their fair value. It is accepted that the fair value is recognized as the best buy order as of the balance sheet date. However, if fair values cannot be obtained from the market transactions, it is accepted that the fair value cannot be measured reliably and that the financial assets are carried at "amortised cost" using the effective interest method. All gains and losses arising from these evaluations are recognized in the income statement.

All gains and losses arising from these evaluations, coupon and interest income are recognized in "Financial income" account in the income statement.

(ii) Financial assets at fair value through other comprehensive income:

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI).

Financial assets at fair value through other comprehensive income are subsequently re-measured at fair value. When fair values based on market prices cannot be obtained reliably, the financial assets at fair value through other comprehensive income are carried at fair values determined by using "Discounted value" method.

"Unrealized gains and losses" arising from changes in the fair value of financial assets classified as financial assets at fair value through other comprehensive income are recognized in the shareholders' equity as "Other accumulated comprehensive income that will be reclassified in profit or loss ", until the related assets are impaired or disposed. When these financial assets are disposed or impaired, the related fair value differences accumulated in the shareholders' equity are transferred to the income statement. Interest and dividends received from Financial assets at fair value through other comprehensive income are recorded in interest income and dividend income as appropriate.

Interest income on financial assets at fair value through other comprehensive income are calculated by effective interest rate method and are accounted for in interest income account. At the time of sale of an financial assets at fair value through other comprehensive income before the maturity, the difference between the profit, which is the difference between the cost and sales price of the financial assets, and the interest income accrual are accounted under "Profit/losses from capital market transactions".

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

(iii) Assets recognized at amortised cost

Financial assets recognized at amortised cost if the retention is in the context of a business model which aimed at collecting contractual cash flows and the contractual terms lead to cash flows contain only principal and interest payments on the principal balance and at specific dates. These assets are initially recognized at acquisition cost including the transaction costs which reflect the fair value of those instruments and subsequently recognized at amortised cost by using "Effective interest rate method".

(iv) Loans (Trade receivables)

Loans are financial assets that are measured at amortised cost, other than those held for trading in short term or those created for providing money to the obligor.Loans are financial assets that have fixed or determinable payments terms and are not quoted in an active market. Loans are initially recognized at acquisition cost plus transaction costs presenting their fair value and thereafter measured at amortised cost using the "Effective interest rate method". The fees paid related to the assets received as guarantee of these and other similar expenses are not accepted as part of the transaction cost and reflected to expense accounts.

The Group provides loans to its customers for stock purchases.

(v) Reverse repurchase agreements

Funds given against securities purchased under agreements ("Reverse Repo") to resell are accounted under "Cash and cash Equivalents" on the balance sheet. The difference between the purchase and determined resell price is accrued over the life of repurchase agreements using the effective interest method and is recorded as receivables from reverse repo transactions

(e) Property and equipment

Property and equipment are carried at cost less accumulated depreciation.

Depreciation on the tangible assets is provided on straight-line method according to their useful lives from the date of recognition or assembly of the related asset. The estimated useful lives of assets are as follows:

Buildings	50 years
Furnitures and fixtures	4-5 years
Leasehold improvements	4-5 years

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

Estimated useful life and depreciation method are reviewed at each balance sheet date in order to detect the effects of changes in the estimates and if appropriate, the changes in estimates are accounted.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the provision for the impairment in value is charged to the income statement.

Gains and losses on the disposal of assets are determined by deducting the net book value of the assets from its sales proceeds and charged to the income statement in the current period.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

(f) Intangible assets

Intangible assets consist of acquired rights, information systems and softwares. These assets are recorded at original costs and amortised over their estimated useful lives, approximately 3-5 years, using the straight-line method. Estimated useful lives and amortization method are reviewed annually and the changes in estimates are recognized to determine the possible effects of the changes in estimates.

The book value of intangible assets are reduced to recoverable value, if impairment exists.

(g) Impairment of financial assets

Expected credit losses for financial assets at fair value through profit or loss and financial assets measured at amortised cost are evaluated on a prospective basis at each balance sheet date to determine whether there are any indication of impairment. An impairment loss is recognized if one or more events occur after the initial recognition of the financial asset and there is an objective indication that the financial asset or group of assets is impaired due to the negative impact of the related financial asset or asset group on the future.In the event that there is no significant increase in the credit risk in the financial instrument since the initial recognition, the Group measures the allowance for the financial asset at an amount equal to the 12-month expected credit losses.

The Group allocates provision of doubtful receivables for trade receivables if there is an objective finding that there is no possibility of collection. The amount of this provision is the difference between the carrying amount and the recoverable amount of the receivable.The recoverable amount is all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the formed receivables.

Following the allowance for doubtful receivable provision,in case of collection of total or part of the doubtful receivable amount, the amount collected is deducted from the provision for doubtful receivable and recorded in other income.

In all financial assets with the exception of trade receivables whose the net book value is reduced through the use of an allowance account, the impairment is deducted directly from the carrying amount of the related financial asset. In the event that the case of the trade receivable cannot be collected become certain, the related amount is deducted from the provision account.Changes in the provision account are recognized in the income statement.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

Expected credit losses measurement

The measurement of the allowance for expected credit loss for financial assets measured at amortised cost and at fair value through other comprehensive income is an area that requires the use of the financial position and future relevant economic assumptions and advanced models.

A group of important decisions are required to apply the accounting requirements for measuring expected credit losses. These are:

- Determination of criteria for significant increase in credit risk
- Selection of appropriate models and assumptions for measuring expected credit losses
- Identify the related expected credit loss and the number and likelihood of prospective scenarios for each type of product / market
- Identification of a similar group of financial assets for the purposes of measuring expected credit losses

(h) Financial liabilities

(i) Repurchase agreements

Securities subject to repurchase agreements ("Repo") are classified as "Financial assets at fair value through profit or loss", "Financial assets at fair value through other comprehensive income" and "Financial assets measured at amortised cost" according to the investment purposes of the Group and measured according to the portfolio to which they belong.

Funds obtained from repurchase agreements are accounted under "Financial Liabilities" in liabilities and the difference between the sale and repurchase price is accrued over the life of the repurchase agreements using the "effective interest method" and is added to the cost of the financial assets which are subject to repurchase agreements.

The Group has no securities lending transactions.

(ii) Other financial liabilities

Other financial liabilities are initially recognized at fair value and are subsequently measured at amortised cost using the effective interest method.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

(ı) Borrowing costs

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

All other borrowing costs are recognized in the profit or loss in the period in which they are incurred.

(i) Foreign exchange transactions

Transactions denominated in foreign currencies are accounted for at the exchange rates prevailing at the date of the transactions; monetary assets and liabilities are accounted for at the period-end bid rate of Central Bank of the Republic of Turkey ("CBRT"). Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

(j) Provisions and contingent assets and liabilities

Provisions are recognized when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. When the amount of the obligation cannot be estimated and an outflow of resources is not probable, it is considered that a "contingent" liability exists and it is disclosed in the related notes to the financial statements.

Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the entity. Contingent assets are not recognized in financial statements since this may result in the recognition of income that may never be realized. Contingent assets are disclosed where an inflow of economic benefits is probable.

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements in the period in which the change occurs.

(k) Finance leases - the Group as lessee

Assets acquired under finance lease agreements are capitalized at the inception of the lease at the amount of lower of the fair value of the leased asset, and the present value of the lease payment. Assets acquired under finance lease agreements are classified under property and equipment and depreciated as per assets useful lives. Liabilities arising from financial lease agreements are followed under the "Financial lease payables" account in the balance sheet.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

(l) Operational lease - the Group as lessee

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

Operating lease payments are recognized in the consolidated income statements as an expense on a straight line basis over the lease term. Benefits obtained or to be obtained are also recorded on a straight line basis over the lease term.

(m) Subsequent events

Subsequent events cover any events which arise between the date of approval of the financial statements and the balance sheet date, even if they occurred after declaration of the net profit for the period or specific financial information is publicly disclosed. The Group adjusts its financial statements if such subsequent events require an adjustment to the financial statements.

(n) Related parties

For the purpose of these consolidated financial statements, shareholders, subsidiaries of Yapı ve Kredi Bankası A.Ş. with direct and/or indirect capital relation, Koç Holding A.Ş. and Unicredito Italiano S.p.A group companies, key management personnel and board members, their families and companies are considered as "related parties".

(o) Taxes calculated over Group's profit

Corporate tax

Corporate tax is calculated according to the Tax Procedural Law, and tax expenses except corporate tax are recognized in operating expenses.

Turkish tax regulations do not enable the parent company to give tax statement over the consolidated financial statements of its subsidiaries and affiliates. Due to this reason, tax provisions reflected to these consolidated financial statements are calculated for each company the full consolidation scope.

Corporate tax is subject to offsetting when a legal right about netting off the current tax assets and liabilities or when they are related to the corporate tax collected by the same tax regulatory.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

Deferred tax

Deferred income tax is provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The deferred tax assets and the deferred tax liabilities can be netted off only if there is a legal right in this respect according to the tax legislation of the country they are dependent on.

Significant temporary differences arise from provision for employment termination benefits, provision for unused vacation rights, valuation differences of buildings and other fixed assets, valuation differences of available for sale financial assets and various expense provisions.

Deferred tax liabilities and assets are recognized when it is probable that the future economic benefit resulting from the reversal of temporary differences will flow to or from the Company. Deferred tax assets resulting from temporary differences in the recognition of expense for income tax and financial reporting purposes are recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilized.

Current tax except for the related items accounted under “Value increase fund” account in equity and deferred tax of the regarding period is accounted as income or expense in the statement of income.

(ö) Employee benefits

Defined benefit plans:

The Group accounts for employee termination benefits, vacation rights and other benefits to employees in accordance with “Turkish Accounting Standard for Employee Rights” (“TAS 19”) and they are classified under “provisions for employee benefits” in the balance sheet.

Under the Turkish Labour Law, the Group is required to pay a specific amount to the employees who have retired or whose employment is terminated other than for the reasons specified in the Turkish Labour Law. The reserve for employment termination benefits represents the present value of the estimated total reserve for the future probable obligation of the Company arising from this liability regarding the actuarial projections and reflected to financial statements.

Defined contribution plans:

The Group has to pay contribution to Social Security Institution (Institution) for its employees within the contribution margin decided by the law. The Group does not have other liabilities to its employees or to Institution other than the contribution for its employees. Those contributions are expensed on the date of accrual.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.4 Summary of Significant Accounting Policies (Continued)

(p) Capital and dividends

Ordinary shares are classified in equity. Dividends over ordinary shares are classified as dividend payable by deducting from accumulated profits, when the decision of dividend distribution is taken.

(r) Statement of cash flows

For the purposes of statement of cash flows, cash and cash equivalents include due from banks with maturity less than three months, receivables from reverse repo transactions and investment funds.

(s) Share certificates and issuance

At capital increases, the Group accounts the difference between the issued value and nominal value as share issue premium under equity, in the case where the issued value is higher than the nominal value. The Group has no decision for profit distribution after the balance sheet date.

(ş) Assets held for sale and discontinued operations

Discontinued operation is defined as a part of the Group with distinguished operations and cash flows that is disposed of or classified as held for sale. Results of discontinued operations are disclosed separately in the income statement.

A tangible asset (or a disposal group) classified as "asset held for sale" is measured at lower of carrying value or fair value less costs to sell. An asset (or a disposal group) is regarded as "asset held for sale" only when the sale is highly probable and the asset (disposal group) is available for immediate sale in its present condition. For a highly probable sale, there must be a valid plan prepared by the management for the sale of asset including identification of possible buyers and completion of sale process. Furthermore, the asset should be actively in the market at a price consistent with its fair value.

(t) Derivatives

The Group's derivative transactions are composed of foreign currency/interest rates swaps, forward contracts and future transactions. Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting periods

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.5 Significant Accounting Judgements, Estimates and Assumptions

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities or amounts of contingent assets and liabilities, and income and expense reported in the related period. Even though these assumptions and estimates are based on the best estimates of the Group's management, the actual results might differ from them.

Judgements that have the most significant effect on the amounts recognized in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Financial assets measured at amortised cost: Classification of financial assets as held-to-maturity is at management discretion within the scope of management's objective and capability.If the Group can not manage to retain these assets until the maturity date, they will have to reclassify them as financial assets at fair value through other comprehensive income, except specific cases as for example, selling of immaterial amount close to maturity date. In this case, investments are measured at their fair value instead of amortised cost.

Impairment of stock investments classified as financial assets at fair value through other comprehensive income: The Group agrees on impairment of stock investments classified as financial assets at fair value through other comprehensive income whose fair value significantly drop down below by the book value for a long time. It requires discretion deciding what is a significant or a long-term impairment.Impairment may be appropriate if there is evidence of changes on the invested company, industry and industry performance, in technology, and deterioration of cash flows that provide operational or financing. When all circumstances of the fair value drops below by the book value are evaluated as significant and long-term, the Group does not incur any additional loss other than transfer of the fair value reserve total balance of debit to profit or loss.

Deferred income tax asset recognition; Deferred income tax assets are recorded to the extent that realization of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

3. BUSINESS COMBINATIONS

None (31 December 2017: None).

4. JOINT VENTURES

None (31 December 2017: None).

5. SEGMENT REPORTING

Since the Group is not publicly held, there is no segment reporting in the consolidated financial statements as of 30 June 2018.

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

6. CASH AND CASH EQUIVALENTS

	30 June 2018	31 December 2017
Banks		
- Demand deposits	58,265,798	38,139,599
- Time deposits	3,945,073,994	4,095,417,603
Receivables from reverse repo agreements	89,885	117,765
Allowances for expected credit losses (-)	(17,599,654)	-
	3,985,830,023	**4,133,674,967**

As of 30 June 2018, TRY 1,968,210,137 of bank deposits (31 December 2017: TRY 2,447,494,617) are held by related parties and institutions (Note 28).

TRY 52,347,535 of demand deposits (31 December 2017: TRY 31,846,857) are held by the Group's bank accounts in the collateral status of the Group's customers (Note 15).

As of 30 June 2018, the average maturity for TRY and EUR deposits is 2 and 30 days respectively, while the average interest rates are 17.50% and 2.10% (31 December 2017: 11.44% and 1.99%) respectively. As of 30 June 2018, there are no USD time deposits due (31 December 2017: None).

For the purpose of statement of cash flows, details of cash and cash equivalents are as follows:

	30 June 2018	30 June 2017
Time deposits with maturity less than 3 months	3,945,073,994	4,161,104,015
Demand deposits	5,918,263	8,400,449
Receivables from reverse repo agreements	89,885	72,688
	3,951,082,142	**4,169,577,152**

7. FINANCIAL INVESTMENTS

Short term financial investments

	30 June 2018	31 December 2017
Financial assets measured at fair value through profit or loss	26,395,088	45,582,488
- Shares certificate listed on the stock market	*26,299,965*	*38,441,543*
- Investment funds	*95,123*	*7,140,945*
Financial assets measured at fair value through other comprehensive income	8,466,795	16,276,067
- Corporate sector bonds and bills	*8,478,330*	*16,276,067*
- Allowances for expected credit losses (-)	*(11,535)*	-
Financial assets measured at amortised cost	34,997,343	22,768,209
- Government bonds and treasury bills	*35,045,020*	*22,768,209*
- Allowances for expected credit losses (-)	*(47,677)*	-
Total short term financial investments	**69,859,226**	**84,626,764**

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

7. FINANCIAL INVESTMENTS (Continued)

Long term financial investments

	30 June 2018	31 December 2017
Financial assets measured at fair value through other comprehensive income	76,028,853	68,947,495
- Share certificates	*50,135,553*	*47,770,354*
- Corporate bonds and bills	*25,928,574*	*21,177,141*
- Allowances for expected credit losses (-)	*(35,274)*	*-*
Total long term financial investments	**76,028,853**	**68,947,495**
Total financial investments	**145,888,079**	**153,574,259**

As of 30 June 2018, financial assets measured at amortised cost whose the total amount of fair value is TRY 34,529,883 and the total amount of net book value is TRY 34,997,343, are held as collaterals in CBRT, BİST and Istanbul Settlement and Custody Bank Inc. ("Takasbank"). (31 December 2017: Financial assets measured at amortised cost with fair value of TRY 14,344,413 and net book value of TRY 13,671,235).

Breakdown of the financial assets measured at amortised cost are as follows:

	30 June 2018	31 December 2017
1 month - 3 months	5,931,270	-
3 months - 1 year	29,113,750	22,768,209
Allowances for expected credit losses (-)	(47,677)	-
	34,997,343	**22,768,209**

Short term financial investments:

		30 June 2018	
	Cost	**Fair value**	**Carrying Value**
Financial assets measured at fair value through profit or loss			
Shares certificate listed on the stock market	*28,876,517*	*26,299,965*	*26,299,965*
-Securities investment fund	100,000	95,123	95,123
Financial assets measured at fair value through other comprehensive income			
Corporate bonds and bills	*8,239,750*	*8,478,330*	*8,478,330*
Allowances for expected credit losses (-)	-	*(11,535)*	*(11,535)*
Financial assets measured at amortised cost			
Government bonds and treasury bills	*34,301,723*	*34,529,883*	*35,045,020*
Allowances for expected credit losses (-)	-	*(47,677)*	*(47,677)*
	71,517,990	**69,344,089**	**69,859,226**

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

7. FINANCIAL INVESTMENTS (Continued)

		31 December 2017	
	Cost	**Fair value**	**Carrying Value**
Financial assets measured at fair value through profit or loss			
Shares certificate listed on the stock market	*36,572,410*	*38,441,543*	*38,441,543*
Securities investment fund	*7,000,000*	*7,140,945*	*7,140,945*
Financial assets measured at fair value through other comprehensive income			
Corporate bonds and bills	*15,517,250*	*16,276,067*	*16,276,067*
Financial assets measured at amortised cost			
Government bonds and treasury bills	*21,551,669*	*22,596,870*	*22,768,209*
	80,641,329	**84,455,425**	**84,626,764**

Long term financial investments:

		30 June 2018	
	Cost	**Fair value**	**Carrying Value**
Financial assets measured at fair value through other comprehensive income			
- *Share certificates*	32,192,533	50,135,553	50,135,553
- *Corporate bonds and bills*	25,348,686	25,928,574	25,928,574
- *Allowances for expected credit losses (-)*	-	*(35,274)*	*(35,274)*
	57,541,219	**76,028,853**	**76,028,853**

		31 December 2017	
	Cost	**Fair value**	**Carrying Value**
Financial assets measured at fair value through other comprehensive income			
- *Share certificates*	*32,192,533*	*47,770,354*	*47,770,354*
- *Corporate bonds and shares*	*20,592,417*	*21,177,141*	*21,177,141*
	52,784,950	**68,947,495**	**68,947,495**

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

7. FINANCIAL INVESTMENTS (Continued)

The movement table of financial assets measured at amortised cost for the periods ended 30 June 2018 and 2017 is as follows:

	2018	2017
1 January	**22,768,209**	**26,698,291**
Purchases during the period	119,430,000	121,300,000
Valuation increase/decrease (rediscount rate is included)	276,811	(1,874,631)
Disposals in the period	(107,430,000)	(114,800,000)
Allowances for expected credit losses (-)	(47,677)	-
30 June	**34,997,343**	**31,323,660**

The details of long term financial assets measured at fair value through other comprehensive income are as follows;

	30 June 2018		31 December 2017	
Type	**Amount (TRY)**	**Share (%)**	**Amount (TRY)**	**Share (%)**
Share certificates not listed on the stock market				
İstanbul Takas ve Saklama Bankası A.Ş.	47,303,999	4.38	44,938,800	4.38
Borsa İstanbul A.Ş.	2,683,144	0.08	2,683,144	0.08
Yapı Kredi Azerbaycan Ltd.	110,279	0.10	110,279	0.10
Allianz Yaşam ve Emeklilik A.Ş.	26,432	0.04	26,432	0.04
Koç Kültür Sanat ve Tanıtım Hiz. Tic. A.Ş	11,699	4.90	11,699	4.90
	50,135,553		**47,770,354**	

As of June 30, 2018, the Group valued its Takasbank shares (26,280,000 Nominal) with bid price of TRY 1.80 announced by Takasbank notice with no. 2018/2824.

As of December 31, 2017, the Group valued its Borsa İstanbul A.Ş. shares (319,422 Nominal) with bid price of TL 8.4 announced by Borsa İstanbul A.Ş. notice with no 2016/110.

8. ASSETS HELD FOR SALE

None (31 December 2017: None).

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

9. SHORT TERM LIABILITIES

	30 June 2018	31 December 2017
Payables to Money Markets (*)	2,988,547,702	2,842,561,658
Issued bonds	954,166,159	1,290,482,553
Payables from short selling	10,653,923	1,622,984
Bank loans (**)	-	30,032,750
	3,953,367,784	**4,164,699,945**

(*) Payables to Money Markets have an average maturity of 47 days and the average interest rate is 18.09% (31 December 2017: 19 days, 14.40%).

(**) As of 30 June 2018, there is no bank loan. (December 31, 2017 : average 4 days maturity, 13.10%, interest rate).

Details of bonds issued as 30 June 2018 are as follows:

Marketable Security	Nominal Amount	Currency	Issue Date	Maturity Date	Simple Interest (%)	Compound Interest (%)	Type
Bond	160,000,000	TRY	11 July 2018	12 April 2018	14.18	15.20	Fixed
Bond	149,000,000	TRY	18 July 2018	19 April 2018	14.20	15.20	Fixed
Bond	141,000,000	TRY	27 July 2018	30 April 2018	14.42	15.43	Fixed
Bond	174,000,000	TRY	10 August 2018	16 May 2018	14.67	15.66	Fixed
Bond	179,725,000	TRY	29 August 2018	01 June 2018	16.64	17.84	Fixed
Bond	167,910,000	TRY	19 September 2018	19 June 018	18.95	20.39	Fixed
Bond	160,000,000	TRY	11 July 2018	12 April 2018	14.18	15.20	Fixed

Details of bonds issued as 31 December 2017 are as follows:

Marketable Security	Nominal Amount	Currency	Issue Date	Maturity Date	Simple Interest (%)	Compound Interest (%)	Type
Bond	224,750,000	TRY	17 October 2017	16 January 2018	13.56	14.47	Fixed
Bond	4,446,388	TRY	20 October 2017	17 January 2018	13.74	14.68	Fixed
Bond	9,984,789	TRY	24 October 2017	22 January 2018	13.89	14.83	Fixed
Bond	1,552,225	TRY	26 October 2017	24 January 2018	13.94	14.89	Fixed
Bond	124,900,000	TRY	26 October 2017	19 January 2018	13.58	14.49	Fixed
Bond	113,578,698	TRY	30 October 2017	27 April 2018	14.75	15.50	Fixed
Bond	44,951,001	TRY	31 October 2017	29 January 2018	14.13	15.09	Fixed
Bond	8,057,756	TRY	31 October 2017	8 January 2018	13.84	14.82	Fixed
Bond	50,000,000	TRY	1 November 2017	15 January 2018	13.69	14.63	Fixed
Bond	200,000,000	TRY	3 November 2017	2 February 2018	13.65	14.53	Fixed
Bond	18,037,652	TRY	3 November 2017	1 February 2018	14.01	14.94	Fixed
Bond	63,787,717	TRY	6 November 2017	30 January 2018	14.10	15.05	Fixed
Bond	3,144,448	TRY	6 November 2017	30 January 2018	14.02	14.96	Fixed
Bond	4,742,487	TRY	8 November 2017	5 January 2018	13.76	14.74	Fixed
Bond	172,200,000	TRY	10 November 2017	19 February 2018	13.72	14.56	Fixed
Bond	1,195,903	TRY	10 November 2017	9 January 2018	13.86	14.85	Fixed
Bond	15,139,892	TRY	13 November 2017	12 January 2018	13.87	14.84	Fixed
Bond	172,050,000	TRY	6 December 2017	6 March 2018	14.13	14.98	Fixed
Bond	79,350,000	TRY	20 December 2017	21 March 2018	14.32	15.14	Fixed

(Amounts expressed in Turkish lira (“TRY”) unless otherwise indicated.)

10. TRADE RECEIVABLES AND PAYABLES

Short term trade receivables

	30 June 2018	31 December 2017
Receivables from loan customers	209,287,900	219,391,578
Receivables from customers	227,175,715	149,893,728
Commission receivables	3,758,019	1,691,520
Doubtful trade receivables	1,021,677	864,527
Provision for doubtful trade receivables	(1,021,677)	(864,527)
Receivables from settlement and custody bank	-	96,521,222
	440,221,634	**467,498,048**

The Group allocates credit to its customers for use in stock trading. As of 30 June 2018, the amount of loans allocated to customers by the Group is TRY 209,287,900 (31 December 2017: TRY 219,391,578) and the Group holds the total market value of the share certificates which are listed on the stock market is TRY 402,115,942 as collateral. (31 December 2017: TRY 447,857,278) (Note 15).

Short term trade payables

	30 June 2018	31 December 2017
Payables from settlement and custody bank	145,690,994	-
Payables to customers	109,337,423	194,242,184
Agent commision payable	3,259,124	3,583,745
Payables to vendors	1,759,987	4,463,284
Other trade payables	2,088,767	1,141,548
	262,136,295	**203,430,761**

11. RECEIVABLES FROM FINANCIAL ACTIVITIES

Receivables from financial activities

	30 June 2018	31 December 2017
Investment fund management fee receivables (Note 28)(*)	5,980,456	5,687,977
Discretionary portfolio management fee receivables	855,796	9,432
Individual pension fund management fee receivables (Note 28)(**)	754,927	1,292,340
Individual pension fund performance fee receivables (Note 28)(**)	370,911	4,776,383
Investment advisory receivables (Note 28)	-	1,245,779
Discretionary portfolio success fee receivables	-	25,115
Other	4,625	15,008
	7,966,715	**13,052,034**

(*) Investment fund management commission receivables are obtained management fee receivables from 33 (31 December 2017: 33) investment funds established in accordance with the Capital Markets Law and related legislations.

(**) Pension fund commission and performance fee receivables are derived from 25 (31 December 2017: 25) individual pension funds, 12 of which are related institutions.

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

12. OTHER RECEIVABLES AND PAYABLES

Other receivables

	30 June 2018	31 December 2017
Deposits and collaterals given	101,371,193	44,113,739
Collaterals given to markets	27,742,164	33,400,643
	129,113,357	**77,514,382**

Other payables

	30 June 2018	31 December 2017
Deposits and collaterals received	29,999,244	21,463,675
Payables to marketable securities disposal fund	491,344	491,344
	30,490,588	**21,955,019**

13. PROPERTY AND EQUIPMENT

30 June 2018	Buildings	Furniture and fixtures	Leasehold improvements	Total
Net book value, 1 January	5,083,298	2,431,471	711,444	8,226,213
Additions	-	158,832	2,137	160,969
Depreciation expense	(92,196)	(600,407)	(101,437)	(794,040)
Net book value, 30 June	**4,991,102**	**1,989,896**	**612,144**	**7,593,142**
Cost	11,026,598	17,683,201	5,034,265	33,744,064
Accumulated depreciation	(6,035,496)	(15,693,305)	(4,422,121)	(26,150,922)
Net book value, 30 June	**4,991,102**	**1,989,896**	**612,144**	**7,593,142**

31 December 2017	Buildings	Furniture and fixtures	Leasehold improvements	Total
Net book value, 1 January	**5,377,955**	**2,882,078**	**750,127**	**9,010,160**
Additions	-	636,911	158,632	795,543
Depreciation expense	(294,657)	(1,087,518)	(197,314)	(1,579,489)
Net book value, 31 December	**5,083,298**	**2,431,471**	**711,445**	**8,226,214**
Cost	11,026,598	17,524,371	5,032,129	33,583,098
Accumulated depreciation	(5,943,300)	(15,092,900)	(4,320,684)	(25,356,884)
Net book value, 31 December	**5,083,298**	**2,431,471**	**711,445**	**8,226,214**

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

14. INTANGIBLE ASSETS

	30 June 2018
Net book value, 1 January 2018	26,986,668
Additions	2,710,455
Amortization	(1,439,697)
Net book value, 30 June 2018	**28,257,427**
Cost	42,516,684
Accumulated amortization	(14,259,257)
Net book value, 30 June 2018	**28,257,427**

	31 December 2017
Net book value, 1 January 2017	**20,486,897**
Additions	7,559,406
Amortization	(1,059,635)
Net book value, 31 December 2017	**26,986,668**
Cost	39,806,228
Accumulated amortization	(12,819,560)
Net book value, 31 December 2017	**26,986,668**

15. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

i) Short term provisions

	30 June 2018	31 December 2017
Legal provisions	1,816,690	1,990,945
	1,816,690	**1,990,945**

Total amount of several outstanding legal cases against the Group is TRY 1,998,222 as of 30 June 2018. Related to the legal cases against the Group, based on the best estimates, TRY 1,816,690 has been reflected to the consolidated financial statements as of 30 June 2018

ii) Collaterals Given

	30 June 2018	31 December 2017
Collaterals given	3,490,752,425	3,445,187,138

Letters of guarantee are given to BIST, CMB and to Takasbank for money market transactions. Foreign currency denominated letters of guarantee amount to TRY 330,703,842 (31 December 2017: TRY 324,428,555).

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

15. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

iii) Cash collaterals given on behalf of customers

	30 June 2018	31 December 2017
VİOP collaterals given on behalf of customers (*)	179,739,333	130,888,146
	179,739,333	**130,888,146**

(*) As of 30 June 2018 cash amounting to TRY 179,739,333 has been pledged by the Group as collateral for the Futures and Options Market on behalf of the customers (31 December 2017: TRY 130,888,146)

iv) Customer deposits

Treasury bills, government bonds, share certificates and other financial assets held in trust for the purpose of hiding on behalf of customers as of 30 June 2018 and 31 December 2017 are as follows:

Customer deposits	30 June 2018	31 December 2017
Investment funds	66,311,539,677	66,304,701,554
Share certificates	6,230,375,698	2,281,743,453
Reverse repo agreements (Money Markets)	2,333,003,147	2,572,652,952
Corporate bonds	32,510,000	133,709,081
Government bonds	478,387,125	79,784,518
Other	10,721,793	-
	75,396,537,440	**71,372,591,558**

v) Other

i. The transactions in the market are under the scope of "Third Party Financial Liability and Employer Liability Insurance Policy" amounting to TRY 9,000,000 (31 December 2017: TRY 9,000,000) made to Generali Sigorta A.Ş.

ii. Demand deposits amounting to TRY 52,347,535 (31 December 2017: TRY 31,846,857) belongs to the Group's customers as a partial collateral and are held in the Group's bank accounts (Note 6)

iii. The Group allocates credit to its customers for use in stock trading. As of 30 June 2018, the Group has TRY 209,287,900 (31 December 2017: TRY 219,391,578) of loans granted to its customers and the total market value of the shares kept as collecteral against those credits given is amounting to TRY 402,115,942 (31 December 2017: TRY 447,857,278) (Note 10)

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

16. DERIVATIVES

Nominal details of derivative transactions as of 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018 TRY Equivalent		31 December 2017 TRY Equivalent	
	USD	**EUR**	**USD**	**EUR**
Forward transactions (buy)	-	11,318,605	-	13,116,305
Forward transactions (sell)	-	10,996,425	-	12,818,629
Swap transactions (buy)	1,162,075	4,013,909,870	1,525,795	4,129,031,688
Swap transactions (sell)	1,140,175	3,898,809,937	1,508,760	4,027,413,789
	2,302,250	**7,935,034,837**	**3,034,555**	**8,182,380,411**

Receivables from derivative transactions

	30 June 2018	31 December 2017
Swap transactions	77,035,986	63,680,472
Forward transactions	190,370	163,950
	77,226,356	**63,844,422**

Payables from derivative transactions

	30 June 2018	31 December 2017
Swap transactions	16,410,474	7,295,858
Forward transactions	74,034	29,123
	16,484,508	**7,324,981**

17. PROVISION FOR EMPLOYEE BENEFITS

Short term provisions

	30 June 2018	31 December 2017
Provision for employee bonus	8,358,000	18,862,294
	8,358,000	**18,862,294**

Long term provisions

	30 June 2018	31 December 2017
Provision for employee termination benefits	8,205,369	7,104,033
Provision for unused vacation	3,846,917	2,866,962
	12,052,286	**9,970,995**

(Amounts expressed in Turkish lira (“TRY”) unless otherwise indicated.)

17. PROVISION FOR EMPLOYEE BENEFITS (Continued)

Under the Turkish Labour Law, the Group required to pay the employment termination benefits to each employee who have completed one year of service at the Group when they retire (for women 58, for men 60) and when they are dismissed or called up for military services or die. Due to changes in the Law on September 8, 1999, some sections regarding the temporary period related with the working period before retirement have been removed. The indemnity is one month’s salary for each working year and is limited to TRY 5,001.76 as of 30 June 2018 (31 December 2017: TRY 4,732.48).

The liability is not funded, as there is no legal funding requirement.

The provision has been calculated by estimating the present value of the future probable obligation arising from the retirement of employees.

TFRS requires actuarial valuation methods to be developed to estimate the Group’s obligation under defined benefit plans. Accordingly the following actuarial assumptions have been used in the calculation of the total liability.

	30 June 2018	**31 December 2017**
Discount rate (%)	4.95	4.95
Turnover rate to estimate retirement probability (%) (*)	95.50	95.50

(*) The rate reflects the parent company’s rate.

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. The liability is revised two times in a year and in the year end calculation, the effective amount as of 1 June 2018 of TRY 5,334.42 (1 January 2018 - TRY 5,001.76).

Movement of provision for employee benefits during the period are as follows:

	2018	**2017**
1 January	**7,104,033**	**3,499,840**
Payments during the period (-)	(149,496)	(581,093)
Increase during the period	1,806,228	108,907
Actuarial (gain)/loss	(555,396)	244,559
30 June	**8,205,369**	**3,272,213**

Movement of provision for unused vacations during the period are as follows:

	2018
Begining of the period, 1 January	**2,866,962**
Payments during the period	(57,620)
Change during the period, net	1,037,575
Ending period, 30 June	**3,846,917**

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

17. PROVISION FOR EMPLOYEE BENEFITS (Continued)

Movement of provision for employee benefits during the period are as follows:

	2018
Beginning of the period, 1 January	**18,862,294**
Change during the period, net	(10,504,294)
Ending period, 30 June	**8,358,000**

18. LIABILITIES FOR EMPLOYEE BENEFITS

	30 June 2018	31 December 2017
Taxes and liabilities payable	1,555,314	1,772,530
Social security premiums payable	1,349,075	957,888
	2,904,389	**2,730,418**

19. PREPAID EXPENSES

	30 June 2018	31 December 2017
Prepaid expenses	2,165,281	2,695,253
Commissions for letters of guarantees	1,995,664	2,103,571
	4,160,945	**4,798,824**

20. OTHER ASSETS AND LIABILITIES

	30 June 2018	31 December 2017
Other short term liabilities		
Payable taxes and funds	3,776,930	3,258,598
Takasbank-BIST commission provision	2,978,872	1,002,993
Blocked customer deposits	1,550,984	2,167,150
Provision for operating expenses	1,190,000	600,000
Other expense accruals	583,514	112,363
	10,080,300	**7,141,104**

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

21. SHAREHOLDER'S EQUITY

Paid-in capital and adjustment differences

The paid-in capital of the Company is TRY 98,918,083 (31 December 2017: TRY 98,918,083) and consists of 9,891,808,346 (31 December 2017: 9,891,808,346) authorized shares with a nominal value of Krş 1 each. The Group has no preferred share as of 30 June 2018.

The shareholders and their shares in capital with historic values as of 30 June 2018 and 31 December 2017 are as follows:

	30 June 2018		31 December 2017	
Name of the shareholder	**TRY**	**Share %**	**TRY**	**Share %**
Yapı ve Kredi Bankası A.Ş.	98,895,466	99.98	98,895,466	99.98
Temel Ticaret ve Yatırım A.Ş.	20,951	0.02	20,951	0.02
Other	1,666	0.00	1,666	0.00
	98,918,083	**100.00**	**98,918,083**	**100.00**
Adjustments to share capital	63,078,001		63,078,001	
Total paid-in capital	**161,996,084**		**161,996,084**	

Adjustment to share capital represents the difference between total restatement effect of cash and cash equivalent contributions to share capital due to the inflation adjustments and total amount before the inflation adjustment. There is no use of the adjustment to share capital other than to be added to the capital.

According to Turkish Commercial Code, legal reserves consist of primary and secondary reserves. Primary reserves are reserved at 5% rate of legal profit in the period until they reach a level of 20% of the group capital. Secondary reserves are reserved at a rate of 10% of all dividend distribution exceeding 5% of group capital. Primary and secondary reserves cannot be distributed until they exceed 50% of the total capital, however, they can be used to cover losses when voluntary reserves are exhausted.

As of 30 June 2018, restricted reserves are amounting to TRY 234,277,667 (31 December 2017: TRY 236,535,668)

Restricted reserves and retained earnings

	30 June 2018	**31 December 2017**
Primary legal reserves	18,891,100	18,891,100
Secondary legal reserves	34,482,350	36,740,351
Real estate and affiliate sales gain fund (*)	180,904,217	180,904,217
Total restricted reserves	**234,277,667**	**236,535,668**

(*) As of 30 June 2018, TRY 4,626,817 of the TRY 180,904,217 which is the gain on sale of property, equipment and subsidiary classified under equity, is 75% of the profit from the sale of buildings in the year 2010 and TRY 176,277,400 is the 75% of the profit from the sale of subsidiaries in the year 2013.

The Group performs dividend distribution in accordance with the Communiqué on Dividends II-19.1 of the Capital Market Board effective as of 1 February 2014.

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

21. SHAREHOLDER'S EQUITY (Continued)

In accordance with the Communiqué on Dividends II-19.1 of the Capital Market Board effective as of February 1, 2014, the dividend distribution rate for non-listed companies may not be less than twenty percent of the net distributable profit for the period including donations. In accordance with the same communiqué, non-listed companies are required to distribute the profit share in whole and in cash; and they cannot benefit from the practice of profit distribution by installments, which is granted to listed companies.

In accordance with the provisions of the said communiqué, non-listed companies may choose not to distribute dividends in the event that the calculated profit share is less than five percent of the capital stock in the most recent annual financial statements to be presented to the general assembly or in the event that the net distributable profit for the period is less than TRY 100,000 according to these financial statements. In this case, the undistributed dividends are distributed in subsequent periods.

At the Ordinary General Assembly held on 9 March 2018, a dividend amounting to TRY 44,090,000 is decided to be distributed to the shareholders in cash and the profit distribution date is determined as March 16, 2018. (2017: TRY 66,670,000).

Changes in the minority interest during the period are as follows:

	1 January - 30 June 2018	**1 January - 30 June 2017**
Beginning of the period	**8,263,813**	**6,847,426**
Minority interest decrease due to dividend payment (*)	(4,309,999)	(3,422,646)
Minority interest net income	2,225,378	1,904,746
End of the period	**6,179,192**	**5,329,526**

(*) Decrease in non-controlling interests due to profit distribution represents profit share distribution of the subsidiary during the period, share of the subsidiaries of the subsidiary excluding the Company.

22. TAX ASSETS AND LIABILITIES

Corporate tax

	30 June 2018	**31 December 2017**
Corporate taxes payable	10,839,298	9,891,939
Prepaid taxes (-)	(49,246,450)	(64,954,812)
Current period tax assets, net (-)	**(38,407,152)**	**(55,062,873)**

The Group's income tax expense for the periods ended 30 June 2018 and 2017 consists of the following items:

	1 January - 30 June 2018	**1 January - 30 June 2017**
Current period tax expense	10,839,298	5,308,085
Prior year tax adjustment	(379,244)	-
Deferred tax expense	4,401,324	6,071,338
Total tax expense	**14,861,378**	**11,379,423**

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

22. TAX ASSETS AND LIABILITIES (Continued)

Reconciliation of current year tax expense and calculated theoretical tax expense with statutory tax rate by the Group:

	1 January - 30 June 2018	1 January - 30 June 2017
Profit before tax	76,310,328	62,400,635
Theoretical tax expense with 22% tax rate (2017: 20%)	(16,788,272)	(12,480,127)
Non deductible expenses and other additions	1,926,894	1,100,704
Current period tax expense	**(14,861,378)**	**(11,379,423)**

In Turkey, the corporation tax rate is 22% for 2018. (2017: 20%). The corporate tax rate is applied to tax base which is calculated by adding certain non deductable expenses for tax purposes and deducting certain exemptions (like affiliation privilege) and exclusion of deductions on accounting income. If there is no dividend distribution, no further tax charges are made. Except for the withholding tax at the rate of 19.8%, calculated and paid on the basis of the exemption made in the event of an investment allowance exemption used in accordance with the Temporary Article 61 of the Tax Law.

The Law on the Amendment of Certain Tax Acts was approved by the Parliament on 28 November 2017 and published in the Official Gazette dated December 5, 2017, putting the rate of corporate taxation to be increased from 20% to 22% for the years 2018, 2019 and 2020. In this context, the Group's effect on the tax rate change in deferred tax asset / liability calculation as of 30 June 2018 is taken into consideration.

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 10% in accordance with 94th article of Income Tax Law. Addition of profit to share capital is not considered a profit distribution.

Corporations are required to pay advance corporate tax quarterly at a rate of 22% on their corporate income. Advance tax is declared by the 14th and paid by the 17th day of the second month following each calendar quarter end. Advance tax paid by corporations which is for the current period is credited against the annual corporation tax calculated on their annual corporate income in the following year. Despite the offset, if there is temporary prepaid tax remaining, this balance can be refunded or used to offset any other financial liabilities to the government.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns by the 25th of the fourth month following the close of the financial year to which they relate.

Tax returns are open for five years from the beginning of the year following the date of filing during which period the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

22. TAX ASSETS AND LIABILITIES (Continued)

Under the Turkish Corporate Tax Law, losses can be carried forward to offset against future taxable income for up to five years. Losses cannot be carried back to offset profits from previous periods.

There are numerous exemptions in Corporate Tax Law concerning corporations. Accordingly, earnings of the above mentioned nature, which are in the commercial profit/loss figures, have been taken into account in the calculation of corporate tax.

In addition to exemptions explained above, tax deductions specified in Corporation Tax Law articles 8, 9, 10, and Income Tax Law article 40, are also considered in the assessment of the corporation tax base.

Deferred tax assets and liabilities

	30 June 2018	31 December 2017
Deferred tax assets	13,314,716	10,556,602
Deferred tax liabilities	(23,011,994)	(19,499,334)
Deferred tax liabilities, net (-)	**(9,697,278)**	**(8,942,732)**

Deferred tax assets and liabilities based upon temporary differences are as follows:

	30 June 2018		31 December 2017	
	Cumulative temporary differences	Deferred tax assets/ (liabilities)	Cumulative temporary differences	Deferred tax assets/ (liabilities)
Derivatives	16,484,508	3,626,592	7,324,981	1,611,496
Allowances for expected credit losses (-)	17,694,140	3,892,711	-	-
Provision for employee termination benefits	8,205,369	1,805,181	7,104,033	1,562,887
Provision for unused vacation	3,846,917	846,322	2,866,962	630,732
Provision for employee bonus	6,158,012	1,354,763	14,267,982	3,138,956
Legal provisions	1,816,690	399,672	1,990,945	438,008
Tax losses	-	-	13,881,358	3,053,899
Valuation differences of financial assets	2,772,741	610,003	-	-
Expense provision	2,433,050	535,271	540,441	118,897
Other	1,110,004	244,201	7,849	1,727
Deferred tax assets		**13,314,716**		**10,556,602**
Investments in progress	2,398,027	527,566	5,546,525	1,220,235
Derivatives	77,226,356	16,989,798	63,844,422	14,045,773
Difference between the tax base and carrying amount of non current assets	5,523,223	1,215,109	1,493,521	328,575
Financial assets revaluation differences	18,439,944	4,056,788	17,600,779	3,872,171
Other	1,012,423	222,733	148,091	32,580
Deferred tax liabilities		**23,011,994**		**19,499,334**
Deferred tax assets / (liabilities), net		**(9,697,278)**		**(8,942,732)**

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

22. TAX ASSETS AND LIABILITIES (Continued)

	1 January - 30 June 2018	1 January - 30 June 2017
Beginning balance of deferred tax assets / (liabilities), net	(8,942,732)	7,747,772
Deferred tax expense (-)	(4,401,324)	(6,071,338)
Deferred tax accounted under equity	(363,759)	44,546
Deferred tax effect of TFRS 9 opening adjustment	4,010,537	-
Period end deferred tax assets / (liabilities), net	**(9,697,278)**	**1,720,980**

23. REVENUE AND COST OF SALES

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Revenue				
Share certificates sales	4,665,319,074	1,585,636,368	2,868,998,184	1,572,175,883
Treasury bills and government bonds sales	1,316,508,601	719,029,388	1,064,558,238	503,313,938
Commissions on intermediary activities on stock market	46,151,928	22,039,512	31,646,333	16,013,600
Corporate finance fees	13,710,810	8,506,228	8,109,974	3,743,774
Futures exchange intermediary commissions	12,394,263	7,917,423	5,029,662	2,451,524
Other intermediary commissions	7,209,900	3,750,357	4,106,642	2,249,665
Custody commissions	566,476	215,251	1,512,133	1,261,939
Fund management fees	535,128	214,129	767,534	114,317
Consultancy services	414,919	243,202	222,886	115,432
Other services income	11,040,655	8,582,199	3,726,599	2,142,622
Total revenue	**6,073,851,754**	**2,356,134,057**	**3,988,678,185**	**2,103,582,694**
Service income discounts and allowances				
Commissions paid to agencies (-)	19,302,772	9,292,496	13,963,218	7,199,496
Commission returns (-)	834,672	379,400	556,672	349,945
Total discounts and allowances(-)	**20,137,444**	**9,671,896**	**14,519,890**	**7,549,441**
Revenue	**6,053,714,310**	**2,346,462,161**	**3,974,158,295**	**2,096,033,253**
Cost of sales				
Costs of share certificate sales (-)	4,686,346,311	1,609,229,681	1,063,952,602	502,975,021
Costs of treasury bills and government bond sales (-)	1,316,054,032	718,876,648	2,867,363,009	1,569,584,290
Total cost of sales (-)	**6,002,400,343**	**2,328,106,329**	**3,931,315,611**	**2,072,559,311**
Gross operating profit/loss	**51,313,967**	**18,355,832**	**42,842,684**	**23,473,942**

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

24. REVENUE AND COST OF FINANCIAL ACTIVITIES

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Revenue from financial activities				
Investment funds management fee	30,678,784	15,464,928	24,576,422	13,110,631
Individual pension funds management fee	5,033,595	2,104,802	6,181,135	3,206,574
Fund management fee	**35,712,379**	**17,569,730**	**30,757,557**	**16,317,205**
Discretionary portfolio management commission	1,696,631	864,686	1,462,027	751,166
Portfolio success premiums	365,196	357,139	1,006,405	966,959
Discretionary portfolio management income	**2,061,827**	**1,221,825**	**2,468,432**	**1,718,125**
Financial activities revenue	**37,774,206**	**18,791,555**	**33,225,989**	**18,035,330**
Financial activities cost				
Commission expenses	(1,759,878)	(895,698)	(2,603,994)	(1,277,734)
Fund management commission expenses	(3,253,050)	(1,908,436)	(1,119,609)	(669,506)
Financial activities cost	**(5,012,928)**	**(2,804,134)**	**(3,723,603)**	**(1,947,240)**
Gross profit/loss from financial sector activities	**32,761,278**	**15,987,421**	**29,502,386**	**16,088,090**

25. OPERATING EXPENSES

General administrative expenses

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Personnel expenses	40,015,611	20,819,024	37,286,625	18,280,810
Information services expenses	4,266,377	2,176,869	4,090,332	2,017,926
Taxes, duties and charges	2,560,979	903,001	1,314,552	774,959
Data processing expenses	2,989,366	1,496,763	3,464,363	1,771,575
Depreciation and amortization expenses	2,233,737	1,488,079	1,492,198	654,839
Rent expense	1,465,438	736,260	1,363,927	666,443
IT transformation expenses	1,144,072	528,030	376,824	54,999
Communication expenses	895,330	405,863	650,263	306,342
Audit and advisory expenses	989,347	611,875	502,162	279,062
Vehicle expenses	523,396	277,550	490,551	248,390
Maintenance service expenses	334,178	162,340	328,450	121,391
Cleaning expenses	263,767	132,034	251,877	138,815
Stationary expenses	220,795	109,298	162,986	90,721
Meeting and travelling expenses	283,139	199,636	416,760	188,208
Insurance expenses	152,754	75,628	234,190	143,212
Representation expenses	147,751	83,202	119,426	56,105
Other	1,725,673	920,080	1,511,889	798,797
	60,211,710	**31,125,532**	**54,057,375**	**26,592,594**

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

25. OPERATING EXPENSES (Continued)

Marketing expenses

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Brokerage and other operational fees	14,300,843	9,267,503	4,246,903	1,970,683
Advertising expenses	1,756,167	808,553	1,896,302	1,037,102
Custody commissions	77,828	58,285	158,965	76,959
	16,134,838	**10,134,341**	**6,302,170**	**3,084,744**

26. OTHER INCOME FROM OPERATING ACTIVITIES

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Income due to derivative operations	382,186,938	101,410,242	222,631,830	31,192,150
Interest income on deposit at banks	51,181,627	23,123,909	112,663,545	76,626,100
Interest income on loans	19,561,049	10,505,483	13,313,004	7,524,688
Dividend income	9,647,045	8,175,539	8,064,543	7,941,531
Interest income on treasury bills and -government bonds	3,069,681	1,299,599	2,357,837	1,341,830
Other interest income	170,341	55,491	40,757	9,769
Other income	564,347	529,530	3,944,869	3,854,794
	466,381,028	**145,099,793**	**363,016,385**	**128,490,862**

27. OTHER EXPENSE FROM OPERATING ACTIVITIES

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Interest paid to money markets	208,338,295	105,673,550	173,895,881	92,826,642
Losses due from derivative operations	82,370,102	(137,676,506)	12,750,402	(2,751,536)
Interest expense from issued bonds and bills	76,957,081	41,570,891	61,539,965	34,811,733
Commission expenses	8,350,730	1,652,043	4,746,546	2,692,505
Commissions paid for guarantee letters	7,877,547	1,447,601	7,617,462	3,850,736
Foreign exchange losses	5,373,444	8,350,728	46,987,056	(34,675,698)
Interest expense	4,930,866	72,945,452	4,034,783	3,013,477
Impairment of financial investments	1,388,888	456,299	248,760	(1,663,094)
Other expenses	2,212,444	1,143,765	780,420	316,423
	397,799,397	**95,563,823**	**312,601,275**	**98,421,188**

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

28. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

(a) Bank deposits in related parties

	30 June 2018	31 December 2017
Yapı ve Kredi Bankası A.Ş.	1,968,210,137	2,447,494,617
Allowances for expected credit losses (-)	(8,543,128)	-
	1,959,667,009	**2,447,494,617**

(b) Receivables due from related parties

Trade receivables

	30 June 2018	31 December 2017
Yapı ve Kredi Bankası A.Ş.	-	390,002
Koç Fiat Kredi Finansmanı A.Ş.	-	200,634
YKS Tesis Yönetimi Hizmetleri A.Ş.	-	2,224
	-	**592,860**

Receivables from financial activities

	30 June 2018	31 December 2017
Yapı Kredi Portföy Yönetimi A.Ş. Investment Funds	5,980,456	5,687,977
Allianz Yaşam ve Emeklilik A.Ş. Pension Funds	505,917	6,067,563
Yapı ve Kredi Bankası A.Ş.	-	1,245,779
	6,486,373	**13,001,319**

Prepaid expenses

	30 June 2018	31 December 2017
Allianz Sigorta A.Ş.	-	105,834
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	-	1,705
	-	**107,539**

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

28. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Continued)

(c) Payables due to related parties

Trade and other payables

	30 June 2018	31 December 2017
Yapı ve Kredi Bankası A.Ş.	4,402,747	4,842,996
Yapı Kredi Portföy Investment Funds	1,880,192	976,431
Otokoç Otomotiv Ticaret ve Sanayi A.Ş.	55,143	52,422
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	54,205	499,440
Allianz Yaşam ve Emeklilik A.Ş.	51,122	274,519
Avis A.Ş.	42,189	-
Setur Servis Turistik A.Ş	25,503	-
Zer Merkezi Hizmetler ve Ticaret A.Ş.	8,700	12,197
Opet Petrolcülük A.Ş.	-	10,365
Allianz Sigorta A.Ş	-	948,336
Other	7,801	54,675
	6,527,602	**7,671,381**

(d) Income due from related parties

Operating income due from related parties

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Yapı Kredi Portföy Investment Funds	30,678,784	15,464,928	24,576,122	12,288,061
Allianz Hayat ve Emeklilik A.Ş. Pension Funds	3,910,045	1,262,185	6,175,341	3,200,780
Opet Petrolcülük A.Ş.	1,365,000	665,000	-	-
Koç Finansman A.Ş.	665,000	-	350,000	-
Koç Fiat Kredi Finansman A.Ş.	662,500	487,500	-	-
Otokoç Otomotiv Tic. ve San. A.Ş.	490,000	-	-	-
Aygaz A.Ş.	280,498	-	315,750	296,588
Allianz Hayat ve Emeklilik A.Ş. Success Fee	166,853	-	-	-
Türk Traktör A.Ş.	17,998	17,998	543,250	524,088
Yapı ve Kredi Bankası A.Ş.	-	-	566,364	386,858
Koçtaş A.Ş.	-	-	350,000	175,000
Other	495,296	238,308	398,389	139,486
	38,731,974	**18,135,919**	**33,275,216**	**17,010,861**

Interest income due from related parties

Yapı ve Kredi Bankası A.Ş.	18,198,248	10,337,901	58,826,111	35,568,342
	18,198,248	**10,337,901**	**58,826,111**	**35,568,342**

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

28. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Continued)

Derivative income due from related parties

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Yapı ve Kredi Bankası A.Ş.	149,835,628	84,184,778	79,522,294	12,215,117
	149,835,628	**84,184,778**	**79,522,294**	**12,215,117**

Commission income due from related parties

Yapı ve Kredi Bankası A.Ş.	3,295,515	1,296,285	3,421,770	1,280,880
Yapı Kredi Finansal Kiralama A.O.	1,045,565	670,565	1,453,750	-
Yapı Kredi Faktoring A.Ş.	570,000	570,000	937,500	-
	4,911,080	**2,536,850**	**5,813,020**	**1,280,880**

Dividend income due from related parties

Allianz Yaşam ve Emeklilik A.Ş.	50,832	50,832	49,016	-
Takas ve Saklama Bankası A.Ş.	-	-	3,285,000	3,285,000
	50,832	**50,832**	**3,334,016**	**3,285,000**

(e) Expenses paid to related parties

Operating expenses paid to related parties

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Yapı ve Kredi Bankası A.Ş.	1,268,818	629,344	932,329	454,216
YKS Tesis Yönetim Hizmetleri A.Ş	503,896	256,317	286,569	76,005
Koç Sistem Bilgi ve İletişim Hizm. A.Ş.	360,283	192,264	174,866	33,399
Otokoç Otomotiv Tic. ve San. A.Ş.	327,547	167,723	95,681	-
Avis A.Ş.	231,996	123,261	168,638	84,119
Allianz Sigorta A.Ş.	226,091	152,226	182,193	114,417
Zer Merkezi Hizmetler ve Tic. A.Ş.	212,347	90,687	237,033	88,632
Setur Servis Turistik A.Ş.	171,809	113,223	192,868	172,930
YKS Bina Yönetimi	167,443	167,443	79,374	-
Opet Petrolcülük A.Ş.	95,157	81,032	57,549	14,536
Other	225,710	107,927	210,790	101,552
	3,791,097	**2,081,447**	**2,617,890**	**1,139,806**

Returns to related parties and commission expenses paid

Yapı ve Kredi Bankası A.Ş.	20,899,368	10,098,837	15,549,660	8,004,944
Yapı Kredi Portföy Investment Funds	3,189,333	3,189,333	-	-
Allianz Yaşam ve Emeklilik A.Ş.	51,121	26,969	107,250	51,128
	24,139,822	**13,315,139**	**15,656,910**	**8,056,072**

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

28. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Continued)

Financial expenses paid to related parties

	1 January - 30 June 2018	1 April - 30 June 2018	1 January - 30 June 2017	1 April - 30 June 2017
Yapı ve Kredi Bankası A.Ş.	63,221	48,206	109,282	55,120
	63,221	**48,206**	**109,282**	**55,120**

Benefits provided to key management

Top management consists of general manager, vice general managers, directors and other top management members. As of 30 June 2018, the total amount of salary and other benefits provided to the top management by the Group is TRY 4,396,136 (1 January - 30 June 2017: TRY 3,780,681).

Dividends paid to related parties

The Group paid dividend amounting to TRY 48,399,999 in 30 June 2018 (30 June 2017: TRY 70,092,646). (Note 21).

29. FINANCIAL RISK MANAGEMENT

The Group is subject to risks as a result of its commercial activities. The details and management of these risks are explained below. The Group management is fully responsible for the management of financial risk.

a. Information on credit risk

Credit risk is the risk that one party to a financial instrument will fail to meet the terms of their agreements as foreseen and cause the other party to incur a financial loss.

For the loans provided, a default risk that the counterparty will not be able to fulfill the liabilities associated with the loan is present. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group also manages credit risk by keeping equity shares obtained from loan customers as collateral. Credit risk is fully concentrated in Turkey where the Group mainly operates.

Limits of new credits and additional credit limits are bound by the limits approved by Credit Committee and Board of Directors. Limits to be provided to customers are initially proposed by the Credit Committee and approved by the Board of Directors.

The Group makes a regular collateral/equity check for credit transactions where the current equity and benchmark equity is compared. If the collateral amount falls below the benchmark amount, additional collateral is requested from the customer.

29. FINANCIAL RISK MANAGEMENT (Continued)

The common stocks which the customers would like to buy using credit are bound to be in the "Marketable Securities Accepted for Credit Purchase" list. The items to be included in this list are determined by considering factors like transaction volume, changes in transaction volume, free float rate, liquidity and amount of shares in circulation. The common stocks in the customer's portfolio are accepted as collateral if the customer would like to buy common stocks other than the stocks listed in "Marketable Securities Accepted for Credit Purchase".

The share of the receivables from the biggest 10 credit customers in the total receivables from credit customers of the Group is 67% (31 December 2017: 77%).

The table below shows credit risk exposure based on financial instruments as of 30 June 2018 and 31 December 2017. In the determination of the maximum amount of credit risk exposure, in addition to the collaterals received, factors that lead to credit enhancement are not taken into account.

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

29. FINANCIAL RISK MANAGEMENT (Continued)

	Receivables						
	Trade receivables		Other receivables				
30 June 2018	**Related party**	**Other**	**Related party**	**Other**	**Bank Deposits**	**Financial Investments**	**Derivatives**
Total credit risk exposure (A+B+C)	**-**	**440,221,634**	**-**	**129,113,357**	**3,985,830,023**	**145,888,079**	**77,226,356**
- Amount of risk that is guaranteed with collateral (*)	-	209,287,900	-	-	-	-	-
A. Net book value of financial assets that are not past due or impaired	-	440,221,634	-	129,113,357	4,003,429,677	145,982,565	-
B. Net book value of impaired assets	-	-	-	-	-	-	-
- Past due (gross book value)	-	1,021,677	-	-	-	-	-
- Impairment	-	(1,021,677)	-	-	(17,599,654)	(94,486)	-
- Part of net amount that is guaranteed by collateral	-	-	-	-	-	-	-
C. Off balance sheet items with credit risk	-	-	-	-	-	-	77,226,356

	Receivables						
	Trade receivables		Other receivables				
31 December 2017	**Related party**	**Other**	**Related party**	**Other**	**Bank Deposits**	**Financial Investments**	**Derivatives**
Total credit risk exposure (A+B+C)	**592,860**	**466,905,188**	**-**	**77,514,382**	**4,133,674,967**	**153,574,259**	**63,844,422**
-Amount of risk that is guaranteed with collateral (*)	-	219,391,578	-	-	-	-	-
A. Net book value of financial assets that are not past due or impaired	592,860	466,905,188	-	77,514,382	4,133,674,967	153,574,259	-
B. Net book value of impaired assets	-	-	-	-	-	-	-
- Past due (gross book value)	-	864,527	-	-	-	-	-
- Impairment	-	(864,527)	-	-	-	-	-
- Part of net amount that is guaranteed by collateral	-	-	-	-	-	-	-
C. Off balance sheet items with credit risk	-	-	-	-	-	-	63,844,422

(*) Related collaterals consist of common stocks that are traded at BIST and the values that are shown in the above table are amounts valued by the "best bid" price at the balance sheet date.

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

29. FINANCIAL RISK MANAGEMENT (Continued)

b. Information on market risk

Interest rate risk

The need of Group's dealing ways with interest risk rate arises from effects of interest rates changes on the financial instruments. The sensitivity of the Group to interest rate risk is related with maturity mismatch of assets and liabilities. This risk is managed through corresponding assets that are sensitive to interest rates with similar liabilities

Financial assets classified in the Group's balance sheet either as financial assets measured at fair value through other comprehensive income or treasury bills and goverment treasuries measured at amortised cost with floating interest rate are exposed to price risk due to interest rate changes.Those with fixed interest rates from financial assets measured at amortised cost may be exposed to risk of re-investment if they are directed to re-invest the resulting cash.

The table below shows the interest rate position details and sensitivity analysis as of 30 June 2018 and 31 December 2017

Interest rate position table

Fixed rate financial instruments

Financial assets	**30 June 2018**	**31 December 2017**
Banks	3,945,073,994	4,095,417,603
Receivables from reverse repo agreements	89,885	117,765
Financial assets measured at fair value through other comprehensive income	34,360,096	16,276,067
Financial assets measured at amortised cost (*)	34,997,343	43,945,350
Financial liabilities		
Funds generated from Takasbank Money Market	2,988,547,702	2,842,561,658
Marketable securities issued	954,166,159	1,290,482,553
Bank loans	-	30,032.750

(*) Financial assets that bear an interest rate and are classified as held to maturity.

Financial liabilities with fixed interest rates and financial assets measured at amortised cost with fixed interest rates are assumed to be insensitive to changes in market interest rates. If the financial assets measured in these circumstances are measured at amortised cost, the redemption rate may be exposed to risk if the resulting cash is redirected to cash.

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

29. FINANCIAL RISK MANAGEMENT (Continued)

As of 30 June 2018 and 31 December 2017, average interest rates of financial instruments:

	30 June 2018		31 December 2017	
	TRY (%)	EUR (%)	TRY (%)	EUR(%)
Assets				
Cash and cash equivalents	17.70	2.20	11.44	2.10
Financial assets measured at fair value through other comprehensive income	19.69	-	16.06	-
Financial assets measured at amortised cost	13.47	-	11.50	-
Liabilities				
Borrowing from Money Market	18.09	-	14.40	-
Issued bonds and bills	16.75	-	14.35	-
Bank loans	-	-	13.10	-
Funds generated from repo transactions	18.20	-	11.80	-

The Group's assets and liabilities are grouped based on their repricing maturities as follows as of 30 June 2018 and 31 December 2017.

	30 June 2018					
	Up to 1 month	Up to 3 months	3 months - to 1 year	1 year to 5 years	Non-interest bearing	Total
Cash and cash equivalents	2,725,914,091	1,231,551,534	-	-	28,364,398	3,985,830,023
Financial investments	-	5,923,201	29,074,142	50,135,553	60,755,183	145,888,079
Trade receivables	209,287,900	-	-	-	230,933,734	440,221,634
Derivative financial assets held for trading	-	-	-	-	77,226,356	77,226,356
Other	-	-	-	-	218,572,633	218,572,633
	2,935,201,991	**1,237,474,735**	**29,074,142**	**50,135,553**	**615,852,304**	**4,867,738,725**
Financial liabilities	3,148,792,444	750,374,048	54,201,292	-	-	3,953,367,784
Trade payables	-	-	-	-	262,136,295	262,136,295
Other	-	-	-	-	94,917,443	94,917,443
	3,148,792,444	**750,374,048**	**54,201,292**	**-**	**357,053,738**	**4,310,421,522**
	(213,590,453)	**487,100,687**	**(25,127,150)**	**50,135,553**	**258,798,566**	**557,317,203**

	31 December 2017					
	Up to 1 month	Up to 3 months	3 months - to 1 year	1 year to 5 years	Non-interest bearing	Total
Cash and cash equivalents	2,476,964,447	1,618,453,156	-	-	38,257,364	4,133,674,967
Financial investments	1,211,847	6,043,371	31,789,059	21,177,141	93,352,841	153,574,259
Trade receivables	219,391,578	-	-	-	248,106,470	467,498,048
Derivative financial assets held for trading	-	-	-	-	63,844,422	63,844,422
Other	-	-	-	-	189,640,612	189,640,612
	2,697,567,872	**1,624,496,527**	**31,789,059**	**21,177,141**	**633,201,709**	**5,008,232,308**
Financial liabilities	2,559,453,853	1,605,246,092	-	-	-	4,164,699,945
Trade payables	-	-	-	-	203,430,761	203,430,761
Other	-	-	-	-	82,903,868	82,903,868
	2,559,453,853	**1,605,246,092**	**-**	**-**	**286,334,629**	**4,451,034,574**
	138,114,019	**19,250,435**	**31,789,059**	**21,177,141**	**346,867,080**	**557,197,734**

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

29. FINANCIAL RISK MANAGEMENT (Continued)

a. Exchange rate risk

As of 30 June 2018 and 31 December 2017, the Group's assets and liabilities denominated in foreign currencies are as follows:

	30 June 2018				31 December 2017			
	TRY Equivalent	**USD**	**EUR**	**Other**	**TRY Equivalent**	**USD**	**EUR**	**Other**
Monetary financial assets	3,919,523,567	8,738,553	730,759,356	41,185	4,052,466,242	8,898,420	889,994,598	38,493
Current assets (a)	**3,919,523,567**	**8,738,553**	**730,759,356**	**41,185**	**4,052,466,242**	**8,898,420**	**889,994,598**	**38,493**
Financial liabilities	(48,751,375)	(8,052,466)	(2,291,689)	(26,762)	(30,330,315)	(7,820,633)	(166,407)	(26,152)
Short term financial liabilites (b)	**(48,751,375)**	**(8,052,466)**	**(2,291,689)**	**(26,762)**	**(30,330,315)**	**(7,820,633)**	**(166,407)**	**(26,152)**
Off-balance sheet derivatives denominated in foreign currency	(3,910,946,537)	(250,000)	(736,420,998)	-	(4,041,741,178)	(400,000)	(894,747,518)	-
Net asset/liability position of foreign currency denominated derivatives (c)	**(3,910,946,537)**	**(250,000)**	**(736,420,998)**	**-**	**(4,041,741,178)**	**(400,000)**	**(894,747,518)**	**-**
Total net foreign currency position (a+b+c)	**(40,174,345)**	**436,087**	**(7,953,331)**	**14,423**	**(19,605,251)**	**677,787**	**(4,919,327)**	**12,341**

Foreign currency assets consist of deposits and collaterals given to foreign markets.
Foreign currency liabilities consist of liabilities to customers.

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

29. FINANCIAL RISK MANAGEMENT (Continued)

Off-balance sheet liabilities in foreign currencies consist of letter of guarantees and derivative transactions (Note 16).

The following table shows the sensitivity of the Group for the change of a 10% change in USD, EURO and other currencies. These amounts represent the equity effect apart from net profit for the period and effect of net profit for the period of US $, 10% increase of EURO and other foreign currencies against TRY. According to the analyses of the Group's sensitivity where, all other variables are kept as constant.

Exchange rate sensitivity analysis table

	Profit / Loss		**Equity**	
30 June 2018	**Depreciation of foreign currency**	**Appreciation of foreign currency**	**Depreciation of foreign currency**	**Appreciation of foreign currency**
In case of a 10% change in USD exchange rates:				
USD net asset/liability effect	(198,886)	198,886	-	-
In case of a 10% change in EURO exchange rates				
EURO net asset/liability effect	4,222,583	(4,222,583)	-	-
In case of a 10% change in other exchange rates:				
Other foreign currency net effect	(6,262)	6,262	-	-
Total	**4,017,435**	**(4,017,435)**	**-**	**-**

	Profit / Loss		**Equity**	
31 December 2017	**Depreciation of foreign currency**	**Appreciation of foreign currency**	**Depreciation of foreign currency**	**Appreciation of foreign currency**
In case of a 10% change in USD exchange rates				
USD net asset/liability effect	(255,654)	255,654	-	-
In case of a 10% change in EURO exchange rates				
EURO net asset/liability effect	2,221,322	(2,221,322)	-	-
In case of a 10% change in other exchange rates:				
Other foreign currency net effect	(5,143)	5,143	-	-
Total	**1,960,525**	**(1,960,525)**	**-**	**-**

b. Share certificate price risk

The majority of the stocks classified in the Group's balance sheet as financial assets measured at fair value through profit or loss and financial assets measured at fair value through other comprehensive income are traded on the BIST. According to the Group's analysis, if the Group has a 10% increase/decrease in the prices of the shares in its portfolio, assuming that all other variables remain constant, effects occurring on the carrying value of the shares in the portfolio which are traded in BIST, on growth funds, on the net profit of the year and shareholders equity are presented below.

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

29. FINANCIAL RISK MANAGEMENT (Continued)

30 June 2018

Balance sheet item	Rate of change	Change direction	Effect on Carrying value	Effect on revaluation fund	Effect on net income	Effect on equity
Share certificates						
Financial assets measured at fair value through profit or loss	-	Increase	2,629,997	-	2,629,997	-
- Financial assets	10%	Decrease	(2,629,997)	-	(2,629,997)	-

31 December 2017

Balance sheet item	Rate of change	Change direction	Effect on Carrying value	Effect on revaluation fund	Effect on net income	Effect on equity
Share certificates						
Financial assets measured at fair value through profit or loss	-	Increase	3,844,154	-	3,844,154	-
- Financial assets	10%	Decrease	(3,844,154)	-	(3,844,154)	-

c. Liquidity risk

Liquidity risk is the possibility that the Group is unable to meet its net funding commitments and is defined as the risk of loss as a result of not being able to close positions at all or at an appropriate price because of barriers in the market.Liquidity risk stems from deterioration in markets or occurrence of events resulting in diminution of fund resources such as fall of credit ratings. The management of the Group controls liquidity risk by allocating fund resources and keeping a sufficient level of cash and cash equivalents to meet its existing and possible obligations.

	30 June 2018				
	Net book value	**Up to 1 month**	**1 month to 1 year**	**1 year to 5 years**	**Total of contractual cash outflows**
Financial liabilities	3,953,367,784	2,658,650,439	1,345,719,630	-	4,004,370,069
Trade payables	262,136,295	262,136,295			262,136,295
Other payables	30,490,588	30,490,588			30,490,588
	4,245,994,667	**2,951,277,322**	**1,345,719,630**	**-**	**4,296,996,952**

	31 December 2017				
	Net book value	**Up to 1 month**	**1 month to 1 year**	**1 year to 5 years**	**Total of contractual cash outflows**
Financial liabilities	4,164,699,945	2,573,316,163	1,631,426,855	-	4,204,743,018
Trade payables	203,430,761	203,430,761	-	-	203,430,761
Other payables	21,955,019	21,955,019	-	-	21,955,019
	4,390,085,725	**2,798,701,943**	**1,631,426,855**	**-**	**4,430,128,798**

30. FINANCIAL INSTRUMENTS

Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction.

The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange.

The following methods and assumptions were used to estimate the fair value of the financial instruments for which it is practicable to estimate fair value:

i. Financial assets:

The fair values of financial assets carried at cost, including cash and cash equivalents and other financial assets, are considered to approximate their respective carrying values due to their short-term nature and their insignificant credit risk.

Market prices are used on the determination of the fair values of government bonds and common stocks.

Financial investments' costs, fair value and carrying values are disclosed in Note 7.

ii. Financial liabilities:

The fair values of monetary liabilities are considered to approximate their respective carrying values due to their short-term nature.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

30. FINANCIAL INSTRUMENTS (Continued)

Financial assets and financial liabilities carried at fair value:

30 June 2018	**Level 1**	**Level 2**	**Level 3**
Financial assets measured at fair value through profit or loss	26,395,088	-	-
Share certificates trading on BIST	*26,299,965*	-	-
Investment funds	*95,123*	-	-
Financial assets measured at fair value through other comprehensive income	-	84,495,648	-
Share certificates	-	*50,135,553*	-
Corporate bonds and bills	-	*34,360,095*	-
Financial receivables from derivatives held for trading	-	77,226,356	-
Financial liabilities from derivatives held for trading	-	16,484,508	-

31 December 2017	**Level 1**	**Level 2**	**Level 3**
Financial assets measured at fair value through profit or loss	45,582,488	-	-
Share certificates trading on BIST	*38,441,543*	-	-
Investment funds	*7,140,945*	-	-
Financial assets measured at fair value through other comprehensive income	-	85,223,562	-
Share certificates	-	*47,770,354*	-
Corporate bonds and bills	-	*37,453,208*	-
Financial receivables from derivatives held for trading	-	63,844,422	-
Financial liabilities from derivatives held for trading	-	7,324,981	-

31. DISCLOSURE OF OTHER MATTERS

a. Explanation on portfolio management operations:

As of 30 June 2018, the Group managed 33 mutual funds and 25 pension funds (31 December 2017: 33 mutual funds and 25 pension funds) In accordance with the Funds' statute, the Group purchases and sells securities and share certificates for the Funds, markets their participation certificates and provides other services and charges daily management fees. As of 30 June 2018 the Group earned a management fee of TRY 32,459,329 (1 January 30 June 2017: TRY 29,637,648).

b. Capital management and capital adequacy requirements

The Group aims to increase its profit by using liability and equity balance in the most efficient way. The Group's funding structure is mainly composed of equity items.

The Group defines and manages its capital in accordance with CMB's Communiqué Series:V No:34 on capital and capital adequacy of intermediary institutions. According to the related communiqué, the equity of intermediary institutions is composed of the portion of total assets, which are valued according to the valuation principles discussed in Communiqué Series:V No:34 and are present in the balance sheet prepared as of the valuation date. According to the communique which is published on 11 July 2013 and named as Communiqué Series: V No: 34, capital adequacy base of intermediary institutions cannot be lower than any of the following; TRY 2,000,000 for narrow authority intermediaries, TRY 10,000,000 for partial authorized intermediaries and 25,000,000 for broad authority intermediaries. The Company has broad authority intermediation licence dated 15 January 2016 and numbered G-028 (286). In this respect, the required equity for the Group is TRY 26,209,815 (31 December 2017: TRY 25,472,637).

32. SUBSEQUENT EVENTS

None.

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