

Yapı ve Kredi Bankası A.Ş.

**Publicly announced unconsolidated financial statements and
related disclosures at September 30, 2018 together with
auditor's review report**

**(Convenience translation of publicly announced unconsolidated financial
statements and independent auditor's report originally issued in Turkish, See
Note 1. of Section three)**

AUDITOR’S REVIEW REPORT ON INTERIM FINANCIAL INFORMATION

(Convenience translation of the independent auditor’s review report originally issued in Turkish, See Note I of Section Three)

To the General Assembly of Yapı ve Kredi Bankası A.Ş.;

Introduction

We have reviewed the unconsolidated balance sheet of Yapı ve Kredi Bankası A.Ş. (“the Bank”) at 30 September 2018 and the related unconsolidated statement of profit or loss, unconsolidated statement of profit or loss and other comprehensive income, unconsolidated statement of changes in shareholders’ equity, unconsolidated statement of cash flows and a summary of significant accounting policies and other explanatory notes to the unconsolidated financial statements for the nine-month-period then ended. The Bank Management is responsible for the preparation and fair presentation of interim financial information in accordance with the Banking Regulation and Supervision Agency (“BRSA”) Accounting and Reporting Legislation which includes “Regulation on Accounting Applications for Banks and Safeguarding of Documents” published in the Official Gazette no.26333 dated 1 November 2006, and other regulations on accounting records of Banks published by Banking Regulation and Supervision Agency and circulars and interpretations published by BRSA and Turkish Accounting Standard 34 “Interim Financial Reporting” for those matters not regulated by the aforementioned regulations. Our responsibility is to express a conclusion on these interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the Standard on Review Engagements (SRE) 2410, “Limited 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 reporting process, and applying analytical and other review procedures. A review of interim financial information is substantially less in scope than an independent audit performed in accordance with the Independent Auditing Standards and the objective of which is to express an opinion on the financial statements. Consequently, a review of 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 opinion.

Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying unconsolidated financial information does not present fairly in all material respects the financial position of Yapı ve Kredi Bankası A.Ş. at 30 September 2018 and the results of its operations and its cash flows for the nine-month-period then ended in accordance with the BRSA Accounting and Financial Reporting Legislation.

Report on other regulatory requirements arising from legislation

Based on our review, nothing has come to our attention that causes us to believe that the financial information provided in the accompanying interim activity report in Section Seven, is not consistent with the reviewed unconsolidated financial statements and disclosures in all material respects.

Additional Paragraph for Convenience Translation:

The effects of differences between accounting principles and standards explained in detail in Section Three and accounting principles generally accepted in countries in which the accompanying unconsolidated financial statements are to be distributed and International Financial Reporting Standards (“IFRS”) have not been quantified in the accompanying unconsolidated financial statements. Accordingly, the accompanying unconsolidated financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

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

Halûk Yalçın, SMMM
Partner

Istanbul, 31 October 2018

Convenience translation of publicly announced unconsolidated interim end financial statements and review report originally issued in Turkish, See Note I. of Section three

**YAPI VE KREDİ BANKASI A.Ş.
THE UNCONSOLIDATED INTERIM FINANCIAL REPORT
AS OF SEPTEMBER 30, 2018**

Address : Yapı Kredi Plaza D-Blok
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The unconsolidated financial report for the nine months which is prepared in accordance with the “Communiqué Related to Publicly Announced Financial Statements of Banks and Explanations and Notes Related to these Financial Statements” as regulated by the Banking Regulation and Supervision Agency includes the following sections.

- **GENERAL INFORMATION ABOUT THE BANK**
- **UNCONSOLIDATED FINANCIAL STATEMENTS OF THE BANK**
- **EXPLANATIONS ON ACCOUNTING POLICIES APPLIED IN THE RELATED PERIOD**
- **INFORMATION RELATED TO FINANCIAL POSITION OF THE BANK**
- **EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS**
- **INDEPENDENT AUDITOR’S REVIEW REPORT**
- **INTERIM ACTIVITY REPORT**

The accompanying unconsolidated financial statements for the nine months and notes to these financial statements which are expressed, in **thousands of Turkish Lira** (unless otherwise stated), have been presented based on the accounting books of the Bank prepared in accordance with the Regulation on the Principles and Procedures Regarding Banks’ Accounting Applications and Safeguarding of Documents, Turkish Accounting Standards, Turkish Financial Reporting Standards and related appendices and interpretations of these, and have been independently reviewed and are presented enclosed.

Y. Ali KOÇ
Chairman of the
Board of Directors

Gökhan ERÜN
Executive Director and
CEO

Massimo FRANCESE
Chief Financial Officer

B. Seda İKİZLER
Financial Reporting and
Accounting Executive
Vice President

Wolfgang SCHILK
Chairman of Audit
Committee

Adil G. ÖZTOPRAK
Member of Audit
Committee

Contact information of the personnel in charge of the addressing of questions about this financial report:

Name-Surname / Title : Aysel Taktak / Regulatory Reporting Manager
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Section one - General information

1.	History of the Bank including its incorporation date, initial legal status and amendments to legal status, if any	1
2.	Explanation about the Bank's capital structure, shareholders holding directly or indirectly, collectively or individually, the management and controlling power and changes in current year, if any and explanations on the controlling group of the Bank	1
3.	Explanations regarding the board of directors, members of the audit committee, chief executive officer and executive vice presidents and their areas of responsibility and shares if any	1
4.	Information on the individual and corporate shareholders having control shares of the Bank	2
5.	Summary information on the Bank's activities and service types	2
6.	Differences between the communiqué on preparation of consolidated financial statements of Banks and Turkish Accounting Standards and short explanation about the entities subject to full consolidation or proportional consolidation and entities which are deducted from equity or entities which are not included in these three methods	3
7.	The existing or potential, actual or legal obstacles on the immediate transfer of shareholder's equity between the Bank and its subsidiaries or reimbursement of liabilities	3

Section two - Unconsolidated financial statements

1.	Balance sheet (Statement of Financial Position)	4
2.	Off-balance sheet commitments	8
3.	Statements of Profit and Loss	9
4.	Statement of Profit or Loss and other comprehensive income	11
5.	Statement of changes in shareholders' equity	12
6.	Statement of cash flows	14

Section three - Accounting policies

1.	Explanations on basis of presentation	16
2.	Explanations on strategy of using financial instruments and foreign currency transactions	18
3.	Explanations on investments in associates, subsidiaries and joint ventures	18
4.	Explanations on forward and option contracts and derivative instruments	18
5.	Explanations on interest income and expense	20
6.	Explanations on fee and commission income and expense	20
7.	Explanations on financial assets	20
8.	Explanations on impairment of financial assets	22
9.	Explanations on offsetting financial assets	24
10.	Explanations on sales and repurchase agreements and securities lending transactions	24
11.	Information on assets held for resale and related to discontinued operations and explanations on liabilities related with these assets	24
12.	Explanations on goodwill and other intangible assets	24
13.	Explanations on property and equipment	25
14.	Explanations on leasing transactions	25
15.	Explanations on provisions, contingent asset and liabilities	26
16.	Explanations on obligations related to employee rights	26
17.	Explanations on taxation	28
18.	Explanations on borrowings	29
19.	Explanations on issuance of share certificates	29
20.	Explanations on avalized drafts and letter of acceptances	29
21.	Explanations on government grants	29
22.	Profit reserves and profit distribution	29
23.	Earnings per share	30
24.	Related parties	30
25.	Explanations on operating segments	30
26.	Explanations on other matters	30
27.	Explanations on prior period accounting policies that are not valid in the current period	30

Section four - Financial Position and Risk Management

1.	Explanations on equity	32
2.	Explanations on risk management	36
3.	Explanations on currency risk	37
4.	Explanations on interest rate risk	39
5.	Explanation on share certificates position risk from banking book	41
6.	Explanations on liquidity risk	41
7.	Explanations on leverage ratio	45
8.	Explanations on hedge accounting	45
9.	Explanations on the activities carried out on behalf of others and fiduciary transactions	47
10.	Explanations on operating segments	48

Section five - Explanations and notes related to unconsolidated financial statements

1.	Explanations and notes related to assets	50
2.	Explanations and notes related to liabilities	62
3.	Explanations and notes related to off-balance sheet accounts	68
4.	Explanations and notes related to income statement	69
5.	Explanations and notes related to the Bank's risk group	73
6.	Explanations and notes related to subsequent events	74

Section six - Independent auditor's report

1.	Independent auditor's report	74
2.	Explanations and notes prepared by independent auditor	74

Section seven - Information on interim activity report

1.	Interim activity report which also contains the evaluation of the Chairman and the CEO of the Bank about the interim period activities	75
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Notes to unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Section One - General Information

1. History of the Bank including its incorporation date, initial legal status and amendments to legal status, if any:

Yapı ve Kredi Bankası A.Ş. ("the Bank" or "Yapı Kredi"), was established and started operations on September 9, 1944 with the permission of the Council of Ministers No. 3/6710 as a private capital commercial bank authorised to perform all banking, economic, financial and commercial activities which are allowed by the laws of the Turkish Republic. The statute of the Bank has not changed since its incorporation.

2. Explanations about the Bank's capital structure, shareholders holding directly or indirectly, collectively or individually, the management and controlling power and changes in current year, if any and explanations on the controlling group of the Bank:

The Bank's publicly traded shares are traded on the Borsa İstanbul ("BIST") since 1987 and the representatives of these shares, Global Depository Receipts, are quoted at the London Stock Exchange. As of September 30, 2018, 18,10% of the shares of the Bank are publicly traded (December 31, 2017 - 18,20%). The remaining 81,90% is owned by Koç Finansal Hizmetler A.Ş. ("KFS"), a joint venture of UniCredit ("UCG") and Koç Group.

KFS was established on March 16, 2001 to combine Koç Group finance companies under one organization and it became the main shareholder of Koçbank in 2002. On October 22, 2002, Koç Group established a strategic partnership with UCG over KFS.

In 2005, the Bank's shares that were owned by Çukurova Group Companies and the Saving Deposits Insurance Fund ("SDIF") were purchased by Koçbank. In 2006, Koçbank purchased additional shares of the Bank from BIST and an investment fund and, during the same year, all rights, receivables, debts and liabilities of Koçbank were transferred to the Bank pursuant the merger of the two banks. As a result of the merger and the share transfer procedures in 2007 and of a capital increase by TL 920 million in 2008, KFS shares in the Bank increased to 81,80%. As of June 29, 2018, due to capital increase by TL 4,1 billion, KFS shares increased to 81,90%.

3. Explanations regarding the board of directors, members of the audit committee, Chief Executive Officer and executive vice presidents, and their areas of responsibility and shares if any:

As of September 30, 2018, the Bank's Board of Directors, Members of the Audit Committee, General Manager and Assistant General Managers are as follows.

Board of Directors Members:

Name	Responsibility
Y. Ali KOÇ	Chairman
Carlo VIVALDI	Vice Chairman
Gökhan ERÜN	Executive Director and CEO
Niccolò UBERTALLI	Executive Director and Deputy CEO
A. Ümit TAFTALI	Member
Adil Giray ÖZTOPRAK	Independent Member
Ahmet Fadıl ASHABOĞLU	Member
F. Füsün Akkal BOZOK	Member
Francesco GIORDANO	Member
Gianfranco BISAGNI	Member
Giovanna VILLA	Independent Member
Levent ÇAKIROĞLU	Member
Mirko D. G. BIANCHI	Member
Wolfgang SCHILK	Independent Member

Notes to unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Audit Committee Members:

Name	Responsibility
Wolfgang SCHILK	Chairman
Adil Giray ÖZTOPRAK	Member
Giovanna VILLA	Member

General Manager and Deputy General Manager:

Name	Responsibility
Gökhan ERÜN	Executive Director and CEO
Niccolò UBERTALLI	Executive Director and Deputy CEO

Assistant General Managers:

Name	Responsibility
Akif Cahit ERDOĞAN	Information Technologies and Operation Management
Cemal Aybars SANAL	Legal Activities Management
Demir KARAASLAN	Retail Credits Management
Erhan ADALI	Corporate and Commercial Banking Management
Giovanni Battista AVANZI	Internal Audit / Chief Audit Executive
Hakan ALP ⁽¹⁾	Human Resources and Organization Management
Massimo FRANCESE	Financial Planning and Administration Management
Mehmet Erkan ÖZDEMİR	Compliance and Internal Control / Consumer Relations Coordination Officer
Mert YAZICIOĞLU	Private Banking and Wealth Management
Nurgün EYÜBOĞLU	Corporate and Commercial Credit Management
Albert ANGERSBACH	Risk Management
Saruhan YÜCEL	Treasury Management
Serkan ÜLGEN	Retail Banking Management
Yakup DOĞAN	Alternative Distribution Channels

(1) Hakan Alp was appointed as Assistant General Manager in charge of Human Resources and Organization Management as of September 4, 2018.

4. Information on the individual and corporate shareholders having control shares of the Bank:

Name/Commercial title	Share amounts (nominal)	Share percentage	Paid-in capital (nominal)	Unpaid portion
Koç Finansal Hizmetler A.Ş.	6.918.131.285,23	81,90	6.918.131.285,23	-

Koç Finansal Hizmetler A.Ş. is a joint venture of Koç Group, UniCredit Group and Temel Ticaret ve Yatırım A.Ş.

5. Summary information on the Bank's activities and service types:

The Bank's activities summarized from the section 3 of the articles of association are as follows.

The Bank's purpose and subject matter, in accordance with the Banking Law, regulations and existing laws, include;

- The execution of all banking activities,
- The execution of all economic and financial activities which are allowed by the regulation,
- The execution of the representation, attorney and agency activities related to the subjects written above,
- The purchase and sale of share certificates, bonds and all the capital market instruments, in accordance with Capital Market Law and regulations.

Notes to unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

In case of necessity for performing activities which are useful and required but that are not specified in the articles of association, a Board of Directors' proposal is to be presented to the General Assembly. With the approval of the General Assembly the proposal becomes applicable, subject to the approvals required by law.

As of September 30, 2018, the Bank has 866 branches operating in Turkey and 1 branch in overseas (December 31, 2017 - 865 branches operating in Turkey, 1 branch in overseas).

As of September 30, 2018, the Bank has 18.088 employees (December 31, 2017 – 17.944 employees).

6. Differences between the Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards and short explanation about the entities subject to full consolidation or proportional consolidation and entities which are deducted from equity or entities which are not included in these three methods:

According to Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards, Banque de Commerce et de Placements SA, one of the associates of the Bank, and Yapı Kredi Koray Gayrimenkul Yatırım Ortaklığı, an entity under common control, are consolidated through "Equity Method" in the consolidated financial statements of the Group. Allianz Yaşam ve Emeklilik A.Ş., on which the Bank has indirect participation, is also consolidated through "Equity Method" in the consolidated financial statements of the Group. These entities are taken into account as a deduction item in shareholders' equity for the purpose of calculation of capital adequacy ratio.

Yapı Kredi Kültür Sanat Yayıncılık Tic. ve San. A.Ş., Yapı Kredi Teknoloji A.Ş. and Enternasyonal Turizm Yatırım A.Ş., which are subsidiaries of the Bank, are not consolidated into the Bank's consolidated financial statements in accordance with Communiqué on Preparation of Consolidated Financial Statements since these entities are not financial institutions.

All other subsidiaries are fully consolidated.

7. The existing or potential, actual or legal obstacles on the immediate transfer of shareholder's equity between the Bank and its subsidiaries or reimbursement of liabilities:

None.

Unconsolidated financial statements as of September 30, 2018
(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Section two - Unconsolidated financial statements

1. Balance sheet (Statement of Financial Position)

Assets	Note (Section Five)	Current Period (30/09/2018)		
		TL	FC	Total
I. FINANCIAL ASSETS (Net)		60.694.785	67.855.253	128.550.038
I.1 Cash and cash equivalents	1.1	8.039.045	51.961.164	60.000.209
1.1.1 Cash and balances at Central Bank		7.761.927	47.161.547	54.923.474
1.1.2 Banks	1.4	104.083	4.799.617	4.903.700
1.1.3 Receivables from Money Markets		173.035	-	173.035
I.2 Financial assets at fair value through profit or loss	1.2	61.598	278.750	340.348
1.2.1 Public debt securities		43.827	58.346	102.173
1.2.2 Equity instruments		-	220.404	220.404
1.2.3 Other financial assets		17.771	-	17.771
I.3 Financial assets at fair value through other comprehensive income	1.5,1.6	20.995.723	4.273.206	25.268.929
1.3.1 Public debt securities		20.987.447	2.225.409	23.212.856
1.3.2 Equity instruments		8.276	2.696	10.972
1.3.3 Other financial assets		-	2.045.101	2.045.101
I.4 Financial assets measured at amortised cost	1.8	12.477.851	9.872.766	22.350.617
1.4.1 Public debt securities		12.477.851	9.872.766	22.350.617
1.4.2 Other financial assets		-	-	-
I.5 Derivative financial assets	1.3	19.143.563	1.524.458	20.668.021
1.5.1 Derivative financial assets at fair value through profit or loss	1.3.1,2	13.058.766	927.538	13.986.304
1.5.2 Derivative financial assets at fair value through other comprehensive income	1.3.2	6.084.797	596.920	6.681.717
I.6 Non-performing financial assets		-	-	-
I.7 Allowance for expected credit losses (-)		22.995	55.091	78.086
II. LOANS (Net)	1.7	126.856.334	109.654.812	236.511.146
2.1 Loans		126.243.565	112.594.334	238.837.899
2.1.1 Loans measured at amortised cost		126.243.565	112.594.334	238.837.899
2.1.2 Loans at fair value through profit or loss		-	-	-
2.1.3 Loans at fair value through other comprehensive income		-	-	-
2.2 Receivables from leasing transactions	1.12	-	-	-
2.2.1 Finance lease receivables		-	-	-
2.2.2 Operational lease receivables		-	-	-
2.2.3 Unearned income (-)		-	-	-
2.3 Factoring receivables		6.980	-	6.980
2.3.1 Factoring receivables measured at amortised cost		6.980	-	6.980
2.3.2 Factoring receivables at fair value through profit or loss		-	-	-
2.3.3 Factoring receivables at fair value through other comprehensive income		-	-	-
2.4 Non-performing loans	1.7.8	9.492.397	-	9.492.397
2.5 Allowance for expected credit losses (-)		8.886.608	2.939.522	11.826.130
2.5.1 12-Month expected credit losses (Stage 1)		720.050	1.015.126	1.735.176
2.5.2 Significant increase in credit risk (Stage 2)		426.445	1.924.396	2.350.841
2.5.3 Credit-Impaired (Stage 3)	1.7.7	7.740.113	-	7.740.113
III. NON-CURRENTS ASSETS OR DISPOSAL GROUPS "HELD FOR SALE" AND "FROM DISCONTINUED OPERATIONS (Net)	1.15	252.247	-	252.247
3.1 Held for sale		252.247	-	252.247
3.2 Held from discontinued operations		-	-	-
IV. INVESTMENTS IN ASSOCIATES, SUBSIDIARIES AND JOINT VENTURES		3.036.443	4.137.996	7.174.439
4.1 Investments in associates (Net)	1.9	6.101	873.984	880.085
4.1.1 Associates accounted by using equity method		-	-	-
4.1.2 Non-consolidated associates		6.101	873.984	880.085
4.2 Investments in subsidiaries (Net)	1.10	3.011.996	3.264.012	6.276.008
4.2.1 Non-consolidated financial subsidiaries		3.004.696	3.264.012	6.268.708
4.2.2 Non-consolidated non-financial subsidiaries		7.300	-	7.300
4.3 Jointly Controlled Partnerships (Joint Ventures) (Net)	1.11	18.346	-	18.346
4.3.1 Jointly controlled partnerships accounted by using equity method		-	-	-
4.3.2 Non-consolidated jointly controlled partnerships		18.346	-	18.346
V. TANGIBLE ASSETS (Net)		3.170.436	-	3.170.436
VI. INTANGIBLE ASSETS AND GOODWILL (Net)		1.670.227	-	1.670.227
6.1 Goodwill		979.493	-	979.493
6.2 Other		690.734	-	690.734
VII. INVESTMENT PROPERTIES (Net)	1.13	-	-	-
VIII. CURRENT TAX ASSETS		118.021	-	118.021
IX. DEFERRED TAX ASSETS	1.14	-	-	-
X. OTHER ASSETS	1.16	2.583.595	10.140.127	12.723.722
TOTAL ASSETS		198.382.088	191.788.188	390.170.276

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

Yapı ve Kredi Bankası A.Ş.

Unconsolidated financial statements as of December 31, 2017

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

1. Balance sheet (Statement of Financial Position)

Assets	Note (Section Five)	Prior Period (31/12/2017)		
		TL	FC	Total
I. Cash and balances with Central Bank	1.1	7.595.701	34.377.878	41.973.579
II. Financial assets at fair value through profit or (loss) (net)		3.614.240	503.958	4.118.198
2.1 Trading financial assets		3.614.240	503.958	4.118.198
2.1.1 Government debt securities		26.584	30.396	56.980
2.1.2 Share certificates		-	-	-
2.1.3 Derivative financial assets held for trading		3.587.656	473.562	4.061.218
2.1.4 Other marketable securities		-	-	-
2.2 Financial assets designated at fair value through profit/(loss)	1.2	-	-	-
2.2.1 Government debt securities		-	-	-
2.2.2 Share certificates		-	-	-
2.2.3 Loans		-	-	-
2.2.4 Other marketable securities		-	-	-
III. Banks	1.4	14.175	2.706.452	2.720.627
IV. Money markets		4.097	812.790	816.887
4.1 Interbank money market placements		-	812.790	812.790
4.2 Receivables from IMKB		4.097	-	4.097
4.3 Receivables from reverse repurchase agreements		-	-	-
V. Financial assets available-for-sale (net)	1.5,1.6	21.209.329	3.098.331	24.307.660
5.1 Share certificates		7.613	96.465	104.078
5.2 Government debt securities		20.856.199	1.533.774	22.389.973
5.3 Other marketable securities		345.517	1.468.092	1.813.609
VI. Loans and receivables	1.7	125.727.188	69.233.255	194.960.443
6.1 Loans and receivables		123.649.321	69.233.255	192.882.576
6.1.1 Loans to bank's risk group		1.696.947	838.771	2.535.718
6.1.2 Government debt securities		-	-	-
6.1.3 Other		121.952.374	68.394.484	190.346.858
6.2 Loans under follow-up		9.024.397	-	9.024.397
6.3 Specific provisions (-)		6.946.530	-	6.946.530
VII. Factoring receivables		-	-	-
VIII. Held-to-maturity investments (net)	1.8	6.741.179	6.289.732	13.030.911
8.1 Government debt securities		6.741.179	6.289.732	13.030.911
8.2 Other marketable securities		-	-	-
IX. Investments in associates (net)	1.9	4.503	529.384	533.887
9.1 Consolidated based on equity method		-	-	-
9.2 Unconsolidated		4.503	529.384	533.887
9.2.1 Investments in financial associates		-	529.384	529.384
9.2.2 Investments in non-financial associates		4.503	-	4.503
X. Subsidiaries (net)	1.10	2.768.324	2.039.040	4.807.364
10.1 Unconsolidated financial subsidiaries		2.761.024	2.039.040	4.800.064
10.2 Unconsolidated non-financial subsidiaries		7.300	-	7.300
XI. Joint ventures (net)	1.11	18.386	-	18.386
11.1 Accounted based on equity method		-	-	-
11.2 Unconsolidated		18.386	-	18.386
11.2.1 Financial joint ventures		18.386	-	18.386
11.2.2 Non-financial joint ventures		-	-	-
XII. Lease receivables	1.12	-	-	-
12.1 Financial lease receivables		-	-	-
12.2 Operating lease receivables		-	-	-
12.3 Other		-	-	-
12.4 Unearned income (-)		-	-	-
XIII. Derivative financial assets held for hedging		1.520.914	167.481	1.688.395
13.1 Fair value hedge		-	-	-
13.2 Cash flow hedge		1.520.914	167.481	1.688.395
13.3 Foreign net investment hedge		-	-	-
XIV. Property and equipment (net)		2.572.976	-	2.572.976
XV. Intangible assets (net)		1.626.850	-	1.626.850
15.1 Goodwill		979.493	-	979.493
15.2 Other		647.357	-	647.357
XVI. Investment property (net)	1.13	-	-	-
XVII. Tax asset		-	-	-
17.1 Current tax asset		-	-	-
17.2 Deferred tax asset	1.14	-	-	-
XVIII. Assets held for resale and related to discontinued operations (net)	1.15	202.019	-	202.019
18.1 Held for sale purposes		202.019	-	202.019
18.2 Related to discontinued operations		-	-	-
XIX. Other assets	1.16	1.612.786	2.819.352	4.432.138
Total assets		175.232.667	122.577.653	297.810.320

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

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

1. Balance sheet (Statement of Financial Position)

Liabilities	Note (Section Five)	Current Period (30/09/2018)		
		TL	FC	Total
I. DEPOSITS	2.1	90.477.463	120.546.044	211.023.507
II. LOANS RECEIVED	2.3.1	519.536	50.717.355	51.236.891
III. MONEY MARKET FUNDS		2.605.247	625.573	3.230.820
IV. MARKETABLE SECURITIES ISSUED (Net)	2.3.4	3.667.575	18.657.095	22.324.670
4.1 Bills	2.3.4	1.920.293	57.388	1.977.681
4.2 Asset backed securities		-	-	-
4.3 Bonds		1.747.282	18.599.707	20.346.989
V. FUNDS		-	-	-
5.1 Borrower funds		-	-	-
5.2 Other		-	-	-
VI. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	2.3.3	-	8.229.282	8.229.282
VII. DERIVATIVE FINANCIAL LIABILITIES	2.2	12.863.252	1.185.474	14.048.726
7.1 Derivative financial liabilities at fair value through profit or loss		12.552.951	1.166.560	13.719.511
7.2 Derivative financial liabilities at fair value through other comprehensive income		310.301	18.914	329.215
VIII. FACTORING PAYABLES		-	-	-
IX. LEASE PAYABLES	2.5	-	389	389
9.1 Finance lease payables		-	410	410
9.2 Operating lease payables		-	-	-
9.3 Other	2.5.2	-	-	-
9.4 Deferred finance lease expenses (-)		-	21	21
X. PROVISIONS	2.6	3.513.320	233.894	3.747.214
10.1 Provision for restructuring		-	-	-
10.2 Reserves for employee benefits		600.468	-	600.468
10.3 Insurance technical reserves (Net)		-	-	-
10.4 Other provisions	2.6.4	2.912.852	233.894	3.146.746
XI. CURRENT TAX LIABILITIES	2.7	439.210	-	439.210
XII. DEFERRED TAX LIABILITIES		387.817	-	387.817
XIII. LIABILITIES RELATED TO NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Net)	2.8	-	-	-
13.1 Held for sale		-	-	-
13.2 Related to discontinued operations		-	-	-
XIV. SUBORDINATED DEBT	2.9	-	15.452.966	15.452.966
14.1 Loans		-	6.345.740	6.345.740
14.2 Other debt instruments		-	9.107.226	9.107.226
XV. OTHER LIABILITIES	2.4	13.203.769	6.542.838	19.746.607
XVI. SHAREHOLDERS' EQUITY	2.10	37.114.365	3.187.812	40.302.177
16.1 Paid-in capital		8.447.051	-	8.447.051
16.2 Capital reserves		1.995.390	-	1.995.390
16.2.1 Equity share premiums		556.937	-	556.937
16.2.2 Share cancellation profits		-	-	-
16.2.3 Other capital reserves		1.438.453	-	1.438.453
16.3 Other accumulated comprehensive income that will not be reclassified in profit or loss		2.388.933	436.166	2.825.099
16.4 Other accumulated comprehensive income that will be reclassified in profit or loss		726.933	2.751.646	3.478.579
16.5 Profit reserves		19.969.804	-	19.969.804
16.5.1 Legal reserves		869.410	-	869.410
16.5.2 Statutory reserves		-	-	-
16.5.3 Extraordinary reserves		19.099.217	-	19.099.217
16.5.4 Other profit reserves		1.177	-	1.177
16.6 Profit or loss		3.586.254	-	3.586.254
16.6.1 Prior years' profits or losses		-	-	-
16.6.2 Current period net profit or loss		3.586.254	-	3.586.254
TOTAL LIABILITIES		164.791.554	225.378.722	390.170.276

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

Yapı ve Kredi Bankası A.Ş.

Unconsolidated financial statements as of December 31, 2017

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

1. Balance sheet (Statement of Financial Position)

Liabilities	Note (Section Five)	Note (Section Five)		Prior Period
		TL	FC	(31/12/2017)
I. Deposits	2.1	75.934.109	93.413.108	169.347.217
I.1 Deposits of the Bank's risk group		7.537.617	18.563.761	26.101.378
I.2 Other		68.396.492	74.849.347	143.245.839
II. Derivative financial liabilities held for trading	2.2	3.555.662	282.242	3.837.904
III. Funds borrowed	2.3.1	516.285	38.613.774	39.130.059
IV. Money markets		12.588.880	211.271	12.800.151
4.1 Funds from interbank money market		3.703.931	-	3.703.931
4.2 Funds from IMKB		81.644	-	81.644
4.3 Funds provided under repurchase agreements		8.803.305	211.271	9.014.576
V. Marketable securities issued (net)	2.3.4	2.290.593	10.202.249	12.492.842
5.1 Bills	2.3.4	1.212.509	107.682	1.320.191
5.2 Asset backed securities		-	-	-
5.3 Bonds		1.078.084	10.094.567	11.172.651
VI. Funds		-	-	-
6.1 Borrower funds		-	-	-
6.2 Other		-	-	-
VII. Miscellaneous payables		10.217.001	1.937.311	12.154.312
VIII. Other liabilities		1.347.239	433.396	1.780.635
IX. Factoring payables		-	-	-
X. Lease payables (net)	2.5	-	131	131
10.1 Financial lease payables		-	139	139
10.2 Operational lease payables	2.5.2	-	-	-
10.3 Other		-	-	-
10.4 Deferred lease expenses (-)		-	8	8
XI. Derivative financial liabilities held for hedging		300.046	12.380	312.426
11.1 Fair value hedge		204.859	-	204.859
11.2 Cash flow hedge		95.187	12.380	107.567
11.3 Foreign net investment hedge		-	-	-
XII. Provisions	2.6	3.994.595	1.322.110	5.316.705
12.1 General loan loss provision		2.102.563	1.230.131	3.332.694
12.2 Restructuring provisions		-	-	-
12.3 Reserve for employee rights		564.141	-	564.141
12.4 Insurance technical provisions (net)		-	-	-
12.5 Other provisions	2.6.4	1.327.891	91.979	1.419.870
XIII. Tax liabilities	2.7	821.207	-	821.207
13.1 Current tax liability		613.308	-	613.308
13.2 Deferred tax liability		207.899	-	207.899
XIV. Liabilities for property and equipment held for sale and related to discontinued operations (net)	2.8	-	-	-
14.1 Held for sale		-	-	-
14.2 Related to discontinued operations		-	-	-
XV. Subordinated loans	2.9	-	9.718.804	9.718.804
XVI. Shareholders' equity	2.10	28.196.661	1.901.266	30.097.927
16.1 Paid-in capital		4.347.051	-	4.347.051
16.2 Capital reserves		3.689.913	1.901.266	5.591.179
16.2.1 Share premium		543.881	-	543.881
16.2.2 Share cancellation profits		-	-	-
16.2.3 Marketable securities valuation differences		409.245	1.740.760	2.150.005
16.2.4 Property and equipment revaluation differences		1.360.019	-	1.360.019
16.2.5 Intangible assets revaluation differences		-	-	-
16.2.6 Revaluation differences of investment property		-	-	-
16.2.7 Bonus shares from investments in associates, subsidiaries and joint ventures		16.271	-	16.271
16.2.8 Hedging funds (effective portion)		214.719	160.506	375.225
16.2.9 Value increase in assets held for sale and related to discontinued operations		-	-	-
16.2.10 Other capital reserves		1.145.778	-	1.145.778
16.3 Profit reserves		16.545.616	-	16.545.616
16.3.1 Legal reserves		869.410	-	869.410
16.3.2 Status reserves		-	-	-
16.3.3 Extraordinary reserves		15.675.023	-	15.675.023
16.3.4 Other profit reserves		1.183	-	1.183
16.4 Income or (loss)		3.614.081	-	3.614.081
16.4.1 Prior years' income or (loss)		-	-	-
16.4.2 Current year income or (loss)		3.614.081	-	3.614.081
Total liabilities		139.762.278	158.048.042	297.810.320

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

Unconsolidated financial statements as of September 30, 2018 and December 31, 2017

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

2. Off-balance sheet commitments

	Note (Section Five)	Current Period (30/09/2018)			Prior Period (31/12/2017)		
		TP	FC	Total	TP	FC	Total
A. Off-balance sheet commitments (I+II+III)		240.696.684	475.736.920	716.433.604	293.686.722	385.229.009	678.915.731
I. Guarantees and warranties	3.1.2,3	27.433.436	76.910.971	104.344.407	26.495.214	51.671.080	78.166.294
1.1 Letters of guarantee	3.1.2.2	27.361.814	50.999.942	78.361.756	26.441.208	33.757.070	60.198.278
1.1.1 Guarantees subject to state tender law		601.036	1.616.300	2.217.336	791.090	1.168.552	1.959.642
1.1.2 Guarantees given for foreign trade operations		4.133.788	49.283.642	53.517.430	3.381.312	32.588.518	35.969.830
1.1.3 Other letters of guarantee		22.626.990	-	22.626.990	22.268.806	0	22.268.806
1.2 Bank acceptances		-	311.588	311.588	-	212.685	212.685
1.2.1 Import letter of acceptance		-	311.588	311.588	-	212.685	212.685
1.2.2 Other bank acceptances		-	-	-	-	-	-
1.3 Letters of credit		52.118	16.430.184	16.482.302	20.000	10.924.238	10.944.238
1.3.1 Documentary letters of credit		52.118	16.430.184	16.482.302	20.000	10.924.238	10.944.238
1.3.2 Other letters of credit		-	-	-	-	-	-
1.4 Prefinancing given as guarantee		-	-	-	-	-	-
1.5 Endorsements		-	-	-	-	-	-
1.5.1 Endorsements to the Central Bank of the Republic of Turkey		-	-	-	-	-	-
1.5.2 Other endorsements		-	-	-	-	-	-
1.6 Purchase guarantees for Securities issued		-	-	-	-	-	-
1.7 Factoring guarantees		-	-	-	-	-	-
1.8 Other guarantees		19.504	4.605.948	4.625.452	34.006	2.421.805	2.455.811
1.9 Other warranties		-	4.563.309	4.563.309	-	4.355.282	4.355.282
II. Commitments	3.1.1	64.264.995	61.427.637	125.692.632	93.480.873	92.316.175	185.797.048
2.1 Irrevocable commitments		63.380.513	47.855.841	111.236.354	92.020.358	42.021.703	134.042.061
2.1.1 Asset purchase and sale commitments		6.278.989	43.723.298	50.002.287	36.662.381	40.236.824	76.899.205
2.1.2 Deposit purchase and sales commitments		37.025	19.076	56.101	29.564	762.402	791.966
2.1.3 Share capital commitments to associates and subsidiaries		-	-	-	-	-	-
2.1.4 Loan granting commitments		10.132.674	3.731.240	13.863.914	9.349.555	775.480	10.125.035
2.1.5 Securities issue brokerage commitments		-	-	-	-	-	-
2.1.6 Commitments for reserve requirements		-	-	-	-	-	-
2.1.7 Commitments for checks payments		3.260.737	-	3.260.737	6.844.741	-	6.844.741
2.1.8 Tax and fund liabilities from export commitments		1.475	-	1.475	7.297	-	7.297
2.1.9 Commitments for credit card expenditure limits		35.821.972	-	35.821.972	33.700.364	-	33.700.364
2.1.10 Commitments for credit cards and banking services promotions		23.072	-	23.072	18.322	-	18.322
2.1.11 Receivables from short sale commitments of marketable securities		-	-	-	-	-	-
2.1.12 Payables for short sale commitments of marketable securities		-	-	-	-	-	-
2.1.13 Other irrevocable commitments		7.824.569	382.227	8.206.796	5.408.134	246.997	5.655.131
2.2 Revocable commitments		884.482	13.571.796	14.456.278	1.460.515	50.294.472	51.754.987
2.2.1 Revocable loan granting commitments		884.482	13.571.796	14.456.278	1.460.515	50.294.472	51.754.987
2.2.2 Other revocable commitments		-	-	-	-	-	-
III. DERIVATIVE FINANCIAL INSTRUMENTS		148.998.253	337.398.312	486.396.565	173.710.635	241.241.754	414.952.389
3.1 Derivative financial instruments held for hedging		52.399.791	56.278.243	108.678.034	42.759.791	30.433.834	73.193.625
3.1.1 Fair value hedges		270.141	3.642.900	3.913.041	270.141	2.336.735	2.606.876
3.1.2 Cash flow hedges		52.129.650	52.635.343	104.764.993	42.489.650	28.097.099	70.586.749
3.1.3 Hedges for investments made in foreign countries		-	-	-	-	-	-
3.2 Trading transactions		96.598.462	281.120.069	377.718.531	130.950.844	210.807.920	341.758.764
3.2.1 Forward foreign currency purchase and sale transactions		8.757.732	16.244.275	25.002.007	11.063.125	14.589.393	25.652.518
3.2.1.1 Forward foreign currency purchase transactions		3.581.773	9.301.668	12.883.441	4.066.561	8.704.699	12.771.260
3.2.1.2 Forward foreign currency sale transactions		5.175.959	6.942.607	12.118.566	6.996.564	5.884.694	12.881.258
3.2.2 Currency and interest rate swaps		77.706.473	215.894.621	293.601.094	104.077.472	164.682.628	268.760.100
3.2.2.1 Currency swap purchase transactions		24.759.796	76.233.957	100.993.753	19.511.430	87.065.133	106.576.563
3.2.2.2 Currency swap sale transactions		48.836.677	52.625.570	101.462.247	79.436.042	28.617.705	108.053.747
3.2.2.3 Interest rate swap purchase transactions		2.055.000	43.517.547	45.572.547	2.565.000	24.499.895	27.064.895
3.2.2.4 Interest rate swap sale transactions		2.055.000	43.517.547	45.572.547	2.565.000	24.499.895	27.064.895
3.2.3 Currency, interest rate and securities options		8.929.656	22.638.129	31.567.785	9.678.308	16.400.673	26.078.981
3.2.3.1 Currency purchase options		3.630.613	10.299.582	13.930.195	3.910.315	7.906.039	11.816.354
3.2.3.2 Currency sale options		5.299.043	8.287.346	13.586.389	5.467.993	6.672.990	12.140.983
3.2.3.3 Interest rate purchase options		-	2.597.566	2.597.566	-	1.058.039	1.058.039
3.2.3.4 Interest rate sale options		-	1.453.635	1.453.635	300.000	763.605	1.063.605
3.2.3.5 Securities purchase options		-	-	-	-	-	-
3.2.3.6 Securities sale options		-	-	-	-	-	-
3.2.4 Currency futures		384.593	375.993	760.586	-	-	-
3.2.4.1 Currency purchase futures		-	375.993	375.993	-	-	-
3.2.4.2 Currency sale futures		384.593	-	384.593	-	-	-
3.2.5 Interest rate futures		-	-	-	-	-	-
3.2.5.1 Interest rate purchase futures		-	-	-	-	-	-
3.2.5.2 Interest rate sale futures		-	-	-	-	-	-
3.2.6 Other		820.008	25.967.051	26.787.059	6.131.939	15.135.226	21.267.165
B. CUSTODY AND PLEDGED SECURITIES (IV+V+VI)		2.890.559.232	751.195.220	3.641.754.452	640.568.079	283.266.808	923.834.887
IV. ITEMS HELD IN CUSTODY		420.652.853	603.765.876	1.024.418.729	355.509.137	191.474.709	546.983.846
4.1 Assets under management		-	-	-	-	-	-
4.2 Securities held in custody		396.166.848	602.941.498	999.108.346	333.343.112	190.867.166	524.210.278
4.3 Checks received for collection		18.687.060	70.401	18.757.461	17.328.672	87.339	17.416.011
4.4 Commercial notes received for collection		5.740.801	661.307	6.402.108	4.779.209	460.360	5.239.569
4.5 Other assets received for collection		-	73.988	73.988	-	47.846	47.846
4.6 Securities received for public offering		-	-	-	-	-	-
4.7 Other items under custody		58.144	18.682	76.826	58.144	11.998	70.142
4.8 Custodians		-	-	-	-	-	-
V. PLEDGED ITEMS		2.450.541.831	135.974.521	2.586.516.352	271.152.739	90.899.235	362.051.974
5.1 Marketable securities		248.455	664	249.119	193.385	418	193.803
5.2 Guarantee notes		1.136.065	461.513	1.597.578	930.316	266.781	1.197.097
5.3 Commodity		19.120	-	19.120	23.010	-	23.010
5.4 Warrant		-	-	-	-	-	-
5.5 Immovables		2.303.560.277	100.031.752	2.403.592.029	119.604.456	70.551.995	190.156.451
5.6 Other pledged items		145.577.914	35.469.830	181.047.744	150.401.572	20.073.243	170.474.815
5.7 Depositories receiving pledged items		-	10.762	10.762	-	6.798	6.798
VI. ACCEPTED GUARANTEES AND WARRANTS		19.364.548	11.454.823	30.819.371	13.906.203	892.864	14.799.067
TOTAL OFF BALANCE SHEET COMMITMENTS)		3.131.255.916	1.226.932.140	4.358.188.056	934.254.801	668.495.817	1.602.750.618

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

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

3. Statements of Profit Or Loss

	Note (Section Five)	Current Period (01/01/2018- 30/09/2018)	Current Period (01/07/2018- 30/09/2018)
Income and expense items			
I. INTEREST INCOME	4.1	22.840.497	9.456.240
1.1 Interest on loans	4.1.1	18.139.937	7.170.493
1.2 Interest received from reserve deposits		285.863	108.885
1.3 Interest received from banks	4.1.2	462.155	165.214
1.4 Interest received from money market transactions		30.248	7.738
1.5 Interest received from marketable securities portfolio	4.1.3	3.920.873	2.003.687
1.5.1 Financial assets at fair value through profit or losses		9.663	2.457
1.5.2 Financial assets at fair value through other comprehensive income		2.561.123	1.256.731
1.5.3 Financial assets measured at amortised cost		1.350.087	744.499
1.6 Finance lease income		-	-
1.7 Other interest income		1.421	223
II. INTEREST EXPENSES	4.2	12.821.575	5.312.934
2.1 Interest on deposits	4.2.4	9.249.230	3.787.450
2.2 Interest on funds borrowed	4.2.1	1.731.086	769.183
2.3 Interest expense on money market transactions		715.329	252.310
2.4 Interest on securities issued	4.2.3	1.054.705	477.589
2.5 Other interest expenses		71.225	26.402
III. NET INTEREST INCOME/EXPENSE (I - II)		10.018.922	4.143.306
IV. NET FEES AND COMMISSIONS INCOME/EXPENSES		2.956.868	977.425
4.1 Fees and commissions received		3.851.528	1.348.560
4.1.1 Non-cash loans		544.666	206.095
4.1.2 Other		3.306.862	1.142.465
4.2 Fees and commissions paid		894.660	371.135
4.2.1 Non-cash loans		176	72
4.2.2 Other		894.484	371.063
V. PERSONNEL EXPENSES (-)	4.7	2.094.619	810.034
VI. DIVIDEND INCOME		4.863	667
VII. TRADING PROFIT/LOSS (Net)	4.3	(553.219)	198.142
7.1 Profit/losses from capital market transactions		124.240	43.316
7.2 Profit/losses from derivative financial transactions	4.5	13.466.203	10.054.344
7.3 Foreign exchange profit/losses		(14.143.662)	(9.899.518)
VIII. OTHER OPERATING INCOME	4.6	1.071.856	285.648
IX. GROSS PROFIT FROM OPERATING ACTIVITIES (III+IV+V+VI+VII+VIII)		11.404.671	4.795.154
X. ALLOWANCES FOR EXPECTED CREDIT LOSSES (-)	4.4	5.238.498	2.890.403
XI. OTHER OPERATING EXPENSES (-)	4.7	2.342.359	781.203
XII. NET OPERATING PROFIT/LOSS (IX-X-XI)		3.823.814	1.123.548
XIII. SURPLUS WRITTEN AS GAIN AFTER MERGER		-	-
XIV. PROFIT/LOSS FROM EQUITY METHOD APPLIED SUBSIDIARIES		615.299	233.033
XV. NET MONETARY POSITION GAIN/LOSS)		-	-
XVI. PROFIT/LOSS BEFORE TAXES FROM CONTINUING OPERATIONS (XII+...+XV)	4.8	4.439.113	1.356.581
XVII. PROVISION FOR TAXES ON INCOME FROM CONTINUING OPERATIONS (±)	4.9	852.859	241.559
17.1 Current tax provision		16.017	(116.959)
17.2 Expense effect of deferred tax (+)		836.842	358.518
17.3 Income effect of deferred tax (-)		-	-
XVIII. NET PROFIT/LOSS FROM CONTINUING OPERATIONS (XVI±XVII)		3.586.254	1.115.022
XIX. INCOME FROM DISCONTINUED OPERATIONS		-	-
19.1 Income from assets held for sale		-	-
19.2 Profit from sale of associates, subsidiaries and joint ventures		-	-
19.3 Other income from discontinued operations		-	-
XX. EXPENSES FROM DISCONTINUED OPERATIONS (-)		-	-
20.1 Expenses on assets held for sale		-	-
20.2 Losses from sale of associates, subsidiaries and joint ventures		-	-
20.3 Other expenses from discontinued operations		-	-
XXI. PROFIT/LOSS BEFORE TAXES FROM DISCONTINUED OPERATIONS (±) (XIX-XX)		-	-
XXII. TAX PROVISIONS FOR DISCONTINUED OPERATIONS (±)		-	-
21.1 Current tax provision		-	-
21.2 Expense effect of deferred tax (+)		-	-
21.3 Income effect of deferred tax (-)		-	-
XXIII. NET PROFIT/LOSS FROM DISCONTINUED OPERATIONS (XXI±XXII)		-	-
XXIV. NET PROFIT/LOSSES (XVIII+XXIII)	4.10	3.586.254	1.115.022
Earnings/(loss) per share (full TL)		0,0062	0,0013

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

Unconsolidated financial statements as of September 30, 2017

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

3. Statements of Profit Or Loss

Income and expense items	Note (Section Five)	Prior Period (01/01/2017- 30/09/2017)	Prior Period (01/07/2017- 30/09/2017)
I. Interest income	4.1	15.388.439	5.388.075
1.1 Interest on loans	4.1.1	12.789.262	4.446.853
1.2 Interest received from reserve deposits		164.242	65.455
1.3 Interest received from banks	4.1.2	149.910	40.131
1.4 Interest received from money market transactions		19.971	3.074
1.5 Interest received from marketable securities portfolio	4.1.3	2.264.057	832.399
1.5.1 Trading financial assets		2.876	762
1.5.2 Financial assets at fair value through profit or (loss)		-	-
1.5.3 Available-for-sale financial assets		1.607.067	607.256
1.5.4 Held to maturity investments		654.114	224.381
1.6 Financial lease income		-	-
1.7 Other interest income		997	163
II. Interest expense	4.2	(8.861.445)	(3.175.946)
2.1 Interest on deposits	4.2.4	(7.178.579)	(2.528.086)
2.2 Interest on funds borrowed	4.2.1	(918.879)	(322.880)
2.3 Interest expense on money market transactions		(245.582)	(125.148)
2.4 Interest on securities issued	4.2.3	(493.901)	(198.285)
2.5 Other interest expenses		(24.504)	(1.547)
III. Net interest income (I + II)		6.526.994	2.212.129
IV. Net fees and commissions income		2.348.174	757.203
4.1 Fees and commissions received		3.014.874	1.006.611
4.1.1 Non-cash loans		420.938	135.155
4.1.2 Other		2.593.936	871.456
4.2 Fees and commissions paid		(666.700)	(249.408)
4.2.1 Non-cash loans		(120)	(35)
4.2.2 Other		(666.580)	(249.373)
V. Dividend income		2.165	-
VI. Trading gain/(loss) (net)	4.3	(405.809)	(224.256)
6.1 Trading gains/(losses) on securities		49.730	3.453
6.2 Derivative financial transactions gains/(losses)	4.5	(2.001.968)	(161.613)
6.3 Foreign exchange gains/(losses)		1.546.429	(66.096)
VII. Other operating income	4.6	869.651	249.966
VIII. Total operating income (III+IV+V+VI+VII)		9.341.175	2.995.042
IX. Provision for impairment of loans and other receivables (-)	4.4	(2.489.621)	(821.468)
X. Other operating expenses (-)	4.7	(3.935.048)	(1.293.266)
XI. Net operating income/(loss) (VIII-IX-X)		2.916.506	880.308
XII. Excess amount recorded as income after merger		-	-
XIII. Income/(loss) from investments accounted based on equity method		429.960	144.040
XIV. Income/(loss) on net monetary position		-	-
XV. Profit/loss before taxes from continuing operations (XI+XII+XIII+XIV)	4.8	3.346.466	1.024.348
XVI. Tax provision for continuing operations (±)	4.9	(611.900)	(182.980)
16.1 Current tax provision		(775.301)	(34.880)
16.2 Deferred tax provision		163.401	(148.100)
XVII. Net profit/loss from continuing operations (XV±XVI)		2.734.566	841.368
XVIII. Income from discontinued operations		-	-
18.1 Income from non-current assets held for resale		-	-
18.2 Profit from sales of associates, subsidiaries and joint ventures		-	-
18.3 Other income from discontinued operations		-	-
XIX. Expenses from discontinued operations (-)		-	-
19.1 Expenses for non-current assets held for resale		-	-
19.2 Loss from sales of associates, subsidiaries and joint ventures		-	-
19.3 Other expenses from discontinued operations		-	-
XX. Profit /losses before taxes from discontinued operations (XVIII-XIX)		-	-
XXI. Tax provision for discontinued operations (±)		-	-
21.1 Current tax provision		-	-
21.2 Deferred tax provision		-	-
XXII. Net profit/loss from discontinued operations (XX±XXI)		-	-
XXIII. Net profit/loss (XVII+XXII)	4.10	2.734.566	841.368
Earnings/(loss) per share (full TL)		0,0063	0,0019

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

Unconsolidated financial statements as of September 30, 2018 and 2017

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”))

4. Statement of Profit or Loss and Other Comprehensive Income

		Current Period (30/09/2018)
I.	PROFIT /(LOSS)	3.586.254
II.	OTHER COMPREHENSIVE INCOME	2.667.492
2.1	Other comprehensive income that will not be reclassified to profit or loss	467.783
2.1.1	Gains (losses) on Revaluation of Property, Plant and Equipment	545.509
2.1.2	Gains (losses) on revaluation of Intangible Assets	-
2.1.3	Gains (losses) on remeasurements of defined benefit plans	(31.199)
2.1.4	Other Components of Other Comprehensive Income That Will Not Be Reclassified to Profit Or Loss	6.615
2.1.5	Taxes Relating To Components Of Other Comprehensive Income That Will Not Be Reclassified To Profit Or Loss	(53.142)
2.2	Other Comprehensive Income That Will Be Reclassified to Profit or Loss	2.199.709
2.2.1	Exchange Differences on Translation	1.432.842
2.2.2	Valuation and/or Reclassification Profit or Loss from financial assets at fair value through other comprehensive income	(2.224.236)
2.2.3	Income (loss) Related with Cash Flow Hedges	4.221.354
2.2.4	Income (loss) Related with Hedges of Net Investments in Foreign Operations	(1.013.954)
2.2.5	Other Components of Other Comprehensive Income that will be Reclassified to Other Profit or Loss	-
2.2.6	Taxes Relating To Components Of Other Comprehensive Income That Will Be Reclassified To Profit Or Loss	(216.297)
III.	TOTAL COMPREHENSIVE INCOME (LOSS) (I+II)	6.253.746

		Prior Period (30/09/2017)
Income and expense items accounted under shareholders' equity		
I.	Transfers to marketable securities valuation differences from financial assets available for sale	277.358
II.	Property and equipment revaluation differences	(1.371)
III.	Intangible assets revaluation differences	-
IV.	Currency translation differences for foreign currency transactions	756
V.	Profit /loss on cash flow hedges (effective part of the fair value changes)	(1.476)
VI.	Profit/loss on foreign net investment hedges (effective part of the fair value changes)	(190.723)
VII.	Effects of changes in accounting policy and adjustment of errors	-
VIII.	Other income and expense items accounted under shareholders' equity according to TAS	5.470
IX.	Deferred tax on valuation differences	29.656
X.	Net profit or loss accounted directly under shareholders' equity (I+II+...+IX)	119.670
XI.	Current year profit/loss	2.734.566
11.1	Net change in fair value of marketable securities (recycled to profit-loss)	39.888
11.2	Part of cash flow hedge derivative financial instruments reclassified and presented on the income statement	163.093
11.3	Part of foreign net investment hedges reclassified and presented on the income statement	-
11.4	Other	2.531.585
XII.	Total income/loss accounted for the period (X+XI)	2.854.236

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

Unconsolidated statement of changes in shareholders' equity as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

5. Statement of changes in shareholders' equity

Current Period (30/09/2018)	CHANGES IN SHAREHOLDER'S EQUITY				Other Accumulated Comprehensive Income That Will Not Be Reclassified In Profit and Loss			Other Accumulated Comprehensive Income That Will Be Reclassified In Profit and Loss			Profit reserves	Prior period net income/(loss)	Current period net income/(loss)	Total shareholders' equity
	Paid-in capital	Share premium	Share certificate cancellation profits	Other capital reserves	1	2	3	4	5	6				
I. Balance at the beginning of the period	4.347.051	543.881	-	1.340.087	1.360.019	(178.038)	1.356.685	1.174.944	(381.624)	375.225	16.545.616	-	3.614.081	30.097.927
II. Adjustment in accordance with TMS 8	-	-	-	-	-	-	(181.350)	-	110.325	-	(62.054)	-	-	(133.079)
2.1 Effect of adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Effect of changes in accounting policies	-	-	-	-	-	-	(181.350)	-	110.325	-	(62.054)	-	-	(133.079)
III. New balance (I+II)	4.347.051	543.881	-	1.340.087	1.360.019	(178.038)	1.175.335	1.174.944	(271.299)	375.225	16.483.562	-	3.614.081	29.964.848
IV. Total comprehensive income (loss)	-	-	-	-	485.503	(24.335)	6.615	1.432.842	(1.734.904)	2.501.771	-	-	3.586.254	6.253.746
V. Capital increase in cash	4.100.000	13.056	-	(29.467)	-	-	-	-	-	-	-	-	-	4.083.589
VI. Capital increase through internal reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII. Issued capital inflation adjustment difference	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. Convertible bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX. Subordinated debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X. Increase (decrease) through other changes, equity	-	-	-	-	-	-	-	-	-	-	(6)	-	-	(6)
XI. Profit distribution	-	-	-	127.833	-	-	-	-	-	-	3.486.248	-	(3.614.081)	-
11.1. Dividends distributed	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11.2. Transfers to legal reserves	-	-	-	127.833	-	-	-	-	-	-	3.486.248	-	(3.614.081)	-
11.3. Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Period end balance (III+IV+.....+X+XI)	8.447.051	556.937	-	1.438.453	1.845.522	(202.373)	1.181.950	2.607.786	(2.006.203)	2.876.996	19.969.804	-	3.586.254	40.302.177

1. Tangible assets revaluation reserve,

2. Accumulated gains / losses on remeasurements of defined benefit plans

3. Other Comprehensive Income of Associates and Joint Ventures Accounted for Using Equity Method that will not be Reclassified to Profit or Loss and Other Accumulated Amounts of Other Comprehensive Income that will not be Reclassified to Profit or Loss

4. Exchange differences on translation reserve for associates and joint ventures accounted for using equity method

5. Accumulated gains (losses) due to revaluation and/or reclassification of financial assets measured at fair value through other comprehensive income

6. Accumulated gains or (losses) on cash flow hedges and net investment hedges.

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

Unconsolidated statement of changes in shareholders' equity as of September 30, 2017

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

5. Statement of changes in shareholders' equity

Prior Period (30/09/2017)	Note (Section five)	Paid-in capital	Adjustment to share capital	Share premium	Share cancellatio n profits	Legal reserves	Status reserves	Extra ord. reserves	Other reserves	Current period net income/(loss)	Prior period income/(loss)	Property and equipment and intangible assets		Bonus shares from investments	Hedging funds	Assets held for resale/ discontinued operations revaluation fund	Total shareholders' equity
												Marketable securities value increase fund	revaluation fund				
I.	Prior period end balance	4.347.051	-	543.881	-	844.539	-	12.913.149	1.199.164	2.932.795	-	1.710.409	1.449.056	15.165	163.338	-	26.118.547
	Changes in the period																
II.	Increase/decrease due to the merger	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III.	Marketable securities valuation differences	-	-	-	-	-	-	-	-	-	-	221.886	-	-	-	-	221.886
IV.	Hedging transactions (effective portion)	-	-	-	-	-	-	-	-	-	-	-	-	-	(153.759)	-	(153.759)
4.1	Cash flow hedge	-	-	-	-	-	-	-	-	-	-	-	-	-	(1.181)	-	(1.181)
4.2	Foreign net investment hedge	-	-	-	-	-	-	-	-	-	-	-	-	-	(152.578)	-	(152.578)
V.	Property and equipment revaluation differences	-	-	-	-	-	-	-	-	-	-	-	(1.302)	-	-	-	(1.302)
VI.	Intangible assets revaluation differences	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII.	Bonus shares from investments in associates, subsidiaries and joint ventures	-	-	-	-	-	-	-	-	-	-	-	-	1.106	-	-	1.106
VIII.	Foreign exchange differences	-	-	-	-	-	-	-	-	-	-	(760)	-	-	1.365	-	605
IX.	Changes due to the disposal of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X.	Changes due to the reclassification of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI.	Effect of the changes in equity of investment in associates	-	-	-	-	-	-	-	-	-	-	238.218	-	-	-	-	238.218
XII.	Capital increase	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.1	Cash increase	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.2	Internal resources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII.	Share premium	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV.	Share cancellation profits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV.	Paid in-capital inflation adjustment difference	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI.	Other	-	-	-	-	-	-	-	(187.084)	-	-	-	-	-	-	-	187.084
XVII.	Current year income or loss	-	-	-	-	-	-	-	-	2.734.566	-	-	-	-	-	-	2.734.566
XVIII.	Profit distribution	-	-	-	-	24.871	-	2.761.874	146.050	(2.932.795)	-	-	-	-	-	-	-
18.1	Dividend paid	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18.2	Transfers to reserves	-	-	-	-	24.871	-	2.761.874	146.050	(2.932.795)	-	-	-	-	-	-	-
18.3	Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Period end balance (I+II+III+...+XVI+XVII+XVIII)	4.347.051	-	543.881	-	869.410	-	15.675.023	1.345.214	2.734.566	-	2.169.753	1.447.754	16.271	10.944	-	28.972.783

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

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

6. Statement of cash flows

	Notes (Section Five)	Current Period (30/09/2018)
A. CASH FLOWS FROM BANKING OPERATIONS		
1.1 Operating profit before changes in operating assets and liabilities		5.863.990
1.1.1 Interest received		18.743.011
1.1.2 Interest paid		(12.171.666)
1.1.3 Dividend received		65.066
1.1.4 Fees and commissions received		3.851.528
1.1.5 Other income		496.053
1.1.6 Collections from previously written-off loans and other receivables		1.036.871
1.1.7 Cash Payments to personnel and service suppliers		(3.777.505)
1.1.8 Taxes paid		(392.509)
1.1.9 Other		(1.986.859)
1.2 Changes in operating assets and liabilities subject to banking operations		(1.953.472)
1.2.1 Net (increase) decrease in Financial Assets at Fair Value through Profit or Loss		(282.523)
1.2.2 Net (increase) decrease in due from banks		(982.186)
1.2.3 Net (increase) decrease in loans		(40.330.754)
1.2.4 Net (increase) decrease in other assets		(8.110.896)
1.2.5 Net increase (decrease) in bank deposits		(374.252)
1.2.6 Net increase (decrease) in other deposits		41.599.915
1.2.7 Net increase (decrease) in financial liabilities at fair value through profit or loss		3.606.150
1.2.8 Net increase (decrease) in funds borrowed		7.865.838
1.2.9 Net increase (decrease) in matured payables		-
1.2.10 Net increase (decrease) in other liabilities		(4.944.764)
I. Net cash provided from banking operations		3.910.518
B. CASH FLOWS FROM INVESTING ACTIVITIES		
II. Net cash provided from investing activities		(3.628.883)
2.1 Cash paid for the purchase of associates, subsidiaries and joint ventures		-
2.2 Cash obtained from the sale of associates, subsidiaries and joint ventures		-
2.3 Cash paid for the purchase of tangible and intangible asset		(505.254)
2.4 Cash obtained from the sale of tangible and intangible asset		200.601
2.5 Cash paid for the purchase of financial assets at fair value through other comprehensive income		(6.715.618)
2.6 Cash obtained from the sale of financial assets at fair value through other comprehensive income		6.201.447
2.7 Cash paid for the purchase of financial assets at amortised cost		(3.621.570)
2.8 Cash obtained from sale of financial assets at amortised cost		811.511
2.9 Other		-
C. CASH FLOWS FROM FINANCING ACTIVITIES		
III. Net cash flows from financing activities		13.186.133
3.1 Cash obtained from funds borrowed and securities issued		14.646.847
3.2 Cash outflow from funds borrowed and securities issued		(5.544.561)
3.3 Equity instruments issued		4.083.589
3.4 Dividends paid		-
3.5 Payments for finance lease liabilities		258
3.6 Other		-
IV. Effect of change in foreign exchange rate on cash and cash equivalents		8.157.616
V. Net increase/decrease in cash and cash equivalents		21.625.384
VI. Cash and cash equivalents at beginning of the period		21.589.701
VII. Cash and cash equivalents at end of the period		43.215.085

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

Notes to unconsolidated financial statements as of September 30, 2017

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

6. Statement of cash flows

	Notes (Section Five)	Prior Period (30/09/2017)
A.	CASH FLOWS FROM BANKING OPERATIONS	
1.1	Operating profit before changes in operating assets and liabilities	6.605.229
1.1.1	Interest received	13.682.586
1.1.2	Interest paid	(8.746.427)
1.1.3	Dividend received	116.831
1.1.4	Fees and commissions received	3.014.874
1.1.5	Other income	783.559
1.1.6	Collections from previously written-off loans and other receivables	987.351
1.1.7	Cash Payments to personnel and service suppliers	(3.364.917)
1.1.8	Taxes paid	(918.496)
1.1.9	Other	1.049.868
1.2	Changes in operating assets and liabilities subject to banking operations	(5.899.682)
1.2.1	Net (increase) Decrease in Financial Assets at Fair Value through Profit or Loss	(7.127)
1.2.2	Net (increase) decrease in due from banks	-
1.2.3	Net (increase) decrease in loans	(1.906.663)
1.2.4	Net (increase) decrease in other assets	(17.815.560)
1.2.5	Net increase (decrease) in bank deposits	766.653
1.2.6	Net increase (decrease) in other deposits	(1.848.204)
1.2.7	Net increase (decrease) in financial liabilities at fair value through profit or loss	8.069.947
1.2.8	Net increase (decrease) in funds borrowed	7.482.160
1.2.9	Net increase (decrease) in matured payables	-
1.2.10	Net increase (decrease) in other liabilities	(640.888)
I.	Net cash provided from banking operations	705.547
B.	CASH FLOWS FROM INVESTING ACTIVITIES	
II.	Net cash provided from investing activities	(4.035.557)
2.1	Cash paid for the purchase of associates, subsidiaries and joint ventures	-
2.2	Cash obtained from the sale of associates, subsidiaries and joint ventures	-
2.3	Cash paid for the purchase of tangible and intangible asset	(250.821)
2.4	Cash obtained from the sale of tangible and intangible asset	39.316
2.5	Cash paid for the purchase of financial assets at fair value through other comprehensive income	(9.972.628)
2.6	Cash obtained from the sale of financial assets at fair value through other comprehensive income	6.447.614
2.7	Cash paid for the purchase of financial assets at amortised cost	(322.063)
2.8	Cash obtained from sale of financial assets at amortised cost	23.025
2.9	Other	-
C.	CASH FLOWS FROM FINANCING ACTIVITIES	
III.	Net cash flows from financing activities	2.215.985
3.1	Cash obtained from funds borrowed and securities issued	12.073.775
3.2	Cash outflow from funds borrowed and securities issued	(9.856.753)
3.3	Equity instruments issued	-
3.4	Dividends paid	-
3.5	Payments for finance lease liabilities	(1.037)
3.6	Other	-
IV.	Effect of change in foreign exchange rate on cash and cash equivalents	513.871
V.	Net increase/decrease in cash and cash equivalents (I+II+III+IV)	(600.154)
VI.	Cash and cash equivalents at beginning of the period	13.957.819
VII.	Cash and cash equivalents at end of the period	13.357.665

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

Section Three - Accounting policies

1. Explanations on basis of presentation:

The Bank maintains its books of accounts in Turkish Lira in accordance with the Banking Act No. 5411 (“Banking Act”), which is effective from November 1, 2005, the Turkish Commercial Code (“TCC”), and Turkish Tax Legislation.

The unconsolidated financial statements are prepared in accordance with the “Regulation on the Principles and Procedures Regarding Banks’ Accounting Applications and Safeguarding of Documents” published in the Official Gazette No. 26333 dated November 1, 2006 by the Banking Regulation and Supervision Agency (“BRSA”) which refers to “Turkish Accounting Standards” (“TAS”) and “Turkish Financial Reporting Standards (“TFRS”) issued by the Public Oversight Accounting and Auditing Standards Authority (“POA”) and other decrees, notes and explanations related to the accounting and financial reporting principles (all “Turkish Accounting Standards” or “TAS”) published by the BRSA. The format and the details of the publicly announced financial statements and related disclosures to these statements have been prepared in accordance with the “Communiqué Related to Publicly Announced Financial Statements of Banks and Explanations and Notes Related to these Financial Statements” and changes and notes to this communiqué published in the Official Gazette No. 28337 dated June 28, 2012.

The accompanying unconsolidated financial statements and notes to these financial statements are expressed in thousands of Turkish Lira (TL), unless otherwise stated.

The accompanying unconsolidated financial statements are prepared in accordance with the historical cost basis (restated for the changes in the general purchasing power of TL until December 31, 2004), except for financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investments in associates and subsidiaries measured at fair value, derivative financial assets/liabilities and art objects and paintings in tangible assets. Besides, the carrying values of assets carried at amortized cost but subject to fair value hedge are adjusted to reflect the fair value changes related to the hedged risks.

The preparation of unconsolidated financial statements in conformity with TAS requires the use of certain accounting estimates by the Bank management to exercise its judgment on the assets and liabilities on the balance sheet and contingent assets and liabilities as of the balance sheet date. These estimates are being reviewed regularly and, when necessary, suitable corrections are made and the effects of these corrections are explained in the related notes and reflected to the income statement.

The preparation and fair presentation of the financial statement and used principles of valuation in accordance with “Accounting and Reporting Legislation” published in the regulation, communiqué, interpretations and circular published by BRSA and If no specific regulation has been made by BRSA, it has been determined and applied according to the principles of TAS. The accounting principles except TFRS 9 impact, are in accordance with the used principles in preparation of yearly financial statement as of 31 December 2017.

The Bank has adopted “TFRS 9: Financial Instruments” to replace “TAS 39 Financial Instruments: Recognition and measurement” as of 1 January 2018, as issued by Public Oversight Accounting and Auditing Standards Authority published in the Official Gazette No. 29953 dated January 19, 2017, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Bank did not early adopt TFRS 9 in previous periods.

As permitted by the transitional provisions of TFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the “Profit reserves” and “Other comprehensive income” of the current period. The Bank has also elected to continue to apply the hedge accounting requirements of TAS 39.

The adoption of TFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and also impairment of financial assets.

Notes to unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

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 related regulations of BRSA		Provision Difference	According to TFRS 9	
Measurement category	Allowances	Remeasurement	Measurement category	Expected credit loss provisions
Financial assets	27.198	59.196	Financial assets	86.394
Cash and balances with Central Bank	-	77.691	Cash and balances with Central Bank	77.691
Banks	27.198	(18.917)	Banks	8.281
Money markets	-	422	Money markets	422
Financial assets available-for-sale	17.815	4.677	Financial assets at fair value through other comprehensive income	22.492
Held-to-maturity investments	-	8.399	Financial assets measured at amortised cost	8.399
Loans and receivables	9.829.564	396.070	Loans	10.225.634
Lease receivables	-	-	Lease receivables	-
Factoring receivables	-	-	Factoring receivables	-
Other assets	186.834	(179.987)	Other assets	6.847
Off-balance sheet commitments	356.956	758.596	Off-balance sheet commitments	1.115.552
Total	10.418.367	1.046.951	Total	11.465.318

The effect of application of TFRS 9 to impairment of financial assets is, before tax, TL 1.046.951 expense.

The Bank calculated deferred tax related to Stage 1 and Stage 2 expected credit losses, and recognized under shareholder's equity with initial application of TFRS 9. Calculated tax impact is TL 963.511 income, and as a result net-off tax TL 83.440 expense is recognized under "Profit Reserves" opening balance related to impairment of financial assets.

Besides, the first time application impact of TFRS 9 for associates and joint ventures accounted using equity method amounting to TL 181.350 expense and is recognized under "Other accumulated comprehensive income that will not be reclassified in profit or loss" opening balance.

Application of TFRS 9 resulted also in changes to measurement and classification of some financial assets.

Visa Inc. shares and credit linked notes classified as "Available for sale financial assets" per prior application, have been classified as "Financial assets measured at fair value through profit or loss" per TFRS 9 transition applied in the current period. In relation to this change TL 23.456 income and TL 2.070 expense has been transferred from "Marketable securities valuation differences" to "Profit reserves".

Some equity instruments classified as "Available-for-sale financial assets" in the prior period are also classified as "Financial assets measured at fair value through other comprehensive income" irrevocably except Visa Inc. The fair value changes of related instruments will not be reclassified to profit or loss when they are sold.

As of January 1, 2018, the Bank has no other financial instruments that fail the solely payments of principal and interest test except credit linked notes.

In addition, with the adoption of TFRS 9, some public debt securities with an amount of TL 1.998.350 under "financial assets at fair value through other comprehensive income" portfolio are classified as "financial assets measured at amortised cost" due to change in the business model. In relation to this change marketable securities valuation expense amounting to TL 131.711 has been reversed from "Marketable securities valuation differences". There is no other changes in the measurement principal apart from related classification.

Per BRSA communique numbered 24049440-045.01[3/8]-E.5380 dated April, 17 2018, titled "Financial Reporting", prior period figures are represented in prior format and without application of TFRS 9 regulations.

TFRS 15 Revenue from Contracts with Customers Standard (TFRS 15) has no significant impact on the Bank's accounting policies, financial position and performance.

The Bank continues to work towards harmonization with the TFRS 16 Leases (TFRS 16) standard, which will become effective as of January 1, 2019.

Additional paragraph for convenience translation into English:

The differences between accounting principles, as described in the preceding paragraphs and accounting principles generally accepted in countries in which the accompanying consolidated financial statements are to be distributed and International Financial Reporting Standards ("IFRS") have not been quantified in the accompanying consolidated financial statements. Accordingly, the accompanying consolidated financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

2. Explanations on strategy of using financial instruments and foreign currency transactions:

The general strategy of the Bank in using financial instruments is to sustain an optimal balance between the yield of the instruments and their risks. The most important funding source of the Bank is deposits. The Bank is also sustaining a lengthened liability structure by using long-term foreign and local currency borrowings from domestic and international investors and financial institutions. Funds obtained from deposits and other sources are invested in quality financial assets in order to keep currency, interest rate and liquidity risks within the limits determined by the asset-liability strategy. The currency, interest and liquidity risks of on-balance sheet and off-balance sheet assets and liabilities are managed accordingly within the risk limits accepted by the Bank and the related legal limits. Derivative instruments are mainly utilized for liquidity needs and for mitigating currency and interest rate risks. The position of the Bank as a result of foreign currency activities is being held at minimum levels and the currency risk exposure is followed within the determined levels by the Board of Directors, by considering the limits specified by the Banking Act.

Foreign currency denominated monetary assets and liabilities are translated with the exchange rates prevailing at the balance sheet date. Gains and losses arising from such valuations are recognized in the income statement under the account of "Foreign exchange gains or losses", except for valuation differences arising from foreign currency participations, subsidiaries and foreign currency non-performing loans.

The Bank hedges foreign currency exposure arising from carrying its foreign subsidiaries at equity method, with financial liabilities in foreign currency and applies net investment hedge accounting. The effective portions of the change in fair value in financial liabilities in foreign currency are recorded under "Other accumulated comprehensive income that will be reclassified in other profit or loss" in equity.

Bank, upon initial recognition, classifies its financial liabilities as financial liabilities at fair value through profit / loss in order to eliminate the recognition inconsistency.

3. Explanations on investments in associates, subsidiaries and joint ventures:

Associates, subsidiaries and joint ventures are being carried at equity method as defined in "TAS 28 - Investments in Associates and Joint Ventures" in the unconsolidated financial statements of the Bank started from June 30, 2015. Any valuation differences arising from prior years, before January 1, 2015, are booked as "Other accumulated comprehensive income that will not be reclassified in profit or loss" under equity. In the following periods, any valuation differences arising from the current period income and other comprehensive income are booked in profit and loss statement and "Other accumulated comprehensive income that will not be reclassified in profit or loss" under the equity, respectively. This accounting policy change is performed through an early adaption before the effective date of January 1, 2016 in accordance with the change of "TAS - 27 Turkish Accounting Standards for Individual Financial Statements" numbered 29321 on April 9, 2015 and confirmation by BRSA's letter numbered 10686 on July 14, 2015.

4. Explanations on forward and option contracts and derivative instruments:

The Bank's derivative transactions mostly include money and interest rate swaps, forward foreign exchange purchase and sale transactions and options.

Derivative instruments are measured at fair value on initial recognition and subsequently remeasured at their fair values. As a result, the fair value of derivatives is reflected as net liability or net asset on a contract by contract basis. The accounting method applied to the income or loss arising from derivative instruments depends on whether the derivative is being used for hedging purposes or not and depends on the type of item being hedged.

Notes to unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

At the transaction date, the Bank documents the relationship between hedging instruments and hedged items, together with the risk management policies and the strategies on hedging transactions. Besides, the Bank regularly documents the effectiveness of the hedging instruments in offsetting the changes in the fair value of the hedged items.

Changes in the fair value of derivative instruments subject to fair value hedges are recognized under profit or loss accounts together with the variation in the fair value of hedged items. The changes of fair value of derivative transactions for fair value hedge are classified in "Derivative Financial Transactions Gains/Losses" account. In the balance sheet, changes in the fair value of hedged assets and liabilities, during the period in which the hedge is effective, are shown with the related assets and liabilities. The ineffective portion of the mentioned hedging transaction is reflected to the income statement. If the underlying hedge does not conform to the hedge accounting requirements, according to the adjustments made to the carrying value (amortized cost) of the hedged item, for which the risk is hedged by a portfolio hedge, are amortized with the straight line method within the time to maturity and recognized under the profit and loss accounts. Fair value adjustments are recognized directly in the income statement in an event of repayment and/or unwinding and/or derecognition of the hedged item.

The Bank hedges its cash flow risk arising from foreign currency and Turkish Lira floating interest rate liabilities by using interest rate swaps. The effective portion of the fair value changes of the hedging instruments are recorded in "Other accumulated comprehensive income that will be reclassified in profit or loss" under shareholders' equity. These funds are transferred to profit or loss from equity when the cash flows of the hedged items (interest expense) impact the income statement.

In case the cash flow hedge accounting is discontinued due to the expiry, realization for sale of the hedging instrument, or due to the results of the effectiveness test the amounts accounted under shareholders' equity are transferred to the profit and loss accounts as these cash flows of the hedged item are realized.

Some of the trading purpose derivative transactions, even though they provide effective economic hedges under the Bank's risk management policy, do not qualify for hedge accounting under the specific rules in "TFRS 9 - Financial Instruments" and are therefore treated as "Derivative financial assets at fair value through profit or loss".

"Derivative financial assets at fair value through profit or loss" are measured at fair value. If the fair value of derivative financial instruments is positive, it is disclosed under the main account "Derivative financial assets at fair value through profit or loss"; and if the fair value difference is negative, it is disclosed under "Derivative financial liabilities at fair value through profit or loss". Fair value changes are recorded under "Derivative Financial Transactions Gains/(Losses)" in the income statement.

The fair values of the derivative financial instruments are calculated using quoted market prices or by using discounted cash flow models.

Parameters used for the valuation of the option portfolio are determined by market risk management and the confirmation of the accuracy of fair value calculations are monitored periodically by market risk management.

Liabilities and receivables arising from the derivative instruments are followed in the off-balance sheet accounts as their contractual values. Embedded derivatives are separated from the host contract and accounted as derivative instruments according to "TFRS – 9 Financial Instruments" in case (i) the related embedded derivative's economic features and risks are not closely related to the host contract, (ii) another instrument that has the same contract conditions with the embedded derivative satisfies the definition of a derivative instrument and (iii) the hybrid instrument is not carried at fair value through profit or loss.

Credit derivatives are capital market tools designed to transfer credit risk from one party to another.

As of September 30, 2018, the Bank's credit derivatives portfolio included total return swaps.

Credit linked notes are bonds that have repayments depending on a credit event or the credit risk evaluation of a reference asset or asset pool. Depending on whether the reference assets are included in the balance sheet of the issuer or the owner of the assets, these transactions can be accounted by the party assuming the credit risk as insurance or as an embedded derivative. As per the Bank's management evaluation, the embedded derivatives included in the credit linked notes are separated from the host contracts in accordance with "TFRS – 9 Financial Instruments" and recorded and evaluated as credit default swaps. The bond itself (host contract) is valued in accordance with the valuation principles of the category it is classified.

Notes to unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”))

Total return swaps are contracts, in which the seller commits to pay the contract value for all cash flows of the reference assets of the seller and the changes of the market values of these reference assets to the buyer during the contract maturity and bear all the decreases in the market value of the these reference assets. The Bank uses the total return swaps to generate long term funding.

Market risks of these products are monitored using the Parent Bank's internal modeling system for the Value-at-Risk and basis points sensitivity analysis; the liquidity risks are monitored using the short term liquidity report on daily and the long term liquidity report on monthly basis.

According to the regulations of BRSA, currency exchange transactions, which are realized at value date in the initial phase of currency swaps, are recorded and followed as irrevocable commitments in off-balance sheet accounts until the value date.

A Credit Valuation Adjustment (CVA) is applied to the Bank's over-the-counter derivative exposures to take into account the counterparty's risk of default when measuring the fair value of the derivative. CVA is the mark-to-market cost of protection required to hedge credit risk from counterparties in the Bank's over-the-counter derivatives portfolio. The Bank calculates CVA based on collective provisioning methodology calculated in accordance with Turkish Financial Reporting Standards, “TFRS – 9 Financial Instruments”, comprising the product of Exposure, Probability of Default (PD) and Loss Given Default (LGD). CVA is calculated based on the exposure of each counterparty.

5. Explanations on interest income and expense:

Interest income and expenses are recognized in the income statement on an accrual basis by using the effective interest method periodically

Retrospective rediscount calculation and foreign exchange evaluation is performed for non performing loans, and accrued interest and rediscounts as of transfer to non performing loan accounts are accounted under loan accrual/rediscount accounts as per Uniform Chart of Accounts (‘UCA’). The Bank ceases accruing interest after non-performing loan classification. In place of that, interest amount representing the time value of future collections is recognized under interest income instead of provision expense.

6. Explanations on fee and commission income and expenses:

Fees and commissions received as a result of the service agreements or arising from negotiating or participating in the negotiation of a transaction on behalf of a third party are recognized either in the period when the transaction is realized or deferred based on the type of the underlying transaction. Other commission income and fees from various banking services are recorded as income at the time of realization.

Except for fees and commissions that are integral part of the effective interest rates of financial instruments measured at amortized costs, the fees and commissions are accounted for in accordance with TFRS 15.

7. Explanations on financial assets:

As of January 1, 2018, the Bank has applied TFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL)
- Fair value through other comprehensive income (FVOCI)
- Amortised cost.

According to TFRS 9 classification of financial assets is based on two criteria; classification and measurement of financial assets depend on the business model of the financial asset and contractual cash flows representing solely payments of principal and interest of the financial asset. This evaluation incorporates whether there is any clause that may change timing or amount of contractual cash flows of the financial asset.

Classification of financial assets reflects the business model of how the Bank manages the assets in order to generate cash flows. Bank's business model may be to collect the contractual cash flows from the assets or to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified as part of ‘other’ business model and measured at FVPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Notes to unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”))

Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the ‘other’ business model and measured at FVPL.

7.1. Financial assets at fair value through profit or loss:

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 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. However, if fair values cannot be obtained from active market transactions, it is assumed that the fair value cannot be measured reliably and fair values are calculated by alternative models. All gains and losses arising from these valuations are recognized in the income statement. Interest earned while holding financial assets is reported as interest income and dividends received are included separately in dividend income.

The principles regarding the accounting of derivative financial instruments are explained in detail in Note IV of this section.

7.2. Financial assets measured at amortised cost:

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, are measured at amortised cost. These financial assets are initially recognized at total of acquisition and transaction cost. After their initial recognition they are carried at “Amortized cost” using the “Effective interest method”.

7.3. Loans :

Loans are financial assets raised through lending without having the intention to trade in the short term. Loans are non derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted on active market. Loans are recognized initially at cost including transaction costs (which reflect fair values) and subsequently carried at the amortized cost using the “effective interest method”. The expenses incurred for the assets received as collateral are not considered as transaction costs and are recognized in the expense accounts.

Retail, commercial and corporate loans included in cash loans are accounted for with their original maturities in accounts which are mentioned in the UCA. Foreign currency indexed loans are initially measured at local currency accounts with the foreign exchange rate prevailing at date of the initial recognition and re-valued with the relevant foreign currency rates prevailing at the date of the financial statements. Increase or decrease in the value of the principal amount of the loan due to changes in foreign exchange rates is accounted in the related income and expense accounts. Repayment amounts are translated with the foreign exchange rates prevailing at the repayment dates and the valuation differences are accounted for in foreign exchange gain/loss accounts.

The Bank provides expected loss provision based on the assessments and estimates of the management, by considering the “Communiqué Related to Principles and Procedures on Determining the Qualifications of Banks’ Loans and Other Receivables and the Provision for These Loans and Other Receivables” (“Provisioning Regulation”) published in the Official Gazette No. 29750 dated June 22, 2016. In this context, the management estimates are determined, on the basis of the prudence principle and Bank credit risk policies, considering the general structure of the loan portfolio, the financial conditions of the customers, non-financial information and the economic conjuncture.

Provision expenses are deducted from the net income of the year. If there is a subsequent collection from a receivable that was already provisioned in previous years, the recovery amount is classified under “Other operating income”. Uncollectible receivables are written-off after all the legal procedures are finalized.

7.4. 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 alternative models.

Notes to unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”))

Equity instruments which are not quoted on a market and the fair values of which cannot be determined reliably, are carried at cost less any impairment. “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” .

8. Explanations on impairment of financial assets:

The Bank assesses on a forward-looking basis the expected credit losses (‘ECL’) associated with its debt instrument assets carried at amortised cost and at fair value through other comprehensive income and with the exposure arising from loan commitments and financial guarantee contracts. The Bank recognises a loss allowance for such losses at each reporting date. The measurement of expected credit losses reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money;
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The measurement of the expected credit loss allowance:

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

These financial assets will be divided into three categories depending on the gradual increase in credit risk observed since their initial recognition. Impairment shall be recognized on outstanding amounts in each category, as follows:

Stage 1:

For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk will be recorded in the amount of 12-month expected credit losses.

Stage 2:

In the event of a significant increase in credit risk since initial recognition, the financial asset will be transferred to this category. Impairment for credit risk will be determined on the basis of the instrument’s lifetime expected credit losses.

Stage 3:

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognized and interest revenue is calculated on the net carrying amount.

Notes to unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

The Bank has developed specific models for calculating the expected loss; such models are based on the parameters of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) and on the effective interest rate. In particular:

- the PD, represents the probability of occurrence of an event of default of the credit exposure, in a defined time lag;
- the LGD, represents the percentage of the estimated loss, and thus the expected rate of recovery, at the date of occurrence of the default event of the credit exposure;
- the EAD, represents the measure of the exposure at the time of the event of default of the credit exposure;
- the Effective interest rate is the discount rate that expresses of the time value of money.

Such parameters are calculated starting from the corresponding parameters used for Internal Ratings Based (IRB) preparation purposes, with specific adjustments in order to ensure consistency between accounting and regulatory treatment despite different regulatory requirements.

The main adjustments aimed at:

- removing conservatism required for for IRB preparation purposes;
- introducing "point-in-time" adjustments to replace "through-the-cycle" adjustments required for IRB preparation purposes (The Bank is at pre-application stage for A-IRB models. TFRS-9 parameters developed over these parameters.);
- with reference to lifetime PD, through-the-cycle PD curves obtained by adjusting observed cumulated default rates were calibrated in order to reflect point-in-time on portfolio default rates.

Recovery rate incorporated into through-the-cycle LGD was adjusted in order to remove conservatism and to reflect the most updated trend of recovery rates discounted at effective interest rate or at its best approximation.

The lifetime EAD has been obtained by extending the 1 year regulatory or managerial model, removing margin of conservatism and including expectation about future drawing levels.

With reference to the quantitative component of the model for stage allocation, the Group has adopted a statistical approach based on a quantiles regression whose objective is to define a threshold in terms of maximum variation acceptable between the PD at the time of origination and the PD assessed at the reporting date.

The Stage Allocation model is a key aspect of the new accounting model required to calculate expected credit losses which is aimed at transferring credit exposures from Stage 1 to Stage 2.

The Stage Allocation model was based on a combination of relative and absolute elements. The main elements were:

- comparison, for each transaction, between PD as measured at the time of origination and PD as at the reporting date, both calculated according to internal models, through thresholds set in such a way as to consider all key variables of each transaction that can affect the Bank's expectation of PD changes over time;
- absolute elements such as the backstops required by law;
- additional internal evidence

Notes to unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

9. Explanations on offsetting financial assets:

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Bank has a legally enforceable right to offset the recognized amounts and to collect/pay related financial assets and liabilities on a net basis, or to realise the asset and settle the liability simultaneously.

10. Explanations on sales and repurchase agreements and securities lending transactions:

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 Bank and measured according to the portfolio to which they belong. Funds obtained from repurchase agreements are accounted under "Money market funds" 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". Interest expense on repo transactions are recorded under "Interest expense on money market transactions" in the income statement.

Funds given against securities purchased under agreements to resell ("Reverse repo") are accounted under "Receivables from money markets" 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.

The Bank has no securities lending transactions.

11. Information on assets held for resale and related to discontinued operations and explanations on liabilities related with these assets:

According to the " TFRS – 5 Non-current Assets Held for Sale and Discontinued Operations" , a tangible asset (or a group of assets to be disposed) classified as "Asset held for resale" is measured at lower of carrying value and fair value less costs to sell. An asset (or a group of assets to be disposed) is regarded as "Asset held for resale" only when the sale is highly probable and the asset (or a group of assets to be disposed) 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.

A discontinued operation is a part of the Bank's business classified as sold or held for sale. The operating results of the discontinued operations are disclosed separately in the income statement.

12. Explanations on goodwill and other intangible assets:

12.1. Goodwill:

The excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities or contingent liabilities of the acquired subsidiary at the date of acquisition of the control is recorded as goodwill and represents a payment made by the acquirer in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognized. The acquirer also recognizes assets that are capable of being individually identified and separately recognized, intangible assets (e.g. credit card brand value, deposit base and customer portfolio) and contingent liabilities at fair value, irrespective of whether the asset had been recognized by the acquiree before the business combination, if it can be distinguished from the goodwill and if the asset's fair value can be measured reliably.

As explained in Note 2, Section 1, in 2006, all rights, receivables, debts and liabilities of Koçbank were transferred to the Bank pursuant the merger of the two banks. The goodwill resulting from the merger and calculated in line with TFRS 3, was recorded in the unconsolidated financial statements of the Bank.

In line with "TFRS – 3 Business Combinations", the goodwill is not subject to amortization but is tested annually or more frequently for impairment losses, if any, in line with "TAS – 36 Impairment on Assets". For the purposes of impairment testing, goodwill is allocated to each of the Bank's cash-generating units that is expected to benefit from the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the income statement. An impairment loss recognized for goodwill is not reversed in subsequent periods. On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

12.2. Other intangible assets:

Other intangible assets are measured at cost on initial recognition and any directly attributable costs of setting the asset to work for its intended use are included in the initial measurement. Subsequently, intangible assets are carried at historical costs after the deduction of accumulated amortization and the provision for impairment.

The Bank evaluates the possibility of existence of impairment of intangible assets at the end of each reporting period. If there is an evidence of impairment, the Bank estimates a recoverable amount in accordance with the “TAS – 36 Impairment of Assets”. The recoverable amount is the higher of net sales price or the value in use. When the book value of another intangible asset exceeds the recoverable amount, the related asset is considered to be impaired. If there is no evidence of impairment, there is no need to estimate the recoverable amount.

Intangibles are amortized over their estimated useful lives using the straight-line method. The useful life of the asset is determined by assessing the expected useful life of the asset, technical, technological and other kinds of obsolescence and all required maintenance expenses necessary to utilize the economic benefit from the asset.

13. Explanations on property and equipment:

Property and equipment is measured at its cost when initially recognized and any directly attributable costs of setting the asset in working order for its intended use are included in the initial measurement in accordance with “TAS – 16 Property, Plant and Equipment”. Subsequently, properties and equipment, except art objects, paintings and buildings are carried at cost less accumulated depreciation and provision for impairment.

The Bank adopted a fair value accounting method for its buildings as of March 31, 2015 in tangible assets in accordance with “TAS – 16 Property, Plant and Equipment”.

The depreciation rate for buildings is 2-4%, for movables and movables acquired under financial leasing depreciation is calculated over estimated useful life by using the straight-line method.

The depreciation charge for items remaining in property and equipment for less than a full accounting period at the balance sheet date is calculated in proportion to the period the item remained in property and equipment.

In accordance with “TAS – 36 Impairment of Assets”, 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 impairment is charged to the income statement.

Gains and losses on the disposal of property and equipment are determined by deducting the net book value of the property and equipment from its sales proceeds.

Expenditures for the repair and maintenance of property and equipment are recognized as expense. The capital expenditures made in order to increase the capacity of the tangible asset or to increase its future benefits are capitalized on the cost of the tangible asset. The capital expenditures include the cost components which are used either to increase the useful life or the capacity of the asset or the quality of the product or to decrease the costs.

14. Explanations on leasing transactions:

The Bank performs financial and operational leasing in the capacity of the lessee.

14.1 Financial lease

The Bank includes the lower of the market value of the fixed asset subject to financial leasing in the beginning of the financial leasing period or present value of the lease payments in property and equipment and records the liabilities arising from financial leasing in liabilities. Financing costs arising due to leasing are spread through the lease period forming a fixed interest rate. In addition, fixed assets that are obtained by the way of financial leasing are subject to depreciation based on their useful lives. If a decrease in the value of fixed assets that are subject to financial leasing is noticed, impairment provision is recognized. The liabilities arising from financial leasing contracts are accounted under “Financial lease payables”. Expenses arising from interest and exchange rate changes related to financial leasing liabilities are charged to the income statement. Lease payments are deducted from financial leasing payables. The Bank does not perform financial leasing operations as “Lessor”.

14.2. Operational lease

Leases, in which the majority of risk and return of property belongs to lessor, are classified as operational lease. Payments that are made under operational leases are accounted in income statements on a straight line basis during the lease period.

15. Explanations on provisions, contingent liabilities:

Provisions and contingent liabilities, except for the specific and general provisions recognized for loans and other receivables, are accounted in accordance with "TAS – 37 Provisions, Contingent Liabilities and Contingent Assets".

Provisions are recognized when the Bank has 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. Provisions for contingent liabilities arisen from past events are recognized in the period of occurrence in accordance with the "Matching principle". A provision is recognized when it is probable that the contingent event will occur and a reliable estimate can be made. When a reliable estimate of the amount of obligation cannot be made or it is not probable that an outflow of resources will be required to settle the obligation, 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 of the period in which the change occurs.

16. Explanations on obligations related to employee rights:

16.1. Employee termination benefits

Obligations related to employee termination and vacation rights are accounted for in accordance with "TAS – 19 Employee Rights" and are classified under "Reserve for employee rights" account in the balance sheet.

Under the Turkish Labour Law, the Bank 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 liability for the future probable obligation of the Bank determined by using certain actuarial assumptions. Actuarial gains and losses generated after January 1, 2013, are accounted for under equity in accordance with the revised "TAS – 19 Employee Rights" standard.

16.2. Pension rights

The Bank's personnel are members of the Yapı ve Kredi Bankası Anonim Şirketi Mensupları Yardım ve Emekli Sandığı Vakfı ("the Fund") which was established in accordance with the 20th temporary article of the Social Security Law No.506. The technical financial statements of the Fund are audited in accordance with the Article 38 of the Insurance Supervision Law and the "Regulation Regarding the Actuaries" by a registered independent actuary.

Temporary article 23 paragraph 1 of the Banking Act published in the Official Gazette No. 25983 dated November 1, 2005 stated that foundations like the Fund are to be transferred to the Social Security Institution ("SSI") within three years beginning from the publication date of the article.

The article of the Law related to the transfer was cancelled (pursuant to the application by the President on November 2, 2005) by the decision of Constitutional Court (decision no: E.2005/39, K. 2007/33 dated March 22, 2007) published in the Official Gazette No. 26479 dated March 31, 2007, and the effect of the law article was suspended from the date of the publication of the decision.

The reasoning of the Constitutional Court regarding the abrogation of the corresponding article was published in the Official Gazette dated December 15, 2007, No 26372. With the publication of the reasoning of the decision, the Grand National Assembly of Turkey ("GNAT") started to work on new legal arrangements regarding the transfer of the fund members to SSI and the related articles of the "Law Regarding the Changes in Social Insurance and General Health Insurance Law and Other Related Laws and Regulations" No 5754 ("the New Law") regulating the transfer of the funds were approved by the GNAT on April 17, 2008. The New Law was published in the Official Gazette No. 26870 dated May 8, 2008. With the new law, the banks' pension funds will be transferred to SSI within three years from the date of publication of the decree and this period can be extended for a maximum of two years with the decision of the Council of Ministers. The transfer period was extended for another two years with the decision of the Council of Ministers No. 2011/1559 published in the Official Gazette dated April 9, 2011. According to the "Amendment of Social Insurance and General Health Insurance Law No. 6283" published in the Official Gazette dated March 8, 2012, Council of Ministers was authorized to increase the two-year extension period mentioned above to four years.

According to the decision of The Council of Ministers dated February 24, 2014, the transfer date is set as May 2015. The Council of Ministers was authorized to determine the transfer date of pension funds in accordance with the last amendment in the first paragraph of the 20th provisional article of Law No.5510 implemented by the Law No. 6645 on Amendment of the Occupational Health and Safety Law and Other Laws and Decree Laws published in the Official Gazette dated April 23, 2015 and numbered 29335.

A commission (whose members are the representatives of the SSI, the Ministry of Finance, Turkish Treasury, State Planning Organization, BRSA, Saving Deposit Insurance Fund ("SDIF"), one member representing the Fund and one member representing the Fund members) is in charge of the calculation of the value of the payment that would need to be made to SSI to settle the obligation using a technical interest rate of 9,8% by law taking into consideration income and expenses by insurance branches of the funds and the excess of salaries and income paid by the funds over the salaries and income to be paid in accordance with the SSI arrangements which should not be less than SSI arrangements, related to the members of the Fund as of the date of the transfer including the members who have left the scheme.

In accordance with the New Law, after the transfer to SSI, any social rights and payments to Fund members and their beneficiaries which are not provided although they are included in the Fund Title Deed will continue to be provided by the Fund and the employers of the Fund members.

The Bank accounts for a provision for the technical deficit based on the report prepared by a registered actuary in accordance with the rates determined by the New Law.

16.3. Short term benefits of employee:

Within the scope of "TAS – 19 Employee Rights", the Bank measures the expected costs of accumulated paid leaves as expected payments it will make due to unused leave rights as at the end of the reporting date.

Notes to unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

17. Explanations on taxation:

17.1. Current tax:

The corporate tax rate is 20% in accordance with the article number 32 of the New Corporate Tax Law no.5520 which is published in the official Gazette dated June 21, 2006 and numbered 26205. "In addition, with the 91st article of The Law numbered 7061 on Amendment of Certain Taxes and Laws and Other Acts which came into effect, being published in the Official Gazette dated December 5, 2017 and numbered 30261, current 20% corporate tax rate, will be applied as 22% for enterprises' corporate income belonging to the taxation periods of 2018, 2019 and 2020. 22% rate will also be valid for aforementioned years' in the provisional tax declaration.

Corporate tax rate business income tax in accordance with the laws of the institutions to be added as unacceptable the reduction of costs in the tax laws, exemptions and reductions to the tax base found as a result of the reduction that will be applied. Additional tax is not payable unless the profit is distributed.

Dividends paid to non-resident corporations, which have a place of business in Turkey or to resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as profit distribution and no withholding tax incurs in such a case.

Corporations are required to pay advance corporate tax quarterly 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 for the current period is credited against the annual corporation tax calculated on the 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.

A 75% portion of the capital gains (have been set as 50% for real estate properties as of December 5, 2017) derived from the sale of equity investments and immovable properties held for at least two years is tax exempt, if such gains are added to paid-in capital or held in a special account under shareholder's equity for five years.

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.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Tax returns are required to be filled and delivered to the related tax office until the evening of the 25th of the fourth month following the balance sheet date and the accrued tax is paid until the end of the same month. Tax returns are open for 5 years from the beginning of the year following the balance sheet date and during this 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.

17.2. Deferred tax:

The Bank calculates and accounts for deferred income taxes for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements in accordance with "TAS – 12 Income Taxes" and in accordance with BRSA's explanations and circulars and the tax legislation. The Bank calculates deferred tax on deductible temporary differences, to the extent that future taxable income is estimated to be available. In the deferred tax calculation, the enacted tax rate, in accordance with the tax legislation, is used as of the balance sheet date.

Deferred tax liabilities are recognized for all resulting temporary differences whereas deferred tax assets resulting from temporary differences are recognized to the extent that future taxable profit will be available against which the deferred tax asset can be utilized.

The calculated deferred tax asset and deferred tax liability are presented as net in these financial statements.

Tax effects of the transactions that are directly accounted under equity are also reflected to equity.

Additionally, in accordance with the related legislation of BRSA, deferred tax effect, if income, is not eligible for dividend distribution and share capital increase.

Notes to unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

17.3. Transfer pricing:

The article no.13 of the Corporate Tax Law No.5520 describes the issue of transfer pricing under the title of "disguised profit distribution" by way of transfer pricing (previously included as "Disguised profit" in the Corporate Tax Law No.5422). "The General Communiqué on Disguised Profit Distribution by Way of Transfer Pricing" published at November 18, 2007/26704, explains the application related issues on this topic effective from January 1, 2007, also taking into account the regulations in Article 41 of the Income Tax Law.

"Arm's length principle", which is the basis for the transfer pricing rule, is the pricing system to be followed for purchase or sale activities between related parties for any product or service transactions as if the transaction is realized with any other third party. According to this communiqué, if the taxpayers conduct transactions like purchase and sale of goods or services with the related parties where the prices are not determined according to the arm's length principle, then it will be concluded that there is a disguised profit distribution by way of transfer pricing. Such disguised profit distributions will not be deducted from the corporate tax base for tax purposes.

As discussed in the relevant section of this communiqué, the taxpayers are required to fill out the "Transfer Pricing, Controlled Foreign Entities and Thin Capitalization" form for the purchase and sale of goods or services conducted with their related parties in a taxation period, attach these forms to their corporate tax returns and submit to the tax offices.

18. Explanations on borrowings:

The financial liabilities classified at fair value through profit/loss, trading and derivative financial liabilities are valued with their fair values and the other financial liabilities are carried at "amortized cost" including costs of transactions using the "effective interest method".

Bank, classified its part of the financial debts as fair value through profit / loss on financial liabilities. Difference between fair value of the debt and amortized cost of the debt together with the interest expense paid on financial instrument is presented as trading gain and losses in the accompanying financial statements.

The Bank utilises various hedging techniques to minimise the currency, interest rate and liquidity risks of its financial liabilities. No convertible bonds have been issued by the Bank.

Also, the Bank obtains funds by issuing bonds and bills.

19. Explanations on issuance of share certificates:

When shares are issued above their nominal value, the excess over the nominal value is accounted under shareholders' equity as "Share premium".

No dividend payments were announced after the balance sheet date.

20. Explanations on avalized drafts and letter of acceptances:

Avalized drafts and acceptances are included in the "Off-balance sheet commitments".

21. Explanations on government grants:

In accordance with the related articles of the "Law Regarding the Supporting of Research and Development Activities" numbered 5746, until balance sheet date, the Bank received government grant from TÜBİTAK amounting to TL 1.177 (December 31, 2017 - TL 1.183).

22. Profit reserves and profit distribution:

Retained earnings as per the statutory financial statements other than legal reserves are available for distribution, subject to the legal reserve requirement referred to below. Legal reserves consist of first and second reserves as foreseen in the TCC. The TCC specifies that the first legal reserve is appropriated at the rate of 5% until the total reserve is equal to 20% of paid-in capital and that the second legal reserve is appropriated at the rate of 10% of distributions in excess of 5% of paid-in capital; however holding companies are not subject to this application. According to the Turkish Commercial Code, legal reserves can only be used to compensate for accumulated losses and cannot be used for other purposes unless they exceed 50% of paid-in capital.

Notes to unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

23. Earnings per share:

Earnings per share disclosed in the income statement are calculated by dividing net profit/(loss) for the year to the weighted average number of shares outstanding during the period concerned.

	Current Period	Prior Period
Net Income/(loss) to be appropriated to ordinary shareholders	3.586.254	2.734.566
Weighted average number of issued ordinary shares(thousand)	574.888.952	434.705.128
Earnings per share (full TL)	0,0062	0,0063

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings. These bonus shares are treated as issued shares in earnings per share computations. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year is adjusted in respect of bonus shares issued without a corresponding change in resources by giving them a retroactive effect. In case bonus shares are distributed after the balance sheet date but before the preparation of the financial statements, earnings per share is calculated considering the new number of shares.

No bonus shares were issued during 2018 (2017 - None).

24. Related parties:

For the purpose of these financial statements, shareholders having control shares of the Bank, key management personnel and board members together with their families and companies controlled by/affiliated with them, associated companies and joint ventures and the Fund providing post employment benefits are considered and referred to as related parties in accordance with "TAS – 24 Related Parties". The transactions with related parties are disclosed in detail in Note 7 of Section Five.

25. Explanations on operating segments:

Information about operating segments which are determined in line with "TFRS – 8 Operating Segments" together with organizational and internal reporting structure of the Bank, are disclosed in Note 10 of Section Four.

26. Explanations on other matters:

None.

27. Explanations on prior period accounting policies not valid for the current period:

"TFRS 9 Financial Instruments" standard came into effect instead of "TAS 39 Financial Instruments: Recognition and Measurement" as of January 1, 2018. Accounting policies lost their validity with the transition of TFRS 9 are given below:

The Bank classifies and accounts its financial assets as "fair value through profit or loss", "available-for-sale", "loans and receivables" or "held-to-maturity". The appropriate classification of financial assets of the Bank is determined at the time of purchase by the Bank management, taking into consideration the purpose of holding the investment. Regular purchases and sales of financial assets are recorded based on settlement date. Settlement date of a financial asset is the date that the asset is received or delivered by the Bank. Settlement date accounting requires; (a) accounting for the financial asset when the asset is received and (b) accounting of disposal of the financial asset and recording the related profit and loss when the asset is delivered. The fair value changes of an asset to be acquired between the trade date and settlement date is accounted in accordance with the basis of valuation of assets.

27.1 Financial assets at fair value through profit or loss:

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 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. However, if fair values cannot be obtained from active market transactions, it is assumed that the fair value cannot be measured reliably and fair values are calculated by alternative models. All gains and losses arising from these valuations are recognized in the income statement. Interest earned while holding financial assets is reported as interest income and dividends received are included separately in dividend income.

Derivative financial instruments are treated as trading financial assets unless they are designated as hedge instruments.

Notes to unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

27.2. Held-to-maturity financial assets:

Held-to-maturity financial assets are non-derivative financial assets other than loans and receivables, with fixed maturities and fixed or determinable payments where management has the intent and ability to hold the financial assets to maturity and that are not initially classified as financial assets at fair value through profit/loss or available for sale. Held-to-maturity financial assets are initially recognized at total of acquisition and transaction cost. Held-to-maturity securities are carried at "Amortized cost" using the "Effective interest method" after their initial recognition. Interest income related with held-to-maturity securities is recorded in "Interest income" and impairment arising from a decrease in cost or revalued amounts is recorded in "Provision for impairment of loans and other receivables" accounts.

There are no financial assets that were previously classified as held-to-maturity but cannot be subject to this classification for two years due to breach of classification principles. In accordance with "TAS – 39 Financial Instruments: Recognition and Measurement", sales or reclassification to available for sale portfolio of insignificant amount of financial assets, sale or reclassification to available for sale portfolio of financial assets which are close to maturity less than three months, or sale or reclassification to available for sale portfolio of assets as a result of significant increase in the risk weights of held-to-maturity investments used for regulatory risk-based capital purposes will not result in tainting.

27.3. Loans and receivables:

Loans and receivables are financial assets raised through lending without having the intention to trade in the short term. Loans and receivables are non derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted on active market. Loans and receivables are recognized initially at cost including transaction costs (which reflect fair values) and subsequently carried at the amortized cost using the "effective interest method". The expenses incurred for the assets received as collateral are not considered as transaction costs and are recognized in the expense accounts.

Retail, commercial and corporate loans included in cash loans are accounted for with their original maturities in accounts which are mentioned in the Uniform Chart of Accounts ("UCA"). Foreign currency indexed loans are initially measured at local currency accounts with the foreign exchange rate prevailing at date of the initial recognition and re-valued with the relevant foreign currency rates prevailing at the date of the financial statements. Increase or decrease in the value of the principal amount of the loan due to changes in foreign exchange rates is accounted in the related income and expense accounts. Repayment amounts are translated with the foreign exchange rates prevailing at the repayment dates and the valuation differences are accounted for in foreign exchange gain/loss accounts.

The Bank provides general and specific provisions based on the assessments and estimates of the management, by considering the "Communiqué Related to Principles and Procedures on Determining the Qualifications of Banks' Loans and Other Receivables and the Provision for These Loans and Other Receivables" ("Provisioning Regulation") published in the Official Gazette No. 26333 dated November 1, 2006. In this context, the management estimates are determined, on the basis of the prudence principle and Bank credit risk policies, considering the general structure of the loan portfolio, the financial conditions of the customers, non-financial information and the economic conjuncture.

Provision expenses are deducted from the net income of the year. If there is a subsequent collection from a receivable that was already provisioned in previous years, the recovery amount is classified under "other operating income". Uncollectible receivables are written-off after all the legal procedures are finalized.

27.4. Available-for-sale financial assets:

Available-for-sale financial assets are defined as financial assets other than the ones classified as "Loans and receivables", "Held-to-maturity assets" or "Financial assets at fair value through profit or loss".

Available-for-sale financial assets are subsequently re-measured at fair value. When fair values based on market prices cannot be obtained reliably, the available-for-sale financial assets are carried at fair values determined by using alternative models. Available for sale equity securities which are not quoted on a market and the fair values of which can not be determined reliably, are carried at cost less any impairment. "Unrealized gains and losses" arising from changes in the fair value of financial assets classified as available-for-sale are recognized in the shareholders' equity as "Marketable securities valuation differences", 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 available for sale assets are recorded in interest income and dividend income as appropriate.

Interest income on available for sale financial assets are calculated by effective interest rate method and are accounted for in interest income account. At the time of sale of an available for sale financial assets 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 and dividend income as appropriate.

Notes to unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Section Four - Information related to financial position of the Bank

1. Explanations on equity:

The calculation of the own funds and the capital adequacy standard ratio are performed in accordance with the communiqués such as “Regulation Regarding the Measurement and Evaluation of Banks’ Capital Adequacy Ratio”, “Regulation Credit Risk Mitigation Techniques”, “Regulation on calculation of Risk-Weighted Amounts of Securitizations” and “Regulation Regarding Banks’ Shareholders’ Equity”. The capital adequacy ratio of the Bank is 17,38% (December 31, 2017 – 14,49%).

1.1. Information on equity:

	Current Period	Amounts subject to treatment before 1/1/2014 ⁽¹⁾	Prior Period	Amounts subject to treatment before 1/1/2014 ⁽¹⁾
COMMON EQUITY TIER 1 CAPITAL				
Paid-up Capital	8.447.051		4.347.051	
Share issue premiums	556.937		543.881	
Retained earnings	21.391.324		16.545.616	
Accumulated other comprehensive income and other disclosed reserves which defined in the Turkish Accounting Standards	9.764.606		6.054.914	
Profit	3.586.254		3.614.081	
Net profit of the period	3.586.254		3.614.081	
Profit of the previous years	-		-	
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and cannot be recognised within profit for the period	16.933		16.271	
Common Equity Tier 1 capital before regulatory adjustments	43.763.105		31.121.814	
Common Equity Tier 1 capital: regulatory adjustments				
Prudential valuation adjustments	97.989		90.195	
The sum of the net loss for the current period and the previous years which could not be absorbed by the retained earnings and losses recognised in equity in accordance with TAS	3.460.928		1.023.887	
Improvement costs for operating leasing	75.032		91.369	
Goodwill (net of related tax liability)	979.493	-	783.594	979.493
Other intangibles other than mortgage-servicing rights (net of related tax liability)	647.792	-	489.500	611.874
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-		-	
Cash-flow hedge reserve	3.951.082		836.691	
Shortfall of provisions to expected losses	-		-	
Securitisation gain on sale	-		-	
Gains and losses due to changes in own credit risk on fair valued liabilities	-		-	
Defined-benefit pension fund net assets	-		-	
Investments in own shares	-		-	
Credits extended contrary to the fourth paragraph of Articles 56 of the Banking Law	-		-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-		-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank owns more than 10% of the issued share capital (amount above 10% threshold)	-		-	
Mortgage servicing rights (amount above 10% threshold)	-		-	
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-		-	
Amount exceeding the 15% threshold (-) of the common equity Tier 1 in accordance with the second paragraph of the provisional article 2 in the regulation regarding the Banks’ Shareholders’ Equity	-		-	
The amount above threshold for the investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank owns more than 10% of the issued share capital	892.330		547.770	
The amount above threshold for mortgage servicing rights	-		-	
The amount above threshold for deferred tax assets arising from temporary differences	-		-	
National specific regulatory adjustments which shall be determined by the BRSA	-		-	
Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-		-	
Total regulatory adjustments to Common equity Tier 1	10.104.646		3.863.006	
Common Equity Tier 1 capital (CET1)	33.658.459		27.258.808	

Notes to unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

ADDITIONAL TIER 1 CAPITAL	Current Period	Amounts subject to treatment before 1/1/2014 ⁽¹⁾	Prior Period	Amounts subject to treatment before 1/1/2014 ⁽¹⁾
Preferred shares that are not included in Common Equity Tier 1 capital and related shares issue premiums	-		-	
Eligible capital instruments and relevant share issue premiums that are approved by the BRSA	-		-	
Eligible capital instruments and relevant share issue premiums that are approved by the BRSA (For the purposes of the Provisional Article 4 of the Regulation on Banks' Own Funds)	-		-	
Additional Tier 1 capital before regulatory adjustments	-		-	
Additional Tier 1 capital: regulatory adjustments				
Investments in own Additional Tier 1 instruments	-		-	
Reciprocal cross-holdings in Additional Tier 1 instruments	-		-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-		-	
Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-		-	
National specific regulatory adjustments which shall be determined by the BRSA	-		-	
Regulatory Adjustments which will be deducted from Tier 1 capital during the transition period	-		-	
Goodwill and other intangible assets and related deferred tax liabilities which will not be deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	-	318.273	-
Net deferred tax asset/liability which is not deducted from Common Equity Tier 1 capital for the purposes of the sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-		-	
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-		-	
Total regulatory adjustments to Additional Tier 1 capital	-		-	
Total Additional Tier 1 capital	-		-	
Total Tier 1 capital (Tier 1 capital = Common Equity Tier 1 capital + Additional Tier 1 capital)	33.658.459		26.940.535	
TIER 2 CAPITAL				
Eligible capital instruments and relevant share issue premiums that are approved by the Agency	8.613.908		5.865.305	
Eligible capital instruments and relevant share issue premiums that are approved by the Agency (For the purposes of the Provisional Article 4 of the Regulation on Banks' Own Funds)	711.040		711.040	
Provisions (Article 8 of the Regulation on the Equity of Banks) ⁽²⁾	2.425.181		2.893.299	
Tier 2 capital before regulatory adjustments	11.750.129		9.469.644	
Tier 2 capital: regulatory adjustments				
Direct and indirect investments of the Bank on its own Tier 2 Capital (-)	-		-	
Investments of the Bank to banks that invest on the Bank's Tier 2 and components of equity issued by financial institutions with the conditions declared in Article 8	95.251		72.789	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold) (-)	-		-	
Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) (-)	-		-	
National specific regulatory adjustments which shall be determined by the BRSA	-		-	
Total regulatory adjustments to Tier 2 capital	95.251		72.789	
Total Tier 2 capital	11.654.878		9.396.855	
Total Capital (The sum of Tier 1 capital and Tier 2 capital)	45.235.066		36.198.441	
The Sum of Tier 1 Capital and Tier 2 Capital (Total Capital)				
Credits extended contrary to the provisions of Articles 50 and 51 of the Banking Law	3.958		3.750	
Portion of the sum of the banks' real estate net book values, which is in excess of fifty per cent of their own funds and net book values of those of merchandise and real estate which have to be acquired due to their receivables and disposed of pursuant to Article 57 of the Banking Law, which cannot be disposed of despite the lapse of a period of five years since the date of such acquisition ⁽³⁾	-		-	
National specific regulatory adjustments which shall be determined by the BRSA	74.312		135.199	
Regulatory Adjustments which will be deducted from Total Capital during the transition period				
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold) which will not be deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-		-	
Significant investments in the Additional Tier 1 capital and Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold) which will not be deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-		-	
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold), mortgage servicing rights (amount above 10% threshold), deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability) which will not be deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-		-	

Notes to unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

OWN FUNDS	Current Period	Prior Period
Total Capital (The sum of Tier 1 capital and Tier 2 capital) ⁽⁴⁾	47.241.400	36.198.441
Total Risk Weighted Assets ⁽⁵⁾	271.865.711	249.893.152
CAPITAL ADEQUACY RATIOS		
Common Equity Tier 1 Capital Adequacy Ratio (%)	13,12	10,91
Tier 1 Capital Adequacy Ratio (%)	13,12	10,78
Capital Adequacy Ratio (%)	17,38	14,49
BUFFERS		
Institution specific buffer requirement of the Bank(a+b+c)	1,898	1,261
a) Capital conservation buffer requirement (%)	1,875	1,250
b) Bank's specific countercyclical buffer requirement (%)	0,023	0,011
c) Systemically important Bank buffer (%)	-	-
The ratio of Additional Common Equity Tier 1 capital which will be calculated by the first paragraph of the Article 4 of Regulation on Capital Conservation and Countercyclical Capital buffers to Risk Weighted Assets (%)	7,119	4,908
Amounts below the thresholds for deduction (before risk weighting)		
Non-significant investments in the capital of other financials	-	-
Significant investments in the common stock of financials	-	-
Mortgage servicing rights (net of related tax liability)	-	-
Deferred tax assets arising from temporary differences (net of related tax liability)	2.491.530	1.693.432
Applicable caps on the inclusion of provisions in Tier 2 capital		
General provisions for standard based receivables (before ten thousand twenty five limitation)	4.355.949	3.332.694
Up to 1.25% of total risk-weighted amount of general provisions for receivables where the standard approach used	3.109.206	2.893.299
Excess amount of total provision amount to credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	-
Excess amount of total provision amount to 0,6% of risk weighted receivables of credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
Current cap on Additional Tier 1 capital instruments which subject to phase out arrangements in the Provisional Article 4 of the Regulation on Banks' Own Funds	-	-
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) which subject to Provisional Article 4 of the Regulation on Banks' Own Funds	-	-
Current cap on Tier 2 capital instruments which subject to phase out arrangements in the Provisional Article 4 of the Regulation on Banks' Own Funds	711.040	-
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) which subject to Provisional Article 4 of the Regulation on Banks' Own Funds	5.279.160	-

- (1) The specified amounts are the figures calculated for the items subject to the phasing.
- (2) Represents post-tax net amount of general provisions.
- (3) According to the "Regulation Regarding to changes on Regulation on Banks' Shareholders' Equity" published in Official Gazette No.30121 on July 11, 2017, related article has been abolished.
- (4) In the calculation of Capital Adequacy Ratios, the negative valuation differences on securities acquired before August 12, 2018 classified under "securities at fair value through other comprehensive income" are not taken into consideration in the calculation of own funds according to BRSA letter No. 10513 dated August 12, 2018.
- (5) In the calculation of credit risk, foreign exchange rate is the rate that used in the preparation of financial statements as of June 30, 2018, according to BRSA letter No. 10578 dated August 13, 2018.

Yapı ve Kredi Bankası A.Ş.

Notes to unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”))

1.2. Details on Subordinated Liabilities:

	1	2	3	4
Issuer/Lender	UNICREDIT SPA	UNICREDIT SPA	Yapı ve Kredi Bankası A.Ş.	Yapı ve Kredi Bankası A.Ş.
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	-	-	XS0861979440/ US984848AB73	XS1376681067
Governing law(s) of the instrument	BRSA / Austria Law	BRSA / Austria Law	BRSA / CMB / LONDON STOCK EXCHANGE / English Law	English Law /Turkish Law
Regulatory treatment				
Transitional Basel III rules	No	No	Yes	No
Eligible at stand-alone / consolidated	Stand-alone -Consolidated	Stand-alone -Consolidated	Stand-alone -Consolidated	Stand-alone -Consolidated
Instrument type (types to be specified by each jurisdiction)	Loan	Loan	Bond	Bond
Amount recognised in regulatory capital (Currency in mil. as of most recent reporting date)	2.803	2.815	712	2.995
Par value of instrument	3.504	2.815	5.991	2.995
Accounting classification	Liability – Subordinated Loans-amortised cost	Liability – Subordinated Loans-amortised cost	Liability – Subordinated Loans-amortised cost	Liability – Subordinated Loans-amortised cost
Original date of issuance	January 9, 2013	December 18, 2013	December 6, 2012	March 8, 2016
Perpetual or dated	Dated	Dated	Dated	Dated
Original maturity date	10 years	10 years	10 years	10 years + 1 day
Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes
Optional call date, contingent call dates and redemption amount	After 5th year	After 5th year	-	After 5th year
Subsequent call dates, if applicable	After 5th year	After 5th year	-	-
Coupons / dividends				
Fixed or floating dividend/coupon	Fixed	Fixed	Fixed	Fixed
Coupon rate and any related index	5,7%	6,55% 5 Year MidSwap 6,55% basis points, 4,88% coupon	5,5%	8,625% 5 Year MidSwap+7,40 basis points, 8,625% coupon
Existence of a dividend stopper	No interest accrue after the date of value decrease for the decreased amount	No interest accrue after the date of value decrease for the decreased amount	-	No interest accrue after the date of value decrease for the decreased amount
Fully discretionary, partially discretionary or mandatory	-	-	-	Mandatory
Existence of step up or other incentive to redeem	-	-	-	-
Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Cumulative
Convertible or non-convertible				
If convertible, conversion trigger (s)	-	-	-	-
If convertible, fully or partially	-	-	-	-
If convertible, conversion rate	-	-	-	-
If convertible, mandatory or optional conversion	-	-	-	-
If convertible, specify instrument type convertible into	-	-	-	-
If convertible, specify issuer of instrument it converts into	-	-	-	-
Write-down feature				
If write-down, write-down trigger(s)	-	-	-	In case of default
If write-down, full or partial	-	-	-	Partial
If write-down, permanent or temporary	-	-	-	Permanent
If temporary write-down, description of write-up mechanism	-	-	-	-
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	After the senior creditors, before the TIER 1 subdebt, same with TIER 2	After the senior creditors, before the TIER 1 subdebt, same with TIER 2	After the senior creditors, before the TIER 1 subdebt, same with TIER 2	After the senior creditors, before the TIER 1 subdebt, same with TIER 2
In compliance with article number 7 and 8 of “Own fund regulation”	No	No	Yes	No
Details of incompliances with article number 7 and 8 of “Own fund regulation”	-	-	8-2-ğ	-

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”))

- 1.3. There are differences between the figures in the own funds and their corresponding amounts in the balance sheet. Within this context; in the calculation of own funds, the losses that are related to cash flow hedge transactions are not considered in the own funds and the prudential valuation adjustments calculated in accordance with the (i) item of the first paragraph in the ninth article of the “Regulation Regarding Banks’ Shareholders’ Equity” are considered in the own funds. In addition, the subordinated liabilities are considered after the adjustments made in accordance with the ninth paragraph of the eighth article and in the provisional fourth article of the “Regulation Regarding Banks’ Shareholders’ Equity”.

2. Explanations on Risk Management:

Notes and explanations in this section have been prepared in accordance with the Communiqué on Disclosures about Risk Management to be announced to public by Banks that have been published in Official Gazette no. 29511 on October 23, 2015 and became effective as of March 31, 2016. Due to usage of standard approach for the calculation of capital adequacy ratio by the Bank, tables, which have to be prepared within the scope of Internal Rating-Based (IRB) approach, have not been presented.

2.1. General Information on Risk Management and Risk Weighted Amount

2.1.1 Overview of Risk Weighted Assets

	Risk Weighted Assets		Minimum Capital Requirements
	Current Period	Prior Period	Current Period
1 Credit risk (excluding counterparty credit risk) (CCR)	239.965.575	223.580.717	19.197.246
2 Of which standardised approach (SA)	239.965.575	223.580.717	19.197.246
3 Of which internal rating-based (IRB) approach	-	-	-
4 Counterparty credit risk	8.761.746	7.836.138	700.940
5 Of which standardised approach for counterparty credit risk (SA-CCR)	8.761.746	7.836.138	700.940
6 Of which internal model method (IMM)	-	-	-
7 Equity positions in banking book under market-based approach	-	-	-
8 Equity investments in funds – look-through approach	9.352	47.101	748
9 Equity investments in funds – mandate-based approach	-	-	-
10 Equity investments in funds – fall-back approach	-	-	-
11 Settlement risk	-	-	-
12 Securitisation exposures in banking book	-	-	-
13 Of which IRB ratings-based approach (RBA)	-	-	-
14 Of which IRB Supervisory Formula Approach (SFA)	-	-	-
15 Of which SA/simplified supervisory formula approach (SSFA)	-	-	-
16 Market risk	3.831.869	1.835.098	306.550
17 Of which standardised approach (SA)	3.831.869	1.835.098	306.550
18 Of which internal model approaches (IMM)	-	-	-
19 Operational risk	19.297.169	16.594.098	1.543.774
20 Of which Basic Indicator Approach	19.297.169	16.594.098	1.543.774
21 Of which Standardised Approach	-	-	-
22 Of which Advanced Measurement Approach	-	-	-
23 Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
24 Floor adjustment	-	-	-
Total (1+4+7+8+9+10+11+12+16+19+23+24)	271.865.711	249.893.152	21.749.258

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

3. Explanations on currency risk

The difference between the Bank's foreign currency denominated and foreign currency indexed on- and off-balance sheet assets and liabilities is defined as the "Net Foreign Currency Position" and it is the basis of currency risk. Cross currency risk is also taken into consideration for the currency risk calculations and measurements.

The Bank keeps the amount of currency risk exposure within the related legal limits and follows the exchange position on a daily/regular basis. In addition, although the internal exchange position limit is lower when compared to the related legal limit, there has not been any limit exceeding during the period. As an instrument of currency risk management, derivatives such as swap and forwards are used to reduce risk whenever needed. In order to guard against extreme volatility during the year stress tests are applied. Value at risk method is used for the measurement of foreign exchange risk.

The details of hedging of the foreign currency debt instruments and net foreign currency investment risk with derivative instruments are disclosed in section four Note 8.

The Bank's publicly announced foreign exchange bid rates as of the date of the financial statements and for the last five work days prior to that date are as follows:

(Exchange rates presented as full TL)

	USD	EUR
Balance sheet evaluation rate:	5,9902	6,9505
First day current bid rate	6,0752	7,1130
Second day current bid rate	6,1242	7,2007
Third day current bid rate	6,1240	7,2057
Fourth day current bid rate	6,2287	7,3234
Fifth day current bid rate	6,2671	7,3794
Arithmetic average of the last 30 days:	6,3340	7,3896
Evaluation rate as of December 31, 2017:	3,7719	4,5155

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information on currency risk of the Bank

	EUR	USD	OTHER FC ⁽⁴⁾	Total
Current Period				
Assets				
Cash (cash in vault, effectives, cash in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	25.054.365	17.959.595	4.147.587	47.161.547
Banks	1.253.530	3.442.516	103.571	4.799.617
Financial assets at fair value through profit or loss	4.062	274.688	-	278.750
Receivables from money markets	-	-	-	-
Financial assets at fair value through other comprehensive income	1.002.154	3.270.286	766	4.273.206
Loans ⁽¹⁾	51.245.046	63.347.156	1.636.208	116.228.410
Investments in associates, subsidiaries and joint ventures	2.955.956	308.056	873.984	4.137.996
Financial assets measured at amortised cost	353.636	9.519.130	-	9.872.766
Hedging derivative financial assets	61.347	535.573	-	596.920
Tangible assets	-	-	-	-
Intangible assets	-	-	-	-
Other assets ⁽²⁾	6.827.692	3.530.963	419.284	10.777.939
Total assets	88.757.788	102.187.963	7.181.400	198.127.151
Liabilities				
Bank deposits	815.844	3.071.941	75.479	3.963.264
Foreign currency deposits	40.194.837	73.047.208	3.340.735	116.582.780
Funds from money market	625.573	-	-	625.573
Funds borrowed from other financial institutions	28.189.967	22.486.229	41.159	50.717.355
Marketable securities issued	105.811	18.408.810	142.474	18.657.095
Miscellaneous payables	5.129.057	334.650	37.067	5.500.774
Hedging derivative financial liabilities	18.914	-	-	18.914
Other liabilities ⁽³⁾	860.032	25.252.952	12.171	26.125.155
Total liabilities	75.940.035	142.601.790	3.649.085	222.190.910
Net on-balance sheet position	12.817.753	(40.413.827)	3.532.315	(24.063.759)
Net off-balance sheet position⁽⁵⁾	(11.909.713)	39.460.169	(2.668.042)	24.882.414
Financial derivative assets	21.846.188	93.567.845	2.800.104	118.214.137
Financial derivative liabilities	33.755.901	54.107.676	5.468.146	93.331.723
Net Position	908.040	(953.658)	864.273	818.655
Non-cash loans	36.917.298	34.680.875	5.312.798	76.910.971
Prior Period				
Total assets	50.456.810	70.818.545	7.023.521	128.298.876
Total liabilities	49.384.583	102.801.002	2.731.060	154.916.645
Net on-balance sheet position	1.072.227	(31.982.457)	4.292.461	(26.617.769)
Net off-balance sheet position	(907.085)	32.203.529	(3.788.065)	27.508.379
Financial derivative assets	13.052.031	90.234.094	2.852.275	106.138.400
Financial derivative liabilities	13.959.116	58.030.565	6.640.340	78.630.021
Net Position	165.142	221.072	504.396	890.610
Non-cash loans	22.796.277	24.961.599	3.913.204	51.671.080

- (1) Includes FX indexed loans amounting to TL 6.628.689 (December 31, 2017 – TL 5.895.865) which have been disclosed as TL in the financial statements.
- (2) Does not include foreign currency prepaid expenses amounting to TL 289.726 (December 31, 2017 - TL 174.642) and foreign currency denominated general provisions.
- (3) Does not include foreign currency other comprehensive income and expense under equity.
- (4) Other FC column includes also gold balance.
- (5) Forward transactions classified as commitments are also included.

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

4. Explanations on interest rate risk

The monitoring of interest rate sensitive assets and liabilities, including sensitivity analysis regarding the effect of interest rate fluctuations on the financial statements, is performed by the risk management department for all interest sensitive instruments over carrying values. The results are presented monthly to the Asset and Liability Management function of the Executive Committee. By using sensitivity and scenario analyses, the possible effects by interest rate volatility are analyzed. In these analyses possible losses are calculated for the change in fair value of interest sensitive products by applying shock tests to interest rates. Sensitivity analyses are also calculated daily within Market Risk reporting on the basis of maturity and foreign exchange types and reported to Senior Management by checking them against the determined limits.

The Bank utilizes TL/foreign currency and TL/TL interest rate swap transactions in order to limit the interest and foreign currency risk arising from short-term deposit and long-term consumer loans within the TL balance sheet.

Furthermore, in order to reduce the repricing mismatch in the foreign currency balance sheet, foreign currency/foreign currency interest rate swaps are utilized.

4.1. Interest rate sensitivity of assets, liabilities and off-balance sheet items based on repricing dates:

Current Period	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and over	Non interest bearing	Total
Assets							
Cash (cash in vault, effectives, cash in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	20.572.532	-	-	-	-	34.350.942	54.923.474
Banks	1.307.225	237.592	110.445	-	-	3.248.438	4.903.700
Financial assets at fair value through profit/loss	1.898	6.498	16.495	19.961	57.321	238.175	340.348
Receivables from money markets	171.026	2.009	-	-	-	-	173.035
Financial assets at fair value through other comprehensive income	4.201.224	2.072.440	9.806.616	6.002.194	3.175.483	10.972	25.268.929
Loans ⁽¹⁾	37.087.795	43.301.388	73.963.574	72.484.874	12.007.248	(2.333.733)	236.511.146
Financial assets measured at amortised cost	1.056.165	1.624.870	5.980.149	2.928.518	10.760.915	-	22.350.617
Other assets	3.458.345	6.706.892	3.183.703	6.078.494	1.358.608	24.912.985	45.699.027
Total assets	67.856.210	53.951.689	93.060.982	87.514.041	27.359.575	60.427.779	390.170.276
Liabilities							
Bank deposits	6.475.221	2.009	2.152	-	-	1.401.027	7.880.409
Other deposits	141.004.106	20.280.825	5.492.228	100.862	-	36.265.077	203.143.098
Funds from money market	2.604.913	318	625.589	-	-	-	3.230.820
Miscellaneous payables	-	-	-	-	-	17.165.312	17.165.312
Marketable securities issued	1.577.750	3.328.979	114.067	14.363.015	2.940.859	-	22.324.670
Funds borrowed from other financial institutions	15.660.171	22.304.481	11.791.887	828.748	651.604	-	51.236.891
Other liabilities ⁽²⁾	2.437.146	11.155.146	4.446.040	13.057.614	6.635.417	47.457.713	85.189.076
Total liabilities	169.759.307	57.071.758	22.471.963	28.350.239	10.227.880	102.289.129	390.170.276
Balance sheet long position	-	-	70.589.019	59.163.802	17.131.695	-	146.884.516
Balance sheet short position	(101.903.097)	(3.120.069)	-	-	-	(41.861.350)	(146.884.516)
Off-balance sheet long position	16.044.112	37.301.148	-	-	-	-	53.345.260
Off-balance sheet short position	-	-	(4.290.068)	(37.607.092)	(8.982.991)	-	(50.880.149)
Total position	(85.858.985)	34.181.079	66.298.951	21.556.710	8.148.704	(41.861.350)	2.465.111

(1) Non-performing loans are presented in the "Non-Interest Bearing" column after being offset against expected loss provisions.

(2) Shareholders' equity is presented under "Non interest bearing"

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Prior Period	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and over	Non interest bearing	Total
Assets							
Cash (cash in vault, effectives, cash in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	24.194.176	-	-	-	-	17.779.403	41.973.579
Banks	1.246.963	240.327	-	67.751	-	1.165.586	2.720.627
Financial assets at fair value through profit/loss	1.259.401	1.421.297	714.211	456.707	266.582	-	4.118.198
Money market placements	816.887	-	-	-	-	-	816.887
Available-for-sale financial assets	2.846.067	4.491.442	6.541.944	7.157.347	3.071.939	198.921	24.307.660
Loans	33.781.088	28.000.961	63.134.557	57.200.378	10.765.592	2.077.867	194.960.443
Held-to-maturity investments	1.162.846	1.485.657	2.266.839	680.911	7.434.658	-	13.030.911
Other assets	-	566.572	13.348	974.251	134.224	14.193.620	15.882.015
Total assets	65.307.428	36.206.256	72.670.899	66.537.345	21.672.995	35.415.397	297.810.320
Liabilities							
Bank deposits	7.202.627	17.816	-	-	-	1.039.061	8.259.504
Other deposits	99.729.476	23.678.121	8.193.377	39.357	-	29.447.382	161.087.713
Funds from money market	12.758.947	41.204	-	-	-	-	12.800.151
Miscellaneous payables	-	-	-	-	-	12.154.312	12.154.312
Marketable securities issued	468.002	631.107	2.199.394	7.259.556	1.934.783	-	12.492.842
Funds borrowed from other financial institutions	9.366.029	17.934.640	10.316.973	649.814	862.603	-	39.130.059
Other liabilities ⁽¹⁾	1.222.366	844.806	976.189	4.694.564	6.131.340	38.016.474	51.885.739
Total liabilities	130.747.447	43.147.694	21.685.933	12.643.291	8.928.726	80.657.229	297.810.320
Balance sheet long position	-	-	50.984.966	53.894.054	12.744.269	-	117.623.289
Balance sheet short position	(65.440.019)	(6.941.438)	-	-	-	(45.241.832)	(117.623.289)
Off-balance sheet long position	12.028.098	23.123.155	-	-	-	-	35.151.253
Off-balance sheet short position	-	-	(2.415.433)	(27.301.056)	(7.175.587)	-	(36.892.076)
Total position	(53.411.921)	16.181.717	48.569.533	26.592.998	5.568.682	(45.241.832)	(1.740.823)

(1) Shareholders' equity is presented under "Non interest bearing"

4.2. Average interest rates for monetary financial instruments:

The following average interest rates are calculated by weighting the rates with their principal amounts outstanding as of the balance sheet date.

Current Period	EUR	USD	Yen	TL
	%	%	%	%
Assets⁽¹⁾				
Cash (cash in vault, effectives, cash in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	-	1,50	-	18,27
Banks	1,49	2,15	-	29,26
Financial assets at fair value through profit or loss	3,29	6,42	-	18,50
Receivables from money markets	-	-	-	28,01
Financial assets at fair value through other comprehensive income	4,06	5,46	-	17,99
Loans	4,88	7,27	5,15	19,13
Financial assets measured at amortised cost	5,20	5,44	-	18,12
Liabilities⁽¹⁾				
Bank deposits	0,85	2,00	-	26,76
Other deposits	2,53	5,81	1,76	22,25
Funds from money market	-	-	-	23,89
Miscellaneous payables	-	-	-	-
Marketable securities issued	3,66	5,35	-	17,35
Funds borrowed from other financial institutions	1,43	3,92	2,64	7,86

(1) Does not include demand/non-interest transactions.

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Prior Period	EUR	USD	Yen	TL
	%	%	%	%
Assets⁽¹⁾				
Cash (cash in vault, effectives, cash in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	-	1,50	-	9,98
Banks	1,49	1,40	-	14,72
Financial assets at fair value through profit/loss	2,59	5,36	-	12,32
Money market placements	-	-	-	14,02
Available-for-sale financial assets	4,04	5,32	-	13,04
Loans	4,40	6,49	4,98	14,13
Held-to-maturity investments	5,20	5,43	-	13,36
Liabilities⁽¹⁾				
Bank deposits	0,90	1,50	-	13,00
Other deposits	1,62	3,46	1,66	13,42
Funds from money market	-	-	-	12,70
Miscellaneous payables	-	-	-	-
Marketable securities issued	2,02	5,22	-	13,44
Funds borrowed from other financial institutions	1,23	3,07	2,64	8,02

(1) Does not include demand/non-interest transactions.

5. Explanation on share certificates position risk from banking book:

None.

6. Explanations on Liquidity Risk Management and Liquidity Coverage Ratio:

Liquidity risk is defined as risk of unexpected loss to be occurred or bank to have difficulties in raising funds while meeting maturing liabilities. Liquidity management is daily monitored before the Bank under Treasury Management, Risk Management and Capital Management. The liquidity policy of the Bank is approved by the Bank's Board of Directors. Treasury Management is responsible for carrying out transactions which are appropriate to Bank's policy, monitoring of liquidity position and submitting necessary reports to executives. Capital management contributes to determine strategies and operating actions for the management of the liquidity position in addition to prepare funding plan and contingency plan of the Bank in cooperation with Treasury Management. Liquidity risk is evaluated with liquidity gap analysis, liquidity stress tests and supplementary precautions/measurements. Liquidity Gap analysis are performed for two different periods as short-term and long-term. Going concern scenario and structural positions are reported monthly. This reporting constitutes the basis of monitoring and management of liquidity position.

The Bank does not function as a central funding institution in its relations with its subsidiaries. Intra-group liquidity management and funding strategies are limited with related legal boundaries.

The Bank issues an annual funding plan in order to sustain funding in a consistent and balanced way. Funding plan have to be updated at least annually and approved by the Executive Committee since it is complied with budgeting process and risk appetite frameworks. The primary purpose of the funding plan is to provide a reliable balance between assets and liabilities.

Both short-term liquidity and long-term (structural) liquidity measurement and reporting for all types of currencies are periodically made in the Bank and its subsidiaries. There are limits which are predetermined and approved by the Board of Directors on the basis of all currencies for each period.

The Bank mainly uses derivative transactions as managing liquidity risk and monitors cash inflow and outflow periods in the framework of funding plan balancing the distribution among currencies.

The Bank aims to reduce the risks to the lowest level if required via measuring possible risks in liquidity with stress tests. Stress tests make it possible for the Bank to reinterpret analysis of its liquidity position according to scenarios depending on possible cases and tail risks except for crisis situations. Liquidity Stress Test methodology makes a similar approach with LCR template and hence allows the overview of the results in line with Basel approaches. The Bank applies and reports liquidity stress tests consisting of different scenarios and maturity segments both on solo and consolidated level and the results are compared with limit and trigger levels set, with different frequencies (weekly, monthly etc.) according to the scenarios.

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”))

“Liquidity Contingency Plan” is applied if the Bank needs more liquidity than its daily liquidity need because of possible financial events in future. Duties and responsibilities are defined in detail in the aforementioned plan. Both the liquidity policy and liquidity contingency policy are in line with UniCredit group policies and BRSA best practice documents on liquidity risk management. The abovementioned policies and the thresholds (limits etc.) covered within liquidity risk management framework are updated and approved at least annually.

Funding sources of the Bank mainly consist of deposits which constitute 54% of total liabilities of the Bank (31 December 2017 – 57%) and also include repo, secured loans, syndication, securitization, bond/security issuance and other instruments including subordinated debts.

The Bank calculates and reports the Liquidity Coverage Ratio (LCO) in full compliance with the regulations. LKO is a metric measuring the adequacy of unencumbered free liquid assets owned by banks (called high quality liquid assets) to meet expected net cash outflows over the next 30 days. The metric is an important Basel regulation that measures short-term liquidity and is closely monitored in the Bank. In addition to the Bank LKO, the Net Stable Funding Rate (NSFR), which is considered another complementary element and provides another important medium / long-term liquidity risk measurement, has also begun internally. These two metrics are also included within the Risk Appetite Indicators and closely monitored at the Bank.

High quality liquid assets mentioned in LCR calculation consist of cash, effective money, Central Bank of the Republic of Turkey (“CBRT”) accounts and reserves and debt instruments issued by Treasury of the Republic of Turkey. are treated as high quality liquid assets.

Cash outflows from derivative transactions in liquidity coverage ratio calculation are based on inclusion of net cash flows with maturity of 30 days in the calculation. Additionally, transactions having a margin possibility are included in liquidity coverage ratio calculation by taking the largest amount according to absolute value of net margin flows realized in the last 24 months in respect of 30 days period or for liability into consideration as cash outflow.

Secured funding consists of repo and other secured borrowings. A large part of securities which are subjects of the aforementioned funding transactions consist of Sovereign Bonds issued by Treasury of the Republic of Turkey and transactions are carried out in both CBRT market and interbank market.

The Bank manages all the transactions made before its foreign branches and partnership in the framework of central bank, markets and related legislation of the country in which the institutions are located. Legal lending limits and high limit transactions are closely monitored in this framework.

All cash inflow and outflow items related to liquidity profile of the Bank are included in liquidity coverage ratio tables below.

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

The dates and values of minimum and maximum foreign currency and total liquidity coverage ratios calculated weekly related to the last three months are explained in the table below.

Current Period	Unweighted Amounts		Weighted Amounts	
	TL+FC	FC	TL+FC	FC
High Quality Liquid Assets				
High Quality Liquid Assets			69,486.848	41,707.652
Cash Outflows				
Retail and Small Business Customers Deposits	107,405.956	51,218.713	9,633.038	5,121.837
Stable deposits	22,151.156	684	1,107.558	34
Less stable deposits	85,254.800	51,218.029	8,525.480	5,121.803
Unsecured Funding other than Retail and Small Business Customers Deposits	89,726.389	56,766.964	49,347.017	29,533.188
Operational deposits	-	-	-	-
Non-Operational deposits	73,787.228	51,393.718	36,158.085	24,176.148
Other Unsecured funding	15,939.161	5,373.246	13,188.932	5,357.040
Secured funding				
Other Cash Outflows	5,893.255	16,658.268	5,893.255	16,658.268
Liquidity needs related to derivatives and market valuation changes on derivatives transactions	5,893.255	16,658.268	5,893.255	16,658.268
Debts related to the structured financial products	-	-	-	-
Commitment related to debts to financial markets and other off balance sheet liabilities	-	-	-	-
Commitments that are unconditionally revocable at any time by the Bank and other contractual commitments	126,655.940	97,436.177	6,332.797	4,871.809
Other irrevocable or conditionally revocable commitments	80,545.095	23,428.586	5,997.440	1,557.683
Total Cash Outflows			77,203,547	57,742,785
Cash Inflows				
Secured Lending Transactions	-	-	-	-
Unsecured Lending Transactions	23,440.841	9,270.471	16,161.454	8,181.378
Other contractual cash inflows	4,185.023	26,483.643	4,185.023	26,483.643
Total Cash Inflows	27,625,864	35,754,114	20,346,477	34,665,021
			Capped Amounts	
Total High Quality Liquid Assets			69,486.848	41,707.652
Total Net Cash Outflows			56,857,070	23,077,764
Liquidity Coverage Ratio (%)			122,21	180,73

The dates and values of minimum and maximum foreign currency and total liquidity coverage ratios calculated weekly related to the last three months are explained in the table below.

Current Period	Minimum FC (%)	Minimum TL+FC (%)	Maximum FC (%)	Maximum TL+FC (%)
Week	July 27, 2018	July 13, 2018	August 31, 2018	August 10, 2018
Ratio(%)	138,03	116,02	232,20	138,93

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

The dates and values of minimum and maximum foreign currency and total liquidity coverage ratios calculated weekly related to the last three months are explained in the table below dated 2017.

Prior Period	Unweighted Amounts		Weighted Amounts	
	TL+FC	FC	TL+FC	FC
High Quality Liquid Assets				
High Quality Liquid Assets			51.481.229	31.329.721
Cash Outflows				
Retail and Small Business Customers Deposits	85.645.904	35.495.655	7.563.443	3.549.530
Stable deposits	20.022.939	708	1.001.147	35
Less stable deposits	65.622.965	35.494.947	6.562.296	3.549.495
Unsecured Funding other than Retail and Small Business Customers Deposits	66.743.363	37.634.514	37.405.369	20.070.624
Operational deposits	-	-	-	-
Non-Operational deposits	53.210.891	33.275.753	26.373.923	15.722.445
Other Unsecured funding	13.532.472	4.358.761	11.031.446	4.348.179
Secured funding				
Other Cash Outflows	9.482.332	19.329.414	9.482.332	19.329.414
Liquidity needs related to derivatives and market valuation changes on derivatives transactions	9.482.332	19.329.414	9.482.332	19.329.414
Debts related to the structured financial products	-	-	-	-
Commitment related to debts to financial markets and other off balance sheet liabilities	-	-	-	-
Commitments that are unconditionally revocable at any time by the Bank and other contractual commitments	90.331.141	62.961.908	4.516.557	3.148.095
Other irrevocable or conditionally revocable commitments	67.614.850	12.504.154	4.805.564	749.342
Total Cash Outflows			63.773.265	46.847.005
Cash Inflows				
Secured Lending Transactions	-	-	-	-
Unsecured Lending Transactions	20.116.243	6.273.377	12.554.174	4.985.480
Other Contractual Cash Inflows	8.420.498	26.546.284	8.420.498	26.546.284
Total Cash Inflows	28.536.741	32.819.661	20.974.672	31.531.764
			Capped Amounts	
Total High Quality Liquid Assets			51.481.229	31.329.721
Total Net Cash Outflows			42.798.593	15.315.241
Liquidity Coverage Ratio (%)			120,29	204,57

The dates and values of minimum and maximum foreign currency and total liquidity coverage ratios calculated weekly related to the last three months are explained in the table below.

Prior Period	Minimum FC (%)	Minimum TL+FC (%)	Maximum FC (%)	Maximum TL+FC (%)
Week	October 6, 2017	October 13, 2017	November 24, 2017	November 24, 2017
Ratio(%)	132,30	112,17	296,53	133,98

Yapı ve Kredi Bankası A.Ş.

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”))

Breakdown of assets and liabilities according to their remaining maturities:

Current Period	Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and over	Unclassified	Total
Assets								
Cash (cash in vault, effectives, cash in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	34.033.058	20.890.416	-	-	-	-	-	54.923.474
Banks	3.248.438	1.307.225	237.592	110.445	-	-	-	4.903.700
Financial assets at fair value through profit or loss	17.771	1.753	5.614	16.397	20.987	57.422	220.404	340.348
Receivables from money markets	-	171.026	2.009	-	-	-	-	173.035
Financial assets at fair value through other comprehensive income	-	12.337	12.779	2.238.058	15.487.164	7.507.619	10.972	25.268.929
Loans ⁽¹⁾	-	32.554.584	26.409.026	59.169.271	96.280.394	24.431.604	(2.333.733)	236.511.146
Financial assets measured at amortised cost	-	-	567.405	-	5.676.035	16.107.177	-	22.350.617
Other assets	3.170.597	2.177.326	3.327.997	5.970.108	7.683.314	1.627.295	21.742.390	45.699.027
Total assets	40.469.864	57.114.667	30.562.422	67.504.279	125.147.894	49.731.117	19.640.033	390.170.276
Liabilities								
Bank deposits	1.401.027	6.475.221	2.009	2.152	-	-	-	7.880.409
Other deposits	36.265.077	141.004.106	20.280.825	5.492.228	100.862	-	-	203.143.098
Funds borrowed from other financial institutions	-	9.283.444	5.654.048	22.552.121	10.628.156	3.119.122	-	51.236.891
Funds from money market	-	2.604.913	318	625.589	-	-	-	3.230.820
Marketable securities issued	-	1.577.752	3.328.979	114.067	14.363.015	2.940.857	-	22.324.670
Miscellaneous payables	1.120.620	15.816.154	59.363	-	-	-	169.175	17.165.312
Other liabilities ⁽²⁾	2.581.294	1.595.181	3.033.506	5.223.049	17.667.174	11.692.251	43.396.621	85.189.076
Total liabilities	41.368.018	178.356.771	32.359.048	34.009.206	42.759.207	17.752.230	43.565.796	390.170.276
Net liquidity gap	(898.154)	(121.242.104)	(1.796.626)	33.495.073	82.388.687	31.978.887	(23.925.763)	-
Net Off-Balance Sheet Position	-	506.520	543.719	1.311.743	(608.107)	711.234	-	2.465.109
Derivative Financial Assets	-	58.686.361	29.455.976	39.144.602	75.779.066	41.364.832	-	244.430.837
Derivative Financial Liabilities	-	58.179.841	28.912.257	37.832.859	76.387.173	40.653.598	-	241.965.728
Non-Cash Loans	-	4.751.417	10.559.820	35.954.888	16.062.273	7.259.881	29.756.128	104.344.407
Prior Period								
Total assets	16.699.791	63.168.924	22.163.900	52.508.348	91.419.485	37.634.757	14.215.115	297.810.320
Total liabilities	33.238.508	132.878.762	28.859.087	32.029.742	22.519.974	13.349.528	34.934.719	297.810.320
Liquidity gap	(16.538.717)	(69.709.838)	(6.695.187)	20.478.606	68.899.511	24.285.229	(20.719.604)	-
Net Off-Balance Sheet Position	-	(91.815)	(740.507)	(770.340)	249.869	(388.030)	-	(1.740.823)
Derivative Financial Assets	-	53.385.664	39.650.304	38.686.324	52.499.421	22.384.070	-	206.605.783
Derivative Financial Liabilities	-	53.477.479	40.390.811	39.456.664	52.249.552	22.772.100	-	208.346.606
Non-Cash Loans	-	2.594.272	8.348.073	27.938.436	11.349.020	4.504.619	23.431.874	78.166.294

- (1) Non-performing loans are presented in the “Unclassified” column after being offset against expected loss provisions.
(2) Shareholders’ equity is presented under the “Other liabilities” item in the “Unclassified” column.

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

7. Explanations on leverage ratio:

The main reason for increase in leverage ratio for the current period is the increase in Tier 1 capital.

	Current Period ⁽¹⁾	Prior Period ⁽¹⁾
On-Balance sheet exposures		
On-Balance sheet assets (Excluding derivative financial instruments and credit derivatives, including collaterals)	363.470.734	281.399.763
(Asset amounts deducted in determining Tier 1 capital)	(6.110.520)	(3.325.087)
Total on-Balance sheet exposures	357.360.214	278.074.676
Derivative financial instruments and credit derivatives		
Replacement cost of derivative financial instruments and credit derivatives	7.688.963	2.371.448
Potential credit risk of derivative financial instruments and credit derivatives	5.960.222	3.972.353
Total derivative financial instruments and credit derivatives exposure	13.649.185	6.343.801
Securities financing transaction exposure		
Total risk of gross securities financing transactions (excluding on-balance sheet exposure)	2	211.588
Agent transaction exposures	-	-
Total securities financing transaction exposures	2	211.588
Off-balance sheet items		
Off-balance sheet exposure at gross notional amount	248.002.960	241.703.171
(Adjustments for conversion to credit equivalent amounts)	(35.213.670)	(27.339.751)
Total risk of off-balance sheet items	212.789.290	214.363.420
Capital and total exposure		
Tier 1 capital	33.256.628	26.772.740
Total exposures	583.798.691	498.993.485
Leverage ratio (%)	5,71	5,37

(1) The arithmetic average of the last three months in the related periods.

8. Explanations on hedge accounting:

The Bank applies the following hedge accounting models as of September 30, 2018: Fair Value Hedge ("FVH") and Cash Flow Hedge ("CFH").

If the fair value of the hedging instrument within fair value hedge ("FVH") is positive it is classified under, "Derivative financial assets at fair value through profit or loss"; if the fair value is negative, it is classified under "Derivative financial liabilities at fair value through profit or loss".

If the fair value of the hedging instrument under hedge of cash flow hedge ("CFH") is positive, it is classified under "Derivative financial assets at fair value through other comprehensive income" if the fair value is negative, it is classified under "Derivative financial liabilities at fair value through other comprehensive income".

Cross currency interest rate swaps are used as hedging instrument in FVH and interest rate swaps are used as hedging instrument in CFH. Contractual amounts and the fair values as at September 30, 2018 of these hedging instruments are presented in the table below:

	Current Period			Prior Period		
	Notional ⁽¹⁾	Asset	Liability	Notional ⁽¹⁾	Asset	Liability
Hedging instrument						
Interest rate swap/ Cross currency interest rate swap (CFH)	51.903.813	6.681.717	329.215	35.070.052	1.688.395	107.567
Cross currency interest rate swap (FVH)	2.145.350	-	442.087	1.393.760	-	204.859
Total	54.049.163	6.681.717	771.302	36.463.812	1.688.395	312.426

(1) Only the "sell" legs of the related derivatives are presented with the addition of the "buy" legs of these derivatives amounting to TL 54.628.871 (December 31, 2017 - TL 36.729.813) the total notional of derivative financial assets amounting to TL 108.678.034 (December 31, 2017 - TL 73.193.625) is accounted for in off-balance sheet under "Hedging Derivative Financial Instruments" line item.

The fair valuation methodology of the derivatives presented in the above table is disclosed in the accounting principles section of these financial statements in Section 3, Part 4.

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”))

8.1. Fair value hedge accounting:

Starting from March 1, 2009, the Parent Bank has hedged the possible fair value effects of changes in market interest rates on some of its fixed interest loan portfolios and fair value effects of changes in foreign exchange rates on part of its foreign currency funds by using cross-currency interest rate swaps.

Starting from July 28, 2015, the Parent Bank has hedged the possible fair value effects of changes in market interest rates and foreign exchange rates on marketable securities by using cross-currency interest rate swaps.

The Bank selected to apply macro FVH accounting for such relationship in accordance with “TAS – 39 Financial Instruments: Recognition and Measurement”.

The impact of application of FVH accounting is summarized below:

Current Period						
Type of hedging instrument	Hedged item (asset and liability)	Nature of hedged risks	Fair value difference / adjustment of the hedged item ⁽¹⁾	Net fair value of the hedging instrument ⁽²⁾		Net gain/(loss) recognised in the income statement (Derivative financial transactions gains/losses) ⁽³⁾
				Asset	Liability	
Cross currency interest rate swaps	Some of fixed interest loan portfolios, foreign currency funds and marketable securities	Fixed interest and changes in foreign exchange rate risk	60.979	-	442.087	37.554

Prior Period						
Type of hedging instrument	Hedged item (asset and liability)	Nature of hedged risks	Fair value difference / adjustment of the hedged item ⁽¹⁾	Net fair value of the hedging instrument ⁽²⁾		Net gain/(loss) recognised in the income statement (Derivative financial transactions gains/losses) ⁽³⁾
				Asset	Liability	
Cross currency interest rate swaps	Some of fixed interest loan portfolios, foreign currency funds and marketable securities	Fixed interest and changes in foreign exchange rate risk	23.425	-	204.859	19.091

(1) The amount refers to the fair value of the hedged item calculated for Some of fixed interest loan portfolios, foreign currency funds and marketable securities in accordance with hedge accounting effectiveness tests. The foreign exchange rate changes of foreign currency fundings and cross-currency swaps are reflected to the income statement in foreign exchange gains / losses line item.

(2) The amounts include the foreign exchange differences and net straight line interest accruals of the related derivatives.

(3) The ineffective portion of the mentioned hedging transaction is TL 32.065 gain (December 31, 2017- TL TL 1.439 loss).

At the inception date, the Bank documents the relationship between the hedging instruments and hedged items required by the FVH accounting application in accordance with “TAS 39- Financial Instruments: Recognition and Measurement” and its own risk management policies and principles. Every individual relationship is approved and documented in the same methodology. In accordance with “TAS 39- Financial Instruments: Recognition and Measurement”, the effectiveness tests of the relationships are performed in accordance with the Bank’s risk management policies. In the effectiveness tests, the fair values of the hedged item are calculated using the same assumptions used in calculation of fair values of the derivatives.

The effectiveness tests are performed prospectively and retrospectively on a monthly basis and the effectiveness of risk relationships are measured. At the inception date the effectiveness tests are performed prospectively. If the underlying hedge does not conform to the FVH accounting requirements (out of the 80% - 125% effectiveness range) or if the management voluntarily decides to discontinue the hedging relation, the adjustments made to the carrying value (amortized cost) of the hedged item are amortized with the straight line method and recognized in the profit and loss accounts within the remaining maturity. In addition if the hedging instrument is sold or closed before its maturity, the amount of the fair value adjustments of the hedged items are amortized to profit and loss accounts with the straight line method within the remaining maturity.

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”))

8.2. Cash flow hedge accounting:

The Bank started to apply macro cash flow hedge accounting from January 1, 2010 onwards in order to hedge its cash flow risk from floating interest rate liabilities. The hedging instruments are USD, EUR and TL interest rate swaps with floating receive, fixed pay legs, and the hedged item is the cash outflows due to financing of interests of repricing USD, EUR and TL deposits, borrowings and repos.

The impact of application of CFH accounting is summarized below:

Current Period							
Type of hedging instrument	Hedged item (asset and liability)	Nature of hedged risks	Net fair value of the hedging instrument		Net gain/(loss) recognized in hedging funds ⁽¹⁾	Net gain/(loss) reclassified to equity ⁽²⁾⁽³⁾	
			Asset	Liability			
Interest rate swaps/ Cross currency interest rate swap	Customer deposits, borrowings and repos	Cash flow risk due to the changes in the interest rates	6.681.717	329.215	4.129.347	3.292.656	

Prior Period							
Type of hedging instrument	Hedged item (asset and liability)	Nature of hedged risks	Net fair value of the hedging instrument		Net gain/(loss) recognized in hedging funds ⁽¹⁾	Net gain/(loss) reclassified to equity ⁽²⁾⁽³⁾	
			Asset	Liability			
Interest rate swaps/ Cross currency interest rate swap	Customer deposits, borrowings and repos	Cash flow risk due to the changes in the interest rates	1.688.395	107.567	836.691	457.541	

(1) Includes deferred tax impact.

(2) Includes tax and foreign exchange differences.

(3) The ineffective portion of the mentioned hedging transaction is TL 39.303 income (December 31, 2017 – TL 6.987 income).

At the inception date, the Bank documents the relationship between the hedging instruments and hedged items required by the CFH accounting application in accordance with “TAS – 39 Financial Instruments: Recognition and Measurement” and its own risk management policies and principles. Every individual relationship is approved and documented in the same way. In accordance with “TAS – 39 Financial Instruments: Recognition and Measurement”, the effectiveness tests of the relationships are performed in accordance with the Bank’s risk management policies.

The effectiveness tests are performed on a monthly basis. If the underlying hedge does not conform to the CFH accounting requirements (out of the effectiveness range 80%-125%) or if the management voluntarily decides to discontinue the hedging relation or the hedging instrument is sold or closed before its maturity, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective shall remain separately in equity until the forecast transaction occurs or is no longer expected to occur. When the hedged forecasted transactions are no longer expected to occur, the net cumulative gain or loss is reclassified from other comprehensive income to profit and loss.

8.3. Net Investment Hedge:

The Bank hedges part of the currency translation risk of net investments in foreign operations through foreign currency borrowings. The Bank’s EURO denominated borrowing is designated as a hedge of the net investment in the Bank’s certain EURO denominated subsidiaries. The total amount of the borrowing designated as a hedge of the net investment at September 30, 2018 is EUR 425 million (December 31, 2017 is EUR 410 million).

9. Explanations on the activities carried out on behalf of others and fiduciary transactions:

The Bank carries out trading, custody, management and consulting services on behalf of customers and on their account. The Bank has no fiduciary transactions.

10. Explanations on operating segments:

The Bank carries out its banking operations through two main business units:

- Retail Banking
- Corporate and Commercial Banking

The Bank's Retail Banking activities include card payment systems, SME banking, individual banking and private banking. Retail Banking products and services offered to customers include card payment systems, consumer loans (including general purpose loans, auto loans, mortgages), commercial installment loans, SME loans, time and demand deposits, gold banking, investment accounts, life and non-life insurance products and payroll services. Card payment systems cover the management of products, services, campaigns for member merchants as well as the sales and activities for a variety of customer types. Crystal, Play, Adios and Taksitçi are the other card brands providing services for the different segments within the World brand, shopping and marketing platform of the Bank. The Bank also offers debit card and a prepaid card named World Hediye Card. Through its Private Banking activities, the Bank serves high net worth customers and delivers investment products to this customer segment. Among the products and services offered to Private Banking customers are time deposit products, capital guaranteed funds, mutual funds, Type A Type B funds, derivative products such as forwards, futures and options in domestic futures exchange (VOB) and international markets, personal loans, foreign exchange, gold and equity trading, pension plans, insurance products and 7/24 safe deposit boxes and e-banking services. Also, personal art advisory, inheritance advisory, real estate advisory, tax advisory and philanthropic advisory are offered within the Private Banking and Wealth Management activities.

Corporate and Commercial Banking segment is organized into three subgroups: Corporate Banking for large-scale companies, Commercial Banking for medium-sized enterprises and Multinational Companies Banking for multinational companies. Corporate and Commercial Banking, has a product range of working capital finance, trade finance, project finance, domestic and international non-cash loans such as letters of credit and letters of guarantee, cash management and internet banking.

The Bank's widespread branch network and alternative distribution channels including ATMs, telephone banking, internet banking and mobile banking are utilized to serve customers in all segments.

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

The below table is prepared in accordance with the Management Information System (MIS) data of the Bank.

Major balance sheet and income statement items based on operating segments:

	Retail banking	Corporate and commercial banking	Treasury, asset- liability management and other	Total operations of the Bank
Current Period				
Operating revenue	5.937.538	4.992.106	2.564.783	13.494.427
Operating expenses	(3.640.395)	(3.343.245)	(2.691.836)	(9.675.476)
Net operating income / (expense)	2.297.143	1.648.861	(127.053)	3.818.951
Dividend income ⁽¹⁾	-	-	4.863	4.863
Income/(loss) from investments accounted based on equity method ⁽¹⁾	-	-	615.299	615.299
Profit before tax	2.297.143	1.648.861	493.109	4.439.113
Tax provision expense ⁽¹⁾	-	-	(852.859)	(852.859)
Net period income	2.297.143	1.648.861	(359.750)	3.586.254
Net profit	2.297.143	1.648.861	(359.750)	3.586.254
Segment asset	85.551.048	152.861.306	144.583.483	382.995.837
Investments in associates, subsidiaries and joint ventures	-	-	7.174.439	7.174.439
Total assets	85.551.048	152.861.306	151.757.922	390.170.276
Segment liabilities	168.220.371	92.083.432	89.564.296	349.868.099
Shareholders' equity	-	-	40.302.177	40.302.177
Total liabilities	168.220.371	92.083.432	129.866.473	390.170.276

	Retail banking	Corporate and commercial banking	Treasury, asset- liability management and other	Total operations of the Bank
Prior Period ⁽²⁾				
Operating revenue	3.414.434	2.437.953	3.486.623	9.339.010
Operating expenses	(3.354.921)	(658.119)	(2.411.629)	(6.424.669)
Net operating income / (expense)	59.513	1.779.834	1.074.994	2.914.341
Dividend income ⁽¹⁾	-	-	2.165	2.165
Income/(loss) from investments accounted based on equity method ⁽¹⁾	-	-	429.960	429.960
Profit before tax	59.513	1.779.834	1.507.119	3.346.466
Tax provision expense ⁽¹⁾	-	-	(611.900)	(611.900)
Net period income	59.513	1.779.834	895.219	2.734.566
Net profit	59.513	1.779.834	895.219	2.734.566
Segment asset	79.970.978	102.108.817	110.370.888	292.450.683
Investments in associates, subsidiaries and joint ventures	-	-	5.359.637	5.359.637
Total assets	79.970.978	102.108.817	115.730.525	297.810.320
Segment liabilities	74.240.206	61.810.968	131.661.219	267.712.393
Shareholders' equity	-	-	30.097.927	30.097.927
Total liabilities	74.240.206	61.810.968	161.759.146	297.810.320

(1) Related items have not been distributed based on operating segments and presented under "Treasury, Asset-Liability Management and Other".

(2) Income statements items presents the balances as of 30 September 2017

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”))

Section Five - Explanations and notes related to unconsolidated financial statements

1. Explanations and notes related to assets

1.1. Information related to cash and the account of the Central Bank of the Republic of Turkey (the “CBRT”):

1.1.1 Information on cash and the account of the CBRT:

	Current Period		Prior Period	
	TL	FC	TL	FC
Cash	1.478.423	4.417.658	1.563.328	932.541
The CBRT ⁽¹⁾	6.283.504	42.743.841	6.032.373	33.445.287
Other	-	48	-	50
Total	7.761.927	47.161.547	7.595.701	34.377.878

(1) The balance of gold amounting to TL 3.995.419 is accounted for under the Central Bank foreign currency account (December 31, 2017 -TL 4.948.751).

1.1.2. Information on the account of the CBRT:

	Current Period		Prior Period	
	TL	FC	TL	FC
Demand unrestricted amount ⁽¹⁾	3.263.083	24.873.846	1.914.852	8.868.143
Time unrestricted amount	3.020.421	-	4.117.521	-
Time restricted amount	-	1.251.090	-	745.058
Reserve requirement ⁽²⁾	-	16.618.905	-	23.832.086
Total	6.283.504	42.743.841	6.032.373	33.445.287

(1) The TL reserve requirement has been classified in “Central Bank Demand Unrestricted Account” based on the correspondence with BRSA letter as of January 3, 2008.

(2) The Bank keeps TL, USD, EUR and Gold reserve deposits for its TL and FX liabilities at Central Bank accounts in accordance with the legislation of the Central Bank numbered 2005/1, “Decree on Reserve Deposits”.

1.2. Information on financial assets at fair value through profit and loss:

The Bank does not have financial assets at fair value through profit and loss subject to repo transactions and does not have financial assets at fair value through profit and loss given as collateral/blocked amount (December 31, 2017 - None).

1.3. Information on derivative financial assets:

1.3.1 Positive differences related to derivative financial assets held for trading:

	Current Period		Prior Period	
	TL	FC	TL	FC
Forward transactions	1.835.185	-	398.670	-
Swap transactions	10.249.322	836.222	3.051.849	415.703
Futures transactions	-	-	-	-
Options	974.259	91.316	137.137	57.859
Other	-	-	-	-
Total	13.058.766	927.538	3.587.656	473.562

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

1.3.2 Positive differences related to derivative financial assets held for hedging:

	Current Period		Prior Period	
	TL	FC	TL	FC
Fair value hedges ⁽¹⁾	-	-	-	-
Cash flow hedges ⁽¹⁾	6.084.797	596.920	1.520.914	167.481
Hedges for investments made in foreign countries	-	-	-	-
Total	6.084.797	596.920	1.520.914	167.481

(1) Explained in Note 8 of section 4.

1.4. Information on banks:

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks				
Domestic	11.797	-	658	-
Foreign ⁽¹⁾	92.286	4.799.617	13.517	2.706.452
Head quarters and branches abroad	-	-	-	-
Total	104.083	4.799.617	14.175	2.706.452

1.5. Information on financial assets at fair value through other comprehensive income which are subject to repurchase agreements and given as collateral / blocked:

As of September 30, 2018 financial assets at fair value through other comprehensive income given as collateral/blocked amounts to TL 2.556.314 and subject to repo transactions amounts to TL 2.928.344.

Information on available-for-sale financial assets which are subject to repurchase agreements and given as collateral / blocked:

As of December 31, 2017 available-for-sale financial assets given as collateral/blocked amounts to TL 4.502.947 and subject to repo transactions amounts to TL 6.937.612.

1.6. Information on financial assets at fair value through other comprehensive income:

	Current Period
Debt securities	27.059.796
Quoted on stock exchange ⁽¹⁾	26.760.285
Not quoted	299.511
Share certificates	56.291
Quoted on stock exchange	-
Not quoted	56.291
Impairment provision (-) ⁽²⁾	1.847.158
Total	25.268.929

(1) As of January 1, 2018, the Bank has changed its business model for some government debt securities with the adoption of TFRS 9. As a result, government bonds with an amount of TL 1.998.350 has been classified from financials assets at fair value through other comprehensive income to financial assets measured at amortised cost.

(2) Includes the negative differences between the acquisition cost and the market price related to the securities portfolio.

Information on available-for-sale financial assets:

	December 31, 2017
Debt securities	24.341.481
Quoted on stock exchange	23.894.244
Not quoted	447.237
Share certificates	149.396
Quoted on stock exchange	-
Not quoted	149.396
Impairment provision (-) ⁽¹⁾	278.060
Other ⁽²⁾	94.843
Total	24.307.660

(1) Includes the negative differences between the acquisition cost and the market price and the impairment provisions, if any, related to the securities portfolio.

(2) Other available-for-sale financial assets consist of investment funds.

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

1.7. Explanations on loans:

1.7.1. Information on all types of loans or advance balances given to shareholders and employees of the Bank:

	Current Period		Prior Period	
	Cash	Non-cash	Cash	Non-cash
Direct loans granted to shareholders	-	-	-	-
Corporate shareholders	-	-	-	-
Real person shareholders	-	-	-	-
Indirect loans granted to shareholders	88.830	1.672.056	23.229	1.358.830
Loans granted to employees	164.939	59	156.855	101
Total	253.769	1.672.115	180.084	1.358.931

1.7.2. Information on the first and second group loans and other receivables and loans and other receivables that have been restructured or rescheduled:

Cash Loans	Standard loans	Loans under close monitoring		
		Not under the scope of restructuring	Loans under restructuring	
			Modifications on agreement conditions	Refinancing
Non-specialized loans	219.666.516	13.094.531	2.167.588	3.909.264
Loans given to enterprises	115.876.290	10.532.392	1.386.804	2.154.284
Export loans	12.199.694	161.591	14.581	170.499
Import loans	-	-	-	-
Loans given to financial sector	3.446.899	-	-	-
Consumer loans	32.951.869	854.423	17.150	502.552
Credit cards	26.648.096	673.464	406.121	-
Other ⁽¹⁾	28.543.668	872.661	342.932	1.081.929
Specialized loans	-	-	-	-
Other receivables	6.980	-	-	-
Total	219.673.496	13.094.531	2.167.588	3.909.264

(1) Fair value differences of the hedged item amounting to TL 43.892 income are classified in other loans as explained in Note 8, Section 4.

	Standard loans	Loans under close monitoring
12-month provisions for possible losses	1.735.176	-
Significant increase in credit risk	-	2.350.841
Total	1.735.176	2.350.841

Number of modifications made to extend payment plan	Standard loans	Loans under close monitoring
Extended by 1 or 2 times	-	5.919.148
Extended by 3,4 or 5 times	-	144.107
Extended by more than 5 times	-	13.597
Total	-	6.076.852

Extended period of time	Standard loans	Loans under close monitoring
0 - 6 Months	-	363.010
6 - 12 Months	-	158.198
1 - 2 Years	-	1.156.805
2 - 5 Years	-	3.398.508
5 Years and over	-	1.000.331
Total	-	6.076.852

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

1.7.3. Information on consumer loans, individual credit cards, personnel loans and personnel credit cards:

	Short- term	Medium and long-term	Total
Consumer loans-TL	413.991	32.012.294	32.426.285
Real estate loans	6.017	13.118.699	13.124.716
Automotive loans	14.415	491.170	505.585
Consumer loans	393.559	18.402.425	18.795.984
Consumer loans-FC indexed	-	26.001	26.001
Real estate loans	-	25.743	25.743
Automotive loans	-	-	-
Consumer loans	-	258	258
Individual credit cards-TL	18.527.792	521.811	19.049.603
With installments	9.280.140	370.220	9.650.360
Without installments	9.247.652	151.591	9.399.243
Individual credit cards-FC	17.581	-	17.581
With installments	-	-	-
Without installments	17.581	-	17.581
Personnel loans-TL	4.933	55.160	60.093
Real estate loans	-	2.223	2.223
Automotive loans	21	288	309
Consumer loans	4.912	52.649	57.561
Personnel loans-FC indexed	-	-	-
Real estate loans	-	-	-
Automotive loans	-	-	-
Consumer loans	-	-	-
Personnel credit cards-TL	102.004	362	102.366
With installments	48.890	345	49.235
Without installments	53.114	17	53.131
Personnel credit cards-FC	361	-	361
With installments	-	-	-
Without installments	361	-	361
Credit deposit account-TL (real person)⁽¹⁾	1.813.615	-	1.813.615
Total	20.880.277	32.615.628	53.495.905

(1) TL 2.119 of the credit deposit account belongs to the loans used by personnel.

1.7.4. Information on commercial installment loans and corporate credit cards:

	Short-term	Medium and long-term	Total
Commercial installments loans-TL	1.287.116	15.439.802	16.726.918
Business loans	1.676	1.593.055	1.594.731
Automotive loans	55.080	966.939	1.022.019
Consumer loans	1.230.360	12.879.808	14.110.168
Commercial installments loans-FC indexed	5.878	205.915	211.793
Business loans	-	11.832	11.832
Automotive loans	-	50.484	50.484
Consumer loans	5.878	143.599	149.477
Corporate credit cards-TL	8.554.771	1.084	8.555.855
With installment	5.212.171	794	5.212.965
Without installment	3.342.600	290	3.342.890
Corporate credit cards-FC	1.915	-	1.915
With installment	-	-	-
Without installment	1.915	-	1.915
Credit deposit account-TL (legal person)	1.213.008	-	1.213.008
Total	11.062.688	15.646.801	26.709.489

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

1.7.5. Distribution of domestic and foreign loans:

Distribution has been disclosed based on the location where the customers operate:

	Current Period	Prior Period
Domestic loans	235.607.183	190.963.726
Foreign loans	3.237.696	1.918.850
Total	238.844.879	192.882.576

1.7.6. Loans granted to associates and subsidiaries:

	Current Period	Prior Period
Direct loans granted to associates and subsidiaries	200.229	213.845
Indirect loans granted to associates and subsidiaries	-	-
Total	200.229	213.845

1.7.7. Information on credit-impaired (Stage 3):

	Current Period
Loans with limited collectibility	969.175
Loans with doubtful collectibility	1.118.757
Uncollectible loans	5.652.181
Total	7.740.113

Specific provisions provided against loans:

	Prior Period
Loans and other receivables with limited collectibility	120.681
Loans and other receivables with doubtful collectibility	559.397
Uncollectible loans and other receivables	6.266.452
Total	6.946.530

1.7.8. Information on non-performing loans (net):

1.7.8.1. Information on non-performing loans restructured or rescheduled, and other receivables:

	III. Group	IV. Group	V. Group
	Loans with limited collectibility	Loans with doubtful collectibility	Uncollectible loans
Current Period			
(Gross amounts before specific reserves)			
Restructured loans	299.291	478.630	741.427
Rescheduled loans	299.291	478.630	741.427
Prior Period			
(Gross amounts before specific reserves)			
Restructured loans	10.849	55.493	150.698
Rescheduled loans	10.849	55.493	150.698

1.7.8.2. Information on the movement of total non-performing loans:

	III. Group	IV. Group	V. Group
	Loans with limited collectibility	Loans with doubtful collectibility	Uncollectible loans
Prior Period	876.218	1.539.899	6.608.280
Additions (+)	3.019.915	71.947	429.372
Transfers from other categories of non-performing loans (+)	-	2.280.339	1.950.675
Transfer to other categories of non-performing loans (-)	2.280.339	1.950.675	-
Collections (-)	233.607	260.207	543.057
Write-offs (-)	-	-	1.471
Sold	-	-	2.014.892
Corporate and commercial loans	-	-	499.170
Consumer loans	-	-	911.571
Credit cards	-	-	604.151
Other	-	-	-
Current Period	1.382.188	1.681.303	6.428.906
Specific provision (-)	969.175	1.118.757	5.652.181
Net balance on balance sheet	413.013	562.546	776.725

It has been decided to sell non-performing loans which comprises of consumer loans, commercial loans and credit cards under follow-up with amounting to TL 2.014.893 to a selection of asset management companies for a total amount of TL 105.172.

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

1.7.8.3. Information on non-performing loans granted as foreign currency loans:

	III. Group	IV. Group	V. Group
	Loans with limited collectability	Loans with doubtful collectability	Uncollectible loans
Current Period			
Period end balance	571.010	746.694	710.998
Specific provision (-)	478.078	502.356	698.772
Net balance on balance sheet	92.932	244.338	12.226
Prior Period			
Period end balance	53.326	47.776	710.921
Specific provision (-)	48.727	46.155	700.703
Net balance on balance sheet	4.599	1.621	10.218

1.7.8.4. Information on the gross and net amounts of the non-performing loans according to types of borrowers:

	III. Group	IV. Group	V. Group
	Loans with limited collectability	Loans with doubtful collectability	Uncollectible loans
Current Period (net)	413.013	562.546	776.725
Loans granted to real persons and corporate entities (gross)	1.382.188	1.681.303	6.315.735
Provision amount (-)	969.175	1.118.757	5.539.010
Loans granted to real persons and corporate entities (net)	413.013	562.546	776.725
Banks (gross)	-	-	29.183
Provision amount (-)	-	-	29.183
Banks (net)	-	-	-
Other loans (gross)	-	-	83.988
Provision amount (-)	-	-	83.988
Other loans (net)	-	-	-
Prior Period (net)	755.537	980.502	341.828
Loans granted to real persons and corporate entities (gross)	876.218	1.539.899	6.495.109
Specific provision amount (-)	120.681	559.397	6.153.281
Loans granted to real persons and corporate entities (net)	755.537	980.502	341.828
Banks (gross)	-	-	29.183
Specific provision amount (-)	-	-	29.183
Banks (net)	-	-	-
Other loans and receivables (gross)	-	-	83.988
Specific provision amount (-)	-	-	83.988
Other loans and receivables (net)	-	-	-

1.7.8.5 Information on interest accruals, rediscounts and valuation differences calculated for non-performing loans and their provisions:

	III. Group	IV. Group	V. Group
	Loans with limited collectability	Loans with doubtful collectability	Uncollectible loans
Current Period (net)	46.339	24.054	539
Interest accruals and rediscounts and valuation differences	153.765	124.324	8.104
Provision amount (-)	107.426	100.270	7.565
Prior Period (net)			
Interest accruals and rediscounts and valuation differences	-	-	-
Provision amount (-)	-	-	-

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

1.8. Information on financial assets at amortized cost:

1.8.1 Information on financial assets measured at amortised cost which are subject to repurchase agreements and given as collateral / blocked:

As of September 30, 2018 Financial assets measured at amortised cost given as collateral/blocked amounts to TL 10.625.769 and subject to repo transactions amounting to TL 12.925.

Characteristics and carrying values of held-to-maturity investments subject to repurchase agreements given as collateral / blocked:

As of December 31, 2017 held-to-maturity investments given as collateral / blocked amounts to TL 7.390.042. The amount of held-to-maturity investments subject to repurchase agreements amounting to TL 2.249.012.

1.8.2 Information on public sector debt securities measured at amortized cost:

	Current period
Government bond	22.350.617
Treasury bill	-
Other public sector debt securities	-
Total	22.350.617

Information on investment securities held-to-maturity:

	Prior period
Government bond	13.030.911
Treasury bill	-
Other debt securities	-
Total	13.030.911

1.8.3. Information on financial assets measured at amortized cost:

	Current period
Debt securities	23.057.452
Quoted on stock exchange	23.057.452
Not quoted	-
Impairment provision (-) ⁽¹⁾	706.835
Total	22.350.617

(1) Includes amortisation of the premiums paid during the purchase of the securities throughout the maturity of the securities.

Information on held-to-maturity investments

	Prior period
Debt securities	13.408.710
Quoted on stock exchange	13.408.710
Not quoted	-
Impairment provision (-) ⁽¹⁾	377.799
Total	13.030.911

(1) Includes amortisation of the premiums paid during the purchase of the securities throughout the maturity of the securities and the impairment provisions, if any.

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

1.8.4. Movement of financial assets measured at amortized cost within the period:

	Current period
Beginning balance	13.030.911
Foreign currency differences on monetary assets ⁽¹⁾	4.840.333
Purchases during the year	3.621.570
Transfers ⁽²⁾	1.998.350
Disposals through sales and redemptions	811.511
Impairment provision (-) ⁽³⁾	329.036
Period end balance	22.350.617

(1) Also includes the changes in the interest income accruals.

(2) As of January 1, 2018, the Bank has changed its business model for some government debt securities with the adoption of TFRS 9. As a result government bonds with an amount of TL 1.998.350 has been clasified from "Financial assets at fair value through other comprehensive income" to "Financial assets measured at amortised cost".

(3) Includes amortisation of the premiums paid during the purchase of the securities throughout the maturity of the securities.

Movement of held-to-maturity investments within the period:

	Prior period
Beginning balance	10.664.551
Foreign currency differences on monetary assets ⁽¹⁾	680.963
Purchases during the year	2.796.166
Disposals through sales and redemptions	1.031.607
Impairment provision (-) ⁽²⁾	79.162
Period end balance	13.030.911

(1) Also includes the changes in the interest income accruals.

(2) Includes amortisation of the premiums paid during the purchase of the securities throughout the maturity of the securities and the impairment provisions, if any.

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

1.9. Information on investments in associates (net):

1.9.1. Information on unconsolidated investments in associates:

No	Description	Address (City/ Country)	Bank's share holding percentage if different voting percentage (%)	Bank's risk group share holding percentage(%)
1.	Banque de Commerce et de Placements S.A. ⁽¹⁾	Geneva/Switzerland	30,67	30,67
2.	Kredi Kayıt Bürosu ⁽¹⁾	Istanbul/Turkey	18,18	18,18
3.	Bankalararası Kart Merkezi A.Ş. ⁽¹⁾	Istanbul/Turkey	9,98	9,98

1.9.2. Main financial figures of the investments in associates in the order of the above table:

No	Total assets	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit/loss	Prior period profit/loss	Fair value
1	25.694.980	3.077.105	21.517	260.674	31.845	159.706	121.058	-
2	296.536	193.394	177.837	5.984	-	23.681	28.103	-
3	94.425	57.724	48.696	1.137	-	8.630	3.260	-

(1) Financial statement information disclosed above shows June 30, 2018 results.

1.9.3. Movement of unconsolidated investments in associates:

	Current Period	Prior Period
Balance at the beginning of the period	533.887	441.646
Movements during the period	346.198	92.241
Purchases	-	-
Free shares obtained profit from current year's share	1.597	-
Profit from current year's income	48.976	45.295
Sales	-	-
Revaluation (decrease) / increase ⁽¹⁾	307.447	57.558
Impairment provision (-) ⁽²⁾	11.822	10.612
Balance at the end of the period	880.085	533.887
Capital commitments	-	-
Shareholding percentage at the end of the period (%)	-	-

(1) Includes the differences in the other comprehensive income related with the equity method accounting.

(2) Includes dividend income received in the current period.

1.9.4. Information on sectors and the carrying amounts of unconsolidated financial investments in associates:

	Current Period	Prior Period
Banks	873.984	529.384
Insurance companies	-	-
Factoring companies	-	-
Leasing companies	-	-
Finance companies	-	-
Other financial investments	-	-
Total financial investments	873.984	529.384

1.9.5. Information on investments in associates quoted on a stock exchange:

None (December 31, 2017 - None).

Yapı ve Kredi Bankası A.Ş.

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

1.10 Information on shareholders' equity of the significant subsidiaries (net):

There is no deficit of regulatory limits on capital structure of the subsidiaries which are included in the consolidated capital adequacy ratio calculation in accordance with the capital adequacy ratio limits.

1.10.1. Information on shareholders' equity of the significant subsidiaries:

	Yapı Kredi Yatırım Menkul Değerler A.Ş.	Yapı Kredi Faktoring A.Ş.	Yapı Kredi Finansal Kiralama A.O.	Yapı Kredi Portföy Yönetimi A.Ş.	Yapı Kredi Nederland N.V.
Core capital					
Paid in capital	98.918	60.714	389.928	5.707	112.442
Inflation adjustment to share capital	-	-	-	-	-
Share premium	-	-	-	-	-
Other capital reserves	93.423	-	(217.104)	-	-
Other accumulated comprehensive income that will not be classified in profit or loss	44.066	(1.227)	(1.927)	(945)	-
Other accumulated comprehensive income that will be classified in profit or loss	4.041	-	-	-	1.648.206
Legal reserves	66.052	8.034	79.305	25.419	-
Extraordinary reserves	225.863	39.717	659.399	-	634.531
Other profit Reserves	-	-	-	-	-
Income or Loss	30.653	183.499	1.193.531	25.296	121.500
Current Year Income/Loss	100.599	81.741	248.712	25.296	121.500
Prior Years' Income/Loss	(69.946)	101.758	944.819	-	-
Leasehold improvements (-)	350	251	-	232	262
Intangible assets (-)	27.786	3.467	7.946	560	563
Total core capital	534.880	287.019	2.095.186	54.685	2.515.854
Supplementary capital	18.135	19.461	91.858	-	62.617
Capital	553.015	306.480	2.187.044	54.685	2.578.471
Deductions from the capital	-	-	-	-	-
Total shareholders' equity	553.015	306.480	2.187.044	54.685	2.578.471

The above information is based on the consolidated financial statements of the Bank as of September 30, 2018.

Paid-in capital is a capital which have been disclosed as Turkish Lira in the articles of incorporation and registered in trade register.

Inflation adjustment to share capital is the adjustment difference arising from inflation accounting.

Extraordinary Reserves are the reserves which represent the remaining net income of the previous periods after providing the legal reserves in accordance with the General Assembly of the Bank.

Legal reserves are the income reserves that are provided according to the first paragraph and the third subparagraph of the second paragraph of the article no 466 and no 467 of the Turkish Commercial Code No. 6762 allocated as capital reserves separated from annual profit according to the laws of foundation.

Yapı ve Kredi Bankası A.Ş.

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

1.10.2. Information on subsidiaries:

No	Description	Address (City/ Country)	Bank's share holding percentage if different voting percentage (%)	Bank's risk group share holding percentage (%)
1	Yapı Kredi Holding BV.	Amsterdam/Holland	100,00	100,00
2	Yapı Kredi Yatırım Menkul Değerler A.Ş.	Istanbul/Turkey	99,98	100,00
3	Yapı Kredi Faktoring A.Ş.	Istanbul/Turkey	99,95	100,00
4	Yapı Kredi Finansal Kiralama A.O.	Istanbul/Turkey	99,99	99,99
5	Yapı Kredi Portföy Yönetimi A.Ş.	Istanbul/Turkey	12,65	99,99
6	Yapı Kredi Nederland	Amsterdam/Holland	67,24	100,00
7	Yapı Kredi Azerbaycan	Baku/Azerbaijan	99,80	100,00
8	Enternasyonal Turizm Yatırım A.Ş.	Istanbul/Turkey	99,96	99,99
9	Yapı Kredi Kültür Sanat Yayıncılık Tic.ve San.A.Ş.	Istanbul/Turkey	99,99	100,00
10	Yapı Kredi Teknoloji A.Ş.	Istanbul/Turkey	100,00	100,00

1.10.3. Main financial figures of the subsidiaries in order of the above table:

Financial statement information disclosed consolidated financial statements results.

	Total assets	Shareholders' equity	Total fixed assets	Interest income	on marketable instruments portfolio	Current period profit / loss	Prior period profit /loss	Market value	Required equity
1	235.027	234.756	-	-	-	82	(895)	-	-
2	4.619.703	563.016	47.920	154.604	1.774	100.599	71.921	-	-
3	3.928.572	290.737	4.138	291.950	-	81.741	30.912	-	-
4	15.339.009	2.103.132	9.058	706.465	-	248.712	186.628	-	-
5	67.910	55.477	982	4.807	-	25.296	24.078	-	-
6	14.953.361	2.516.679	1.918	501.967	14.533	121.500	74.405	-	-
7	1.816.144	308.671	44.151	54.371	7.975	14.236	14.602	-	-
8	43.614	30.774	4.856	2.694	-	2.551	1.774	-	-
9	42.393	31.135	1.327	30	-	3.687	4.354	-	-
10	14.564	11.476	2.715	1.033	-	3.102	1.508	-	-

1.10.4. Movement schedule of subsidiaries:

	Current Period	Prior Period
Balance at the beginning of the period	4.800.064	4.225.724
Movements in period	1.468.644	574.340
Purchases	-	-
Free shares obtained profit from current years share	-	-
Dividends from current year income	566.362	529.252
Sales ⁽¹⁾	-	247.343
Revaluation increase/decrease ⁽²⁾	950.663	396.485
Impairment provision (-) ⁽³⁾	48.381	104.054
Balance at the end of the period	6.268.708	4.800.064
Capital commitments	-	-
Shareholding percentage at the end of the period (%)	-	-

(1) The Bank has concluded the sale of 99.84% shares in Yapı Kredi Bank Moscow with Russian Rouble 478.272.000 nominal value to Expobank LLC in Russia for Russian Rouble 3.294.811.320 in 2017.

(2) Includes the differences in the other comprehensive income of consolidated subsidiaries and the first time application impact of TFRS 9 for associates and joint ventures accounted using equity method amounting to net TL 181.350 expense.

(3) Includes dividend income received in the current period.

Yapı ve Kredi Bankası A.Ş.

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

1.10.5. Sectoral information on financial subsidiaries and the related carrying amounts:

Financial subsidiaries	Current Period	Prior Period
Banks	2.000.352	1.243.843
Insurance companies	-	-
Factoring companies	290.599	222.753
Leasing companies	2.103.005	1.966.487
Finance companies	-	-
Other financial subsidiaries	1.874.752	1.366.981
Total financial subsidiaries	6.268.708	4.800.064

1.10.6. Subsidiaries quoted on stock exchange:

None (December 31, 2017 - None).

1.11. Information on joint ventures (net):

Joint ventures in unconsolidated financial statements are accounted and monitored at equity method according to "TAS – 27 Individual Financial Statements".

	Bank's share	Group's share	Total asset	Shareholders' equity	Current assets	Non-current assets	Long term debt	Income	Expense
Yapı Kredi – Koray Gayrimenkul Yatırım Ortaklığı A.Ş.	30,45	30,45	85.574	70.076	25.105	60.468	8.327	33.538	(33.118)
Total			85.574	70.076	25.105	60.468	8.327	33.538	(33.118)

1.12. Information on lease receivables (net):

None (December 31, 2017 - None).

1.13. Information on investment property:

None (December 31, 2017 - None).

1.14. Explanations on deferred tax asset:

None (December 31, 2017 - None).

1.15. Movement schedule of assets held for resale and related to discontinued operations:

	Current Period	Prior Period
Net book value at the beginning of the period	202.019	159.974
Additions	108.019	153.076
Disposals (-), net	59.232	111.416
Impairment provision reversal	1.441	385
Impairment provision (-)	-	-
Net book value at the end of the period	252.247	202.019
Cost at the end of the period	261.426	214.507
Accumulated depreciation at the end of the period (-)	9.179	12.488
Net book value at the end of the period	252.247	202.019

As of September 30, 2018, the Bank booked impairment provision on assets held for resale with an amount of TL 4.520 (December 31, 2017 - TL 5.961).

1.16. Information on other assets:

As of September 30, 2018, other assets do not exceed 10% of the total assets.

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

2. Explanations and notes related to liabilities

2.1. Information on deposits:

2.1.1. Information on maturity structure of deposits/collected funds:

Current Period	Demand	Up to 1 month	1-3 months	3-6 months	6 months- 1 year	1 year and over	Cumulative savings account	Total
Saving deposits	7.120.653	3.600.459	39.158.030	1.750.138	413.217	296.950	1.268	52.340.715
Foreign currency deposits	20.237.813	17.531.771	63.737.077	5.108.832	4.126.658	4.019.845	-	114.761.996
Residents in Turkey	19.915.699	16.876.088	62.853.110	4.791.139	1.674.702	1.079.868	-	107.190.606
Residents abroad	322.114	655.683	883.967	317.693	2.451.956	2.939.977	-	7.571.390
Public sector deposits	688.811	189	5.435	25	473	22	-	694.955
Commercial deposits	6.877.705	9.490.772	12.510.979	866.155	446.893	15.303	-	30.207.807
Other institutions deposits	123.710	500.209	1.766.723	590.930	303.823	31.446	-	3.316.841
Precious metals vault	1.216.385	90.105	380.853	42.238	64.103	27.100	-	1.820.784
Bank deposits	1.401.027	5.271.754	881.951	248.671	77.006	-	-	7.880.409
The CBRT	-	2.696.339	-	-	-	-	-	2.696.339
Domestic banks	12.229	2.524.025	575.906	240.820	77.006	-	-	3.429.986
Foreign banks	401.129	51.390	306.045	7.851	-	-	-	766.415
Participation banks	987.669	-	-	-	-	-	-	987.669
Other	-	-	-	-	-	-	-	-
Total	37.666.104	36.485.259	118.441.048	8.606.989	5.432.173	4.390.666	1.268	211.023.507

Prior Period	Demand	Up to 1 month	1-3 months	3-6 months	6 months- 1 year	1 year and over	Cumulative savings account	Total
Saving deposits	6.796.500	2.347.210	35.131.569	1.471.949	190.308	150.286	967	46.088.789
Foreign currency deposits	13.995.800	15.535.147	44.416.875	4.827.823	6.332.164	1.883.696	-	86.991.505
Residents in Turkey	13.782.454	15.171.010	43.708.004	4.103.568	3.262.384	921.777	-	80.949.197
Residents abroad	213.346	364.137	708.871	724.255	3.069.780	961.919	-	6.042.308
Public sector deposits	250.278	3	5.876	3	453	10	-	256.623
Commercial deposits	7.543.445	7.865.394	7.823.937	637.070	448.428	301.136	-	24.619.410
Other institutions deposits	116.749	457.166	801.617	495.305	517	513	-	1.871.867
Precious metals vault	744.610	71.033	358.492	27.040	39.115	19.229	-	1.259.519
Bank deposits	1.039.061	5.262.599	1.699.459	231.402	26.983	-	-	8.259.504
The CBRT	-	4.061.881	-	-	-	-	-	4.061.881
Domestic banks	9.192	1.197.005	1.600.797	226.297	26.983	-	-	3.060.274
Foreign banks	561.376	3.713	98.662	5.105	-	-	-	668.856
Participation banks	468.493	-	-	-	-	-	-	468.493
Other	-	-	-	-	-	-	-	-
Total	30.486.443	31.538.552	90.237.825	7.690.592	7.037.968	2.354.870	967	169.347.217

2.1.2. Information on saving deposits insurance:

2.1.2.1. Information on saving deposits under the guarantee of the saving deposits insurance fund and exceeding the limit of deposit insurance fund:

Saving deposits	Under the guarantee of deposit insurance		Exceeding limit of the deposit insurance	
	Current Period	Prior Period	Current Period	Prior Period
Saving deposits	25.395.563	23.544.523	26.940.402	22.544.257
Foreign currency saving deposits	8.747.827	6.989.255	39.037.798	25.392.052
Other deposits in the form of saving deposits	776.072	492.198	887.873	647.851
Foreign branches' deposits under foreign authorities' insurance	-	-	-	-
Off-shore banking regions' deposits under foreign authorities' insurance	-	-	-	-

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

2.1.2.2. Saving deposits which are not under the guarantee of saving deposit insurance fund of real persons:

	Current Period	Prior Period
Foreign branches' deposits and other accounts	6.993	6.993
Saving deposits and other accounts of controlling shareholders and deposits of their mother, father, spouse, children in care	-	-
Saving deposits and other accounts of president and members of board of directors, CEO and vice presidents and deposits of their mother, father, spouse, children in care	219.556	164.155
Saving deposits and other accounts in scope of the property holdings derived from crime defined in article 282 of Turkish criminal law no:5237 dated 26.09.2004	-	-
Saving deposits in deposit bank which is established in Turkey in order to engage in off-shore banking activities solely	-	-

2.2. Information on trading derivative financial liabilities:

2.2.1. Negative differences table for derivative financial liabilities held for trading:

	Current Period		Prior Period	
	TL	FC	TL	FC
Forward transactions	585.922	-	147.794	-
Swap transactions	10.737.326	1.068.065	3.263.154	219.065
Futures transactions	-	-	-	-
Options	787.616	98.495	144.714	63.177
Other	-	-	-	-
Total	12.110.864	1.166.560	3.555.662	282.242

2.2.2. Negative differences table for derivative financial liabilities held for hedging:

	Current Period		Prior Period	
	TL	FC	TL	FC
Fair value hedges ⁽¹⁾	442.087	-	204.859	-
Cash flow hedges ⁽¹⁾	310.301	18.914	95.187	12.380
Hedges for investments made in foreign countries	-	-	-	-
Total	752.388	18.914	300.046	12.380

(1) Explained in Note 8 of section 4

2.3. Information about banks and other financial institutions:

2.3.1. Information on borrowings:

	Current Period	
	TL	FC
The Central Bank of the Republic of Turkey borrowings	-	18.766
From domestic banks and institutions	235.289	346.626
From foreign banks, institutions and funds	284.247	50.351.963
Total	519.536	50.717.355

	Prior Period	
	TL	FC
The Central Bank of the Republic of Turkey borrowings	-	460.152
From domestic banks and institutions	173.375	207.635
From foreign banks, institutions and funds	342.910	37.945.987
Total	516.285	38.613.774

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

2.3.2. Information on maturity structure of borrowings:

	Current Period	
	TL	FC
Short-term	66.987	12.378.975
Medium and long-term	452.549	38.338.380
Total	519.536	50.717.355

	Prior Period	
	TL	FC
Short-term	5.474	7.240.241
Medium and long-term	510.811	31.373.533
Total	516.285	38.613.774

2.3.3. Information on securitization borrowings:

2.3.3.1The Bank obtains borrowings via its structured entity, Diversified Payment Rights Finance Company, with securitization transactions which is founded on its future money transfers within its funding programme.

	Current Period		Prior Period	
	TL	FC	TL	FC
From foreign banks	-	-	-	-
From foreign institutions	-	12.745.748	-	8.278.912
From foreign funds	-	-	-	-
Total⁽¹⁾	-	12.745.748	-	8.278.912

(1) Securitization borrowings measured at fair value amounting to TL edilen 229.282 (December 31, 2017 - TL 4.929.709) presented in "Funds borrowed" in prior periods in the balance sheet; however, according to the new communique for financial statements and related disclosures effective from January 1, 2018, related liabilities are presented in "financial liabilities at fair value through profit or loss".

2.3.3.2 Information on financial liabilities at fair value through profit or loss :

The Bank classified some of its financial liabilities as the financial liabilities classified at fair value through profit/loss in order to eliminate the accounting mismatch at the initial recognition in accordance with TFRS 9. As of September 30, 2018, the total amount of financial liabilities classified as fair value through profit/loss is TL 8.229.282 (December 31, 2017 - TL 4.929.709) with an accrued interest income of TL 497.441 (December 31, 2017 - TL 123.051 loss) and with a fair value difference of TL 653.815 recognized in the expense statement as an income (December 31, 2017 - TL 216.465 loss). On the other hand, the nominal amounts of the total return swaps which are closely related with these financial liabilities as of September 30, 2018 are TL 8.427.213 (December 31, 2017 - TL 4.618.063) for buy legs and TL 8.427.213 (December 31, 2017 - TL 4.618.063) for sell legs with a fair value differences amounting to TL 505.434 liability (December 31, 2017 - TL 92.985 asset). The mentioned total return swaps have 9 year maturity in average.

2.3.4. Information on marketable securities issued:

	Current Period		Prior Period	
	TL	FC	TL	FC
Bills	1.920.293	57.388	1.212.509	107.682
Bonds	1.747.282	18.599.707	1.078.084	10.094.567
Total	3.667.575	18.657.095	2.290.593	10.202.249

2.4. Information on other liabilities:

As of September 30, 2018, other liabilities do not exceed 10% of the total balance sheet commitments.

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”))

2.5. Information on lease payables:

2.5.1. Information on financial leasing agreements:

	Current Period		Prior Period	
	Gross	Net	Gross	Net
Less than 1 year	148	137	-	-
Between 1 – 4 years	262	252	139	131
More than 4 years	-	-	-	-
Total	410	389	139	131

2.5.2. Information on operational leasing agreements:

The Bank enters into operational leasing agreements annually for some of its branches and ATMs. The leases are prepaid and accounted as prepaid expenses under “Other Assets”.

2.6. Information on provisions:

2.6.1. Information on general provisions:

	Prior period
Provisions for first group loans and receivables	2.652.040
Provisions for second group loans and receivables	230.998
Provisions for non cash loans	111.917
Other	337.739
Total	3.332.694

2.6.2. Information on reserve for employee rights:

In accordance with Turkish Labour Law, the reserve for employment termination benefits is calculated as the present value of the probable future obligation in case of the retirement of employees. “TAS – 19 Employee Rights” necessitates actuarial valuation methods to calculate the liabilities of enterprises.

The following actuarial assumptions were used in the calculation of total liabilities:

	Current Period	Prior Period
Discount rate (%)	4,95	4,95
Possibility of being eligible for retirement (%)	93,79	93,79

The principal actuarial assumption is that the maximum liability will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. As the annual ceiling is revised semi-annually, the ceiling of full TL 5.434,42 effective from July 1, 2018 (January 1, 2018: full TL 5.001,76) has been taken into consideration in calculating the reserve for employment termination benefits.

Movement of employment termination benefits liability in the balance sheet:

	Current Period	Prior Period
Prior period ending balance	391.760	127.500
Changes during the period	41.152	52.501
Recognized in equity	31.199	253.522
Paid during the period	(42.917)	(41.763)
Balance at the end of the period	421.194	391.760

In addition, the Bank has accounted for unused vacation rights provision amounting to TL 179.274 as of September 30, 2018 (December 31, 2017 - TL 172.381).

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

2.6.3. Information on provisions related with the foreign currency difference of foreign currency indexed loans:

As of September 30, 2018, Bank has no provision related to the foreign currency difference of foreign currency indexed loans. (December 31, 2017 - TL 27.135). Provisions related to the foreign currency difference of foreign currency indexed loans are netted from the loan amount in the financial statements.

2.6.4. Other provisions:

2.6.4.1. Information on other provisions:

	Current Period
Pension fund provision	690.852
Provisions on unindemnified non cash loans	757.369
Generic provisions on non cash loans	137.002
Provision on lawsuits	82.054
Provisions on credit cards and promotion campaigns related to banking services	50.454
Other	1.429.015
Total	3.146.746

	Prior Period
Pension fund provision	690.852
Provisions on unindemnified non cash loans	139.143
Provision on lawsuits	63.729
Provisions on credit cards and promotion campaigns related to banking services	44.142
Other	482.004
Total	1.419.870

2.7. Information on taxes payable:

2.7.1. Information on taxes payable:

	Current Period	Prior Period
Corporate Tax Payable	-	235.024
Taxation of Marketable Securities	200.682	147.382
Property Tax	3.429	3.301
Banking Insurance Transaction Tax ("BITT")	139.971	134.448
Foreign Exchange Transaction Tax	-	-
Value Added Tax Payable	4.190	10.063
Other	44.160	44.328
Total	392.432	574.546

2.7.2. Information on premium payables:

	Current Period	Prior Period
Social security premiums – employee	-	-
Social security premiums – employer	-	-
Bank pension fund premiums – employee	20.834	17.263
Bank pension fund premiums – employer	21.482	17.802
Pension fund deposit and provisions – employee	-	-
Pension fund deposit and provisions – employer	-	-
Unemployment insurance – employee	1.487	1.232
Unemployment insurance – employer	2.975	2.465
Other	-	-
Total	46.778	38.762

2.8. Liabilities for property and equipment held for sale and related to discontinued operations (net):

None (December 31, 2017 - None).

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

2.9. Information on subordinated debt⁽¹⁾:

	Current Period		Prior Period	
	TL	FC	TL	FC
Debt instruments to be included in additional capital calculation	-	-	-	-
Subordinated loans	-	-	-	-
Subordinated debt	-	-	-	-
Debt instruments to be included in contribution capital calculation	-	15.452.966	-	9.718.804
Subordinated loans	-	6.345.740	-	3.996.099
Subordinated debt	-	9.107.226	-	5.722.705
Total	-	15.452.966	-	9.718.804

(1) Subordinated loans are explained in detail in Note "Details on Subordinated Liabilities" of section four.

2.10. Information on shareholders' equity:

2.10.1. Presentation of paid-in capital:

	Current Period	Prior Period
Common stock	8.447.051	4.347.051
Preferred stock	-	-

2.10.2. Paid-in capital amount, explanation as to whether the registered share capital system is applied and if so, amount of registered share capital ceiling:

Capital System	Paid-In Capital	Registered Share Capital Ceiling
Registered Capital System	8.447.051	10.000.000

2.10.3. Information on the share capital increases during the period and the sources:

Capital increase date	Capital increase amount	Cash	Profit reserves subject to capital increase	Capital reserves subject to capital increase
June 29, 2018	4.100.000	4.100.000	-	-

The Bank increased its paid in capital by TL 4.100.000, fully paid in cash, from TL 4.347.051 to TL 8.447.051 within registered share capital ceiling of TL 10.000.000. (31 December 2017 – None.)

2.10.4. Information on transfers from capital reserves to capital during the current period:

None (December 31, 2017 - None).

2.10.5. Information on capital commitments, until the end of the fiscal year and the subsequent interim period:

None (December 31, 2017 - None).

2.10.6. Information on prior period's indicators on the Bank's income, profitability and liquidity, and possible effects of these future assumptions on the Bank's equity due to uncertainties of these indicators:

The interest, liquidity, and foreign exchange risk related to on-balance sheet and off-balance sheet assets and liabilities are managed by the Bank within several risk and legal limits.

2.10.7. Privileges on the corporate stock:

None (December 31, 2017 - None).

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”))

2.10.8. Information on marketable securities value increase fund:

	Current Period	
	TL	FC
From investments in associates, subsidiaries, and joint ventures	745.783	3.043.953
Revaluation difference ⁽¹⁾	745.783	436.166
Foreign currency difference ⁽¹⁾	-	2.607.787
Financial assets at fair value through other comprehensive income	(1.579.975)	(426.228)
Revaluation difference ⁽²⁾	(1.579.975)	(426.228)
Foreign currency differences	-	-
Total	(834.192)	2.617.725

	Prior Period	
	TL	FC
From investments in associates, subsidiaries, and joint ventures	880.331	1.651.298
Revaluation difference ⁽¹⁾	880.331	476.354
Foreign currency difference ⁽¹⁾	-	1.174.944
Financial assets available-for-sale	(471.086)	89.462
Revaluation difference ⁽²⁾	(471.086)	89.462
Foreign currency differences	-	-
Total	409.245	1.740.760

(1) Includes differences between historical cost basis and equity method of associates, subsidiaries and joint ventures.

(2) Includes tax effect related to foreign currency valuation differences in TL column.

2.10.9. Information on profit distribution:

It was decided to distribute unconsolidated net profit of TL 3.614.081 as of December 31, 2017, in accordance with the General Assembly dated March 20, 2018 as follows: TL 127.833 to be transferred to special funds account in accordance with the article No 5 1/e section of the Corporate Tax Law numbered 5520 as 75% of the profit from the sale of real estate and the remaining TL 3.486.248 to be transferred to extraordinary reserves.

3. Explanations and notes related to off-balance sheet accounts

3.1. Information on off balance sheet commitments:

3.1.1. The amount and type of irrevocable commitments:

	Current Period	Prior Period
Commitments on credit card limits	35.821.972	33.700.364
Loan granting commitments	13.863.914	10.125.035
Commitments for cheques	3.260.737	6.844.741
Other irrevocable commitments	58.289.731	83.371.921
Total	111.236.354	134.042.061

3.1.2. Type and amount of probable losses and obligations arising from off-balance sheet items:

Obligations arising from off-balance sheet are disclosed in “Off-balance sheet commitments”. The Bank set aside general provision for its non-cash loans amounting to TL 137.002 (December 31, 2017 - TL 111.917) and specific provision amounting to TL 1.028.829 (December 31, 2017 - TL 944.029) for non-cash loans which are not indemnified yet amounting to TL 757.369 (December 31, 2017 – 139.143).

3.1.2.1. Non-cash loans including guarantees, bank acceptance loans, collaterals that are accepted as financial guarantees and other letter of credits:

	Current Period	Prior Period
Bank acceptance loans	311.588	212.685
Letter of credits	16.482.302	10.944.238
Other guarantees and collaterals	9.188.761	6.811.093
Total	25.982.651	17.968.016

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

3.1.2.2. Guarantees, suretyships and other similar transactions:

	Current Period	Prior Period
Temporary letter of guarantees	1.637.163	2.273.465
Definite letter of guarantees	45.423.289	37.461.264
Advance letter of guarantees	14.680.740	9.606.133
Letter of guarantees given to customs	2.564.600	2.351.305
Other letter of guarantees	14.055.964	8.506.111
Total	78.361.756	60.198.278

3.1.3. Information on non-cash loans:

3.1.3.1. Total amount of non-cash loans:

	Current Period	Prior Period
Non-cash loans given against cash loans	13.379.038	8.052.720
With original maturity of 1 year or less than 1 year	2.745.195	1.878.094
With original maturity of more than 1 year	10.633.843	6.174.626
Other non-cash loans	90.965.369	70.113.574
Total	104.344.407	78.166.294

3.2 Information on contingent liabilities and assets:

The Bank has recorded a provision of TL 82.054 (December 31, 2017 - TL 63.729) for litigation and has accounted for it in the accompanying financial statements under the "Other Provisions" account. Except for the claims where provisions are recorded, management considers as remote the probability of a negative result in ongoing litigations and therefore does not foresee cash outflow for such claims.

3.3 Information on services in the name and account of others:

The Bank's activities such as intermediation and custody to serve the investment needs of customers are followed up under off balance sheet accounts.

4. Explanations and notes related to income statement:

4.1. Information on interest income:

4.1.1. Information on interest income on loans:

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-term loans ⁽¹⁾	5.216.731	220.621	3.835.485	127.036
Medium/long-term loans ⁽¹⁾	7.958.893	4.238.278	6.178.025	2.579.706
Interest on loans under follow-up	505.414	-	69.010	-
Premiums received from resource utilization support fund	-	-	-	-
Total	13.681.038	4.458.899	10.082.520	2.706.742

(1) Includes fees and commissions received for cash loans.

4.1.2. Information on interest income on banks:

	Current Period		Prior Period	
	TL	FC	TL	FC
From the CBRT	323.691	-	83.626	18
From domestic banks	76.691	1.476	43.367	644
From foreign banks	1.409	58.888	1.576	20.679
Headquarters and branches abroad	-	-	-	-
Total	401.791	60.364	128.569	21.341

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

4.1.3. Information on interest income on marketable securities:

	Current Period	
	TL	FC
From financial assets at fair value through profit or loss	8.325	1.338
From financial assets at fair value through other comprehensive income	2.425.440	135.683
From financial assets measured at amortised cost	1.048.414	301.673
Total	3.482.179	438.694

	Prior Period	
	TL	FC
From financial assets at fair value through profit or loss	1.729	1.147
From available-for-sale financial assets	1.491.997	115.070
From held-to-maturity investments	368.298	285.816
Total	1.862.024	402.033

4.1.4. Information on interest income received from associates and subsidiaries:

	Current Period	Prior Period
Interest received from associates and subsidiaries	61.725	43.996
Total	61.725	43.996

4.2. Information on interest expense:

4.2.1. Information on interest expense on borrowings:

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks	29.749	1.369.012	34.134	734.932
The CBRT	-	593	-	3.006
Domestic banks	9.775	4.266	7.995	2.627
Foreign banks	19.974	1.364.153	26.139	729.299
Headquarters and branches abroad	-	-	-	-
Other institutions	-	332.325	-	149.813
Total ⁽¹⁾	29.749	1.701.337	34.134	884.745

(1) Includes fees and commissions related to borrowings.

4.2.2. Information on interest expense to associates and subsidiaries:

	Current Period	Prior Period
Interest paid to associates and subsidiaries	149.266	146.027
Total	149.266	146.027

4.2.3. Information on interest expense to marketable securities issued:

	Current Period		Prior Period	
	TL	FC	TL	FC
Interest expense to marketable securities issued	371.461	683.244	153.467	340.434
Total	371.461	683.244	153.467	340.434

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

4.2.4. Maturity structure of the interest expense on deposits:

Account name	Demand deposit	Time deposit					Accumulating deposit	Total Prior Period	
		Up to 1 month	Up to 3 months	Up to 6 months	Up to 1 year	More than 1 year			
TL									
Bank deposits	195	159.468	34.210	1.782	552	-	-	196.207	86.066
Saving deposits	-	231.332	3.983.572	170.128	24.949	13.199	-	4.423.180	3.141.960
Public sector deposits	-	2.227	503	7	39	1	-	2.777	1.859
Commercial deposits	27	831.101	1.163.535	57.798	55.440	13.967	-	2.121.868	2.123.908
Other deposits	-	24.831	381.722	92.942	34.428	46	-	533.969	574.260
Deposits with 7 days notification	-	-	-	-	-	-	-	-	-
Total	222	1.248.959	5.563.542	322.657	115.408	27.213	-	7.278.001	5.928.053
FC									
Foreign currency deposits	70	340.175	1.239.677	80.242	189.579	63.167	-	1.912.910	1.226.019
Bank deposits	1.873	51.636	1.589	248	-	-	-	55.346	22.136
Deposits with 7 days notification	-	-	-	-	-	-	-	-	-
Precious metal vault	-	637	1.678	166	394	98	-	2.973	2.371
Total	1.943	392.448	1.242.944	80.656	189.973	63.265	-	1.971.229	1.250.526
Grand total	2.165	1.641.407	6.806.486	403.313	305.381	90.478	-	9.249.230	7.178.579

4.3. Information on trading gain/loss (net):

	Current Period	Prior Period
Gain	104.404.480	29.883.154
Gain from capital market transactions	167.452	75.761
Derivative financial transaction gains	52.701.043	9.800.105
Foreign exchange gains	51.535.985	20.007.288
Loss (-)	104.957.699	30.288.963
Loss from capital market transactions	43.212	26.031
Derivative financial transaction losses	39.234.840	11.802.073
Foreign exchange loss	65.679.647	18.460.859
Net gain/loss	(553.219)	(405.809)

4.4. Allowance for expected credit losses:

	Current period
Allowance for expected credit losses	4.382.739
12-month expected credit losses (Stage 1)	154.376
Significant increase in credit risk (Stage 2)	1.534.192
Credit-Impaired (Stage 3)	2.964.171
Impairment provisions for financial assets	-
Financial assets at fair value through profit or loss	-
Financial assets at fair value through other comprehensive income	-
Impairment provisions related to investments in associates, subsidiaries and jointly controlled partnerships (Joint ventures)	-
Investments in associates	-
Subsidiaries	-
Jointly controlled partnerships (joint ventures)	-
Other	855.759
Total	5.238.498

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”))

Provision for impairment of loans and other receivables:

	Prior period
Specific provisions for loans and other receivables	2.181.353
III. Group loans and receivables	69.846
IV. Group loans and receivables	42.122
V. Group loans and receivables	2.069.385
General provision expenses	144.189
Provision expense for possible risks	50.000
Marketable securities impairment expenses ⁽¹⁾	44.971
Financial assets at fair value through profit or loss	369
Available-for-sale financial assets	44.602
Impairment of investments in associates, subsidiaries and held-to-maturity securities	56.093
Investments in associates	-
Subsidiaries	-
Joint ventures	-
Held-to-maturity investments ⁽¹⁾	56.093
Other	13.015
Total	2.489.621

(1) Includes amortisation of the premiums paid during the purchase of the securities throughout the maturity of the securities and the impairment provisions, if any.

4.5. Information on derivatives financial transaction gain/loss:

The net gain resulting from the foreign exchange differences related to derivative financial transactions is TL 14.814.372 gain (September 30, 2017 – TL 1.416.118 loss).

4.6. Information on other operating income:

“Other Operating Income” in the Income Statement mainly includes collections from receivables for which Specific / General provision has been allocated in prior periods.

4.7. Information related to other operating expenses:

	Current Period	Prior Period
Personnel expenses ⁽¹⁾	2.094.619	1.746.075
Reserve for employee termination benefits	2.733	4.492
Provision expense for pension fund	-	-
Impairment expenses of property and equipment	-	-
Depreciation expenses of property and equipment	124.247	164.489
Impairment expenses of intangible assets	-	-
Goodwill impairment expenses	-	-
Amortisation expenses of intangible assets	74.310	93.605
Impairment expenses of equity participations for which equity method applied	-	-
Impairment expenses of assets held for resale	-	-
Depreciation expenses of assets held for resale	-	-
Impairment expenses of fixed assets held for sale and assets related to discontinued operations	-	-
Other operating expenses	1.628.044	1.413.315
Operational lease expenses	244.351	228.762
Repair and maintenance expenses	89.083	82.206
Advertising expenses	99.128	109.383
Other expense	1.195.482	992.964
Loss on sales of assets	-	-
Other	513.025	513.072
Total	4.436.978	3.935.048

(1) “Personnel expenses” are also disclosed in this table, although it is not presented in other operating expenses in the income statement.

4.8. Provision for taxes on income from continuing operations and discontinued operations:

The profit before tax includes 10.018.922 (September 30, 2017 – TL 6.526.994) of net interest income, TL 2.956.868 (September 30, 2017 – TL 2.348.174) of net fees and commissions and total other operating expense including personnel expenses amounting to TL 4.436.978 (September 30, 2017 – TL 3.395.048).

As of September 30, 2018, the Bank has no (September 30, 2017 – None) profit before tax from discontinued operations.

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira (“TL”))

4.9. Provision for taxes on income from continuing operations and discontinued operations:

As of September 30, 2018, the Bank has TL 16.017 tax expense from continued operations and from discontinued operations (September 30, 2017 – TL 775.301 deferred tax expense). Deferred tax expense from continued operations is amounting to TL 836.842 (September 30, 2017 – TL 163.401 deferred tax income).

4.10. Information on net income/loss for the period:

4.10.1. The characteristics, dimension and recurrence of income or expense items arising from ordinary banking transactions do not require any additional explanation to understand the Bank’s current period performance.

4.10.2. Information on any change in the accounting estimates concerning the current period or future periods: None.

4.11. Other items in income statement:

“Other fees and commissions received” in income statement mainly includes commissions and fees from credit cards and banking transactions.

5. Explanations and notes related to the Bank’s risk group

5.1. The volume of transactions relating to the Bank’s risk group, outstanding loan and deposit transactions and profit and loss of the period:

5.1.1. Information on loans of the Bank’s risk group:

Current Period	Associates, subsidiaries and joint ventures		Direct and indirect shareholders of the Bank		Other real and legal persons that have been included in the risk group	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
Bank’s risk group ⁽¹⁾⁽²⁾						
Loans and other receivables						
Balance at the beginning of the period	213.845	215.564	275.684	1.358.830	2.435.357	2.957.565
Balance at the end of the period	200.229	394.261	560.054	1.672.056	3.043.044	4.723.700
Interest and commission income received	61.725	1.822	17.857	5.861	264.385	15.618

Prior Period	Associates, subsidiaries and joint ventures		Direct and indirect shareholders of the Bank		Other real and legal persons that have been included in the risk group	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
Bank’s risk group ⁽¹⁾⁽²⁾						
Loans and other receivables						
Balance at the beginning of the period	35.428	168.459	367.000	1.158.561	2.317.430	2.502.492
Balance at the end of the period	213.845	215.564	275.684	1.358.830	2.435.357	2.957.565
Interest and commission income received ⁽³⁾	43.996	1.180	5.176	6.067	195.862	9.435

(1) Defined in subsection 2 of the 49th article of the Banking Act No.5411.

(2) The information in table above includes marketable securities and due from banks as well as loans.

(3) Previous period present profit / loss information of September 30, 2017.

5.1.2. Information on deposits of the Bank’s risk group:

Bank’s risk group ⁽¹⁾⁽²⁾	Associates, subsidiaries and joint ventures		Direct and indirect shareholders of the Bank		Other real and legal persons that have been included in the risk group	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
Deposit						
Beginning of the period	3.193.655	4.074.057	27.662.849	19.715.780	17.865.257	13.596.912
End of the period	4.069.990	3.193.655	42.572.863	27.662.849	23.202.978	17.865.257
Interest expense on deposits ⁽³⁾	149.266	146.027	1.531.168	955.231	653.374	541.650

(1) Defined in subsection 2 of the 49th article of the Banking Act No. 5411.

(2) The information in table above includes borrowings, marketable securities issued and repo transactions as well as deposits.

(3) Previous period present profit / loss information of September 30, 2017

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

5.1.3. Information on forward and option agreements and other derivative instruments with the Bank's risk group:

Bank's risk group ⁽¹⁾	Associates, subsidiaries and joint ventures		Direct and indirect shareholders of the Bank		Other real and legal persons that have been included in the risk group	
	Current Period	Current Period	Current Period	Current Period	Current Period	Current Period
Transactions at fair value through profit or loss						
Beginning of the period ⁽²⁾	6.825.457	3.305.854	4.585.782	8.532.884	3.688.054	802.512
End of the period ⁽²⁾	2.547.917	6.825.457	3.724.495	4.585.782	5.642.718	3.688.054
Total profit / (loss)⁽³⁾	112.602	3.810	15.726	(62.544)	(676.090)	28.394
Transactions for hedging purposes						
Beginning of the period ⁽²⁾	-	-	1.375.186	-	-	-
End of the period ⁽²⁾	-	-	1.529.011	1.375.186	-	-
Total profit / (loss)⁽³⁾	-	-	179.011	-	-	-

(1) Defined in subsection 2 of the 49th article of the Banking Act No. 5411.

(2) The balances at the beginning and end of the periods are disclosed as the total of buy and sell amounts of derivative financial instruments.

(3) Previous period present profit / loss information of September 30, 2017

5.1.4 Information regarding benefits provided to the Bank's top management:

Salaries and benefits paid to the Bank's top management amount to TL 41.466 as of September 30, 2018 (September 30, 2017 – TL 38.085).

6. Explanations and notes related to subsequent events:

None

Section Six - Explanations on independent audit report

1. Explanations on independent auditor's report

The unconsolidated financial statements for the period ended September 30, 2018 have been audited by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. The independent auditor's report dated, October 31, 2018 is presented preceding the unconsolidated financial statements.

2. Explanations and notes prepared by independent auditor

None.

Section Seven ⁽¹⁾

Interim activity report

1. Message from YapıKredi's Board of Directors Chairman Y. Ali Koç:

The first nine months of 2018 was marked with continuing volatility in the macro environment for the banking sector, impacted by both global and local uncertainties. Worsening of international perception towards emerging markets, geopolitical challenges, and downgrade of rating agencies increased volatility in foreign exchange markets resulting with further TL depreciation and rise in interest rates while the inflation level continued to be further elevated. Central Bank of Turkey hiked the average funding rates by 625 basis points in September and simplified the interest rate policy in order to prevent the turbulences in the market. In the same period, the Ministry of Treasury and Finance announced the New Economic Program, to support the economy by ensuring price stability, economic balance and fiscal discipline, which was well received by the markets.

In the first nine months of the year, total loans in the banking sector reached TL 2,501 billion indicating 24% year-to-date growth, with the help of ongoing support from the Credit Guarantee Fund and depreciation in TL. During the same period, total deposits reached TL 2,124 billion, indicating 25% year-to-date growth. Accordingly, sector's loan to deposit ratio including TL bonds improved to 115% in the first nine-months of 2018 from 116% at the end of 2017. The banking sector's non-performing loan ratio deteriorated 18 basis points year-to-date to 3.1% despite the support of non-performing loan sales of TL 4,201 billion (16 basis points impact).

In June, Yapı Kredi successfully completed the biggest rights issue of the last ten years. This rights issue once again restored the trust of Koç Holding, the leader group of Turkey and UniCredit, the simple and successful Pan-European bank regarding Turkey.

In the first nine months of 2018, despite the volatile environment Yapı Kredi recorded sound profitability with a controlled volume growth while preserving its solid fundamentals with special focus on asset quality and a healthy balance sheet.

In October, Yapı Kredi has signed the highest amount of syndicated facility that achieved by a Turkish bank during the second haft of the year. The Bank's healthy liquidity profile was further reinforced by 1.07 billion worth of syndication with a 96% roll-over ratio.

I would hereby like to extend my thanks to all our customers and shareholders for their continuous support and trust, and our employees for their devoted efforts.

Y. Ali Koç
Chairman of the Board

2. Message from Yapı Kredi’s CEO Gökhan Erün:

The first nine months of 2018 posed a challenging environment for the banking sector due to increasing market volatility resulting from rising uncertainties both in local and global political agenda and rating downgrades by international rating agencies. The Central Bank of Turkey continued to tighten the monetary policy and simplified the interest rate policy (in order to limit the depreciation in TL and to control the inflation levels). In the meanwhile, BRSA took several measures in order to support the banking sector in terms of liquidity, asset quality, and capital adequacy. Thanks to the strong and agile balance sheet structures of the sector with the support from the regulator as well as the economy ministry, Turkish banking sector maintains the strong fundamentals.

In the first nine months of the year, with the controlled growth resulting in a sustainable revenue generation, further focus on cost control and proactive asset quality approach, the Bank’s total assets increased to TL 390.2 billion and net income recorded at TL 3,586 million.

Yapı Kredi’s strong liquidity, mainly in the foreign currency with a three month average liquidity coverage ratio close to 180% level, supported the Bank’s balance sheet during the elevated volatility mainly during August 2018.

In October, Yapı Kredi finalised its syndicated loans with the participation of 27 banks from 13 countries accomplishing the highest amount and highest number of participants that achieved by a Turkish Bank during the second haft of the year. With this syndication facility, reaffirm the confidence of international markets in both Yapı Kredi and Turkey.

In terms of performing cash loans, Yapı Kredi recorded 24% growth year-to-date reaching to TL 238.8 billion indicating 16.8% market share among private banks. Growth was driven by TL loans and the Bank continued to support companies and exporters. At the same time, the Bank maintained its leadership position in credit cards with 21.4% outstanding volume market share.

In terms of funding, the Bank recorded 25% deposit growth year-to-date driven by TL deposits, reaching to TL 211.0 billion indicating 15.6% market share among private banks. In line with stronger deposit growth loans to deposits ratio including TL bonds 112%, implying a 261 basis points improvement since the end of 2017.

Digitalisation remained a strong focus area for Yapı Kredi. As “The Digital Bank of Turkey”, share of digital channels in non-cash transactions stands at 97%. Moreover, in the past one year, number of digital customers increased by 1.1 million to 5.2 and mobile banking customers increased by 1.2 million to 4.5 million.

I would like to take this opportunity to thank our customers and shareholders for their trust and our employees for their continuous efforts.

Gökhan Erün
CEO

3. Overview of Financial Performance:

On 31 October 2018, Yapı Kredi announced its unconsolidated results for the first nine months of 2018 based on Turkish accounting standards (Banking Regulation and Supervision Agency). The Bank's cash and non-cash loans reached TL 343.2 billion while total deposits rose to TL 211.0 billion. The Bank's net income increased by 31% year-over-year and reached TL 3,586 million indicating a return on average tangible equity of 14.3%.

Controlled volume growth with a healthy liquidity

Yapı Kredi's market share among private banks in loans and deposits was recorded at 16.8% and 15.6%, respectively. The Bank achieved 24% year-to-date growth in loans to TL 238.8 billion, mainly driven by the depreciation in Lira and TL loans. In the first nine months of 2018, The Bank's deposit growth was above the loan growth at 25% year-to-date and reached TL 211.0 billion. Deposit growth was mainly driven by TL denominated customer deposits. Accordingly, loan-to-deposits plus TL bonds ratio realised at 112%. During the volatile period especially in the third quarter of 2018, Yapı Kredi well-positioned itself in terms of liquidity. Accordingly, the Bank's total and FC liquidity coverage ratios realised at 122% and 181%, respectively.

Prudent and conservative asset quality approach with a strong coverage

Yapı Kredi carried out a precautionary approach in terms of asset quality where the Bank classified some loans from stage 1 to stage 2 as well as being proactive in NPL classification. Also coupled with depreciation in TL and worsening operating environment, generic and specific provisions increased considerably, decoupled with the Bank's conservative provisioning approach total provisions increased 110% year-over-year. Accordingly, cost of risk realised at 228 basis points (adjusted for provision reversals related to cheques in 2Q18). In the first nine months of 2018, Yapı Kredi sold a non-performing loan portfolio of TL 2.0 billion in principal amount within the scope of continued active stock management. Hence, the NPL ratio improved by 64 basis points year-to-date reaching 3.8% (adjusted for the NPL sales in 2018, NPL ratio would be at 4.6%). With the conservative provisioning approach of Yapı Kredi, provisions to gross loans remained strong at 4.8%.

Improvement in capital ratios through ongoing internal capital generation and capital injection despite challenging macro environment

Despite the fluctuations in Lira and volatility in the interest rates, the Bank continued to support its capital ratios through internal capital generation. Also supported by the successful completion of the 4.1 billion worth of rights issue in June 2018, unconsolidated Capital Adequacy Ratio and Common Equity Tier-1 ratio realised at 14.4% and 10.7%, respectively. (17.4% and 13.1% respectively, when BRSA's recent forbearances are taken into account)

Solid top-line within conservative asset quality and liquidity approach

In the first nine months of 2018, Yapı Kredi increased its total revenues by 44% year-over-year driven by double digit growth in both fees and net interest income. On the other hand, continued discipline in cost management was evident with cost growth contained at 13% compared to inflation of 24.5%. Accordingly, cost-to-income ratio improved by 757 basis points year-over-year to 32.7% (9M18 income adjusted for trading income from ECL hedging). During the quarter, net interest income was strongly supported by the change of the Bank's CPI assumption on which calculation of CPI linked securities is based on, from 9.3% to 16%. The Bank's conservative and prudent approach regarding the asset quality resulted in a jump in the total provisioning. All in all, net income increased 31% year-over-year and the Bank achieved 14.3% return on average tangible equity.

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

4. Summary of Unconsolidated Financials

TL million	30.09.2018	31.12.2017
Total Assets	390,170	297,810
Performing Loans	238,838	192,883
Total Deposits	211,024	169,347
Shareholder's Equity	40,302	30,098
Loans / Assets	61%	65%
Deposits / Assets	54%	57%
NPL	3.8%	4.5%
CAR	17.4%*	14.5%

TL million	30.09.2018	30.09.2017
Net Profit	3,586	2,735
Return on Average Tangible Equity	14.3%	14.0%

* Excluding the regulatory forbearances: 14.4%

5. Important Developments and Transactions Affecting the Bank's Financial Performance:

- On 26 October 2018, Yapı Kredi signed a syndicated loan agreement at 367 day maturity totalling US\$ 1.07 billion, a successful refinancing of Yapı Kredi's existing syndication loan signed on 9 October 2017 with a 96% roll-over ratio. The syndication is secured through two different tranches; US\$ 275 million and Euro 690.7 million at 367 day maturity. The Dual Currency Term Loan Facility has been raised by a syndicate including 27 of Yapı Kredi's key relationship banks from 13 countries. The all-in cost was realised at Libor + 275 basis points and Euribor + 265 basis points.
- In 3Q18, Yapı Kredi sold non-performing loan portfolio amounting to TL 367 million. The transaction was reflected in Yapı Kredi's 3Q18 financials.
- On 24 September 2018, International Rating Agency Moody's has downgraded Turkey's foreign currency deposit ceiling from "B1" to "B2". Following the downgrade of Turkey's rating, on 26 September 2018, Moody's has downgraded ratings of 9 Turkish banks, including Yapı ve Kredi Bankası. Accordingly, the rating agency downgraded Yapı ve Kredi Bankası's Long-term Foreign Currency Deposit rating from "B1" to "B2" setting the outlook as "Negative", while maintaining all the remaining rating scales.
- On 17 August 2018, International Rating Agency Moody's has downgraded Turkey's Sovereign rating from "Ba2" to "Ba3" and changed the outlook to "Negative". Following the Downgrade of Turkey's Sovereign rating, on 28 August 2018 Moody's has downgraded ratings of 18 Turkish financial institutions, including Yapı ve Kredi Bankası. Accordingly, the rating agency downgraded Yapı ve Kredi Bankası's Long-term Foreign Currency and Local Currency Deposit ratings from "Ba3" to "B1" setting the outlook as "Negative". On the other hand, Moody's confirmed the Short-term National Scale rating at "TR-1".

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

- On 17 August 2018, International Rating Agency Standard & Poor's (S&P) has downgraded Turkey's Sovereign rating from "BB-" to "B+" while maintaining the outlook at "Stable". Following the Downgrade of Turkey's Sovereign rating, S&P announced that, they now assess Turkey's Banking Industry Country Risk Assessment (BICRA) as being in Group 9. Therefore, the rating agency has revised down Turkish bank's anchor to 'b+' from 'bb' and this led to downward revision of six Turkish Financial Institutions' rating including Yapı ve Kredi Bankası A.Ş., on the same day. As a result, the rating agency, lowered Yapı ve Kredi Bankası's Long-Term Issuer Credit Rating from "BB-" to "B+", Long-Term Turkey National Scale Rating from "trAA" to "trA+", while maintaining all the remaining rating scales. S&P maintained the Bank's outlook at "Stable".
- Fitch Ratings affirmed Yapı ve Kredi Bankası A.Ş.'s National Long Term Rating as 'AAA(tur)' and National Long Term Rating Outlook as 'Stable'. On 20 July 2018, international rating agency Fitch announced that, following the rating downgrade Turkish government's sovereign ratings on 13 July 2018, the rating agency downgrades 24 Turkish financial institutions Ratings, while removing from Rating Watch Negative, Fitch revised the outlook to Negative. Accordingly, Fitch revised the ratings of Yapı Kredi as; Long-term FC IDR downgraded to 'BB/Negative' from 'BBB-'; off Rating Watch Negative; Long-term Local Currency IDR: downgraded to 'BB+/Negative' from 'BBB-/Stable'; Short-term IDR downgraded to 'B' from 'F3', off Rating Watch Negative; Short-term Local Currency IDR downgraded to 'B' from 'F3'; Viability Rating downgraded to 'bb-' from 'bb+', off Rating Watch Negative Support Rating downgraded to '3' from '2', off Rating Watch Negative; Senior Unsecured Debt Rating downgraded to 'BB' from 'BBB-', off Rating Watch Negative; Senior Unsecured Short-term Debt Rating downgraded to 'B' from 'F3', off Rating Watch Negative; Subordinated Debt Rating downgraded to 'BB-' from 'BB+', off Rating Watch Negative.

Unconsolidated financial statements as of September 30, 2018

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

6. Current Trends and Expectations for the Upcoming Period:

Yapı Kredi revised its current expectations for 2018 due to worsening macro environment, maintaining bottom-line.

2018 Yapı Kredi Expectations:

- Fundamentals: Ample liquidity levels with loan-to-deposit ratio in between 110% - 115% (*confirmed*), and solid capital adequacy ratio above 13% excluding the regulatory forbearance (*previous: 15%*) supported by ongoing internal capital generation, newly introduced capital strengthening plan while the recent volatility in Turkish lira and interest rates resulted in a downward revision to our guidance
- Loan growth at 20 – 22% (*previous: 12 – 14%*): Further increase due to TL depreciation. Lending mainly driven by TL commercial and individual loans, contraction in FC loans
- Funding - Deposit growth at 23 – 25% (*previous: 12 – 14%*) due to depreciation in Lira: Further increase in the share of retail deposit and retail demand deposits in total
- Revenues: Flattish to slightly up NIM (*previous: flattish*) with ongoing repricing efforts and support from the CPI linked securities, fee growth at high-teens (*previous: low-teens*) supported by diversification efforts and customer acquisition, strong focus on digital sales and card payment systems
- Costs: Well below inflation cost growth (*previous: below inflation*); ongoing «cost elimination» through digitalization, digitalization focus to decrease «cost to serve»
- Asset Quality: Improvement in NPL ratio (around 30 basis points improvement – *previous: around 10 basis points improvement*) through NPL sales (might continue depending on the market conditions), increase in total CoR net of collections reaching to around 200 basis points (*previous: slightly down*), due to the deterioration in the macro environment also resulting in a more cautious approach
- All in all, in high-teens earnings growth with improvement in the ROATE has been maintained

		2018 Revised	2018B OLD	
Fundamentals	LDR	110% - 115%	110% - 115%	CONFIRMED
	CAR (w/o forbearance)	>13%	>15%	REVISED DOWN
Volumes	Loans	20 - 22%	12 - 14%	REVISED UP
	Deposits	23 - 25%	12 - 14%	REVISED UP
Revenues	NIM (w/o CPI impact)	Flattish	Flattish	CONFIRMED
	Fees	High-teens	Low-teens	REVISED UP
Costs	Costs	Well below CPI	Below CPI	CONFIRMED
	Cost/Income	< 35%	< 40%	REVISED UP
Asset Quality	NPL ratio (with NPL sales)	~30bps	~10bps	REVISED UP
	Total CoR	~200 bps	Slightly Down	REVISED DOWN
Profitability	Net profit	High-teens	High-teens	CONFIRMED
	RoTE	Flattish to slightly down	Improvement	REVISED DOWN