aktif bank

2018 ANNUAL REPORT

Our ecosystem is based on
financial technologies
and our roots, on Aktif Bank's
visionary power.

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Introduction

Industrial Position and 2018 Activities

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VISION

To provide easy access to financial services that meet the needs of all segments of society and to become the widest reaching financial services organization through innovative and beneficial solutions.

MISSION

To create lasting value for our country, economy and society through innovative solutions and an entrepreneurial approach in all areas in which we provide services; and to become a preferred financial institution to work with both for our stakeholders and human resources.

MILESTONES

1999
Çalık Bank is founded

2008
Change of title as aktif bank

2009
First bank bond issuance in Turkey

2010

2011
Turkey's first asset-backed security is issued

2013
Turkey's first mudaraba sukuk is issued

2014

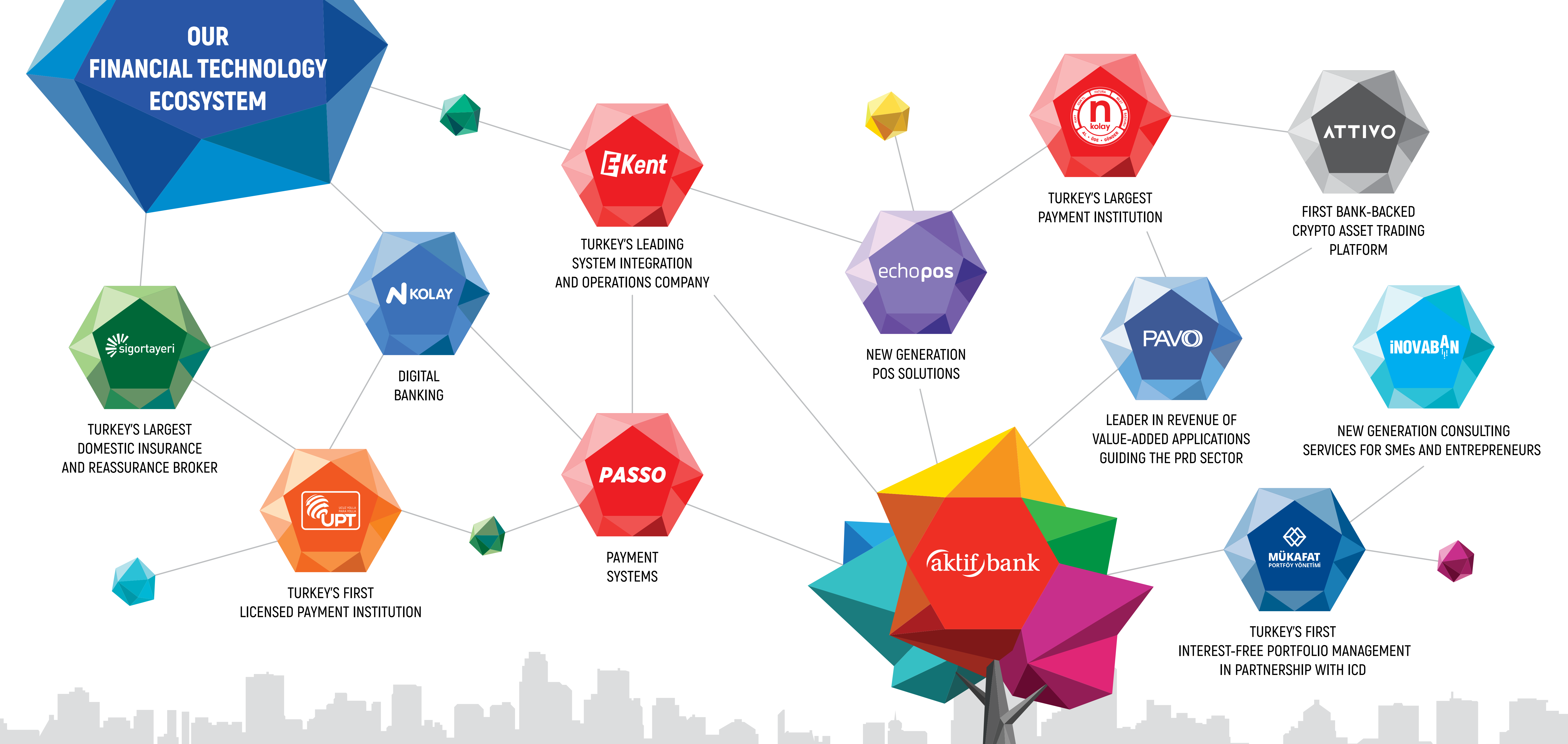
2015

2016
First Eurobond is issued

2017
Aktif Halk Enerji Yatırımları A.Ş. is founded

First Euro sukuk is issued

2018


OUR
FINANCIAL TECHNOLOGY
ECOSYSTEM
sigortayeri
TURKEY'S LARGEST
DOMESTIC INSURANCE
AND REASSURANCE BROKER
KOLAY
DIGITAL
BANKING
UPT
TURKEY'S FIRST
LICENSED PAYMENT INSTITUTION
EKent
TURKEY'S LEADING
SYSTEM INTEGRATION
AND OPERATIONS COMPANY
PASSO
PAYMENT
SYSTEMS
echopos
NEW GENERATION
POS SOLUTIONS
n kolay
TURKEY'S LARGEST
PAYMENT INSTITUTION
ATTIVO
FIRST BANK-BACKED
CRYPTO ASSET TRADING
PLATFORM
PAVO
LEADER IN REVENUE OF
VALUE-ADDED APPLICATIONS
GUIDING THE PRD SECTOR
iNOVABAN
NEW GENERATION CONSULTING
SERVICES FOR SMEs AND ENTREPRENEURS
aktif bank
MÜKAFAT
PORTFÖY YÖNETİMİ
TURKEY'S FIRST
INTEREST-FREE PORTFOLIO MANAGEMENT
IN PARTNERSHIP WITH ICD

e-kent.com.tr

nkolayislem.com.tr

attivo.com.tr

sigortayeri.com

nkolay.com

echopos.com.tr

pavo.com.tr

inovaban.com.tr

upt.com.tr

passo.com.tr

mukafatportfoy.com.tr

Aktif Bank: An Ecosystem of Financial Technologies

Turkey's largest investment bank, Aktif Bank is also Turkey's largest Financial Technology Platform, driven by the investments it has made and the alternative business models it has implemented since the day of its establishment. Building its corporate culture on new-generation finance and technology entrepreneurship, the Bank achieves fast, flexible and cost-efficient results with its unique business model. Together with its subsidiaries and business partners, today Aktif Bank serves 8 million customers across more than 10 lines of business, meeting their daily needs in various areas including loans, insurance, transportation, card services, and payment systems. With products offered via physical and digital channels, the Bank acts as the business partner and the competitor of domestic and global financial technology companies.

With 10 branches across Turkey, Aktif Bank provides corporate banking, investment banking and private banking services that require predominantly face-to-face communications. In retail banking, which demands a large distribution network, Aktif Bank employs effective collaborations, innovative business models and investments in digital channels to hold 14.5% of the Turkey's retail banking customer market with 663 employees.

Aktif Bank, a large financial technology platform with its convenient, productive and profitable business model, continued to invest in financial technologies in 2018 as well. In March, the Bank established a new subsidiary, Inovaban, through which it aims to provide strategic growth consultancy services to 20,000 SMEs in the span of five years. Inovaban already served 2,200 SMEs within six months of its establishment. In August, though its affiliate UPT, the Bank launched the SendUPT service, which enables Turkish nationals residing in Europe to make convenient and low-cost money transfers to Turkey. Passolig Card, a product of the world's most comprehensive stadium transformation project, reached 4.2 million users and Passo mobile application, which allows entrance to football games via mobile phones, was downloaded 2.5 million times.

In 2018, Aktif Bank launched the Ankara Card mobile application, which meets all urban transportation needs and brings together public transportation and payment features within a single platform, and successfully made its way into approximately 80,000 people's mobile phones. The Bank reached 50,000 users with N Kolay Ankara Card used in subways, buses, trams, trains, and cable cars. Aktif Bank continues to offer digital banking products like N Kolay Bond and N Kolay Loan and develop innovative solutions that make customers' lives easier.

With hundreds of awards from global platforms under its distinguished products and solutions, Aktif Bank is among Turkey's renowned institutions to receive the highest number of international awards. In 2018, the Bank won 26 new accolades, bringing its total awards to 154.

aktif bank

A unique model offering sustainable profit growth

Financials

	2018 (Thousand TRY)	2017 (Thousand TRY)	Change
Balances with Banks & Money Market Placements	265,665	154,166	72%
Trading Securities (Net)	-	51,956	-100%
Financial Assets at Fair Value Through Profit or Loss	488,030	-	100%
Investment Securities (Net)	2,337,493	1,564,817	49%
Loans & Factoring Receivables (Net)	6,903,543	6,539,477	6%
Financial Lease Receivables (Net)	-	-	0%
Shareholders' Equity	1,574,102	1,222,950	29%
Total Assets	13,882,523	11,070,991	25%
Guarantees and Indemnities	1,232,225	1,308,957	-6%
Net Interest Income	425,574	570,519	-25%
Net Fee and Commission Income	98,614	174,782	-44%
Profit Before Taxes	480,450	310,765	55%
Provision for Taxes on Income	-98,778	-76,938	28%
Net Profit	381,672	233,827	63%

Performance Ratios

	2018	2017
Capital Adequacy Standard Ratio	12.87%	13.37%
Return on Average Equity	27.29%	21.19%
Return on Average Assets (Profit Before Tax Basis)	3.85%	3.02%
Return on Average Assets (Net Profit Basis)	3.06%	2.28%
Net Fee and Commission Income / Operating Costs	12.39%	19.52%
Fixed Assets (Net) / Average Equity	52.52%	36.27%
Non-Performing Loans / Total Loans	3.82%	2.86%
Interest Incomes / Interest Expenditures	146.90%	226.50%
Yielding Assets / Total Assets	72.00%	75.14%

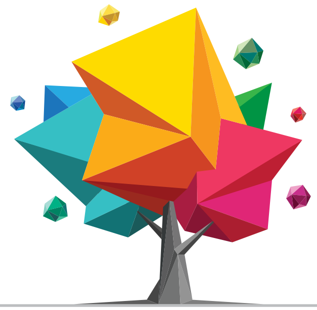
Capital and Shareholding Structure

The Bank's main shareholding and capital structure as of December 31, 2018 is as follows:

Name Surname/ Commercial Title	Total Value of Shares	Share (%)	Paid Shares	Unpaid Shares
Çalık Holding A.Ş.	1,186,791	99.43	1,186,791	-
Çalık Denim Tekstil San. ve Tic. A.Ş.	3,597	0.30	3,597	-
Ahmet Çalık	1,599	0.13	1,599	-
Başak Yönetim Sistemleri A.Ş.	799	0.07	799	-
Irmak Yönetim Sistemleri A.Ş.	799	0.07	799	-
Total	**1,193,585**	**100.00**	**1,193,585**	**-**

Amendments to the Articles of Association and Reasons

At the Extraordinary General Assembly Meeting on December 13, 2018, the Bank's capital was increased (i) using the Bank's internal resources (voluntary reserves kept under the "Extraordinary Reserves" item, reserved as per the General Assembly decision of March 26, 2018) and (ii) in cash payment by the Bank's principal shareholder Çalık Holding A.Ş.; and the article titled "The Bank's Capital and Share Certificates" on the Articles of Association was amended accordingly.



Founded in 1981, Çalık Holding operates across a wide range of sectors including energy, construction and real estate, mining, textile, finance, and telecommunications.

With operations in 22 countries across Central Asia, the Balkans, and the MENA region, the Group employs over 30,000 people.

Çalık Holding is a major player in Turkey and in the world with its companies Çalık Enerji in the energy sector; Çalık Petrol in oil exploration; YEDAŞ, YEPAŞ, Limak joint venture KEDS, and Kiler joint ventures ARAS EDAŞ and ARAS EPAŞ in electricity distribution; Lidya Madencilik in mining; Gap İnşaat and Çalık Gayrimenkul in construction; Aktif Bank, BKT (Banka Kombetare Tregtare) Albania and BKT Kosovo in finance; Çalık Denim and Gap Pazarlama in textile; Albtelecom in telecom; and Çalık Dijital in the digital sector.

Throughout its operations across the world, Çalık Holding is known for its integrity, reliability, robust financial structure, and long-term collaborations with international companies. It develops innovative business models and moves forward in its lines of business with sustainable growth. Dedicated to creating lasting value for all regions in which it operates, Çalık Holding recognizes the new opportunities introduced into the world of business by Industry 4.0, and focuses its business processes, services and products on digitalization.

AHMET ÇALIK
Chairman

The key to our financial success is the productivity of our business models based on digital processes.

Esteemed Business Partners and Colleagues,

2018 was a year of extraordinary developments for Turkey's economy, which, nevertheless, is now entering a period of rapid recovery thanks to the measures taken and the right maneuvers. As a result of the volatility in August, where the Turkish Lira hit records lows against the Euro and Dollar, the market started experiencing problems such as deterioration in short-term pricing, inflation and market rate hikes, and increasing costs of financing. However, thanks to timely intervention, economic management policies and the New Economic Balance Program, which largely met the expectations of the market, tourism revenues and the rapidly narrowing international trade gap enabled a current surplus in the last quarter of the year, strengthening the appreciation trend in the Turkish Lira.

The US's move to increase customs duties to help close its foreign trade deficit against China was a determining factor for the global economy in 2018. During the year, US Federal Reserve (FED) was in the limelight for financial markets. Especially the economic data from the US and the bond yields reaching record highs since 2011 restricted the flow of capital to developing countries. Meanwhile, under the shadow of the uncertainty of Brexit, economic activity in the Eurozone slowed down compared to the previous year, but nevertheless the region managed to maintain its vitality.

In 2018, Aktif Bank managed its resource costs and sustainability with a disciplined, rational and prudent risk approach, and thus was able to sustain its liquidity indicators and balance sheet strength. As of the end of the year, the Bank's profits increased by 48% (BRSA Standalone Figure) to TRY 262.7 million. Asset size increased 22% (BRSA Standalone Figure) over the previous year to reach TRY 13,5 billion. The key to Aktif Bank's remarkable financial success is the productivity of its business model based on digital processes.

Today, we oversee the operation of 4,2 million Passolig cards, Passo mobile application, which has been downloaded 2,5 million times to far, and transportation solutions serving millions of people with a staff of only 663, indicating a remarkable level of efficiency with a customers per employee rate well above that of the Turkish banking sector average.

Making a significant contribution to Aktif Bank's profitability, our subsidiaries account for approximately 37% of the Bank's total consolidated profits. In 2018, we bolstered our ranks with new subsidiaries, which are all growing leaders in their respective sectors. Having started operations in March, Inovaban set out with the goal of providing strategic growth consultancy services to 20,000 SMEs in five years. Attivo Bilişim A.Ş. was established in 2018, making Aktif Bank the first bank in Turkey to invest in blockchain technologies. Meanwhile UPT, Turkey's first domestic global money transfer platform, launched the SendUPT service, enabling Turkish nationals residing in Europe to make convenient and economic money transfers to Turkey.

In line with the main goal of the Çalık Group and our mission to making people's lives easier, Aktif Bank maintains a contemporary and sustainable focus, fueled by its innovative and sustainable business models, entrepreneurial structure, and investments in financial technologies.

As recognized by all developed economies, productivity, an essential keyword of business, is the key driving force of development. The rapidly changing business world requires companies to foreground productivity as much as they value rational and innovative policies. For this reason, business productivity will be one of the focal points of our Group companies in 2019. We will strive to further enhance our productivity to ensure sustainability and maintain our competitive power.

Another key agenda item is increasing the Group's investments in digitalization. Through digitalization, we aim to transform our business models. In 2019, we will develop new projects with the goal of promoting the digital transformation movement, which began with Çalık Dijital, across the entire Group. Aktif Bank will also continue to invest in digital banking and to provide solutions for diverse financial needs via mobile applications.

I thank our esteemed colleagues, business partners and stakeholders for their contributions to these important efforts.

Sincerely,

Ahmet Çalık

DR. SERDAR SÜMER
CEO

We have based our corporate culture entirely on financial technologies.

Esteemed Stakeholders,

In 2018, while exchange and interest rates remained high due to macroeconomic conditions, Aktif Bank managed its resource costs and sustainability in the best way possible with a disciplined, rational and prudent approach to risks. We successfully maintained our liquidity indicators and balance sheet strength. Despite the growing competition in technology, our Bank sustained its market share, customer segments and customers in 2018 with its innovations and investments.

Profits as of the end of 2018 were 48% (BRSA Standalone Figure) higher compared to the previous year.

Since our establishment, we have introduced the sector to a brand new banking approach thanks to our investments in digital transformation and our unique business models tailored to the needs of our customers. We have based our corporate culture entirely on financial technologies. Yielding rapid, flexible and cost-effective results with a unique and authentic business model, Aktif Bank positions itself as more than a bank: we are not only one of Turkey's largest investment banks, but also one of the country's largest fintech companies.

In order to develop new products that will make customers' lives easier and increase our productivity through technology, we continued to invest in fintech in 2018. As part of N Kolay, the key component of our digital service and product universe, we continued providing innovative solutions to customers by developing digital banking products such as N Kolay Bond and N Kolay Loan. In 2018, we increased the digital customer balance of N Kolay Bond by 4.5-fold compared to the previous year.

Last year, we launched the N Kolay Ankara Card project, addressing all urban transportation-related needs, and brought transportation and shopping together under a single platform. In a short amount of time, N Kolay Ankara Card reached 50,000 users. By the end of 2018, more than TRY 1.1 million was deposited to the cards, which were used 700,000 times for public transportation. With the Ankara mobile application launched in 2018, we were able to touch the lives of Ankara residents. We are also looking forward to introducing a brand new application to facilitate the use of N Kolay Bond in early 2019.

Employing a business model that is based on digital banking and innovative channels, Aktif Bank has managed to acquire a market share of 20 percent with only 10 physical branches, against the 10,000 bank branches in the sector. Thanks to our brand strength supported by a high production volume and extensive customer base, we increased the number of customers from 6.5 million in 2018 to 8 million in 2018.

In addition to Yeşilyurt and Antalya branches we opened this year, we renewed our branch concept, focusing on "high street banking". Our branches have demonstrated an extraordinary performance, reaching a work volume twice that of peer bank branches and five times that of sector average.

In 2018, we added new companies to our subsidiaries, which greatly contribute to our profitability. As the first bank in Turkey to invest in blockchain technologies, we established Attivo Bilişim A.Ş., through which we aim to support Turkey's development in this field while providing secure crypto-asset trading services via a new platform we will establish. Furthermore, in March, we established a subsidiary, Inovaban, with an objective to provide strategic growth consultancy services to 20,000 SMEs in 5 years. Inovaban already served 2,200 SMEs within the first six months of its inception. In 2018, our subsidiary UPT launched SendUPT, an innovative service that enables Turks residing in Europe to transfer money to Turkey in a convenient and affordable manner.

Our subsidiary E-Kent, a pioneer in developing and integrating smart urban solutions, continued to provide 1 billion smart transportation transactions per year through its transportation solutions infrastructure. Turkey's innovative insurance broker Sigortayeri carried its high growth rates of 2016 and 2017 into 2018, cementing its position as "Turkey's largest domestic insurance broker" with 150% growth in policies over 2017. Building on its extensive expertise on the cash register systems sector, PAVO continues to serve its customers with over 200,000 value-added applications and software integrations. Within only two years of its inception, Mükafat Asset already manages a portfolio worth over TRY 500 million, expanding its range of alternative products on a course of continuous growth. N Kolay Payment Institution, with Turkey's most expansive network in its sector, continues to offer its services through 575 N Kolay Transaction Centers and 3,940 N Kolay Kiosks.

Continuing to embrace and support Turkish football, the Bank has published the third Ekolig - Football Economy Report focusing on revenues and economic outlook of football. According to the report, the total revenues of Super League reached TRY 3.2 billion as of the end of the 2017-2018 season. Working to improve the quality and standards in Turkish football and enabling digital integration between clubs and fans, Passolig card has surpassed 4.2 million users. Passo mobile application was downloaded 2.5 million times.

In 2018, we launched the first brand image campaign in our history with the motto: "The sun provides light, heat, and energy. Aktif Bank provides the rest", reaching a wide audience through various communication channels. Keeping abreast of global developments, Aktif Bank we carried out 10 R&D projects, including three TUBITAK TEYDEB (Technology and Innovation Grant Programs Directorate) projects in order to facilitate the transfer of know-how with global companies. In 2018, within the scope of European Union H2020 program, we took part as an R&D Center in three consortiums, which include only a limited number of companies from Turkey.

We crowned our contributions to the national economy by expanding our services in the African continent. In 2018, we became the leading Turkish bank in terms of international trade with African countries. We partnered with 162 banks in Africa alone. Under the guarantee agreement with Afrexim, we offered foreign trade limits worth USD 1 billion for approximately 60 banks and Turkish exporters operating in 50 countries. Through our efforts in international trade and regional strategies, in 2018 our number of correspondent banks increased to 1,000 and the volume of brokered international trade reached USD 500 million.

In parallel with significant changes in legislation that aim to support ABS issuances in Turkey, in 2018 we provided brokering and consultancy services in Turkey's biggest ABS issuance worth TRY 3.15 billion financed by four major banks. We will continue to serve in these issuances that are important to the national economy and create added value.

With the synergy they create, Aktif Bank and its subsidiaries will continue to create value for our country, economy and society. We will continue working with dedication in 2019 to meet the needs of all segments of society with innovative and beneficial solutions.

Sincerely,

Dr. Serdar Sümer

Aktif Bank offers
a superior technology
experience through new
sales and service models.

Having adopted a sustainable and low-cost oriented growth strategy, Aktif Bank reached an asset size of TRY 13.9 billion as of the end of 2018. With a record performance, the Bank increased its net profits to TRY 381.7 million with a 63% increase over the previous year and continued to grow profitably as it has in the previous years. Return on assets reached 3.06% in 2018 compared to the 2.28% of the previous year. Average return on equity also increased from 27.29% to 21.19%. Aktif Bank continued to actively support the growth of Turkey's economy by extending TRY 6.9 billion in loans to retail and corporate customers in 2018.

With an innovative vision, Aktif Bank continued to improve its business processes in retail banking, investment banking and corporate banking. It achieved an upwards momentum with its innovative products and services, the result of its investments in digital channels. Together with its subsidiaries, Aktif Bank serves approximately 8 million retail customers through its unique business model that provides marketing and operational support without the cost of branching.

Since the final quarter of 2017, Aktif Bank brokers foreign trade oriented corporate banking activities with a long-term perspective and a global vision. Aktif Bank follows a unique approach in all these activities that will grow stronger in 2019 and beyond. Aktif Bank provides comprehensive and tailor-made banking services for domestic and foreign companies that export to challenging regions where banking workflows are underdeveloped and trading is risky.

Operating in more than 10 lines of business, Aktif Bank's subsidiaries are indispensable to its unique business model, significantly contributing to the Bank's consolidated profitability with their productive operating structures. Subsidiaries provide approximately 37% of the Bank's total consolidated profit.

Digital Banking and Payment Systems

Universe of Digital Products Offers A Unique Customer Experience

In line with its sustainable growth strategy, Aktif Bank has built its business model based on productivity and profitability, allowing it to offer its customers products and services via third party collaborations, across an effective distribution network and bearing more feasible costs than normally possible in the sector.

Standing apart with its fully digital-oriented business model, Aktif Bank has built its growth strategy for retail banking on digital channels. Aktif Bank boasts the distinction of being the only bank to meet needs in funding, loans, and card payment systems with fully digital processes through the N Kolay brand.

The Bank has received nearly 2 million loan applications worth TRY 16 billion via nkolaykredi.com.tr, visited 7.5 million times by 4 million people in a year. In terms of consumer loans, N Kolay Loan recorded a growth rate of 90% compared to the industry average of 19%, all thanks to its fast and secure digital sales strategy. The Bank has diversified digital loan product offerings by introducing the insurance within N Kolay Loan application process and customizing interest rates based on customers' risk profiles.

Furthermore, the Bank conducted three public offerings and issued TRY 1 billion in bonds to meet the high demand for its product N Kolay Bond, which was launched in 2017 as an investment product for all income groups from TRY 200 up to TRY 750,000. Growing by 4.5-fold in 2018, N Kolay Bond has eliminated the need to visit branches by enabling customers to perform all transactions, from opening accounts to investing, via digital channels. It has changed the dynamics of the sector by offering investors unbounded flexibility in gained revenues. In 2019, Aktif Bank will introduce the "N Kolay" mobile application, which will further facilitate the use of N Kolay Bond.

Improving the digital banking team's analytical skills has enabled placing "analytical and data driven thinking" at the core of our organization. Recent developments have accelerated customer segmentation, profitability analyses, and training activities on productivity-based products. Data analysis and mining results are also used more effectively in customer communications.

To reach our customers with appropriate communications methods, efforts to develop new channels have been expedited.

Passolig, Turkey's most advanced sports fan card program with the most number of features, increased its number of cardholders by 30% in 2018, reaching 4.2 million users. As of the end of 2018, Passo mobile application has been downloaded 2.5 million times.

Offering all of Aktif Bank's transport-related services in 2018, N Kolay Ankara Card has reached 50 thousand users and was used more than 700 thousand times within five months. Bringing transportation and shopping together within a single platform, Ankara Card mobile application has made its way into the mobile phones of 80,000 Ankara residents.

Alternative Sales Channels and Communications Center has prioritized customer satisfaction and served the Bank's and subsidiaries' customers with a service quality rated well above the sector averages in performance indicators. The Bank's quality of service, which adds value, creates solutions and provides alternatives 12 million times a year upon each contact with its customers, has culminated in a "very good" rating in satisfactions survey results. Adding sales and collection activities to its services, Communications Center also contributed to the Bank's revenue in 2018.

In 2018, Aktif Bank started its exclusive 24/7 support line for N Kolay Bond customers at 0850 724 26 66 (BONO). Upon calling the Communications Center, customers can easily get support from personal Digital RM's on N Kolay Bond and other banking transactions.

Retail Banking Sales and Subsidiaries Coordination

Unique Banking Services

Operating with the branchless banking business model and the "We are everywhere consumers are" motto, the Retail Banking Sales and Subsidiaries Coordination Group solidified its position within its segment in 2018 as well, thanks to its various products, channels and applications. Through 4,578 PTT branches and more than 2,000 PTT ATMs, the Group has managed the Bank's sales particularly in pension loans, money transfers, and PttSigorta products.

In addition, the Group has made a remarkable appearance as an indispensable financial alternative for business partners, offering consumers instant, formality-free, convenient shopping loans at 3,000 chain stores of Turkey's leading retail brands.

It has also gained the upper hand in the highly competitive automotive sector by offering stock financing products as well as vehicle loans in 600 dealerships and by implementing the closed loop credit system.

During the year, as an extension of the "Islamic Banking" system, it has prepared the infrastructure for the Interest-Free Financing business model and swiftly implemented related applications.

Corporate Banking

The Sector's Leading Player Through Established Niche Areas

The Corporate Banking Group focuses on Aktif Bank's collaboration with its subsidiaries and develops strategies that bring a competitive advantage. It utilizes existing channels and resources in the most effective way to increase the Bank's total productivity and profitability.

Developing projects to meet sectoral needs in line with the Bank's innovative approach, the Corporate Banking Group offers advantageous banking packages that help increase the volume of the Bank's subsidiaries.

The Group implemented projects addressing the financial needs of football clubs in 2018, providing a total of over TRY 2.8 billion to 19 clubs. It has continued to support clubs' investment and working capital needs though tailor-made funding structures.

Corporate Banking primarily focuses on integrated financing solutions implemented in partnership with Aktif Bank subsidiary E-Kent and financing models within the field of sports, entered with the collaboration with Passolig, customized for the individual needs of football clubs.

With the Group's guiding efforts in sports financing, the Bank took major steps in 2018 towards its goal of becoming the leading institution in the sector. Another focus area is the revenue and profit sharing real estate urban transformation projects supported by innovative financing models and run in synergy with Emlak Girişim A.Ş., Bank's subsidiary in the field of real estate development.

Driven by the Group's efforts, in order to provide consultancy services for SMEs, entrepreneurs, and large-scale corporations the Bank founded İnovaban A.Ş. in 2017 and continued to support it in 2018 as well. In synergy with its subsidiary, the Bank has continued to meet the banking needs of state-funded R&D initiatives in particular. Offering guidance to all commercial organizations from day one with its innovative philosophy and professional approach, İnovaban A.Ş. also stands out with its structure that provides pre-financing to entrepreneurs without any cash collateral requirements.

The Group has also continued its activities in the field of renewable energy, which will become one of the key investment instruments in the future, with specifically designed financing models and systematic integration solutions. Through its partnerships, the Group added financing to its list of EPC services, and thus became the first in the industry to offer EPCF services. The financing it provided as an investor has paved the way for SPP projects with a total capacity of over 250 MWp, securing it a leading position in the industry. So far it has provided USD 222 million financing in total for 38 renewable energy projects, with USD 175 million in cash and USD 47 million non-cash financing.

In addition to these activities, the Corporate Banking Group regarded 2018 as a year of evolution, and with a long-term perspective and vision, focused on foreign trade oriented banking activities. In coordination with the Financial Institutions Group and in collaboration with leading regional and national foreign trade associations and organizations, it has brokered banking transactions and risk transfers in regions the Bank deems strategic and continuously expands its area of influence. Especially in Africa, the Middle East and in similar regions where there is not a significant presence of domestic and international banks, the Bank has reached a primarily export-based trade volume of over USD 250 million within only a year, operating fully in line with national and international standards.

Along these lines, with a similar perspective and approach, 2019 is also expected to bring aggressive growth beyond that of 2018 in both volume and number.

Treasury

Offering Innovative Products with High Investment Yields

The Group contributed to the Bank's growth and profitability in 2018 through effective pricing in transaction types required by the Bank's balance sheet development. It increased its coverage by pricing complex financial products in addition to conventional treasury solutions.

Continuing its tradition of introducing groundbreaking firsts in capital markets products, the Treasury Group has brokered the issue of Turkey's first Mortgage Backed Asset Backed Security. Furthermore, it has successfully issued Turkey's first gold backed lease certificate. Its ability to competitively price spot, derivative and security products and innovative approach in capital markets products have helped position it as an effective player in financial markets.

Combining its experience with its professional team who all hold CMB certification for advanced and derivative instruments, the Group achieves significant market penetration in all spot and derivative treasury operations. The private banking team established within the Group has continued to expand the retail customer base and increase the size of assets under management. Thanks to its fast and reliable response to the high-quality product demand from professional customers, the Group has solidified its position in Private Banking.

In 2019, the Group will continue its efforts towards becoming a trusted partner in treasury operations for domestic and international actors.

Credit Analytics and Capital Markets

Pioneer Bank In Capital Markets

As a pioneer in Turkish capital markets, Aktif Bank continued to introduce novelties in the sector in 2018.

For the first time in Turkey, the Bank issued a Gold Backed Lease Certificate worth TRY 100 million. It brokered the issue of two ABSs on behalf of Turkey's biggest GSM operator and successfully completed four other issues for the same operator. In addition to the now-traditional, consumer loan backed-ABS issue, this year a vehicle loan backed ABS was issued for the first time in a secure and guaranteed manner. Public offerings of N Kolay Bond, one of Aktif Bank's 100% digital products, have continued increasingly. Aktif Bank also brokered the ABS issue worth TRY 3.15 billion by Asset Finance Fund, founded by Development and Investment Bank of Turkey, and originated by Halkbank, Ziraat Bank and Garanti Bank, and served as a consultant at every step of the issuance. The Bank has thus brokered the largest domestic lending transaction in Turkish capital markets up to date and took on a leading role in seeing the issuance to its successful completion.

Financial Institutions

890 Correspondents In 130 Countries

In 2018, the Group continued its efforts to set new cash and non-cash limits to broker foreign trade transactions and perform treasury transactions for the Bank's customers.

With 890 correspondents in 130 countries, Aktif Bank secured a total of TRY 3.4 billion in loans through its correspondent banks. It exhibited a successful upward trend in the volume of foreign trade transactions it brokered.

In line with the Bank's strategies and requirements, the Group aims to diversify and expand upon the lending schemes in the areas of Foreign Trade Financing and Capital Markets and to continue its successful operations in 2019 as well.

Information Technologies and Operations

Leader in Innovation

As it has done in the past, in 2018 the Information Technologies and Operations Group continued to bring the latest technologies and the highest quality of service to all of the Bank's customers, business partners and employees.

Having been designated as an "R&D Center" by the Ministry of Industry and Technology as of 2016 on the basis of its planned investments in technology and high-quality activities in innovation, the Group maintained this title throughout 2018 by successfully achieving the goals set by the Ministry and implementing projects in its field. In 2018, it successfully continued R&D efforts through three projects supported by TUBITAK. As part of its collaboration with Bahçeşehir University, 22 colleagues have been enrolled in the On-Site Master's Program. Within the context of university and industry collaboration, the Bank will commence master's theses in relation to R&D projects.

The Information Security Management Certificate ISO 27001, obtained as a result of the efforts and achievements in the field of banking security, was also renewed in 2018. The Group remains committed to implement the latest security technologies.

In 2018, our Data Center, containing all systems of the Bank and its subsidiaries, was moved from the Head Office to a world-class new Data Center.

The activities carried out, especially in the second half of the year, focused on European Union projects, and in this context, the Group attended various events that helped promote the Bank across Europe.

As part of these efforts, the Group maintained its focus on developing new channels and products in payment systems, investing in technology for debit and prepaid cards.

With the new project for a developing a card with MChip Advance technology for the first time in Turkey, existing cards used for public transportation were merged with contactless debit and/or credit cards, enabling fare discounts and connections at the turnstiles.

A newly developed product enabled customers to deposit money on their card and use it worldwide in any payment point with a MasterCard logo, within statutory limits. Furthermore, a new project in payment systems was initiated to completely renew the system infrastructure to become compatible with the latest technologies.

While preparing new products and services, all projects are examined in the light of the Group mission, and the Group participates in all preparation, analysis, software and testing stages of the projects. Once products are launched, necessary follow-ups are made and measures are taken to reduce financial and reputational risks for ultimate customer satisfaction.

Human Resources

The Key to the Bank's Success: Competent Human Resources

Driven by the belief that human resources are the most valuable asset, Aktif Bank continued to embrace an egalitarian human resources policy in 2018 to maintain employee satisfaction, developing the knowledge, skills and competences of its employees and creating equal opportunities in career planning.

In line with the Bank's innovative and dynamic perspective, recruitment interviews were conducted digitally. The Bank follows the motto "Our most important candidates are our employees and the people they recommend." Accordingly, "You Are the Candidate" and "We Want Your Friend" practices were widely used within the bank.

In order to accelerate the orientation process of new family members, the Bank continued the "Aktif Guide" practice. As part of the "Getting Together with HR" project, one-to-one interviews were conducted with current employees in order to get to know them better.

In 2018, the first 15 new graduates were recruited through the dynamic "ProActive MT Program." After graduating from Turkey's leading universities and successfully completing a multi-stage selection and evaluation process, Management Trainees (MT) went through comprehensive and productive training and orientation sessions with the participation of expert trainers before starting their career at the Bank.

Training programs organized under Development Time at Aktif Academy, Entertainment Time at Aktif Academy and Aktif Café continued in 2018 as well. During the year, a foreign language program open to all bank employees was launched for the first time, where employees participated in trainings at the Bank according to their current proficiency levels. Furthermore, employees' participation in certificate programs and trainings were supported; a master's program was launched in collaboration with the university. Mandatory in-service trainings were digitally assigned to family members.

In 2018, the "E-Archive" project to store employee information was initiated, with system-related efforts still underway. Also ongoing are activities to develop the Performance Management System and Human Resources portal. Improvements were made to the human resources processes, as many formerly manual processes were integrated into the system. Furthermore, the existing reporting system was used to automatically report on human resources metrics, prepare human resources budget per person and set standard rules for the premium models.

"Flexible Work Day" and "Flexible Office Hours" practices, launched in 2017 to ensure maximum employee satisfaction, also continued. In addition, activities organized under the "Come on, Smile" brand continued and collaborations with civil society organizations were supported.

Turkey's Innovative Companies

Aktif Bank Subsidiaries

E-Kent

Providing smart urban solutions and integration services, E-Kent carries out 1 billion smart transport transactions annually. E-Kent brings technological transformation to the cities it serves while developing value-added business models for public administrations. E-Kent offers smart public transport solutions and manages transportation operations for nearly 8 million citizens in various provinces, including Turkey's capital Ankara. Since the day of its inception, E-Kent has carried out 8 million smart transport card transactions and 375 million transport ticket operations in total.

E-Kent has also successfully carried out the world's biggest stadium infrastructure transformation project, which involves entrance control and surveillance systems, integrated ticketing, stadium box office services and infrastructure for 52 stadiums in 29 provinces in Turkey. E-Kent manages the stadium entrance operation for 17.5 million sports fans. With the e-ticket project, as of April 2014, more than 8.4 million tickets and 763,000 seasonal combined tickets were sold for more than 3,000 sports games. These sales have generated revenues of over TRY 1 billion for sports clubs.

UPT

UPT Ödeme Hizmetleri A.Ş., Turkey's first licensed payment institution, offers money transfer services in multiple currencies to cards and accounts both in Turkey and abroad. Operating in Istanbul and Izmir in Turkey, UPT reaches customers via nearly 10,000 points including UPT branches, all PTT offices, Aktif Bank branches, UPT Agencies, and N Kolay Stores.

In 2018, UPT carried out more than 2.9 million transactions in 154 countries, achieving a transaction volume of more than USD 1.2 billion. UPT recorded a 21% growth in terms of number of transactions and 3% in terms of volume over the previous year. It reached 25% market share in transactions abroad.

In 2018, UPT launched its new product "SendUPT", a web-based solution enabling customers who live in Europe to swiftly and conveniently send money to their relatives in Turkey within SEPA. It has signed several new contracts in the Far East, Middle East, Turkic Republics, Europe, and Africa with the UPT brand.

In 2019, UPT aims to offer its customers new products and services in digitalization and instant money transfers.

Sigortayeri

Turkey's innovative insurance broker Sigortayeri Sigorta ve Reasürans Brokerliği A.Ş. carried its growth trend of 2016 and 2017 into 2018 as well, and bolstered its position as "Turkey's largest domestic broker" with a 150% growth in number of insurance policies compared to 2017.

Sigortayeri also offers digital insurance services to retail customers via sigortayeri.com website and mobile applications. Building on the project it initiated in 2017 with issuing Compulsory Earthquake Insurance (DASK) policies via kiosks, Sigortayeri expanded the scope with automotive insurance, establishing a brand new channel in the insurance sector. Focusing on insurance platforms in 2018, Sigortayeri took the first steps towards the "integrated ecosystems" era in insurance through contracts with the leading companies in the retail sector.

In order to expand its service network for corporate customers, in 2017 Sigortayeri established the Asron Sigorta brand within the company and started to operate in Turkey and 15 other counties in the region to provide corporate insurance products. Asron Sigorta offers major insurance coverage, consulting, and risk analysis services in the construction, health, energy, textile, automotive, and financial services industries. In 2017, Asron Sigorta partnered with Allianz Climate Solutions in renewable energy to provide coverage for the building and operating phases of solar and wind power plants. Asron Sigorta continued the project in 2018 and maintained its leading position in solar power systems.

Asron Sigorta also made significant progress in reassurance in 2018, taking important steps towards providing insurance companies with voluntary capacity. It provided coverage for Turkey's prominent large-scale projects in collaboration with strong business partners in international markets.

Pavo

PAVO Teknik Servis Elektrik Elektronik San. Tic. offers solutions to Turkish and foreign customers primarily in financially approved cash register payment services (PRD-Payment Registration Device). With a strong base in R&D infrastructure, solution-oriented sales and marketing strategies, as well as high-quality production, operations and services, PAVO aims to keep customer satisfaction at the highest level.

Drawing from its vast expertise in cash register systems, PAVO partnered with Ingenico, a world leader in providing payment systems, in order to develop two different models with EFT POS features. PAVO offers services to customers with nearly 200,000 Ingenico Cash Register POS devices across Turkey, more than 200,000 value-added applications and software integration.

N Kolay

Boasting Turkey's largest and widest network in its respective industry, N Kolay Payment Institution offers its services through 575 N Kolay Stores and 3,940 N Kolay Kiosks. Acting as an agent throughout Turkey in a variety of payment services including primarily utility bill collections and domestic and international money transfers, N Kolay provides customers with fast, convenient, and reliable payment transactions.

The N Kolay Kiosk project has brought Aktif Bank first place in the competition organized by European Financial Management Association (EFMA). N Kolay achieved remarkable success in a short amount of time thanks to its fast online processes guaranteeing practical transactions.

Turkey's biggest collection and payment channel with six million transactions per month, N Kolay has completed the groundwork of low-cost virtual POS services for companies with its "Pay N Kolay" brand.

Echo Information Management Systems

Launched in August 2016 with the vision to become the retail sector's "Next Generation Solution Partner" with the EchoPOS brand, Echo Information Management Systems develops end-to-end payment systems and integration solutions for front and back offices of companies.

In 2018, EchoPOS successfully installed a total of 4,500 hardware sets and software packages in 2,300 Şok Marketler Ticaret A.Ş. stores across 81 provinces; and an additional 60 in 30 BİM Birleşik Mağazalar A.Ş. stores in three provinces. Currently, it is able to provide error-free infrastructure for over 800,000 daily transactions on average.

Mükafat Asset Management

Mükafat Portföy Yönetimi A.Ş. was founded in partnership between Aktif Bank and Islamic Corporation for the Development of the Private Sector (ICD), an affiliate of Islamic Development Bank. The company carries out all activities in compliance with interest-free finance principles. While serving to utilize the savings of interest-sensitive investors in Turkey, Mükafat Portföy secures foreign funding for the national economy. Within only two years of its inception, Mükafat Portföy now manages a portfolio worth over TRY 500 million. On the one hand, it expands the size of the portfolio of securities investment funds, including Turkey's first interest-free liquid fund, and adds new funds such as free exchange funds to its products. On the other hand, it expands its range of alternative products day by day with interest-free venture capital investment funds and real estate investment funds during its process of continuous growth.

Emlak Girişim

Emlak Girişim A.Ş. was founded in order to seize business opportunities in the real estate and construction industries, participate in investment projects, primarily those in the energy industry, and become a major player in international trade. In line with the growth trend in the real estate industry, the company aims to be a leader with direct partnerships, profit-loss sharing investments, and urban renewal projects. The company invests and conducts activities in a variety of industries including energy, agriculture, and international trade.

The most important investment by Emlak Girişim A.Ş. is the Istanbul International Finance Center (IIFC), one of the largest regional planning projects of Turkey with a construction site sprawling over 3 million square meters, set to be among the top finance centers in the world. Major financial actors involved in the project are the Central Bank of the Republic of Turkey, the Capital Markets Board, BRSA, Ziraat Bank, Halk REIT (Real Estate Investment Trust), Vakıf REIT and Emlak Konut A.Ş. Emlak Girişim A.Ş. also completed a significant investment project as a profit and loss partner to the Metropol Istanbul project in the Ataşehir district. Also in 2017, the company became one of the biggest players in the industry with an investment in a 61 MWp solar power plant project.

Haliç Leasing

Haliç Leasing, founded in partnership between Aktif Bank and ICD in the last quarter of 2016, aims to become a prominent financial leasing company offering Islamic finance products to customers in Turkey. To serve that purpose, the company seeks to fill gaps in the market, which is dominated by major leasing companies owned by local banks. Drawing from the knowledge and expertise of Aktif Bank in the capital markets, Haliç Leasing aims to issue sukuk certificates to channel long-term financial sources from Middle Eastern and Asian countries into Turkey.

Kazakhstan Ijara Company Joint Stock Company (KIC)

Founded in 2013 and having started operations in early 2014, "KIC" is the first "Financial Leasing" company in Kazakhstan to comply with Islamic rules and regulations. The company is a partner to ICD, Islamic Development Bank's affiliate that finances private sector investments. Other partners of the company include Eurasia Group, Al Hilal Leasing Company, Zaman Leasing in Kazakhstan and Kolon Group, a leading South Korean company. Offering leasing services to predominantly small and medium-sized enterprises (SMEs), KIC continues operations with a vision to become one of the biggest private leasing companies in Kazakhstan within five years.

Euroasia Leasing Company (ELC)

Founded in Tatarstan in 2012, "ELC" is the first "Islamic Financial Leasing" company to operate in Russia. The company is a partner to ICD, an Islamic Development Bank affiliate that finances private sector investments. Aktif Bank acquired 36.71% stake in the company in September 2014. Other partners of the company include Eler New Energy Power GMBH; Zaman Leasing in Kazakhstan, and Kolon Group, a leading South Korean company. Offering leasing services to small and medium-sized enterprises (SMEs) in particular, ELC is a leading Islamic financial leasing company in Russia.

Euro - Mediterranean Investment Company Ltd. (EMIC)

Founded in Nicosia in 2015, EMIC is the first and only "Islamic investment company" of Cyprus and the biggest international investment company in the Turkish Republic of Northern Cyprus (TRNC). The company's partners include ICD, an Islamic Development Bank affiliate that finances private sector investments, as well as CreditWest Bank Ltd. and Kıymet Trading & Contracting Ltd. from TRNC. Its goal is to contribute in the best way to sustainable development by seeking, developing and carrying out investment possibilities to advance the private sector in TRNC and other countries in the region.

Accordingly, EMIC started to transfer funds into the real sector in 2017 and 2018 by investing in five different projects, mainly in the construction industry.

İnovaban Innovation and Financial Consulting

İnovaban İnovasyon ve Finansal Danışmanlık A.Ş. provides "Growth Strategies and Process Management" services for companies that aim for a competitive advantage through R&D and innovation. It is the only firm in its field to offer its customers integrated solutions that focus on fully utilizing R&D incentives and support programs, risk management (financial and legal), and consultancy on intellectual and industrial property rights. Its primary customers include Technology Development Zones, R&D and Design Centers, Incubation Centers, Technology Transfer Offices, Investment Funds, Investor Networks and companies within these.

Within 2018, the first year of its inception, İnovaban directly contacted and provided services to more than 2,500 manufacturing and software companies across 30 provinces, classified by TurkStat as manufacturing high and medium-high technology products.

İnovaban also develops multi-faceted relationships with other organizations within the ecosystem. For instance, collaborations were initiated and protocols were signed with six leading technology transfer offices, three private banks and four investment funds in Turkey.

In 2018, TUBITAK initiated the Tech-InvesTR program, designed to establish Venture Capital Investment Funds to fund early-stage technology companies. With the support of İnovaban, Mükafat Portföy Yönetimi applied for the program call and received funding.

İnovaban works to increase value-added production in Turkey and to enable Turkish companies to gain a competitive advantage in the international arena in the process of expediting their Commercialization and Globalization journeys in an effective manner. Along these lines, it has participated as trainers or panelists in more than 20 educational events, exhibitions and conferences.

Attivo Bilişim

Attivo Bilişim A.Ş. was established in March 2018 as an indirect subsidiary of Aktif Bank to conduct long-term research & development activities on blockchain technology, develop blockchain based products and projects, support training activities, creative ideas and initiatives in this field.

Under the roof of Attivo, different brands will be introduced to implement various business models complementing the blockchain technology and the crypto asset industry. Attivo's first brand, Bitmatrix will serve as a crypto asset trading platform, equipped with bank-level security and based on best international practices. Bitmatrix is also the world's second crypto asset platform backed by a bank subsidiary.

Ahmet Çalık

Chairman

Ahmet Çalık was born in Malatya in 1958. He began his career in commerce in 1981 by entering the textile sector. He made the first large-scale industrial investment in Eastern Anatolia with the denim factory he established in Malatya. In the same period, Çalık started his first international investments in Central Asia in line with his international business and investment goals. Building on his business experience in Turkey, starting in 1992 Ahmet Çalık made major investments in energy, construction, mining, textile, finance and telecom in all regions where Çalık Group operates. In 1997, he founded Çalık Holding to bring all group companies under the same roof. One of the biggest Turkish investors in Albania and Kosovo, Çalık was awarded the Order of the State of Turkmenistan and Turkmenistan Magtymguly Prize in 1997, Republic of Turkey State Medal of Distinguished Service and Turkmenistan Gayrat Medal in 1999, Turkmenistan Order of the Golden Age in 2001, Republic of Turkey Ministry of Foreign Affairs Distinguished Service Award in June 2002, Grand National Assembly of Turkey Distinguished Service Award in 2006, and the "Turkey in Europe - Franco Nobili" Award in 2010. In 2012, Ahmet Çalık was granted the title Honorary Consul of the Republic of Kazakhstan in Bursa and the Ellis Island Medal of Honor by National Ethnic Coalition of Organizations (NECO) in 2014. The same year, he received honorary PhDs from Matsumoto Dental University in Japan and University of Tirana in Albania. In 2016, Ahmet Çalık was granted an honorary PhD title by Kindai University in Japan. He continues to serve as the Chairman of the Board of Çalık Holding and its group companies.

Mehmet Usta

Deputy Chairman

Born in 1950, Mehmet Usta graduated from the Economics and Finance Department of Eskişehir Academy of Economics and Commercial Sciences. He has a background of more than 40 years in banking. He served as inspector and manager in Anadolu Bank between 1979 and 1987 and held senior management positions in Emlak Bank, both in Turkey and abroad, between 1987 and 1994. From May 1994 to March 2007, he served Banque du Bosphore, Paris as the General Manager and Board Member. In April 2008, he joined Aktif Bank as the Deputy Chairman. Since July 2009, Usta has served as the Chairman of Banka Kombetare Tregtare, a Çalık Holding company with operations in Albania and Kosovo. Since May 2012, he has been a Board Member of the Brussels-based WSBI (World Savings and Retail Banking Institute). Since March 2015, he has been the Chairman of Aktif Bank subsidiaries UPT Ödeme Hizmetleri A.Ş and Reasürans Brokerlik A.Ş.

Mehmet Ertuğrul Gürler

Board Member

Born in 1958, Mehmet Ertuğrul Gürler graduated from Marmara University Faculty of Management. Gürler has 38 years of professional experience. Between 1983 and 1987, he worked at BP Overseas Refining Company Ltd. Refinery Department as the Department Assistant. He held several positions at Dow Türkiye A.Ş. from 1987 to 1994, including Financial Affairs Manager and Board Member. Between 1994 and 1998, he was the Deputy General Manager at Total Oil Turkey A.Ş. In 1998 he joined Çalık Holding A.Ş. as the General Manager. Currently, Gürler serves as the Deputy Chairman at Çalık Holding, Banka Kombetare Tregtare, ALBtelecom, Çalık Denim, Başak Yönetim Sistemleri, Cetel Telekom, Çalık Finansal Hizmetler, Çalık Hava Taşımacılık, Irmak Yönetim Sistemleri and Kentsel Dönüşüm İnşaat, and a Board Member at Aktif Bank, Gap İnşaat, Gap Pazarlama, Çalık Emlak ve Gayrimenkul, Çalık İnşaat and Doğu Akdeniz Petro Kimya. Since 2017, he has served as the Chairman of the Audit Committee at Çalık Holding, Çalık Enerji, YEPAŞ, Albtelecom and Gap İnşaat. He is also a member of the Credit and Remuneration Committees at Aktif Bank.

Veysel Şahin

Board Member

Born in 1959, Veysel Şahin has a degree in Public Administration from Ankara Academy of Economic and Commercial Sciences. He received his master's degree in Business Administration from Bahçeşehir University. He started his career in banking as a deputy inspector in 1985. He served as an inspector, department and branch manager, overseas representative and Chairman of the Inspection Board at Anadolu Bank, Emlak Bank, and Ziraat Bank. He was a member of the Audit Committee of Axa Insurance and a Board Member of TKI Bank Kazakhstan. In 2009 Şahin joined Aktif Bank as a Board Member and since then he has served as the Audit Committee Chairman and Corporate Governance Committee Member. He is also the Chairman of the Board of Aktif Bank subsidiary N Kolay Payment Institution and a member of the Audit Committee at GAP İnşaat.

Kemaleddin Koyuncu

Board Member

Born in 1970, Kemaleddin Koyuncu studied Business Administration at Middle East Technical University and received an MBA from the University of Illinois at Urbana-Champaign. Koyuncu has a professional background of 26 years. He began his career in banking in 1992 as a deputy inspector at Türkiye İş Bankası A.Ş. Between 1996 and 2001, he served as a Treasury Specialist at the Republic of Turkey Prime Ministry Undersecretariat of Treasury. From 2001 to 2015, he worked as a Banking Specialist, Deputy Head of Department, Senior Chief Specialist of Banking and Head of Department at the Banking Regulation and Supervision Institution (BRSA). Between 2003-2004, he sat on the Board of Toprak Sigorta/Ege Sigorta. He joined Aktif Bank in 2015 as Executive Vice President. Since September 2017, he serves as a member of the Board and the Audit Committee of Aktif Bank.

İbrahim Yaşar

Board Member

Born in 1973, İbrahim Yaşar studied Economics at İstanbul University and completed his MBA at Instituto de Estudios Bursátiles and London School of Economics. He has 18 years of professional experience of. Yaşar began his career in banking in 2000 as an Auditor at HSBC Bank A.Ş. He has served Aktif Bank A.Ş. as the Head of Internal Audit at between years 2007-2010 and as the Senior Deputy Head of Subsidiary Management in 2010. He served Banka Kombetare Tregtare as the Kosovo Country Deputy Manager from 2010 to 2011, and has been the Albania Internal Audit Managing Director since 2011. From April 2018 onwards, he has been a member of Aktif Bank Board of Directors and Audit Committee.

Dr. Serdar Sümer

CEO and Board Member

Dr. Serdar Sümer was born in 1973 in Nevşehir. He holds a degree in Business Administration from Ankara University Faculty of Political Sciences and a master's degree from the College of William and Mary in Virginia, USA. In April 2011, he received his PhD from the Marmara University Institute of Banking and Insurance. Sümer is a certified Financial Risk Manager (FRM) and Certified Public Accountant. He started his career in 1996 as a Sworn-in Bank Auditor. From 2008 to 2014, he served as the Executive Vice President of Capital Markets at Aktif Bank. Having developed various innovative solutions to address customers' financial needs to increase the effectiveness of products and channels in capital markets; in 2013 Sümer issued the first lease certificate for project financing in Turkey. He oversaw the launch of Turkey's first bank bond and ABS products and the coordination of the Bank's subsidiaries and affiliates within the most effective management structure.

With 23 years of experience in the sector, Sümer returned to Aktif Bank in 2015 and has since been the Bank's CEO and Board Member. Sümer leads Turkey's largest privately owned investment bank and its nine subsidiaries. Board Member of payment systems companies N Kolay and UPT A.Ş., Sümer also serves as Board Member Representative at E-Kent, Pavo, Sigortayeri, Aktif Bank Sukuk Varlık Kiralama, Echo Bilgi Yönetim Sistemleri and Attivo Bilişim.

Newly Appointed Executives:
İbrahim Yaşar, Board Member (Appointed: March 2018, Sworn in: April 2018)

SENIOR MANAGEMENT

Senior Management

Dr. Serdar Sümer

CEO and Board Member

Serdar Sümer's resume is provided on the Board of Directors page of this report.

Murat Barlas

Executive Vice President, Finance

Born in 1968, Murat Barlas holds a Mathematics degree from Istanbul University. With 23 years of experience in banking, Barlas joined Aktif Bank in 2015.

Ahmet Erdal Güncan

Executive Vice President, Corporate Banking

Born in 1969, Ahmet Erdal Güncan holds a Civil Engineering degree from Istanbul Technical University. He obtained his master's degree in Construction Management from the same university. With 22 years of experience in banking, Güncan joined Aktif Bank in 2008.

Gürol Güngör

Executive Vice President, Retail Banking Sales and Subsidiaries Coordination

Born in 1976, Gürol Güngör received his undergraduate degree in Industrial Engineering from Istanbul Technical University and a master's degree in Banking from Marmara University. Güngör has 21 years of experience in banking and joined Aktif Bank in 2015.

Dr. Uğur Gökhan Özdinç

Executive Vice President, Information Technologies

Born in 1975, Gökhan Özdinç holds a degree in Computer Engineering from Boğaziçi University, where he also completed his MBA and PhD in Business Administration. He has more than 20 years of experience in banking. In addition to his current role at Aktif Bank, Özdinç is a part-time lecturer at the MIS and Computer Engineering Departments of Boğaziçi University. He joined Aktif Bank in 2014.

Muzaffer Suat Utku

Executive Vice President, Financial Institutions

Born in 1974, Muzaffer Suat Utku holds a degree in Business Administration from US International University San Diego. He holds an MBA degree from University College, London. Utku has 20 years of banking experience and joined Aktif Bank in 2007.

Tevfik Kınık

Executive Vice President, Credit Analytics and Capital Markets

Born in 1977, Tevfik Kınık obtained his bachelor's degree in Public Administration and MBA from Ankara University. He also received a master's degree in Public Administration from Harvard University. With 20 years of experience in financial markets, Kınık joined Aktif Bank in 2017.

Betügül Toker

Executive Vice President, Digital Banking and Payment Systems

Born in 1976, Betügül Toker graduated from Bilkent University with a degree in Economics. With 18 years of banking experience, Toker joined Aktif Bank in 2018.

Hakan Özat

Executive Vice President, Internal Systems

Born in 1980, Hakan Özat studied Economics at Marmara University. With 15 years of experience in banking, Özat joined Aktif Bank in 2015.

Filiz Erendaç

Chief Legal Advisor

Born in 1976, Filiz Erendaç graduated from Ankara University Faculty of Law. She received her master's degree in Commercial Law from Ankara University. With 20 years of professional experience, Erendaç joined Aktif Bank in 2016.

Osman Gencer

Managing Director, New Investments

Born in 1973, Osman Gencer studied Economics at Boğaziçi University. With 24 years of experience in the sector, Gencer joined Aktif Bank in 2017.

Selcan Kaytancı

Managing Director, Human Resources and Operations

Born in 1974, Selcan Kaytancı graduated from Middle East Technical University Political Sciences and Public Administration Department. She received her master's degree in Human Resources from Bahçeşehir University. With 20 years of experience in banking, Kaytancı joined Aktif Bank in 2014.

Ufuk Karakaya

Managing Director, Subsidiary Management

Born in 1975, Ufuk Karakaya received his bachelor's degree from Gazi University in Public Administration. He completed his master's degree in Finance at George Washington University. With 20 years of experience in banking, Karakaya joined Aktif Bank in 2018.

Resigned Executives:
Ömer Ünveren, Executive Vice President, Treasury (October 2018)

Newly Appointed Executives:
Betügül Toker, Executive Vice President, Digital Banking and Payment Systems (March 2018)

Internal Systems Managers

Hakan Özat

Executive Vice President, Internal Systems

Born in 1980, Hakan Özat studied Economics at Marmara University. With 15 years of banking experience, Özat joined Aktif Bank in 2015.

Volkan Kölege

Head of Internal Control

Born in 1977, Volkan Kölege holds a degree in Business Administration from Anadolu University Faculty of Economic and Administrative Sciences. With 19 years of background in banking, Kölege joined Aktif Bank in 2008.

Pınar Gürkan

Head of Compliance

Born in 1981, Pınar Gürkan holds an Econometrics degree from Marmara University Faculty of Economic and Administrative Sciences of. With a background of 14 years in banking, Gürkan joined Aktif Bank in 2009.

Alper Özdemir

Chairman, Inspection Board

Born in 1985, Alper Özdemir studied Business Administration in İstanbul University. He received his master's degree in International Banking and Finance from İstanbul Ticaret University. With 10 years of experience in banking, Özdemir joined Aktif Bank in 2014.

Hamdi Önder

Head of Risk Management

Born in 1982, Hamdi Önder studied Mathematical Engineering at Istanbul Technical University. He received his MBA from Koç University. With a background of 10 years in banking, Önder joined Aktif Bank in 2009.

Resigned Executives:
Mehmet Anıl Bolayır, Inspection Board Chairman (September 2018)

Committees

Audit Committee

In order to assist with its audit and supervision duties, the Board of Directors has appointed two of its members, who meet the criteria stipulated by the Banking Regulation and Supervision Institution (BRSA), to form the Audit Committee. These directors are tasked to jointly supervise the administration, management and execution of the departments within the scope of internal systems under the title of internal systems officers.

On behalf of the Board of Directors, the Audit Committee supervises the efficiency and adequacy of the Bank's internal systems and the functioning of these systems as well as accounting and reporting systems in line with the Banking Law, other relevant legal provisions and internal bank regulations, and ensured the integrity of the information produced. It conducts preliminary assessments to assist the Board of Directors in the selection of independent audit companies as well as rating, appraisal and support service providers. It regularly monitors the activities of firms selected by the Board of Directors and subsequently signed contract with, and ensures the consolidated delivery and coordination of internal audit activities covering all departments/units/branches.

It submits an audit report to the Board of Directors at least once every six months.

Committee Members

Kemaleddin Koyuncu
Audit Committee Chairman

İbrahim Yaşar
Audit Committee Member

Credit Committee

The Credit Committee is composed of the CEO and two members elected from among those Board Members who meet the criteria required of the CEO, with the exception of years of experience. The committee exercises the authority to open credit lines as delegated by the Board of Directors.

Committee Members

Mehmet Usta
Credit Committee Chairman

Mehmet Ertuğrul Gürler
Credit Committee Deputy Chairman

Dr. Serdar Sümer
Credit Committee Member
CEO

Credit Committee Alternate Members

Veysel Şahin
Alternate Member

Kemaleddin Koyuncu
Alternate Member

Corporate Governance Committee

The Corporate Governance Committee is responsible for monitoring the Bank's compliance with corporate governance principles (mission and vision, corporate values and code of conduct, articles of association, internal policies, interbank regulations, etc.) and improving compliance with corporate governance principles and presenting relevant suggestions to the Board of Directors.

The Corporate Governance Committee meets once (1) a year, or more frequently when necessary, with all members attending. Other participants may also be invited to meetings by the Committee Chairman. The Bank's Corporate Governance Principles Compliance Report is prepared and published on the corporate website on an annual basis.

Committee Members

Mehmet Usta
Deputy Chairman of the Board
Committee Chairman

Mehmet Ertuğrul Gürler
Board Member
Committee Deputy Chairman

Veysel Şahin
Board Member
Committee Member

Remuneration Committee

The Remuneration Committee is responsible for evaluating the remuneration policy and practices established by the Head Office within the context of risk management. The Committee reports its suggestions to the Board of Directors on an annual basis.

The Remuneration Committee holds ordinary meetings once (1) a year and extraordinary meetings when necessary, with all members attending.

Committee Members

Mehmet Usta
Deputy Chairman of the Board
Committee Chairman

Mehmet Ertuğrul Gürler
Board Member
Committee Deputy Chairman

Assets-Liabilities Committee

The Assets-Liabilities Committee is an advisory board that sets rules in line with the financial policies and strategies in order to manage the Bank's assets and liabilities in relation with liquidity restrictions, foreign exchange risk and capital adequacy.

Committee Members

Dr. Serdar Sümer
CEO
Committee Chairman

Murat Barlas
Executive Vice President, Finance

Ahmet Erdal Güncan
Executive Vice President, Corporate Banking

Gürol Güngör
Executive Vice President, Retail Banking Sales and Subsidiaries Coordination

Muzaffer Suat Utku
Executive Vice President, Financial Institutions

Betügül Toker
Executive Vice President, Digital Banking and Payment Systems

Tevfik Kınık
Executive Vice President, Credit Analytics and Capital Markets

Board and Committee Members' Attendance to Meetings

In 2018, the Board of Directors convened 12 times with the necessary majority and quorum.

The Audit Board convened seven times in 2018; four of the meetings were attended by independent auditors.

The Credit Committee convened 12 times in 2018.

The Corporate Governance Committee convened twice in 2018.

The Remuneration Committee convened twice in 2018.

Board of Directors Summary Report Presented to the 2018 General Assembly

Esteemed Shareholders,

Our Bank completed a productive year in 2018, successfully accomplishing all planned activities for the year thanks to the efforts of the management. As a result of activities conducted throughout 2018:

Our net profit was TRY 381,672,000 and total asset size was TRY 13,882,523,000. With these results, our net profit increased by 63.23%, while our asset size grew by 25.40% over the previous year.

Our capital adequacy ratio stood at 12.87%. Our Bank succeeded in meeting the equity requirements due to Balance Sheet growth, with the profit obtained from operations in the period.

Our Bank has been one of the most profitable banks in the sector with an average Return on Equity of 27.29% and an average Return on Assets of 3.06%.

Our non-equity foreign assets pioneered growth, surging by 24.98% to TRY 12,308,421,000. This significant development in foreign assets' inflow is a highly positive development in terms of our Bank's credibility.

Our cash credits increased by 5.57% compared to the previous year, rising to TRY 6,903,543,000.

The NPL ratio stood at 3.82%. Given these results, while growing quite significantly in Balance Sheet terms, Aktif Bank has maintained its profitability and asset quality at a high level.

The Financial Statements of our Bank showing the activity outcomes pertaining to the Balance Sheet period January 1, 2018 - December 31, 2018, the respective highlights and footnotes, Independent Auditor's Report, and Annual Report have been submitted for your evaluation and approval.

The Board of Directors hereby presents this Report, as well as the aforementioned reports, for the consideration of the General Assembly and for its subsequent release from liability upon the Assembly's approval, and extends its wishes for an even more productive and profitable year ahead.
Sincerely,

On Behalf of the Aktif Bank A.Ş. Board of Directors,

Ahmet Çalık
Chairman of the Board

Mehmet Usta
Deputy Chairman of the Board

Aktif Bank's strategy is to create a strong brand value driven by high production and an extensive customer base.

1. Corporate Governance Principles Compliance Statement

Aktif Bank pledges to exercise utmost diligence in the implementation of the Corporate Governance Principles. The Bank's Board of Directors and Senior Management carry out their duties and responsibilities guided by the principles of transparency, inclusivity and equality while prioritizing the Bank's profitability and the interests of shareholders and other stakeholders.

Aktif Bank operates in full compliance with all legal provisions on banking, particularly the Banking Law No. 5411 and related regulations.

Aktif Bank executives aim to increase the value of the Bank. To this end, they follow a management approach based on the corporate governance principles of fairness, transparency, equality, responsibility, and accountability.

With the exception of trade secrets and non-public information, financial and non-financial information about the Bank is disclosed to the public in an accurate, complete, clear, comprehensible, and accessible manner. The Bank's disclosure activities are carried out in line with the principle of transparency. Accordingly, the Bank's website is designed to offer easy access to information for all stakeholders. The Bank's Annual Reports, independent audit reports, general assembly information, code of ethics and information on the organizational structure and other announcements can be found on the Bank's website.

PART I – SHAREHOLDERS

2. Shareholder Relations Unit

The Bank has no "Shareholder Relations Unit" as its shares are not publicly listed. The Bank's shareholding structure is as follows.

Shareholder Name/Title	Stake (%)
Çalık Holding A.Ş.	99.43
Çalık Denim Tekstil Sanayi ve Ticaret A.Ş.	0.30
Ahmet Çalık	0.13
Başak Yönetim Sistemleri A.Ş.	0.07
Irmak Yönetim Sistemleri A.Ş.	0.07
Total	**100.00**

3. Exercise of Shareholders' Right to Information

Developments that may affect the decisions of investors are announced via the Public Disclosure Platform. The "Corporate Governance" section on the Bank's website provides documents containing information for the public.

The Bank has responded to inquiries for information made during the period. All requests of information by the Bank's shareholders are met, with the exception of trade secrets and non-public information.

Aktif Bank is audited both by independent auditors as mandated by the Banking Legislation and auditors assigned in accordance with the Turkish Commercial Code and the Bank's Articles of Association.

4. General Assembly Meetings

The Bank's Ordinary General Assembly Meeting for the year 2017 was held on March 26, 2018. As the Bank's shareholding structure is suitable for "Invitation-Based" General Assembly meetings, shareholders were informed of the meeting place, date and agenda of the upcoming meeting. Without prejudice to the provisions on participation in the General Assembly and organization of General Assembly meetings, the Ordinary General Assembly was convened without an announcement as per Article 416 of Turkish Commercial Code and the meeting was held at the Aktif Bank head office building located at Büyükdere Caddesi No:163/A Zincirlikuyu Şişli/Istanbul. The shareholders did not exercise their right to make inquiries at this General Assembly.

The annual report, financial statements, profit distribution proposal, general assembly agenda, independent auditor's report and the Bank's articles of association that form the basis of the agenda items are made available for shareholders' review at least 15 days prior to the General Assembly Meeting.

Minutes of the General Assembly are accessible to shareholders at the Bank's head office and published on the Turkish Trade Registry Gazette in accordance with the relevant legal provisions. They are also published on the Bank's website as per regulations.

5. Voting Rights and Minority Rights

The Bank's shareholding structure does not include any minority shareholders. The Bank's shareholders do not have any privileges in voting rights.

6. Right to Dividends

There are no dividend distribution policies disclosed to the public other than the provisions included in Articles 57 and 58 of the Bank's Articles of Association, titled "Distribution of Profit" and "Reserves" respectively. Pursuant to the relevant legal regulations, resolutions on dividend distribution are drafted and adopted at Annual Ordinary General Assembly.

7. Transfer of Shares

As stipulated in Article 10 of the Bank's Articles of Association, titled "Transfer of Shares", the transfer of shares follow the provisions of the Turkish Commercial Code.

PART II – PUBLIC DISCLOSURE AND TRANSPARENCY

8. Disclosure Policy

The Bank's Disclosure Policy is updated as required by the relevant legislation and published on the Bank's website in Turkish and English.

The disclosure policy aims for sharing all information, with the exception of trade secrets, and statements with the Bank's shareholders, employees, customers, and other relevant parties in a timely, accurate, complete, clear, convenient, and cost-efficient manner under equal terms. Accordingly, all financial information, other announcements and notifications are provided pursuant to relevant legislation, generally accepted accounting principles, and corporate governance principles.

The Board of Directors is responsible for monitoring, supervising and improving the Public Disclosure Policy. The Bank releases press statements through print or visual media when necessary. Press statements for print or visual media are given by the Chairman, CEO, or other authorized units or personnel.

Pursuant to legislation and banking regulations, the annual report including the necessary information and announcements is prepared, presented to the Board of Directors and published on the Bank's website (www.aktifbank.com.tr) prior to the annual General Assembly meeting. The annual report is prepared in accordance with BRSA regulations, sent to the relevant institutions within the statutory deadlines, and published on the Bank's website. Bank's financial statements are signed and attested by the Chairman, Audit Committee Members, CEO, and Executive Vice President responsible for financial reporting. The annual report contains information on the Bank's market position, overall financial performance and other material issues.

Aktif Yatırım Bankası A.Ş. website is utilized as an effective channel for public disclosure.

9. Corporate Website and Its Content

The Bank's website is www.aktifbank.com.tr. Information and announcements are made in Turkish and English. The Bank's website contains information and data required by the relevant legislation. The website is kept up-to-date and used actively and effectively for public disclosure. The main headings on the website are as follows:

- Detailed information on corporate identity
- The Bank's vision and mission

- Members of the Board of Directors
- The company's capital structure
- Articles of association
- Trade registry information
- Financial statements
- General Assembly information
- Corporate governance practices
- Appraisals and ratings
- Annual reports
- Independent audit reports

10. Annual Report

The annual report contains information listed in the Corporate Governance Principles and information required to be disclosed as per the relevant legislation.

PART III – STAKEHOLDERS

11. Informing Stakeholders

The Bank informs stakeholders about matters of interest through minutes of General Assembly meetings, material disclosures, press statements, meetings, e-mails, and the website. Employees are informed via the corporate intranet. Necessary procedures have been established to enable reporting illegal or unethical activities.

Shareholders are informed through the Bank's website, the General Assembly and press statements.

Customers

Customers are informed about the Bank and its activities. Customers are offered information and guidance directly through branches as needed.

The Bank's website contains all information, news, and announcements about the Bank; and customers are informed via e-mail, SMS, and other communication channels.

Employees

The Bank's primary goals involve supporting employee development and ensuring motivation and job satisfaction. The written and non-written principles of conduct, and rules that govern relations with persons or organizations both inside and outside the Bank are compiled into a written "Code of Ethics", which may be found on the Bank website (www.aktifbank.com.tr).

All Bank practices regarding employees are conducted in accordance with the Labor Law and other relevant legislation. Employment contracts are kept in a written format. Employee recruitment, promotion, and dismissal policies have been laid out in the Bank's "Human Resources Procedures". The Bank has prepared workflow documents for all operations, as well as documents containing the job descriptions of all Branch and Head Office personnel based on title. The Bank has procedures and instructions regarding its operations and practices. Job descriptions, workflows, regulations, procedures, instructions, and other documentation have been uploaded on the Bank's intranet for easy access by employees.

Regular meetings with Branch Managers and efficiency meetings are held to foster participatory management. Additionally, Executive Vice Presidents and Department Heads hold regular meetings with department employees for sharing information.

Regulatory and Supervisory Authorities

All Bank operations are audited by Sworn-in Bank Auditors of BRSA. The Bank periodically prepares reports mandated by regulatory and supervisory authorities.

12. Stakeholder Participation in Management

The Bank's Shareholders are represented in the Bank's management as per the relevant provisions of the Articles of Association.

Participation in management is always encouraged. Through the suggestion system, personnel submit innovative ideas to improve and develop the Bank's operations to the relevant management functions, which are then meticulously evaluated and awarded. The Bank organizes regular corporate social responsibility activities and team-building activities to help establish effective and productive professional relationships and to support the team spirit. Customer feedback and complaints received via the branches, website or other communication channels are duly evaluated.

Information on employee suggestions implemented are shared across the Bank.

13. Human Resources Policy

In line with the Bank's goals and strategies, the Human Resources Policy aims to increase employee productivity and satisfaction using human resources tools such as compensation, performance evaluation, career planning and trainings. The Bank thus aims to create a professional environment that promotes the energy and creativity of employees and enables them to display their talents.

Aktif Bank embraces the principle of ensuring employee motivation and loyalty through efficient and people-oriented human resources practices.

The Bank's Human Resources policy and practices are disclosed and implemented through procedures. The Human Resources Practices Procedure and Discipline Procedure establish the Bank's conditions for work, recruitment standards, personnel affairs, performance evaluations, career planning, provisions about rewards and penalties, and training opportunities.

The Bank has established a safe working environment for its employees and strives to improve these conditions and opportunities as necessary. Decisions and developments concerning employees are communicated through announcements and procedures. The Bank takes the necessary measures to prevent all forms of discrimination of employees on the basis of race, ethnicity, language, religion and gender; to ensure that human rights are respected and its employees are protected against all kinds of physical, mental and emotional abuse within the company.

14. Code of Ethics and Social Responsibility

The Bank's relations with customers are addressed under a specific section within the "Ethical Principles" and made available on the Bank's website.

As part of its corporate governance approach, the Bank has adopted the "Principles of Banking Ethics", published by the Banks Association of Turkey. The Bank's Ethical Principles are built around the core principles of the Bank's corporate culture and management (integrity, reliability, impartiality, compliance and transparency) and disclosed to the public via the Bank's website. All Bank personnel is informed about the ethical principles and is asked to sign documents to vouch for their dedication to embrace these principles in their operations.

Aktif Bank continues its efforts to improve and enhance its quality of service through a customer-oriented approach. It regularly monitors customer satisfaction through periodic surveys and social media channels, planning and promptly implementing actions regarding areas that require improvement as demonstrated by customer feedback. The Bank has a dedicated system for responding to customer complaints, a customer complaints database, and established operation guidelines and principles including the customer complaint procedure.

The Bank's current and potential customers, suppliers and other stakeholders are informed through the Bank's website, announcements, product pamphlets, presentations and visits.

The Bank's Support Services Operating Procedure contains guidelines to follow in transactions regarding suppliers and procurements.

In all its practices and investments, the Bank supports social and cultural activities with due diligence for protecting social benefit and the environment alongside its own public image, benefit and profitability. It strives towards the progress of the banking industry and works to maintain the public's trust in it. It contributes to the healthy development of the society by ensuring compliance with regulations on consumer and public health. The Bank also supports social and cultural associations, foundations and organizations.

PART IV – BOARD OF DIRECTORS

15. Structure and Composition of the Board of Directors

The Bank's Board of Directors is composed of the following seven members.

Title	Name	Education	Profesional Experience (Years)
Chairman	Ahmet ÇALIK	High School	37
Deputy Chairman	Mehmet USTA	Bachelor's	40
Board Member	Mehmet Ertuğrul GÜRLER	Bachelor's	41
Board Member	Veysel ŞAHİN	Master's	34
Board Member, Audit Committee Chairman	Kemaleddin KOYUNCU	Master's	27
Board Member, Audit Committee Member	İbrahim YAŞAR (*)	Master's	19
Board Member, CEO	Serdar SÜMER	PhD	23

(*) İbrahim Yaşar took office in April 2018.

The current list of Board Members and their resumes can be found in the Annual Report and under the "About Us" section of the Bank's website.

Members of the Aktif Bank Board of Directors are elected pursuant to Article 32 of the Bank's Articles of Association and the provisions of the Banking Law. As per the Banking Law, in the absence of the CEO, his/her proxy serves as an ordinary member of the Board.

The Board of Directors may convene as frequently as required. However, it must convene at least once a month. The composition, powers, responsibilities, rights, working principles and procedures of the Board of Directors are established by the "Regulations on the Board of Directors."

The criteria that members of the Board of Directors must meet are set forth by the Banking Law and Aktif Bank ensures full compliance with said legislation when electing members. The Articles of Association dictates that the Board Member must be selected in accordance with the relevant provisions of the Turkish Commercial Code and relevant Banking legislation, and that one more than half of the Board Members must meet the criteria required to take office as CEO (As a minimum, bank CEOs must have a bachelor's degree in either law, economics, finance, banking, business, or public management, or hold a master's degree in one of these fields in addition to 10 years of experience in banking or business management if they hold a bachelor's degree in engineering).

Board Members comply with the regulations stipulated by the Banking Law and the relevant provisions in the BRSA regulations in their activities outside of the Bank. No situations occurred during the period that compromised the independence of Board Members.

16. Operating Principles of the Board of Directors

The Banking Law and relevant legislations, the Turkish Commercial Code, Aktif Bank's Articles of Association and the Regulations on Board of Directors regulate the powers and responsibilities of the Bank's Board of Directors, which operates to ensure the Bank's progress towards its strategic goals in line with its mission, vision, and values.

All administrative operations, documentation, archiving, and secretarial activities of the Board are conducted by the Board of Directors Private Office. The Board of Directors Private Office operates under the oversight and supervision of the Chairman/Deputy Chairman and serves all Board Members.

Meetings are held whenever necessitated by the Bank's operations and in any case at least 12 times per year. The meeting agenda is shared with the Board Members prior to the meeting.

The quorum for any Board of Directors meeting is at least one more than half of the members. Resolutions are passed by majority vote. Minutes of the Board of Directors meetings are taken by the Board of Directors Private Office. Board Members in attendance are required to sign the minutes and members who oppose the resolution are required to write down and sign the reason of their opposition. Resolutions are only valid when they are written down and bear the signatures of Board Members. The principles regarding resolution records are established by the Bank's Articles of Association and Regulations on Board of Directors.

Board Members do not have weighed voting rights or veto rights.

17. Number, Structure, and Independence of Board Committees

The Bank has established the necessary organizations pursuant to the Banking Law No. 5411 and the relevant legislation. Information about the Credit Committee, Audit Committee, Corporate Governance Committee and the Remuneration Committee is presented below.

Audit Committee

The Audit Committee, established pursuant to Article 24 of the Banking Law, conducts its activities in accordance with provisions of the BRSA Regulations on Internal Systems and Internal Capital Adequacy Assessment Process, Aktif Bank's Regulations on Board of Directors and the Regulations on the Audit Committee. Members of the Audit Committee are Board Members Kemaleddin Koyuncu and İbrahim Yaşar.

The Audit Committee convenes as necessary and at least four times every year with attendance from Independent Auditors as well as department heads of the units formed under the Inspection Board, Internal Control, Compliance, and Audit Departments and Risk Management Systems to evaluate its activities during the period, and reports its findings to the Board of Directors every six months.

Corporate Governance Committee

The Bank has established a Corporate Governance Committee composed of three members to ensure compliance with the Corporate Governance Principles and drive improvements in this area. The Corporate Governance Committee operates within its own power and responsibilities and offers suggestions to the Board of Directors, but the final decision is made by the Board. Members of the Corporate Governance Committee are Mehmet Usta, M. Ertuğrul Gürler, and Veysel Şahin, all members of the Board without executive duties. The Corporate Governance Committee convenes twice a year upon the invitation of the Chairman. The Corporate Governance Committee held two meetings in 2018. The committee conducts its activities in accordance with the BRSA "Regulations on Corporate Governance Principles", published in the Official Gazette No. 26333 on November 1, 2006.

Credit Committee

As per statutory requirements, Aktif Bank features a Credit Committee consisting of three Board Members to regulate credit operations. Members of the Credit Committee are Board Members Mehmet Usta, M. Ertuğrul Gürler, and CEO and Board Member Serdar Sümer. The Credit Committee is the decision-making authority on loan allocation and reviews loan offers that pass the loan assessment process of the Head Office in terms of compliance with legal provisions, banking principles, and the Bank's own targets and Credit Policies. The Credit Committee is responsible for taking loan allocation decisions within its jurisdiction as stipulated by the legislation. Such lines of credit are opened through a committee resolution upon the suggestion of the Head Office. The decisions and activities of the Credit Committee are supervised by the Board of Directors.

Remuneration Committee

The Remuneration Committee, established to inspect and supervise compensation practices on behalf of the Board of Directors, consists of Board Members Mehmet Usta and M. Ertuğrul Gürler. The committee held two meetings in 2018. The committee conducts its activities in accordance with the BRSA "Regulations on Corporate Governance Principles" published in the Official Gazette No. 26333 on November 1, 2006.

18. Risk Management and Internal Control Mechanism

The Internal Systems have been established in accordance with the Banking Law No. 5411 to determine, measure, monitor and control potential exposure of the Bank as a result of its strategy and activities, and it is organized in a manner that is in accord with the scope and nature of the Bank's activities, changing conditions and consolidated partners.

The Inspection Board, Internal Control, Risk Management and Compliance units are nested under the Internal Systems Group, and report to the Audit Committee.

The Audit Committee was established in accordance with the provisions of the Banking Law, the Regulations on the Internal Systems of Banks and the Internal Capital Adequacy Assessment Process and Aktif Bank Regulations on Board of Directors and Audit Committee to assist the Board of Directors with its supervision and audit duties. The Audit Committee reports its activities to the Bank's Board of Directors every activity period. Overall evaluations about the 2018 activities of the Internal Systems Units are included in the Annual Report.

19. The Company's Strategic Goals

The Bank's Vision and Mission, provided below, have been determined and disclosed to the public via the Bank's website.

Vision

To provide easy access to financial services that meet the needs of all segments of society and to become the widest reaching financial services organization through innovative and beneficial solutions.

Mission

To create lasting value for our country, economy and society through innovative solutions and an entrepreneurial approach in all areas in which we provide services; and to become a preferred financial institution to work with both for our stakeholders and human resource.

The strategic goals formulated through the combined efforts of various Committees are reviewed and finalized by the Board of Directors. These include, among others, the annual budget, investment areas and volumes, branching and other working policies. Additionally, progress/deviation from set targets as well as revision of targets in light of changing conditions are reported to the Board of Directors at determined intervals.

20. Financial Rights

The means and the amount of compensation to be paid to Board Members are assessed and determined at the annual Ordinary General Assembly.

The loans extended by Aktif Bank to Board Members are restricted in accordance with Article 50 of the Banking Law. Loans to the Board Members may not exceed this limit.

Pursuant to the Communiqué (II-14.1) of the Capital Markets Board on Principles of Financial Reporting in Capital Markets

Statement of Responsibility

Upon our evaluation of the year-end Annual Report of Aktif Yatırım Bankası A.Ş. for the period January 1, 2018-December 31, 2018, drawn up in accordance with the Communiqué (II-14.1) of the Capital Markets Board on Principles of Financial Reporting in Capital Markets, we have concluded that:

- Within the framework of our duties and responsibilities at the Bank and the information at our disposal, the Annual Report does not contain any misrepresentations of material events, or any omissions that might make the statements misleading as of their date of issue;

- Within the framework of our duties and responsibilities at the Bank and information at our disposal, the Annual Report truthfully represents the course of business, performance and the financial situation of the Bank, as well as material exposures and uncertainties it faces.

Sincerely,

Kemaleddin Koyuncu	Dr. Serdar Sümer	Murat Barlas
Audit Committee Chairman	**CEO**	**Executive Vice President**

Aktif Bank's
excellent digital customer is
made possible by the Bank's
dedicated human resources.

Human Resources Practices

The foundation of Aktif Bank's growth strategy is an organizational understanding that rapidly adapts to new technologies and global developments and creates new employment opportunities. In line with this approach, activities to render business processes productive and effective continue by means of process modeling, process automation efforts, end-to-end organizational structure analysis and modeling, project-based norm staff analyses, and performance management based on individual and objective data for all service teams. These activities are all supported by cost and productivity goals.

In light of this strategy, best national and global practices are monitored in order to promote human resources and improve human resources practices based on the awareness that Aktif Bank's human resources are the most valuable asset. Furthermore, practices are developed towards encouraging creativity of family members, thereby establishing a high-performance culture and rewarding the added value they create.

Aktif Bank aims to offer a working environment where employees can improve themselves without discrimination. The Bank provides equal career opportunities and established systems that promote success.

In line with this understanding, Aktif Bank employs competent employees with sectoral experience and recruits recent graduates with promising potential.

In 2018, 171 new family members joined Aktif Bank. A total of 54 hours per employee was allocated for training in 2018 in order to provide Aktif Bank employees with resources and opportunities to improve their knowledge and skills for successful development.

Master's Degree / PhD	15%	Number of employees	663
Bachelor's Degree	77%	Average age	34

The Bank's Transactions Within Its Risk Group

	Direct and Indirect Subsidiaries and Associates		Shareholders of the Bank		Other Entities Included in the Risk Group	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
Loans and other receivables						
Balance at Beginning of Period	-	66,926	1,671,201	23,787	514,182	549,682
Balance at End of Period	-	-	2,262,876	19,767	627,874	398,911
Interest and Commission Income	-	-	218,821	356	89,777	6,584

Individuals and Companies Providing Support Services

İnfina Yazılım A.Ş., Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş., OBSS Bilişim Bilgisayar Hizmetleri Ltd. Şti., EGA Elektronik Güvenlik Altyapısı A.Ş., Formalis Bilgi Teknolojileri Ltd. Şti., Codec İletişim ve Dan. Hizm. Ltd. Şti., Kartek Kart ve Bilişim Ltd. Şti., Provus Bilişim Hizmetleri A.Ş., Global Bilişim Bilg. Yazılım Dan. San. ve Tic. Ltd. Şti., Mapa Global Bilgisayar Yazılım Dan. San. Ltd. Şti., Küresel Beta Teknoloji Telekomünikasyon San. Tic. Ltd. Şti., Platin Bilişim ve Reklam Sanayi Ticaret Ltd. Şti., Superonline İletişim Hizmetleri A.Ş., Netaş Telekomünikasyon A.Ş., V.R.P. Veri Raporlama Programlama Bilişim Yazılım ve Dan. Hiz. Tic. A.Ş., Finecus Yazılım Danışmanlık San. A.Ş., İdeal Bilişim Hizmetleri San. ve Tic. Ltd. Şti., Link Bilgisayar Sistemleri Yaz. ve Don. San. ve Tic. A.Ş. and Fineksus Bilişim Çözümler Tic. A.Ş. provide support services on Information Technologies processes.

Vega Bilgisayar Ltd. Şti. also provides support services in Financial Management processes.

RGN İletişim Hizmetleri A.Ş., Comdata Teknoloji ve Müşteri Hizmetleri A.Ş., Nuevo Yazılım Çözümleri A.Ş., Sistem Araştırma Yatırım ve Yönetim Danışmanlığı Eğitim Hizmetleri Ticaret Ltd. Şti., Etcbase Yazılım ve Bilişim Teknolojileri A.Ş. and Fu Gayrimenkul Yatırım Danışmanlık A.Ş. provide support services in Corporate Banking processes.

Iron Mountain Arşivleme Hizmetleri A.Ş., Desmer Güvenlik Hizm. Tic. A.Ş., Aras Kurye Servisi A.Ş., Kuryenet Motorlu Kuryecilik ve Dağıtım Hiz. A.Ş., Artekay Teknoloji Araştırma Sistemleri Tic. Ltd. Şti., Güzel Sanatlar Çek Basım Ltd. Şti., Webhelp Çağrı Merkezi ve Müşteri Hizmetleri A.Ş, CMC İletişim ve Çağrı Merkezi Hizm. A.Ş., Global Bilgi Pazarlama Danışman ve Çağrı Servisi Hizmetleri A.Ş., Plaskart Kart ve Bilişim Sis. San. Tic. Ltd. Şti., E-Kart Elektronik Kart Sistemleri San. ve Tic. A.Ş., G4S Güvenlik Hizmetleri A.Ş., Loomis Güvenlik Hizmetleri A.Ş., Hobim Digital Elektronik Hizmetler A.Ş. and EKent Teknoloji ve Ödeme Sistemleri San. ve Tic. A.Ş. provide support services in Operational processes.

Intellica-Evam Yazılım Danışmanlık A.Ş., Inviso Destek Hizmetleri A.Ş., PTT (Postal and Telegraph Corporation), Experian Bilgi Hizmetleri Ltd. Şti. and Asset Aktif Sportif Sanatsal Etkinlik Hizmetleri Tic. A.Ş. provide support services in Retail Banking processes.

Furthermore, dealerships selling furniture, white goods, building hardware, healthcare and heating equipment provide support services for retail loan operations.

Financial Information and Risk Management

Audit Committee Report

Internal Control, Internal Audit, Compliance and Risk Management Systems Activities During the Accounting Period and the Audit Committee Report on Their Operations

Aktif Bank's Internal Systems the organization is made up of the Bank's Internal Audit, Internal Control and Compliance and Risk Management Departments that together work effectively in response to changing conditions and in harmony with the scope and structure of the various business processes to safely monitor and manage risks that the Bank may be exposed to.

The internal organization and working principles of the departments are determined in consideration of national laws and regulations as well as international standards. The activities of the Internal Audit, Internal Control, Compliance and Risk Management Departments, which have been established in accordance with the Regulations on the Internal Systems of Banks and the Internal Capital Adequacy Assessment Process, set forth by the Banking Regulation and Supervision Institution (BRSA) and dated July 11, 2014, are evaluated at meetings of the Audit Committee. In 2018, seven Audit Committee meetings were held; the activities of Internal Systems Departments were monitored closely and Audit Committee members shared all significant issues with the Board of Directors.

In 2018, Internal Audit, Internal Control, Compliance and Risk Management Departments carried out control, audit, monitoring and advisory activities as well as process-related efforts. The departments made suggestions for the establishment of new control points, thus improving the Bank's operational processes.

In line with the "Annual Audit Plan" approved by the Board of Directors, audits were carried out in 2018 at the branches, head office units, and at the companies and affiliates which provide support services. Over the year, the Inspection Board audited 4 branches, 13 head office units and processes, 7 monitoring activities, 7 information technologies, 9 subsidiaries/affiliates and 4 companies providing supporting services, amounting to 44 separate audit events.

In 2018, the Internal Control Department inspected 599 control points identified on Banking activities and prepared four control reports consolidated under a single report on Banking activities. Furthermore, within the scope of Management Statement, 441 first-level controls on the Bank's Information Systems and Banking Processes.

The Compliance Department provided consultancy on the compliance of the Bank's current and planned activities, services, products, advertising, promotions and campaigns with the Banking Law and other relevant regulations, internal policies and rules, and banking practices. With regards to changes in legal regulations, processes were revised and related personnel were informed about the said changes. The duties and responsibilities assigned to the compliance officer by the Law on the Prevention of Money Laundering of Crime Revenues and its provisions were performed by the Executive Vice President, Internal System who is also the Bank's designated Compliance Officer. Within the scope of prevention of laundering of crime revenues and the financing of terror, the necessary Bank policies and procedures were established and kept up-to-date. To fulfill the responsibilities required by the relevant regulations, customer transactions were monitored, correspondent banks were controlled, suspicious activities were identified and duly reported.

National and international regulations were monitored and necessary activities were carried out. In-class and online training sessions were organized to raise the awareness of personnel on the prevention of laundering of crime revenues and financing of terror.

The Risk Management Department continued operations to identify the Bank's exposure to risks, to measure risks using various stress tests and scenario analyses and to manage risks within the limits determined by the Board of Directors. All activities and reports were shared with ALCO and the Board of Directors on a regular basis. In 2018, within the scope of the calculation of the projected loss in the loan portfolio, modeling activities were carried out to calculate customers' probability of default and the total amount expected from loans in case of default; collaterals were calculated based on the said models.

Considering the Bank's growing and improving organizational structure, total assets, transaction volume and variety, the activities of the Inspection Board, Internal Control, Compliance and Risk Management Departments aimed to increase the effectiveness and productivity of the Bank's activities, reduce the risk of damage to assets and resources, ensure Annual Reports are accurate and reliable, the Bank's activities are carried out in in compliance with the law and legal obligations. Their activities ensured maintaining the Bank's risk exposure at a minimal level.

Evaluation of Financial Status

As of the end of 2018 the Bank's total assets increased by 25.40% to reach TRY 13,882.5 million since the end of the previous year. In terms of USD; the Bank's asset size of USD 2,935 million as of the end of 2017 shrunk by 10.44% due to the sudden increase in the exchange rate in 2018 to USD 2,629 million. As of the end of 2018, the Bank recorded a net profit of TRY 381.7 million, which constitutes a 63.23% increase compared to the end of 2017.

The average return on assets based on net profits rate of 2.28% as of the end of 2017 increased to 3.06% in 2018.

In 2018, average return on equity increased from 21.19% to 27.29% over the previous period. By the end of 2018, the Bank's equity grew by TRY 351 million to reach TRY 1,574 million. Thus further strengthening its equity structure, Aktif Bank recorded a capital adequacy ratio of 12.87%.

In 2018, the Bank continued to manage its loan portfolio with an optimal risk-return balance and met customers' funding needs of various maturities with the most convenient conditions. Loans and financial lease transactions grew by 5.57% in 2018 to reach TRY 6,904 million. The Bank holds non-cash loans worth TRY 1,232.2 million. Despite the global economic crisis and its negative impact, the Bank's rational and balanced risk management policies enabled restricting the ratio of non-performing loans to only 3.82% within all loans.

Risk Management Policies by Risk Types

Aktif Bank conducts its Risk Management operations in accordance with legal regulations and the Bank's internal regulations. The Risk Management Department is responsible for establishing risk management policies and minimization of risks by identifying, measuring and managing credit, market and operational risks defined as primary structural block risks along with national, reputational and concentration risks defined as secondary structural block risks.
All projected risks are enclosed by the upper limits within the framework of risk limits prepared by the Risk Management Department and approved by the Board of Directors. The risk appetite structure of the Bank has been developed by the Risk Management Department and has been approved by the Board of Directors. Risk appetite limits are regularly monitored by the Risk Management Department. The Bank has developed the internal capital adequacy assessment process ("ICAAP"), which is carried out annually in parallel with the budget process.

Risk Management Policies

Credit Risk

The purpose of credit risk management is to identify and manage the risks which the credit portfolio may be exposed to, in line with the basic strategies and objectives of the Bank. In the analysis, allocation and extending of credits, a dynamic credit portfolio management approach which takes early warning signs into consideration has been adopted. Aktif Bank has based its credit activity strategies on working with high credibility customers, reducing credit risk through effective collateralization and high productivity. The bank determined a written formulation of the policies, processes, responsibilities and limits needed for effective credit risk management.

The bank developed a borrower evaluation model that could be used to measure and make a quantitative and qualitative analysis in calculating risk exposure levels at the corporate customer level. Moreover, within the scope of the calculation of the projected loss in the retail credit portfolio, modeling activities are carried out to calculate the probability of default of each private loan customer and the total amount expected from loans in case of default.

The Risk Management Department monitors the creditworthiness of corporate and retail loan portfolios, monitors increases in risk and concentration levels to check compliance with limits set by the Board of Directors. Results are reported to the Audit Committee and the Board of Directors. Stress tests and scenario analyses are applied to the portfolio in order to measure the resilience of the Bank's capital against the risks, which the Bank may be exposed to due to credit risks.

Market and Liquidity Risk

Aktif Bank aims to maintain its resilient balance sheet and strong capital structure. To this end it aims to identify risks accurately in order to keep up its profitable and sustainable growth. In line with this strategy, market and liquidity risks are managed in consideration of legal regulations and internal limits.

Taking into consideration the Bank's risk capacity, the Board of Directors set acceptable risk levels and limits. Furthermore, early warning and swift decision-making mechanisms were developed to enable the Bank to incur minimum damage and losses in the case of a potential financial crisis, and financial contingency indicators were determined for this purpose. The said risk limits and contingency indicators are regularly monitored and reported by the Risk Management Department as per relevant procedures and regulations.

Within the scope of market and liquidity risk management, the Risk Management Department applies risk models and parameters accepted in national and international applications to identify, measure and monitor the liquidity risk, interest risk, exchange rate risk, and structural interest rate risk. Internal methods and models are improved and enhanced on a regular basis. Furthermore, the said risks are monitored using various scenario analyses and stress tests and the results are shared with the senior management, ALCO, Audit Committee, and the Board of Directors.

Operational Risk

In managing operational risks, operational risk categories are identified in line with Basel criteria on operational losses, collected within the framework of these categories and monitored over a database. The Bank also conducts Business Impact Analyses and Risk Self-Evaluations and draws up risk inventories to determine points of risks in bank processes and products and express these in measurable terms.

Within the scope of Business Continuity planning, the Contingency Center was established in Ankara in order to enable the Bank to continue its activities in case of disasters such as earthquakes, fires and floods. A backup of all corporate accesses and critical servers is simultaneously kept at the center in Ankara. The Hotsite Center located in Istanbul's Ümraniye District was set up to be an emergency center with a core staff that will act in the event of regional catastrophes according to predetermined Disaster Action Plans. Both centers are equipped with an office environment that meets all technical requirements of the core staff.

Credit Ratings by Credit Agencies

Long-Term International Foreign Currency Rating	BBB- / (Stable outlook)
Long-Term International Local Currency Rating	BBB- / (Stable outlook)
Long-Term National Rating	AA+ (Trk) / (Stable outlook)
Short-Term International Foreign Currency Rating	A-3 / (Stable outlook)
Short-Term International Local Currency Rating	A-3 / (Stable outlook)
Short-Term National Rating	A-1+ (Trk) / (Stable outlook)
Support Rating	2
Standalone Rating	AB

In the first quarter of 2018, JCR evaluated Aktif Yatırım Bankası A.Ş. in the "High-Level Investment Grade" category and upgraded its Long-Term National rating to "AA+ (Trk)". In addition, it affirmed its Long-Term International Local and Foreign Currency Ratings as "BBB-" and its outlooks (Stable).

Five-Year Summary Financial Highlights

IN NOMINAL VALUES (TRY THOUSAND)	2018	2017	2016	2015	2014
Balances with Banks & Money Market Placements	265,665	154,166	559,386	216,299	155,337
Trading Securities (Net)	-	51,956	50,486	9,271	4,251
Financial Assets at Fair Value Through Profit or Loss	488,030	-	-	-	-
Investment Securities (Net)	2,337,493	1,564,817	1,123,740	930,741	887,838
Loans & Factoring Receivables (Net)	6,903,543	6,539,477	5,520,369	4,638,261	3,983,292
Financial Lease Receivables (Net)	-	-	-	-	-
Shareholders' Equity	1,574,102	1,222,950	983,622	879,915	886,604
Total Assets	**13,882,523**	**11,070,991**	**9,483,016**	**7,556,649**	**6,251,827**
Guarantees and Indemnities	**1,232,225**	**1,308,957**	**928,423**	**631,362**	**991,109**
Net Interest Income	425,574	570,519	355,663	307,398	238,622
Net Fee and Commission Income	98,614	174,782	89,137	59,148	33,863
Profit Before Taxes	480,450	310,765	141,185	52,120	41,439
Provision for Taxes on Income	-98,778	-76,938	-43,131	-26,153	-7,714
Net Profit	381,672	233,827	98,054	25,967	33,725

IN NOMINAL VALUES (USD THOUSAND)	2018	2017	2016	2015	2014
Balances with Banks & Money Market Placements	50,306	40,872	158,953	74,391	66,987
Trading Securities (Net)	-	13,774	14,346	3,189	1,833
Financial Assets at Fair Value Through Profit or Loss	92,412	-	-	-	-
Investment Securities (Net)	442,623	414,862	319,317	320,106	382,870
Loans & Factoring Receivables (Net)	1,307,242	1,733,736	1,568,643	1,595,220	1,717,751
Financial Lease Receivables (Net)	-	-	-	-	-
Shareholders' Equity	298,069	324,227	279,502	302,626	382,338
Total Assets	**2,628,768**	**2,935,123**	**2,694,651**	**2,598,930**	**2,696,031**
Guarantees and Indemnities	**233,332**	**347,029**	**263,816**	**217,142**	**427,405**
Net Interest Income	80,586	151,255	101,064	105,722	102,903
Net Fee and Commission Income	18,673	46,338	25,329	20,343	14,603
Profit Before Taxes	90,977	82,390	40,118	17,925	17,870
Provision for Taxes on Income	-18,704	-20,398	-12,256	-8,995	-3,327
Net Profit	72,273	61,992	27,863	8,931	14,544
USD / TRY	5.2810	3.7719	3.5192	2.9076	2.3189

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Independent Auditor's Report

To the General Assembly of Aktif Yatırım Bankası Anonim Şirketi,

Qualified Opinion

We have audited the consolidated financial statements of Aktif Yatırım Bankası Anonim Şirketi ("the Bank") and its subsidiaries (together will be referred as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Qualified Opinion

The accompanying consolidated financial statements as at 31 December 2018 include a general reserve of total of TL 133,000 thousands, of which TL 170,000 thousand was recognised in prior years and TL 37,000 thousands have been reversed in the current period, which is provided by the Bank management for the possible effects of the negative circumstances which may arise in the economy or market conditions.

We conducted our audit in accordance with International Standards on Auditing ("ISA"s). 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 are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Turkey, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Impairment of loans and advances to customers measured at amortised cost

Refer to "Significant accounting policies" Note 3.10 to the consolidated financial statements relating to the impairment of loans and advances to customers.

Key audit matter	How the matter is addressed in our audit
As of 31 December 2018, loans and advances to customers comprise 50% of the Group's total assets. The Group recognizes its loans and advances to customers in accordance with the IFRS 9 Financial Instruments standard ("Standard"). As of 1 January 2018, due to the adoption of the Standard, in determining the impairment of loans and advances to customers is started to apply "expected credit loss model" rather than the "incurred loss model". The new model contains significant assumptions and estimates. The significant assumptions and estimates of the Group's management are as follows: · significant increase in credit risk; · incorporating the forward looking macroeconomic information in calculation of credit risk; and · design and implementation of expected credit loss model. The determination of the impairment of loans and advances to customers measured at amortised cost depends on the credit default status, the model based on the change in the credit risk at the first recognition date and the classification of the loans and advances to customers measured at amortised cost according to the model. Establishing an accurate classification is a significant process as	Our procedures for testing the impairment of loans included below: · We tested the design and operating effectiveness of the controls on lending, collateralization, collection, follow-up, classification and impairment procedures are tested with the involvement of information risk management specialists. · We evaluated the Group's business model whose objective is to hold financial assets in order to collect contractual cash flows and we tested the appropriateness of the loan agreements with the model by selecting samples. · We evaluated the adequacy of the subjective and objective criteria that is defined in the Group's impairment accounting policy compared with the Standard. · We evaluated the Group's business model and methodology and the evaluation of the calculations were carried out with the control testing and detailed analysis by the involvement of specialist. · We performed loan reviews for selected loan samples which include a detailed examination of loan files and related information and testing their classification. In this context, the current status of the loan customer has been evaluated by including prospective information and macroeconomic variables.

the calculation of expected credit loss varies to the staging of the financial assets.

The Group calculates expected credit losses on both an individual and a collective basis. Individual provisions consider the estimated future performance of the business and the fair value of the collateral provided for credit transactions.

The collective basis expected credit loss calculation is based on complex processes which are modelled by using current and past data sets and expectations and the forward looking expectations are reflected by macroeconomic models.

Impairment on loans and advances to customers measured at amortised cost was considered to be a key audit matter, due to the significance of the estimates, assumptions, the level of judgements and its complex structure as explained above.

- We tested the accuracy and completeness of the data in the calculation models for the loans which are assessed on collective basis. The expected credit loss calculation was tested through recalculation. The models used for the calculation of the risk parameters were examined and the risk parameters for the selected sample portfolios were recalculated.

- We assessed the macroeconomic models which are used to reflect forward looking expectations and tested the effect of the risk parameters by recalculation method.

- We evaluated the qualitative and quantitative assessments which are used in determining the significant increase in credit risk.

- Additionally, we also evaluated the adequacy of the consolidated financial statement disclosures related to impairment provisions.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2017 was audited by another auditor who expressed a qualified opinion due to the general reserve provisions provided by the Group Management on 26 April 2018.

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 IFRS, 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 Group'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 Group 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.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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 auditors' 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 ISAs 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 ISAs, we exercise professional judgement 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Group 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Alper Güvenç

Partner
29 Mart 2019
Istanbul, Turkey

AGüvenç

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018 (CURRENCY - IN THOUSANDS OF TURKISH LIRA ("TL"))

ASSETS	Note	31 December 2018	31 December 2017
Cash and cash equivalents	10	1,390,183	730,980
Reserve deposits at Central Bank	11	1,072,226	1,008,020
Financial assets at fair value through profit or loss	12	488,030	-
Trading assets	12	-	51,956
Trade and other receivables		75,567	254,154
Inventories		17,075	137,722
Loans and advances to customers	14	6,903,543	6,539,477
Investment securities	13	2,337,493	1,564,817
Equity accounted investees	15	50,798	54,052
Tangible assets	16	518,004	256,796
Intangible assets	17	216,488	143,337
Goodwill	8	504	504
Deferred tax assets	23	36,987	10,246
Assets held for sale	19	71,999	71,067
Other assets	18	703,626	247,863
Total Assets		**13,882,523**	**11,070,991**
LIABILITIES			
Trading liabilities	12	23,017	8,987
Trade and other payables		288,240	114,787
Obligations under repurchase agreements	20	1,291,742	1,074,509
Financial lease liabilities		3,904	20,146
Debt securities issued	22	4,365,713	2,776,288
Funds borrowed	21	3,650,016	3,774,380
Provisions	24	221,552	240,966
Income taxes payable	23	48,589	18,392
Deferred tax liability	23	14,668	1,830
Other liabilities	25	2,400,980	1,817,756
Total Assets		**12,308,421**	**9,848,041**
EQUITY			
Share capital	26	1,198,095	1,038,095
Legal reserves		56,353	38,343
Unrealised gain/(loss) on financial assets measured at fair value through other comprehensive income		(42,390)	(18,580)
Actuarial gain/ (loss)		773	(136)
Special funds		37,112	618
Translation reserves		2,290	(409)
Retained earnings		307,933	154,118
Total equity attributable to equity holders of the Bank		**1,560,166**	**1,212,049**
Non-controlling interests		13,936	10,901
Total equity		**1,574,102**	**1,222,950**
Total liabilities and equity		**13,882,523**	**11,070,991**

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME AS AT 31 DECEMBER 2018 (CURRENCY - IN THOUSANDS OF TURKISH LIRA ("TL"))

	Note	2018	2017
Interest income	27	1,332,923	1,021,509
Interest expense	27	(907,349)	(450,990)
Net interest income		**425,574**	**570,519**
Fees and commission income	28	176,018	248,439
Fees and commission expense	28	(77,404)	(73,657)
Net fee and commission income		**98,614**	**174,782**
Net trading gain/loss	29	(10,442)	(38,740)
Sales income	30	589,303	407,270
Other income	31	179,300	82,370
Other expenses	35	-	(140,000)
Net impairment loss on financial assets	14,32	(31,341)	(55,362)
Operating expenses		(422,916)	(402,446)
- Personnel expenses	33	(176,726)	(166,246)
- Depreciation and amortisation	16,17	(45,490)	(71,624)
- Other operating expenses	34	(200,700)	(164,576)
Cost of sales		(184,091)	(65,794)
Cost of services	30	(100,387)	(170,031)
Other operating expenses	35	(57,161)	(61,956)
Total operating income		**486,453**	**300,612**
Share of profit of equity accounted investee	15	(6,003)	10,153
Profit before income tax		**480,450**	**310,765**
Income tax expense	23	(98,778)	(76,938)
Net profit for the year from continuing operations		**381,672**	**233,827**
Profit attributable to			
Equity holders of the Bank		378,291	231,726
Non-controlling interest		3,381	2,101
Profit for the year		**381,672**	**233,827**
Other comprehensive income			
Items that will not be reclassified to profit or loss:		**909**	**(577)**
Change in actuarial (loss) / gain related to employee benefits	24	1,166	(721)
Tax effect	23	(257)	144
Items that are or may be reclassified subsequently to profit or loss:		**(21,004)**	**6,378**
Change in fair value of financial assets measured at fair value through other comprehensive income		(30,526)	-
Change in fair value of available-for-sale financial assets		-	5,539
Foreign currency translation differences		2,699	1,947
Special fund		137	-
Income tax on other comprehensive income	23	6,686	(1,108)
Other comprehensive income for the year, net of tax		**(20,095)**	**5,801**
Total comprehensive income for the year		**361,577**	**239,628**
Total comprehensive income attributable to:			
Equity holders of the Bank		358,196	237,527
Non-controlling interest		3,381	2,101
Total comprehensive income for the year		**361,577**	**239,628**
Basic and diluted earnings per share (full TL amount per TL 1 face value each)		0.317	0.224

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017 & 2018
(CURRENCY - IN THOUSANDS OF TURKISH LIRA ("TL"))

	Note	Share capital	Adjustment to share capital	Legal reserves	Unrealised gains/ (losses) on available-for-sale assets	Translation reserve	Actuarial gain / (loss)	Special Funds	Retained earnings	Total	Non-controlling interest	Total equity
At 1 January 2017		**933,585**	**4,510**	**24,237**	**(23,011)**	**(2,356)**	**441**	**618**	**36,498**	**974,522**	**9,100**	**983,622**
Total comprehensive income for the year												
Profit for the year		-	-	-	-	-	-	-	231,726	231,726	2,101	233,827
Other comprehensive income		-	-	-	4,431	1,947	(577)	-	-	5,801	-	5,801
Net change in fair value of available-for-sale financial assets		-	-	-	*4,431*	-	-	-	-	*4,431*	-	*4,431*
Net change in actuarial gain related to employee benefits		-	-	-	-	-	*(577)*	-	-	*(577)*	-	*(577)*
Foreign currency translation differences		-	-	-	-	*1,947*	-	-	-	*1,947*	-	*1,947*
Total comprehensive income for the year		**-**	**-**	**-**	**4,431**	**1,947**	**(577)**	**-**	**231,726**	**237,527**	**2,101**	**239,628**
Transactions with owners, recorded directly in equity												
Capital increase		100,000	-	-	-	-	-	-	(100,000)	-	-	-
Transfer to reserves		-	-	14,106	-	-	-	-	(14,106)	-	-	-
Dividend paid		-	-	-	-	-	-	-	-	-	(300)	(300)
Total transactions with owners, recorded directly in equity		**100,000**	**-**	**14,106**	**-**	**-**	**-**	**-**	**(114,106)**	**-**	**(300)**	**(300)**
At 31 December 2017	***26***	**1,033,585**	**4,510**	**38,343**	**(18,580)**	**(409)**	**(136)**	**618**	**154,118**	**1,212,049**	**10,901**	**1,222,950**

	Note	Share capital	Adjustment to share capital	Legal reserves	Unrealised gain/ (losses) on financial assets measured at fair value through other comprehensive income	Translation reserve	Actuarial gain/ (loss)	Special Funds	Retained earnings	Total	Non-controlling interest	Total equity
At 1 January 2018		**1,033,585**	**4,510**	**38,343**	**(18,580)**	**(409)**	**(136)**	**618**	**154,118**	**1,212,049**	**10,901**	**1,222,950**
Adjustment on initial application of IFRS 9, net of tax	*5*	-	-	-	-	-	-	-	(23,079)	(23,079)	-	(23,079)
Adjusted opening balance at 1 January 2018		**1,033,585**	**4,510**	**38,343**	**(18,580)**	**(409)**	**(136)**	**618**	**131,039**	**1,188,970**	**10,901**	**1,199,871**
Total comprehensive income for the year												
Profit for the year		-	-	-	-	-	-	-	378,291	378,291	3,381	381,672
Other comprehensive income		-	-	-	(23,810)	2,699	909	107	-	(20,095)	-	(20,095)
Net change in fair value of financial assets measured at fair value through other comprehensive income		-	-	-	*(23,810)*	-	-	-	-	*(23,810)*	-	*(23,810)*
Net change in actuarial gain related to employee benefits		-	-	-	-	-	*909*	-	-	*909*	-	*909*
Foreign currency translation differences		-	-	-	-	*2,699*	-	-	-	*2,699*	-	*2,699*
Other		-	-	-	-	-	-	*107*	-	*107*	-	*107*
Total comprehensive income for the year		**-**	**-**	**-**	**(23,810)**	**2,699**	**909**	**107**	**378,291**	**358,196**	**3,381**	**361,577**
Transactions with owners, recorded directly in equity												
Capital increase		160,000	-	-	-	-	-	-	(147,000)	13,000	654	13,654
Transfer to reserves		-	-	18,010	-	-	-	36,387	(54,397)	-	-	-
Dividend paid		-	-	-	-	-	-	-	-	-	(1,000)	(1,000)
Total transactions with owners, recorded directly in equity		**160,000**	**-**	**18,010**	**-**	**-**	**-**	**36,387**	**(201,397)**	**13,000**	**(346)**	**12,654**
At 31 December 2018	***26***	**1,193,585**	**4,510**	**56,353**	**(42,390)**	**2,290**	**773**	**37,112**	**307,933**	**1,560,166**	**13,936**	**1,574,102**

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018
(CURRENCY - IN THOUSANDS OF TURKISH LIRA ("TL"))

	Note	2018	2017
Cash flows from operating activities			
Net profit for the year		381,672	233,827
Adjustments for:			
Depreciation and amortisation expenses	16, 17	45,690	72,336
Retirement pay provision expense	24	2,985	2,579
Unused vacation provision expense		275	1,091
Bonus provision expense		52,279	19,051
Impairment on financial assets	32	31,341	55,362
Net interest income and expense		(467,560)	(534,296)
Share of profit of equity investee	15	6,003	(10,153)
(Reversal) / provision for possible losses	24	(37,000)	140,000
Unrealised foreign exchange loss / (gain)		(894,143)	(317,997)
Gain on sale of assets	31	(60,299)	(27,877)
Gain on sale of subsidiary	31	-	(43,232)
Other accruals		1,487	69,177
Income tax	23	98,778	76,938
		(838,492)	**(263,194)**
Change in reserve deposit at Central Bank		(64,206)	(300,425)
Change in trading assets		(387,976)	(4,685)
Change in loans and advances to customers		332,726	(951,917)
Change in other assets		(292,456)	(26,731)
Change in obligations under repurchase agreements		214,648	311,900
Proceeds from borrowings		(196,520)	1,055,273
Change in other liabilities		730,557	305,242
		336,773	**388,657**
Interest received		1,291,152	1,036,074
Interest paid		(841,150)	(501,165)
Retirement pay provision and unused vacation paid	24	(1,922)	(2,052)
Bonus payment		(37,390)	(19,051)
Income tax paid	23	(81,325)	(79,309)
Net cash used in operating activities		**329,365**	**434,497**
Cash flows from investing activities			
Purchase of investment securities		(7,271,391)	(2,507,415)
Sale of investment securities		6,519,266	2,083,077
Purchase of tangible assets	16	(421,612)	(11,788)
Equity accounted investees	15	(50)	(19,149)
Proceeds from the sale of tangible assets		244,200	68
Proceeds from the sale of subsidiary		-	50,000
Purchase of intangible assets	17	(29,370)	(19,376)
Acquisition of subsidiaries	38	(12,379)	-
Proceeds from the sale of intangible assets	17	-	899
Net cash used in investing activities		**(971,336)**	**(423,684)**
Cash flows from financing activities			
Proceeds from debt securities issued		35,982,068	23,692,443
Repayment of debt securities issued		(34,475,727)	(24,070,901)
Change in financial lease liabilities		(16,242)	(17,281)
Net cash provided from financing activities		**1,490,099**	**(395,739)**
Net increase/(decrease) in cash and cash equivalents		**346,409**	**(259,463)**
Effect of exchange rate fluctuations on cash	10	311,025	(668)
Cash and cash equivalents on 1 January	10	726,952	987,083
Cash and cash equivalents on 31 December	**10**	**1,384,386**	**726,952**

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

Notes to the consolidated financial statements **Page**

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018
(CURRENCY - IN THOUSANDS OF TURKISH LIRA ("TL"))

1. Reporting entity

Aktif Yatırım Bankası Anonim Şirketi ("the Bank") was incorporated under the name of Çalık Yatırım Bankası A.Ş. in Turkey in July 1999. The Bank changed its name as Aktif Yatırım Bankası A.Ş. on 1 August 2008.

The Bank operates as an investment bank and is mainly involved in corporate and consumer services such as cash or non-cash, financial leasing, factoring, corporate lending. As an investment bank, the Bank borrows funds from other banks, financial markets, partners and credit customers but is not entitled to receive deposits from customers.

The head office of the Bank is located at Büyükdere Cad. No: 163/A Zincirlikuyu / İstanbul, and the Bank have also ten branches. The Bank employs 663 people as at 31 December 2018 (31 December 2017: 656).

As at 31 December 2018 and 2017, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	31 December 2018		31 December 2017	
	Amount	**%**	**Amount**	**%**
Çalık Holding A.Ş.	1,186,791	99.43	1,027,636	99.42
Çalık Denim Tekstil San. ve Tic. A.Ş.	3,597	0.30	3,149	0.30
Ahmet Çalık	1,599	0.13	1,400	0.14
Başak Yönetim Sistemleri A.Ş.	799	0.07	700	0.07
Irmak Yönetim Sistemleri A.Ş.	799	0.07	700	0.07
Total paid-in-capital	**1,193,585**	**100.00**	**1,033,585**	**100.00**
Restatement effect per IAS 29	4,510		4,510	
Total share capital	**1,198,095**		**1,038,095**	

The Bank and its subsidiaries are hereafter referred to as "the Group". The Group controls equity stakes in companies that are active in the areas of technology system integration, payment centre, insurance brokerage, consulting in real estate projects, real estate, Islamic financial leasing and electronic payment systems. Activities carried out in these business areas and main companies are explained below in summary.

Sigortayeri Sigorta ve Reasürans Brokerliği A.Ş.: Sigortayeri.com is an online insurance comparison website which ensures the best match between insurance products and customer needs in minutes. Operating across the global market since 2013, Sigortayeri has differentiated its corporate insurance services under the brand of "Asron Sigorta" since May 2017.

EPost Elektronik Perakende Otomasyon Satış Ticaret A.Ş.: Epost operates as a retail vendor sales channel and provides secured devices that businesses use in conducting sales and payments collection transactions.

E-Kent Teknoloji ve Ödeme Sistemleri Sanayi ve Ticaret A.Ş.: E-Kent is a technology integrator offering smart city solutions to provide infrastructural transformation and introduces value added profitable business models. In addition, as a result of the tender performed by Turkey Football Federation (TFF) in 2013, the Company is appointed as 'E-Ticket System Integrator' and realized the world's largest stadium transformation project including infrastructure transformation in 50 stadiums in 27 different cities, access control and monitoring systems, centralized integrated ticketing and stadium box office services infrastructure.

Pavo Teknik Servis Elektrik Elektronik Sanayi ve Ticaret A.Ş.: With its long-standing experience in cash register systems, Pavo offers local and foreign customers a solution in the field of payment systems, especially in financial approved cash registers (New Generation Payment Recorder).

N Kolay Ödeme Kuruluşu A.Ş.: N Kolay is the biggest payment institution in Turkey by volume. N Kolay business model mainly focuses on bill payment, money transfers and other financial services.

Emlak Girişim Danışmanlığı A.Ş.: Emlak Girişim works on real estate projects, structures and systems, and makes active counselling and guidance.

İFM İstanbul Finans Merkezi İnşaat Taahhüt A.Ş.: İFM operates in special projects, land recreation, area sales and revenue sharing provisions for the immovable construction, construction and sales activity is independent sections.

Euroasian Leasing Company: ELC is the first in Russia to provide leasing solutions to the SME sector in accordance with the Islamic principles.

Kazakhstan Ijara Company Jsc.: KIC carries on Islamic leasing business. The aim of firm in Kazakhstan is to support the development of small and medium enterprises (SMEs) by providing alternative sources of Shariah compliant financing for their projects.

Euro Mediterranean Investment Company: EMIC is a real estate development and portfolio management company in North Cyprus.

UPT Ödeme Hizmetleri A.Ş.: UPT is Turkey's first and only local, global money transfer and payment platform for domestic and international transfers to account, credit cards or for cash payments in multiple currencies.

Mükafat Portföy Yönetimi A.Ş.: Mükafat strives to carve out a niche for itself with its alternative investment products such as Private Equity Funds and Real Estate Funds. Mükafat is also managing Mutual Funds as well as Pension Funds.

Haliç Finansal Kiralama A.Ş.: Being the first financial leasing company offering Islamic products to its customers in Turkey, Haliç develops customer-tailored development packages for its customers, especially SMEs, as well as financing options in order to provide support to their investments in technological machines and equipment. Haliç aims to bring long-term resources to Turkey from the Gulf and Asian countries through Sukuk issues by leveraging on Aktif Bank's knowledge in capital markets.

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
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Aktif Halk Enerji Yatırımları A.Ş.: The company, which was established in April 2017, makes investments in the field of solar energy production.

Halk Yenilenebilir Enerji A.Ş.: The company, which was established in April 2017, is engaged in the construction of solar energy production facilities.

Epost Dış Ticaret A.Ş.: The company will engage in the trade of all kinds of different products that are valued in the world market such as basic needs of countries. EP Dış Ticaret which intends to conduct Turkey as a main hub aims to bring together trade facilities whether inside Turkey or different suppliers and sales opportunities. The Company provides structural trade finance models that make domestic production to reach wide geographies all around the World, being a bridge between different countries and regions.

Eko Biokütle Enerji Üretim A.Ş.: The company will establish two biomass power plants with a capacity of 10 MW in Şanlıurfa for the production of electricity from the cotton stalk within the scope of the electricity generation support of YEKDEM regulation – no: 5346 which entitles the company to sell the electricity by $13.3 cent per kWh for electricity generation from biomass through 10 years.

2. Basis of preparation

2.1 Statement of compliance

The Bank and its subsidiaries operating in Turkey maintain their books of account and prepare their statutory consolidated financial statements in Turkish Lira ("TL") in accordance with the accounting principles as promulgated by the Banking Regulation and Supervision Institution ("BRSA"), Turkish Accounting Standards promulgated by the Public Oversight Accounting and Auditing Standards Authority, Capital Markets Board of Turkey, the Turkish Commercial Code and tax legislation. The foreign subsidiaries maintain their books of account in accordance with the laws and regulations in force in the countries in which they are registered. The accounting policies and valuation principles applied in the preparation of financial statements are determined and applied in accordance with principles in the context of IAS and IFRS.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations adopted by the International Accounting Standards Board ("IASB"). The consolidated financial statements were authorised for issue by the Group's management on 29 March 2019. The Bank's General Assembly and the other reporting bodies have the power to amend the consolidated financial statements after their issue.

This is the first set of the Group's annual financial statements in which IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have been applied. In accordance with the transition rules of IFRS 9, the prior period financial statements and notes are not restated. Accounting policies and valuation principles used for the year 2018 and 2017 periods are separately presented in the footnotes.

IFRS 15 Revenue from contracts with customers standard provides single and comprehensive model and guidance regarding recognition of revenue and replaces IAS 18 Revenue standard. The standard is in effect starting from 1 January 2018 and does not have significant impact on the accompanying consolidated financial statements.

The Bank's adoption process continues regarding IFRS 16 Leases ("IFRS 16") which will be in effect starting from 1 January 2019.

2.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis as adjusted for the effects of inflation, except for the following:

- derivative financial instruments are measured at fair value
- financial assets measured at fair value through profit or loss
- financial assets measured at fair value through other comprehensive income

2.3 Functional and presentation currency

These consolidated financial statements are presented in TL, which is the Bank's functional currency. Except as indicated, financial information presented in TL has been rounded to the nearest thousand.

2.4 Use of estimates and judgements

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. In preparing these consolidated financial statements, the significant judgements made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at 31 December 2017.

The accounting policies set out below have been applied consistently by the Bank and its subsidiaries to prior periods presented in these consolidated financial statements except for the impact of transition to IFRS 9 and IFRS 15 as of 1 January 2018 as explained below.

2.5 Earnings per share

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year has been adjusted in respect of bonus shares issued without a corresponding change in resources by giving them a retroactive effect for the year in which they were issued and for each earlier period.

There is no bonus share issuance as at 31 December 2018 (31 December 2017: None).

3. Significant accounting policies

3.1 Accounting in hyperinflationary economies

The consolidated financial statements of the Turkish entities have been restated for the changes in the general purchasing power of the Turkish Lira based on International Accounting Standard ("IAS") No. 29 "Financial Reporting in Hyperinflationary Economies" as at 31 December 2005. IAS 29 requires that consolidated financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current on the reporting date, and that corresponding figures for prior periods be restated in the same terms. One characteristic that necessitates the application of IAS 29 is a cumulative three-year inflation rate approaching or exceeding 100%. The cumulative three-year inflation rate in Turkey has been 35.61% as at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Statistical Institute ("TURKSTAT"). By taking this into consideration, together with the sustained positive trend in quantitative factors, such as the stabilisation in financial and monetary markets, decrease in interest rates and the appreciation of TL against USD and other hard currencies, it was declared that Turkey should be considered a non-hyperinflationary economy under IAS 29 from 1 January 2006 as stated in International Standards Alert No. 2006/17 issued on 8 March 2006. Therefore, IAS 29 has not been applied to the accompanying consolidated financial statements starting from 1 January 2006.

3.2 Foreign currency transactions

Foreign currency transactions

Transactions in the financial statements of the Group are recorded in TL, which is the Bank's functional currency and the presentation currency for the accompanying consolidated financial statements. Transactions in foreign currencies are translated into the functional currency of the Group at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into TL at the exchange rates ruling at date of the statement of financial position with the resulting exchange differences recognized in income as foreign exchange gain or loss. Gains and losses arising from foreign currency transactions are reflected in income as realized during the period.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to TL at foreign exchange rates ruling at the date of the statement of financial positions. The revenues and expenses of foreign operations are translated to TL using average exchange rates. Foreign exchange differences arising on translation are recognized directly in a separate component of equity. When a foreign operation is disposed of in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

3.3 Basis of consolidation

Subsidiaries

The consolidated financial statements incorporate the consolidated financial statements of the Bank and entities controlled by the Bank. The control exists if and only if; 1) when the Bank has the power over an affiliate which that power, directly or indirectly, give rights to govern the financial and operating policies of the entity so as to obtain benefits from its activities, 2) exposure, or rights, to variable returns from its involvement with the affiliate, 3) the ability to use its power over the affiliate to affect the amount of its returns. The Bank reassess its control power over its subsidiaries if there is an indication that there are changes to any of the three elements of control.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group.
The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in profit or loss.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates and joint ventures. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint ventures are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases.

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Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within the Group equity and any gain/loss arising is recognised directly in equity.

Group Entities

Subsidiaries	Country of Incorporation	Direct ownership 31 December 2018	Direct ownership 31 December 2017	Indirect ownership 31 December 2018	Indirect ownership 31 December 2017
Insurance Brokerage					
Sigortayeri Sigorta ve Reasürans Brokerliği A.Ş.	Turkey	100.00%	100.00%	-	-
Payment Systems					
Epost Elektronik Perakende Otomasyon Satış Tic. A.Ş.	Turkey	99.27%	99.27%	-	-
E-Kent Teknoloji ve Ödeme Sistemleri San ve Tic. A.Ş.	Turkey	-	-	99.27%	99.27%
N Kolay Mağazacılık A.Ş.	Turkey	99.99%	99.99%	-	-
UPT Ödeme Hizmetleri A.Ş.	Turkey	100.00%	100.00%	-	-
Real Estate					
Emlak Girişim Danışmanlığı A.Ş.	Turkey	100.00%	100.00%	-	-
Service					
Pavo Teknik Servis Elektrik Elektronik Sanayi ve Ticaret A.Ş.	Turkey	-	-	79.42%	79.42%
Mükafat Portföy Yönetimi A.Ş.	Turkey	80.00%	80.00%	-	-
Solar Energy					
Albatros Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	-
Kamelya Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	-
Kırlangıç Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	-
Çöl Yıldızı Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	-
Deniz Yıldızı Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	-
İpek Güneş Enerjisi Üretimi A.Ş.	Turkey	-	-	100.00%	-
Esen Güneş Enerjisi Üretimi A.Ş.	Turkey	-	-	100.00%	-
Mehtap Güneş Enerjisi Üretim A.Ş.	Turkey	-	-	100.00%	-
Tanyeri Güneş Enerjisi Üretim A.Ş.	Turkey	-	-	100.00%	-
Seher Güneş Enerjisi Üretimi A.Ş.	Turkey	-	-	100.00%	-
Ufuk Güneş Enerjisi Üretim A.Ş.	Turkey	-	-	100.00%	-
Yakamoz Güneş Enerjisi Üretim A.Ş.	Turkey	-	-	100.00%	-
Duru Güneş Enerjisi Üretimi A.Ş.	Turkey	-	-	100.00%	-
Deniz Güneş Enerjisi Üretimi A.Ş.	Turkey	-	-	100.00%	-
Pasifik Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	-
Olimpos Solar Enerji Üretım A.Ş.	Turkey	-	-	100.00%	-
Yakut Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	-
Seher Yıldızı Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	-
Kuzey Yıldızı Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	-
Gök Safir Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	-
Kızıl Yıldızı Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	-
Kasımpatı Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	-
Martı Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	-
Nilüfer Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	-
Mercan Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	-
Other					
İnovaban İnovasyon ve Finansal Danışmanlık A.Ş.	Turkey	-	-	67.00%	-
Attivo Bilişim Anonim Şirketi	Turkey	-	-	90.00%	-
Epost Dış Ticaret Anonim Şirketi	Turkey	-	-	99.86%	-
Eko Biokütle Enerji Üretim A.Ş.	Turkey	-	-	100.00%	-

Equity accounted investees	Country of Incorporation	31 December 2018 Ownership	31 December 2017 Ownership
Kazakhstan Ijara Company Jsc	Kazakhstan	14.31%	14.31%
İFM İstanbul Finans Merkezi İnşaat Taahhüt A.Ş.	Turkey	5.00%	5.00%
Euroasian Leasing Company	Republic of Tatarstan	36.71%	36.71%
Haliç Finansal Kiralama Anonim Şirketi	Turkey	32.00%	32.00%
Aktif Halk Enerji Yatırımları Anonim Şirketi	Turkey	50.00%	50.00%
Halk Yenilenebilir Enerji Anonim Şirketi	Turkey	50.00%	50.00%
Soleren S4 Enerji Üretim Anonim Şirketi	Turkey	-	50.00%
Euro Mediterianean Investment Company	Turkish Republic of Northern Cyprus	25.53%	25.53%

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3.4 Interest income / expense

Interest is recorded according to the effective interest rate method (rate equal to the rate in calculation of present value of future cash flows of financial assets or liabilities) defined in the IFRS 9 Financial instruments standard by applying the effective interest rate to the gross carrying amount of a financial asset except for: purchased or originated credit-impaired financial assets or financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. In applying the effective interest method, an entity identifies fees that are an integral part of the effective interest rate of a financial instrument. Fees that are an integral part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate, unless the financial instrument is measured at fair value, with the change in fair value being recognised in profit or loss. In those cases, such fees are accounted as revenue or expense when the instrument is initially recognised in the financial statements.

When applying the effective interest method, it is amortised any fees, transaction costs and other premiums or discounts that are included in the calculation of the effective interest rate over the expected life of the financial instrument.

In case an interest was accrued on a security before its acquisition, the collected interest is divided into two parts as interest before and after the acquisition and only the interest income of the period after the acquisition is recorded as interest income in the financial statements.

If the expectations for the cash flows in the financial asset are revised for reasons other than the credit risk, the amendment is reflected in the carrying amount of the asset and in the related statement of profit or loss and other comprehensive income line and is amortised over the estimated life of the financial asset.

If the financial asset is impaired and classified as a non-performing receivable, the effective interest rate is applied to the amortized cost of the asset for subsequent reporting periods. Such interest income calculation is performed on an individual contract basis for all financial assets subject to impairment calculation. The effective interest rate is used for the calculation of loss given default parameter in the expected credit loss models and therefore the calculated expected credit losses, includes this calculated interest amount. Accordingly a reclassification is performed between the accounts of "expected credit losses" expense and "interest income from loans" for such calculated interest amount. If the credit risk of the financial instrument improves to the extent that the financial asset is no longer considered as impaired and the improvement can be attributed to an incident that eventually takes place (such as an increase in the loan's credit rating), the system calculates interest income at subsequent reporting periods by applying the effective interest rate to the gross amount.

3.5 Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income are recognised as the related services are provided.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

3.6 Net trading income

Net trading income/(expense) includes gains and losses arising from sale of financial assets measured at fair value through profit or loss (FVPL) and through other comprehensive income (FVOCI) in addition to changes in fair value of financial assets measured at FVPL and derivatives.

3.7 Dividends

Dividend income is recognised when the right to receive income is established.

3.8 Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

3.9 Other operations revenue

Group recognises revenue based on the following five principles in accordance with the TFRS 15, "Revenue from Contracts with Customers Standard" effective from 1 January 2018:

- Identification of customer contracts
- Identification of performance obligations
- Determination of the transaction price in the contracts
- Allocation of transaction price to the performance obligations
- Recognition of revenue when the performance obligations are satisfied

Group evaluates each contracted obligation separately and respective obligations, committed to deliver the distinct goods or perform services, are determined as separate performance obligations.

Group determines at contract inception whether the performance obligation is satisfied over time or at a point in time. When the Group transfers control of a good or service over time, and therefore satisfies a performance obligation over time, then the revenue is recognised over time by measuring the progress towards complete satisfaction of that performance obligation.

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When a performance obligation is satisfied by transferring promised goods or services to a customer, the Group recognises the revenue as the amount of the transaction price that is allocated to that performance obligation. The goods or services are transferred when the control of the goods or services is delivered to the customers.

Following indicators are considered while evaluating the transfer of control of the goods and services:
a) presence of Group's collection right of the consideration for the goods or services,
b) customer's ownership of the legal title on goods or services,
c) physical transfer of the goods or services,
d) customer's ownership of significant risks and rewards related to the goods or services,
e) customer's acceptance of goods or services.

If Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less, the promised amount of consideration for the effects of a significant financing component is not adjusted. On the other hand, when the contract effectively constitutes a financing component, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognised on an accrual basis as other operating income.

3.10 Financial assets and liabilities

Recognition

The Bank initially recognises loans and advances to customers, investment securities, funds borrowed, customer accounts and debt securities issued on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

Derecognition

The Bank derecognises 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 asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Offsetting

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

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

Fair value measurement

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Derivative financial instruments

The Group enters into transactions with derivative instruments including forwards, swaps, currency options and interest rate cap/floor agreements in the foreign exchange and capital markets. Most of these derivative transactions are considered as effective economic hedges under the Group's risk management policies; however, since they do not qualify for hedge accounting under the specific provisions of International Accounting Standard 39 – Financial instruments: Recognition and measurement ("IAS 39"), they are treated as derivatives held for trading. IFRS 9 also includes new hedge accounting rules aiming alignment with risk management activities. IFRS 9 permits to defer application of IFRS 9 hedge accounting and continue to apply hedge accounting provisions of IAS 39 as a policy choice. Derivative financial instruments are initially recognised at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognised in profit or loss.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and valuation techniques, including discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Identification and measurement of impairment

As of 1 January 2018, the Group recognizes provisions for impairment in accordance with IFRS 9 requirements. In this framework, as of 31 December 2017, method of provisions for impairment is changed by applying the expected credit loss model under IFRS 9. The expected credit loss estimates are required to be unbiased, probability-weighted and include supportable information about past events, current conditions, and forecasts of future economic conditions. These financial assets are divided into three categories depending on the gradual. The Group calculates expected credit losses based on a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. A cash shortfall is the difference between the cash flows that are due based on the contract and the cash flows that are expected to be received.

Probability of Default (PD): PD refers to the likelihood that a loan will default within a specified time horizon, which is usually set at 12 months, given certain characteristics. The Group uses two different probability of default rates while calculating expected credit losses as per the IFRS 9.

- 12-month PD: as the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months) following the balance sheet date.

- Lifetime PD: as the estimated probability of default occurring over the remaining life of the financial instrument.

Loss Given Default (LGD): If a loan default occurs, it represents the economic loss incurred on the loan. It is expressed as a percentage.

Exposure at Default (EAD): For cash loans, it corresponds to the amount of loan granted as of the reporting date. For non-cash loans and commitments, it is the value calculated through using credit conversion factors. Credit conversion factor corresponds to the factor which adjust the potential increase of the exposure between the current date and the default date.

Stage 1: For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk is recorded in the amount of 12-month expected credit losses.

Stage 2: Includes financial assets which have a significant increase in credit risk since initial recognition but an unbiased evidence does not occur. Lifetime expected credit losses are recognized for these financial instruments.

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

Rating system for corporate loans

Internal credit risk assessment system of the Bank grades loans in 12 categories in the wide range from the highest (AAA) to the lowest (D3).

The Bank utilizes an internal rating system, which is based on quantitative and qualitative data. Rating table for each customer is prepared annually by CRM and reviewed by the Credit Allocation Department based on year-end financials and updated information.

For Financial Risks (objective) the company can get maximum 70 points and for Business and Sector Risks (subjective) maximum 30 points, respectively. Financial risk is assessed considering financial indicators and ratios like equity strength, profitability, liquidity and profit margins. On the other hand, business risk is freely evaluated by the rater based on information available, intelligence and track record of the company and owners. Market position, prospects for growth, as well as ownership strength is appraised. These soft and hard facts lead us to reach final "Risk Rating" of the company.

Equity structure, profitability and liquidity are the basic parameters that affect financial risk (objective). Indebtedness, profitability and rational equity structure analysis are evaluated by means of 12 financial ratios which have 30 % effect on rating calculation. For the purpose of evaluating trend analysis based on company's financial statements, 21 ratios are calculated which have 30 % effect on rating calculation. Foreign currency position and effect on equity thereof are evaluated by means of 3 ratios which have 10 % effect on rating calculation.

Sector, shareholder's financial power, institutionalization and intelligence records are the parameters that affect business risk (subjective). Business risk is evaluated by means of 19 questions. Corporate branch executives are responsible for answering aforementioned questions accurately. As for financial statement analysis, Independent Auditor's Reports or Corporate Tax Declaration Reports (balance sheet and income statement) are taken into consideration. Financial statements of last 3 periods are evaluated and trend of financial structure in the course of

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these periods is taken into consideration.

There is a comprehensive rule-based systematic infrastructure in personal loan. In this structure, besides the KKB (Credit Bureau) information, the customer's demographic information, employment information, risk center data, bank database information etc. is also used.

The structure, which includes rule-based and comprehensive strategy trees, enables the implementation of more common policy rules. A scorecard structure which works with Cut-off logic is only included in the N Kolay Personal Loans which is given by the digital channel, but not preferred in the application of PTT and Dealer loans.

PTT Retirement Loans are a credit system based on automatic collection from pension, therefore the systems have been developed especially to guarantee the collection process from the salary and prevent the customer from borrowing more than the amount of pension.

The credit policy in dealer loans is carried out with the parameters that show up as a result of the product type, distributor credit quality and dealer risk assessment and the credit policy to evaluate the customer is determined as one of the more flexible, stiffer or the most stringent policies.

In addition, the risk measurement of policy trees and rules is reviewed and analyzed as necessary, with the rejection / gray area / automatic approval rules and performance trees for all credit products being reviewed at least once a year.

The scorecard system for the digital channel -which includes N Kolay Personal Loans that receives too many loan applications-, was started in 2017 and validation will be completed in April 2019 when the portfolio matures enough.

Forward-looking macroeconomic information

The Bank incorporates forward-looking macroeconomic information when assessing the significant increase in credit risk and expected credit loss calculation.

Significant increase in credit risk

In the event of a significant increase in credit risk, the financial asset is transferred to Stage 2.

Qualitative and quantitative considerations taken into determining the significant increase in the credit risk of a financial asset as follows;
- Delay days as of the reporting date is 30 or more
- Refinancing and restructuring the credit account
- Loans under close monitoring
- Significant increase in probability of default.

Definition of the significant increase in the probability of default, the comparison of the probability of default at the opening date of the loan with the probability of default at the reporting date. If the probability of default calculated for the loan at the reporting date exceeds the set thresholds, it is considered to be a deterioration of the probability of default. The thresholds used in the probability of default are differentiated on the basis of segment/credit group.

Definition of default

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full;
- the borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

3.11 Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances with Central Bank and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo or stock borrowing"), the arrangement is accounted for as cash and cash equivalents, and the underlying asset is not recognised in the Bank's consolidated financial statements. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.12 Explanations and disclosures on financial assets

The Group categorizes and recognizes its financial assets as "Financial Assets at Fair Value through Profit/Loss", "Financial Assets Measured at Fair Value through Other Comprehensive Income" or "Financial Assets at Measured at Amortized Cost". Such financial assets are recognized or derecognized according to IFRS 9 Financial Instruments. Financial assets are measured at fair value at initial recognition in the financial statements. During the initial recognition of financial assets other than "Financial Assets Measured at Fair Value through Profit or Loss", transaction costs are added to fair value or deducted from fair value.

The Group recognizes a financial asset into financial statements when it becomes a party to the contractual terms of a financial instrument. During the first recognition of a financial asset into the financial statements, business model determined by Group management and the nature of contractual cash flows of the financial asset are taken into consideration.

Financial assets measured at fair value through profit or loss

Financial assets at fair value through profit/loss" are financial assets other than the ones that are managed with business model that aims to hold to collect contractual cash flows or business model that aims to collect both the contractual cash flows and cash flows arising from the sale of the assets; and if the contractual terms of the financial asset do not lead to cash flows representing solely payments of principal and interest at certain date; that are either acquired for generating a profit from short term fluctuations in prices or are financial assets included in a portfolio aiming to short term profit making. Financial assets at the fair value through profit or loss are initially recognized at fair value and remeasured at their fair value after recognition. All gains and losses arising from these valuations are reflected in the income statement.

Financial assets measured at fair value through other comprehensive income

In addition to financial assets within a business model that aims to hold to collect contractual cash flows and aims to hold to sell, financial asset with contractual terms that lead to cash flows are solely payments of principal and interest at certain dates, they are classified as fair value through other comprehensive income.

Financial assets measured at fair value through other comprehensive income are recognized by adding transaction cost to acquisition cost reflecting the fair value of the financial asset. After the recognition, financial assets measured at fair value through other comprehensive income are remeasured at fair value. Interest income calculated with effective interest rate method arising from financial assets measured at fair value through other comprehensive income and dividend income from equity securities are recorded to income statement. "Unrealized gains and losses" arising from the difference between the amortized cost and the fair value of financial assets measured at fair value through other comprehensive income are not reflected in the income statement of the period until the acquisition of the asset, sale of the asset, the disposal of the asset, and impairment of the asset and they are accounted under the "Accumulated other comprehensive income or expense to be reclassified through profit or loss" under shareholders' equity.

Equity securities, which are classified as financial assets measured at fair value through other comprehensive income, are carried at fair value. At initial recognition, it can be made an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of IFRS 9 that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies. Such election is made on an instrument by instrument basis. Amounts presented in other comprehensive income shall not be subsequently recycled to profit or loss. However, the cumulative gain or loss shall be recycled to prior period's profit or loss. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. IFRS 9 impairment requirements are not applicable for equity instruments.

Financial assets measured at amortized cost

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are classified as financial assets measured at amortized cost.

Financial assets measured at amortized cost are initially recognized at acquisition cost including the transaction costs which reflect the fair value of those instruments and subsequently recognized at amortized cost by using effective interest rate method. Interest income obtained from financial assets measured at amortized cost is accounted in income statement.

Loans

Loans are non-derivative financial assets that have fixed or determinable payments terms and are not quoted in an active market. Stated loans are initially recognized at acquisition cost plus transaction costs presenting their fair value and thereafter measured at amortized cost using the "Effective Interest Rate (internal rate of return) Method".

The Group's all loans are recorded under the "Measured at Amortized Cost" account.

3.13 Repurchase transactions

The Bank enters into purchases/sales of investments under agreements to resell/repurchase identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised as receivables from reverse repurchase agreements in the accompanying consolidated financial statements. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognised in the consolidated statement of financial position and are measured in accordance with the accounting policy for either assets held for trading, held to maturity or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as obligations under repurchase agreements.

Income and expenses arising from the repurchase and resale agreements over investments are recognised on an accruals basis over the period of the transaction and are included in "interest income" or "interest expense".

3.14 Trade receivables

Trade receivables that are created by way of providing goods or services directly to a debtor are carried at amortised cost. Trade receivables, net of unearned financial income, are measured at amortised cost, using the effective interest rate method, less the unearned financial income. Short duration receivables with no stated interest rate are measured at the original invoice amount unless the effect of imputing interest is significant.

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As of 1 January 2018, the Group recognizes provisions for impairment in accordance with IFRS 9 requirements.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is recognised in profit or loss.

3.15 Inventories

Inventories are valued at the lower of cost or net realisable value. Cost elements included in inventories are materials, labour and an appropriate amount for factory overheads. The cost of borrowings is not included in the costs of inventories. The cost of inventories is determined on the weighted average basis for each purchase. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Inventories consist of raw material, semi-finished goods, finished goods, commercial goods and other stocks.

3.16 Tangible assets

Recognition and measurement

Items of tangible assets are restated for the effects of inflation to 31 December 2005, less accumulated depreciation and impairment losses.
Tangible assets acquired after 31 December 2005 is reflected at cost, less accumulated depreciation and impairment losses.
Cost includes expenditures that are directly attributable to the acquisition of the asset.

Subsequent costs

The cost of replacing part of an item of machinery or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of tangible assets are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of tangible assets.
Leased assets are depreciated over the shorter of the lease term and their useful lives.
The estimated useful lives for as at 31 December 2018 and 2017 are as follows:

- machinery or equipment 3-25 years
- furniture and fixtures 2-60 years
- motor vehicles 5 years
- other fixed assets 2-50 years

Leasehold improvements are depreciated on a straight-line method over the shorter of the lease term and their useful lives.

3.17 Intangible assets

(i) Service agreements

Service agreements acquired in a business combination are recognised at fair value at the acquisition date. The service agreements have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the service agreements.

(ii) Software

Software acquired by the Bank is restated for the effects of inflation to 31 December 2005, less accumulated amortisation and impairment losses. Intangible assets acquired after 31 December 2005 are reflected at cost, less accumulated amortisation and impairment losses.

Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful life of software is 3 to 15 years.

(iii) Goodwill

Goodwill that arises upon the acquisition of subsidiaries the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative bargain), it is recognised immediately in profit or loss.

Acquisitions of non-controlling interests

Acquisition of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

Subsequent measurement

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Goodwill is measured at cost less accumulated impairment losses.

(iv) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they meet the definition of an intangible asset and their fair value can be measured reliably. Cost of such intangible assets is the fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets acquired separately.

3.18 Non-current assets held for sale

Certain non-current assets primarily related to the collateral collected on non-performing loans are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell.

3.19 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed on 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 recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit 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.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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 amortisation, if no impairment loss had been recognised.

3.20 Leased assets - lessee

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, the leased assets are not recognised on the Bank's statement of financial position.

3.21 Funds borrowed and debt securities issued

Funds borrowed and debt securities issued are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3.22 Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

3.23 Employee benefits

As a result of IAS 19, the Group has changed its accounting policy with respect to the basis for determining the income or expense related to defined benefit.

Under IAS 19, the Group determines the net interest expense (income) for the period on the net defined benefit liability by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability at the beginning of the annual period, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments.

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Consequently, the net interest on the net defined benefit liability now comprises:

- interest cost on the defined benefit obligation;
- interest income on plan assets; and
- interest on the effect on the asset ceiling.

As per revised IAS 19, all actuarial gain or losses are recognized under other comprehensive income starting from 1 January 2013.

3.24 Trade and other payables

Trade payables are payments to be made arising from the purchase of goods and services from suppliers within the ordinary course of business. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.25 Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted on the reporting date, and any adjustment to tax payable in respect of prior years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed on each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.26 Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the reporting dates (adjusting events) are reflected in the consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

3.27 Segment reporting

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

3.28 Borrowing costs

The Group, whenever required, generates funds from domestic and foreign sources in the form of borrowings, and bill and bond issuances in the local and international markets. The funds borrowed are recorded at their purchase costs and valued at amortised costs using the effective interest method.

An entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. An entity shall recognise other borrowing costs as an expense in the period in which it incurs them.

3.29 New and Revised International Financial Reporting Standards

Standards and interpretations issued but not yet effective

Standards issued but not yet effective and not early adopted

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

IFRS 16 Leases

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

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IFRIC 23 –Uncertainty over Income Tax Treatments

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

The revised Conceptual Framework

The revised Conceptual Framework issued on 28 March 2018 by the IASB. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the Board in developing IFRS Standards.

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

Annual Improvements to IFRSs 2015-2017 Cycle

Improvements to IFRSs

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

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements

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

IAS 12 Income Taxes

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

IAS 23 Borrowing Costs

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

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

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

Amendments to IFRS 9 - Prepayment Features With Negative Compensation

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

Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement

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

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Improvements to IFRSs

Amendments to IAS 1 and IAS 8 - Definition of Material

In October 2018, the IASB issued Definition of Material (Amendments to IAS 1 and IAS 8). The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. Those amendments are prospectively effective for annual periods beginning on or after 1 January 2020 with earlier application permitted.

Amendments to IFRS 3 - Definition of a Business

Determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. The IASB has issued amendments to IFRS 3 Business Combinations that seek to clarify this matter. The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process. The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted.

The Group evaluates the effects of these standards, amendments and improvements on the financial statements.

4. Use of estimates and judgements

Management decides to the development, selection and disclosure of the Group's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see note 7).

Key sources of estimation uncertainty

Allowances for loan losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3.10.

As of 1 January 2018, the Group recognizes provisions for impairment in accordance with IFRS 9 requirements. In this framework, as of 31 December 2017, method of provisions for impairment is changed by applying the expected credit loss model under IFRS 9.

Probability of Default (PD): PD refers to the likelihood that a loan will default within a specified time horizon, which is usually set at 12 months, given certain characteristics. The Group uses two different probability of default rates while calculating expected credit losses as per the IFRS 9.

- 12-month PD: as the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months) following the balance sheet date.

- Lifetime PD: as the estimated probability of default occurring over the remaining life of the financial instrument.

Loss Given Default (LGD): If a loan default occurs, it represents the economic loss incurred on the loan. It is expressed as a percentage.

Exposure at Default (EAD): For cash loans, it corresponds to the amount of loan granted as of the reporting date. For non-cash loans and commitments, it is the value calculated through using credit conversion factors. Credit conversion factor corresponds to the factor which adjust the potential increase of the exposure between the current date and the default date.

Stage 1: For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk is recorded in the amount of 12-month expected credit losses.

Stage 2: Includes financial assets which have a significant increase in credit risk since initial recognition but an unbiased evidence does not occur. Lifetime expected credit losses are recognized for these financial instruments.

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

The Group considers a financial asset to be in default when:
- the borrower is unlikely to pay its credit obligations to the Group in full;
- the borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.
- In assessing whether a borrower is in default, the Group considers indicators that are:
- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation

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techniques as described in accounting policy 3.10. For financial instruments that require varying degrees of judgement depending liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

Critical accounting judgements in applying the Bank's accounting policies

Critical accounting judgements made in applying the Bank's accounting policies include:

Valuation of financial instruments

The Bank's accounting policy on fair value measurements is discussed in accounting policy 3.10.

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

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

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

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

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

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

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like forwards and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

This table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

At 31 December 2018	Note	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	12	33,263	454,767	-	488,030
Investment securities – FVOCI portfolio	13	898,075	1,077,518	-	1,975,593
		931,338	**1,532,285**	**-**	**2,463,623**
Trading liabilities	12	-	(23,017)	-	(23,017)
		-	**(23,017)**	**-**	**(23,017)**

At 31 December 2017	Note	Level 1	Level 2	Level 3	Total
Trading assets	12	42,313	9,643	-	51,956
Investment securities – AFS portfolio	13	704,173	606,524	-	1,310,697
		746,486	**616,167**	**-**	**1,362,653**
Trading liabilities	12	-	(8,987)	-	(8,987)
		-	**(8,987)**	**-**	**(8,987)**

Financial asset and liability classification

The Bank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances. The classification of financial assets is explained in footnote 3.12.

Deferred taxes

Deferred tax assets and liabilities are recorded using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. Currently, there are deferred tax assets resulting from operating loss carry-forwards and deductible temporary differences, all of which could reduce taxable income in the future. Based on available evidence, both positive and negative, it is determined whether it is probable that all or a portion of the deferred tax assets will be realized.

The main factors which are considered include future earnings potential; cumulative losses in recent years; history of loss carry-forwards and other tax assets expiring; the carry-forward period associated with the deferred tax assets; future reversals of existing taxable temporary differences; tax-planning strategies that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset. If based on the weight of all available evidence, it is the Group's belief that taxable profit will not be available sufficient to utilize some portion of these deferred tax assets, then some portion of or all of the deferred tax assets are not recognized.

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Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Explanations of IFRS 9 financial instruments

IFRS 9 "Financial Instruments", which is effective as at 1 January 2018 will replace IAS 39 Financial Instruments: recognition and measurement, related to the classification and measurement of financial instruments.

IFRS 9 sets out the new principles for the classification and measurement of financial instruments, impairment for credit risk on financial assets and general hedge accounting.

In accordance with the transition rules option provided by the IFRS 9 "Financial Instruments", the Group did not restated the prior period financial statements and recognized the transition effect of the standard as of 1 January 2018 under equity's "prior year profit or loss" accounts. Explanation of the effect of the Group's application of IFRS 9 is stated below:

5.1 Classification and measurement of financial assets

	Before IFRS 9 31 December 2017		In scope of IFRS 9 1 January 2018	
	Measurement Bases	**Book Value**	**Measurement Bases**	**Book Value**
Cash and Cash Equivalents	Loans and receivables	730,980	Measured at amortized cost	730,980
Reserve Deposits at Central Bank	Loans and receivables	1,008,020	Measured at amortized cost	1,008,020
Investment Securities	Trading assets	42,971	Fair value through profit and loss	42,971
	Available for sale financial assets	1,310,697	Fair value through other comprehensive income	1,310,697
	Investment securities held to maturity	254,120	Measured at amortized cost	254,120
Derivative Financial Assets	Trading assets	8,985	Fair value through profit and loss	8,985
	Fair value through other comprehensive income	-	Fair value through other comprehensive income	-
Loans and receivables	Loans and receivables	6,670,024	Measured at amortized cost	6,670,024

5.2 Reconciliation of statement of financial position balances to IFRS 9

There is no classification in financial assets within the scope of IFRS 9.

5.3 Reconciliation of the opening balances of the provision for expected credit losses to IFRS 9

The table below shows the reconciliation of the provision for impairment of the Group as of 31 December 2017 and the provision for the expected loss model as measured in accordance with IFRS 9 as of 1 January 2018.

	Before IFRS 9 31 December 2017	Remeasurements	In scope of IFRS 9 1 January 2018
Allowances for individual impairment	96,405	10,324	106,729
Allowances for collective impairment	34,142	18,385	52,527
	130,547	**28,709**	**159,256**

5.4 Effects on equity with IFRS 9 transition

According to paragraph 15 of Article 7 of IFRS 9 Financial Instruments Standards, it is stated that it is not compulsory to restate previous period information in accordance with IFRS 9 and if the previous period information is not revised, it is stated that the difference between the book value of 1 January 2018 at the date of application should be reflected in the opening aspect of equity. The explanations about the transition effects to IFRS 9 presented in the equity items under the scope of this article are given below.

The amounting to TL 28,709 of additional impairment losses which is a difference between the provision for impairment of the previous period of the Group and the provision for loss that is measured in accordance with IFRS 9 impairment model as of 1 January 2018 is classified as "Retained earnings" in shareholders' equity. Deferred tax assets amounting to TL 6,866 and corporate tax liability which have been cancelled due to IFRS 9 transition amounting to TL 1,236 have been reflected to the opening financials of 1 January 2018 and the related amounts have been classified under "Retained earnings".

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

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

The Group categorizes and records its financial assets as "Financial Assets at Fair Value through Profit and Loss", "Financial Assets Available for Sale", "Loans and Receivables" or "Financial Assets Held to Maturity".

Sale and purchase transactions of the financial assets mentioned above are recognized at the settlement dates. Revaluation surplus between accounting date and settlement date for financial assets measured at fair value through profit/loss and financial assets available-for-sale is recorded in the financial statements. The appropriate classification of financial assets is determined and accounted at the time of purchase by the Group management taking into consideration the purpose of the investment.

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6.1 Financial assets at fair value through profit or loss

Financial assets at fair value through profit and loss are classified in three categories as " Financial assets held for trading", "Financial assets classified at inception as financial assets at fair value through profit and loss" and "Derivative financial assets held for trading".

Financial assets held for trading purposes are the ones which are purchased in order to profit from the short-term fluctuations of price and other similar conditions in the market, or independently from their purpose of purchase, the ones which are a part of a portfolio that held for obtaining profit in the short term.

Trading securities are initially recognized at cost. Subsequent to initial recognition, trading securities are measured at fair value. Any gains or losses resulting from such valuation are recorded in the profit and loss accounts. Any profit or loss between sales price and amortized cost resulting from the disposal of those assets before their maturity date is recognized under the "securities trading gains/losses" account as per the explanations of the Uniform Chart of Accounts (UCA).

The derivative transactions that are not qualified to be a hedging instrument are reclassified as derivative financial assets held for trading.

6.2 Financial assets available for sale

Financial assets classified as financial assets available for-sale-are subsequently measured at their fair values. Financial assets available for sale that have a quoted market price in an active market and whose values can be reliably measured are carried at fair value. Financial assets available for sale that do not have quoted market price and whose fair values cannot be reliably measured are carried at amortized cost for financial assets having fixed maturities and fair value computed using fair value modelling or discounted cash flow method for equity securities. The unrealized gain/loss originating from the difference between the amortized cost and the fair value is recorded in "Marketable Securities Value Increase Fund" under the equity. At the disposal of available for sale financial assets, value increases/decreases recorded in the securities value increase fund under equity are transferred to income statement.

6.3 Investments held to maturity

Investments held to maturity include securities with fixed or determinable payments and fixed maturity where there is an intention of holding until maturity and the relevant conditions for fulfilment of such intention, including the funding ability. This portfolio excludes loans and receivables. Investments held to maturity are initially recognized at cost including transaction cost. After initial recognition held to maturity investments are measured at amortized cost by using effective interest rate less impairment losses, if any. The interests received from held to maturity investments are recorded as interest income in the income statement.

There are no financial assets that were previously classified as held to maturity but cannot be subject to this classification for two years due to the violation of the tainting rule.

6.4 Loans and other receivables

Loans and receivables are financial assets originated by the Group providing money, goods or services to debtors and classified other than those classified as trading financial assets. Such assets are initially recognized at cost and are carried at amortized cost using "the effective interest (internal efficiency) method" subsequently.

6.5 Allowances for loan losses

The Bank reviews its loan portfolio to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the profit or loss, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and individual loans. All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed. Other evidence for impairment may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank.

Due to the increase in the consumer loan portfolio of the Bank and the availability of the historical trends of the probability of default the Bank started to provide collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified except for loans and receivables subject to individual assessment for impairment.

6.6 Trade receivables

A doubtful receivable provision for trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception.

7. Financial risk management

Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:
- Credit risk
- Liquidity risk
- Market risks
- Operational risks.

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

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Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Audit Committee and Risk Management Department, which are responsible for developing and monitoring Bank risk management policies in their specified areas. The Audit Committee has non-executive members and report regularly to the Board of Directors on their activities.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

Management of credit risk

The Bank's credit risk management strategy is based on a three-part methodology that embraces the customer selection, credit allocation, and credit pricing stages. Since it was founded, the Bank has always managed its credit risks by taking a portfolio-logic approach. This sums up the Bank's basic risk management strategy.

In the first stage of the lending process, industry weightings are determined and firms that are seeking credit are given a preliminary screening. This initial check is followed by the credit allocation stage in which firms are individually rated and the Bank's guarantee strategy is determined according to the results of this rating. In the final stage of the lending process, prices are determined by taking a risk-premium approach.

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The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements. Similar financial instruments include derivatives. Financial instruments such as loans and funds are not disclosed in the tables below unless they are offset in the statement of financial position.

Such collateral is subject to each agreement terms. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

The Bank receives and gives collateral in the form of cash in respect of the derivative transactions.

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

					Related amounts not offset in the statement of financial position		
	Types of financial assets	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments (including non-cash collateral)	Cash collateral received	Net amount
31 December 2018	Derivatives trading assets	52,589	-	52,589	(52,589)	-	-
31 December 2017	Derivatives trading assets	8,985	-	8,985	(8,985)	-	-

					Related amounts not offset in the statement of financial position		
	Types of financial assets	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments (including non-cash collateral)	Cash collateral received	Net amount
31 December 2018	Derivatives trading liabilities	23,017	-	23,017	(23,017)	-	-
31 December 2017	Derivatives trading liabilities	8,987	-	8,987	(8,987)	-	-

Definition of default

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full;
- the borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.
- In assessing whether a borrower is in default, the Group considers indicators that are:
- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Allowance for impairment

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:
- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Write-off policy

The Bank writes off a loan balance, and any related allowances for impairment losses, when Bank determines that the loan is uncollectible. This determination is reached after considering information such as occurrence of significant changes in the borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

	Loans and advances to customers	
	Gross	Net
31 December 2018		
Individually impaired	270,617	122,814
31 December 2017		
Individually impaired	190,700	94,295

Concentration risk by location

The Bank's total risk for loans and advances to customers and investment debt securities (held-to-maturity portfolio) is mainly concentrated on Turkey.

The Bank monitors concentrations of credit risk for cash loans and advances to customer and non-cash loans to customers by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

	31 December 2018				31 December 2017			
Sector	Cash Loans	%	Non-cahs Loans	%	Cash Loans	%	Non-cahs Loans	%
Construction	71,938	1	62,239	5	433,373	7	250,609	19
Financial institution	314,098	5	152,159	12	136,294	2	205,023	16
General services	1,848,901	27	85	-	1,419,654	22	3,744	-
Textile	572,451	8	39,520	3	348,289	5	53,560	4
Mining	176,751	3	2,758	-	158,802	2	2,746	-
Telecommunication	169,954	2	850	-	130,617	2	850	-
Electricity industry	17,098	-	135,391	11	48,585	1	112,542	9
Public	152,897	2	-	-	6,925	-	-	-
Energy industry	739,435	11	410,991	34	660,937	10	380,049	29
Trade	74,087	1	3,998	-	122,789	2	20,941	2
Sports	819,712	12	3,278	-	851,478	13	3,278	-
Other (*)	1,946,221	28	420,956	35	2,221,734	34	275,615	21
Total	**6,903,543**	**100**	**1,232,225**	**100**	**6,539,477**	**100**	**1,308,958**	**100**

(*) Includes consumer loans, unclassified loans, factoring and leasing receivables.

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Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank funds its short-term liquidity with interbank. In the case of long-term liquidity need, the Bank utilises capital market instruments. Additionally, the Bank also funds itself from the domestic and foreign market when it needs additional funds.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to short-term funds borrowed. For this purpose, net liquid assets are considered as including cash and cash equivalents and trading debt securities for which there is an active and liquid market less any short-term funds borrowed and commitments. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the BRSA.

	31 December 2018	31 December 2017
Average for the year	117%	108%
Maximum for the year	154%	125%
Minimum for the year	103%	100%

Residual contractual maturities of financial liabilities

Sector	*Note*	Carrying amount	Gross nominal inflow / (outflow)	On demand	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
31 December 2018									
Non-derivative liabilities									
Obligations under repurchase agr.	20	1,291,742	(1,298,327)	-	(761,182)	(474,643)	(62,502)	-	-
Debt securities issued	22	4,365,713	(4,792,732)	-	(1,252,347)	(1,737,282)	(1,102,546)	(700,557)	-
Funds borrowed	21	3,650,016	(3,682,727)	-	(1,441,634)	(1,187,354)	(925,285)	(128,454)	-
Trade and other payables		288,240	(308,113)	(177,385)	(52,274)	(18,173)	(60,281)	-	-
Financial lease liabilities		3,904	(4,289)	-	(594)	(712)	(1,005)	(1,324)	(654)
Customer accounts (*)	25	1,624,270	(1,624,270)	(1,624,270)	-	-	-	-	-
Derivative financial instruments									
Inflow	12	(52,589)	2,171,450	-	851,270	134,242	747,081	438,857	-
Outflow	12	23,017	(2,156,712)	-	(857,995)	(114,800)	(750,096)	(433,821)	-
		11,194,313	**(11,695,720)**	**(1,801,655)**	**(3,514,756)**	**(3,398,722)**	**(2,154,634)**	**(825,299)**	**(654)**

(*) Included in other liabilities.

Sector	*Note*	Carrying amount	Gross nominal inflow / (outflow)	On demand	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
31 December 2017									
Non-derivative liabilities									
Obligations under repurchase agr.	20	1,074,509	(1,076,603)	-	(967,025)	(104,113)	(5,465)	-	-
Debt securities issued	22	2,776,288	(2,885,059)	-	(1,459,468)	(1,040,540)	(363,324)	(21,727)	-
Funds borrowed	21	3,774,380	(3,844,069)	-	(1,132,318)	(1,300,354)	(1,353,049)	(58,348)	-
Trade and other payables		114,787	(114,787)	(114,787)	-	-	-	-	-
Financial lease liabilities		20,146	(20,473)	-	(400)	(4,706)	(11,522)	(3,845)	-
Customer accounts (*)	25	1,201,545	(1,201,545)	(1,201,545)	-	-	-	-	-
Derivative financial instruments									
Inflow	12	(8,985)	2,027,621	-	595,916	792,911	638,794	-	-
Outflow	12	8,987	(2,031,723)	-	(597,945)	(793,310)	(640,468)	-	-
		8,961,657	**(9,146,638)**	**(1,316,332)**	**(3,561,240)**	**(2,450,112)**	**(1,735,034)**	**(83,920)**	**-**

(*) Included in other liabilities.

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The gross nominal inflow / (outflow) disclosed in the table above is the contractual, undiscounted cash flow on the financial liability or commitment.

Market risk

Market risk is the risk that, measured by changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) which will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Overall authority for market risk is vested in Asset and Liability Committee ("ALCO").

Exposure to market risks – trading portfolios

The principal tool used to measure and control market risk exposure within the Bank's portfolios is Standard Method.
A summary of the Standard Method position of the Bank's portfolios on 31 December 2018 and 2017 and during the period is as follows:

	31 December 2018	31 December 2017
Interest rate risk	104,409	61,370
Foreign currency risk	2,623	2,533
Other risk	656	7,168
	107,688	**71,071**

The following table sets out the allocation of assets subject to market risk.

	Carrying amount	Market risk measuring
31 December 2018		
Financial assets measured at fair value through profit or loss	435,441	435,441
Financial assets measured at fair value through other comprehensive income	1,975,593	1,975,593
Derivative financial assets	52,589	52,589
31 December 2017		
Trading assets	51,956	51,956
Available for sale financial assets	1,310,697	1,310,697

Interest rate risk

Exposure to interest rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management Department of the Bank in its day-to-day monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

Sector	*Note*	Carrying amount	Un-allocated	On demand	Less than 3 month	3-6 months	6-12 months	1-5 years	More than 5 years
31 December 2018									
Cash and cash equivalents	10	1,390,183	-	154,224	1,205,036	30,923	-	-	-
Reserve deposits at Central Bank	11	1,072,226	-	-	1,072,226	-	-	-	-
Financial assets at fair value through profit or loss	12	488,030	52,589	363,378	19,177	37,649	5,192	10,045	-
Loans and advances to customers	14	6,903,543	81,975	-	4,296,885	49,883	119,958	1,865,044	489,798
Investment securities	13	2,337,493	5,059	-	127,889	51,278	888,371	801,282	463,614
		12,191,475	**139,623**	**517,602**	**6,721,213**	**169,733**	**1,013,521**	**2,676,371**	**953,412**
Obligations under repurchase agr.	20	1,291,742	-	-	1,230,333	59,665	1,744	-	-
Debt securities issued	22	4,365,713	-	-	2,891,688	442,169	513,073	518,783	-
Financial lease liabilities		3,904	-	-	540	621	902	1,226	615
Funds borrowed	21	3,650,016	-	-	2,617,711	691,543	212,307	128,455	-
		9,311,375	**-**	**-**	**6,740,272**	**1,193,998**	**728,026**	**648,464**	**615**
Interest rate gap		**2,880,100**	**139,623**	**517,602**	**-19,059**	**-1,024,265**	**285,495**	**2,027,907**	**952,797**

Sector	*Note*	Carrying amount	Un-allocated	On demand	Less than 3 month	3-6 months	6-12 months	1-5 years	More than 5 years
31 December 2017									
Cash and cash equivalents	10	730,980	-	179,675	551,305	-	-	-	-
Reserve deposits at Central Bank	11	1,008,020	-	-	1,008,020	-	-	-	-
Trading assets at fair value through profit or loss	12	51,956	8,985	42,220	-	-	-	658	93
Loans and advances to customers	14	6,539,477	60,153	-	1,824,427	1,010,405	1,256,668	1,958,957	428,867
Investment securities	13	1,564,817	2,560	-	66,492	52,494	413,781	544,757	484,733
		9,895,250	**71,698**	**221,895**	**3,450,244**	**1,062,899**	**1,670,449**	**2,504,372**	**913,693**
Obligations under repurchase agr.	20	1,074,509	-	-	1,069,130	5,379	-	-	-
Debt securities issued	22	2,776,288	-	-	2,421,584	136,072	200,243	18,389	-
Financial lease liabilities		20,146	-	-	5,034	1,107	10,160	3,845	-
Funds borrowed	21	3,774,380	-	-	2,424,334	548,001	749,653	52,392	-
		7,645,323	**-**	**-**	**5,920,082**	**690,559**	**960,056**	**74,626**	**-**
Interest rate gap		**2,249,927**	**71,698**	**221,895**	**-2,469,838**	**372,340**	**710,393**	**2,429,746**	**913,693**

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Interest rate sensitivity

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

		31 December 2018		31 December 2017	
Currency	**Applied Shock (+/- x basis points)s**	**Gains / Losses**	**Gains (Losses)/ Shareholder's Equity**	**Gains / Losses**	**Gains (Losses)/ Shareholder's Equity**
TL	500	(45,645)	(3.09)%	(125,266)	(10.11)%
	(400)	43,284	2.93%	116,170	9.37%
EUR	200	(807)	(0.05) %	5,810	0.47%
	(200)	708	0.05%	2,246	0.18%
USD	200	(45,511)	(3.09) %	(43,955)	(3.55)%
	(200)	52,561	3.56%	52,370	4.23%
Total (for negative shocks)		**96,553**	**6.54%**	**170,786**	**13.78%**
Total (for positive shocks)		**(91,963)**	**(6.23)%**	**(163,411)**	**(13.19)%**

Summary of average interest rates

As at 31 December 2018 and 2017, the summary of average interest rates for different assets and liabilities is as follows:

	31 December 2018			31 December 2017		
Assets	**Euro**	**USD**	**TL**	**Euro**	**USD**	**TL**
Cash and cash equivalents	1.47	1.79	-	-	1.35	13.25
Loans and advances to customers	8.38	9.07	29.39	7.23	7.82	21.06
Investment securities – Financial assets measured at fair value through other comprehensive income	3.78	8.02	13.87	-	-	-
Investment securities – Financial assets measured at amortized cost	-	6.32	19.77	-	-	-
Investment securities – AFS	-	-	-	-	6.41	9.84
Investment securities – HTM	-	-	-	-	7.12	15.78
Liabilities						
Obligations under repurchase agreements	2.82	5.25	20.26	2.58	4.31	12.89
Debt securities issued	3.57	5.67	25.96	3.04	4.86	14.96
Funds borrowed	1.92	4.10	25.05	1.67	3.27	12.44

Foreign currency risk

31 December 2018	Euro	USD	Other	Total
Cash and cash equivalents	400,534	514,769	60,383	975,686
Reserve deposits at Central Bank	562,303	323,332	186,867	1,072,502
Financial assets at fair value through profit or loss	-	9,207	-	9,207
Trade and other receivables	-	4,136	-	4,136
Loans and advances to customers	2,481,083	1,226,108	-	3,707,191
Investment securities	24,836	987,365	-	1,012,201
Equity accounted investees	-	7,196	4,292	11,488
Other assets	19,472	35,823	12	55,307
Trade and other payables	(1,226)	(24,413)	(7)	(25,646)
Funds borrowed	(2,009,099)	(1,160,455)	(160,474)	(3,330,028)
Obligations under repurchase agreements	(176,680)	(1,038,531)	(2,659)	(1,217,870)
Debt securities issued	(87,261)	(366,999)	-	(454,260)
Other liabilities	(1,086,764)	(713,521)	(78,085)	(1,878,370)
Net statement of financial position	**127,198**	**(195,983)**	**10,329**	**(58,456)**
Derivative financial instruments	(126,239)	105,065	(21,523)	(42,697)
Net total position	**959**	**(90,918)**	**(11,194)**	**(101,153)**

31 December 2017	Euro	USD	Other	Total
Cash and cash equivalents	181,976	130,939	39,838	352,753
Reserve deposits at Central Bank	568,271	439,749	-	1,008,020
Trading assets	-	658	-	658
Trade and other receivables	737	6,088	-	6,825
Loans and advances to customers	2,202,620	1,357,622	-	3,560,242
Investment securities	140	695,102	-	695,242
Equity accounted investees	-	7,196	4,292	11,488
Other assets	5,785	12,089	-	17,874
Trade and other payables	(1,019)	(70,111)	-	(71,130)
Funds borrowed	(1,901,434)	(1,500,728)	-	(3,402,162)
Obligations under repurchase agreements	(37,953)	(355,819)	(33)	(393,805)
Debt securities issued	(247,601)	(214,604)	-	(462,205)
Other liabilities	(593,702)	(596,939)	(252,679)	(1,443,320)
Net statement of financial position	**177,820**	**(88,758)**	**(208,582)**	**(119,520)**
Derivative financial instruments	(152,320)	76,675	214,353	138,708
Net total position	**25,500**	**(12,083)**	**5,771**	**19,188**

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Sensitivity analysis

A 10 percent weakening of TL against the foreign currencies on 31 December 2018 and 2017 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

31 December 2018	Equity	Profit or loss
Euro	96	96
USD	(9,092)	(9,528)
Other currencies	(1,119)	(1,125)
	(10,115)	**(10,557)**

31 December 2017	Equity	Profit or loss
Euro	2,550	2,550
USD	(1,208)	(266)
Other currencies	577	577
	1,919	**2,861**

A 10 percent strengthening of the TL against the foreign currencies on 31 December 2018 and 2017 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The operational risk items in the Bank are determined in accordance with the definition of operational risk by considering as whole processes, products and departments. The control areas are set for operational risks within the Bank and all operational risks are followed by assigning the risks to these control areas. In this framework, an appropriate monitoring methodology is developed for each control area that covers all operational risks and control frequencies are determined.

All the operational risks that are exposed during the operations, the risk levels of the operations and/or new products/services, together with the losses of the Bank arising from operational risks are regularly monitored by the Risk Management Department of the Bank, and if deemed necessary, the risk levels are updated and periodically reported to the Risk Committee and the Board of Directors.

The Bank calculated the value of operational risk in accordance with the fourth section regarding the "Computation of Value of Operational Risk" of the circular, "Regulation on Measurement and Assessment of Capital Adequacy of Banks" Communiqué, using gross profit of the last three years 2017, 2016 and 2015 ("the Basic Indicator Approach). The amount calculated as TL 79,197 as at 31 December 2018 (31 December 2017: TL 57,285) represents the operational risk that the Bank may be exposed to and the amount of minimum capital requirement to eliminate this risk. Value of operational risk amounted to TL 989,965 (31 December 2017: TL 716,059) and is calculated as 12.5 times the operational risk.

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Capital management

The Bank's lead regulator, BRSA, sets and monitors capital requirements for the Bank as a whole.

Capital adequacy ratio has been calculated in accordance with the "Regulation on Measurement and Assessment of Capital Adequacy of Banks", "Credit Risk Mitigation Techniques" and "Calculation of Risk weighted Amounts for Securitizations" Communiqués.

Capital adequacy ratio is calculated based on total capital requirements needed for credit risk, market risk and operational risk. Credit risk is calculated by holding risk-weighted assets and non-cash loans subject to risk weights in the relevant legislation and considering risk mitigation techniques; the standard method is used to calculate market risk and the basic indicator approach is used to calculate operational risk. In implementing current capital requirements, the BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital.

The Bank's regulatory capital positions are as follows:

	2018	2017
Tier 1 Capital	1,432,901	1,180,350
Tier 2 Capital	42,316	58,816
Total regulatory capital	1,475,217	1,239,166
Value at credit, market and operational risks	11,459,270	9,266,654
Capital ratios (%)		
Total regulatory capital ratio	12.87	13.37
Total tier 1 captial ratio	12.50	12.74

Financial assets and liabilities

Accounting classification and fair values

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets or valuation techniques. However, the Bank expects no significant difference between the fair value and carrying value of the financial instruments below since most of the financial instruments' maturities are short-term except for the loans and advances to customers and investment securities- financial assets measured at amortised cost.

For disclosure purpose, valuation technique used for determining the fair value of the loans and advances to customers is net present value model. Assumptions and inputs used in net present value model include benchmark interest rates, credit spreads or other premium used in estimating discount rates. The fair value measurement for fixed rate loans and receivables are calculated by using the discounted cash flow method and has been categorised as a Level 2 fair value based on the inputs to the valuation technique used.

For disclosure purpose, the fair value of the investment securities-financial assets measured at amortised cost is determined based on by using the discounted cash flow method and has been categorised as a Level 2 fair value based on the inputs to the valuation technique used.

The objective of valuation technique is to arrive at a fair value determination that reflects the prices of the loans and advances to customers and investment securities at the reporting date that would have been determined by market participants acting at arm's length.

The fair value hierarchy for the financial instruments measured at fair value at the end of the reporting period is presented in note 4, Use of estimates and judgements.

The table below sets out the Group's classification of each class of financial assets and liabilities and their fair values.

	Note	Financial assets at fair value through profit or loss	Financial assets measured at amortized cost	Financial assets measured at FVOCI	Total carrying amount	Fair value
31 December 2018						
Cash and cash equivalents	*10*	-	1,390,183	-	1,390,183	1,390,183
Trade and other receivables		-	75,567	-	75,567	75,567
Reserve deposits at Central Bank	*11*	-	1,072,226	-	1,072,226	1,072,226
Financial assets at fair value through profit or loss	*12*	488,030	-	-	488,030	488,030
Loans and advances to customers	*14*	-	6,903,543	-	6,903,543	6,682,245
Investment securities	*13*	-	361,900	1,975,593	2,337,493	2,312,095
		488,030	**9,803,419**	**1,975,593**	**12,267,042**	**12,020,346**
Trading liabilities	*12*	23,017	-	-	23,017	23,017
Trade and other payables		-	288,240	-	288,240	288,240
Financial lease liabilities		-	3,904	-	3,904	3,904
Obligations under rep. agr.	*20*	-	1,291,742	-	1,291,742	1,291,742
Debt securities issued	*22*	-	4,365,713	-	4,365,713	4,365,713
Funds borrowed	*21*	-	3,650,016	-	3,650,016	3,650,016
		23,017	**9,599,615**	**-**	**9,622,632**	**9,622,632**

	Note	*Trading*	*Loans and receivables*	*Available for sale*	*Held to maturity*	*Other amortised cost*	*Total carrying amount*	*Fair value*
31 December 2017								
Cash and cash equivalents	*10*	-	730,980	-	-	-	730,980	730,980
Trade and other receivables		-	-	-	-	254,154	254,154	254,154
Reserve deposits at Central Bank	*11*	-	1,008,020	-	-	-	1,008,020	1,008,020
Trading assets	*12*	51,956	-	-	-	-	51,956	51,956
Loans and advances to customers	*14*	-	6,539,477	-	-	-	6,539,477	6,463,765
Investment securities	*13*	-	-	1,310,697	254,120	-	1,564,817	1,564,817
		51,956	**8,278,477**	**1,310,697**	**254,120**	**254,154**	**10,149,404**	**10,073,692**
Trading liabilities	*12*	8,987	-	-	-	-	8,987	8,987
Trade and other payables		-	-	-	-	114,787	114,787	114,787
Financial lease liabilities		-	-	-	-	20,146	20,146	20,146
Obligations under rep. agr.	*20*	-	-	-	-	1,074,509	1,074,509	1,074,509
Debt securities issued	*22*	-	-	-	-	2,776,288	2,776,288	2,776,288
Funds borrowed	*21*	-	-	-	-	3,774,380	3,774,380	3,774,380
		8,987	**-**	**-**	**-**	**7,760,110**	**7,769,097**	**7,769,097**

8. Business Combinations

Goodwill arising on acquisition of Pavo is TL 504 (31 December 2017: TL 504).

9. Segment reporting

2018	Retail banking	Corporate banking	Investment banking	Other banking	Total banking	Brokerage	Other	Combined	Adjustments	Total
Operating income	497,269	904,629	419,845	82,151	1,903,894	64,717	641,659	2,610,270	(338,729)	2,271,541
Operating expense	(452,547)	(158,821)	(227,799)	(744,031)	(1,583,198)	(19,320)	(488,988)	(2,091,506)	300,415	(1,791,091)
Income from operations	**44,722**	**745,808**	**192,046**	**(661,880)**	**320,696**	**45,397**	**152,671**	**518,764**	**(38,314)**	**480,450**
Income tax expense	-	-	-	(58,026)	(58,026)	(10,354)	(30,441)	(98,821)	43	(98,778)
Net income for the year	**44,722**	**745,808**	**192,046**	**(719,906)**	**262,670**	**35,043**	**122,230**	**419,943**	**(38,271)**	**381,672**
Segment assets	1,928,436	5,285,167	5,198,940	-	12,412,543	119,419	370,360	12,902,322	(618,205)	12,284,117
Investments in equity participations	-	-	387,358	-	387,358	-	283,412	670,770	(619,972)	50,798
Other assets	-	-	-	716,841	716,841	1,495	726,366	1,444,702	102,906	1,547,608
Total assets	**1,928,436**	**5,285,167**	**5,586,298**	**716,841**	**13,516,742**	**120,914**	**1,380,138**	**15,017,794**	**(1,135,271)**	**13,882,523**
Segment liabilities	4,678,732	3,261,717	3,731,450	-	11,671,899	6,067	674,863	12,352,829	(2,730,198)	9,622,631
Equity and other liabilities	-	-	-	1,844,843	1,844,843	114,847	705,275	2,664,965	1,594,927	4,259,892
Total liabilities and equity	**4,678,732**	**3,261,717**	**3,731,450**	**1,844,843**	**13,516,742**	**120,914**	**1,380,138**	**15,017,794**	**(1,135,271)**	**13,882,523**
Other segment items										
Capital investment	-	-	-	-	-	-	-	-	-	600,485
Depreciation	-	-	-	-	-	-	-	-	-	45,690

2017	Retail banking	Corporate banking	Investment banking	Other banking	Total banking	Brokerage	Other	Combined	Adjustments	Total
Operating income	472,787	800,146	167,381	14,500	1,454,814	75,566	438,894	1,969,274	(199,533)	1,769,741
Operating expense	(233,142)	(121,676)	(50,897)	(815,114)	(1,220,829)	(17,701)	(363,104)	(1,601,634)	142,658	(1,458,976)
Income from operations	**239,645**	**678,470**	**116,484**	**(800,614)**	**233,985**	**57,865**	**75,790**	**367,640**	**(56,875)**	**310,765**
Income tax expense	-	-	-	(56,038)	(56,038)	(11,380)	(16,647)	(84,065)	7,127	(76,938)
Net income for the year	**239,645**	**678,470**	**116,484**	**(856,652)**	**177,947**	**46,485**	**59,143**	**283,575**	**(49,748)**	**233,827**
Segment assets	2,080,582	4,828,009	3,270,241	-	10,178,832	111,399	517,010	10,807,241	(520,115)	10,287,126
Investments in equity participations	-	-	357,708	-	357,708	-	286,665	644,373	(590,321)	54,052
Other assets	-	-	-	569,143	569,143	8,972	165,057	743,172	(13,359)	729,813
Total assets	**2,080,582**	**4,828,009**	**3,627,949**	**569,143**	**11,105,683**	**120,371**	**968,732**	**12,194,786**	**(1,123,795)**	**11,070,991**
Segment liabilities	2,155,727	2,830,759	4,534,069	-	9,520,555	646	601,262	10,122,463	(2,353,366)	7,769,097
Equity and other liabilities	-	-	-	1,585,128	1,585,128	119,725	367,470	2,072,323	1,229,571	3,301,894
Total liabilities and equity	2,155,727	2,830,759	4,534,069	1,585,128	11,105,683	120,371	968,732	12,194,786	(1,123,795)	11,070,991
Other segment items										
Capital investment	-	-	-	-	-	-	-	-	-	50,265
Depreciation	-	-	-	-	-	-	-	-	-	72,336

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10. Cash and cash equivalents

31 December 2018	31 December 2018	31 December 2017
Cash and balances with Central Bank	1,124,518	576,814
- Cash on hand	*136,011*	*24,934*
- Unrestricted balances with Central Bank	*988,507*	*551,880*
Placements with other banks	265,665	154,166
Cash and cash equivalents	**1,390,183**	**730,980**
Less: Interest income accruals on cash and cash equivalents	(5,797)	(4,028)
Cash and cash equivalents in the statement of cash flows	**1,384,386**	**726,952**

Explanation for statement cash flows

The effect of changes in foreign exchange rates on cash and cash equivalents includes the foreign exchange differences resulted from the translations of cash and cash equivalents in foreign currencies into TL at the exchange rates prevailing at the three months periods.

Expected credit losses on cash and cash equivalents (-)

	Stage 1	Stage 2	Stage 3	Total
Balances at 1 January 2018	**19**	**-**	**-**	**19**
Provision for the period	*54*	-	-	*54*
Recoveries and reversals	*(8)*	-	-	*(8)*
Balances at 31 December 2018	**65**	**-**	**-**	**65**

11. Reserve deposits at Central Bank

	31 December 2018	31 December 2017
Foreign currency	1,072,226	1,008,020
Cash and cash equivalents in the statement of cash flows	**1,072,226**	**1,008,020**

According to the regulations of the Central Bank of Turkish Republic (the "Central Bank"), banks are obliged to reserve a portion of certain liability accounts as specified in the related decree. Such mandatory reserves are not available for use in the Bank's day-to-day operations.

The banks operating in Turkey keep reserve deposits for Turkish currency and foreign currency liabilities in TL and USD at the rates of 1.5-8% and 4-20%, respectively according to their maturity terms as per the Communiqué no. 2005/5 "Reserve Deposits" of the Central Bank of Turkey (31 December 2017: 4-10.5% for TL and 4-24% for USD).

Starting from November 2014, interest is paid on reserve requirements held in Turkish Lira and starting from May 2015, interest is paid on reserve requirements held in USD.

Expected credit losses on reserve deposits at Central Bank (-)

	Stage 1	Stage 2	Stage 3	Total
Balances at 1 January 2018	**210**	**-**	**-**	**210**
Provision for the period	*67*	-	-	*67*
Recoveries and reversals	-	-	-	-
Balances at 31 December 2018	**277**	**-**	**-**	**277**

12. Financial assets at fair value through profit or loss and trading liabilities

	31 December 2018
Financial assets at fair value through profit or loss	
- Government bonds and treasury bills	14,253
- Corporate Bonds	48,866
- Investment funds	372,322
Derivative assets	
- Foreign exchange	52,589
- Swap contracts	*24,174*
- Forward contracts	*27,074*
- Options	*1,341*
	488,030

	31 December 2017
Trading securities	
- Government bonds and treasury bills	93
- Corporate Bonds	658
- Investment funds	42,220
Derivative assets	
- Foreign exchange	8,985
- Swap contracts	*7,287*
- Forward contracts	*1,687*
- Options	*11*
	51,956

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Trading liabilities

	31 December 2018	31 December 2017
Derivative assets		
- Foreign exchange	23,017	8,987
- Swap contracts	*11,366*	*7,275*
- Forward contracts	*10,304*	*1,712*
- Options	*1,347*	-
	23,017	**8,987**

As at 31 December 2018 and 2017, no trading securities are kept for legal requirements and as a guarantee for stock exchange and money market operations.

On the reporting date, the total notional amounts of outstanding derivative financial instruments contracts to which the Bank is committed are as follows:

	31 December 2018	31 December 2017
Forward foreign exchange contracts – buy [*]	450,544	238,929
Forward foreign exchange contracts – sell [*]	433,465	238,992
Swap foreign exchange contracts – buy	1,361,677	1,069,644
Swap foreign exchange contracts – sell	1,362,936	1,073,658
Option contracts – buy	359,229	719,048
Option contracts – sell	360,311	719,073
Future contracts – buy	-	-
Future contracts – sell	-	-

[*] Includes spot and forward transactions

13. Investment securities

31 December 2018	Interest rate %	Latest maturity	Carrying amount
Financial assets measured at amortized cost			
- Corporate bonds	7.12-29.42	10 May 2024	361,900
Financial assets measured at fair value through other comprehensive income			
- Government bonds	3.22-26.54	11 May 2047	891,394
- Corporate bonds	3.65-31.84	10 May 2024	1,084,199
			2,337,493

31 December 2017	Interest rate %	Latest maturity	Carrying amount
Held-to-maturity investment securities			
- Corporate bonds	7.12-20.45	10 May 2024	254,120
Available-for-sale investment securities			
- Government bonds	1.66-13.16	11 May 2047	704,173
- Corporate bonds	4.53-19.95	10 May 2024	606,524
			1,564,817

As at 31 December 2018, TL 48,534 and TL 1,578,960 of investment securities are given as collateral for performing transaction at stock exchange and repurchase agreement, respectively (31 December 2017: TL 625,162 and TL 598,404, respectively).

Expected credit losses on financial assets measured at fair value through other comprehensive income

	Stage 1	Stage 2	Stage 3	Total
Balances at 1 January 2018	**167**	**-**	**-**	**167**
Provision for the period	*137*	-	-	*137*
Recoveries and reversals	*(42)*	-	-	*(42)*
Balances at 31 December 2018	**262**	**-**	**-**	**262**

Expected credit losses on financial assets measured at amortized cost

	Stage 1	Stage 2	Stage 3	Total
Balances at 1 January 2018	**34**	**-**	**-**	**34**
Provision for the period	*17*	-	-	*17*
Recoveries and reversals	*(3)*	-	-	*(3)*
Balances at 31 December 2018	**48**	**-**	**-**	**48**

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14. Loans and advances to customers

As at 31 December 2018 and 2017, all loans and advances to customers are recognized at amortised cost.

	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
	31 December 2018			31 December 2017		
- Other lending	7,092,185	(188,642)	6,903,543	6,670,024	(130,547)	6,539,477
Corporate loans	5,038,492	(37,281)	5,001,211	4,539,122	(32,031)	4,507,091
Consumer loans	2,053,693	(151,361)	1,902,332	2,130,902	(98,516)	2,032,386
	7,092,185	**(188,642)**	**6,903,543**	**6,670,024**	**(130,547)**	**6,539,477**

Allowance for impairment

	31 December 2018
Allowances for individual impairment	
Balance on 31 December 2017	96,405
Impact of adopting IFRS 9 at 1 January 2018	10,324
Balance on 1 January 2018	106,729
Impairment loss for the year	41,074
- Charge for the year	75,742
- Recoveries	(34,668)
Balance at the end of the period	**147,803**
Allowances for collective impairment	
Balance on 31 December 2017	34,142
Impact of adopting IFRS 9 at 1 January 2018	17,505
Balance on 1 January 2018	51,647
Impairment loss for the year	(10,808)
- Charge for the year	21,757
- Recoveries	(32,565)
Balance at the end of the period	**40,839**
Total allowances for impairment	**188,642**

	31 December 2017
Allowances for individual impairment	
Balance on 1 January 2017	57,481
Impairment loss for the year	38,924
- Charge for the year	38,924
Balance at the end of the period	**96,405**
Allowances for collective impairment	
Balance on 1 January 2018	17,830
Impairment loss for the year	16,312
- Charge for the year	16,312
Balance at the end of the period	**34,142**
Total allowances for impairment	**130,547**

Expected credit losses on loans and advances to customers

	Stage 1	Stage 2	Stage 3	Total
Balances at 1 January 2018	**23,305**	**28,342**	**106,729**	**158,376**
Provision for the period	*12,203*	*9,554*	*75,742*	*97,499*
Recoveries and reversals	*(13,554)*	*(19,011)*	*(34,668)*	*(67,233)*
Balances at 31 December 2018	**21,954**	**18,885**	**147,803**	**188,642**

Credit quality of loans and advances to customer

	2018				
	Stage 1	Stage 2	Stage 3	Total	2017 Total
Current	6,443,637	78,935	-	6,522,572	6,404,547
Overdue < 30 days	-	184,922	-	184,922	-
Overdue > 30 days	-	114,074	270,617	384,691	265,477
Total	**6,443,637**	**377,931**	**270,617**	**7,092,185**	**6,670,024**

The collaterals held against loans including accruals are presented below as per the collateral type, up to the outstanding total amount of exposures.

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2018	Corporate/ Commercial Loans	Consumer Loans	Credit Cards	Total
Cash collateral	192,396	-	-	192,396
Pledge assets	920,444	156,504	-	1,076,948
Unsecured	3,925,652	1,845,239	51,950	5,822,841
Total	**5,038,492**	**2,001,743**	**51,950**	**7,092,185**

2017	Corporate/ Commercial Loans	Consumer Loans	Credit Cards	Total
Cash collateral	106,299	-	-	106,299
Pledge assets	737,047	-	-	737,047
Unsecured	3,695,776	2,094,578	36,324	5,826,678
Total	**4,539,122**	**2,094,578**	**36,324**	**6,670,024**

Finance lease receivables

None (31 December 2017: None).

15. Equity accounted investees

Carrying amount of equity accounted investees is summarized below:

	31 December 2018	31 December 2017
Kazakhstan Ijara Company Jsc.	12,685	9,299
Aktif Yatırım Bankası Sukuk Varlık Kiralama A.Ş. [*]	100	100
Euroasian Leasing Company	5,069	4,372
Company Euro Mediterranean Investment	6,452	6,415
Haliç Finansal Kiralama Anonim Şirketi	7,271	6,670
Aktif Halk Enerji Yatırımları A.Ş.	-	9,128
Halk Yenilenebilir Enerji A.Ş.	11,076	10,915
Solaren S4 Enerji Üretim A.Ş.	-	(942)
Idea Farm Ventures Limited	8,095	8,095
Epost Dış Ticaret A.Ş.	50	-
Equity accounted investees	**50,798**	**54,052**

[*] Aktif Bank Sukuk Varlık Kiralama A.Ş. ("VKŞ") engages in the operating activities of issuance of Sukuk. According to IFRS 10, the Bank should have the power, exposure to variable returns and the ability to use such power to affect those returns over the company. On the other hand, the Bank does not have power on VKŞ's financial statements, exposure or rights to variable returns from its involvement with VKŞ and the ability to use its power over VKŞ to affect the VKŞ's returns. Thus, VKŞ does not comply with consolidation requirements of IFRS 10 so, it is not being consolidated in the financial statements as at 31 December 2018 and 2017.

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	2018	2017
Balance at 1 January	54,052	22,803
Share of profit/(loss) of equity-accounted investees	(6,003)	10,153
Additions	50	19,149
Currency translation difference	2,699	1,947
Balance at the end of the year	**50,798**	**54,052**

Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group, is as follows:

2018	Ownership (%)	Total assets	Total liabilities and Equity	Profit / (loss) in the year
Kazakhstan Ijara Company Jsc.	14.31	106,728	97,086	9,642
Aktif Bank Sukuk Varlık Kiralama A.Ş.	100	1,013,295	1,013,273	22
Euroasian Leasing Company	36.71	16,155	16,144	11
Euro Mediterranean Investment Company	25.53	49,760	49,616	144
Haliç Finansal Kiralama Anonim Şirketi	32	36,855	34,976	1,879
Aktif Halk Enerji Yatırımları A.Ş.	50	129,569	147,825	(18,256)
Halk Yenilenebilir Enerji A.Ş.	50	8,768	8,446	322
Idea Farm Ventures Limited	30	8,095	8,095	-
Epost Dış Ticaret A.Ş.	99.86	50	50	-

2017	Ownership (%)	Total assets	Total liabilities and Equity	Profit / (loss) in the year
Kazakhstan Ijara Company Jsc.	14.31	75,572	73,013	2,559
İFM İstanbul Finans Merkezi İnşaat Taahhüt A.Ş.	5	-	-	-
Aktif Bank Sukuk Varlık Kiralama A.Ş.	100	685,608	685,597	11
Euroasian Leasing Company	36.71	14,490	14,323	167
Euro Mediterranean Investment Company	25.53	25,085	22,906	2,179
Haliç Finansal Kiralama Anonim Şirketi	32	24,822	24,454	368
Aktif Halk Enerji Yatırımları A.Ş.	50	57,166	58,910	(1,744)
Halk Yenilenebilir Enerji A.Ş.	50	51,616	29,887	21,729
Solaren S4 Enerji Üretim A.Ş.	50	10,289	12,173	(1,884)

16. Tangible assets

	Machinery and equipment	Furniture and fixtures	Leasehold improvements	Motor vehicles	Construction in progress	Other fixed assets	Total
Cost							
Balance on 1 January 2017	67,962	24,826	10,405	198	235,368	868	339,627
Additions	1,804	5,833	163	108	50	3,830	11,788
Transfers to intangible assets	-	-	-	-	(1,113)	-	(1,113)
Capitalized borrowing costs	-	-	-	-	23,173	-	23,173
Disposals	(50)	(5)	(69)	(52)	(32,400)	-	(32,576)
Balance on 31 December 2017	**69,716**	**30,654**	**10,499**	**254**	**225,078**	**4,698**	**340,899**
Balance on 1 January 2018	69,716	30,654	10,499	254	225,078	4,698	340,899
Acquisitions through business combinations (note 38)	83,797	-	-	-	-	-	83,797
Additions	12,157	8,041	81	8,945	389,822	2,566	421,612
Transfers to intengible aasets	(1,146)	(52)	(3,534)	-	-	-	(4,732)
Capitalized borrowing costs	-	-	-	-	23,814	-	23,814
Disposals	(91)	(391)	(73)	-	(244,132)	-	(244,687)
Balance on 31 December 2018	**164,433**	**38,252**	**6,973**	**9,199**	**394,582**	**7,264**	**620,703**
Depreciation and impairment							
Balance on 1 January 2017	42,690	15,845	5,388	28	-	(240)	63,711
Depreciation for the year	12,644	5,937	450	23	-	1,446	20,500
Disposals	(4)	(3)	(69)	(32)	-	-	(108)
Balance on 31 December 2017	**55,330**	**21,779**	**5,769**	**19**	**-**	**1,206**	**84,103**
Balance on 1 January 2018	55,330	21,779	5,769	19	-	1,206	84,103
Depreciation for the year	13,396	6,825	1,593	188	-	1,813	23,815
Disposals	(116)	(366)	-	(5)	-	-	(487)
Transfers to intangible assets	(1,146)	(52)	(3,534)	-	-	-	(4,732)
Balance on 31 December 2018	**67,464**	**28,186**	**3,828**	**202**	**-**	**3,019**	**102,699**
Carrying amounts							
Balance on 1 January 2017	25,272	8,981	5,017	170	235,368	1,108	275,916
Balance on 31 December 2017	14,386	8,875	4,730	235	225,078	3,492	256,796
Balance on 31 December 2018	96,969	10,066	3,145	8,997	394,582	4,245	518,004

17. Intangible assets

	Software	Computer Programme	Rights [*]	Total
Cost				
Balance on 1 January 2017	46,796	44,318	191,396	282,510
- Acquisitions from subsidiaries	386	-	-	386
Additions:				
- Purchases	7,467	9	65	7,541
- Internally developed	-	11,449	-	11,449
Disposals	-	-	(4,834)	(4,834)
Transfers from property and equipment	-	193	920	1,113
Balance on 31 December 2017	**54,649**	**55,969**	**187,547**	**298,165**
Balance on 1 January 2018	54,649	55,969	187,547	298,165
- Acquisitions through business combinations (note 38)	-	-	65,656	65,656
Additions:				
- Purchases	997	-	1,299	2,296
- Acquisitions from subsidiaries	-	-	-	-
- Internally developed	-	27,074	-	27,074
Disposals	-	-	(5,764)	(5,764)
Transfers from property and equipment	-	-	4,732	4,732
Balance on 31 December 2018	**55,646**	**83,043**	**253,470**	**392,159**
Amortisation and impairment				
Balance on 1 January 2017	20,313	21,919	64,695	106,927
Impairment charges for the year	-	-	-	-
Amortisation for the year	9,493	11,758	30,585	51,836
Disposals	-	-	(3,935)	(3,935)
Transfers from property and equipment	-	-	-	-
Balance on 31 December 2017	**29,806**	**33,677**	**91,345**	**154,828**
Balance on 1 January 2018	29,806	33,677	91,345	154,828
Amortisation for the year	4,292	3,731	13,852	21,875
Disposals	-	-	(5,764)	(5,764)
Transfers from property and equipment	-	-	4,732	4,732
Balance on 31 December 2018	**34,098**	**37,408**	**104,165**	**175,671**
Carrying amounts				
Balance on 1 January 2017	26,483	22,399	126,701	175,583
Balance on 31 December 2017	24,843	22,292	96,202	143,337
Balance on 31 December 2018	21,548	45,635	149,305	216,488

There is no capitalised borrowing cost related to the internally developed software during the year (31 December 2017: None).

[*] A ten-year General Contract dated 27 August 2013, has been signed between the Bank and Turkish Football Federation (TFF) about the E-Ticket System which will be used for the entrance of the sport halls in Sport Clubs' league matches. Within the scope of the contract, the Bank has capitalized TL 12,946 amount as intangibles which was paid to Football Clubs in return of the consent for ticketing. As of the balance sheet, following the TFF acceptances of the stadiums in the E-Ticket System, the Bank has paid TL 159,423 to TFF, TL 52,309 has been recognized as an expense, and the remaining amount of TL 107,114 has been classified under other assets that will be recognized as an expense during the upcoming years the E-Ticket System will be used (31 December 2017: As of the balance sheet, following the TFF acceptances of the stadiums in the E-Ticket System, the Bank has paid TL 157,332 to TFF, TL 33,191 has been recognized as an expense, and the remaining amount of TL 124,141 has been classified under other assets that will be recognized as an expense during the upcoming years the E-Ticket System will be used.

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18. Other assets

	31 December 2018	31 December 2017
Advances given	123,506	128,247
Prepaid expenses	84,310	31,653
Suspense accounts	37,446	24,885
Guarantees given	27,543	5,693
Income accrual	14,292	22,940
Fund service fee accrual	7,929	7,928
Credit card accounts	63	9,902
Others [*]	408,537	16,615
	703,626	**247,863**

[*] Includes the flats that not expected to be disposed within one year, which are amounting to TL 244,570, purchased by preliminary contract for sale.

19. Assets held for sale

	2018	2017
Balance at 1 January	71,067	-
Transfer from assets to be disposed-off	-	71,067
Addition	8,837	-
Disposal	(7,905)	-
Balance at 31 December	**71,999**	**71,067**

20. Obligations under repurchase agreements

	31 December 2018	31 December 2017
Obligations under repurchase agreements-TL	73,872	31,351
Obligations under repurchase agreements-FC	1,217,870	387,694
Money market fundings-TL	-	655,464
	1,291,742	**1,074,509**

21. Funds borrowed

	31 December 2018	31 December 2017
Domestic banks – TL	265,878	349,477
Domestic banks – Foreign currency	226,115	321,645
Foreign banks – TL	83,964	22,741
Foreign banks – Foreign currency	3,074,059	3,080,517
	3,650,016	**3,774,380**

22. Debt securities issued

As at 31 December 2018 and 2017, all debt securities issued are at amortised cost.

	31 December 2018	31 December 2017
Debt securities issued-TL	3,903,309	2,314,083
Debt securities issued-FC	462,404	462,205
	4,365,713	**2,776,288**

	31 December 2018	31 December 2017
Nominal of debt securities issued	5,145,125	3,059,585
Unaccrued interest expense	(779,412)	(283,297)
	4,365,713	**2,776,288**

23. Taxation

General information

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

In Turkey, effective from 1 January 2006 corporate tax rate is 20% (Corporate tax rate is going to be 22% for 2018, 2019 and 2020). The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts which are calculated and paid are offset against the final corporate tax liability for the year.

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

As at 31 December 2018 and 2017, the current tax liability is as follows:

	31 December 2018	31 December 2017
Income tax liability	114,396	85,783
Prepaid taxes	(65,807)	(67,391)
Income taxes payable	**48,589**	**18,392**

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For the year ended 31 December 2018 and 2017, the income tax expense recognised in profit or loss and income tax recognised directly in equity are as follows:

Recognised in profit or loss

	2018	2017
Current tax expense from continuing operations	(113,830)	(92,603)
Deferred tax from continuing operations	15,052	15,665
Total income tax	**(98,778)**	**(76,938)**

Reconciliation of effective tax rate

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate of the Bank for the year ended 31 December 2018 and 2017 is as follows:

	2018	Rate %	2017	Rate %
Profit for the year	381,672		233,827	
Total income tax expense	98,778		76,938	
Profit before income tax	**480,450**		**310,765**	
Income tax using the domestic corporation tax rate	(105,699)	(22.00)	(62,153)	(20.00)
Non-deductible expenses	(12,169)	(2.53)	(27,763)	(8.93)
Non-utilized tax losses	(49)	(0.01)	(3,233)	(1.04)
Tax exempt income	8,140	1.69	-	-
Other	10,999	2.29	16,211	5.22
Total income tax in the profit or loss	**(98,778)**	**(20.56)**	**(76,938)**	**(24.75)**

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Deferred tax

Recognised deferred tax assets and liabilities

The deferred tax included in the statement of financial position and recognised in profit or loss and in equity are as follows:

	31 December 2018			31 December 2017		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Financial assets measured at fair value through other comprehensive income	462	(310)	152	(857)	-	(857)
Reserve for employee benefits	2,147	-	2,147	2,137	-	2,137
Tangible assets and intangible assets	7,835	(591)	7,244	5,870	(14,463)	(8,593)
Tax losses carried forward	7,824	-	7,824	1,098	-	1,098
Expected credit losses (*)	15,358	-	15,358	-	-	-
Acquisition of subsidiaries	-	(14,444)	(14,444)	-	-	-
Other	13,804	(9,766)	4,038	16,939	(2,308)	14,631
Deferred tax	**47,430**	**(25,111)**	**22,319**	**25,187**	**(16,771)**	**8,416**

(*) The balance includes the IFRS 9 transition impact of TL 6,866.

Recognised deferred tax assets and liabilities in the statement of financial position are as follows:

	31 December 2018	31 December 2017
Deferred tax assets	36,987	10,246
Deferred tax liabilities	(14,668)	(1,830)
	22,319	**8,416**

Movements in temporary differences during the year

2018	Opening balance	Transition impact of IFRS 9	Recognised in profit or loss	Recognised in equity	Acquired in Business Combinations	Closing balance
Financial assets measured at fair value through other comprehensive income	(857)	-	(5,646)	6,655	-	152
Reserve for employee benefits	2,137	-	266	(257)	-	2,146
Tangible assets and intangible assets	(8,593)	-	15,837	-	-	7,244
Tax losses carried forward	1,098	-	6,726	-	-	7,824
Expected credit losses (*)	-	6,866	-	-	-	6,866
Acquisition of subsidiaries	-	-	-	-	(14,444)	(14,444)
Other	14,631	-	(2,131)	31	-	12,531
Deferred tax	**8,416**	**6,866**	**15,052**	**6,429**	**(14,444)**	**22,319**

2017	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
Available-for-sale investment securities	1,242	(991)	(1,108)	(857)
Reserve for employee benefits	1,670	323	144	2,137
Tangible assets and intangible assets	(9,864)	1,271	-	(8,593)
Tax losses carried forward	919	179	-	1,098
Other	(252)	14,883	-	14,631
	(6,285)	**15,665**	**(964)**	**8,416**

Expiration schedule of carry forward tax losses is as follows:

	31 December 2018	31 December 2017
Expiring in 2018	-	-
Expiring in 2019	-	-
Expiring in 2020	894	5,490
Expiring in 2021	570	-
Expiring in 2022	882	-
Expiring in 2023	33,218	-
Total	**35,564**	**5,490**

24. Provisions

	31 December 2018	31 December 2017
Provision for possible losses (*)	133,000	170,000
Vacation pay liability	4,360	4,085
Employee termination benefits	6,499	6,602
Other (**)	77,693	60,279
Total	**221,552**	**240,966**

(*) As at 31 December 2018, the accompanying consolidated statement of financial position includes a free provision amounting to TL 133,000 provided by the Bank management in line with conservatism principle considering the circumstances which may arise from any changes in the economy or market conditions (31 December 2017: TL 170,000).

(**) Includes bonus, lawsuit and other provisions.

Employee termination benefits

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 5.43 and TL 4.73 on 31 December 2018 and 2017, respectively) per year of employment at the rate of pay applicable on the date of retirement or termination. In the consolidated financial statements as at 31 December 2018 and 2017, the Group reflected a liability calculated using the hypothetical method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds on the reporting date.

The principal actuarial assumptions used on the reporting dates are as follows:

	31 December 2018	31 December 2017
Discount rate	14.50%	11.50%
Inflation rate	9.50%	8.30%

The movement in provision for employee termination benefits is as follows:

	2018	2017
Opening balance	6,602	5,354
Interest cost	899	184
Service cost	2,086	2,395
Payment during the year	(1,922)	(2,052)
Actuarial loss/(gain)	(1,166)	721
Balance at the end of the year	**6,499**	**6,602**

25. Other liabilities

	31 December 2018	31 December 2017
Customer accounts [*]	1,624,270	1,201,545
Intermediary payment account	472,121	364,037
Blocked amounts [**]	64,401	87,316
Suspense accounts	55,044	26,028
Taxes and due payable	32,616	27,577
Unearned income	30,286	31,780
Credit card accounts	14,472	15,353
Payables to compulsory government funds	6,037	6,602
Expense accrual	4,681	5,567
Cash collaterals received	-	3,071
Other	97,052	48,880
	2,400,980	**1,817,756**

[*] The Bank is not entitled to collect deposits. The customer accounts represent the current balances of loan customers.

[**] The balance is resulted from wage payment accounts blocked until the date of wage payment.

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26. Capital and reserves

	31 December 2018	31 December 2017
Number of common shares, TL 1,000 (in full TL), par value (Authorised and issued)	1,193,585	1,033,585

As at 31 December 2018 and 2017, all issued shares are fully paid and there is no preference shares assigned to shareholders of the Bank.

Share capital and share premium

As at 31 December 2018 and 2017, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	31 December 2018		31 December 2017	
	Amount	**%**	**Amount**	**%**
Çalık Holding A.Ş.	1,186,791	99.43	1,027,636	99.42
Çalık Denim Tekstil San. ve Tic. A.Ş.	3,597	0.30	3,149	0.30
Ahmet Çalık	1,599	0.13	1,400	0.14
Başak Yönetim Sistemleri A.Ş.	799	0.07	700	0.07
Irmak Yönetim Sistemleri A.Ş.	799	0.07	700	0.07
Total paid-in-capital	**1,193,585**	**100.00**	**1,033,585**	**100.00**
Restatement effect per IAS 29	4,510		4,510	
Total share capital	**1,198,095**		**1,038,095**	

At the general assembly meeting held on 13 December 2018 the paid-in capital of the Bank increased by amounting to TL 160,000 from TL 1,033,585 to TL 1,193,585 which has been provided by amounting to TL 147,000 from internal resources and increased by amounting to TL 13,000 in cash (31 December 2017: At the extraordinary general meeting dated 24 March 2017, the Bank's paid-in capital of TL 933,585 reaches TL 1,033,585 with an increase of TL 100,000, which consist of TL 100,000 from retained earnings).

Reserves

Fair value reserve

As at 31 December 2018, this reserve includes the cumulative net change in the fair value of financial assets measured at fair value through other comprehensive income until the investment is derecognised or impaired. As at 31 December 2017, this reserve includes the cumulative net change in the fair value of financial assets measured at fair value through other comprehensive income until the investment is derecognised or impaired.

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Other reserves

Other reserves consist of legal reserves. The legal reserves consist of first and second legal reserves. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Special funds

Special funds refer to the funds allocated from net income or retained earnings due to the tax advantage of local legal regulations.

27. Net interest income

	2018	2017
Interest income		
Loans and advances to customers	1,023,425	853,228
Investment securities	253,987	133,781
Cash and cash equivalents	50,349	31,156
Other	5,162	3,344
Total interest income	**1,332,923**	**1,021,509**
Interest expense		
Debt issued	595,177	349,513
Funds borrowed	182,492	43,402
Money market transactions	126,937	56,486
Other	2,743	1,589
Total interest expense	**907,349**	**450,990**
Net interest income	**425,574**	**570,519**

28. Net fee and commission income

	2018	2017
Fees and commission income		
Intermediary commissions	69,204	44,238
Commitment fee	32,081	33,683
Delivery fee	31,926	9,849
Financial guarantee contracts issued	15,662	13,308
Remittance fee	15,423	108,340
Insurance fee	13	3,092
Other	11,709	35,929
Total fees and commission income	**176,018**	**248,439**
Fees and commission expense		
Clearance commissions	49,291	55,196
Credit card commissions	15,802	11,298
Financial guarantee contracts issued	1,919	1,193
Other	10,392	5,970
Total fees and commission expense	**77,404**	**73,657**
Net fees and commission income	**98,614**	**174,782**

29. Net trading loss / Income

	2018	2017
Foreign exchange gain/(loss)	(128,296)	5,468
Trading account gain/(loss)	(26,704)	8,512
Gain/(loss) from derivative financial instruments	144,558	(52,720)
Total	**(10,442)**	**(38,740)**

30. Sales income and cost of services

Sales income:

	2018	2017
Revenue from sale of goods	400,112	180,157
Transaction and other commission income	77,617	59,994
Insurance commission income	52,779	60,739
Revenue from cash register POS	41,185	96,065
Revenue from license fee	1,245	381
Other sales income	16,365	9,934
Total	**589,303**	**407,270**

Cost of services:

	2018	2017
Dealer commission and other commission expenses	22,081	25,646
Maintenance expenses	20,591	48,034
Cost of merchandises sold	18,462	6,906
Cost of cash register POS	15,318	72,389
Rent expenses	4,273	4,383
Consultancy expenses	860	1,129
Depreciation and amortization expenses	200	712
Other expenses	18,602	10,832
Total	**100,387**	**170,031**

31. Other income

	2018	2017
Gain on sale of assets	60,299	27,877
Income from business combination	40,692	-
Reversal of provision for possible losses	37,000	-
Reversal of provision for corporate tax	13,216	3,050
Asset-backed security profit sharing	652	310
Gain on sale of subsidiary	-	43,232
Other	27,441	7,901
Total	**179,300**	**82,370**

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32. Net impairment on financial assets

	2018	2017
Individual impairment for loans	41,074	38,924
Collective impairment provision for loans	(10,808)	16,312
Other	1,075	126
Total	**31,341**	**55,362**

33. Personnel expenses

	2018	2017
Wages and salaries	111,247	108,875
Social security premiums	16,512	13,636
Provision for employee benefits	3,564	2,664
Other	45,403	41,071
Total	**176,726**	**166,246**

34. Administrative expenses

	2018	2017
Publicity expenses	49,301	43,862
Taxes and dues other than on income	27,657	14,471
Rent expenses	24,097	16,902
Consultancy expenses	14,112	7,968
Maintenance expenses	11,091	17,600
Outsource expenses	10,798	10,701
Communication expenses	9,462	9,595
Expenses on vehicles	8,111	6,254
Others	46,071	37,223
Total	**200,700**	**164,576**

35. Other operating expenses

	2018	2017
Marketing expenses	9,021	4,587
Provision expenses	5,416	16,316
Other	42,724	41,053
Total	**57,161**	**61,956**

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Other expenses

	2018	2017
Provision for possible losses	-	140,000
Total	**-**	**140,000**

36. Related parties

Parent and ultimate controlling party

The Bank is controlled by Çalık Holding A.Ş. which owns 99.43% of ordinary shares (31 December 2017: 99.42%).

Compensation of key management personnel of the Group

Total salaries and other benefits paid to the Board of Members and top management during the year is TL 32,278 (31 December 2017: TL 22,973).

Balances with related parties

31 December 2018	Related party balances	Total balance	Rate (%)
Loans and advances to customers	2,890,750	6,903,543	41.87
Other liabilities (Customer accounts)	7,584	1,624,270	0.47
Debt securities issued	21,000	4,365,713	0.48
31 December 2017	**Related party balances**	**Total balance**	**Rate (%)**
Loans and advances to customers	2,185,383	6,539,477	33.42
Other liabilities (Customer accounts)	61,482	1,201,545	5.12
Debt securities issued	28,317	2,776,288	1.02

Off statement of financial position balances with related parties

31 December 2018	Related party balances	Total balance	Rate (%)
Non-cash loans	418,678	1,232,225	33.98
31 December 2017	**Related party balances**	**Total balance**	**Rate (%)**
Non-cash loans	640,395	1,308,957	48.92

Transactions with related parties

	2018	2017
Interest income on loans	308,598	165,315
Fee and commission income	6,940	5,966
Other expenses	8,011	4,476

37. Commitments and contingencies

	31 December 2018	31 December 2017
Letters of guarantee	1,007,343	1,151,664
Letters of credit	58,122	136,693
Other guarantees	166,760	20,600
Total non-cash loans	**1,232,225**	**1,308,957**
Check limits	2,037	1,718
Other commitments	203,355	410,207
Total	**1,437,617**	**1,720,882**

38. Acquisitions of subsidiaries

Business combinations/acquisition of solar energy SPVs

According to share transfer agreements dated 9 June 2017, 4 May 2018 and 7 May 2018, Emlak Girişim Danışmanlığı A.Ş. decided to purchase 100% of shares of Solar Energy SPVs for a total consideration of TL 12,636. On 30 September 2018, share transfers were finalised and Emlak Girişim Danışmanlığı A.Ş. obtained control by acquiring 100% of shares and voting rights in SPVs.

Preacquisition carrying amounts were determined based on the applicable IFRSs immediately before the acquisition. The values of assets, liabilities and contingent liabilities recognised on acquisition are their estimated fair values.

The following summarises the major classes of consideration transferred and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

Consideration transferred	
Cash paid	12,636
Total consideration	**12,636**
Identifiable assets acquired and liabilities assumed	**Recognized values on acquisition**
Cash & cash equivalents	257
Trade and other receivables	7,924
Other assets	33,040
Tangible assets (note 16)	83,797
Intangible assets (note 17)	65,656
Total assets	**190,674**
Funds borrowed	135,680
Trade and other payables	9,749
Other liabilities	18,061
Deferred tax liability	14,444
Total liabilities	**177,934**
Total net identifiable assets	**12,740**
Total consideration transferred	**12,636**
Less: Value of net identifiable assets	(12,740)
Amount recognized in profit or loss as income	**(104)**
Cash consideration transferred	12,636
Cash & cash equivalents acquired	(257)
Net cash outflow arising from acquisition	**12,379**

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Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows.

Assets accquired	Valuation technique
Tangible assets	Cost technique: Depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.
Intangible assets	Discounted cash flows: The valuation model considers the present value of the net cash flows expected to be generated by the right of solar energy production. The expected net cash flows are discounted using a risk-adjusted discount rate. Significant unobservable inputs are expected revenue growth rate and risk adjusted discount rates.

39. Subsequent events

None.

aktif bank

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