aktif bank

E-Kent

echopos

PASSO

SECOM

KOLAY

MÜKAFAT

UPT

PAVO

sigortayeri

n kolay

İNOVABANK

aktif bank

2019 Annual Report

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We are the largest financial technologies ecosystem of Turkey.

Our purpose is to facilitate everyone's access to financial products and services

Milestones

1999
Çalık Bank is founded

2008
Change of title as aktif bank

EKent

2009
Turkey's first bank bond is issued

2010
UPT

2011
Turkey's first asset-backed security is issued

2013
Turkey's first mudaraba sukuk is issued

sigortayeri

PAVO

2014
passo.com.tr

Passolig Card

n kolay

2015
nkolaykredi.com.tr

MÜKAFAT ASSET MANAGEMENT

2016
Turkey's first Eurobond is issued

echopos

2017
Turkey's first Euro sukuk is issued

Turkey's first digital bank bond

nkolay.com

N Kolay Card

Passo Mobile

2018
N Kolay Ankara Card

İNOVABAN

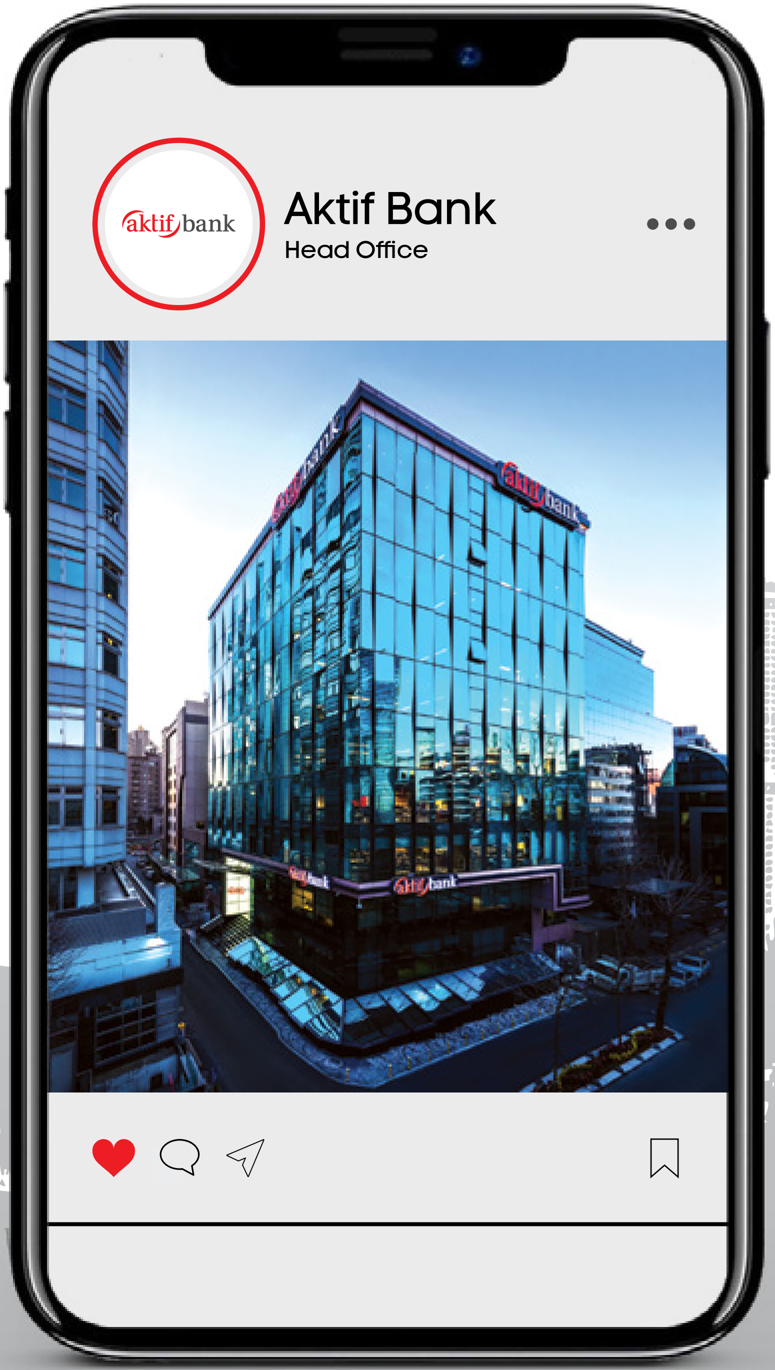
Passo Events

2019
N Kolay Mobile

Ankara Card Mobile

SECOM

About Us



Aktif Bank, a Giant Ecosystem

Aktif Bank, Turkey's largest privately-held investment bank, continues to serve as the largest fintech ecosystem of Turkey thanks to innovative business models and technology investments that redefine investment banking.

Aktif Bank both collaborates and competes with domestic and global fintech companies with products offered via physical and digital channels. Customer focus is ingrained in the DNA of the Bank, which, together with its subsidiaries and business partners, provides 360-degree service to 10 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 10 branches across Turkey, Aktif Bank focuses on corporate banking, investment banking and private banking services that require predominantly face-to-face communications. In retail banking, Aktif Bank leverages its effective collaborations, innovative business models and investments in digital channels to hold 18% of the Turkey's retail banking customer market with 714 employees in total, including its subsidiaries.

Aktif Bank maintained its innovation-oriented efforts at pace in 2019 as it continued to diversify its digital offering with a view to excellence in customer experience. Since its establishment, Aktif Bank has invested in technology to make life easier for customers, with the Bank's digital platform "N Kolay" continuously being expanded to include new products and services.

The N Kolay Mobile app, which was launched early in the year with a digital investment product, the N Kolay Bond for retail customers across all income brackets, was updated with more features during the year, including bill payments and the FX platform for foreign exchange trade.

The Bank launched "N Kolay Pay" a first-of-its-kind payment systems platform characterized by its ease of use and responsiveness to customer needs. The platform introduced a novel, QR code-based shopping, payment and money transfer experience for businesses, merchants and e-vendors.

Aktif Bank also added to the features of Passo Mobile application, complementing the advantages the app offers at stadiums with 24/7 money transfers, payments and on-demand loans using QR code. Passolig, the key to security and comfort at stadiums, exceeded 5 million cards. Meanwhile PASSO, the only official ticket sales platform for football clubs, expanded its offering into the world of entertainment and events. Since October 2019, 2020 event tickets for Zorlu Performance Arts Center are now being sold on PASSO.

In 2019, the Bank launched the AnkaraKart Mobile app for all urban public transport needs. The Bank added Kahramanmaraş to the list of provinces where it provides digital and smart public transport solutions, and released a new version of the mobile app KahramanKart.

Active in various sectors as befits its name thanks to its innovative and entrepreneurial vision, the Bank entered the security technologies industry in 2019. The Bank's first investment in security technologies involved a partnership with SECOM, a high-tech Japanese company and one of the leading providers of integrated security solutions. The joint venture, titled Secom Aktif Yatırım A.Ş. offers turnkey, end-to-end private security technologies to retail and corporate clients.

Near the end of 2019, the Bank moved to a new head office location to create a more comfortable and convenient workplace for its team.

Aktif Bank's achievements were not limited to business outputs. In 2019, the Bank won 17 new accolades, bringing the total number of international awards to 173.

Sustainable profit growth through a unique model.

Financials

	2019 (Thousand TRY)	2018 (Thousand TRY)	Change
Balances with Banks & Money Market Placements	3,015,819	265,665	1035%
Financial Assets at Fair Value Through Profit or Loss	449,007	488,030	-8%
Investment Securities (Net)	3,914,090	2,337,493	67%
Loans & Factoring Receivables (Net)	7,568,126	6,903,543	10%
Shareholders' Equity	2,097,840	1,574,102	33%
Total Assets	18,409,081	13,882,523	33%
Guarantees and Indemnities	1,485,218	1,232,225	21%
Net Interest Income	526,776	425,574	24%
Net Fee and Commission Income	73,009	98,614	-26%
Profit Before Taxes	512,007	480,450	7%
Provision for Taxes on Income	-101,344	-98,778	3%
Net Profit	410,663	381,672	7.60%

Performance Ratios

	2019	2018
Capital Adequacy Standard Ratio	14.85%	12.87%
Return on Average Equity	22.37%	27.29%
Return on Average Assets (Profit Before Tax Basis)	3.17%	3.85%
Return on Average Assets (Net Profit Basis)	2.54%	3.06%
Net Fee and Commission Income / Operating Costs	7.60%	12.39%
Fixed Assets (Net) / Average Equity	47.91%	52.52%
Non-Performing Loans / Total Loans	4.05%	3.82%
Interest Income / Interest Expenditures	140.80%	146.90%
Yielding Assets / Total Assets	81.19%	72.00%

Capital and Shareholding Structure

The Bank's main shareholding and capital structure as of December 31, 2019 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

There were no amendments to the articles of association of Aktif Yatırım Bankası A.Ş. at the 2018 Ordinary General Assembly meeting that convened on March 27, 2019.

Established by Ahmet Çalık in

1981

Çalık Holding operates in energy, construction, mining, textile, finance, telecommunications and digital sectors.

With operations in 22 countries across Central Asia, the Balkans and the MENA region, the Group employs 23,000 people.

Çalık Holding stands out as is a major player in Turkey and in the world with its subsidiaries: 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 in construction; Aktif Bank, BKT (Banka Kombetare Tregtare) Albania and BKT Kosovo in finance; Çalık Denim and Gap Pazarlama in textile; Albtelecom Albania in telecom; and Çalık Dijital in digital.

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 in every geography it operates, Çalık Holding realizes pioneering projects for society and business world through its corporate processes, services and products developed with Industry 4.0, Society 5.0 and sustainability approaches it has embraced.

AHMET ÇALIK
Chairman

We are focused on making life easier with our innovative mindset in a digital world.

Esteemed Business Partners and Colleagues,

2019 was a time of recovery in which traces of the volatile year of 2018 were erased. Thanks to the measures taken and the improvements in current account balance, exchange rates remained largely stable throughout the year. Tight fiscal policies adopted in the first half of the year helped balance inflation in a gradual manner, while domestic demand continued to recover in the rest of the year. In the light of these developments, we entered 2020 with a more optimistic growth projection of 5 percent.

Looking at the global economy, the key developments of 2019 were the trade talks between the US and China, as well as the Brexit. The increasing tension brought about due to trade wars hampered global growth.

Aktif Bank, on the other hand, maintained its course of robust growth by combining its innovative and digital mindset with its disciplined and proactive approach. The Bank outperformed the sector in terms of growth in 2019, and recorded to TRY 341.7 million (BRSA Standalone figure) in net profit. Business models shaped by a digital approach, which is indispensable in today's world, set Aktif Bank apart from its competitors, and the Bank closed the year with significant achievements as a result of its solutions designed to make life easier.

The Bank displayed a successful teamwork with its subsidiaries, strengthening existing companies and adding new ones to its roster in 2019.

Reaching its users through over 5 million Passolig cards and the Passolig mobile app, which has been downloaded to 5.1 million devices to date, Aktif Bank expanded the functionality of Passo in 2019 with the addition of QR payments and 24/7 money transfers in line with its digital approach. Furthermore, Aktif Bank partnered with Zorlu Performance Arts Center (Zorlu PSM) to enter the events industry and began selling Zorlu PSM event tickets through PASSO.

Meanwhile, N Kolay mobile application launched N Kolay Bond in Turkey, introducing consumers with the concept of digital savings.

Aktif Bank's ambitious entrepreneurship crossed boundaries as the Bank partnered with SECOM, Japan's leading security and lifestyle technologies provider. This investment marked Aktif Bank's entrance into the security services sector and the establishment of Secom Aktif Güvenlik Çözümleri.

Aktif Bank's contributions to the national economy were crowned with its export investments as the Bank accomplished an important achievement by increasing its trade volume with Africa from USD 300 million in 2018 to USD 450 million in 2019.

In 2019, Aktif Bank continued to place sustainability at the heart of its operations in line with the values of the Çalık Group, and continued to make life easier in a digitalizing world, thanks to its focus on innovation.

Within this framework, we aim to take our digitalization investments above and beyond the norms of the sector and further enhance our efficiency through a proactive approach to our business.

I would like to express my gratitude to our colleagues, business partners and stakeholders for their contributions to our accomplishments.

Sincerely,

Ahmet Çalık

DR. SERDAR SÜMER
CEO

Thanks to innovation in our DNA and our customer-focused business model, our 360-degree services touch every part of life, allowing us to always be there for our customers.

Dear Esteemed,

In 2019, Turkey began to see the results from the economic balancing, particularly with the improvements in current balances and prices. The growth resulting in a current surplus was seen as an positive indicator with respect to the health of the economy. Meanwhile, global uncertainties began to dissipate towards the end of the year.

In 2019, Aktif Bank recorded one of the highest growth rates in Turkey with an asset growth of 32% (BRSA Standalone figure) yet, our key source of pride in this achievement comes from the fact that we grew in a manner that creates value and employment in support of our country's economy. It is safe to say that we have closed another financially successful year in which we managed to clearly outpace our competitors in terms of our agility and resilience as well as our financial indicators.

Aktif Bank's innovation and customer-focus are essential parts of its DNA, and these naturally result in an investment banking model that is unique in the sector, enabling the Bank to utilize its resources optimally to drive efficiency. As the largest fintech ecosystem of Turkey, we are proud to create jobs in over 10 lines of business that we serve.

Thanks to our digital assets, extensive physical distribution network that leverages our business partnerships with leading players in the sector as well as our subsidiaries, we offer 360-degree products and services for various areas of daily life. For instance, Aktif Bank customers are able to begin their day by checking the status of their investments using the renewed N Kolay Mobile app, pay their bills conveniently, or carry out FX transactions. Those living in the capital Ankara can use public transport with the Ankara Kart Mobile app, without having to worry about their transport card balance. During lunch, they can log in to Passo Mobile app to purchase tickets for concert they have long been waiting for. In case they want to send money to a friend, they can conveniently do that 24/7 using Passo Mobile as well. They can decide to watch a game with friends in the evening, and book their seat in the stadium within minutes, using the Passolig system. And after they return home, they can get a good night's rest in peace of mind, thanks to the security provided by Secom. These are but some examples from our extensive range of services. The fact that our customer base climbed from 8 million in 2018 to 10 million in 2019 is a testament to the success of our model.

Our scope is not limited to Turkey, as we are there for our customers in the most challenging regions. In 2019, we leveraged our unique approach in foreign trade to gain experience and go beyond banking services in the most challenging regions. Our Bank accomplished an important feat by increasing its trade volume with Africa from USD 300 million in 2018 to USD 450 million in 2019. We focused on improving trade between Turkey and Africa, and accordingly, offered our services to exporters via over 1,000 banks in 143 countries.

As an investment bank, Aktif Bank is well aware of the key importance of renewable energy for Turkey's future. To date, we have provided cash and non-cash loans of USD 200 million to 38 renewable energy projects with a total installed capacity of 240 MW. Most of these are solar energy projects, but hydroelectricity and wind is also represented.

As always, we have maintained our support for Turkish football. We published the fourth issue of our Football Economy Report EkoLig, which explores revenues and economic outlook of the football industry. Working to improve the quality and standards in Turkish football and enabling digital integration between clubs and fans, Passolig card now has more than 5 million users. Meanwhile, the benefits of the Passo Mobile application, designed to enhance access to stadiums and downloaded to over 5 million phones, goes beyond the stadium today.

The new features, namely 24/7 money transfer using QR code, shopping and Kolay Packages were introduced to the masses with an advertisement with the slogan "Passo privileges, now beyond the stadium". The ad attracted great interest, and was viewed over 10 million times on our YouTube channel.

Meanwhile, we carried the Passo experience to the world of entertainment and events. In this context, our deal with Zorlu Performance Arts Center to place Passo as a platform for event tickets is set to enhance the event experience of art lovers. Briefly, Passo has grown into an integrated and unique platform for not only football, but also cultural and artistic events. On the banking side of things, we maintained our focus on the investor aspect, same as all other areas of operation. Meaning that, instead of merely serving as a platform for ticket sales, we integrated into the system as a financial solutions partner for the event organizers. For instance, we go beyond selling concert tickets for world stars, we also help attract them to Turkey in the first place with the sponsorships we provide. One such event was the Bryan Adams concert in 2019, of which we were the main sponsor. We aim to enable more events in the coming period to bring the Aktif Bank brand to a wider audience.

Message from the CEO

On the subsidiaries side, 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. More and more negotiations are being held with national football federations and sports club for exporting the E-Kent based ticketing system, which is characterized by its technological infrastructure and operational success. In 2019, UPT, Turkey's first licensed payment provider, carried out 1.8 million transactions in 140 countries, achieving a transaction volume of more than TRY 5 billion. Turkey's innovative insurance broker Sigortayeri continued the growth momentum of 2018 in 2019 as well, recording a 30 percent increase in the number of policies. Meanwhile, PAVO, drawing from its vast expertise in cash register systems, continues to offer its services through more than 200,000 applications and software integration. Echo Bilgi Yönetim Sistemleri A.Ş., set to become the "New Generation Solution Partner" of the retail sector, continues to provide a robust infrastructure to over 2 million transactions per day. Mükafat Asset Management continues its rapid growth, and after a mere three years after its establishment, it now manages over TRY 1.2 billion in assets. N Kolay Payment continues to make a difference in the payment providers industry through over 570 N Kolay Stores and around 4,000 N Kolay Kiosks.

In today's pace of disruptive digital transformation, we leverage the innovation and digitalization ingrained in our DNA to pioneer the change while other sector players are still looking for ways to adapt to the change through technological transformation projects. As always, Aktif Bank and its subsidiaries will spare no effort to create lasting value for our country, our economy and society in 2020, driven by our corporate culture that is based on technology and innovation.

Sincerely,

Dr. Serdar Sümer

Outstanding technology experience through brand new sales models.

Having adopted a sustainable and low-cost oriented growth strategy, Aktif Bank reached an asset size of TRY 18.4 billion at the end of 2019. With a record performance, the Bank increased its net profits to TRY 410.7 million with a 7.60% increase over the previous year and continued to grow profitably as it has in the previous years. Return on average assets was 2.54% in 2019 compared to the 3.06% of the previous year. Also, Return on average equity was 22.37% in 2019 and 27.29% in 2018. Aktif Bank continued to actively support the growth of Turkey's economy by extending TRY 7.6 billion in loans to retail and corporate customers in 2019.

Driven by its commitment to make its customers' life easier, Aktif Bank continued to enhance business processes in all areas of operation, and achieved an upwards momentum with its innovative products and services and its investments in digital channels. Together with its subsidiaries, Aktif Bank serves approximately 10 million retail customers as of the end of 2019, utilizing a unique business model that provides marketing and operational support without the cost of branching. The Bank's novel organization of subsidiaries, combined with their effective operating models, contribute to its consolidated profit.

Retail Digital Banking and Payment Systems

A Robust, Digital-Driven Organization

Thanks to a business model that is based on digital banking and innovative channels, Aktif Bank recorded a successful year in 2019 as it continued to make a difference through customer-focused innovation.

Responding to the rapid advancements in technology with a proactive approach, the Bank focused on mobile apps with its Retail Digital Banking and Payment Systems group in 2019. With the launch of N Kolay Mobile app in February, retail customers from all income brackets are now able to invest in bonds entirely through digital channels, with broad investment limits from TRY 200 to TRY 500,000. They are also able for carry out transactions in a fast and convenient manner without money transfer fees. Also in February, the advantages of the mobile app and the features of N Kolay Bond product were communicated to the audiences with a 360-degree ad campaign "Hiç Bono sordun mu?" (Have you ever asked Bond?) aired on TV, as well as outdoor, radio, print media and digital channels. The customer portfolio of N Kolay Bond, which has been growing rapidly since its launch, grew 60 percent over the previous year with the added value created by the advertising campaign. Nearly 200,000 customers have embraced the N Kolay app since its launch, and have downloaded it to their mobiles. Communication investments in the brand continued with a year-long communication plan. Near the end of 2019, the application was added new features including bill payments and the FX platform for foreign exchange trade.

Having placed the digital world at its core, Aktif Bank received around 1 million loan applications worth TRY 10 billion via nkolaykredi.com.tr, which saw 3 million visits by 2 million visitors during the 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 diversified its product range by offering tailored interest rates based on customer risk profiles as well as by launching Kolay Packages, a consumer loan product that offers 0 interest for the first 15 days.

The "N Kolay Pay" launched also in 2019 introduced Turkey to a brand new payment system. N Kolay Pay introduced a QR code-based shopping experience for businesses, merchants and e-vendors. N Kolay Pay was received with acclaim, and won Bronze Stevie in the "Innovation of the Year" category of the Stevie Awards.

Meanwhile Passo Mobile app was enhanced with new features, namely 24/7 money transfer using QR code, shopping and Kolay Packages. The advertisement communicating the changes, "Passo privileges, now beyond the stadium" reached a wide audience.

Meanwhile, Passo experience expanded to the world of entertainment and events, and the app, which has been downloaded to 5 million devices to date, has grown into an integrated and unique platform for not only football, but also cultural and artistic events.

Having been active in the public transport industry, the lifeblood of urban life, for many years, Aktif Bank continued to develop the AnkaraKart Mobile app, an unprecedented innovation in the sector, which reached 500,000 downloads. As a result of this focus on mobile, 68% of all customer acquisitions came through mobile channels.

N Kolay Ankara Card, which brings together public transportation and shopping features within a single platform, reached approximately 260,000 cards.

PTT was another channel through which the Bank maintained its strong growth momentum. In 2019, the Bank achieved an annual growth of over 40 percent, increasing its balance to TRY 1.7 billion. PTT loans, a market in which Aktif Bank enjoys a leading position, exceeded growth expectations thanks to a variety of initiatives and features introduced during the year.

With a vehicle loan balance of around TRY 210 million, Aktif Bank has surpassed many deposit banks in the market. The introduction of the risk-based pricing model diversified customer portfolios while providing dealers with stronger sales alternatives. The N Kolay Installment product, a leading brand in retail and sold through over 2,000 dealers, provides various benefits to customers in their shopping, thanks to advantageous interest rates and campaigns.

Corporate Banking

Leading Player in Challenging Regions

In line with the importance Aktif Bank attaches to foreign trade, the Corporate Banking Group provides privileged products to foreign trade customers while also focusing on Aktif Bank's collaboration with its subsidiaries to develop 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 also offers advantageous banking service packages that aim increase the business volume of the Bank's subsidiaries.

In 2019, the Bank served as an intermediary in foreign trade transactions in various challenging regions, predominantly Sub-Saharan Africa, Middle East and CIS, offering Turkish exporters the foreign trade solutions they would otherwise be unable to access. In addition to ensuring timely collection of export fees from the aforementioned regions, the Bank also facilitated exports in a safe and efficient manner by assuming the risks faced by the companies and providing the funding they requested before maturity. In the coming period, provision of igh-value-added banking solutions for customers active in challenging regions will remain the main aspect of the Corporate Banking strategy.

In 2019, approximately TRY 100 million in working capital facility was extended to companies with favorable terms; this included tailored end-to-end funding solutions to companies operating in food trade using the commodity pledge model, as well as to loans provided to farmers to meet their pre-plant cash needs.

Meanwhile, the Bank maintained its appetite towards investments and financing of renewable energy sources. Currently, the Bank has a total cash and non-cash loan book of USD 200 million extended to 38 renewable energy projects (solar, wind, hydroelectric) with a total installed capacity of 240 MW. It is worthy of note that all of these facilities are for greenfield projects.

As part of its investments into football, the Bank continued to provide corporate banking services to football clubs in 2019. Having secured over TRY 3 billion in financing to 17 football clubs since 2014, the Bank remains the premier resource provider of the sector with TRY 275 million in loans in 2019 that complemented the syndicated loans in which it took part.

Treasury and Private Banking

Offering Innovative and Flexible Products with High Investment Yields

The Group contributed to the Bank's growth and profitability in 2019. It continued to expand its coverage by pricing Islamic finance products in addition to conventional solutions.

2019 was a year in when money and capital markets were utilized more effectively to better manage the liquidity conditions which developing in the same way with the sector and the Treasury group ended the year by increasing its transaction volume and enhanced its integration into the derivative products market.

During the year, Treasury increased its product range with the addition of FX-indexed TRY bills, TRY Overnight Reference Index Rate yield-indexed bonds and CPI-indexed bonds. The Group responds to customer needs by providing quick and flexible solutions, and this approach enabled it to exceed expectations in terms of customer acquisition during the year.

The private banking team established within the Group 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. As a result, its contribution to the Bank's commercial profits was beyond expectations in 2019, a year during which customer profitability was another priority.

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 2019. For the first time in Turkey, the Bank issued a Gold Indexed Sukuk TRY 100 million It brokered the issue of two ABSs worth TRY 125 million on behalf of Turkey's biggest GSM operator, bringing the total number of successful issues for the client to six. Public offerings of N Kolay Bond, one of Aktif Bank's fully digital products, continued on an increasing scale. Aktif Bank continued to add to its long list of achievements in interest-free financing in 2019, with the issue of real estate return based sukuk worth USD 40 million successfully completed in Ireland and now quoted on the Irish Stock Exchange.

International Banking

Over 1,000 Correspondents in 143 Countries

In 2019, 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 1,012 correspondents in 143 countries, Aktif Bank secured a total of TRY 3,5 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.

Information Technologies and Operations

A Technology Center with a Human Focus

In 2019, the Information Technologies and Operations Group continued to bring the latest technologies and the highest quality of service to the Bank's customers, business partners and employees while also working towards the goal of securing the Bank's position as an attractive employer and a capable and high-quality tech company that supports an agile and creative workplace and values people. Accordingly, the Group focused on the human aspect and values, another key focus of the Bank.

Having been designated as an "R&D Center" by the Ministry of Industry and Technology in 2016 on the basis of its planned investments in technology and high-quality activities in innovation, the Group continued its R&D operations in 2019. As part of its efforts towards promoting postgraduate education, which is an essential aspect of its role as an R&D center, the Bank continues to collaborate with Bahçeşehir University with 22 colleagues currently enrolled in the On-Site Master's Program, who are preparing their master's theses in areas of relevance for the Bank.

The Group partnered with a leading university in Turkey for a project proposal for Horizon 2020, the leading research and innovation program in Europe. The project was approved and awarded a grant.

The Information Security Management Certificate ISO 27001, obtained as a result of the efforts and achievements in the field of banking security, was renewed in 2019. The Group continues to implement the most current security technologies to ensure continuity in software quality and information security.

For the first time in Turkey, the MChip Advance technology was implemented in the public transportation project for Ankara to complement the existing systems, enabling the use of contactless bank cards in transportation. The solution was expanded to other cities in 2019 as well.

The Group operates in line with the digitalization targets of the Bank and its subsidiaries, contributing to their efforts with its mobile-focused solutions. In addition, the Information Technologies Group launched a series of initiatives to become a center of attraction in the sector. The core aim of the Information Technologies Group is to provide excellence in service and make life easier in all aspects by placing people at the center of its activities, and the Group continues to serve a variety of business areas with the innovative ideas and products it develops.

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 2019 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 continued to be held on digital platforms. The Bank follows the motto "Our most important candidates are our employees and the people they recommend." Accordingly, "You Are the Candidate" and "Refer A Friend" practices were widely used within the bank. In order to accelerate the orientation process for new recruits, the Bank continued the "Aktif Guide" practice. As part of the "Getting Together with HR" project, one-on-one interviews were conducted with current employees in order to get to know them better.

The dynamic "ProActive MT Program" continued in 2019, with the Bank recruiting 12 new graduates from Turkey's leading universities.

Meanwhile, Training programs organized under Development Time at Aktif Academy, Entertainment Time at Aktif Academy and Aktif Café continued in 2019. The bank-wide foreign language proficiency program continued; the Bank also sustained its support for employee participation in certification courses and continued to assign mandatory in-service trainings to employees on the digital training platform.

The E-Archive project is still in development as of 2019. Development of the Performance Management System and the Human Resources portal is also currently in progress. The Bank continued to improve human resources processes, including the automation of various processes that were previously handled manually. Furthermore, the Bank continued to utilize the existing reporting system to deliver automatic report human resources metrics, developed a per capita human resources budged and defined standard rules for premium models.

The "Flexible Work Day" and "Flexible Office Hours" practices, launched in 2017 to enhance employee motivation, continued in 2019. In addition, activities organized with the motto "Come on, Smile!" brand continued, and the Bank continued to collaborate with non-governmental organizations as part of its corporate social responsibility efforts.

Welcome to N Kolay World

Our Digital Platform for the Products and Services within Aktif Bank's Ecosystem!

N KOLAY world

A digital platform that meets all your financial needs on demand, regardless of location and time.

"N KOLAY PAY" QR CODE: A QUICK AND EASY SHOPPING EXPERIENCE

PAYMENT, MONEY TRANSFER, LOAN AND E-TICKET SERVICES THROUGH

N KOLAY ANKARA CARD AND MOBILE APPLICATION

N KOLAY CARD

DEALER AND VEHICLE LOANS

LOAN OPTIONS AT PTT BRANCHES FOR PENSIONERS

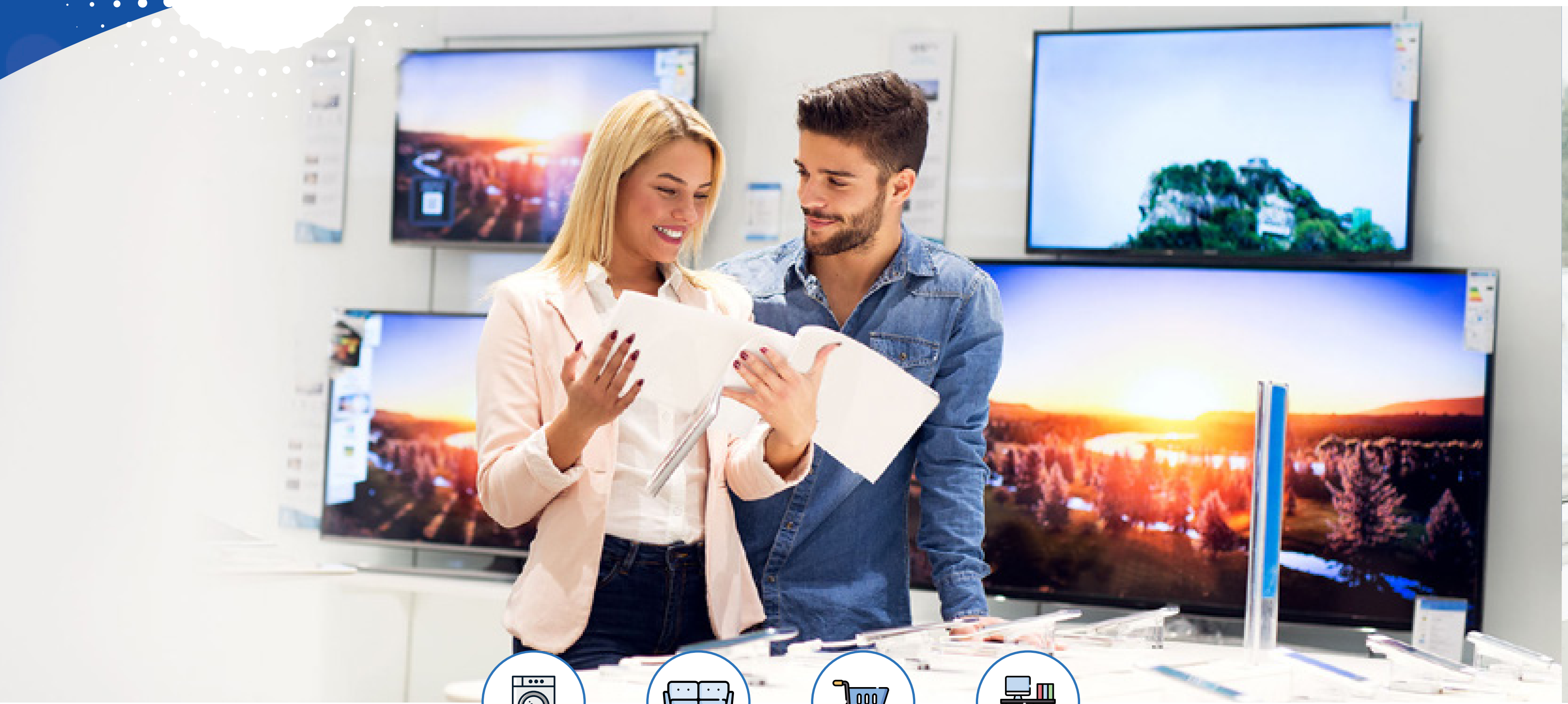
N KOLAY loan

ONLINE LOAN PLATFORM

N KOLAY bond

RETAIL INVESTMENT PRODUCTS PLATFORM

COMMUNICATION AND SOLUTION CENTER DEDICATED TO BOND AND LOAN CUSTOMERS nkolaykredi.com.tr



Do not postpone your needs.
N Kolay Loan offers instant solutions.

With Aktif Bank's new generation retail loan platform N Kolay Loan, you can instantly meet all your needs from white goods to furniture, technology products to shopping. Apply by typing the loan amount you need and your loan will immediately be transferred to your account.

nkolay.com

Whether interest rates rise or fall,
N Kolay always roots for you.

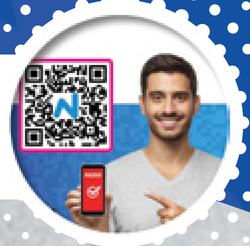
Those who let their savings accrue interest through N Kolay Bond enjoy yields with high daily interest rates and they can also perform all their transactions with the help of a dedicated customer representative and through N Kolay Mobile 24/7.

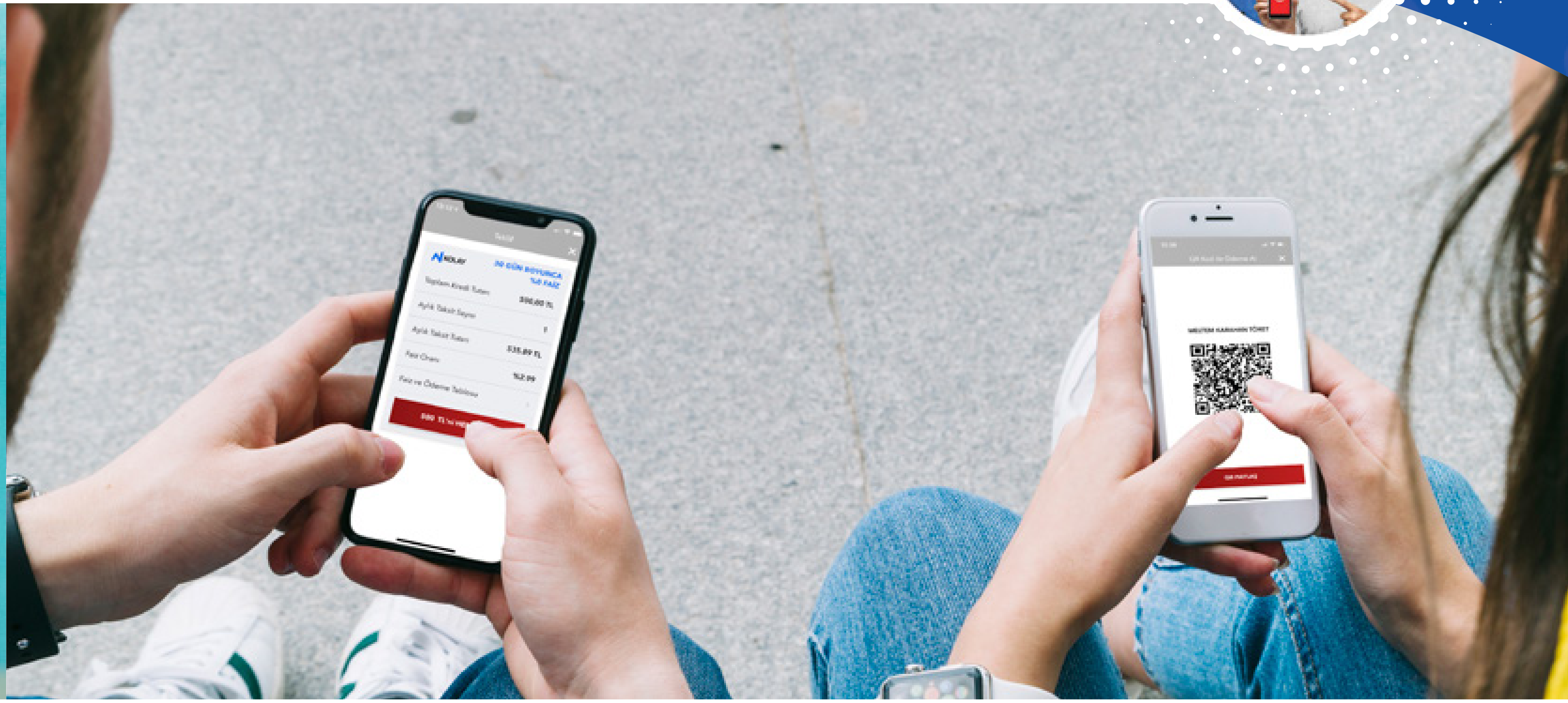
nkolayode.com

Pay with N Kolay: The easy way to make and receive payments.

Pioneering a brand-new payment system in Turkey, N Kolay Pay has introduced a streamlined platform for receiving payments using QR. Anyone who makes or receives money transfers can now enjoy an easy and fast payment experience without commissions or fees.

Passo Mobile





Passo's new features are extending the stadium.

In addition to football games, you can now view all the events from concerts to theater plays with the renewed Passo Mobile. Moreover, you can benefit from Kolay Packages with 0% interest rate and complete your loan application within seconds. You can top off your Passolig card using any credit card, transfer money and receive payments 24/7 with the QR Code feature.

Enjoy N Kolay privileges while using public transport or shopping.

N Kolay Ankara Card and Ankara Card Mobile are the capital's essentials... All you need is a single card in your pocket and a single application on your mobile phone for city transportation and all your shopping from the time you leave your house in the morning until you return in the evening.

If you have N Kolay Card, you do not need any other card.

Because N Kolay Wallet is much more than just a card.
Paying bills, playing games, or depositing allowance; these are but some of the features of "N Kolay Wallet", the official card of the N Kolay World.

N Kolay Pension Loan at PTT.

With N Kolay, Pensioners, who are payroll customers of PTT Offices, can easily enjoy their retirement with this loan without collateral that meets their immediate cash needs!

Dealer and Vehicle Loans.

If you need a loan to buy your dream car, look no further than N Kolay Vehicle Loan.

N Kolay Installment is an installment product that offers advantages for various sectors from white goods to furniture, natural gas installations to medical products and services.

Our N Kolay Team That Makes the Life of Our Customers Easy and Brings Us Success

The Essentials of Aktif Bank's Financial Ecosystem

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 establishment, E-Kent has carried out 15 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 57 stadiums in 31 provinces in Turkey. Since April 2014, more than 21 million sports fans entered stadiums using the e-ticket project of E-Kent, which sold around 10 million match-day tickets for over 4,000 games and more than 1 million seasonal tickets, generating revenues of over TRY 2 billion for sports clubs.

UPT Money Transfer

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. UPT reaches customers via nearly 8,000 points including UPT branches and post offices as well as dealers and distributors, delivering its services through the most expansive distribution network in the industry.

In 2019, UPT carried out 1.8 million transactions in 140 countries, achieving a transaction volume of more than TRY 5 billion. UPT increased the number of foreign partner banks and payment service providers to 66 to expand the range and reach of its services, and at the same time, began offering its services to domestic payment service providers through new contracts.

In 2019, the UPT brand and system expanded its service region to six countries, showing once again its determination to become a global player. In line with this strategy, UPT completed the registration procedure for "UPT Lithuania" UAB, marking its entrance into the European market. Meanwhile, licensing for the "Electronic Money Institution" is still underway.

As a leading player in the sector, UPT completed in 2019 the necessary systemic improvements to serve corporate clients. As part of these improvements, it developed products aimed at SME and Micro-segment customers, offering them fast, reliable and low-cost solutions.

UPT places customer needs and experience at the core of its service offering, and the company has made significant progress in software development for mobile and web-based solutions to carry its services to the digital. For 2020, UPT aims to offer high-quality services and experience to customers on digital channels as well.

PASSO

Concert this week, theater next week, festival next month... You can buy tickets to any event with Passo Mobile application. With Passo, you can also send or ask for money, apply for a loan with a single click and use Kolay Packages with 0% interest.

PASSOLİG

Millions of sports fans with Passolig Card watch the games of their choice at the stadiums in comfort. Also, Passolig Card can be used as a credit card and commuting card, and cardholders can benefit from various promotions.

sigortayeri

Turkey's innovative insurance broker Sigortayeri Sigorta ve Reasürans Brokerliği A.Ş. maintained its trend of profitability in 2019 while also recording 50 percent growth over the previous year, cementing its position as "Turkey's largest domestic broker".

In addition to its online and mobile distribution channels, Sigortayeri signed partnership deals with the leading players in the retail industry for kiosk services, integrating its insurance capability into customer-based "ecosystems".

Its strong distribution network has provided Sigortayeri with a competitive advantage in retail insurance market, and the company's "Daskmatik" project, developed in line with its goal of facilitating access to financial services, brought it an InsurTech achievement award at PSM Awards 2019.

Meanwhile, Sigortayeri continues to offer corporate insurance solutions via its Asron Sigorta brand, taking part in the insurance placement of major projects in Turkey and 15 other countries in the region. Asron Sigorta offers major insurance coverage, consulting, and risk analysis services in the construction, health, energy, textile, automotive, and financial services industries.

In renewable energy, Asron Sigorta developed a special insurance facility suitable for project development for the construction and operation phases of solar and wind power plants, enabling the company to maintain its sector leadership in WPP project insurance in 2019.

PAVO

PAVO Teknik Servis Elektrik Elektronik San. Tic. A.Ş. offers solutions to domestic 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 offers its services to customers through nearly 200,000 cash register POS devices across Turkey, and more than 200,000 value-added applications and software integration.

n kolay

Turkey's largest and widest network in its respective industry, N Kolay Payment Institution offers its services through over 570 N Kolay Stores and around 3,500 N Kolay Kiosks. With new partnership deals signed in 2019 with Turkey's leading retailers and telecommunication companies, N Kolay Payment Institution increased its physical service points to over 11,000. 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.

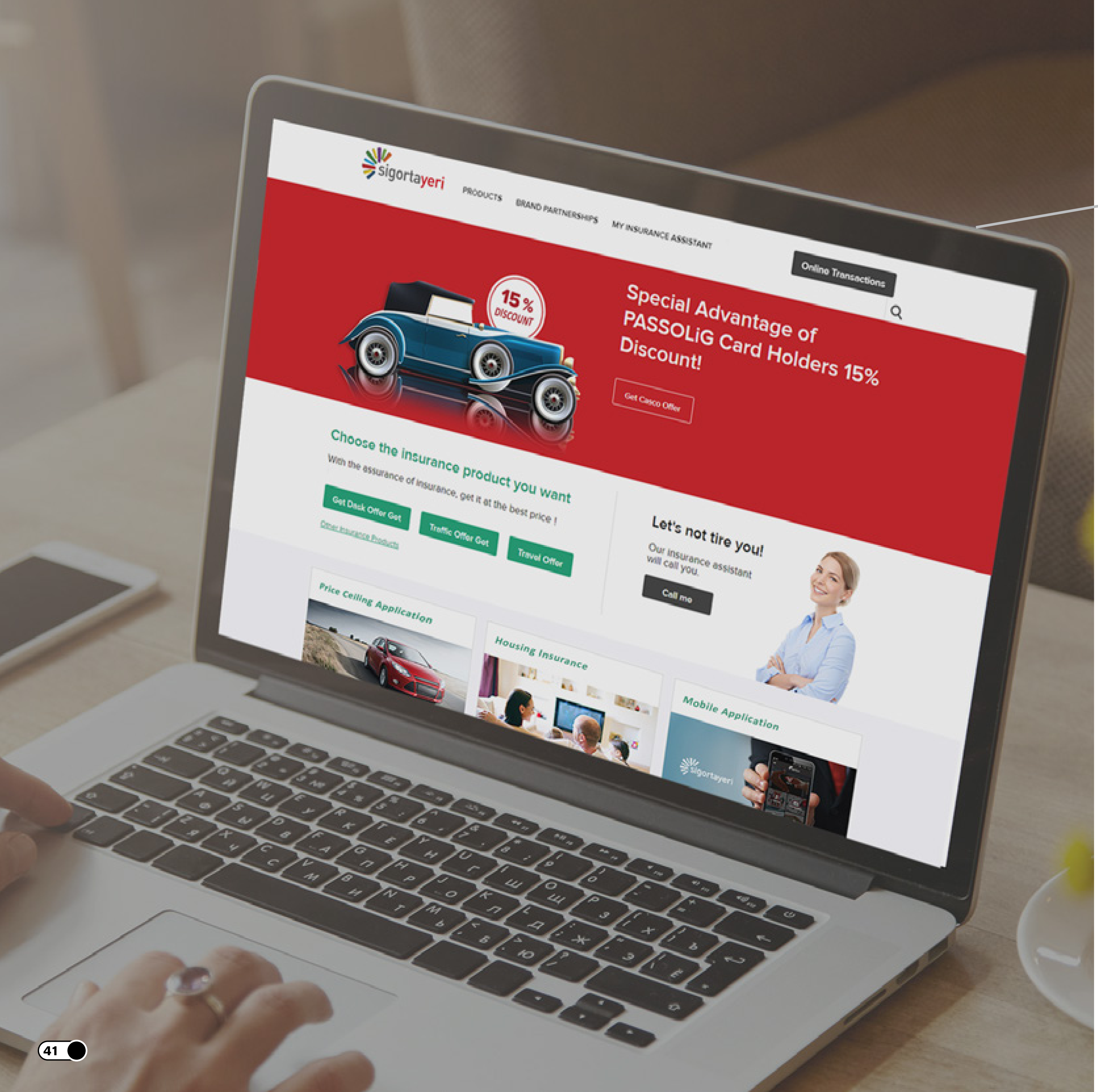
N Kolay allows customers to transfer money and pay utility bills via over 7,000 retail service points across 81 provinces on a 24/7 basis without having to wait for business hours or requiring a bank account.

The N Kolay Kiosk project 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 and convenient online processes and guaranteed transactions. It is the largest collection and payment channel in Turkey with 7 million transactions per month.

echopos

Launched in August 2016 with the vision to become the retail sector's "New Generation Solution Partner" with the EchoPOS brand, Echo Bilgi Yönetim Sistemleri A.Ş. develops end-to-end payment systems and integration solutions for front and back offices of enterprises.

Having partnered with Turkey's leading retailers, EchoPos provides a robust, error-free infrastructure for over 1.5 million daily transactions on average.



Your car's insurance will expire soon. You need travel insurance for your overseas trip. Health insurance is a must as well. A one-stop shop for you to buy any insurance policy with a few clicks: Sigortayeri. At Sigortayeri, which is the largest local insurance and reinsurance broker in Turkey, you can find all the insurance products you need.

You are on duty tonight. You don't have to worry about the safety of your family sleeping at home.
Like our customers, who have chosen Secom Security Systems for their homes and offices... In case of an emergency, Secom will notify you immediately. You can also connect to the security cameras through the mobile application and view your loved ones in real time.

Lunch break is only 1 hour! Paying utility bills through N Kolay Stores takes just 1 minute.
As Turkey's largest payment institution with millions of customers and over ten thousand transaction points, N Kolay is just a few steps away from your office.

At UPT, you don't need an account to send money to your sibling studying abroad.
You can transfer money easily to anywhere in the world through UPT's 8,000 service points across Turkey.

MÜKAFAT ASSET MANAGEMENT

Mükafat Portföy Yönetimi A.Ş. was founded in 2016 as a joint venture under CMB regulations between Aktif Bank and Islamic Corporation for the Development of the Private Sector (ICD), an affiliate of Islamic Development Bank. Offering asset management services to domestic and foreign corporate and individual investors, Mükafat Asset Management now manages a portfolio worth over TRY 1.2 billion. The company maintains its trend of rapid growth by expanding its portfolio of securities investment funds, which includes Turkey's first interest-free liquid fund, and adding new fund types such as free exchange and TRY funds, while also continuing to expand its range of alternative products each passing day with venture capital and real estate investment funds. At the same time Mükafat Asset Management keeps abreast of new fintech models and developments across the globe as it continuously makes new infrastructure investments to integrate these into its services and products.

Emlak Girişim

Emlak Girişim A.Ş. was founded 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 has investments and operations in a variety of industries including energy and international trade.

One of the most important investments 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 one of the top financial hubs across the globe. Emlak Girişim A.Ş. also completed a significant investment as a profit and loss partner to the Metropol Istanbul project in the Ataşehir district. In addition, in 2017, the company became one of the leading players in the industry by investing in a 61 MWp solar power plant project.

İNOVABAN

İnovaban Inovation and Financial Consulting 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, financial and legal risk management, 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 operating within these.

In 2019, İnovaban directly contacted around 1,000 manufacturing and software companies in all scales, classified by TurkStat as enterprises engaged in the manufacture of high and medium-high technology products, establishing business relations with the majority. İnovaban also established relations with private banks, investment funds and investment networks that understand the importance of an R&D ecosystem, and signed protocols for business development.

İnovaban continued to enable value-added production in Turkey and to provide Turkish companies with a competitive advantage in international markets to expedite their commercialization and globalization efficiently. In this context, İnovaban employees participated in over 20 training events, fairs and conferences as trainers and panelists.

SECOM

In 2019, Secom Aktif Yatırım A.Ş., a joint venture between Turkey's largest privately-held investment bank Aktif Bank and the Japanese SECOM, a security and technology company that operates in 19 countries with over 60,000 employees, acquired all shares of Kent Güvenlik. Through this partnership, Secom now offers technology security services across Turkey with a continuously growing customer base. Meanwhile, Secom continues to offer healthcare, fire protection, insurance, geographical information, IT and real estate services alongside its core offering of security to 3.3 million clients worldwide.

Subsidiaries Established Overseas

KIC (Kazakhstan Ijara Company Joint Stock Company)
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. 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.

ELC (Euroasia Leasing Company)
Founded in Tatarstan in 2012, "ELC" is the first "Islamic Financial Leasing" company to operate in Russia. Offering leasing services to small and medium-sized enterprises (SMEs) in particular, ELC is a leading Islamic financial leasing company in Russia.

EMIC (Euro - Mediterranean Investment Company Ltd.)
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).

Board of Directors

Ahmet Çalık
Chairman

Born in Malatya in 1958, Ahmet Çalık began his own personal enterprise in textile in 1981 as a member of a family that has been engaged in the textile industry since 1930. Ahmet Çalık is one of the leading players in Turkey and abroad with investments in seven sectors, namely energy, construction, mining, textile, telecom, finance and digital, which he brought under the same roof in 1997 with the foundation of Çalık Holding.

Ahmet Çalık's visionary philosophy drives him to invest in projects that benefit people and the society at large, and his activities across the globe and long-term collaborations with international enterprises have earned him a well-deserved reputation for integrity and reliability.

Ahmet Çalık was awarded numerous honors in Turkey and abroad, including Japanese Order of the Rising Sun with Gold Rays and Neck Ribbon, Turkmenistan Order of the State, Magtymguly International Prize and Gaýrat Medal, and Republic of Turkey State Medal of Distinguished Service Medal, Ministry of the Exterior Distinguished Service Medal and the Grand National Assembly Distinguished Service Award. Ahmet Çalık was granted the title Honorary Consul of the Republic of Kazakhstan in Bursa, and holds honorary PhDs from Matsumoto Dental University and Kindai University in Japan and University of Tirana in Albania. Ahmet Çalık is currently serving as the Chairman 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 in the Netherlands and France, between 1987 and 1994. From May 1994 to March 2007, he served at Banque du Bosphore, Paris as the General Manager and Board Member, and in April 2008, he joined Aktif Bank as the Deputy Chairman. In December 2008, he assumed the position of Deputy Chairman at Çalık Holding company Banka Kombetare Tregtare Albania before becoming Chairman in July 2009. He has also been the Chairman of Banka Kombetare Tregtare Kosovo since May 2008. Since May 2012, he has been a Board Member of the Brussels-based WSBI (World Savings and Retail Banking Institute), and from March 2015 onwards, he has held the title of Chairman at Aktif Bank subsidiaries UPT Ödeme Hizmetleri A.Ş., Sigortayeri Sigorta, 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 over 40 years of professional experience. From 1978 to 1981, he worked at the Personnel Affairs and Accounting department of Marshall Boya ve Vernik San. A.Ş., and between 1983 and 1987, 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. Before joining 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, Kentsel Dönüşüm İnşaat and Enrich Cotton, 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 Banka Kombetare Tregtare, Çalık Holding, Çalık Enerji, YEPAŞ, Albtelecom and Gap İnşaat. He is also a member of the Credit, Remuneration and Corporate Governance 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 has 35 years of experience in banking, and is a certified public accountant and independent auditor. 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, Ziraat Bank International AG 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 28 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, Department Head and Deputy Department Head at the Banking Regulation and Supervision Agency (BRSA). Between 2003 and 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 has served as a member of the Board and the Audit Committee of Aktif Bank.

Tarık Başara

Board Member

Born in 1961, Tarık Başara graduated from Istanbul University Faculty of Business Administration. Başara has over 30 years of experience in banking, which he began at Türkiye İş Bankası as inspector in 1986. From 1993 to 2003, he worked at İşbank GmbH where he was responsible for managing organization, accounting and information technologies departments, and took part in several restructuring and IT projects. Başara returned to Turkey in 2005 to rejoin Türkiye İş Bankası where he served as unit head at the Subsidiaries Department between 2005 and 2007, led various branches from 2007 to 2012, and worked as Department Head of Banking Core Operations from 2012 to 2017 before his retirement from the company. Since April 2019, Başara has been a member of the Board of Directors and the Audit Committee at Aktif Bank.

Dr. Serdar Sümer

CEO and Board Member

Born in 1973, Serdar Sümer holds a degree in Business Administration from Ankara University Faculty of Political Sciences. He completed his master's in Business Administration at the College of William and Mary in Virginia, USA, and in April 2011, received a PhD in banking at 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 Subsidiaries Management and 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 led the issue of 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.

After working as an executive at an industry-leading investment company, Sümer returned to Aktif Bank in 2015 to assume the role of CEO, and has since been the Bank's CEO and a Board Member leading the Aktif Bank's subsidiaries. Sümer is also a Board Member at N Kolay Ödeme Kuruluşu A.Ş., one of the leading payment institutions in Turkey; international money transfer service provider UPT Ödeme Sistemleri A.Ş.; smart city and ticket solutions provider E-Kent Geçiş Sistemleri ve Biletleme Teknolojileri A.Ş.; payment systems providers PAVO Teknik Servis Elektrik Elektronik San. Tic. A.Ş. and Echo Bilgi Yönetim Sistemleri A.Ş.; and Insurance brokerage platform Sigortayeri Sigorta ve Reasürans Brokerliği A.Ş.

Senior Management

Dr. Serdar Sümer

CEO and Board Member

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

Murat Barlas

Executive Vice President, Treasury

Born in 1968, Murat Barlas holds a Mathematics degree from Istanbul University. With 24 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 bachelor's degree in Civil Engineering and a master's degree in Construction Management, both from Istanbul Technical University. With 23 years of experience in banking, Güncan joined Aktif Bank in 2008.

Betügül Toker

Executive Vice President, Retail Digital Banking and Payment Systems

Born in 1976, Betügül Toker graduated from Bilkent University with a degree in Economics. With 20 years of professional experience, Toker joined Aktif Bank in 2018.

Nalan Aydın Tüfekçi

Executive Vice President, Information Technologies

Born in 1972, Nalan Aydın Tüfekçi holds a Computer Engineering degree from Hacettepe University. With 26 years of professional experience, Nalan Aydın Tüfekçi joined Aktif Bank in 2019.

Muzaffer Suat Utku

Executive Vice President, International Banking

Born in 1974, Muzaffer Suat Utku holds a degree in Business Administration from U.S. International University, San Diego. He also has an MBA degree from London University College. With 21 years of experience in banking, Utku joined Aktif Bank in 2007.

Atila Yanpar

Executive Vice President, Credit Analytics and Capital Markets

Born in 1979, Atila Yanpar graduated from the Faculty of Political Sciences, Ankara University with a degree in Finance. He also holds a master's degree in Public Policy from Oxford University. With 16 years of professional experience, Atila Yanpar joined Aktif Bank in 2019.

Özer Burhan

Managing Director, Finance

Born in 1982, Özer Burhan graduated from Boğaziçi University with a degree in Economics. With 15 years of professional experience, Özer Burhan joined Aktif Bank in 2014.

Filiz Erendaç

Chief Legal Advisor

Born in 1976, Filiz Erendaç graduated from the Faculty of Law, Ankara University. She also holds a master's degree in Commercial Law from the same university. With 21 years of professional experience, Erendaç joined Aktif Bank in 2016.

Ufuk Karakaya

Managing Director, Subsidiary Management

Born in 1975, Ufuk Karakaya holds a degree in Public Administration from Gazi University. He also has a master's degree in Finance from George Washington University. With 22 years of experience in banking, Karakaya joined Aktif Bank in 2018.

Selcan Kaytancı

Managing Director, Human Resources and Operations

Born in 1974, Selcan Kaytancı holds a bachelor's degree from the Political Sciences and Public Administration Department, Middle East Technical University and a master's degree in Human Resources from Bahçeşehir University. With 22 years of experience in banking, Kaytancı joined Aktif Bank in 2014.

Resigned Executives:

- Uğur Gökhan Özdinç, Executive Vice President, Information Technologies (March 2019).
- Tevfik Kınık, Executive Vice President, Credit Analytics and Capital Markets (May 2019).

Newly Appointed Executives:

- Nalan Aydın Tüfekçi, Executive Vice President, Information Technologies (April 2019).
- Özer Burhan, Managing Director, Finance (April 2019).
- Atila Yanpar, Executive Vice President, Credit Analytics and Capital Markets (June 2019).
- Gürol Güngör, Executive Vice President, Retail Banking Sales and Subsidiaries Coordination was appointed as an Executive Member of the Board of Directors, BKT Kosovo in August 2019.
- Hakan Özat, Executive Vice President, Internal Systems was appointed as the CEO of UPT Ödeme Sistemleri A.Ş., a subsidiary of Aktif Bank, in February 2019.
- Osman Gencer, Managing Director, New Investments was appointed as the CEO of Secom Aktif Elektronik Güvenlik Çözümleri A.Ş., a subsidiary of Aktif Bank, in April 2019.

Alper Özdemir

Chairman, Inspection Board

Born in 1985, Alper Özdemir holds a bachelor's degree in Business Administration from Istanbul University. He also has a master's degree in International Banking and Finance from Istanbul Commerce University. With 11 years of experience in banking, Özdemir joined Aktif Bank in 2014.

Volkan Kölege

Head of Internal Control

Born in 1977, Volkan Kölege graduated from the Business Administration Department, Faculty of Economics and Administrative Sciences, Anadolu University. With 20 years of experience in banking, Kölege joined Aktif Bank in 2008. Volkan Kölege has been a Member of the Audit Committee of Banka Kombetare Tregtare, a Çalık Holding company with operations in Kosovo, since June 2019.

Pınar Gürkan

Head of Compliance

Born in 1981, Pınar Gürkan graduated from the Econometrics Department, Faculty of Economics and Administrative Sciences, Marmara University. With 15 years of experience in banking, Gürkan joined Aktif Bank in 2009.

Hamdi Önder

Head of Risk Management

Born in 1982, Hamdi Önder holds a Mathematics Engineering degree from Istanbul Technical University. He also has a master's degree in Business Administration (MBA) from Koç University. With 11 years of experience in banking, Önder joined Aktif Bank in 2009.

Resigned Executive:

Hakan Özat, Executive Vice President, Internal Systems (January 2019).

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

Tarık Başara
Audit Committee Member

Credit Committee

The Credit Committee is composed of the CEO and two members elected among those Board Members who meet the qualifications 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.), 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

Ahmet Erdal Güncan
Executive Vice President, Corporate Banking

Muzaffer Suat Utku
Executive Vice President, International Banking

Atila Yanpar
Executive Vice President, Credit Analytics and Capital Markets

Murat Barlas
Executive Vice President, Treasury

Betügül Toker
Executive Vice President, Retail Digital Banking and Payment Systems

Özer Burhan
Managing Director, Finance

Board and Committee Members' Attendance to Meetings

In 2019, the Board of Directors convened 12 times with the necessary majority and quorum.

The Audit Committee convened 5 times in 2019; four of those meetings were attended by the independent auditors.

The Credit Committee convened 12 times in 2019.

The Corporate Governance Committee convened twice in 2019.

The Remuneration Committee convened twice in 2019.

Esteemed Shareholders,

Our Bank completed a productive year in 2019, successfully accomplishing all planned activities for the year thanks to the efforts of the management. As a result of activities conducted throughout 2019:

Our net profit was TRY 410,663,000 and total asset size was TRY 18,409,081,000. With these results, our net profit increased by 7.60%, while our asset size grew by 32.61% over the previous year.

Our capital adequacy ratio stood at 14.85%. 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 the return on average equity of 22.37% and the return on average assets of 2.54%.

Our non-equity foreign assets pioneered growth, surging by 32.52% to TRY 16,311,241,000. This significant development in foreign assets' inflow is a highly positive development in terms of our Bank's credibility.

Our cash credits increased by 9.63% compared to the previous year, rising to TRY 7,568,126,000.

The NPL ratio stood at 4.05%. 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, 2019 - December 31, 2019, 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

We proudly expand the financial solutions, which we have been offering so far to support real estate, sports, agriculture and R&D businesses, to the renewable energy sector that we deem essential for our country's future.

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, inclusion 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, financial statements, general assembly information, code of ethics, 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's Name/Title	Share (%)
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 the information requests made during the period. All information requests by the Bank's shareholders are met, with the exception of trade secrets and non-public information.

Aktif Bank is audited by both the independent auditors as mandated by the Banking Legislation and the 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 2018 was held on March 27, 2019. As the Bank's shareholding structure is suitable for organizing General Assembly meetings through "Invitation Procedure", the shareholders were informed of the venue, date and agenda of the said meeting. Without prejudice to the provisions regarding participation in the General Assembly and organization of General Assembly meetings; the Ordinary General Assembly was convened without a convocation as per Article 416 of Turkish Commercial Code whereas invitation to participate in the said General Assembly was made in accordance with the relevant provisions of the law, 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 relevant provisions of the Turkish Commercial Code are followed in the transfer of shares.

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 to make all necessary information, with the exception of trade secrets, and statements accessible to 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 disclosures 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 issues press statements through print or visual media when necessary. Press statements for print or visual media are made by the Chairman or CEO, or the authorized unit's 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. The Bank's financial statements are signed and attested by the Chairman of the Board, Audit Committee Members, CEO and the bank officers 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. Disclosures and announcements are made in Turkish and English. The Bank's website contains information and data as 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
- The 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 the reporting of illicit and unethical activities to the Audit Committee

Information regarding the Bank's shareholders is provided through the Bank's website, 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 and organizations both inside and outside the Bank are compiled into a written "Code of Ethics", which may be found on the Bank's website (http://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 and other related issues have been laid out in writing in the Bank's "Human Resources Practices Procedure". 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 in place 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 performance 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 operations of the Bank are audited by Sworn-in Bank Auditors of BRSA. The Bank periodically prepares the 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 rewarded. 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 communicated 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 remuneration, performance evaluation, career planning and trainings. The Bank thus aims to create a workplace environment that promotes the energy and creativity of employees and enables them to show their skills. 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 communicated and implemented through procedures. The Human Resources Practices Procedure and Discipline Procedure establish the Bank's working conditions, recruitment standards, personnel affairs, performance evaluations, career planning, provisions about rewards and punishments, 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

Customer relations topic is addressed under a specific section within the "Ethical Principles" document, which is 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 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 in accordance with its disclosure policy. All Bank personnel is informed about the ethical principles and asked to sign documents to vouch for their dedication to embrace these principles in their works.

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 operating guidelines and procedures including the procedure for handling customer complaints.

The Bank's existing and prospective 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 sets out the guidelines to be followed in transactions involving suppliers and in procurements.

In all its operations and investments, the Bank endeavors to support social and cultural activities, giving due consideration to social benefit and protection of the environment, alongside its own public image, benefit and profitability. It strives for the progress of the banking industry and works to maintain the public trust in banking. 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 7 members.

Title	Full Name	Education	Professional Experience (Years)
Chairman of the Board	Ahmet ÇALIK	High School	38
Deputy Chairman of the Board	Mehmet USTA	Bachelor's	41
Board Member	Mehmet Ertuğrul GÜRLER	Bachelor's	42
Board Member	Veysel ŞAHİN	Master's	35
Board Member, Audit Committee Member	Kemaleddin KOYUNCU	Master's	28
Board Member, Audit Committee Member	Tarık BAŞARA (*)	Bachelor's	34
Board Member, CEO	Serdar SÜMER	PhD	24

(*) Tarık Başara took office in April 2019.

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 Bank's "Regulation 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 Members must be elected in accordance with the relevant provisions of the Turkish Commercial Code and relevant Banking legislation, and that as per Article 23 of the Banking Law, one more than half of the Board Members must meet the required criteria for CEO as stipulated in the Law (as a minimum, bank CEOs must hold a bachelor's degree in either law, economics, finance, banking, business administration, public administration or related fields and have at least 10 years of professional experience in banking or business administration; those with a bachelor's degree in engineering must also hold a master's degree in one of these fields).Board Members comply with the regulations stipulated by the Banking Law and the relevant provisions in the BRSA regulations in their activities outside the Bank. No events occurred during the period that compromised the independence of the independent 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 Regulation 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 supervision and control 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. Meeting agenda is shared with the Board Members prior to meetings.

The quorum for any Board of Directors meeting is the attendance of at least one more than half of its members. Resolutions are passed by majority vote of attending members. Minutes of the Board of Directors meetings are duly recorded by the Board of Directors Private Office. All attending Board Members are required to sign the meeting minutes, and if there are members opposing to the resolution their reasons for opposition must be written in the minutes and signed by the respective voting member. Resolutions are only valid when they are written down and bear the signatures of Board Members. The guidelines regarding resolution records are established by the Bank's Articles of Association and Regulation on Board of Directors.

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

17. Number, Structure and Independence of Committees Formed within Board of Directors

The Bank has established the necessary organizations pursuant to the Banking Law No. 5411 and the relevant legislation. In this respect, information about the Credit Committee, Audit Committee, Corporate Governance Committee and 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 the provisions of the BRSA Regulation on Internal Systems of Banks and Internal Capital Adequacy Assessment Process and Aktif Bank's Regulation on Board of Directors and Regulation on Audit Committee. The Audit Committee Members are Kemaleddin KOYUNCU, Board Member and Tarık BAŞARA, Board Member. The Audit Committee convenes with the heads of the units formed under the Internal Control, Compliance, Inspection Board and Risk Management Systems functions whenever necessary, but in any case at least 4 times in a year with the attendance of Independent Auditors as well to evaluate the activities performed 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 monitor compliance with the Corporate Governance Principles, drive improvements in this area and present relevant suggestions to the Board of Directors. The Corporate Governance Committee operates within its own power and responsibilities and offers advice to the Board of Directors, but the final decision is made by the Board. The Corporate Governance Committee Members are Mehmet USTA, M. Ertuğrul GÜRLER and Veysel ŞAHİN, who are non-executive Board Members. The Corporate Governance Committee convenes twice a year upon the invitation of the Chairman. The Corporate Governance Committee convened twice in 2019. The Committee conducts its activities in accordance with the BRSA's "Regulation on Corporate Governance Principles" published in the Official Gazette No.26333 dated November 1, 2006.

Credit Committee

As per statutory requirements, Aktif Bank has a Credit Committee consisting of three Board Members to regulate its credit operations. The Credit Committee Members are Mehmet USTA, Board Member, M. Ertuğrul GÜRLER, Board Member and Serdar SÜMER, Board Member and CEO. The Credit Committee is the decision-making authority on credit allocation and reviews loan offers, which pass the loan assessment process of the Head Office, in terms of compliance with legal regulations, Banking Principles and the Bank's own targets and credit policies. The Credit Committee is responsible for making credit allocation decisions within the scope of its authority as stipulated by the legislation. Such credit facilities are granted through the Committee's resolution upon the proposal of the Head Office. The activities and decisions of the Credit Committee are supervised by the Board of Directors.

Remuneration Committee

The Remuneration Committee, established to monitor and supervise the Bank's remuneration practices on behalf of the Board of Directors, consists of Board Members Mehmet USTA and M. Ertuğrul GÜRLER. The Committee convened twice in 2019. The Committee conducts its activities in accordance with the BRSA's "Regulation on Corporate Governance Principles" published in the Official Gazette No.26333 dated November 1, 2006 and Aktif Bank's Regulation on the Board of Directors.

18. Risk Management and Internal Control Mechanism

The Internal Systems organization has been established in accordance with the Banking Law No. 5411 in order to determine, measure, monitor and control potential risk exposures resulting from the Bank's strategy and activities, and it is structured in a manner that is consistent with the scope and nature of the Bank's activities, adaptable to the changing conditions and inclusive of its consolidated subsidiaries.

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

The Audit Committee has been established in accordance with the provisions of the Banking Law, the BRSA Regulation on the Internal Systems of Banks and Internal Capital Adequacy Assessment Process and Aktif Bank's Regulation on Board of Directors and Regulation on Audit Committee to assist the Board of Directors with its supervision and audit duties. The Audit Committee reports its activities in each period to the Bank's Board of Directors. An overview of the 2019 activities of the Internal Systems Units is included in the Annual Report.

19. The Company's Strategic Goals

The Bank's Vision and Mission, as stated below, has 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 through innovative and beneficial solutions, and to become the widest reaching financial services organization in Turkey and the region.

Mission

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

20. Financial Rights

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

Loans to be extended by Aktif Bank to the Board Members are subject to the restrictions stipulated in Article 50 of the Banking Law. Loans to the Board Members may not violate these restrictions.

Statement of Responsibility

Upon our evaluation of the year-end Annual Report of Aktif Yatırım Bankası A.Ş. for the period January 1, 2019-December 31, 2019, 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 as to material events, or any omissions that might make the statements therein misleading as of their date of issue;

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

Sincerely,

Kemaleddin Koyuncu
Audit Committee Chairman

Dr. Serdar Sümer
CEO

Özer Burhan
Managing Director

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, the 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, and with the awareness that the human resource is the most valuable asset of the Bank, the best local and global practices are monitored in order to promote this asset and improve the Bank's human resources practices. Furthermore, practices are developed towards encouraging the creativity of Aktif Bank 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 develop themselves without discrimination. The Bank provides equal career opportunities and has established incentive systems that promote success. In line with this understanding, Aktif Bank is able to attract highly competent employees with sector experience and recent graduates with promising potential by using the right recruitment tools.

In 2019, 161 new family members joined Aktif Bank. A total of 37 hours per employee was allocated for training in 2019 in order to provide Aktif Bank employees with resources and opportunities to improve their knowledge and skills for successful development.

Master's degree / PhD	14%	Number of employees	714
Bachelor's degree	79%	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	-	-	2,262,876	19,767	627,874	398,911
Balance at End of Period	-	310,914	1,412,490	12,842	1,272,249	281,286
Interest and Commission Income	-	-	287,567	374	83,309	4,723

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., Mapa Global Bilgisayar Yazılım Dan. San. Ltd. Şti., Küresel Beta Teknoloji Telekomünikasyon San. Tic. Ltd. Şti., Gantek Teknolojileri Bilişim Çözümleri A.Ş., Superonline İletişim Hizmetleri A.Ş., Netaş Telekomünikasyon A.Ş., V.R.P. Veri Raporlama Programlama Bilişim Yazılım ve Dan. Hiz. Tic. A.Ş., Risk Yazılım Teknolojileri Ltd. Şti., İdeal Bilişim Hizmetleri San. ve Tic. Ltd. Şti., Link Bilgisayar Sistemleri Yaz. ve Don. San. ve Tic. A.Ş., Servicium Bilgisayar Hizmetleri Sanayi ve Dış Ticaret A.Ş. and Fineksus Bilişim Çözümler Tic. A.Ş. provide support services to the Bank for Information Technologies processes.

Vega Bilgisayar Ltd. Şti. also provides support services in relation to 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., Data Market Bilgi Hizmetleri Ltd. Şti., Brink's Güvenlik Hizmetleri A.Ş., AGT Kurye Hizmetleri A.Ş., PTT Para Lojistik ve Özel Güvenlik Hizm. A.Ş. and Fu Gayrimenkul Yatırım Danışmanlık A.Ş. provide support services to the Bank for 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., Plastikkart Akıllı Kart İletişim Sistemleri Sanayi ve Ticaret A.Ş., E-Kart Elektronik Kart Sistemleri San. ve Tic. A.Ş., Loomis Güvenlik Hizmetleri A.Ş., Hobim Arşivleme ve Basım Hizmetleri A.Ş. and EKent Teknoloji ve Ödeme Sistemleri San. ve Tic. A.Ş. provide support services to the Bank for Operational processes.

Intellica-Evam Yazılım Danışmanlık A.Ş., Inviso Destek Hizmetleri A.Ş., PTT (Post and Telegraph Corporation) and Experian Bilgi Hizmetleri Ltd. Şti. provide support services to the Bank for Retail Banking processes.

Furthermore, dealerships selling furniture, white goods, building hardware and medical and heating equipment provide support services to the Bank in relation to retail lending operations.

Financial Information and Risk Management

Audit Committee Report

The Audit Committee Report on the Operations of Internal Control, Inspection Board, Regulatory Compliance and Risk Management Systems and Their Activities During the Accounting Period

Aktif Bank's Internal Systems organization consists of the Inspection Board, Internal Control, Regulatory Compliance and Risk Management departments that operate in line with the scope and nature of the Bank's business processes and are qualified and effective to respond to the changing conditions to safely monitor and manage the 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 Inspection Board, Internal Control, Regulatory Compliance and Risk Management Departments, which have been established in accordance with the BRSA Regulation on the Internal Systems of Banks and the Internal Capital Adequacy Assessment Process, dated July 11, 2014, are evaluated at meetings held with the Audit Committee. In 2019, five 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 2019, Inspection Board, Internal Control, Regulatory 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, audit activities continued in 2019 at the branches, head office units, external service providers and subsidiaries. Over the year, the Inspection Board carried out 5 branch audits, 16 head office unit and process audits, 6 information technologies audits, 8 subsidiaries/affiliates audits and 1 process audit encompassing all external service providers, in total 36 different audit activities. In 2019, in addition to the planned audits, 15 inspection activities were completed with their results reported.

In 2019, the Internal Control Department inspected 662 control points, which are established for banking activities, and prepared four control reports on banking processes that are consolidated under a single report. Furthermore, within the scope of Management Statement, 627 first-level controls on the Bank's information systems and banking processes were tested.

The Regulatory Compliance Department provided advisory service with regard to the compliance of the Bank's current and planned activities, new services, products, projects, advertising, promotions and campaigns with the Banking Law and other relevant legal regulations, internal policies and rules and banking practices. Processes were revised pursuant to the changes in legal regulations, and relevant personnel were informed about the said changes. The duties and responsibilities assigned to the compliance officer by the Law on the Prevention of Laundering Proceeds of Crime and the relevant legal provisions were performed by the Head of Regulatory Compliance, who is also the Bank's designated Compliance Officer. Within the scope of the prevention of laundering proceeds of crime and the financing of terrorism, the necessary Bank policies and procedures were established and kept up-to-date. To fulfill the requirements of the relevant legal regulations, customer transactions were monitored, correspondent banks were controlled, suspicious activities were identified and duly reported. Also, national and international regulations were monitored, and necessary actions were taken accordingly. In-class and web-based training sessions were organized to raise the awareness of personnel on the prevention of laundering proceeds of crime and the financing of terrorism.

The Risk Management Department continued its activities to identify the risks that the Bank is exposed to, measure such risks using various stress tests and scenario analyses and manage them within the risk limits determined by the Board of Directors. All relevant activities and reports were shared with ALCO and the Board of Directors on a regular basis. In 2019, within the scope of the calculation of expected losses on the loan portfolio, modeling activities were carried out to calculate the customers' probability of default and the total amount of expected recoveries from loans in case of default; also, loan loss provisions were calculated using the said models.

Considering the Bank's growing and developing organizational structure, balance sheet size, transaction volume and variety in 2019, the activities of the Inspection Board, Internal Control, Regulatory Compliance and Risk Management Departments aimed to increase the effectiveness and productivity of the Bank's activities, reduce the risk of damage to its assets and resources and ensure that Annual Reports are accurate and reliable and that the Bank's activities are carried out in in compliance with the laws and legal obligations. Their activities also ensured maintaining the Bank's risk exposure at a minimal level.

Overview of Financial Position

As of the end of 2019 the Bank's total assets increased by 32.61% to reach TRY 18,409 million since the end of the previous year. In terms of USD; the Bank's total assets increased by 17.89% from $ 2.629 billion at the end of 2018 to $ 3.099 billion by the end of 2019. As of the end of 2019, the Bank recorded a net profit of TRY 410.7 million, which constitutes a 7.60% increase compared to the end of 2018.

While the return on average assets based on net gain was 3.06% in 2018, this ratio stood at 2.54% in 2019.

In 2019, return on average equity was 22.37% and in 2018, it was 27.29%. By the end of 2019, the Bank's equity grew by TRY 524 million to reach TRY 2,098 million. Thus further strengthening its equity structure, Aktif Bank recorded a capital adequacy ratio of 14.85%.

In 2019, 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 9.63% in 2019 to reach TRY 7,568 million. The Bank holds non-cash loans worth TRY 1,485 million. Despite the economic fluctuations, the Bank's rational and balanced risk management policies enabled restricting the ratio of non-performing loans to only 4.05% 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 Pillar 1 risks as well as country risk, residual risk, reputation risk and concentration risk defined as Pillar 2 risks.

All projected risks are subject to the upper limits within the framework of risk limits proposed 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 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 key strategies and objectives of the Bank. For the credit analysis, allocation and disbursement processes, a dynamic credit portfolio management approach has been adopted, taking early warning signals into consideration. Aktif Bank has based its lending strategy on working with highly credible customers, mitigating credit risk through effective collateralization and obtaining high return. The policies, processes, responsibilities and limits for an effective credit risk management have been established and documented in writing.

To measure risk exposure levels at each corporate customer level, the Bank has developed a borrower rating model that can produce estimates through qualitative and quantitative analyses. Moreover, within the scope of the calculation of expected losses on the retail loans portfolio, modeling activities are carried out to calculate the probability of default of each retail loan customer and the total amount of expected recoveries from loans in case of default.

The Risk Management Department monitors the creditworthiness of corporate and retail loan portfolios and the increases in risk and concentration levels to check compliance with the 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 portfolios in order to measure the resilience of the Bank's capital against the risks, to which the Bank may be exposed due to credit risk.

Market and Liquidity Risks

Aktif Bank aims to achieve a profitable and sustainable growth by identifying its risks accurately and maintaining its resilient balance sheet and strong capital structure. In line with this strategy, market and liquidity risks are managed pursuant to legal regulations and internal limits.
Taking into consideration the Bank's risk capacity, the Board of Directors has determined the acceptable risk levels and set risk limits accordingly. Furthermore, early warning and swift decision-making mechanisms were developed to enable the Bank to incur minimum 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 practices to identify, measure and monitor the liquidity risk, interest risk, exchange rate risk, and structural interest rate risk. Internal methodologies and models are developed and improved 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 risk, operational risk categories are identified in line with the Basel criteria, and operational losses data are 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 in order to determine points of risks in banking processes and products and express them in measurable terms.

Within the framework of Business Continuity planning, a 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 this center in Ankara. The Hotsite Center located in Istanbul's Ümraniye District was set up to be an emergency center for the core staff that will act in accordance with the contingency plans in the event of regional disasters. Both centers are equipped as an office environment that meets all technical requirements of the core staff.

Credit Ratings by the Rating Agencies

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

In 2019, JCR evaluated Aktif Yatırım Bankası A.Ş. in the "High-Level Investment Grade" category and affirmed its Long-Term National rating as "AA+ (Trk)". It also affirmed the Bank's Long-Term International Foreign and Local Currency Ratings as "BBB-", which is the country ceiling for Turkey, with a "Negative" outlook.

IN NOMINAL VALUES (TRY Thousand)	2019	2018	2017	2016	2015
Balances with Banks and Money Market Placements	3,015,819	265,665	154,166	559,386	216,299
Trading Securities (Net)	-	-	51,956	50,486	9,271
Financial Assets at Fair Value Through Profit or Loss	449,007	488,030	-	-	-
Investment Securities (Net)	3,914,090	2,337,493	1,564,817	1,123,740	930,741
Loans & Factoring Receivables (Net)	7,568,126	6,903,543	6,539,477	5,520,369	4,638,261
Shareholders' Equity	2,097,840	1,574,102	1,222,950	983,622	879,915
Total Assets	**18,409,081**	**13,882,523**	**11,070,991**	**9,483,016**	**7,556,649**
Guarantees and Indemnities	**1,485,218**	**1,232,225**	**1,308,957**	**928,423**	**631,362**
Net Interest Income	526,776	425,574	570,519	355,663	307,398
Net Fees and Commissions Income	73,009	98,614	174,782	89,137	59,148
Profit Before Taxes	512,007	480,450	310,765	141,185	52,120
Provision for Taxes on Income	-101,344	-98,778	-76,938	-43,131	-26,153
Net Profit	410,663	381,672	233,827	98,054	25,967

5 YEAR SUMMARY FINANCIAL HIGHLIGHTS - IN NOMINAL VALUES (USD,000)	2019	2018	2017	2016	2015
Balances with Banks and Money Market Placements	507,714	50,306	40,872	158,953	74,391
Trading Securities (Net)	-	-	13,774	14,346	3,189
Financial Assets at Fair Value Through Profit or Loss	75,590	92,412	-	-	-
Investment Securities (Net)	658,938	442,623	414,862	319,317	320,106
Loans & Factoring Receivables (Net)	1,274,095	1,307,242	1,733,736	1,568,643	1,595,220
Shareholders' Equity	353,172	298,069	324,227	279,502	302,626
Total Assets	**3,099,172**	**2,628,768**	**2,935,123**	**2,694,651**	**2,598,930**
Guarantees and Indemnities	**250,037**	**233,332**	**347,029**	**263,816**	**217,142**
Net Interest Income	88,683	80,586	151,255	101,064	105,722
Net Fees and Commissions Income	12,291	18,673	46,338	25,329	20,343
Profit Before Taxes	86,196	90,977	82,390	40,118	17,925
Provision for Taxes on Incomes	-17,061	-18,704	-20,398	-12,256	-8,995
Net Profit	69,135	72,273	61,992	27,863	8,931
USD/TRY	5.9400	5.2810	3.7719	3.5192	2.9076

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INDEPENDENT AUDITORS' 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 2019, 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 2019 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

As stated in Note 23, the accompanying consolidated financial statements as at 31 December 2019 include a general reserve of total of TL 133,000 thousands had been recognized as expense in prior periods, which does not meet the requirements of International Accounting Standard ("IAS") 37 "Provisions, Contingent Liabilities and Contingent Assets". This general reserve is provided by the Group management for the possible effects of the negative circumstances which may arise in 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 consolidated 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

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 at 31 December 2019, loans and advances to customers comprise 41% of Group's total assets. The Group recognizes its loans and advances to customers in accordance with IFRS 9 Financial Instruments ("Standard"). The Group applies the "expected credit loss model" in determining the impairment of loans and advances to customers in accordance with the Standard. The model which contains significant assumptions and estimates is reviewed by the Group management annually. The significant assumptions and estimates used in the model by 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.	Our procedures for testing impairment of loans and advances to customers included below: • We tested the design, implementation and operating effectiveness of the controls on lending, collateralization, collection, follow-up, classification and impairment process 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 calculations carried out by the Group with the control testing and detailed analysis by the involvement of specialist.

The determination of the impairment of loans and advances to customers 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 according to the model. Establishing an accurate classification is a significant process as the calculation of expected credit loss varies to the staging of the financial assets.

The Group calculates expected credit losses on a collective basis. The collective basis expected credit loss calculation is a complex process which is modelled by using current and past data sets, expectations and the forward looking expectations are reflected by macroeconomic models.

Impairment on loans and advances to customers has been identified as a key audit matter, due to its complex structure, as well as including significant estimates and assumptions, as well as management's judgments.

- We performed loan reviews for selected loan samples which include a detailed examination of loan files and related information and tested their classification. In this context, the current status of the loan customer has been evaluated by including prospective information and macroeconomic variables.
- 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 factors which are used in determining the significant increase in credit risk.

Additionally, we also evaluated the sufficiency and appropriateness of the notes to the consolidated financial statements related to impairment provisions.

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.

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

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 A.Ş.
A member firm of KPMG International Cooperative

Alper Güvenç
Partner

25 March 2020
Istanbul, Turkey

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(Currency - In thousands of Turkish Lira (“TL”))

ASSETS	Note	31 December 2019	31 December 2018
Cash and cash equivalents	9	3,833,184	1,390,183
Reserve deposits at Central Bank	10	959,283	1,072,226
Financial assets at fair value through profit or loss	11	449,007	488,030
Trade and other receivables		112,580	75,567
Inventories		17,692	17,075
Loans and advances to customers	13	7,568,126	6,903,543
Investment securities	12	3,914,090	2,337,493
Equity accounted investees	14	60,976	50,798
Tangible assets	15	613,962	518,004
Intangible assets	16	265,591	216,488
Goodwill	7	43,054	504
Deferred tax assets	22	45,677	36,987
Assets held for sale	18	71,999	71,999
Other assets	17	453,860	703,626
Total assets		**18,409,081**	**13,882,523**
LIABILITIES			
Trading liabilities	11	17,029	23,017
Trade and other payables		256,574	288,240
Obligations under repurchase agreements	19	2,261,189	1,291,742
Lease liabilities	24	8,335	3,904
Debt securities issued	21	6,099,310	4,365,713
Funds borrowed	20	4,940,961	3,650,016
Provisions	23	248,701	221,552
Income taxes payable	22	20,153	48,589
Deferred tax liability	22	34,571	14,668
Other liabilities	25	2,424,418	2,400,980
Total liabilities		**16,311,241**	**12,308,421**
EQUITY			
Share capital	26	1,198,095	1,198,095
Legal reserves		87,456	56,353
Fair value reserves		64,728	(42,390)
Actuarial gain/ (loss)		(1,066)	773
Special funds		71,495	37,112
Translation reserves		5,548	2,290
Retained earnings		670,600	307,933
Total equity attributable to equity holders of the Group		**2,096,856**	**1,560,166**
Non-controlling interests		984	13,936
Total equity		**2,097,840**	**1,574,102**
Total liabilities and equity		**18,409,081**	**13,882,523**

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

	Note	2019	2018
Interest income	27	1,817,780	1,332,923
Interest expense	27	(1,291,004)	(907,349)
Net interest income		**526,776**	**425,574**
Fees and commission income	28	174,811	176,018
Fees and commission expense	28	(101,802)	(77,404)
Net fee and commission income		**73,009**	**98,614**
Net trading gain/loss	29	124,890	(10,442)
Sales income	30	528,612	589,303
Other income	31	227,188	179,300
Other expenses	35	-	-
Net impairment loss on financial assets	13,32	(90,996)	(31,341)
Operating expenses		(484,540)	(422,916)
- Personnel expenses	33	(199,753)	(176,726)
-Depreciation and amortisation	15,16	(65,250)	(45,490)
-Administrative expenses	34	(219,537)	(200,700)
Cost of sales		(200,815)	(184,091)
Cost of services	30	(131,829)	(100,387)
Other operating expenses	35	(53,096)	(57,161)
Total operating income		**519,199**	**486,453**
Share of profit of equity accounted investee	14	(7,192)	(6,003)
Profit before income tax		**512,007**	**480,450**
Income tax expense	22	(101,344)	(98,778)
Net profit for the year from continuing operations		**410,663**	**381,672**
Profit attributable to			
Equity holders of the Bank		411,158	378,291
Non-controlling interest		(495)	3,381
Profit for the year		**410,663**	**381,672**
Other comprehensive income			
Items that will not be reclassified to profit or loss:		**(332)**	**1,515**
Change in actuarial (loss) / gain related to employee benefits	23	(2,358)	1,166
Equity investments at FVOCI –change in fair value		1,932	777
Tax effect	22	94	(428)
Items that are or may be reclassified subsequently to profit or loss:		**109,405**	**(21,610)**
Debt investments at FVOCI –change in fair value		135,399	(31,303)
Foreign currency translation differences		3,258	2,699
Special fund		688	137
Income tax on other comprehensive income	22	(29,940)	6,857
Other comprehensive income for the year, net of tax		**109,073**	**(20,095)**
Total comprehensive income for the year		**519,736**	**361,577**
Total comprehensive income attributable to:			
Equity holders of the Bank		520,231	358,196
Non-controlling interest		(495)	3,381
Total comprehensive income for the year		**519,736**	**361,577**
Basic and diluted earnings per share (full TL amount per TL 1 face value each)		0.344	0.317

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

Consolidated Statement of Changes in Equity For the Year Ended 31 December 2018 & 2019

(Currency - In thousands of Turkish Lira ("TL"))

	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		-	-	-	-	-	-	-	(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)
Equity investments at FVOCI – net change in fair value		-	-	-	592	-	-	-	-	592	-	592
Debt investments at FVOCI – net change in fair value		-	-	-	(24,402)	-	-	-	-	(24,402)	-	(24,402)
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**

	Note	Share capital	Adjustment to share capital	Legal reserves	Fair Value Reserves	Translation reserves	Actuarial gain/(loss)	Special funds	Retained earnings	Total	Non-controlling interest	Total equity
At 1 January 2019		**1,193,585**	**4,510**	**56,353**	**(42,390)**	**2,290**	**773**	**37,112**	**307,933**	**1,560,166**	**13,936**	**1,574,102**
Total comprehensive income for the year												
Profit for the year		-	-	-	-	-	-	-	411,158	411,158	(495)	410,663
Other comprehensive income		-	-	-	107,118	3,258	(1,839)	536	-	109,073	-	109,073
Equity investments at FVOCI – net change in fair value		-	-	-	1,507	-	-	-	-	1,507	-	1,507
Debt investments at FVOCI – net change in fair value		-	-	-	105,611	-	-	-	-	105,611	-	105,611
Net change in actuarial gain related to employee benefits		-	-	-	-	-	(1,839)	-	-	(1,839)	-	(1,839)
Foreign currency translation differences		-	-	-	-	3,258	-	-	-	3,258	-	3,258
Other		-	-	-	-	-	-	536	-	536	-	536
Total comprehensive income for the year		**-**	**-**	**-**	**107,118**	**3,258**	**(1,839)**	**536**	**411,158**	**520,231**	**(495)**	**519,736**
Transactions with owners, recorded directly in equity												
Transfer to reserves		-	-	29,506	-	-	-	23,329	(52,835)	-	-	-
Changes in non-controlling interests		-	-	1,597	-	-	-	10,518	4,344	16,459	(12,457)	4,002
Total transactions with owners, recorded directly in equity		**-**	**-**	**31,103**	**-**	**-**	**-**	**33,847**	**(48,491)**	**16,459**	**(12,457)**	**4,002**
At 31 December 2019	**26**	**1,193,585**	**4,510**	**87,456**	**64,728**	**5,548**	**(1,066)**	**71,495**	**670,600**	**2,096,856**	**984**	**2,097,840**

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

Consolidated Statement of Cash Flows For the Year Ended 31 December 2019

(Currency - In thousands of Turkish Lira ("TL"))

	Note	2019	2018
Cash flows from operating activities			
Net profit for the year		410,663	381,672
Adjustments for:			
Depreciation and amortisation expenses	15,16	65,250	45,690
Retirement pay provision expense	23	3,322	2,985
Unused vacation provision expense		117	275
Bonus provision expense		67,627	52,279
Impairment on financial assets	32	90,996	31,341
Net interest income and expense		(651,302)	(467,560)
Share of profit of equity investee	14	7,192	6,003
(Reversal) / provision for possible losses	31	-	(37,000)
Unrealised foreign exchange loss / (gain)		163,643	(894,143)
Gain on sale of assets	31	(36,126)	(60,299)
Gain on sale of subsidiary	31	(140,118)	-
Other accruals		1,547	1,487
Income tax	22	101,344	98,778
		84,155	**(838,492)**
Change in reserve deposit at Central Bank	9	112,943	(64,206)
Change in trading assets		27,772	(387,976)
Change in loans and advances to customers		(1,164,454)	332,726
Change in other assets		265,613	(292,456)
Change in obligations under repurchase agreements		969,113	214,648
Proceeds from borrowings		1,107,392	(196,520)
Change in other liabilities		(50,321)	730,557
		1,268,058	**336,773**
Interest received		1,958,677	1,291,152
Interest paid		(1,154,912)	(841,150)
Retirement pay provision and unused vacation paid	23	(1,641)	(1,922)
Bonus payment		(43,822)	(37,390)
Income tax paid	22	(168,146)	(81,325)
Net cash used in operating activities		**590,156**	**329,365**
Cash flows from investing activities			
Purchase of investment securities		(9,534,167)	(7,271,391)
Sale of investment securities		8,163,609	6,519,266
Purchase of tangible assets	15	(185,846)	(421,612)
Equity accounted investees	14	(14,112)	(50)
Proceeds from the sale of tangible assets		202,468	244,200
Proceeds from the sale of subsidiary		156,868	-
Purchase of intangible assets	16	(44,838)	(29,370)
Acquisition of subsidiaries	38	(40,573)	(12,379)
Proceeds from the sale of intangible assets	16	-	-
Net cash used in investing activities		**(1,296,591)**	**(971,336)**
Cash flows from financing activities			
Proceeds from debt securities issued		32,740,076	35,982,068
Repayment of debt securities issued		(31,189,466)	(34,475,727)
Lease payments		(3,299)	(16,242)
Net cash provided from financing activities		**1,547,311**	**1,490,099**
Net increase/(decrease) in cash and cash equivalents		**2,193,089**	**346,409**
Effect of exchange rate fluctuations on cash		251,466	311,025
Cash and cash equivalents on 1 January	9	1,384,386	726,952
Cash and cash equivalents on 31 December	**9**	**3,828,941**	**1,384,386**

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 2019
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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 Esentepe Mah. Kore Şehitleri Cad. No: 8/1 Şişli İstanbul, and the Bank have also ten branches. The Bank employs 714 people as at 31 December 2019 (31 December 2018: 663).

As at 31 December 2019 and 2018, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	31 December 2019 Amount	%	31 December 2018 Amount	%
Çalık Holding A.Ş.	1,186,791	99.43	1,186,791	99.43
Çalık Denim Tekstil San. ve Tic. A.Ş.	3,597	0.30	3,597	0.30
Ahmet Çalık	1,599	0.13	1,599	0.13
Başak Yönetim Sistemleri A.Ş.	799	0.07	799	0.07
Irmak Yönetim Sistemleri A.Ş.	799	0.07	799	0.07
Total paid-in-capital	**1,193,585**	**100.00**	**1,193,585**	**100.00**
Restatement effect per IAS 29	4,510		4,510	
Total share capital	**1,198,095**		**1,198,095**	

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") 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 Geçiş Sistemleri ve Biletleme Teknolojileri 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 53 stadiums in 29 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. ("Pavo") with its long-standing experience in cash register systems, 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 A.Ş.") was founded on January 2013 in order to seize business opportunities in real estate and construction industries, participate in investment projects, especially those in the renewable energy industry (solar power and biomass), and become a major player in international trade. 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, construction, professional services and security systems. The most important investment by Emlak Girişim A.Ş. is Istanbul International Finance Center (IIFC), one of the biggest regional planning project 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, Halk REIT (Real Estate Investment Trust), Vakıf REIT and Emlak Konut A.Ş. In a profit-sharing partnership model, Emlak Girişim A.Ş. completed a significant investment Project into the Metropol İstanbul project in Ataşehir district in İstanbul. Emlak Girişim A.Ş. invested in 2018 in the office building of 11.250 m^2 in Şişli district, İstanbul which will be rented to Aktif Bank as Headquarters. Total investment amount of the office building is around TL 355 mn. Also in 2017, the Company became one of the biggest players in the renewable energy industry with the investments into the solar power plants with the capacity of 58,1 MWp Project, in addition to the EPC services to the solar power projects with a capacity of 32 MWp for three SPPs in three cities. Emlak Girişim is still keen to develop partnerships and projects in licensed SPP projects and biomass power plant projects.

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.

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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. ("Haliç) is 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.

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

Oniki Teknoloji A.Ş. (formerly known as 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. Oniki Teknoloji A.Ş., 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.

Secom Aktif Güvenlik Yatırım A.Ş.: Secom Aktif Güvenlik Yatırım A.Ş is established as an HoldCo (a holding/umbrella company) to acquire and to invest in Kent Güvenlik A.Ş by the shareholders of Secom Co. Ltd (%50) and Emlak Girişim Danışmanlığı A.Ş. (%50).

Kent Güvenlik A.Ş.: Kent Güvenlik A.Ş. changed the title as Secom Aktif Elektronik Güvenlik Çözümleri A.Ş. is established for the purposes below:

- Security systems and services (Monitoring and installation of security systems such as theft and fire alarm, electronic safe, verification of the alarms and activation of the units such as police, fire department).
- Import, export, manufacture, trade and marketing all kinds of security systems materials.
- Engineering and installation of fire, burglar and general purpose alarm systems for the public and/or private buildings.

• Establishing, operating alarm-monitoring centers within the framework of the related laws and accepting subscribers to the monitoring center.

Dome Zero Inch: Dome Zero Inch operates in packing sector.

Workindo Teknoloji A.Ş.: Workindo Teknoloji A.Ş. is established to operate in business to business professional services.

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 Agency ("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 25 March 2020. 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 financial statements in which IFRS 16 has been applied. Changes to significant accounting policies are described in Note 5.

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.

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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 Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at 31 December 2018 except for the new significant judgements related to under IFRS 16, which are described in Note 5.

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 2019 (31 December 2018: None).

The earnings attributable to basic shares for each period are as follows:

	31 December 2019	31 December 2018
Profit attributable to equity holders of the Group	411,158	378,291
Weighted average number of ordinary shares in issue	1,193,585	1,193,585
Basic and diluted earnings per share (full TL amount per TL 1 face value each)	**0.344**	**0.317**

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%.

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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.

(Currency - In thousands of Turkish Lira ("TL"))

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		**Direct ownership**		**Indirect ownership**	
	Country of Incorporation	**31 December 2019**	**31 December 2018**	**31 December 2019**	**31 December 2018**
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	99.86%	99.86%	-	-
E-Kent Geçiş Sistemleri ve Biletleme Teknolojileri A.Ş.	Turkey	-	-	99.86%	99.86%
N Kolay Ödeme Kuruluşu A.Ş. (Formerly known as N Kolay Mağazacılık A.Ş.)	Turkey	90.04%	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	-	-	100.00%	79.42%
Mükafat Portföy Yönetimi A.Ş.	Turkey	80.00%	80.00%	-	-
Solar Energy					
Albatros Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	100.00%
Kamelya Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	100.00%
Kırlangıç Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	100.00%
Çöl Yıldızı Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	100.00%
Deniz Yıldızı Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	100.00%
İpek Güneş Enerjisi Üretimi A.Ş.	Turkey	-	-	100.00%	100.00%
Esen Güneş Enerjisi Üretimi A.Ş.	Turkey	-	-	100.00%	100.00%
Mehtap Güneş Enerjisi Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Tanyeri Güneş Enerjisi Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Seher Güneş Enerjisi Üretimi A.Ş.	Turkey	-	-	100.00%	100.00%
Ufuk Güneş Enerjisi Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Yakamoz Güneş Enerjisi Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Duru Güneş Enerjisi Üretimi A.Ş.	Turkey	-	-	100.00%	100.00%
Deniz Güneş Enerjisi Üretimi A.Ş.	Turkey	-	-	100.00%	100.00%
Pasifik Solar Enerji Üretim A.Ş	Turkey	-	-	26.87%	100.00%
Olimpos Solar Enerji Üretım A.Ş.	Turkey	-	-	26.58%	100.00%
Yakut Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	100.00%
Seher Yıldızı Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Kuzey Yıldızı Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Gök Safir Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	100.00%
Kızıl Yıldızı Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Kasımpatı Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	100.00%
Martı Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	100.00%
Nilüfer Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Mercan Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Kadıkalesi Enerji İnş.Tar. Hayv.İth. İhr. A.Ş.	Turkey	-	-	100.00%	-
Akyarlar Enerji İnş.Tar. Hayv.İth. İhr. A.Ş.	Turkey	-	-	100.00%	-
Yalıkavak Enerji İnş.Tar. Hayv.İth. İhr. Ltd. Şti.	Turkey	-	-	100.00%	-
Çiğdem Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	-
Defne Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	-
Gelincik Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	-
Leylak Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	-
Lilyum Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	-
Akuamarin Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	-
Ametist Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	-
Aytaşı Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	-
Güneştaşı Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	-
Kaplan Gözü Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	-
Kuvars Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	-
Lapis Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	-
Olivin Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	-
Oniks Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	-
Opal Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	-
Sedef Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	-
Turkuvaz Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	-
Zirkon Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	-
Other					
İnovaban İnovasyon ve Finansal Danışmanlık A.Ş.	Turkey	-	-	67.00%	67.00%
Attivo Bilişim Anonim Şirketi	Turkey	-	-	90.00%	90.00%
Oniki Teknoloji A.Ş. (formerly known as Epost Dış Ticaret A.Ş.)	Turkey	-	-	99.86%	99.86%
Eko Biokütle Enerji Üretim A.Ş.	Turkey	-	-	100.00%	100.00%
Workindo Teknoloji A.Ş.	Turkey	-	-	96.10%	-
Passo Spor Oyunları Kulübü Yazılım ve Pazarlama A.Ş.	Turkey	-	-	99.86%	-

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Group entities

Equity accounted investees	Country of Incorporation	31 December 2019 Ownership	31 December 2018 Ownership
Kazakhstan Ijara Company Jsc	Kazakhstan	14.31%	14.31%
İFM İstanbul Finans Merkezi İnşaat Taahhüt A.Ş.	Turkey	-	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%
Halk Yenilenebilir Enerji Anonim Şirketi	Turkey	50.00%	50.00%
Euro Mediterianean Investment Company	Turkish Republic of Northern Cyprus	25.53%	25.53%
Secom Aktif Güvenlik Yatırım A.Ş.	Turkey	50%	-
Secom Aktif Elektronik Güvenlik Çözümleri A.Ş.	Turkey	50%	-
Dome zero inch.	USA	2.67%	-

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 Leases

IFRS 16 Leases standard abolishes the dual accounting model currently applied for lessees through recognising finance leases in the balance sheet whereas not recognising operational lease. Instead, it is set forth a single model similar to the accounting of finance leases (on balance sheet). For lessors, the accounting stays almost the same. This standard is applied with modified retrospective approach recognising the cumulative effect of initially applying the standard at the date of initial application. In this context, comparative information is not restated. A lease liability and a right-of-use asset are recognised at the date of initial application for leases previously classified as an operating lease applying IAS 17. That lease liability is measured at the present value of the remaining lease payments, discounted using the Bank's incremental borrowing rate at the date of initial application. Besides, that right-of-use asset is measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

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3.9 Other operations revenue

The Group recognises revenue based on the following five principles in accordance with the IFRS 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

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

The 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.

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 the 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.

The Group generates revenue primarily from banking services, payment solutions, money transfer services, insurance brokerage, transportation solutions, ticketing services, portfolio management, energy production and real estate.

The Group recognizes revenue generated from the services given as the customers benefit from the services at their premises at a point in time.

Customers obtain control of energy produced when the energy delivered to distributing point and invoices are issued according to contractual terms. Revenue is recognised when the energy production amount is measured reciprocally and reconciled between the Group and customers at their premises.

The Group recognizes revenue generated from real estate sales as control of each of the independent sections are obtained and have been accepted by customers at their premises at a point in time.

3.10 Financial assets and liabilities

Recognition

The Group 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 Group commits to purchase or sell the asset. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Derecognition

The Group 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 Group is recognised as a separate asset or liability.

The Group 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 Group 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 Group's trading activity.

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.

Fair value measurement

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.

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.

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.

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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. 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 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.

Dealers are intermediary for lending of vehicle credits- especially second hand- and credits for durables goods like furniture, refrigerator, washing machine, etc. For the dealer channel, credit applications are evaluated based on main Aktif Bank's strategies and dealers' risk segments. Dealers' risk segments are based on non-performing loan ratio and profit for each dealer. The vehicle mentioned in the loan is taken as collateral then loan disbursement is realized.

In addition, the risk measurement of policy trees and rules is reviewed and analysed as necessary, with the rejection / grey 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 was completed in April 2019 and in September 2020 the scorecard will be renewed.

Forward-looking macroeconomic information

The Group incorporates forward-looking macroeconomic information including Unemployment Rate, Consumer Confidence Index (CCI), Composite Leading Indicator (CLI) and Consumption Expenditure of General Government, when assessing the significant increase in credit risk and expected credit loss calculation. Forward-looking expectations for these parameters are updated at least once a year and used in expected credit loss calculations.

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 financi 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.

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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 Group in the management of its short-term commitments.

When the Group 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 Group'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 Group 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 financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income or financial assets at measured at amortized cost 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.

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.

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 2019 and 2018 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 Group 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 Group 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

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.

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3.19 Impairment of non-financial assets

The carrying amounts of the Group'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

Assets acquired under lease agreements are capitalized at the inception of the lease at the fair value of the leased asset. Lease payments are treated as comprising capital and interest elements; the capital element is treated as reducing the capitalized obligation under the lease and the interest element is charged to income. Depreciation on the leased asset is also charged to income on a straight-line basis over the useful life of the asset.

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 Group 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 Group 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 contract is recognised when the expected benefits to be derived by the Group 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 Group 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.

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

A number of new standards, interpretations of 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.

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IFRS 17 Insurance Contracts

On 18 May 2017, IASB issued IFRS 17 Insurance Contracts. This first truly globally accepted standard for insurance contracts will help investors and others better understand insurers' risk exposure, profitability and financial position. IFRS 17 replaces IFRS 4, which was brought in as an interim Standard in 2004. IFRS 4 has given companies dispensation to carry on accounting for insurance contracts using national accounting standards, resulting in a multitude of different approaches. As a consequence, it is difficult for investors to compare and contrast the financial performance of otherwise similar companies. IFRS 17 solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values – instead of historical cost. The information will be updated regularly, providing information that is more useful to users of financial statements. IFRS 17 has an effective date of 1 January 2023 but companies can apply it earlier.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 17.

The revised Conceptual Framework (Version 2018)

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.

Amendments to IAS 1 and IAS 8 - Definition of Material

In October 2018, 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. The amended "definition of material "was added to the important definition and it was stated that this expression could lead to similar results by not giving and giving misstating information.

In addition, with this amendment, the terminology used in its definition of material has been aligned with the terminology used in the Conceptual Framework for Financial Reporting (Version 2018). Those amendments are prospectively effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 1 and IAS 8.

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. IASB has issued amendments to IFRS 3 Business Combinations to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets. With this amendments confirmed that a business must include inputs and a process, and clarified that the process shall be substantive and the inputs and process must together significantly contribute to creating outputs. It narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs and added a concentration test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. This is a simplified assessment that results in an asset acquisition of 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; with earlier application permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 3.

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

Interest Rate Benchmark Reform, which amended IFRS 9, IAS 39 and IFRS 7 issued in September 2019, added Section 6.8 and amended paragraph 7.2.26. About this issue, IASB identified two groups of accounting issues that could affect financial reporting. These are:

- pre-replacement issues—issues affecting financial reporting in the period before the reform; and
- replacement issues—issues that might affect financial reporting when an existing interest rate benchmark is either reformed or replaced.

IASB considered the pre-replacement issues to be more urgent and decided to address the following hedge accounting requirements as a priority in the first phase of the project:

(a) The highly probable requirement;
(b) Prospective assessments;
(c) IAS 39 retrospective assessment; and
(d) Separately identifiable risk components.

All other hedge accounting requirements remain unchanged. A company shall apply the exceptions to all hedging relationships directly affected by interest rate benchmark reform. The Group shall apply these amendments for annual periods beginning on or after 1 January 2020 with earlier application permitted.

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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 6).

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.

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 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 Group's accounting policies

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

Valuation of financial instruments

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

The Group 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.

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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 Group 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 Group 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 2019	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss	11	3,216	445,791	-	449,007
Investment securities – FVOCI portfolio	12	2,254,288	1,272,660	-	3,526,948
		2,257,504	**1,718,451**	**-**	**3,975,955**
Trading liabilities	11	-	(17,029)	-	(17,029)
		-	**(17,029)**	**-**	**(17,029)**

At 31 December 2018	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss	11	33,263	454,767	-	488,030
Investment securities – FVOCI portfolio	12	898,075	1,077,518	-	1,975,593
		931,338	**1,532,285**	**-**	**2,463,623**
Trading liabilities	11	-	(23,017)	-	(23,017)
		-	**(23,017)**	**-**	**(23,017)**

Financial asset and liability classification

The Group'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.

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.

5. Explanations of IFRS 16 Leases

The Group has started to apply IFRS 16 Leases standard as of 1 January 2019.

The Group recognizes the right of use and the lease liabilities on the financial statements at the effective date of the lease. The right of use is measured initially at cost value and subsequently measured at cost less accumulated depreciation and accumulated impairment losses and adjusted for the re-measurement of the lease obligation. IAS 36 Impairment of Assets is applied in order to determine whether the real estates that are entitled to use have been impaired and to recognize the impairment loss.

With the "IFRS 16 Leases" standard, which became effective as of 1 January 2019, the difference between the operating lease and financial lease was removed and the lease transactions were started to be recognised under "Tangible Fixed Assets" as an asset (tenure) and under "Financial Lease Liabilities" as a liability.

IFRS 16 introduces a single leasing accounting model for lessees. As a result, the Group, as a lessee, has acquired the lease rights representing the lease rights representing the right to use the underlying asset and the lease payments to the financial statements. Accounting for the lessor is similar to the previous accounting policies.

Recognition of right of use assets:
- The right of use asset is first recognized by cost method and includes:
- The initial measurement amount of the lease obligation,
- The amount obtained by deducting all the rental incentives received from all lease payments made at or before the beginning of the lease;

- All initial direct costs incurred by the Group and

When applying the cost method, the existence of the right of use:
- Accumulated depreciation and accumulated impairment losses are deducted and
- Measures the restatement of the lease obligation at the restated cost.

The Group applies depreciation provisions in IAS 16 Property, Plant and Equipment while depreciating the right of use assets.

The Lease obligations:

At the effective date of the lease, the Group measures its leasing liability at the present value of the lease payments not paid at that time. Lease payments are discounted using the Group's average borrowing interest rates.

The lease payments included in the measurement of the lease liability consist of the payments to be made for the right of use during the lease term of the underlying asset and the unpaid payments at the effective date of the lease.

After the effective date of the lease, the Group measures the leasing liability as follows:
- Increase the book value to reflect the interest on the lease obligation
- Reduces the book value to reflect the lease payments made and
- The book value is measured to reflect reassessments and restructuring, or reflect to fixed lease payments as of revised nature.

The interest on the lease liability for each period in the lease period is the amount calculated by applying a fixed periodic interest rate to the remaining balance of the lease liability.

Since the Group benefited from all facilitation provisions in the first transition to IFRS 16, the Group applied a partial retrospective approach that results in an equal amount of its right of use asset and leasing liability. Accordingly, comparative information presented under IAS 17 and related interpretations for 2018 has not been restated.

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Reclassifications and remeasurements during the first time application of IFRS 16 Leases Standard dated 1 January 2019 are presented in the below table.

	31 December 2018	IFRS 16 Transition effect	1 January 2019
Tangible assets [1,2]	518,004	6,716	524,720
Lease liabilities [1,2]	-	6,716	6,716

(1) As of 1 January 2019, the Group has reflected to the financial statements TL 6,716 of lease obligation and right of use asset in accordance with IFRS 16.
(2) As of 1 January 2019, the weighted average of the incremental borrowing rates applied to the Group's TL rent obligation is 21%.

6. 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.

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.

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.

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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 Group 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 2019	Derivatives trading assets	29,364	-	29,364	(29,364)	-	-
31 December 2018	Derivatives trading assets	52,589	-	52,589	(52,589)	-	-

					Related amounts not offset in the statement of financial position		
	Types of financial liabilities	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Financial instruments (including non-cash collateral)	Cash collateral received	Net amount
31 December 2019	Derivatives trading liabilities	17,029	-	17,029	(17,029)	-	-
31 December 2018	Derivatives trading liabilities	23,017	-	23,017	(23,017)	-	-

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 Group 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.

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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 2019		
Individually impaired	316,551	123,454
31 December 2018		
Individually impaired	270,617	122,814

Concentration risk by location

The Group's total risk for loans and advances to customers and investment debt securities are mainly concentrated on Turkey. The Group 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 2019				31 December 2018			
Sector	**Cash loans**	**%**	**Non-cash loans**	**%**	**Cash loans**	**%**	**Non-cash loans**	**%**
Construction	243,383	3	102,943	7	71,938	1	62,239	5
Financial institution	341,044	5	312,058	21	315,407	5	152,441	12
General services	738,767	10	21	-	1,848,901	27	85	-
Textile	892,004	11	61,071	4	572,451	8	39,520	3
Mining	678,565	9	1,378	-	176,751	3	2,758	-
Telecommunication	354,736	5	1,760	-	169,954	2	850	-
Electricity industry	28,462	-	129,191	9	17,098	-	135,391	11
Public	115,174	2	-	-	152,897	2	-	-
Energy industry	667,548	9	272,485	19	707,726	10	410,991	34
Trade	241,593	3	74,769	5	73,066	1	3,998	-
Transportation	4,686	-	94,752	6	-	-	97,647	8
Sports	638,544	8	4,378	-	819,712	12	3,278	-
Consumer Loans	2,547,409	34	-	-	1,902,332	28	-	-
- Credit card	47,686	1	-	-	49,418	1	-	-
- Auto loans	212,638	3	-	-	158,412	2	-	-
- Mortgage loans	826	-	-	-	918	-	-	-
- Other Consumer Loans	2,286,259	30	-	-	1,693,584	25	-	-
Other	76,211	1	430,412	29	75,310	1	323,027	27
Total	**7,568,126**	**100**	**1,485,218**	**100**	**6,903,543**	**100**	**1,232,225**	**100**

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 2019	31 December 2018
Average for the year	126%	117%
Maximum for the year	150%	154%
Minimum for the year	115%	103%

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Residual contractual maturities of financial liabilities

	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 2019									
Non-derivative liabilities									
Obligations under repurchase agr.	19	2,261,189	(2,266,448)	-	(1,512,592)	(671,475)	(80,025)	(2,356)	-
Debt securities issued	21	6,099,310	(6,196,855)	-	(4,469,915)	(1,223,361)	(455,120)	(48,459)	-
Funds borrowed	20	4,940,961	(4,959,624)	-	(1,747,428)	(2,334,656)	(849,824)	(27,716)	-
Trade and other payables		256,574	(268,140)	(110,409)	-	(46,394)	(65,960)	(45,377)	-
Lease liabilities	24	8,335	(15,907)	-	(102)	(186)	(2,067)	(13,552)	-
Customer accounts (*)	25	1,507,780	(1,507,826)	(1,498,274)	(9,552)	-	-	-	-
Derivative financial instruments									
Inflow	11	(29,364)	4,092,388	-	1,015,348	1,406,051	765,824	905,165	-
Outflow	11	17,029	(4,039,052)	-	(1,016,270)	(1,402,597)	(719,392)	(900,793)	-
		15,061,814	**(15,161,464)**	**(1,608,683)**	**(7,740,511)**	**(4,272,618)**	**(1,406,564)**	**(133,088)**	**-**

(*) Included in other liabilities.

	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.	19	1,291,742	(1,298,327)	-	(761,182)	(474,643)	(62,502)	-	-
Debt securities issued	21	4,365,713	(4,792,732)	-	(1,252,347)	(1,737,282)	(1,102,546)	(700,557)	-
Funds borrowed	20	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	24	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	11	(52,589)	2,171,450	-	851,270	134,242	747,081	438,857	-
Outflow	11	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.

(Currency - In thousands of Turkish Lira ("TL"))

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 2019 and 2018 and during the period is as follows:

	31 December 2019	31 December 2018
Interest rate risk	126,203	104,409
Foreign currency risk	981	2,623
Other risk	1,061	656
	128,245	**107,688**

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

	Carrying amount	Market risk measuring
31 December 2019		
Financial assets measured at fair value through profit or loss	419,643	419,643
Financial assets measured at fair value through other comprehensive income	3,526,948	3,526,948
Derivative financial assets	29,364	29,364
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

Exposure to interest rate risk

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 is as follows:

	Note	Carrying amount	Unallocated(*)	On demand	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
31 December 2019									
Cash and cash equivalents	9	3,833,184	-	937,706	2,888,809	-	-	-	6,669
Reserve deposits at Central Bank	10	959,283	-	-	959,283	-	-	-	-
Financial assets at fair value through profit or loss	11	449,007	29,364	405,379	9,095	3,713	-	1,456	-
Loans and advances to customers	13	7,568,126	62,063	-	3,306,791	49,883	168,566	3,361,433	619,390
Investment securities	12	3,914,090	7,593	-	600,868	707,636	804,709	1,416,999	376,285
		16,723,690	**99,020**	**1,343,085**	**7,764,846**	**761,232**	**973,275**	**4,779,888**	**1,002,344**
Obligations under repurchase agr.	19	2,261,189	-	-	2,179,797	67,267	11,850	2,275	-
Debt securities issued	21	6,099,310	-	-	5,616,206	342,740	97,947	42,417	-
Lease liabilities	24	8,335	-	-	417	427	437	3,528	3,526
Funds borrowed	20	4,940,961	-	-	4,072,069	460,480	157,065	26,703	224,644
Trading liabilities	11	17,029	17,029	-	-	-	-	-	-
		13,326,824	**17,029**	**-**	**11,868,489**	**870,914**	**267,299**	**74,923**	**228,170**
Interest rate gap		**3,396,866**	**81,991**	**1,343,085**	**(4,103,643)**	**(109,682)**	**705,976**	**4,704,965**	**774,174**

(*) includes derivative assets, non-performing loans and stock investments.

	Note	Carrying amount	Unallocated(*)	On demand	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
31 December 2018									
Cash and cash equivalents	9	1,390,183	-	154,224	1,205,036	30,923	-	-	-
Reserve deposits at Central Bank	10	1,072,226	-	-	1,072,226	-	-	-	-
Financial assets at fair value through profit or loss	11	488,030	52,589	363,378	19,177	37,649	5,192	10,045	-
Loans and advances to customers	13	6,903,543	81,975	-	4,296,885	49,883	119,958	1,865,044	489,798
Investment securities	12	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.	19	1,291,742	-	-	1,230,333	59,665	1,744	-	-
Debt securities issued	21	4,365,713	-	-	2,891,688	442,169	513,073	518,783	-
Financial lease liabilities	24	3,904	-	-	540	621	902	1,226	615
Funds borrowed	20	3,650,016	-	-	2,617,711	691,543	212,307	128,455	-
Trading liabilities	11	23,017	23,017	-	-	-	-	-	-
		9,334,392	**23,017**	**-**	**6,740,272**	**1,193,998**	**728,026**	**648,464**	**615**
Interest rate gap		**2,857,083**	**116,606**	**517,602**	**(19,059)**	**(1,024,265)**	**285,495**	**2,027,907**	**952,797**

(Currency - In thousands of Turkish Lira ("TL"))

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 2019		31 December 2018	
Currency	**Applied Shock (+/- x basis points)**	**Gains /Losses**	**Gains (Losses)/ Shareholder's Equity**	**Gains /Losses**	**Gains (Losses)/ Shareholder's Equity**
TL	500	(121,527)	(6.40) %	(45,645)	(3.09)%
	(400)	117,666	6.19%	43,284	2.93%
EUR	200	(25,233)	(1.33)%	(807)	(0.05) %
	(200)	(3,448)	(0.18)%	708	0.05%
USD	200	(48,982)	(2.58)%	(45,511)	(3.09) %
	(200)	45,423	2.39%	52,561	3.56%
Total (for negative shocks)		**159,641**	**8.40%**	**96,553**	**6.54%**
Total (for positive shocks)		**(195,742)**	**(10.31)%**	**(91,963)**	**(6.23)%**

Summary of average interest rates

As at 31 December 2019 and 2018, the summary of average interest rates for different assets and liabilities is as follows:

	31 December 2019			31 December 2018		
	Euro	**USD**	**TL**	**Euro**	**USD**	**TL**
Assets						
Cash and cash equivalents	0.26	1.43	10.00	1.47	1.79	-
Loans and advances to customers	7.07	8.24	25.38	8.38	9.07	29.39
Investment securities – Financial assets measured at fair value through other comprehensive income	-	6.45	14.80	3.78	8.02	13.87
Investment securities – Financial assets measured at amortized cost	-	7.12	20.59	-	6.32	19.77
Liabilities						
Obligations under repurchase agreements	0.87	2.73	10.12	2.82	5.25	20.26
Debt securities issued	0.99	2.98	15.47	3.57	5.67	25.96
Funds borrowed	0.64	3.14	12.07	1.92	4.10	25.05

Foreign currency risk

31 December 2019	**Euro**	**USD**	**Other**	**Total**
Cash and cash equivalents	1,674,849	607,450	122,594	2,404,893
Reserve deposits at Central Bank	483,207	476,075	-	959,282
Financial assets at fair value through profit or loss	-	-	-	-
Trade and other receivables	-	-	-	-
Loans and advances to customers	2,751,328	997,512	-	3,748,840
Investment securities	1,951	1,567,391	-	1,569,342
Equity accounted investees	-	15,975	6,400	22,375
Other assets	33,008	28,879	18	61,905
Trade and other payables	-	-	-	-
Funds borrowed	(2,604,922)	(1,513,792)	(150,444)	(4,269,158)
Obligations under repurchase agreements	(419,611)	(1,649,205)	(59,493)	(2,128,309)
Debt securities issued	(571,060)	(431,120)	-	(1,002,180)
Other liabilities	(938,489)	(903,647)	(90,513)	(1,932,649)
Net statement of financial position	**410,261**	**(804,482)**	**(171,438)**	**(565,659)**
Derivative financial instruments	(392,246)	363,249	179,501	150,504
Net total position	**18,015**	**(441,233)**	**8,063**	**(415,155)**

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)**

Sensitivity analysis

A 10 percent weakening of TL against the foreign currencies on 31 December 2019 and 2018 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 2019	Equity	Profit or loss
Euro	1,801	1,801
USD	(44,123)	(46,128)
Other currencies	806	806
	(41,516)	**(43,521)**

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)**

A 10 percent strengthening of the TL against the foreign currencies on 31 December 2019 and 2018 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.

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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 2018, 2017 and 2016 ("the Basic Indicator Approach). The amount calculated as TL 91,726 as at 31 December 2019 (31 December 2018: TL 79,197) 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 1,146,578 (31 December 2018: TL 989,965) and is calculated as 12.5 times the operational risk.

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:

	2019	2018
Tier 1 Capital	1,848,001	1,432,901
Tier 2 Capital	51,834	42,316
Total regulatory capital	1,899,835	1,475,217
Value at credit, market and operational risks	12,794,532	11,459,270
Capital ratios (%)		
Total regulatory capital ratio	14.85	12.87
Total tier 1 capital ratio	14.44	12.50

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 Group 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. These instruments include cash and cash equivalents, reserve deposits at Central Bank, trade and other receivables, trade and other payables, obligations under repurchase agreements, debt securities issued, funds borrowed and miscellaneous liabilities.

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.

The fair value of financial assets measured at amortized cost is determined based on quoted market prices. If the market prices cannot be obtained, the quoted market prices of other marketable securities are used for which have the same qualification in terms of interest, maturity and other terms.

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.

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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 2019						
Cash and cash equivalents	9	-	3,833,184	-	3,833,184	3,833,184
Trade and other receivables		-	112,580	-	112,580	112,580
Reserve deposits at Central Bank	10	-	959,283	-	959,283	959,283
Financial assets at fair value through profit or loss	11	449,007	-	-	449,007	449,007
Loans and advances to customers	13	-	7,568,126	-	7,568,126	7,748,228
Investment securities	12	-	387,142	3,526,948	3,914,090	3,951,938
		449,007	**12,860,315**	**3,526,948**	**16,836,270**	**17,054,220**
Trading liabilities	11	17,029	-	-	17,029	17,029
Trade and other payables		-	256,574	-	256,574	256,574
Lease liabilities	24	-	8,335	-	8,335	8,335
Obligations under rep. agr.	19	-	2,261,189	-	2,261,189	2,261,189
Debt securities issued	21	-	6,099,310	-	6,099,310	6,099,310
Funds borrowed	20	-	4,940,961	-	4,940,961	4,940,961
		17,029	**13,566,369**	**-**	**13,583,398**	**13,583,398**

	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	9	-	1,390,183	-	1,390,183	1,390,183
Trade and other receivables		-	75,567	-	75,567	75,567
Reserve deposits at Central Bank	10	-	1,072,226	-	1,072,226	1,072,226
Financial assets at fair value through profit or loss	11	488,030	-	-	488,030	488,030
Loans and advances to customers	13	-	6,903,543	-	6,903,543	6,682,245
Investment securities	12	-	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	11	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.	19	-	1,291,742	-	1,291,742	1,291,742
Debt securities issued	21	-	4,365,713	-	4,365,713	4,365,713
Funds borrowed	20	-	3,650,016	-	3,650,016	3,650,016
		23,017	**9,599,615**	**-**	**9,622,632**	**9,622,632**

7. Business combinations

Goodwill arising from Emlak Girişim and Pavo is TL 43,054 (Note 38) (31 December 2018: TL 504).

8. Segment reporting

The Group's main business segments are retail and corporate banking, consisting of loans, customer accounts and other transactions and balances with retail and corporate customers, investment banking, including trading and corporate finance activities and brokerage, containing insurance services.

2019	**Retail banking**	**Corporate banking**	**Investment banking**	**Other banking**	**Total banking**	**Brokerage**	**Other**	**Combined**	**Adjustments**	**Total**
Operating income	269,297	358,109	170,972	198,803	997,181	92,900	638,263	1,728,344	1,012,855	2,741,199
Operating expense	(282,340)	(64,495)	(159,193)	(86,700)	(592,728)	(21,600)	(561,965)	(1,176,293)	(1,052,899)	(2,229,192)
Income from operations	**(13,043)**	**293,614**	**11,779**	**112,103**	**404,453**	**71,300**	**76,298**	**552,051**	**(40,044)**	**512,007**
Income tax expense	-	-	-	(62,770)	(62,770)	(15,665)	(22,909)	(101,344)	-	(101,344)
Net income for the year	**(13,043)**	**293,614**	**11,779**	**49,333**	**341,683**	**55,635**	**53,389**	**450,707**	**(40,044)**	**410,663**
Segment assets	2,547,409	5,367,051	9,069,082	-	16,983,542	158,790	436,973	17,579,305	(725,343)	16,853,962
Investments in equity participations	-	-	387,358	-	387,358	-	254,102	641,460	(580,484)	60,976
Other assets	-	-	-	485,178	485,178	3,936	829,354	1,318,468	175,675	1,494,143
Total assets	**2,547,409**	**5,367,051**	**9,456,440**	**485,178**	**17,856,078**	**162,726**	**1,520,429**	**19,539,233**	**(1,130,152)**	**18,409,081**
Segment liabilities	6,479,363	3,965,575	5,120,015	-	15,564,953	28,118	792,310	16,385,381	(2,801,983)	13,583,398
Equity and other liabilities	-	-	-	2,291,125	2,291,125	134,608	728,119	3,153,852	1,671,831	4,825,683
Total liabilities and equity	**6,479,363**	**3,965,575**	**5,120,015**	**2,291,125**	**17,856,078**	**162,726**	**1,520,429**	**19,539,233**	**(1,130,152)**	**18,409,081**
Other segment items										
Capital investment	-	-	-	-	-	-	-	-	-	272,034
Depreciation	-	-	-	-	-	-	-	-	-	65,250

2018	**Retail banking**	**Corporate banking**	**Investment banking**	**Other banking**	**Total banking**	**Brokerage**	**Other**	**Combined**	**Adjustments**	**Total**
Operating income	250,899	302,297	66,223	97,144	716,563	64,717	641,659	1,422,939	848,602	2,271,541
Operating expense	(250,473)	(22,175)	(87,772)	(35,447)	(395,867)	(19,320)	(488,988)	(904,175)	(886,916)	(1,791,091)
Income from operations	**426**	**280,122**	**(21,549)**	**61,697**	**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	**426**	**280,122**	**(21,549)**	**3,671**	**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

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9. Cash and cash equivalents

	31 December 2019	**31 December 2018**
Cash and balances with Central Bank	817,365	1,124,518
- Cash on hand	30,047	136,011
- Unrestricted balances with Central Bank	787,318	988,507
Placements at money markets	1,372,818	45,917
Placements with other banks	1,643,001	219,748
Cash and cash equivalents	**3,833,184**	**1,390,183**
Less: Interest income accruals on cash and cash equivalents	(4,243)	(5,797)
Cash and cash equivalents in the statement of cash flows	**3,828,941**	**1,384,386**

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 (-)

	31 December 2019				**31 December 2018**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balances at 1 January	**65**	**-**	**-**	**65**	**19**	**-**	**-**	**19**
Transfer to stage 1	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-
Provision for the period	316	-	-	316	54	-	-	54
Recoveries and reversals	-	-	-	-	(8)	-	-	(8)
Balances at the end of the period	**381**	**-**	**-**	**381**	**65**	**-**	**-**	**65**

10. Reserve deposits at Central Bank

	31 December 2019	31 December 2018
Foreign currency	959,283	1,072,226
	959,283	**1,072,226**

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 Group'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 1-7% and 5-21%, respectively according to their maturity terms as per the Communiqué no. 2005/5 "Reserve Deposits" of the Central Bank of Turkey (31 December 2018: 1.5-8% for TL and 4-20% for USD).

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

	31 December 2019				31 December 2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balances at 1 January	**277**	**-**	**-**	**277**	**210**	**-**	**-**	**210**
Transfer to stage 1	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-
Provision for the period	-	-	-	-	67	-	-	67
Recoveries and reversals	(173)	-	-	(173)	-	-	-	-
Balances at the end of the period	**104**	**-**	**-**	**104**	**277**	**-**	**-**	**277**

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

	31 December 2019			31 December 2018
	Interest rate %	Latest maturity	Carrying amount	Carrying amount
Financial assets at fair value through profit or loss				
- Government bonds and treasury bills	2.66-18.96	22 September 2021	3,216	14,253
- Corporate Bonds	13.81	26 October 2021	1,315	48,866
- Investment funds	-	-	415,112	372,322
Derivative assets				
- Foreign exchange			29,364	52,589
-Swap contracts			21,048	24,174
-Forward contracts			1,699	27,074
-Options			6,617	1,341
Total			**449,007**	**488,030**

Financial assets at fair value through profit and loss, which are subject to repurchase agreements as at 31 December 2019 are amounting to TL 1,608 (31 December 2018: TL 17,481).

Trading liabilities

	31 December 2019	31 December 2018
Derivative liabilities		
- Foreign exchange	17,029	23,017
-Swap contracts	7,938	11,366
-Forward contracts	1,663	10,304
-Options	7,428	1,347
Total	**17,029**	**23,017**

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

	31 December 2019	31 December 2018
Forward foreign exchange contracts – buy (*)	752,269	450,544
Forward foreign exchange contracts – sell (*)	704,358	433,465
Swap foreign exchange contracts – buy	1,853,891	1,361,677
Swap foreign exchange contracts – sell	1,850,866	1,362,936
Swap interest rate contracts – buy	10,000	-
Swap interest rate contracts – sell	10,000	-
Option contracts – buy	1,476,228	359,229
Option contracts – sell	1,473,828	360,311
Future contracts – buy	-	-
Future contracts – sell	-	-

(*) Includes spot and forward transactions

There is no derivative transaction for hedging purpose.

12. Investment securities

31 December 2019	Interest rate %	Latest maturity	Carrying amount
Financial assets measured at amortized cost			
- Corporate bonds	7.12-28.76	10 May 2024	387,142
Financial assets measured at fair value through other comprehensive income			
- Government bonds	1.95-26.54	11 May 2047	2,254,288
- Corporate bonds	3.85-28.76	1 August 2029	1,272,660
			3,914,090

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

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As at 31 December 2019, TL 81,272 and TL 2,532,786 of investment securities are given as collateral for performing transaction at stock exchange and repurchase agreement, respectively (31 December 2018: TL 48,534 and TL 1,578,960, respectively).

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

	31 December 2019				31 December 2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balances at 1 January	**262**	**-**	**-**	**262**	**167**	**-**	**-**	**167**
Transfer to stage 1	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-
Provision for the period	215	-	-	215	137	-	-	137
Recoveries and reversals	-	-	-	-	(42)	-	-	(42)
Balances at the end of the period	**477**	**-**	**-**	**477**	**262**	**-**	**-**	**262**

Expected credit losses on financial assets measured at amortized cost

	31 December 2019				31 December 2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balances at 1 January	**48**	**-**	**-**	**48**	**34**	**-**	**-**	**34**
Transfer to stage 1	-	-	-	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-	-	-
Provision for the period	-	-	-	-	17	-	-	17
Recoveries and reversals	(10)	-	-	(10)	(3)	-	-	(3)
Balances at the end of the period	**38**	**-**	**-**	**38**	**48**	**-**	**-**	**48**

(Currency - In thousands of Turkish Lira ("TL"))

13. Loans and advances to customers

As at 31 December 2019 and 2018, 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 2019			31 December 2018		
Other lending	7,811,904	(243,778)	7,568,126	7,092,185	(188,642)	6,903,543
Corporate loans	5,086,128	(65,411)	5,020,717	5,038,492	(37,281)	5,001,211
Consumer loans	2,725,776	(178,367)	2,547,409	2,053,693	(151,361)	1,902,332
	7,811,904	**(243,778)**	**7,568,126**	**7,092,185**	**(188,642)**	**6,903,543**

The credit quality analysis of cash loans is as follows

	31 December 2019			31 December 2018		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Stage 1	7,053,063	-	-	6,439,544	-	-
Stage 2	-	442,290	-	-	382,024	-
Stage 3	-	-	316,551	-	-	270,617
Total Loans	**7,053,063**	**442,290**	**316,551**	**6,439,544**	**382,024**	**270,617**

The movement of the non-performing loans is as follows:

	31 December 2019	31 December 2018
Opening balance	**270,617**	**190,700**
Addition	137,895	173,720
Collection	(49,986)	(93,803)
Debt sales and write-offs	(41,975)	-
Balance at the end of the period	**316,551**	**270,617**

Expected credit losses on loans and advances to customers

	31 December 2019				31 December 2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balances at 1 January	**21,954**	**18,885**	**147,803**	**188,642**	**23,305**	**28,342**	**106,729**	**158,376**
Transfer to stage 1	1,295	(1,195)	(100)	-	5,124	(5,113)	(11)	-
Transfer to stage 2	(1,054)	1,114	(60)	-	(1,698)	1,707	(9)	-
Transfer to stage 3	(271)	(722)	993	-	(550)	530	20	-
Provision for the period	18,061	8,576	99,595	126,232	8,499	7,712	67,696	83,907
Recoveries and reversals	(8,654)	(7,308)	(19,719)	(35,681)	(12,726)	(14,293)	(26,622)	(53,641)
Debt sales and write-offs	-	-	(35,415)	(35,415)	-	-	-	-
Balances at 31 December	**31,331**	**19,350**	**193,097**	**243,778**	**21,954**	**18,885**	**147,803**	**188,642**

Credit quality of loans and advances to customer

	2019				
	Stage 1	Stage 2	Stage 3	Total	2018 Total
Current	6,830,270	164,012	-	6,994,282	6,522,572
Overdue < 30 days	222,793	169,566	-	392,359	184,922
Overdue > 30 days	-	108,712	316,551	425,263	384,691
Total	**7,053,063**	**442,290**	**316,551**	**7,811,904**	**7,092,185**

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

2019	Corporate/Commercial Loans	Consumer Loans	Credit Cards	Total
Cash collateral	117,908	-	-	117,908
Pledge assets	2,529,601	210,347	-	2,739,948
Unsecured	2,438,619	2,463,547	51,882	4,954,048
Total	**5,086,128**	**2,673,894**	**51,882**	**7,811,904**

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**

Financial lease receivables

None (31 December 2018: None).

14. Equity accounted investees

Carrying amount of equity accounted investees is summarized below:

	31 December 2019	31 December 2018
Aktif Bank Sukuk Varlık Kiralama A.Ş.(*)	100	100
Kazakhstan Ijara Company Jsc.	15,975	12,685
Euroasian Leasing Company	6,400	5,069
Euro Mediterranean Investment Company	7,020	6,452
Haliç Finansal Kiralama Anonim Şirketi	6,537	7,271
Halk Yenilenebilir Enerji A.Ş.	11,190	11,076
Idea Farm Ventures Limited	8,095	8,095
Oniki Teknoloji A.Ş. (formerly known as Epost Dış Ticaret A.Ş.)	50	50
Dome Zero Inch. (**)	820	-
Secom Aktif Yatırım A.Ş. (**)	4,789	-
Equity accounted investees	**60,976**	**50,798**

(*) 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 consolidated in the financial statements as at 31 December 2019 and 31 December 2018.
(**) Secom Aktif Yatırım A.Ş and Dome Zero Inch. were acquired on 25 January 2019 and 20 March 2019 respectively.

	2019	2018
Balance at 1 January	50,798	54,052
Share of profit/(loss) of equity-accounted investees	(7,192)	(6,003)
Additions	14,112	50
Currency translation difference	3,258	2,699
Balance at 31 December	**60,976**	**50,798**

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

2019	Ownership (%)	Total assets	Total liabilities and Equity	Profit / (loss) in the year
Aktif Bank Sukuk Varlık Kiralama A.Ş.	100	1,428,525	1,428,500	25
Kazakhstan Ijara Company Jsc.	14.31	135,621	127,100	8,521
Euroasian Leasing Company	36.71	20,146	19,752	394
Euro Mediterranean Investment Company	25.53	63,661	61,442	2,219
Haliç Finansal Kiralama Anonim Şirketi	32	34,742	37,110	(2,368)
Halk Yenilenebilir Enerji A.Ş.	50	5,150	4,923	227
Idea Farm Ventures Limited	30	8,095	8,095	-
Oniki Teknoloji A.Ş. (formerly known as Epost Dış Ticaret A.Ş.)	99.86	50	50	-
Secom Aktif Yatırım A.Ş.	50	93,137	110,143	(17,006)
Dome zero inch.	2.67	820	820	-

2018	Ownership (%)	Total assets	Total liabilities and Equity	Profit / (loss) in the year
Aktif Bank Sukuk Varlık Kiralama A.Ş.	100	1,013,295	1,013,273	22
Kazakhstan Ijara Company Jsc.	14.31	106,728	97,086	9,642
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	-

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15. Tangible assets

	Machinery and equipment	Furniture and fixtures	Leasehold improvements	Motor vehicles	Construction in progress	Right-of-use assets	Other fixed assets	Total
Cost								
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 intangible assets	(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**
Balance on 1 January 2019	164,433	38,252	6,973	9,199	394,582	-	7,264	620,703
Impact of adopting IFRS 16	-	-	-	-	-	6,716	-	6,716
Acquisitions through business combinations (Note 38)	127,201	-	-	-	18	-	5,159	132,378
Additions	8,309	6,649	501	4,341	164,929	1,462	1,117	187,308
Transfers to intangible assets	60	-	190	1,649	(1,899)	-	-	-
Capitalized borrowing costs	-	-	-	-	-	-	-	-
Disposals	(519)	(326)	-	(320)	(201,469)	-	(47)	(202,681)
Balance on 31 December 2019	**299,484**	**44,575**	**7,664**	**14,869**	**356,161**	**8,178**	**13,493**	**744,424**
Depreciation and impairment								
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**
Balance on 1 January 2019	67,464	28,186	3,828	202	-	-	3,019	102,699
Acquisitions through business combinations	6,377	-	-	-	-	-	-	6,377
Depreciation for the year	9,319	6,424	997	2,567	-	971	1,321	21,599
Disposals	(62)	(69)	-	(82)	-	-	-	(213)
Transfers to intangible assets	-	-	-	-	-	-	-	
Balance on 31 December 2019	**83,098**	**34,541**	**4,825**	**2,687**	**-**	**971**	**4,340**	**130,462**
Carrying amounts								
Balance on 1 January 2018	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
Balance on 31 December 2019	216,386	10,034	2,839	12,182	356,161	7,207	9,153	613,962

16. Intangible assets

	Software	Computer programme	Rights (*)	Total
Cost				
Balance on 1 January 2018	54,649	55,969	187,547	298,165
- Acquisitions through business combinations	-	-	65,656	65,656
Additions:				
-Purchases	997	-	1,299	2,296
-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**
Balance on 1 January 2019	55,646	83,043	253,470	392,159
- Acquisitions through business combinations	-	-	47,916	47,916
Additions:				
-Purchases	9,144	-	2,005	11,149
-Internally developed	-	33,689	-	33,689
Disposals	-	-	-	-
Transfers from property and equipment	-	-	-	-
Balance on 31 December 2019	**64,790**	**116,732**	**303,391**	**484,913**
Amortisation and impairment				
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**
Balance on 1 January 2019	34,098	37,408	104,165	175,671
Amortisation for the year	3,879	9,937	29,835	43,651
Disposals	-	-	-	-
Transfers from property and equipment	-	-	-	-
Balance on 31 December 2019	**37,977**	**47,345**	**134,000**	**219,322**
Carrying amounts				
Balance on 1 January 2018	24,843	22,292	96,202	143,337
Balance on 31 December 2018	21,548	45,635	149,305	216,488
Balance on 31 December 2019	26,813	69,387	169,391	265,591

There is no capitalised borrowing cost related to the internally developed software during the year (31 December 2018: 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 89,010 has been recognized as an expense, and the remaining amount of TL 70,413 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 2018: 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).

17. Other assets

	31 December 2019	31 December 2018
Blocked accounts	203,980	130,130
Advances given	87,196	123,506
Prepaid expenses	84,133	84,310
Guarantees given	20,909	27,543
Suspense accounts	20,529	37,446
Fund service fee accrual	8,266	7,929
Income accrual	2,269	14,292
Credit card accounts	840	63
Others	25,738	278,407
	453,860	**703,626**

18. Assets held for sale

	2019	2018
Balance at 1 January	71,999	71,067
Addition	-	8,837
Disposal	-	(7,905)
Balance at 31 December	**71,999**	**71,999**

19. Obligations under repurchase agreements

	31 December 2019	31 December 2018
Obligations under repurchase agreements-TL	132,880	73,872
Obligations under repurchase agreements-FC	2,128,309	1,217,870
	2,261,189	**1,291,742**

20. Funds borrowed

	31 December 2019	31 December 2018
Domestic banks – TL	398,487	265,878
Domestic banks – Foreign currency	607,236	226,115
Foreign banks – TL	273,316	54,110
Foreign banks – Foreign currency	3,661,922	3,103,913
	4,940,961	**3,650,016**

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21. Debt securities issued

As at 31 December 2019 and 2018, all debt securities issued are at amortised cost.

	31 December 2019	31 December 2018
Debt securities issued-TL	5,097,130	3,911,453
Debt securities issued-FC	1,002,180	454,260
	6,099,310	**4,365,713**

	31 December 2019	31 December 2018
Nominal of debt securities issued	6,727,520	5,145,125
Unaccrued interest expense	(628,210)	(779,412)
	6,099,310	**4,365,713**

In 2019, the Group issued TL debt securities with maturities between 2 January 2020 and 1 September 2020 (2018: 2 January 2019 and 23 October 2020). The interest rate for TL debt securities is between 0.0001%-28.65% (2018: 15.15%-34.50%).

In 2019, the Group issued USD denominated debt securities with maturities between 2 January 2020 and 8 June 2022 (2018: 2 January 2019 and 27 June 2021). The interest rate for USD debt securities is between 2%-7.50% (2018: 4%-8%).

In 2019, the Group issued EUR denominated debt securities with maturities between 2 January 2020 and 29 December 2020 (2018: 7 January 2019 and 26 September 2019). The interest rate for EUR debt securities is between 0.50%-2% (2018: 2.60%-4.75%).

22. Taxation

General information

The Group 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.

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As at 31 December 2019 and 2018, the current tax liability is as follows:

	31 December 2019	31 December 2018
Income tax liability	139,710	114,396
Prepaid taxes	(119,557)	(65,807)
Income taxes payable	**20,153**	**48,589**

For the year ended 31 December 2019 and 2018, the income tax expense recognised in profit or loss and income tax recognised directly in equity are as follows:

Recognised in profit or loss

	2019	2018
Current tax expense from continuing operations	(119,978)	(113,830)
Deferred tax from continuing operations	18,634	15,052
Total income tax	**(101,344)**	**(98,778)**

Reconciliation of effective tax rate

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate of the Group for the year ended 31 December 2019 and 2018 is as follows:

2019	2019	Rate %	2018	Rate %
Profit for the year	410,663		381,672	
Total income tax expense	101,344		98,778	
Profit before income tax	**512,007**		**480,450**	
Income tax using the domestic corporation tax rate	(112,642)	(22.00)	(105,699)	(22.00)
Non-deductible expenses	(1,306)	(0.26)	(12,169)	(2.53)
Usage of non-utilized tax losses	2,649	0.52	(49)	(0.01)
Tax exempt income	6,241	1.22	8,140	1.69
Other	3,714	0.73	10,999	2.29
Total income tax in the profit or loss	**(101,344)**	**(19.79)**	**(98,778)**	**(20.56)**

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 2019			31 December 2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Financial assets measured at fair value through other comprehensive income	-	(5,907)	(5,907)	462	(310)	152
Reserve for employee benefits	6,573	-	6,573	2,146	-	2,146
Tangible assets and intangible assets	8,759	(30,743)	(21,984)	7,835	(591)	7,244
Tax losses carried forward	462	-	462	7,824	-	7,824
Expected credit losses	10,370	(442)	9,928	6,866	-	6,866
Acquisition of subsidiaries	-	(5,026)	(5,026)	-	(14,444)	(14,444)
Other	27,060	-	27,060	22,297	(9,766)	12,531
Deferred tax	**53,224**	**(42,118)**	**11,106**	**47,430**	**(25,111)**	**22,319**

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

	31 December 2019	31 December 2018
Deferred tax assets	45,677	36,987
Deferred tax liabilities	(34,571)	(14,668)
	11,106	**22,319**

Movements in temporary differences during the year

2019	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
Financial assets measured at fair value through other comprehensive income	152	24,154	(30,213)	(5,907)
Reserve for employee benefits	2,146	3,908	519	6,573
Tangible assets and intangible assets	7,244	(29,228)	-	(21,984)
Tax losses carried forward	7,824	(7,362)	-	462
Expected credit losses	6,866	3,062	-	9,928
Acquisition of subsidiaries	(14,444)	9,418	-	(5,026)
Other	12,531	14,681	(152)	27,060
	22,319	**18,633**	**(29,846)**	**11,106**

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
Impact of adopting IFRS 9	-	6,866	-	-	-	6,866
Acquisition of subsidiaries	-	-	-	-	(14,444)	(14,444)
Other	14,631	-	(2,131)	31	-	12,531
	8,416	**6,866**	**15,052**	**6,429**	**(14,444)**	**22,319**

Expiration schedule of carry forward tax losses is as follows:

	31 December 2019	31 December 2018
Expiring in 2020	388	894
Expiring in 2021	507	570
Expiring in 2022	2	882
Expiring in 2023	894	33,218
Expiring in 2024	310	-
Total	**2,100**	**35,564**

As at 31 December 2019, deferred tax assets have not been recognised in respect of the tax losses amounting to TL 54,701 because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom (31 December 2018: TL 64,095).

23. Provisions

	31 December 2019	31 December 2018
Provision for possible losses (*)	133,000	133,000
Vacation pay liability	4,477	4,360
Employee termination benefits	10,538	6,499
Other (**)	100,686	77,693
Total	**248,701**	**221,552**

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

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

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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 6.38 and TL 5.43 on 31 December 2019 and 2018, 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 2019 and 2018, 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 2019	31 December 2018
Discount rate	12.10%	14.50%
Inflation rate	8.20%	9.50%

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

	2019	2018
Opening balance	6,499	6,602
Interest cost	1,106	899
Service cost	2,216	2,086
Payment during the year	(1,641)	(1,922)
Actuarial loss/(gain)	2,358	(1,166)
Balance at the end of the year	**10,538**	**6,499**

24. Lease liabilities

	31 December 2019	31 December 2018
Due in one year	1,279	3,289
One to two years	808	615
Two to three years	961	-
Three to four years	925	-
Over four years	4,362	-
	8,335	**3,904**

25. Other liabilities

	31 December 2019	31 December 2018
Customer accounts (*)	1,507,780	1,624,270
Intermediary payment account	323,865	472,121
Blocked amounts (**)	152,789	64,401
Cash collaterals received	229,391	36,756
Taxes and due payable	30,174	32,616
Suspense accounts	27,579	55,044
Credit card accounts	25,428	14,472
Unearned income	25,015	30,286
Payables to compulsory government funds	9,541	6,037
Expense accrual	4,973	4,681
Other	87,883	60,296
	2,424,418	**2,400,980**

(*) 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.

26. Capital and reserves

	31 December 2019	31 December 2018
Number of common shares, TL 1,000 (in full TL), par value (Authorised and issued)	1,193,585	1,193,585

As at 31 December 2019 and 2018, all issued shares are fully paid and there is no preference shares assigned to shareholders of the Bank.

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Share capital and share premium

As at 31 December 2019 and 2018, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	31 December 2019		31 December 2018	
	Amount	%	Amount	%
Çalık Holding A.Ş.	1,186,791	99.43	1,186,791	99.43
Çalık Denim Tekstil San. ve Tic. A.Ş.	3,597	0.30	3,597	0.30
Ahmet Çalık	1,599	0.13	1,599	0.13
Başak Yönetim Sistemleri A.Ş.	799	0.07	799	0.07
Irmak Yönetim Sistemleri A.Ş.	799	0.07	799	0.07
Total paid-in-capital	**1,193,585**	**100.00**	**1,193,585**	**100.00**
Restatement effect per IAS 29	4,510		4,510	
Total share capital	**1,198,095**		**1,198,095**	

31 December 2018: 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.

Reserves

Fair value reserves

As at 31 December 2019, 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.

Fair value reserve is as follows:

	31 December 2019		31 December 2018	
	TL	FC	TL	FC
Valuation differences	49,087	15,641	(45,836)	3,446
Total	**49,087**	**15,641**	**(45,836)**	**3,446**

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.

Actuarial gain/ (loss)

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

Special funds

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

Translation reserves

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

27. Net interest income

	2019	2018
Interest income		
Loans and advances to customers	1,265,824	1,023,425
Investment securities	353,649	253,987
Cash and cash equivalents	194,770	50,349
Other	3,537	5,162
Total interest income	**1,817,780**	**1,332,923**
Interest expense		
Debt issued	972,933	595,177
Funds borrowed	183,442	182,492
Money market transactions	75,114	126,937
Other	59,515	2,743
Total interest expense	**1,291,004**	**907,349**
Net interest income	**526,776**	**425,574**

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28. Net fee and commission income

	2019	2018
Fees and commission income		
Intermediary commissions	82,766	69,204
Delivery fee	27,595	31,926
Financial guarantee contracts issued	20,266	15,662
Commitment fee	14,272	32,081
Remittance fee	14,211	15,423
Insurance fee	-	13
Other	15,701	11,709
Total fees and commission income	**174,811**	**176,018**
Fees and commission expense		
Clearance commissions	65,461	49,291
Credit card commissions	20,522	15,802
Financial guarantee contracts issued	2,259	1,919
Other	13,560	10,392
Total fees and commission expense	**101,802**	**77,404**
Net fees and commission income	**73,009**	**98,614**

29. Net trading loss / Income

	2019	2018
Foreign exchange gain/(loss)	14,217	(128,296)
Trading account gain/(loss)	56,804	(26,704)
Gain/(loss) from derivative financial instruments	53,869	144,558
Total	**124,890**	**(10,442)**

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30. Sales income and cost of services

Sales income:

	2019	2018
Revenue from sale of goods	310,287	400,112
Insurance commission income	83,414	52,779
Transaction and other commission income	75,855	77,617
Revenue from cash register POS	31,820	41,185
Other sales income	27,236	17,610
Total	**528,612**	**589,303**

Cost of services:

	2019	2018
Cost of merchandises sold	75,626	18,462
Dealer commission and other commission expenses	21,846	22,081
Maintenance expenses	9,912	20,591
Consultancy expenses	9,382	860
Cost of cash register POS	8,340	15,318
Rent expenses	3,706	4,273
Depreciation and amortization expenses	-	200
Other expenses	3,017	18,602
Total	**131,829**	**100,387**

31. Other income

	2019	2018
Gain on sale of subsidiary(*)	140,118	-
Gain on sale of assets	36,126	60,299
Reversal of provision for corporate tax	21,072	13,216
Income from business combination	-	40,692
Reversal of provision for possible losses	-	37,000
Asset-backed security profit sharing	-	652
Other	29,872	27,441
Total	**227,188**	**179,300**

(*) Consists of gain on sales of from the shares in İstanbul Finans Merkezi, Aktif Halk Enerji Yatırımları A.Ş. and Kumtaşı Solar Enerji Üretim A.Ş..

32. Net impairment on financial assets

	2019	2018
Stage 3	79,876	41,074
Stage 1, 2	11,120	(9,733)
Total	**90,996**	**31,341**

33. Personnel expenses

	2019	2018
Wages and salaries	122,665	111,247
Social security premiums	22,583	16,512
Provision for employee benefits	3,676	3,564
Other	50,829	45,403
Total	**199,753**	**176,726**

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34. Administrative expenses

	2019	2018
System usage expenses	46,391	24,097
Publicity expenses	43,265	49,301
Taxes and dues other than on income	27,933	27,657
Maintenance expenses	14,724	11,091
Communication expenses	13,129	9,462
Outsource expenses	12,709	10,798
Consultancy expenses	9,054	14,112
Expenses on vehicles	6,471	8,111
Others	45,861	46,071
Total	**219,537**	**200,700**

35. Other operating expenses

	2019	2018
Marketing expenses	2,756	9,021
Provision expenses	296	5,416
Other	50,044	42,724
Total	**53,096**	**57,161**

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 2018: 99.43%).

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 38,611 (31 December 2018: TL 32,278).

Balances with related parties

31 December 2019	Related party balances	Total balance	Rate (%)
Loans and advances to customers	2,684,379	7,568,126	35.47
Other liabilities (Customer accounts)	9,832	1,507,780	0.65
Debt securities issued	20,634	6,099,310	0.34

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

Off statement of financial position balances with related parties

31 December 2019	Related party balances	Total balance	Rate (%)
Non-cash loans	605,042	1,485,218	40.74

31 December 2018	Related party balances	Total balance	Rate (%)
Non-cash loans	418,678	1,232,225	33.98

Transactions with related parties

	2019	2018
Interest income on loans	370,876	308,598
Fee and commission income	5,165	6,940
Other expenses	16,777	8,011

37. Commitments and contingencies

	31 December 2019	31 December 2018
Letters of guarantee	1,036,631	1,007,343
Letters of credit	155,662	58,122
Other guarantees	292,925	166,760
Total non-cash loans	**1,485,218**	**1,232,225**
Check limits	2,844	2,037
Other commitments	423,182	203,355
Total	**1,911,244**	**1,437,617**

38. Acquisitions of subsidiaries

Business combinations/acquisition of solar energy SPVs

According to share transfer agreements dated 15 February 2019, Emlak Girişim Danışmanlığı A.Ş. decided to purchase 100% of shares of solar energy SPVs for a total consideration of TL 41,350. On 30 June 2019, share transfers were finalised and Emlak Girişim Danışmanlığı A.Ş. obtained control by acquiring 100% of shares and voting rights in SPVs (31 December 2018: 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.

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As of 31 December 2019, 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	41,350
Total consideration	**41,350**
Identifiable assets acquired and liabilities assumed	**Recognized values on acquisition**
Cash & cash equivalents	777
Trade and other receivables	63,952
Other assets	7,574
Tangible assets (note 15)	126,001
Intangible assets (note 16)	47,916
Total assets	**246,220**
Funds borrowed	(166,424)
Trade and other payables	(68,391)
Other liabilities	(126)
Deferred tax liability	(12,479)
Total liabilities	**(247,420)**
Total net identifiable liabilities	**(1,200)**
Total consideration transferred	**41,350**
Less: Value of net identifiable liabilities	1,200
Goodwill	**42,550**
Cash consideration transferred	41,350
Cash & cash equivalents acquired	(777)
Net cash outflow arising from acquisition	**40,573**

As of 31 December 2018, 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 acquired	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 purchasing guarantee of solar energy production arising from Renewable Energy Resources Support Mechanism. The expected net cash flows are discounted using risk-adjusted discount rate of 14%. Significant unobservable inputs are expected revenue growth rate, approximately minus 0.3%, and risk adjusted discount rate of 14%.

39. Subsequent events

The Covid-19 epidemic is spreading across the world and in our country and the precautions taken against the epidemic cause the disruptions in operations in all countries exposed to the epidemic. It affects the economic conditions negatively all over the world. Since the economic effects of this situation are uncertain as of the reporting date, the effects on the Group's consolidated financial statements due to its operations cannot be reasonably estimated.

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