BORSA İSTANBUL A.Ş.

Consolidated Financial Statements
as at and for the Year Ended
31 December 2017 With
Independent Auditor’s Report Thereon

9 March 2018

This report includes 4 pages of independent auditors’ report and 66 pages of consolidated financial statements together with their explanatory notes.

KPMG

KPMG Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
İş Kuleleri Kule 3 Kat:2-9
Levent 34330 İstanbul
Tel +90 212 316 6000
Fax +90 212 316 6060
www.kpmg.com.tr

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Borsa İstanbul Anonim Şirketi

A) Audit of the consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Borsa İstanbul Anonim Şirketi and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Turkish Accounting Standards ("TAS").

Basis for Opinion

We conducted our audit in accordance with Standards on Auditing which is a component of the Turkish Auditing Standards published by the Public Oversight, Accounting and Auditing Standards Authority ("POA") ("Standards on Auditing issued by POA"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We declare that we are independent of the Group in accordance with the Code of Ethics for Auditors issued by POA ("POA's Code of Ethics") and the ethical requirements in the regulations issued by POA that are relevant to audit of financial statements, and we have fulfilled our other ethical responsibilities in accordance with the POA's Code of Ethics and regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

As a result of the tax investigation by Ministry of Finance Tax Inspector for the reporting period of 2013's accounts and transactions, the Company received the notification of tax penalties comprising the original tax amounting TL 69,720 and tax penalty amounting TL 69,720 on 26 January 2018. The process of reconciliation to the related authority is still ongoing and the process has uncertainty over the final results. As at 31 December 2017, the Company recognized a provision of TL 41,498 for related tax penalties in the consolidated financial statements. Due to uncertainty of the reconciliation process, we draw attention to the Note 16 "Short Term Provisions" of the consolidated financial statements. However, our opinion is not modified in respect of this matter.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 10 March 2017.

Responsibilities of Management and Those Charged with Governance for the consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the consolidated Financial Statements

Responsibilities of auditors in an audit are as follows:

Responsibilities of auditors in an audit are as follows:

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

As part of an audit in accordance with Standards on Auditing issued by POA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

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

B) Other Legal and Regulatory Requirements

1) Pursuant to the fourth paragraph of Article 402 of the TCC; no significant matter has come to our attention that causes us to believe that for the period 1 January - 31 December 2017, the Company's bookkeeping activities and consolidated financial statements are not in compliance with TCC and provisions of the Company's articles of association in relation to financial reporting.

2) Pursuant to the fourth paragraph of Article 402 of the TCC; the Board of Directors provided us the necessary explanations and required documents in connection with the audit.

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

Alper Güvenç, SMMM
Partner

9 March 2018
İstanbul, Turkey

CONTENTS

BORSA İSTANBUL A.Ş.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

(Amounts expressed in thousand Turkish Liras (“TL”) unless otherwise indicated.)

		Audited	Audited
ASSETS	*Notes*	**31 December 2017**	**31 December 2016**
CURRENT ASSETS		**11,140,710**	**8,394,683**
Cash and cash equivalents	4	10,800,918	8,192,829
Financial investments	6	76,664	47,101
-Held-to-maturity assets		*76,664*	*47,101*
Trade receivables	7	247,515	143,792
-Other trade receivables		*247,515*	*143,792*
Other receivables	7	348	158
-Other receivables		*348*	*158*
Prepaid expenses	10	10,962	8,610
Other current assets	8	4,303	2,193
NON-CURRENT ASSETS		**740,831**	**650,617**
Financial investments	6	67,963	67,663
-Available for sale financial assets		*67,781*	*67,663*
-Held-to-maturity assets		*182*	-
Investments accounted for under the equity method	5	48,222	32,190
Investment properties	11	59,355	22,285
Property, plant and equipment	12	198,620	189,571
Intangible assets	13	349,087	318,260
Prepaid expenses	10	11,175	9,327
Deferred tax assets	27	5,831	10,743
Other non-current assets	8	578	578
TOTAL ASSETS		**11,881,541**	**9,045,300**
LIABILITIES			
CURRENT LIABILITIES		**10,113,713**	**7,035,499**
Short term borrowings	17	3,179,005	2,444,232
Trade payables	15	335,539	281,782
-Other trade payables		*335,539*	*281,782*
Other financial liabilities	15,28	685,650	-
-Other financial liabilities to related parties		*685,650*	-
Liabilities for employee benefits	19	15,680	12,863
Other payables		63,223	56,060
-Due to related parties	*15,24*	*62,909*	*55,331*
-Other payables	*15*	*314*	*729*
Deferred income	9	801	701
Current income tax liabilities	27	30,370	22,300
Short term provisions		90,944	27,844
-Provisions for employee benefits	*19*	*31,295*	*17,426*
- Other short term provisions	*16*	*59,649*	*10,418*
Other current liabilities	20	5,712,501	4,189,717
NON-CURRENT LIABILITIES		**205,231**	**819,265**
Other financial liabilities		160,146	777,765
-Other financial liabilities to related parties	*15,28*	*160,146*	*777,765*
Deferred income	9	1,072	1,296
Long term provisions	19	30,455	38,762
-Provisions for employee benefits		*30,455*	*38,762*
Deferred tax liabilities	27	6,040	-
Other non-current liabilities	20	7,518	1,442
SHAREHOLDER’S EQUITY		**1,562,597**	**1,190,536**
Equity holders of the parent	*21*	*1,056,360*	*762,924*
Paid in capital		423,234	423,234
Restricted reserves		278,280	226,587
Share premium		200,450	200,450
Other comprehensive income / expense not to be reclassified to profit or loss		7,540	(7,985)
-Revaluation reserve		*13,677*	-
-Losses on remeasurements of defined benefit plans		*(6,137)*	*(7,985)*
Other comprehensive income / expense to be reclassified to profit or loss		873	270
-Currency translation differences		*873*	*270*
Treasury shares		(608,873)	(580,663)
Retained earnings		449,338	311,495
Net profit for the period		305,518	189,536
Non-controlling interests		*506,237*	*427,612*
TOTAL EQUITY AND LIABILITIES		**11,881,541**	**9,045,300**

The accompanying notes between pages 5 and 66 are an integral part of these consolidated financial statements.

BORSA İSTANBUL A.Ş.

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

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

	Notes	**Audited** **1 January – 31 December 2017**	**Audited** **1 January – 31 December 2016**
Revenue	22	1,047,418	878,383
Cost of sales (-)	22	(92,690)	(55,138)
Gross profit		**954,728**	**823,245**
General administrative expenses (-)	23	(328,286)	(322,828)
Research and development expenses (-)		-	(1,660)
Other operating expenses (-)	24	(97,536)	(72,585)
Other operating income	24	2,924	8,553
Operating profit		**531,830**	**434,725**
Investment activities income/(expense)	25	4,835	12,204
Share of profit / (loss) of investments accounted for under the equity method	5	15,353	9,799
Profit before financial income / (expense)		**552,018**	**456,728**
Financial income	26	86,287	56,842
Financial expenses (-)	26	(96,740)	(139,177)
Profit before tax		**541,565**	**374,393**
Income tax expense (-)	27	(116,967)	(92,933)
Deferred tax expense (-)	27	(4,960)	(5,825)
PROFIT FOR THE PERIOD		**419,638**	**275,635**
Profit attributable to:			
- Non-controlling interests		114,120	86,099
- Equity holders of the parent		305,518	189,536
OTHER COMPREHENSIVE INCOME:			
Other comprehensive income not to be- reclassified to profit or loss		**23,967**	**(1,252)**
Revaluation reserve	12	26,784	-
Gains / losses on remeasurements of defined benefit plans	19	3,175	(1,568)
Other comprehensive income tax that will never be reclassified to profit or loss		(5,992)	314
- Deferred tax income / (expense)	*27*	*(5,992)*	*314*
Other comprehensive income to be reclassified to profit or loss		**603**	**199**
- Currency translation differences	5	603	199
Other comprehensive income / (expense)		**24,570**	**(1,053)**
TOTAL COMPREHENSIVE INCOME		**444,208**	**274,582**
- Non-controlling interests		122,562	85,959
- Equity holders of the parent		321,646	188,623

The accompanying notes between pages 5 and 66 are an integral part of these consolidated financial statements.

BORSA İSTANBUL A.Ş.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017
(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

		Statement of changes in shareholders' equity											
	Notes	**Paid in capital**	**Treasury shares**	**Restricted reserves**	**Share premium**	**Revaluation reserve**	**Remeasurement of defined benefit obligations**	**Currency translation differences**	**Retained earnings**	**Net profit for the period**	**Equity holders of the parent**	**Non-controlling interests**	**Total equity**
1 January 2016 (Previously reported)		**423,234**	**(580,663)**	**171,996**	**200,450**	**-**	**(6,873)**	**71**	**178,781**	**187,305**	**574,301**	**370,439**	**944,740**
Classification effect[(*)]		-	-	*29,070*	-	-	-	-	*(29,070)*	-	-	-	-
Balances at 1 January 2016 (Classification effect)[(*)]		**423,234**	**(580,663)**	**201,066**	**200,450**	**-**	**(6,873)**	**71**	**149,711**	**187,305**	**574,301**	**370,439**	**944,740**
Net profit for the period		-	-	-	-	-	-	-	-	189,536	189,536	86,099	275,635
Other comprehensive expense	21	-	-	-	-	-	(1,112)	199	-	-	(913)	(140)	(1,053)
Total comprehensive income / (expense)		**-**	**-**	**-**	**-**	**-**	**(1,112)**	**199**	**-**	**189,536**	**188,623**	**85,959**	**274,582**
Transfers		-	-	25,521	-	-	-	-	161,784	(187,305)	-	-	-
Dividend paid to non-controlling interests		-	-	-	-	-	-	-	-	-	-	(28,786)	(28,786)
31 December 2016		**423,234**	**(580,663)**	**226,587**	**200,450**	**-**	**(7,985)**	**270**	**311,495**	**189,536**	**762,924**	**427,612**	**1,190,536**
Balances at 1 January 2017		**423,234**	**(580,663)**	**226,587**	**200,450**	**-**	**(7,985)**	**270**	**311,495**	**189,536**	**762,924**	**427,612**	**1,190,536**
Net profit for the period		-	-	-	-	-	-	-	-	305,518	305,518	114,120	419,638
Other comprehensive expense	21	-	-	-	-	13,677	1,848	603	-	-	16,128	8,442	24,570
Total comprehensive income / (expense)		**-**	**-**	**-**	**-**	**13,677**	**1,848**	**603**	**-**	**305,518**	**321,646**	**122,562**	**444,208**
Transfers		-	-	23,483	-	-	-	-	166,053	(189,536)	-	-	-
Transactions with non-controlling interests		-	-	-	-	-	-	-	-	-	-	(16,217)	(16,217)
Dividend paid to non-controlling interests		-	-	-	-	-	-	-	-	-	-	(27,720)	(27,720)
Decrease arising from treasury share transactions		-	(28,210)	28,210	-	-	-	-	(28,210)	-	(28,210)	-	(28,210)
31 December 2017		**423,234**	**(608,873)**	**278,280**	**200,450**	**13,677**	**(6,137)**	**873**	**449,338**	**305,518**	**1,056,360**	**506,237**	**1,562,597**

(*) Refer to Note 2.3.

The accompanying notes between pages 5 and 66 are an integral part of these consolidated financial statements.

THE CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

	Notes	Audited 1 January – 31 December 2017	Audited[(*)] 1 January – 31 December 2016
Cash flows provided from operating activities			
Net profit for the period		**419,638**	**275,635**
Adjustments for:			
Tax expense	27	121,927	98,758
Depreciation expense	12	18,760	16,042
Amortization expense	13	24,221	16,877
(Increase) / decrease in valuation difference of held to maturity financial assets		(1,485)	(38)
Gain on sale of share of investments accounted for under the equity method	25	-	(1,013)
Change in provision for employment termination benefits	19	5,343	5,476
Change in personnel bonus provision	19	13,257	-
Change in valuation of investment properties	11,25	(715)	(9,035)
Change in unused vacation liability	19	2,840	3,052
Change on law suit provision	16	49,231	7,448
Expense accrual for Capital Markets Board share	15,24	62,909	55,331
Provisions no longer required	24	(354)	(2,510)
Share of (profit) / loss of investments accounted for under the equity method	5	(15,353)	(9,799)
Financial income, net	26	(10,453)	(56,804)
Provisions for doubtful receivables	7	131	-
Unrealized exchange (gain) / loss		33,989	131,975
Cash flows from operating activities before working capital changes		**723,886**	**531,395**
Change in short-term borrowings, net		734,773	(272,888)
Decrease / (increase) in trade receivables		(103,638)	70,702
Decrease / (increase) in other current assets		(2,110)	(223)
Decrease / (increase) in other non-current assets		-	(380)
Change in other receivables		(190)	26
Change in prepaid expenses		(4,200)	49
Change in other payables		(415)	662
Increase in other current liabilities		1,455,121	643,884
Change in trade payables		53,757	(100,541)
(Decrease) / increase in other long-term liabilities		6,076	176
Taxes paid		(108,897)	(88,950)
Change in deferred income		(124)	572
Change in liability for employee benefits		2,817	11,041
Employment termination benefits paid	19	(6,887)	(7,921)
Employee's service provision paid	19	(3,588)	(6,059)
Capital Markets Board share paid		(55,331)	(50,654)
Personnel bonus paid		-	(6,527)
Unused vacation paid	19	(2,228)	(4,976)
Collection of doubtful receivables	7	85	10
Net cash generated from operating activities		**1,965,021**	**188,003**
Proceed from sale of property, plant and equipment	12	9,459	754
Purchase of property, plant and equipment	12	(36,934)	(76,097)
Proceed from sale of intangible assets	13	132	-
Purchase of intangible assets	13	(65,009)	(32,536)
Acquisitions of held to maturity financial assets		(80,813)	(45,943)
Disposals of held to maturity financial assets		52,553	183,361
(Acquisitions) / disposals available for sale assets, net		-	(79)
Cash inflow from the sales of shares or capital decrease of the subsidiaries / joint ventures		-	2,911
Cash outflow from purchase of shares or capital increase in subsidiaries / joint ventures		(16,293)	-
Interests received		58,359	44,270
Commissions paid	26	-	(38)
Dividend received from financial investments	25	4,120	-
Net cash (used in) / generated from investment activities		**(74,426)**	**76,603**
Dividend paid to non-controlling interest		(27,720)	(28,786)
Cash outflow from repurchase of treasury shares		(28,210)	-
Net cash used in financing activities		**(55,930)**	**(28,786)**
Net increase in cash and cash equivalents		**2,558,551**	**767,215**
Effects of currency translation on cash and cash equivalents		33,923	526,042
Change in restricted bank deposits		-	5,413
Cash and cash equivalents at the beginning of the period	4	8,176,445	6,877,775
Cash and cash equivalents at the end of the period	4	**10,768,919**	**8,176,445**

(*) Refer to Note 2.3.

The accompanying notes between pages 5 and 66 are an integral part of these consolidated financial statements.

1 GROUP'S ORGANIZATION AND NATURE OF OPERATIONS

Borsa İstanbul Anonim Şirketi ("BİST" or "the Company") was founded in order to engage in stock exchange operations as per Article 138th of Capital Markets Law No. 6362 promulgated in the Official Gazette and enacted on 30 December 2012, and received official authorization upon the registration and announcement of its articles of association on 3 April 2013. BİST is a private legal entity and was founded based on the aforementioned Law in order to create, found and develop markets, platforms and systems, and other organized marketplaces and to manage and / or operate these markets, platforms and systems and other stock exchanges or stock exchange markets in a way that ensures: the purchase and sale of capital market instruments, foreign exchange and precious metals and precious stones and other agreements, documents and assets approved by the Capital Markets Board ("CMB"), under free competition conditions in an easy and secure way and on a transparent, actively competitive, fair and stable platform; the gathering and finalizing of related purchase and sales orders or making it easier to gather these orders; and the determination and announcement of prices occurs within the scope of related legislation.

As per paragraph 2th of Article 138th of Capital Markets Law No. 6362, the Articles of Association of BİST prepared by the Capital Markets Board were registered with the trade registry on 3 April 2013 following the approval of the related Minister. Similarly, as per paragraphs 4th and 5th of the same article of the Law, the legal entities İstanbul Menkul Kıymet Borsası ("IMKB"), established as per repealed Statutory Decree No. 91, and İstanbul Altın Borsası ("IAB"), established as per article 40/A of repealed Law No. 2499, have been terminated, and for these two institutions all kinds of assets, payables and receivables, rights and obligations, records and other documents (including those on electronic media) have been transferred to BİST in their entirety, with those exceptions required by law, with no further action needed, on the date of the registration of the Articles of Association of BİST. All actions of BİST as at this date were recognized upon the acceptance of 3 April 2013 as the establishment date of the Company.

Intermediary institutions (intermediary establishments and banks) authorized by the Capital Markets Board to engage in intermediary operations can be members of BİST. Intermediary institutions that will trade at BİST are required to get stock exchange membership document from BİST.

BİST and BİST's subsidiaries operating in Turkey, joint operations and associations, together referred to the "Group".

As at 31 December 2017, BİST have 511 employees (31 December 2016: 506) and the Group have 960 employees (31 December 2016: 945). BİST is located in Reşitpaşa Mahallesi, Borsa İstanbul Caddesi, No:4, Sarıyer / İstanbul.

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

1 GROUP'S ORGANIZATION AND NATURE OF OPERATIONS (Continued)

The Company's controlling shareholder is the Republic of Turkey Prime Ministry Undersecretariat of Treasury. As at 31 December 2017 and 31 December 2016, the Company's shareholder structure and is as follows:

	31 December 2017	31 December 2016
Turkiye Wealth Fund(***)	73.60%	-
Republic of Turkey Prime Ministry Undersecretariat of Treasury(***)	-	73.60%
European Bank for Reconstruction and Development(*)	10.00%	10.00%
Nasdaq OMX(**)	7.00%	7.00%
Turkish Capital Markets Association	1.30%	1.30%
Borsa İstanbul A.Ş.(****)	0.79%	-
Other	7.31%	8.10%
	100.00%	**100.00%**

(*) The Company signed "Share Purchase Agreement" with European Bank for Reconstruction and Development ("EBRD") at 9 December 2015. In accordance with the agreement, 10% of Borsa İstanbul shares were transferred to EBRD. The share transfer was approved in the General Assembly meeting at 7 December 2015 and registered at 10 December 2015. These shares which were registered to EBRD, can be sold back to Borsa İstanbul A.Ş. by EBRD until 31 March 2018 over the purchase price in the event of Borsa İstanbul's planned initial public offering does not take place until 31 December 2017. These shares which were registered to EBRD will be accounted under shareholder's equity as treasury shares and other long-term financial liabilities until the date when the selling condition is invalid. The Board of Directors is of the opinion that the possibility of using these options is very low. However, in accordance with TAS 32 for possible prudence, the possible liabilities that may arise from such options are reflected in the financial statements.

(**) The Company signed agreements with Nasdaq OMX ("Nasdaq") to build a comprehensive strategic partnership on 31 December 2013. Within the context of these agreements, Nasdaq will replace all the software underlying the technological infrastructure of the markets within the Company with software packages developed according to the Company needs. Furthermore, Nasdaq will provide the consultancy services needed for the implementation of these technologies for three years. Nasdaq will also provide training support to BİST regarding human resources and technological know-how for a wide range of projects from index calculations to marketing.

BİST, which has the ownership and the source code of the said technologies for which competency and know-how will be transferred, is entitled to sell these technologies in 25 countries. Within the framework of the agreement, the payments to be made by BİST to Nasdaq shall be in the form of a) transfer of 5% shares, b) deferred payment or transfer of 2% additional shares, and c) cash payment, which shall be made in instalments. As per provisions of the agreement, 5% of BİST shares were transferred to Nasdaq OMX. Additionally, BİST and Nasdaq own both options to demand 5% of shares of BİST as at August 2018 in return for USD 75 million. Additional transfer of 2% is realised as at 30 December 2015 and the Company has right of mortgage over the shares. Transfer of shares are registered at 30 December 2015. As at 31 December 2017, the deadline for the option both sides have to give / take back the related 2% of shares in exchange for USD 30 million is deferred to 30 June 2018. This option is accounted for under shareholder's equity as treasury shares and other long-term financial liabilities. The Board of Directors is of the opinion that the possibility of using these options is very low. However, in accordance with TAS 32 for possible prudence, the possible liabilities that may arise from such options are reflected in the financial statements (Note 2).

(***) In accordance with the Decree of the Council of Ministers dated 24 January 2017, numbered 2017/9756 and published in the Official Gazette dated 5 February 2017, numbered 29970, the shares belonging to the Republic of Turkey Prime Ministry Undersecretariat of Treasury were transferred to the Turkiye Wealth Fund.

(****) It is composed of the shares that were acquired by Borsa İstanbul A.Ş, in compliance with the resolution taken in the Ordinary General Assembly meeting dated 8 June 2017.

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

1 GROUP'S ORGANIZATION AND NATURE OF OPERATIONS (Continued)

Subsidiaries

The Company's subsidiaries ("the Subsidiaries"), their principal activities and the countries in which they operate are stated below:

Subsidiaries	Country of incorporation	Area of activity	Effective ownership of interest (%) 31 December 2017	31 December 2016
İstanbul Takas ve Saklama Bankası A.Ş.(*)	Turkey	Bank	63.83	62.25
Merkezi Kayıt Kuruluşu A.Ş.(*)	Turkey	Custodian	71.53	70.50
İstanbul Gemoloji Enstitüsü Sanayi ve Ticaret A.Ş.	Turkey	Precious gems	51.00	51.00

(*) The Group, which has participated in 62.25% of the İstanbul Takas ve Saklama Bankası Anonim Şirketi ("Takasbank") share capital, increased its shares to 63.83% by acquiring minority shares on 22 February and 24 March 2017. As a result of this, the Group's shares which indirectly owned of MKK increased and the efficiency ratio on the MKK is increased from 70.50% to 71.53%.

İstanbul Takas ve Saklama Bankası A.Ş.

İstanbul Takas ve Saklama Bankası Anonim Şirketi ("Takasbank") has maintained its operations as a bank which does not accept deposits since 2 January 1996. Takasbank performs custody, exchange and other necessary transactions related to securities on behalf of intermediary institutions. Takasbank also provides custody services on a customer basis. The headquarter of Takasbank is located in İstanbul and the Company does not have any branch.

Merkezi Kayıt Kuruluşu A.Ş.

Merkezi Kayıt Kuruluşu Anonim Şirketi ("MKK") was established in İstanbul, Turkey to control the consistency of records kept on a member group basis by tracking the records for capital market instruments recorded on the basis of issuers, intermediary institutions and beneficiaries and related rights. MKK started its operations on 26 September 2001.

İstanbul Gemoloji Enstitüsü Sanayi ve Ticaret A.Ş.

İstanbul Gemoloji Enstitüsü Anonim Şirketi was founded in İstanbul, Turkey and started its operations as at 14 June 2011 upon the subjects of performing scientific research and development upon precious gems, precious metals and any materials that could replace these gems, trading and lending transactions of precious gems and to perform transactions related to capital market instruments which are propped up to the precious gems.

Joint ventures

Areas of activities and business locations of joint ventures of the Company are as stated below:

Joint ventures	Country of incorporation	Area of activity	Effective ownership of interest (%) 31 December 2017	31 December 2016
Finans Teknopark A.Ş.	Turkey	Technology	50.00	50.00
Borsa İstanbul İTÜ Teknoloji A.Ş.	Turkey	Technology	50.00	50.00

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

1 GROUP'S ORGANIZATION AND NATURE OF OPERATIONS (Continued)

Joint ventures (Continued)

Finans Teknopark A.Ş.

Finans Teknopark A.Ş. is established in Turkey and started its operations at 9 January 2015 in order to ensure the collaboration of research institutions and organizations and finance and production sectors, to globalize the finance and industry sector's competition abilities, and to direct these sectors rotation to export, and ultimately to ensure the technological substructure that will produce technological and financial information.

Borsa İstanbul İTÜ Teknoloji A.Ş.

Main area of activity of Borsa İstanbul İTÜ Teknoloji A.Ş. is to operate in informatics and technology sectors. There are no other significant area of activities of the firm.

Associates

Areas of activities and business locations of associates of the Company are as stated below:

			Effective ownership of interest (%)	
Associates	**Country of incorporation**	**Area of activity**	**31 December 2017**	**31 December 2016**
Sermaye Piyasası Lisanslama Sicil ve Eğitim Kuruluşu A.Ş.(*)	Turkey	License	34.21	33.94
Enerji Piyasaları İşletme A.Ş. ("EPİAŞ")	Turkey	Energy market operations	30.83	30.83
Kyrgyz Stock Exchange(**)	Kyrgyzstan	Stock market operations	16.33	24.51
Montenegro Stock Exchange(***)	Montenegro	Stock market operations	24.43	24.39

(*) The Group, which has participated in 62.25% of the İstanbul Takas ve Saklama Bankası Anonim Şirketi ("Takasbank") share capital, increased its shares to 63.83% by acquiring minority shares on 22 February and 24 March 2017. As a result of this, the Group's shares which indirectly owned of SPL increased and the efficiency ratio on the SPL is increased from 33.94% to 34.21%.

(**) As a result of the capital increase made on 26 September 2017, the Group's share decreased from 24.51% to 16.33%.

(***) As a result of purchase of shares made on 17 October 2017, the Group's share increased from 24.39% to 24.43%.

Sermaye Piyasası Lisanslama Sicil ve Eğitim Kuruluşu A.Ş. ("SPL")

Sermaye Piyasası Lisanslama Sicil ve Eğitim Kuruluşu A.Ş. ("SPL") is authorized by Capital Markets Board ("Board") and started its operations in 2011 to grant licenses to the employees work in capital markets institutions and publicly-held corporations, hold the license records of the license owners and to organize education programs related to the licenses.

Kyrgyz Stock Exchange

Main area of activity of Kyrgyz Stock Exchange is to operate the stock market transactions in Kyrgyzstan.

Montenegro Stock Exchange

Main area of activity of Montenegro Stock Exchange is to operate the stock market transactions in Montenegro.

Enerji Piyasaları İşletme A.Ş. ("EPİAŞ")

Main area of activity of Enerji Piyasaları İşletme A.Ş. ("EPİAŞ") is to establish, plan, develop and operation of energy markets that are included in market operation license, in a way that ensures efficiency, transparency and security of these markets.

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

2.1 Basis of presentation

2.1.1 Preparation of financial statements

BİST and BİST's subsidiaries operating in Turkey maintains (together referred to the "Group") their accounting records and prepares their statutory financial statements in TL and in accordance with the Turkish Commercial Code ("TCC"), tax legislation and Uniform Chart of Accounts issued by the Ministry of Finance. The subsidiaries incorporated outside of Turkey maintain their books of account and prepare their statutory financial statements in accordance with the regulations of the countries in which they operate.

2.1.2 Declaration of conformity to TAS

Turkey Accounting Standards / Turkey Financial Reporting Standards ("TAS/TFRS") and appendixes and interpretations related with these ("TAS/TFRS") which is brought into effect by Public Oversight Accounting and Auditing Standards Authority ("POA") is grounded on during the preparation of attached financial statements.

These consolidated financial statements are prepared according to the International Financial Reporting Standards ("IFRS"). These consolidated financial statements are prepared on historical cost basis, expect for significant items in the table below. The following items are measured on an fair value basis at the reporting date.

	Measurement bases
Financial assets held for trading	Fair value
Available for sale financial assets	Fair value
Investment properties	Fair value

The preparation of the consolidated financial statements requires the use of judgments and estimates which might affect the amounts of assets and liabilities, explanation of commitments and contingent liabilities which were reported as at the balance sheet date and the revenues and expenses which were reported throughout the period. Even though, these judgments and estimates are based on the best estimates of the Group's management, the actual results might differ from them.

2.2 Standards issued but not yet effective and not early adopted as at 31 December 2017

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

TFRS 9 Financial Instruments (2017 version)

TFRS 9 Financial Instruments, has been published by POA in January 2017, replaces the existing guidance in TAS 39 Financial Instruments: Recognition and Measurement. It also carries forward the guidance on recognition, classification, measurement and derecogniton of financial instruments from TAS 39 to TFRS 9. The last version of TFRS 9 includes a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements and also includes guidance issued in previous versions of TFRS 9. The Standard is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of TFRS 9.

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Standards and interpretations issued but not yet effective (Continued)

TFRS 15 Revenue from Contracts with Customers

As issued in September 2016 by POA, the new standard replaces existing TFRS guidance and introduces a new control-based revenue recognition model for contracts with customers. In the new standard, total consideration measured will be the amount to which companies to be entitled, rather than fair value and new guidance have been introduced on separating performance obligations for goods and services in a contract and recognition of revenue over time. TFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of TFRS 15.

TFRS Interpretation 22 – Foreign Currency Transactions and Advance Consideration

TFRS Interpretation 22 "Foreign Currency Transactions and Advance Consideration" has been published by POA in December 2017 to clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. This Interpretation is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of TFRS Interpretation 22.

Amendments to TFRS 2 – Classification and Measurement of Share-based Payment Transactions

POA has issued amendments to TFRS 2 Share-Based Payment in December 2017to improving consistency and resolve some long-standing ambiguities in share-based payment accounting. The amendments cover three accounting areas: i) measurement of cash-settled share-based payments, ii) classification of share-based payments settled net of tax withholdings; and iii) accounting for modification of a share-based payment from cash-settled to equity-settled. Also, same approach has been adopted for the measurement of cash-settled share-based payments as equity-settled share-based payments. If certain conditions are met, share-based payments settled net of tax withholdings are accounted for as equity-settled share-based payments. The amendments are effective for periods beginning on or after 1 January 2018, with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to TFRS 2.

TAS 40 – Transfers of Investment Property

Amendments to TAS 40 - Transfers of Investment Property issued by POA in December 2017 have been made to clarify uncertainty about that provide evidence of transfer of /from investment property to other asset groups. A change in management's intentions for the use of property does not provide evidence of a change in intended use. Therefore, when an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognized (eliminated from the statement of consolidated financial position) and does not reclassify it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to TAS 40.

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Standards and interpretations issued but not yet effective (Continued)

Improvements to TFRSs

POA has issued Annual Improvements to TFRSs - 2014–2016 Cycle for applicable standards. The amendments are effective as of 1 January 2018. Earlier application is permitted. The Group does not expect that application of these improvements to TFRSs will have significant impact on its consolidated financial statements.

Annual Improvements to TFRSs 2014-2016 Cycle

TFRS 1 "First Time Adoption of International Financial Reporting Standards"

TFRS 1 is amended to removing of the outdated short-term exemptions for first-time adopters within the context of 'Annual Improvements to TFRSs 2012-2014 Cycle' related to disclosures for financial instruments, employee benefits and consolidation of investment entities.

TAS 28 "Investments in Associates and Joint Ventures"

The amendment enable when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with TFRS 9.

The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by POA

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued to TFRS by the POA, thus they do not constitute part of TFRS. Such standards, interpretations and amendments that are issued by the IASB but not yet issued by the POA are referred to as IFRS or IAS. The Group will make the necessary changes to its consolidated financial statements after the new standards and interpretations are issued and become effective under TFRS.

IFRS 16 Leases

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

IFRIC 23 – Uncertainty Over Income Tax Treatments

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

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Standards and interpretations issued but not yet effective (Continued)

Annual Improvements to IFRSs 2015-2017 Cycle

Improvements to IFRSs

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

IFRS 3 Business Combinations and *IFRS 11 Joint Arrangements*

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

IAS 12 Income Taxes

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

IAS 23 Borrowing Costs

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

IFRS 17 – Insurance Contracts

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

Amendments to TFRS 9 – Prepayment features with negative compensation

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

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.2 Standards and interpretations issued but not yet effective (Continued)

Amendments to TAS 28 – Long-term *interests in Associates and Joint Ventures*

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

2.3 Comparative information

Consolidated financial statements of the Group have been prepared comparatively with the prior period. In order to maintain consistency with current year consolidated financial statements, comparative information is reclassed and significant changes are disclosed if necessary.

The Group has made the following classifications:

As at 1 January 2016, amounting to TL 29,070 which is disclosed in "Retained Earnings" has been reclassified to "Restricted Reserves".

As at 31 December 2016, amounting to TL 48,295 which is disclosed in "Restricted Reserves" has been reclassified to "Retained Earnings".

Statement of cash flows for the year ended 31 December 2016, the change in short-term borrowing amounting to TL 272,888 which is disclosed in "Net cash provided from financing activities" has been reclassified to "Cash flows from operating profit before changes in operating assets and liabilities" in order to present net amount comparatively .

2.4 Offsetting

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

Income and expense items are stated with net-off balances only if allowed by the accounting standards or for the similar transactions in profit and loss items of the Group like purchase and sales transactions.

2.5 Going concern

The Group prepared the consolidated financial statements according to going concern principles.

2.6 Financial statements of subsidiaries operating in foreign countries

Financial statements of subsidiaries that are operating in foreign countries are prepared in accordance with the laws and regulations in force in the countries in which they are registered in and required adjustments and reclassifications reflected for the purpose of fair presentation in accordance with the Group's accounting policies.

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.6 Financial statements of subsidiaries operating in foreign countries (Continued)

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,
- Income and expenses for each income statement are translated at average exchange rates; and all resulting exchange differences are recognized as a separate component of equity and statements of comprehensive income.

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.7 Consolidation principles

The consolidated financial statements include the accounts of the Group on the basis set out in sections below. The financial statements of the fully consolidated subsidiaries have been prepared with required adjustments and reclassifications for the purpose of compliance with TAS and the accounting policies of the Group. The financial results of the subsidiaries are fully consolidated from the date on which control is transferred to the Group or deconsolidated from the date that control ceases.

The control is provided with influence on the activities of an entity's financial and operational policies in order to obtain economic benefit from those activities.

Subsidiaries

Subsidiaries are companies in which BİST has the power to control the financial and operating policies for the benefit of BİST either (1) through the power to exercise more than 50% of voting rights related to shares in the companies as a result of shares owned directly and indirectly by itself whereby BİST exercises control over the voting rights of the shares held by them; or (2) although not having the power to exercise more than 50% of the voting rights, through the exercise of actual dominant influence over the financial and operating policies.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Proportion of ownership interest represents the effective shareholding of the Group through the shares held directly by BİST and indirectly by its subsidiaries. The table below sets out all subsidiaries included in the scope of consolidation and shows their shareholding structure at 31 December 2017 and 31 December 2016 as follows:

	Effective ownership of interest (%)	
	31 December 2017	**31 December 2016**
İstanbul Takas ve Saklama Bankası A.Ş.(*)	63.83	62.25
Merkezi Kayıt Kuruluşu A.Ş.(*)	71.53	70.50
İstanbul Gemoloji Enstitüsü Sanayi ve Ticaret A.Ş.	51.00	51.00

(*) The Group, which has participated in 62.25% of the İstanbul Takas ve Saklama Bankası Anonim Şirketi ("Takasbank") share capital, increased its shares to 63.83% by acquiring minority shares on 22 February and 24 March 2017. As a result of this, the Group's shares which indirectly owned of MKK increased and the efficiency ratio on the MKK is increased from 70.50% to 71.53%.

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.7 Consolidation principles (Continued)

Subsidiaries (Continued)

Subsidiaries are fully consolidated from the date on which control is transferred to the Group, and they are deconsolidated from the date that control ceases. Accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Group.

The result of operations of subsidiaries acquired or sold during the year are included in the consolidated statement of comprehensive income from the date of acquisition or until the date of sale.

The balance sheets and statements of income of the subsidiaries are consolidated on line-by-line basis and the carrying value of the investment held by the Company and its subsidiaries is netted off against the related shareholders' equity. Intercompany transactions and balances between the Company and its subsidiaries are netted off during the consolidation.

The minority shareholders' share in the net assets and results for the period for subsidiaries are separately classified in the consolidated balance sheets and statements of income as "non-controlling interest".

In the event that the equity capital ratio held by entities with a non-controlling interest changes, the book values of the controlling (parent company) and non-controlling interests are adjusted with the purpose of reflecting the change in their respective interest in the subsidiary. The difference between the adjusted amount of the non-controlling interest and the fair value of the share price, which is paid or received, is directly recognized under equity and is distributed to the parent company's shareholders.

Joint ventures

Joint ventures are companies in respect of which there are contractual arrangements through which an economic activity is undertaken subject to joint control by the Company and one or more other parties. The Group exercises such joint control through the power to exercise voting rights relating to shares in the companies as a result of ownership interest directly and indirectly by itself.

Joint ventures have been accounted for using the equity method in accordance with clauses of TFRS 11 "Joint Arrangements" which has been effective from 1 January 2013. Under the equity method, investments in the joint ventures are carried in the statement of financial position at cost plus post acquisition changes in the Company's share of net assets of the joint venture and the comprehensive income reflects the share of the results of operations of the joint ventures. Where there has been a change recognized directly in the equity of the joint ventures, the Company recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. When the Company has rights only to the net assets of the arrangements, it accounts for its interest using the equity method according to the Standard TAS 28.

The table below sets out the joint ventures accounted by equity method, the proportion of voting power held by the Group and its subsidiaries and effective ownership interests at 31 December 2017 and 31 December 2016:

	Effective ownership of interest (%)	
	31 December 2017	31 December 2016
Finans Teknopark A.Ş.	50.00	50.00
Borsa İstanbul İTÜ Teknoloji A.Ş.	50.00	50.00

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.7 Consolidation principles (Continued)

Associates

Associates are accounted for using the equity method. Associates are companies in which the Group has voting power between 20% and 50% or the Group has power to participate in the financial and operating policy decisions but not control them.

Under the equity method, the investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the profit or loss of the investee is recognised in the investor's profit or loss.

Investments are accounted for using the equity method considering the Group's total share portions which are owned directly or indirectly from its subsidiaries.

The investments in associates are carried on the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates. The income statement reflects the Group's share of the results of operations of the associates. When there is a change recognized directly in the equity of an associate, the Group recognizes its share of any changes and discloses this when applicable, in the statement of changes in equity. Profits and losses resulting from the transactions between the Group and the associates and the Group are identical and the associates' accounting policies conform to those of the Group for like transactions and events in similar circumstances.

The table below sets out the subsidiaries accounted for using the accounting under equity method, the proportion of voting power held by the Group and its subsidiaries and effective ownership interests at 31 December 2017 and 31 December 2016:

	Effective ownership of interest (%)	
	31 December 2017	31 December 2016
Sermaye Piy. Lisanslama Sicil ve Eğitim Kuruluşu A.Ş (*)	34.21	33.94
Enerji Piyasaları İşletme A.Ş. ("EPİAŞ")	30.83	30.83
Kyrgyz Stock Exchange (**)	16.33	24.51
Montenegro Stock Exchange(***)	24.43	24.39

(*) The Group, which has participated in 62.25% of the İstanbul Takas ve Saklama Bankası Anonim Şirketi ("Takasbank") share capital, increased its shares to 63.83% by acquiring minority shares on 22 February and 24 March 2017. As a result of this, the Group's shares which indirectly owned of SPL increased and the efficiency ratio on the SPL is increased from 33.94% to 34.21%.

(**) As a result of the capital increase made on 26 September 2017, the Group's share decreased from 24.51% to 16.33%.

(***) As a result of purchase of shares made on 17 October 2017, the Group's share increased from 24.39% to 24.43%.

2.8 Functional and presentation currency

The accompanying financial statements are presented in the Group's functional and presentation currency, which is Turkish Lira ("TL"), in full unless otherwise stated.

2.9 Changes in accounting policies and estimates and errors

The valuation principles and accounting policies have been applied consistently to all periods presented in these financial statements. Material changes in accounting policies and material accounting errors are adjusted retrospectively and prior periods' consolidation financial statements are restated. If the changes in accounting estimates are related to a period, they are applied in the period they are related to and if the changes are related to the future periods, they are applied both in the period the change is made and prospectively in the future periods.

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.10 Significant accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements requires the use of judgments and estimates which might affect the amounts of assets and liabilities, explanation of commitments and contingent liabilities which were reported as at the balance sheet date and the revenues and expenses which were reported throughout the period. Even though, these judgments and estimates are based on the best estimates of the Company's management, the actual results might differ from them.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgment in applying accounting policies that have the most significant effect on the amount recognized in the consolidation financial statements are described in the following notes:

Fair value measurement of investment properties

Fundamental assumptions of the appraisal reports used during the determination of fair value investment properties in the consolidated financial statements are stated below:

Akmerkez Office

Akmerkez office, classified as investment property as at 31 December 2017 and 31 December 2016, is located on 1,000 m^2 ground in İstanbul / Beşiktaş, Nispetiye Mahallesi 83 / 1 E3 Blok 10 floor.

According to a licensed real estate valuation firm report which is dated 8 December 2017, Akmerkez office was evaluated by market value approach and the fair value amount is TL 23,000.

Şişli Service Building

As at 31 December 2017, the Group has classified the building located in Şişli, İstanbul under investment property. "The Built of stone Workplace", is located on the parcel of 29 in İstanbul province, Şişli district, Şişli street, 159 section, 1,042 city block, is located on 4,544.62 m^2 ground.

According to a licensed real estate valuation firm report which is dated 17 October 2017, Şişli service building evaluated by market value approach and the fair value amount is TL 36,355.

Provisions for employment termination benefits

In accordance with existing social legislation, the Group is required to make lump sum termination indemnities to each employee who has completed one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

The assumptions of provision for employee termination benefits of a major portion of the Group are prepared by an independent actuarial company. The employee termination benefits have been calculated based upon factors derived using the Group's experience of personnel terminating their services and being eligible to receive benefits, discounted by using the current market yield at the balance sheet date on government bonds.

The current service cost of the defined benefit plan, recognized in the income statement in employee benefit expense reflects the increase in the defined benefit obligation resulting from employee service in the current year. Past service costs are recognized immediately in income.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the income statement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise (Note 19).

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.10 Significant accounting judgments, estimates and assumptions (Continued)

Main assumptions that are used in the provision for employee termination benefits are estimated employee turnover rate and discount factor. Discount and probability ratios that are used in the employee termination benefits are as below:

	31 December 2017	31 December 2016
Discount rate	4.25%	4.72%
Estimated employee turnover rate	97.38%	97.35%

Useful lives of intangible assets

Referring to the agreements which the Company had signed with Nasdaq OMX ("Nasdaq"), the useful life of the software that forms the technological substructure of the markets within the Group is determined as 20 years.

2.11 Summary of significant accounting policies

The significant accounting policies used in preparing the consolidation financial statements are described below.

Related parties

(a) A person or a close member of that person's family is related to a reporting entity if that person:

- (i) has control or joint control of the reporting entity
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.11 Summary of significant accounting policies (Continued)

Service revenue

Service revenue shall be recognised when all the following conditions have been satisfied:

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity;
- The stage of completion of the transaction at the end of the reporting period can be measured reliably and;
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Revenue has been disclosed by offsetting, discounts, returns, taxes related with sales and the elimination of the transaction within the Group.

The main income items in the Group's service income are;

Trading fees, interest revenue, securities registration fees, listing fees, data vending and custody income.

Debt securities trading revenues

Debt securities trading revenues consist of revenue from transactions in international bond markets where external debt instruments issued by the Republic of Turkey Treasury and included on the exchange list and in the equity repo market, where transactions are carried out with the shares of the companies that are traded on Borsa İstanbul Equity Market and which are included in BİST 30 Index and deemed appropriate by a Board of Directors, fees from debt instruments traded on the outright purchase and sales market, the repo-reverse repo market, the repo market for specified securities, the interbank repo-reverse repo market where second hand fixed income security transactions are made, and the offering market for qualified investors, where capital market instruments, which can be purchased by "qualified investors" as described in capital markets legislation are issued.

Equity market trading revenue

Equity market trading revenue consists of the revenue based on the transaction volume of financial instruments, such as the right to purchase new equities and to exchange traded funds, warrants and certificates.

Derivatives trading revenue

Derivative market trading revenue consists of revenue which is accrued monthly and calculated on transaction volumes arising from futures and options contracts based on all primary asset classes such as equity, foreign-domestic stock indices, foreign exchange, steel scrap, exchange traded fund, precious metals, commodity and energy.

Precious metals and diamond market trading revenue

Precious metals and diamond market trading revenue consists of income accrued monthly and daily and calculated on the transaction volume of the precious metals market where spot transactions of standard, non-standard, gold, silver, platinum and palladium produced from ore, Precious Metals Lending Market where lending and certificate transactions are made and Diamond and Precious Stones Market where diamond and precious stones are traded.

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.11 Summary of significant accounting policies (Continued)

Service revenue (Continued)

Takasbank money market

Takasbank money market commissions consist of incomes accrued and collected daily and calculated on transactions made in this market established and operated by Takasbank to match the demand of market players who need funds and the offers of market players who have excess funds.

Security registration income

These fees consist of income accrued weekly and received for off-exchange security purchases, sales, and repo and reverse repo transactions announced weekly by banks and brokerage firms.

Listing income

Listing fees consist of initial listing/registration fees, annual listing/registration fees, and re-listing/re-registration fees. The initial listing fee is the nominal price of the securities in each listing transaction. Partnerships in the securities exchange listing should pay an annual fee so long as they remain in the relevant listing.

Custody and custody related operating revenue

Custody and custody related operating revenue consist of custody fees accrued for physical shares in the custody of Takasbank, in the private pension fund shares of attendee accounts and for income gained from global custody service.

Custody and custody related operating revenue consist of income received from the custody services of shares, investment funds, warrants and debt instruments in MKK (Central Securities Depository).

Data vending revenue

Data vending revenue consist of the income arising from disseminating the data in Borsa İstanbul markets to users on a real time and a delayed basis through licensed data vendors.

Takasbank interest income

Interest income is recorded at fair value and recognised based on accrual, using the effective interest method (the rate which sets the future cash flows of a financial asset or liability equal to their current net book value) considering the existing principle amount. As per legislation, interest accrual and re-discount of loans and other receivables for which there are illiquid claims are cancelled, and such amounts are exempt from interest income until collection.

Rental income

Rental income from investment properties is recognized as revenue on a straight-line basis over the term of the lease.

Dividend income

Dividend income that is recognized over share investments, are accounted in the financial statements when the shareholders right to obtain the dividend takes places.

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.11 Summary of significant accounting policies (Continued)

Property, plant and equipment

The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation

Property and equipment are depreciated over the estimated useful lives of the related assets from the date of acquisition or the date of installation, on a straight-line basis.

Construction in progress assets are amortized when the related intangible assets are ready for use in accordance with the useful lives identified.

The estimated useful lives of property and equipment are as follows:

Property and equipment	Year
Buildings	35-50
Machinery and equipment	4-10
Vehicles	5
Furniture and fixtures	4-15
Leasehold improvements	5-25

Expenditures incurred to replace a component of an item of property and equipment that are accounted for separately, including major inspection and overhauls costs, are capitalized. Other subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditures are recognized in profit or loss as an expense as incurred.

Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified accordingly. Any gain arising on this remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in OCI and presented in the revaluation reserve. For subsequent periods, the gain or loss arising from the change in the fair value of the investment property is included in profit or loss in the period in which it arises.

Investment properties

The investment properties, which are held either to earn lease income or for capital appreciation or for both, instead of either for the Group’s operations or for management purposes or for sale during the daily operations, are classified under other properties.

Investment properties are carried at their fair value on the basis of a valuation made by an independent valuation expert. Changes in fair values of investment properties are recognized in the income statement under other income.

Government grants

Government grants along with investment, research and development grants are accounted for on an accrual basis for estimated amounts expected to be realised under grant claims filed by the Group.

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.11 Summary of significant accounting policies (Continued)

Government grants (Continued)

These grants are accounted for as deferred income in the consolidated balance sheet and are credited to consolidated income statement on a straight-line basis over the expected lives of related assets. Government grants allowing reduced corporate tax payment are evaluated within the scope of TAS 12 Income Taxes standard.

Intangible assets

Intangible assets includes information systems, software and other intangibles arose from business mergers. Intangible assets are recognized at acquisition cost and amortized by the straight-line method over their estimated useful lives after their acquisition date. If impairment exists, carrying amounts of the intangible assets are written down immediately to their recoverable amounts. Intangible assets are amortized on a straight-line basis over their estimated useful lives for a period between 3-20 years from the date of acquisition.

Construction in progress assets are amortized when the related intangible assets are ready for use in accordance with the useful lives identified.

Research and development costs

Planned operations that are done in order to obtain new technological information or discovery of Company and MKK which is one of the subsidiaries of the Company, are defined as research, and the research expenses during this phase is recognized as expense on happening.

Development is defined as the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use and an intangible asset arising from development is recognized when the following are demonstrated by the Company:

a) The technical feasibility of completing the intangible asset so that it will be available for use or sale,
b) Its intention to complete the intangible asset and use or sell it,
c) How the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset,
d) The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset,
e) Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Development costs of the Group consists of any software packages which are in progress of being developed with regard to all of the software programs that constitutes the technological substructure of the markets which are under the Group's structure.

Development costs of Group, consists of the personnel salaries that are assigned directly in the development of the assets, other personnel costs and the costs related to the services used in the development of the intangible asset.

Related development costs are recognized initially in construction in progress which is under intangible assets section, and afterwards, the portion that is started to be used actively is being transferred to rights account under intangible assets.

Financial instruments

The Group's financial assets consist of cash and cash equivalents, available-for-sale financial assets, financial assets held-to-maturity, financial assets held-for trading, trade and other receivables; and financial liabilities consist of trade payables, other payables, short term borrowings and other financial liabilities.

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.11 Summary of significant accounting policies (Continued)

Non-derivative financial assets

The Group recognizes its trade and other receivables on the date that they are originated. All other financial assets are recognized on the transaction date that the Group becomes a party for related financial agreements. The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset and liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: available-for-sale financial assets, financial assets held to maturity and loans and receivables.

Financial assets held-for trading

A financial asset is classified as at fair value through profit or loss if it is classified as held-for trading or is designated as such on initial recognition. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend income, are recognized in profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets and financial assets at fair value through profit or loss or held-to-maturity categories. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

The Group also has investments in unquoted equity investments that are not traded in an active market but are also representing share in capital and classified as available-for-sale financial assets and measured at cost since their fair value cannot be measured reliably.

Financial assets held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity other than those that the entity upon initial recognition designates as at fair value through profit or loss, those that the entity designates as available for sale; and those that meet the definition of loans and receivables. Held-to-maturity financial assets are initially recognized at cost and the cost is assumed as fair value. Fair value of the held-to-maturity financial assets is based on the original transaction cost or market value of similar financial assets. Held-to-maturity financial assets are measured at amortized cost using the effective interest method after initial recognition. Interest income related to held-to-maturity financial assets are accounted under income statement.

The Group does not account for a provision for impairment of short-term market fluctuations for the debt securities classified as held-to-maturity financial assets provided that collection risk does not exists. If there is a collection risk, the impairment amount is determined as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.11 Summary of significant accounting policies (Continued)

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, trade and other receivables.

Payables to members

Payables to members consist of the members' accounts opened in Takasbank by brokerage firms, banks, leasing companies, factoring companies and funding companies, which desire to perform transactions in organized markets, to make a down payment, pay swap liabilities and wire cash to customers. Payables to members are recognised by their fair value in financial statements.

Deposits and guarantees received

Deposits and guarantees received for contracts made for sales and purchase transactions made in markets in BİST Guarantee Fund, BİST Debt Securities and Equity Market, Takasbank Money Market ("TMM"), Equity Lending Market ("ELM"), Derivative Market, Electricity Market, and markets where leveraged sales and purchase transactions are made. Said funds ensure that the debtee does not affect from the delay when the debtor goes into cash default. Cash guarantee mechanisms are created to make sure that cash flow is not interrupted in the market and that the payments are made in time and accurately. The Group invests the deposits and guarantees in financial institutions and reflects the gains to the accounts of relevant members. Group management believes that the current values of deposits and guarantees on financial position statement are similar to the values redeemed with effective interest rates.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, time deposits with maturities less than three months, reverse repurchase agreements, and type B liquid funds that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Time deposits at banks are initially recognized at fair value and then, subsequently measured at amortized cost using the effective interest method. The carrying amount of these assets is close to their fair values.

Trade and other receivables

Trade and other receivables are recognized initially at fair value. At the reporting date, subsequent to initial recognition, trade and other receivables are measured at amortized cost using the effective interest method. When a trade receivable become uncollectible, it is written off against the allowance account. The amount of the allowance account is the difference between the carrying amount of the receivables and the collectible amount.

Changes in the carrying amount of the allowance account are recognized in profit or loss. Group's management believes that carrying value of the trade and other receivables on the statement of financial position approximates to their fair value.

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.11 Summary of significant accounting policies (Continued)

Put option arrangements

In the strategic partnership agreements with Nasdaq OMX and EBRD, put options have been arranged. The amount that may become payable under the option on exercise is initially recognised at the present value of the redemption.

The liability is subsequently accreted through finance charges up to the redemption amount that is payable at the date at which the option first becomes exercisable. In the event that the option expires and unexercised, the liability is derecognised with a corresponding adjustment to equity.

Non-derivative financial liabilities

The Group initially recognizes financial liabilities on the date that they are originated. The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. The non-derivative financial liabilities of the Group consist of financial liabilities, trade and other payables.

Share capital

Ordinary shares are classified as equity. Dividend income is recognized as income when right to obtain of dividend is generated. Dividend distribution to the Company's shareholders is recognized as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

Capital reserves

On 3 April 2013, the legal entities, IMKB and IAB, are terminated and all assets, liabilities and receivables, rights and obligations, records and other documents have been transferred to BİST in their entirety, with the exceptions required by law, with no further action needed. The Company's capital has been registered as full TL 423,234,000 at 3 April 2013. The registered capital of BİST is deducted from the sum of all equity accounts in the consolidated financial statements prepared in accordance with TFRS, which is the basis of transfer accounting and the remaining balance is accounted for as capital reserves.

Share premium

Share premium represents the difference that is arised from the sale of a subsidiary or an investment accounted by equity method shares that the Company has with a higher amount than their nominal values or the positive difference between the nominal values and the fair values of the shares that the Company had issued related to the firms that the company had acquired.

Treasury shares

The cost of the Group's own equity instruments that it has reacquired is deducted from equity. Gain or loss is not recognized on the purchase, sale, issue, or cancellation of treasury shares. Treasury shares may be acquired and held by the entity or by other members of the Group. Consideration paid or received is recognized directly in equity.

Impairment of assets

Non-derivative financial assets

A financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss events had an impact on the estimated future cash flows of that asset that can be estimated reliably.

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.11 Summary of significant accounting policies (Continued)

Impairment of assets (Continued)

Non-derivative financial assets (Continued)

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Financial assets measured at amortized cost

The Group considers evidence of impairment for financial assets measured at amortized cost (loans and receivables) at a specific asset level. All assets are assessed for specific impairment.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognized. When an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

Non-financial assets

The carrying amount of the Group's non-financial assets, other than investment properties and deferred tax asset, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Impairment losses are recognized in profit or loss.

For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.11 Summary of significant accounting policies (Continued)

Non-financial financial asset (Continued)

Earnings per share

According to TAS 33 - "Earnings per Share", companies whose shares are not traded in a stock exchange market, are not required to disclose their earnings per share. Since, the Group has no share which is traded in a stock exchange market, earnings per share is not computed in the accompanying consolidated financial statements.

Provisions, contingent liabilities and assets

According to TAS 37 - Provisions, contingent liabilities and assets, a provision is recognized when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the specified criteria are not met, the Group discloses the related issues in the accompanying notes. Contingent assets are disclosed in the notes and not recognized unless it is realized.

Lease transactions

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. All other leases are classified as operational leases. All lease transactions of the Group are operational leases. As per Article 138 of Capital Markets Law No. 6362, which entered into force after its promulgation in the Official Gazette dated 30 December 2012, immovable owned by the İstanbul Stock Exchange were registered free of charge at the title deed registry office on behalf of the Undersecretariat of Treasury on an administrative basis and buildings on those immovable were also registered and were left for use by BİST for twenty nine years, of which the first fifteen years are to be free of charge.

Employment termination benefits

In accordance with existing social legislation, the Group is required to make lump sum termination indemnities to each employee who has completed one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

In the consolidated financial statements, the Group has reflected a liability calculated using "Projected Unit Credit Method" and based upon factors derived using the Group's experience of personnel terminating their services and being eligible to receive benefits, discounted by using the current market yield at the balance sheet date on government bonds.

According to TAS 19 (amendment), "Employment termination benefits", effective for annual periods beginning on or after 1 January 2013, gains / losses occurred due to the changes in the actuarial assumptions used in the calculation of employment termination benefit should be reclassified under the other comprehensive income.

Financial income and financial expenses

Financial income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, and gains on the disposal of available-for-sale financial assets. Interest income is recognized in profit or loss on accrual basis, by the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established. Financial expenses comprise of commissions paid.

2 BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

2.11 Summary of significant accounting policies (Continued)

Non-financial financial asset (Continued)

Financial income and financial expenses

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either financial income or financial expenses depending on whether foreign currency movements are in a net gain or net loss position.

Segment reporting of financial information

An operating segment is a component of the Group that engages in business activities from which it may earn income and incur expenses, including income and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The management of the Group has not identified any segments, that financial performances of each are followed up separately, and has not presented segment reporting information accordingly.

Share-based payments

An entity has an obligation to settle a share-based payment transaction when it receives the goods or services unless the transaction is clearly for a purpose other than payment for goods or services supplied to the entity receiving them.

An entity shall recognize the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received. The entity shall recognize a corresponding increase in equity if the goods or services were received in an equity-settled share-based payment transaction, or a liability if the goods or services were acquired in a cash-settled share-based payment transaction.

Taxation

Tax expense or income is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred tax.

Deferred tax is computed, using the liability method, and by the effective tax rate at balance sheet date. And deferred tax is computed on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against the deductible temporary differences. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Deferred taxes arising from income and expenses accounted under equity are also recorded under equity.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. The carrying amount of deferred income tax assets is reviewed by the Group at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

3 BUSINESS COMBINATIONS

None.

4 CASH AND CASH EQUIVALENTS

As at 31 December 2017 and 31 December 2016, cash and cash equivalents are as follows:

	31 December 2017	31 December 2016
Cash	85	54
Banks - time deposits	10,708,361	8,076,431
Banks - demand deposits	71,278	94,759
Reverse repo receivables	20,833	21,168
Investment funds (B type liquid fund)	361	417
Cash and cash equivalents on statement of financial position	**10,800,918**	**8,192,829**
Accruals on cash and cash equivalents	(31,999)	(16,384)
Cash and cash equivalents on statement of cash flows	**10,768,919**	**8,176,445**

As at 31 December 2017, there is no restricted deposits (31 December 2016: None).

Banks-Time deposits

As at 31 December 2017 and 31 December 2016, the details of time deposits are as follows:

31 December 2017	Amount (TL)	Effective interest rate (%)	Maturity date
TL	6,326,352	13.22	2 January 2018 - 26 February 2018
USD	2,419,482	4.42	2 January 2018 - 3 January 2018
EUR	1,962,527	2.47	2 January 2018 - 24 January 2018
Total	**10,708,361**		

31 December 2016	Amount (TL)	Effective interest rate (%)	Maturity date
TL	4,843,321	9.46	2 January 2017 - 5 June 2017
USD	2,257,333	3.36	2 January 2017 - 13 February 2017
EUR	975,777	2.02	2 January 2017 - 3 February 2017
Total	**8,076,431**		

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

5 INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

None of the Group's investments accounted for under the equity method are publicly listed entities and do not have published price quotations.

Summary of financial information for equity accounted investees are as follows as at 31 December 2017 and 31 December 2016:

Joint ventures

31 December 2017	Participation rate (%)	Total assets	Total liabilities	Net assets	Net profit/(loss) for the period	BİST's shares in profit/(loss)	BİST's share in net assets
Finans Teknopark A.Ş.	50.00	9,628	7,760	1,868	1,038	519	934
Borsa İstanbul İTÜ Teknoloji A.Ş.	50.00	198	36	162	(7)	(4)	81
Total						**515**	**1,015**

31 December 2016	Participation rate (%)	Total assets	Total liabilities	Net assets	Net profit/(loss) for the period	BİST's shares in profit/(loss)	BİST's share in net assets
Finans Teknopark A.Ş.	50.00	9,865	9,035	830	761	381	415
Borsa İstanbul İTÜ Teknoloji A.Ş.	50.00	50	35	15	(19)	(10)	8
Total						**371**	**423**

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

5 INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD (Continued)

Summary of financial information for equity accounted subsidiaries are as follows as at 31 December 2017 and 31 December 2016:

Subsidiaries

31 December 2017	Participation rate (%)	Total assets	Total liabilities	Net assets	Net profit for the period	BİST's shares in profit	BİST's share in net assets
Enerji Piyasaları İşletme A.Ş.	30.83	147,581	21,781	125,800	41,893	12,916	38,784
Sermaye Piy. Lisanslama Sicil ve Eğitim Kuruluşu A.Ş.	34.21	18,697	1,898	16,799	5,342	1,828	5,747
Montenegro Stock Exchange(**)	24.43	9,565	63	9,502	299	73	2,321
Kyrgyz Stock Exchange(*)	16.33	2,325	154	2,171	130	21	355
Total						**14,838**	**47,207**

31 December 2016	Participation rate (%)	Total assets	Total liabilities	Net assets	Net profit for the period	BİST's shares in profit	BİST's share in net assets
Enerji Piyasaları İşletme A.Ş.	30.83	94,140	10,233	83,907	26,916	8,298	25,869
Sermaye Piy. Lisanslama Sicil ve Eğitim Kuruluşu A.Ş.	33.94	13,331	1,781	11,550	3,117	1,058	3,920
Montenegro Stock Exchange	24.39	9,506	2,104	7,402	270	66	1,805
Kyrgyz Stock Exchange	24.51	1,938	1,234	704	25	6	173
Total						**9,428**	**31,767**

(*) As a result of the capital increase made on 26 September 2017, the Group's share decreased from 24.51% to 16.33%.

(**) As a result of purchase of shares made on 17 October 2017, the Group's share increased from 24.39% to 24.43%.

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

5 INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD (Continued)

For the years ended 31 December 2017 and 31 December 2016, joint ventures and subsidiaries that are accounted by equity method are as stated below:

	1 January – 31 December 2017	1 January – 31 December 2016
Beginning period - 1 January	**32,190**	**24,090**
Additions of subsidiaries and joint ventures during the period	76	-
Disposals of subsidiaries and joint ventures during the period	-	(1,898)
Income and expenses from subsidiaries and joint ventures, (net)	15,353	9,799
Currency translation differences	603	199
Ending period – 31 December	**48,222**	**32,190**

6 FINANCIAL INVESTMENTS

As at 31 December 2017 and 31 December 2016, short term financial investments are as follows:

	31 December 2017	31 December 2016
Held to maturity financial assets	76,664	45,943
Financial assets held for trading	-	1,158
Total	**76,664**	**47,101**

As at 31 December 2017 and 31 December 2016, long term financial investments are as follows:

	31 December 2017	31 December 2016
Available for sale - equity shares	67,781	67,663
Held to maturity financial assets	182	-
Total	**67,963**	**67,663**

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

6 FINANCIAL INVESTMENTS (Continued)

As at 31 December 2017, details of debt securities are as follows:

31 December 2017	**Nominal value**	**Carrying value**	**Interest rate (%)**	**Maturity**
Held to maturity financial assets (short term)	78,428	76,664		
Government bonds	*25,000*	*23,381*	*12*	*6 months - 1 year*
Government bonds	*14,000*	*13,566*	*12*	*3 months - 6 months*
Sukuk	*28,200*	*28,553*	*13*	*1 month - 3 months*
Sukuk	*7,724*	*7,759*	*12*	*3 months - 6 months*
Bonds	*3,504*	*3,405*	*14*	*1 month - 3 months*
Held to maturity financial assets (long term)	250	182		
Corporate bond	*250*	*182*	*16*	*1 year – 5 years*
Total	**78,678**	**76,846**		

As at 31 December 2016, details of debt securities are as follows:

31 December 2016	**Nominal value**	**Carrying value**	**Interest rate (%)**	**Maturity**
Held to maturity financial assets	50,000	45,943		
Government bonds	*50,000*	*45,943*	*10*	*6 months - 1 year*
Financial assets held for trading	1,257	1,158		
Government bonds	*1,257*	*1,158*	*10*	*6 months - 1 year*
Total	**51,257**	**47,101**		

As at 31 December 2017 and 31 December 2016, details of available for sale financial assets are as follows:

	31 December 2017		**31 December 2016**	
Available for sale financial assets	**Share percentage (%)**	**Carrying value**	**Share percentage (%)**	**Carrying value**
LCH. Clearnet Group Limited	2.09	62,838	2.04	62,838
Ege Tarım Ürünleri Lisanslı Depoculuk A.Ş.	19.96	3,320	19.90	3,320
Sarajevo Stock Exchange	16.66	799	16.54	781
Baku Stock Exchange	4.76	157	4.76	157
Other	<0.01	667	<0.01	567
Total		**67,781**		**67,663**

None of the Group's available for sale equity shares is publicly listed companies and they do not have an active market price and they are stated at cost as their fair value cannot be determined reliably.

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

7 TRADE RECEIVABLES AND OTHER RECEIVABLES

Trade receivables

Trade receivables from third parties

As at 31 December 2017 and 31 December 2016, details of short term trade receivables from third parties are as follows:

	31 December 2017	31 December 2016
Loans given	198,856	98,945
Receivables from members(*)	38,753	36,294
Custody and commission receivables	9,906	8,553
Doubtful receivables	1,965	1,919
Provisions for doubtful receivables	(1,965)	(1,919)
Total	**247,515**	**143,792**

(*) The receivables from members consists of security registration fees, equity trading revenue, debt securities trading revenue, annual membership fees, equity and debt securities market terminal fees and data vending fees.

As at 31 December 2017 and 31 December 2016, remaining maturities of trade receivables are less than 3 months.

For the years ended 31 December 2017 and 31 December 2016, the movement of provisions for doubtful receivables are as follows:

	1 January – 31 December 2017	1 January – 31 December 2016
Beginning period - 1 January	**(1,919)**	**(1,929)**
Provisions during the period	(131)	-
Collections during the period	85	10
Ending period - 31 December	**(1,965)**	**(1,919)**

Other receivables

Other receivables from third parties

As at 31 December 2017 and 31 December 2016, details of short term other receivables from third parties are as follows:

	31 December 2017	31 December 2016
Other receivables	347	152
Receivables from personnel	1	6
Total	**348**	**158**

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

8 OTHER ASSETS

Other current assets

As at 31 December 2017 and 31 December 2016, the details of other current assets are as follows:

	31 December 2017	31 December 2016
Receivables from derivatives collateral	2,826	1,824
Job advances given to personnel	338	79
Income accruals	-	290
Other	1,139	-
Total	**4,303**	**2,193**

Other non-current assets

As at 31 December 2017 and 31 December 2016, other non-current assets are as follows:

	31 December 2017	31 December 2016
Deposits and guarantees given	578	578
Total	**578**	**578**

9 DEFERRED INCOME

Short term deferred income

As at 31 December 2017 and 31 December 2016, short term deferred income are as follows:

	31 December 2017	31 December 2016
Short-term deferred income	801	701
Total	**801**	**701**

Long term deferred income

As at 31 December 2017 and 31 December 2016, long term deferred income are as follows:

	31 December 2017	31 December 2016
Long-term deferred income	1,072	1,296
Total	**1,072**	**1,296**

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

10 PREPAID EXPENSES

Short term prepaid expenses

As at 31 December 2017 and 31 December 2016, short term prepaid expenses are as follows:

	31 December 2017	31 December 2016
Short-term prepaid expenses	10,962	8,610
Total	**10,962**	**8,610**

Long term prepaid expenses

As at 31 December 2017 and 31 December 2016, long term prepaid expenses are as follows:

	31 December 2017	31 December 2016
Long-term prepaid expenses	11,175	9,327
Total	**11,175**	**9,327**

11 INVESTMENT PROPERTIES

For the years ended 31 December 2017 and 31 December 2016, the movements of the investment properties are as follows:

	Valuation method	1 January 2017	Transfer	Increase in value	31 December 2017
Investment properties	Market value approach	22,285	-	715	23,000
Investment properties	Market value approach	-	36,355	-	36,355
Total		**22,285**	**36.355**	**715**	**59,355**

	Valuation method	1 January 2016	Transfer	Increase in value	31 December 2016
Investment properties	Market value approach	13,250	-	9,035	22,285
Total		**13,250**	**-**	**9,035**	**22,285**

As at 31 December 2017, there are investment properties of Group in İstanbul Akmerkez Shopping Center and İstanbul Şişli. The property in Akmerkez Shopping Center is determined using the market value approach as stated TL 23,000 in the valuation report dated 8 December 2017. This report is prepared by an independent valuation Company authorized by the Capital Markets Board ("CMB").

11 INVESTMENT PROPERTIES

As at 31 December 2017, Şişli Service Building, which is not in use and has been decided to obtain a rent return, has been classified from property, plant and equipment to investment properties. The property is determined using the market value approach as stated TL 36,355 in the valuation report dated 17 October 2017.

As at 31 December 2017, there has not been any rental income from investment properties (31 December 2016: None).

The significant estimates and assumptions used in determining the fair value of the investment properties as at 31 December 2017 are as follows:

Investment property	Valuation method	Expert report date	Precedent value m^2 TL
Akmerkez - Independent unit	"Market value approach"	8 December 2017	23.351
Şişli Service Building	"Market value approach"	17 October 2017	8.000

There are not any capitalized borrowing costs, mortgages, or pledges on the investment properties.

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

12 PROPERTY, PLANT AND EQUIPMENT

For the years ended 31 December 2017 and 31 December 2016, movements of the property, plant and equipment are as follows:

	Building	Machinery and equipment	Vehicles	Furnitures and fixtures	Leasehold improvements	Construction in progress	Advances given	Total
1 January 2017								
Net book value beginning period	9,818	17,047	408	16,247	127,164	18,887	-	189,571
Additions	8,369	1,944	-	13,163	4,974	8,484	-	36,934
Disposals	-	(146)	(51)	(183)	-	(9,079)	-	(9,459)
Revaluation of building reclassified to investment property	26,784	-	-	-	-	-	-	26,784
Reclassification to investment property (Note 11)	(36,355)	-	-	-	-	-	-	(36,355)
Transfers	20,746	5,010	(78)	(3,807)	732	(12,698)	-	9.905
Depreciation of current period	(745)	(8,244)	(107)	(4,344)	(5,320)	-	-	(18,760)
31 December 2017	**28,617**	**15,611**	**172**	**21,076**	**127,550**	**5,594**	**-**	**198,620**

	Building	Machinery and equipment	Vehicles	Furnitures and fixtures	Leasehold improvements	Construction in progress	Advances given	Total
1 January 2016								
Net book value beginning period	10,125	26,176	489	12,154	34,477	61,085	5,406	149,912
Additions	-	3,183	68	5,440	1,751	55,427	10,228	76,097
Disposals	-	(61)	(546)	(147)	-	-	-	(754)
Transfers	-	(3,234)	622	2,612	93,617	(97,625)	(15,634)	(19,642)
Depreciation of current period	(307)	(9,017)	(225)	(3,812)	(2,681)	-	-	(16,042)
31 December 2016	**9,818**	**17,047**	**408**	**16,247**	**127,164**	**18,887**	**-**	**189,571**

There are no mortgages or pledges over property, plant and equipment for the years ended 31 December 2017 and 31 December 2016.

(Amounts expressed in thousand Turkish Liras (“TL”) unless otherwise indicated.)

13 INTANGIBLE ASSETS

For the years ended 31 December 2017 and 31 December 2016, the movements of the intangible assets are as follows:

	Rights	Software licenses	Development costs(*)	Constructions in progress(**)	Total
1 January 2017					
Net book value beginning period	134,259	2,079	27,221	154,701	318,260
Additions	19,707	17,403	8,624	19,275	65,009
Disposals	-	-	(132)	-	(132)
Transfers	29,491	5,060	(556)	(43,824)	(9,829)
Amortisation of current period	(13,196)	(2,394)	(8,631)	-	(24,221)
31 December 2017	**170,261**	**22,148**	**26,526**	**130,152**	**349,087**

	Rights	Software licenses	Development costs(*)	Constructions in progress(**)	Total
1 January 2016					
Net book value beginning period	42,335	4,589	17,813	218,222	282,959
Additions	6,579	556	3,542	21,859	32,536
Disposals	-	-	-	-	-
Transfers	95,796	(1,780)	11,006	(85,380)	19,642
Amortisation of current period	(10,451)	(1,286)	(5,140)	-	(16,877)
31 December 2016	**134,259**	**2,079**	**27,221**	**154,701**	**318,260**

(*) The Group is registered as “Research and Development Center” within the Research and Development Law numbered 5746 by Ministry of Science, Industry and Technology. Expenses incurred in relation to the developed projects are capitalized and accounted under the construction in progress. After the completion of the projects, the total capitalized amounts are classified to intangible assets and the depreciation is calculated over the total capitalized amount. For the year ended 31 December 2017, amortization expenses amounting to TL 2,136 has been capitalized related to “Research and Development Center”.

(**) According to the agreement signed with Nasdaq OMX (“Nasdaq”), the balances include the additional obligatory expenses which arise in the process of renewing all the software which forms the technological infrastructure in Group markets and applying the software packages which were improved in line with the Group’s needs as at 31 December 2013.

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

14 GOVERNMENT GRANTS

It is stated with a letter on 25 September 2017 issued by Ministry of Science, Industry and Technology as part of Research and Development Law numbered 5746 that MKK's Research and Development Center status to be continued.

It is decided that Borsa İstanbul has been included in the scope of the research and development center in accordance with the Research and Development Law numbered 5746 by the Ministry of Science, Industry and Technology with a decision on 18 May 2016.

It is decided that Takasbank has been included in the scope of the research and development center in accordance with the Research and Development Law numbered 5746 by the Ministry of Science, Industry and Technology with a decision on 20 April 2017.

As at 31 December 2017, research and development tax deduction amounting to TL 17,212 is considered as deduction in corporate tax calculation (31 December 2016: TL 10,732).

As at 31 December 2017, MKK has received support amounting to TL 177 regarding the research and developments from TUBITAK (31 December 2016: TL 546).

Government grants allowing reduced corporate tax payment are evaluated within the scope of TAS 12 "Income Taxes standard".

15 TRADE PAYABLES, OTHER PAYABLES AND OTHER FINANCIAL LIABILITIES

Short term trade payables to third parties

As at 31 December 2017 and 31 December 2016, details of short term trade payables to third parties are as follows:

	31 December 2017	31 December 2016
Payables to members(*)	330,427	266,970
Payables to domestic suppliers	5,112	14,812
Total	**335,539**	**281,782**

(*) The regarding payables consist of the members' accounts opened in Takasbank by brokerage firms, banks, leasing companies, factoring companies and funding companies, which desire to perform transactions in organized markets, to make a down payment, pay swap liabilities and wire cash to customers.

Short-term and long-term financial liabilities to related parties

As at 31 December 2017 and 31 December 2016, Short-term and long-term financial liabilities to related parties are as follows:

	31 December 2017	31 December 2016
Short term liabilities	685,650	-
Other financial liabilities to related parties(*)	*685,650*	-
Long term liabilities	160,146	777,765
Other financial liabilities to related parties(*)	*160,146*	*777,765*
Total	**845,796**	**777,765**

(*) Consists of transaction performed with the Group's shareholders (Note 1). Transactions that are less than one year are classified as short term.

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

15 TRADE PAYABLES, OTHER PAYABLES AND OTHER FINANCIAL LIABILITIES (Continued)

Other payables to related parties

As at 31 December 2017 and 31 December 2016, other payables to related parties are as follows:

	31 December 2017	31 December 2016
Expense accrual for Capital Markets Board share	62,909	55,331
Total	**62,909**	**55,331**

Other payables to third parties

As at 31 December 2017, other payables to third parties amounting to TL 314 (31 December 2016: TL 729).

16 SHORT TERM PROVISIONS

Other short term provisions

As at 31 December 2017 and 31 December 2016, the short-term provisions are as follows:

	31 December 2017	31 December 2016
Tax penalty provision(*)	41,498	-
Law suit provision	18,151	10,418
Total	**59,649**	**10,418**

(*) Transactions and accounts of Borsa İstanbul A.Ş. which related to 2013 reporting period are investigated by Ministry of Finance Tax Inspector within tax laws. This review is made within the scope of "Value Added Tax" and "Withholding Corporate Tax", and two Tax Review Reports dated 25 December 2017 are prepared according to findings. In this context, a total of TL 139,440 was assessed including original tax amounting TL 69,720 and tax penalty amounting TL 69,720 and notifications were issued on 26 January 2018 to Borsa İstanbul A.Ş. The Company applied for the reconciliation to the Ministry of Finance Revenue Administration Reconciliation Commission on 15 February 2018. The reconciliation process is still ongoing as of the date of this report, the Company recognized a provision of TL 41,498 which comprises the tax penalty amounting to TL 25.099 as " Other operating expenses - Tax penalty provision expense" and the Tax penalty default interest amounting TL 16.399 as "Financial expenses - Tax penalty default interest" in its consolidated financial statements (31 December 2016: None).

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

17 SHORT TERM BORROWINGS

As at 31 December 2017 and 31 December 2016, the short-term borrowings are as follows:

31 December 2017	Weighted average effective interest rate %	Currency	Original amount	TL equivalent
Short term borrowings	1.66	USD	347,664	1,311,355
	0.03	EUR	235,101	1,061,600
	11.82	TL	806,050	806,050
				3,179,005

31 December 2016	Weighted average effective interest rate %	Currency	Original amount	TL equivalent
Short term borrowings	0.90	USD	288,514	1,015,340
	0.05	EUR	230,303	854,401
	8.46	TL	574,491	574,491
				2,444,232

18 PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Provision for legal cases

There are several lawsuits against and in favour of the Group. This lawsuits consist of reemployment and disagreements with market members. In accordance with the opinions of the legal advisors, the management has provided provisions amounting to TL 18,151 in the consolidated financial statements as at 31 December 2017 (31 December 2016: TL 10,418) (Note 16).

Provisions for Tax Penalty

Transactions and accounts of Borsa İstanbul A.Ş. which related to 2013 reporting period are investigated by Ministry of Finance Tax Inspector within tax laws. This review is made within the scope of "Value Added Tax" and "Withholding Corporate Tax", and two Tax Review Reports dated 25 December 2017 are prepared according to findings. In this context, a total of TL 139,440 was assessed including original tax amounting TL 69,720 and tax penalty amounting TL 69,720 and notifications were issued on 26 January 2018 to Borsa İstanbul A.Ş. The Company applied for the reconciliation to the Ministry of Finance Revenue Administration Reconciliation Commission on 15 February 2018. The reconciliation process is still ongoing as of the date of this report, the Company recognized a provision of TL 41,498 in its consolidated financial statements (31 December 2016: None) (Note 16).

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

18 PROVISIONS, CONTINGENT ASSETS AND LIABILITIES (Continued)

Commitments

Total amount of commitments not included in liabilities

	31 December 2017	31 December 2016
Guarantees received from members(*)		
Debt Securities guarantees	5,295,563	6,731,907
Equity Market guarantees	17,102	441,678
Precious Metal and Diamond Market guarantees	78,193	87,939
Foreign Marketable Securities guarantees	9,771	9,549
Total	**5,400,629**	**7,271,073**

(*) Includes the guarantees of the members related to BİST's operating markets.

	31 December 2017	31 December 2016
Guarantees received from goods and services suppliers		
TL	53,096	45,470
USD	13,750	9,970
EUR	4,030	3,056
Total	**70,876**	**58,496**

	31 December 2017	31 December 2016
Assets under custody		
Contribution fund of mandatory education of BİST(*)	138,456	152,028
Total	**138,456**	**152,028**

(*) In accordance with the decision of İMKB's Board of Directors in 1997, İMKB made a contribution to 'Contribution to Continuous Education' amounting to TL 32,000. The contribution fund is established under the decisions made in the General Assembly and Board of Directors in order to fund the construction of primary schools under the name of "Contribution Fund of Mandatory Education of İMKB". This fund is collected under time deposits held by public banks and managed by İMKB; however, the related fund is not included in the assets of İMKB. The fund was previously accounted under İMKB's assets and liabilities until 1999 and currently, it is accounted under the off-balance sheet. As at 31 December 2017, principal amount of "Contribution Fund of Mandatory Education of İMKB" is TL 138,456 (31 December 2016: TL 152,028).

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

19 PROVISION FOR EMPLOYEE BENEFITS AND LIABILITIES FOR EMPLOYEE BENEFITS

Short term employee benefits provisions

As at 31 December 2017 and 31 December 2016, the details of liabilities for employee benefits are as follows:

	31 December 2017	31 December 2016
Payables to personnel	10,770	9,555
Social security premium payables	4,910	3,308
Total	**15,680**	**12,863**

As at 31 December 2017 and 31 December 2016, the details of short term provisions for employee benefits are as follows:

	31 December 2017	31 December 2016
Unused vacation liability	18,038	17,426
Personnel bonus provision	13,257	-
Total	**31,295**	**17,426**

Unused vacation liability

In accordance with the Labor Law in Turkey, the Group provides provision for the unused portion of annual paid vacations of the employees with service terms over one year, including the trial period, calculated for the non-current periods.

For the years ended 31 December 2017 and 31 December 2016, the movement of unused vacation liability is as follows:

	1 January – 31 December 2017	1 January – 31 December 2016
Opening balance - 1 January	17,426	19,350
Payment during the period	(2,228)	(4,976)
Increase during the period	2,840	3,052
Ending balance - 31 December	**18,038**	**17,426**

Long term employee benefits provisions

As at 31 December 2017 and 31 December 2016, the details of long term employee benefits provisions are as follows:

	31 December 2017	31 December 2016
Provision for employee termination benefits	24,369	29,088
Service bonus provision	6,086	9,674
Total	**30,455**	**38,762**

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

19 PROVISIONS FOR EMPLOYEE BENEFITS (Continued)

Provision for employee termination benefits

Under Turkish Labor Law, the Company is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). After the change in regulation, on 23 May 2002, several articles related the transition process before retirement have been removed.

The amount payable consists of one month's salary limited to a maximum of full TL 4,732 for each year of service at 31 December 2017 (31 December 2016: full TL 4,297).

Benefit obligation is not legally subject to any funding and there are no funding requirements.

Provision for employment termination benefits has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees.

TAS 19 requires actuarial valuation methods to be developed to estimate the Groups obligation. Accordingly, the following actuarial assumptions are used in the calculation of the total liability:

	31 December 2017	31 December 2016
Discount rate	4.25%	4.72%
Estimated employee turnover rate	97.38%	97.35%

For the years ended 31 December 2017 and 31 December 2016, the movements of provision for employee termination benefits are as follows:

	1 January – 31 December 2017	1 January – 31 December 2016
Provision for employee termination benefits as at 1 January	29,088	29,965
Interest cost	3,069	2,929
Service cost	2,274	2,547
Payments during the period	(6,887)	(7,921)
Actuarial (gains) / losses	(3,175)	1,568
Ending balance of provision for employee termination benefits - 31 December	**24,369**	**29,088**

Service bonus provision

In accordance with Article 49th of BİST employee regulation, BİST calculates service bonus expense accrual based on the recent benchmark wage rates considering the position and seniority of its employees.

Future implementation of the 63rd article and 5th paragraph of BİST Personnel regulation was ended as at 30 June 2012, and a list was prepared for each staff member employed with indefinite employment contract under BİST by using a coefficient of seniority (seniority year is determined by applying the per diem deduction). Amount specified in this list is paid by at once and net for the termination of the employment contract for any reason except the cases of termination for good reasons until 28 September 2012.

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

19 PROVISIONS FOR EMPLOYEE BENEFITS (Continued)

Service bonus provision (Continued)

For the years ended 31 December 2017 and 31 December 2016, the movements of service bonus provisions are as follows:

	1 January – 31 December 2017	1 January – 31 December 2016
Service bonus provisions as at 1 January	9,674	15,733
Payments during the period	(3,588)	(6,059)
Service bonus provisions as at 31 December	**6,086**	**9,674**

20 OTHER LIABILITIES

Other current liabilities

As at 31 December 2017 and 31 December 2016, other current liabilities are as follows:

	31 December 2017	31 December 2016
Deposits and guarantees received(*)	5,697,418	4,176,347
Taxes and duties payable	13,400	12,473
Other	1,683	897
Total	**5,712,501**	**4,189,717**

(*) Deposits and guarantees received for contracts made for sales and purchase transactions made in markets in BİST Guarantee Fund, BİST Debt Securities and Equity Market, Takasbank Money Market ("TMM"), Takasbank Security Lending Market ("ELM"), Futures and Options Market, Electricity Market and markets where leveraged sales and purchase transactions are made.

Other non-current liabilities

As at 31 December 2017 and 31 December 2016, other non-current liabilities are as follows:

	31 December 2017	31 December 2016
Deposits and guarantees received	7,518	1,442
Total	**7,518**	**1,442**

21 SHAREHOLDER'S EQUITY

Share capital

As stated in Article 138 of Capital Markets Law No. 6362, the Articles of Association of Borsa İstanbul Anonim Şirketi have been issued by the Capital Markets Board and registered arbitrarily at the trade registry on 3 April 2013 following the approval of the relevant Minister, and these articles include: the Company's main field of operation, purpose, capital amount, shares, principles on transferring its shares; limitations on liquidation, transfer, merger, termination, public offering, privileges to be granted to shares without being subject to the fourth paragraph of Article 478th of Law No. 6102; organs and committees as well as formation, roles, authorizations and responsibilities, working procedures and principles of those; and principles regarding accounts, distribution of profits and organization. As stated in the Company's Articles of Association, the Company's initial capital is TL 423,234,000, consisting of 42,323,400,000 bearer shares each of which is equals to TL 0.01.

Pursuant to the relevant provisions in the Capital Markets Law, 49% of these shares are transferred to the Republic of Turkey Prime Ministry Undersecretariat of Treasury, 4% to former IMKB members, 0.3% to former IAB members, and 3.8% to former shareholders of the VOB. 1% of shares will be transferred to the Turkish Capital Markets Association when it is formed according to the Capital Markets Law on 26 June 2014. The remaining 41.6% of the shares have been left to the Company in order to be transferred to other stock exchanges, markets or system operators in return for technology, technical know-how and competence and/or the relevant parties in return for establishing strategic partnerships in line with subparagraph c of the sixth paragraph of Article 138th of the Law. Within three years of the promulgation of the Law, the shares, if any, remaining at BİST shall be transferred to the Treasury. Within this period, the benefits from the transferred shares shall be recognized as share issuance premiums. On 7 January 2014, with the strategic partnership agreements, 5% of the shares were transferred to Nasdaq OMX.

Within the scope of the strategic partnership, 2% of the shares were transferred to Nasdaq OMX on 30 December 2015 and 5% on 7 January 2014. The Company has right of mortgage over 2% of the shares. A total of 7% of the shares registered on Nasdaq OMX will be accounted for as treasury shares under equity until the maturity date. The Board of Directors is of the opinion that the possibility of using these options is very low. However, in accordance with TAS 32 for possible prudence, the possible liabilities that may arise from such options are reflected in the financial statements.

At the 26 October 2015 Capital Markets Board meeting, it was decided that 10% of the shares which were left to the Company in order to establish strategic partnerships, to be transferred to the European Bank of Reconstruction and Development in line with Article 138th of Capital Market Law No. 6362, would be approved on the condition that this transfer was first approved by the Group's General Assembly. The share transfer was approved at the Extraordinary General Assembly held on 7 December 2015 and was registered on 10 December 2015. These 10% shares which were registered to EBRD will be accounted under shareholder's equity as treasury shares and other long-term financial liabilities until the date when the selling condition is invalid. The Board of Directors is of the opinion that the possibility of using these options is very low. However, in accordance with TAS 32 for possible prudence, the possible liabilities that may arise from such options are reflected in the financial statements.

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

21 SHAREHOLDER'S EQUITY (Continued)

The Company's shareholding structure as at 31 December 2017 and 31 December 2016 as follows:

	31 December 2017		31 December 2016	
Shareholder's Name/Title	**Amount (TL)**	**Share (%)**	**Amount (TL)**	**Share (%)**
Turkiye Wealth Fund(*)	311,500	73.60	-	-
Republic of Turkey Prime Ministry Undersecretariat of Treasury(*)	-	-	311,500	73.60
European Bank for Reconstruction and Development	42,324	10.00	42,324	10.00
Nasdaq OMX	29,626	7.00	29,626	7.00
Turkish Capital Markets Association	5,502	1.30	5,502	1.30
Borsa İstanbul A.Ş.(**)	3,358	0.79	-	-
Other	30,924	7.31	34,282	8.10
Total	**423,234**	**100.00**	**423,234**	**100.00**

(*) In accordance with the Decree of the Council of Ministers dated 24 January 2017, numbered 2017/9756 and published in the Official Gazette dated 5 February 2017, numbered 29970, the shares belonging to the Republic of Turkey Prime Ministry Undersecretariat of Treasury were transferred to the Turkiye Wealth Fund.

(**) It is composed of the shares that were acquired by Borsa İstanbul A.Ş. in compliance with the resolution taken in the Ordinary General Assembly meeting dated 8 June 2017.

Restricted reserves

	31 December 2017	31 December 2016
Restricted reserves	278,280	226,587
Total	**278,280**	**226,587**

As at 31 December 2017 and 31 December 2016, the restricted reserves consists of legal reserves.

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve balance reaches 20% of the Company's paid-in share capital. The second legal reserve is appropriated at the rate of 10% per annum of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

Share premium

	31 December 2017	31 December 2016
Share premium	200,450	200,450
	200,450	**200,450**

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

NOTE 21 – SHAREHOLDER'S EQUITY (Continued)

Other comprehensive income or expenses not to be reclassified to profit or loss

Revaluation reserve

	31 December 2017	31 December 2016
Revaluation reserve	13,677	-
	13,677	**-**

The revaluation reserve relates to the revaluation of property, plant and equipment immediately before its reclassification as investment property (Note 12).

Losses on remeasurements of defined benefit plans

Provision for employment termination benefits is calculated by estimating the present value of the future probable obligation arising from the retirement of the employees of the Group. In 2012, the Group has decided to early adopt the amendments to TAS 19 which is applicable as at 1 January 2014 and recognized all actuarial gains and losses in other comprehensive income. Actuarial loss recognized under shareholder's equity in the statement of financial position amounting to TL 6,137 as at 31 December 2017 (31 December 2016: TL 7,985).

Other comprehensive income or expenses to be reclassified to profit or loss

Currency translation differences

	31 December 2017	31 December 2016
Currency translation differences	873	270
	873	**270**

Foreign currency translation differences consist of foreign currency exchange differences arising from the translation of the financial statements of the Group's foreign operations into the presentation currency.

Treasury shares

	31 December 2017	31 December 2016
Treasury shares	(608,873)	(580,663)
	(608,873)	**(580,663)**

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

22 REVENUE AND COST OF SALES

For the years ended 31 December 2017 and 31 December 2016, the details of gross profit are as follows:

	1 January – 31 December 2017	1 January – 31 December 2016
Service revenue	1,048,070	891,939
Less: Sales discounts	(652)	(13,556)
Revenue	**1,047,418**	**878,383**
Cost of sales	(92,690)	(55,138)
Gross profit	**954,728**	**823,245**

For the years ended 31 December 2017 and 31 December 2016, the details of service revenue are as follows:

	1 January – 31 December 2017	1 January – 31 December 2016
Takasbank interest income	405,708	294,068
Trading revenues	258,068	245,520
Equity market	*79,985*	*51,332*
Debt securities	*63,261*	*116,289*
Derivatives	*61,257*	*43,834*
Takasbank money market	*37,967*	*24,962*
Precious metals and diamond market	*12,860*	*7,178*
Takasbank security lending market	*1,458*	*932*
Turkey electronic fund purchase and sale platform	*1,233*	*956*
Foreign marketable securities market	*47*	*37*
Custody and custody related operating income	159,102	123,456
Listing income	53,811	51,233
Data vending income	48,731	49,283
Settlement and clearing income	36,050	27,649
Security registration income	20,676	36,252
Additional terminal fee	13,105	13,231
Account management fee	11,081	10,906
Collocation income	10,546	7,865
Money transfer service income	7,039	4,982
License income	6,773	6,183
Membership fee	6,106	10,936
Public disclosure platform income	2,719	2,533
Other service income	8,555	7,842
Total	**1,048,070**	**891,939**

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

22 REVENUE AND COST OF SALES (Continued)

Cost of sales

For the years ended 31 December 2017 and 31 December 2016, the details of cost of sales are as follows:

	1 January – 31 December 2017	1 January – 31 December 2016
Takasbank interest expense	85,988	50,673
Fees and commissions	6,702	4,465
Total	**92,690**	**55,138**

23 GENERAL ADMINISTRATIVE EXPENSES

For the years ended 31 December 2017 and 31 December 2016, the details of general administrative expenses are as follows:

	1 January – 31 December 2017	1 January – 31 December 2016
Personnel fees and expenses	208,953	214,719
Depreciation and amortization expenses	40,845	32,919
Taxes and other legal expenses	11,679	11,628
Maintenance and repairment expenses	10,903	11,365
Outsourced benefit and services	6,747	7,297
Advertising expenses	5,991	4,830
Communication expenses	5,201	6,340
Subcontractor expenses	4,695	3,563
Travel expenses	3,955	2,853
Consultancy expenses	3,547	1,038
Electricity, water and natural gas expenses	3,484	4,113
Social expenses	3,310	7,296
Insurance expenses	2,607	3,716
Rent expenses	2,494	3,520
Other expenses	13,875	7,631
Total	**328,286**	**322,828**

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

23 GENERAL ADMINISTRATIVE EXPENSES (Continued)

Personnel expenses

For the years ended 31 December 2017 and 31 December 2016, the details of personnel expenses are as follows:

	1 January – 31 December 2017	1 January – 31 December 2016
Gross salaries	88,111	69,913
Salary dependent additional payments	28,980	46,446
Social benefits	20,672	20,253
Bonus expenses	18,158	41,039
Social security employer's contribution expenses	18,109	16,451
Mutual rescission expenses	13,716	7,910
Health care expenses	5,947	8,158
Other expenses	15,260	4,549
Total	**208,953**	**214,719**

Expenses by nature

	1 January – 31 December 2017	1 January – 31 December 2016
Personnel fees and expenses	208,953	214,719
Takasbank interest expenses	85,988	50,673
Depreciation and amortization expenses	40,845	32,919
Taxes and other legal dues	11,679	11,628
Maintenance and repairment expenses	10,903	11,365
Outsourced benefit and services	6,747	7,297
Fees and commissions	6,702	4,465
Advertising expenses	5,991	4,830
Communication expenses	5,201	6,340
Subcontractor expenses	4,695	3,563
Travel expenses	3,955	2,853
Consultancy expenses	3,547	1,038
Electricity, water and natural gas expenses	3,484	4,113
Social expenses	3,310	7,296
Insurance expenses	2,607	3,716
Rent expenses	2,494	3,520
Other expenses	13,875	7,631
Total	**420,976**	**377,966**

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

24 OTHER OPERATING INCOME / EXPENSES

Other operating expenses

For the years ended 31 December 2017 and 31 December 2016, the details of other operating expenses are as follows:

	1 January – 31 December 2017	1 January – 31 December 2016
Expense accrual for Capital Markets Board share (Note 15)	62,909	55,331
Tax penalty provision expense (Note 16)	25,099	-
Provision expenses	8,217	7,533
Foreign exchange loss	-	9,381
Other	1,311	340
Total	**97,536**	**72,585**

Other operating income

For the years ended 31 December 2017 and 31 December 2016, the details of other operating income are as follows:

	1 January – 31 December 2017	1 January – 31 December 2016
Foreign exchange gain	564	-
Incapacity to work expenses	463	352
Provision no longer required	354	2,510
Rental income	45	366
Compensation income from subcontractors	-	2,382
Other operating income	1,498	2,943
Total	**2,924**	**8,553**

25 INVESTMENT ACTIVITIES INCOME / EXPENSES

For the years ended 31 December 2017 and 31 December 2016, the details of investment activities income and expenses are as follows:

	1 January – 31 December 2017	1 January – 31 December 2016
Dividend income	4,120	2,156
Increase in fair value of investment properties	715	9,035
Gain on sale of investments accounted for under the equity method	-	1,013
Total	**4,835**	**12,204**

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

26 FINANCIAL INCOME / EXPENSES

For the years ended 31 December 2017 and 31 December 2016, the details of financial income are as follows:

Financial income

	1 January – 31 December 2017	1 January – 31 December 2016
Interest income	73,833	43,805
Rediscount income	12,313	12,761
Interest income from guarantee account	141	276
Total	**86,287**	**56,842**

For the years ended 31 December 2017 and 31 December 2016, the details of financial expenses are as follows:

Financial expenses

	1 January – 31 December 2017	1 January – 31 December 2016
Foreign exchange loss, net	80,341	139,139
Tax penalty default interest (Note 16)	16,399	-
Commission expenses	-	38
Total	**96,740**	**139,177**

27 TAX ASSETS AND LIABILITIES

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax.

Corporations are required to pay advance corporation tax quarterly at the rate of 20% on their corporate income. Advance tax is to be declared by the 14th day of the second month following each calendar quarter end and is payable by the 17th of the second month following each calendar quarter end.

According to the provisional Article 10 of the Law No. 7061 of 5 December 2017, numbered 30261, "Amendments to Certain Tax Laws and Some Other Laws" and the Law No. 5520 on Corporate Income Tax Law, It is foreseen that the corporation tax that should be paid over the profits of the tax years 2018, 2019 and 2020 will be calculated as 22% and the tax will be continued with 20%. During this period, the Council of Ministers was given the authority to reduce the rate of 22% to 20%.

As at 31 December 2017, provisional tax is payable at the rate of 20% on the income generated for the three-month periods pursuant to tax legislation and the amounts paid in this way are deducted from the tax calculated on the annual earnings. With the amendment made in the law, this ratio was determined as 22% for the years 2018, 2019 and 2020.

Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to set off against other liabilities to the government.

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

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

27 TAX ASSETS AND LIABILITIES (Continued)

Tax returns are open for five years from the beginning of the year that follows the date of filing during which time 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.

Under the Turkish taxation system, tax losses can be carried forward to be offset against future taxable income for up to five years. Tax losses cannot be carried back in order to net-off accumulated gains.

As at 31 December 2017 and 31 December 2016, the details of current tax assets and liabilities are as follows:

	31 December 2017	**31 December 2016**
Provision for corporate tax	116,967	92,933
Prepaid tax	(86,597)	(70,633)
Current income tax liabilities	**30,370**	**22,300**

For the years ended 31 December 2017 and 31 December 2016, the details of tax expenses in profit or loss are as follows:

	1 January – 31 December 2017	**1 January – 31 December 2016**
Income tax expense	116,967	92,933
Deferred tax expense	4,960	5,825
Total tax expense	**121,927**	**98,758**

The total provision for taxes on income is different than the amount computed by applying the statutory tax rate to profit before provision for taxes as shown in the following reconciliation for the years ended 31 December 2017 and 31 December 2016:

	1 January – 31 December 2017	**1 January – 31 December 2016**
Profit before taxes	**541,565**	**374,393**
Income tax charge at effective tax rate	108,313	74,879
Adjustments from deferred tax calculations	7,119	27,868
Income from tax exemptions	(13,018)	(5,029)
Non-deductible expenses	17,894	1,006
Effect of tax rate change	1,619	-
Other	-	34
Tax expense	**121,927**	**98,758**

For the year ended 31 December 2017, effective tax rate is as 20.9% (31 December 2016: 20.3%).

Deferred tax assets and liabilities

The Group and its subsidiaries calculate deferred tax assets and liabilities considering the effects of the temporary differences arising from the different valuations between the TFRS and the tax financial statements of the balance sheet items. As 22% corporation tax came into force with the "Law on the Amendment of Certain Tax Laws and Other Certain Other Laws" numbered 7061, 22% is used for the temporary differences which are likely to be recovered in 2018, 2019 and 2020, and 20% is used for the part which are likely to be recovered over three years in the calculation of deferred tax while preparing the 31 December 2017 financial statements (31 December 2016: 20%).

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

27 TAX ASSETS AND LIABILITIES (Continued)

Deferred tax assets and liabilities (Continued)

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

Calculated deferred tax assets and deferred tax liabilities are shown net in the financial statements of different companies subject to consolidation. However, consolidated net deferred tax assets and liabilities in the consolidated without offsetting assets and liabilities are shown separately in the financial statements arising from different companies that are subject to consolidation in the financial statements.

	31 December 2017		31 December 2016	
	Temporary differences	**Deferred tax**	**Temporary differences**	**Deferred tax**
Expense accrual for Capital Markets Board share	62,909	13,840	55,331	11,066
Provision for employee termination benefits	24,369	4,874	29,088	5,818
Provision for unused vacation liabilities	18,038	3,968	17,426	3,485
Lawsuit provisions	18,151	3,696	10,418	2,084
Provision for service bonuses	6,086	1,217	9,674	1,935
Other	5,970	1,194	-	-
Deferred tax assets		**28,789**		**24,388**
Net difference between the tax bases and carrying values of property plant and equipment, intangible assets and investment properties	144,655	28,930	65,727	13,145
Other	345	68	2,498	500
Deferred tax liabilities		**28,998**		**13,645**
Deferred tax assets / liabilities, net		**(209)**		**10,743**

As at 31 December 2017, the Group has deferred tax assets amounting to TL 5,831 (31 December 2016: TL 10,743) and deferred tax liabilities amounting to TL 6,040 (31 December 2016: None).

For the years ended 31 December 2017 and 31 December 2016, the movements of deferred tax assets during the year are as follows:

	1 January – 31 December 2017	**1 January – 31 December 2016**
Opening balance - 1 January	10,743	16,254
Deferred tax expense	(4,960)	(5,825)
Other comprehensive income tax that will never be reclassified to profit or loss	(5,992)	314
- Deferred tax income / (expense)	*(5,992)*	*314*
Ending balance - 31 December	**(209)**	**10,743**

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

28 RELATED PARTY DISCLOSURES

Other short- term and long-term financial liabilities to related parties

As at 31 December 2017 and 31 December 2016, the details of other short-term and long-term financial liabilities to related parties are as follows:

	31 December 2017	31 December 2016
Short term liabilities		
Other financial liabilities to related parties(*)	*685,650*	-
Long term liabilities		
Other financial liabilities to related parties(*)	*160,146*	*777,765*
Total	**845,796**	**777,765**

(*) Consists of transaction performed with the Group's shareholders (Note 1).

As at 31 December 2017 and 31 December 2016, the details of short term payables to related parties are as follows:

	31 December 2017	31 December 2016
Expense accrual for Capital Markets Board share(*)	62,909	55,331
Total	**62,909**	**55,331**

(*) In accordance with the amendment to sub-paragraph (b) of Article 28th of the Capital Markets Law promulgated in Official Gazette No. 27857 dated 25 February 2011, legislation requires recognition of a maximum of 10% of the income, other than interest income, of the stock exchanges in the CMB's budget. For this reason, the Group recognizes an expense for the CMB's share which must be paid from the relevant year's income. As at 2015, BİST made the payments for the Capital Markets Board provisions allocated for 2014 and previous years. In accordance with the amendment in the fourth paragraph of Article 130th of Law No. 6362 promulgated in Official Gazette No. 29319 dated 7 April 2015, starting with 2015 income, the income amount recorded in the CMB budget as at 2014 year-end will be increased by the arithmetic average of the Consumer Price Index and Domestic Producer Price Index change ratios for December of the previous year through the most recent December. These ratios are calculated for Turkey annually by the Turkish Statistical Institute. The expense accrual amount thus calculated will be allocated as the CMB's share for the year.

Related party expenses

	1 January – 31 December 2017	1 January – 31 December 2016
Capital Markets Board	62,909	55,331
Total	**62,909**	**55,331**

Key management personnel compensation

For the years ended 31 December 2017, salaries and similar benefits provided to members of key management are amounting to TL 6,092 (31 December 2016: TL 7,157).

29 NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS

This note presents information about the Group's exposure to each of the below risks, Group's objectives, policies and processes for measuring and managing risks. The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

Credit risk

The Group's credit risk is primarily arising from its trade receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables estimated by the Group management based on prior experience and current economic environment.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates, value of marketable securities and other financial agreements.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations as associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group generally generates funds by liquidating its short-term financial instruments such as collecting its receivables. The Group manages its liquidity risk by allocating its resources to obtain adequate reserves for recovering its current and potential liabilities, with time deposits, investment funds and government bond investments.

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

29 NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

29.1 Credit risk

As at 31 December 2017, credit risk exposure of the Group in terms of financial instruments are as follows:

	Receivables				**Cash and cash equivalents**		
	Trade receivables		**Other receivables**				
31 December 2017	**Related party**	**Other**	**Related party**	**Other**	**Deposit at banks**	**Reverse repo receivables**	**Financial investments**
Exposure to maximum credit risk as at reporting date (A+B+C+D)	-	**247,515**	**-**	**348**	**10,779,639**	**20,833**	**76,846**
-Guaranteed part of maximum credit risk with collaterals etc.	-	-	-	-	-	-	-
A. Net carrying value of financial assets which are neither impaired nor overdue	-	247,515	-	348	10,779,639	20,833	76,846
B. Net carrying value of financial assets which are overdue but not impaired	-	-	-	-	-	-	-
C. Net carrying value of impaired assets	-	-	-	-	-	-	-
- Overdue (Gross book value)	-	1,965	-	-	-	-	-
- Impairment (-)	-	(1,965)	-	-	-	-	-
- Guaranteed part of net value with collaterals	-	-	-	-	-	-	-
- Undue (gross book value)	-	-	-	-	-	-	-
- Guaranteed part of net value with collaterals	-	-	-	-	-	-	-
D. Off statement of financial position items with credit risk	-	-	-	-	-	-	-

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

29 NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

29.1 Credit risk (Continued)

As at 31 December 2016, credit risk exposure of the Group in terms of financial instruments are as follows:

	Receivables				Cash and cash equivalents		
	Trade receivables		Other receivables				
31 December 2016	**Related party**	**Other**	**Related party**	**Other**	**Deposit at banks**	**Reverse repo receivables**	**Financial investments**
Exposure to maximum credit risk as at reporting date (A+B+C+D)	-	**143,792**	**-**	**158**	**8,171,190**	**21,168**	**47,101**
-Guaranteed part of maximum credit risk with collaterals etc.	-	-	-	-	-	-	-
A. Net carrying value of financial assets which are neither impaired nor overdue	-	143,792	-	158	8,171,190	21,168	47,101
B. Net carrying value of financial assets which are overdue but not impaired	-	-	-	-	-	-	-
C. Net carrying value of impaired assets	-	-	-	-	-	-	-
- Overdue (Gross book value)	-	1,919	-	-	-	-	-
- Impairment (-)	-	(1,919)	-	-	-	-	-
- Guaranteed part of net value with collaterals	-	-	-	-	-	-	-
- Undue (gross book value)	-	-	-	-	-	-	-
- Guaranteed part of net value with collaterals	-	-	-	-	-	-	-
D. Off statement of financial position items with credit risk	-	-	-	-	-	-	-

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

29 NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

29.2 Liquidity risk

Liquidity risk is the Group's default in meeting its net funding liabilities. Events causing a decrease in funding resources such as; market deteriorations or decrease in credit ratings are major reasons of liquidity risk. The Group manages its liquidity risk by allocating its resources to obtain adequate reserves for recovering its current and potential liabilities by holding appropriate level of cash and cash equivalents.

The table below represents the gross amount of un-discounted cash flows related to financial liabilities based on the remaining maturities as at 31 December 2017 and 31 December 2016:

31 December 2017	Carrying value	Contractual cash flows	Up to 3 months	3-12 months	1-5 years
Non-derivative financial liabilities					
Current liabilities					
Short term borrowings	3,179,005	3,179,005	3,179,005	-	-
Trade and other payables	335,853	335,853	335,853	-	-
Payables to related parties	62,909	62,909	62,909		-
Other current liabilities	5,712,501	5,712,501	5,712,501	-	-
Non-current liabilities					
Other long-term liabilities	8.590	8.590	-	-	8.590
Total non-derivative financial liabilities	**9,298,858**	**9,298,858**	**9,290,268**	**-**	**8,590**
Derivative financial liabilities					
Current liabilities					
Other financial liabilities to related parties	685.650	688.372	-	688.372	-
Non-current liabilities					
Other financial liabilities to related parties	160.146	169.736	-	-	169.736
Total derivative financial liabilities	**845.796**	**858.108**	**-**	**688.372**	**169.736**
Total liabilities	**10,144,654**	**10,156,966**	**9,290,268**	**688,372**	**178,326**

31 December 2016	Carrying value	Contractual cash flows	Up to 3 months	3-12 months	1-5 years
Non-derivative financial liabilities					
Current liabilities					
Short term borrowings	2.444.232	2.444.493	2.444.493	-	-
Trade and other payables	282.511	282.511	282.511	-	-
Payables to related parties	55.331	55.331	55.331	-	-
Other current liabilities	4.189.717	4.189.717	4.189.717	-	-
Non-current liabilities					
Other long-term liabilities	2.738	2.738	-	2.738	-
Total non-derivative financial liabilities	**6.974.529**	**6.974.790**	**6.972.052**	**2.738**	**-**
Derivative financial liabilities					
Non-current liabilities					
Other financial liabilities to related parties	777.765	787.648	-	-	787.648
Total derivative financial liabilities	**777.765**	**787.648**	**-**	**-**	**787.648**
Total liabilities	**7.752.294**	**7.762.438**	**6.972.052**	**2.738**	**787.648**

(*) Other long-term liabilities amounting to TL 2,738 have been added to the 31 December 2016 footnote for comparative representation.

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

29 NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

29.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The Group manage market risk by balancing the assets and liabilities exposed to the interest rate change risk.

Foreign currency risk

The Group is exposed to foreign currency risk due to the changes in foreign exchange rates while having assets, liabilities or off statement of financial position items denominated in foreign currencies.

The foreign exchange rates used by the Group for translation of the transactions in foreign currencies as at 31 December 2017 and 31 December 2016, are as follows:

	31 December 2017	31 December 2016
USD	3.7719	3.5192
EUR	4.5155	3.7099

The table below summarizes the foreign currency position risk of the Group. As at 31 December 2017 and 31 December 2016, carrying value of assets and liabilities held by the Group in foreign currencies (in TL equivalent) are as follows:

	31 December 2017			31 December 2016		
	TL	**USD**	**EUR**	**TL**	**USD**	**EUR**
Cash and cash equivalents	4,443,717	656,053	436,087	3,324,787	665,571	264,835
Financial investments	659	-	146	543	-	146
Total assets	**4,444,376**	**656,053**	**436,233**	**3,325,330**	**665,571**	**264,981**
Short term borrowings	2,372,952	347,664	235,101	1,869,741	288,514	230,303
Other current liabilities	2,056,993	304,975	200,788	1,446,068	375,162	33,910
Other financial liabilities to related parties	845,796	224,236	-	777,765	221,006	-
Total liabilities	**5,275,741**	**876,875**	**435,889**	**4,093,574**	**884,682**	**264,213**
Net foreign currency assets / (liabilities)	**(831,365)**	**(220,822)**	**344**	**(768,244)**	**(219,111)**	**768**

(Amounts expressed in thousand Turkish Liras (“TL”) unless otherwise indicated.)

29 NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

29.3 Market risk (Continued)

Exposure to foreign currency risk

An appreciation/depreciation of the TL by 10% against the other currencies below would have increased/(decreased) the equity and profit/loss (excluding the tax effect) For the years ended 31 December 2017 and 31 December 2016:

Foreign exchange sensitivity analysis table

	Profit/(Loss)		Shareholder’s equity	
31 December 2017	**Strengthening of foreign currency**	**Weakening of foreign currency**	**Strengthening of foreign currency**	**Weakening of foreign currency**
Increase/(decrease) 10% of USD parity				
1- USD net asset/liability	(83,292)	83,292	(83,292)	83,292
2- Hedged portion of USD amounts (-)	-	-	-	-
3- Net effect of USD (1+2)	**(83,292)**	**83,292**	**(83,292)**	**83,292**
Increase/(decrease) 10% of EURO parity				
4- EURO net asset/liability	155	(155)	155	(155)
5- Hedged portion of EURO amounts (-)	-	-	-	-
6- Net effect of EURO (4+5)	**155**	**(155)**	**155**	**(155)**
TOTAL (3+6)	**(83,137)**	**83,137**	**(83,137)**	**83,137**

	Profit/(Loss)		Shareholder’s equity	
31 December 2016	**Strengthening of foreign currency**	**Weakening of foreign currency**	**Strengthening of foreign currency**	**Weakening of foreign currency**
Increase/(decrease) 10% of USD parity				
1- USD net asset/liability	(77,110)	77,110	(77,110)	77,110
2- Hedged portion of USD amounts (-)	-	-	-	-
3- Net effect of USD (1+2)	**(77,110)**	**77,110**	**(77,110)**	**77,110**
Increase/(decrease) 10% of EURO parity				
4- EURO net asset/liability	285	(285)	285	(285)
5- Hedged portion of EURO amounts (-)	-	-	-	-
6- Net effect of EURO (4+5)	**285**	**(285)**	**285**	**(285)**
TOTAL (3+6)	**(76,825)**	**76,825**	**(76,825)**	**76,825**

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

29 NATURE AND LEVEL OF RISKS RELATED TO FINANCIAL INSTRUMENTS (Continued)

29.3 Market risk (Continued)

Interest rate risk

Interest sensitivity of assets:

The Group is exposed to interest rate risk due to effects of the changes in market interest rates on the interest rate sensitive assets and liabilities.

The Group's interest rate sensitive financial instruments' allocation as at 31 December 2017 and 31 December 2016 are presented below:

Financial instruments with fixed interest rate	31 December 2017	31 December 2016
Financial assets		
Bank deposits	10,708,361	8,076,431
Reverse repo receivables	20,833	21,168
Financial assets held for trading	-	1,158
Held-to-maturity financial assets	76,846	45,943
Financial liabilities		
Short term borrowings	3,179,005	2,444,232

30 FINANCIAL INSTRUMENTS

Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably.

Fair value of financial assets and liabilities has to be determined for accounting policies and/or presentation of notes.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments for which it is practicable to estimate fair value.

Financial assets

It is estimated that the fair values and carrying amounts of the bank deposits, trade and other receivables are close to each other, since they have short term maturities.

Investment funds and securities measured at fair value are valued using the market prices available at the reporting date.

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

30 FINANCIAL INSTRUMENTS

Financial liabilities

It is estimated that the fair values and carrying amounts of the financial liabilities, trade payables and other liabilities are close to each other due to their short term maturities.

31 December 2017	Carrying value	Fair value	Note
Financial assets			
Cash and cash equivalents	10,800,918	10,800,918	4
Trade and other receivables	247,863	247,863	7
Financial investments (Held-to-maturity financial assets)	76,846	76,897	6
Financial liabilities			
Borrowings	3,179,005	3,179,005	17
Trade and other payables	398,762	398,762	15
Other financial liabilities	845,796	845,796	15

31 December 2016	Carrying value	Fair value	Note
Financial assets			
Cash and cash equivalents	8,192,829	8,192,829	4
Trade and other receivables	143,950	143,950	7
Financial investments (Held-to-maturity financial assets)	45,943	47,102	6
Financial investments (Financial assets held for trading)	1,158	1,158	6
Financial liabilities			
Borrowings	2,444,232	2,444,232	17
Trade and other payables	337,842	337,842	15
Other financial liabilities	777,765	777,765	15

As at 31 December 2017 and 31 December 2016, the fair value classification of the held to maturity financial assets of the Group is Level 2.

Classification relevant to fair value information

The table below analyses financial instruments carried at fair value, by the levels in the fair value hierarchy. The different levels have been defined as follows:

Level 1: Registered (unadjusted) prices of identical assets or liabilities in active markets;

Level 2: Data which can be observed by directly (through prices) or indirectly (derived from prices) and which excludes the registered prices described in Level 1;

Level 3: Data that is not based on observable market data related to assets and liabilities (non-observable data).

(Amounts expressed in thousand Turkish Liras ("TL") unless otherwise indicated.)

30 FINANCIAL INSTRUMENTS (Continued)

Classification relevant to fair value information (Continued)

The classification of fair value measurements of financial assets and liabilities measured at fair value is as follows:

31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Investment funds (Cash and cash equivalents)	361	-	-	361
Total	**361**	**-**	**-**	**361**
Financial liabilities				
Other financial liabilities	-	845,796	-	-
Total	**-**	**845,796**	**-**	**-**

31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Investment funds (Cash and cash equivalents)	417	-	-	417
Financial assets held for trading	1,158	-	-	1,158
Total	**1,575**	**-**	**-**	**1,575**
Financial liabilities				
Other financial liabilities	-	777,765	-	-
Total	**-**	**777,765**	**-**	**-**

Financial assets available for sale which are affiliates of the Group, have been accounted for making use of cost value.

Explanations of non-financial assets and liabilities at fair value

As at 31 December 2017 and 31 December 2016, real estates classified as investment property in the financial statements are carried at fair value. Level 2 inputs are used to determine fair value of investment properties. The fair value of the investment properties as at 31 December 2017 amount to TL 59,355 is determined using the market value approach as stated in the valuation reports (31 December 2016: TL 22,285). Related valuation methods and accounting policies are explained in Note 2.10.

31 SUBSEQUENT EVENTS

None.