Aktif Yatırım Bankası Anonim Şirketi and Its Subsidiaries

Condensed Consolidated Interim Financial Statements
For the Six-Month Period Ended
30 June 2018
With Independent Auditor’s Report on Review of
Condensed Consolidated
Interim Financial Information

24 October 2018

This report contains the Independent Auditor’s Limited Review Report on Review of Condensed Consolidated Interim Financial Information” comprising 2 page and; the “Condensed consolidated interim financial statements and their explanatory notes” comprising 26 pages.

Aktif Yatırım Bankası Anonim Şirketi and Its Subsidiaries

TABLE OF CONTENTS

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

Independent Auditors' Report on Review of Condensed Consolidated Interim Financial Information

To the Board of Directors of Aktif Yatırım Bankası Anonim Şirketi:

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Aktif Yatırım Bankası Anonim Şirketi (the "Bank") and its subsidiaries (collectively the "Group") as at 30 June 2018, the condensed consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the interim financial information ("the condensed consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Financial Reporting Standard IAS 34, "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

The accompanying condensed consolidated interim financial information as at 30 June 2018 include a general reserve of total TL 170,000 thousands, which had been recognized as expense in the prior periods, which is provided by the Bank management for the possible effects of the negative circumstances which may arise in the economy or market conditions.

Qualified Conclusion

Based on our review, except for the effects of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at 30 June 2018 is not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

Other Matter

The consolidated financial statements of the Bank as at and for the year ended 31 December 2017 and as at and for the six-month period ended 30 June 2017 were audited and reviewed by another auditor who expressed a qualified opinion and a qualified conclusion due to general reserve provided by the Bank on 26 April 2018 and 8 September 2017, respectively.

KPMG Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
A member of KPMG International Cooperative

Alper Güvenç, SMMM
Partner

24 October 2018
İstanbul, Turkey

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Condensed Consolidated Statement of Financial Position
As of 30 June 2018

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

	Notes	30 June 2018	31 December 2017
ASSETS			
Cash and cash equivalents		726,533	730,980
Reserve deposits at Central Bank		1,059,733	1,008,020
Financial assets at fair value through profit or loss		154,867	-
Trading assets		-	51,956
Trade and other receivables		35,392	254,154
Inventories		16,041	137,722
Loans and advances to customers	*11*	6,832,096	6,539,477
Investment securities	*12*	2,119,527	1,564,817
Equity accounted investees	*4*	50,057	54,052
Tangible assets	*13*	596,778	256,796
Intangible assets	*14*	148,628	143,337
Goodwill		504	504
Deferred tax assets		6,341	10,246
Asset held for sale		70,983	71,067
Other assets		655,606	247,863
Total assets		**12,473,086**	**11,070,991**
LIABILITIES			
Trading liabilities		47,790	8,987
Trade and other payables		282,994	114,787
Obligations under repurchase agreements		1,700,290	1,074,509
Financial lease liabilities		11,092	20,146
Debt securities issued	*15*	3,158,487	2,776,288
Funds borrowed		3,974,503	3,774,380
Provisions	*16*	232,101	240,966
Income taxes payables		7,131	18,392
Deferred tax liabilities		4,067	1,830
Other liabilities		1,696,999	1,817,756
Total liabilities		**11,115,454**	**9,848,041**
EQUITY			
Share capital	*20*	1,038,095	1,038,095
Legal reserves		56,353	38,343
Unrealised gain/(loss) on financial assets measured at fair value through other comprehensive income		(38,969)	(18,580)
Actuarial gain/(loss)		(136)	(136)
Special funds		37,005	618
Translation reserve		1,792	(409)
Retained earnings		251,781	154,118
Total equity attributable to equity holders of the Bank		**1,345,921**	**1,212,049**
Non-controlling interests		11,711	10,901
Total equity		**1,357,632**	**1,222,950**
Total liabilities and equity		**12,473,086**	**11,070,991**

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Condensed Consolidated Statement of Comprehensive Income
For the Six-Month Period Ended 30 June 2018

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

	Notes	**1 January – 30 June 2018**	**1 January – 30 June 2017**
Interest income		597,075	497,018
Interest expense		(323,305)	(212,371)
Net interest income		**273,770**	**284,647**
Fees and commission income	*17*	83,522	166,658
Fees and commission expense		(34,481)	(23,581)
Net fee and commission income		**49,041**	**143,077**
Net trading loss		(15,973)	(33,374)
Sales income	*18*	139,016	138,938
Other income		77,688	16,266
Other expenses		-	(120,000)
Net impairment reversal / (loss) on financial assets		(31,021)	(10,570)
Operating expenses		(185,985)	(177,504)
- *Personnel expenses*		*(81,672)*	*(86,060)*
- *Depreciation and amortisation*	*13,14,18*	*(22,767)*	*(25,280)*
- *Other operating expenses*	*19*	*(81,546)*	*(66,164)*
Cost of services	*18*	(54,272)	(71,821)
Other operating expenses		(10,159)	(28,219)
Total operating income		**242,105**	**141,440**
Share of profit of equity accounted investee	*4*	(6,196)	233
Profit before income tax		**235,909**	**141,673**
Income tax expenses		(59,134)	(55,183)
Net profit for the period from continuing operations		**176,775**	**86,490**
Other comprehensive income			
Items that will not be reclassified to profit or loss:		**-**	**-**
Change in actuarial gain related to employee benefits		-	-
Special funds		-	-
Tax effect		-	-
Items that are or may be reclassified subsequently to profit or loss:		**(18,188)**	**5,537**
Change in fair value of financial assets measured at fair value through other comprehensive income		(26,140)	
Change in fair value of available-for-sale financial assets			5,525
Foreign currency translation differences		2,201	1,117
Income tax on other comprehensive income		5,751	(1,105)
Other comprehensive income for the period, net of tax		**(18,188)**	**5,537**
Total comprehensive income for the period		**158,587**	**92,027**
Profit attributable to			
Equity holders of the Bank		175,139	85,642
Non-controlling interest		1,636	848
Profit for the period		**176,775**	**86,490**
Total comprehensive income attributable to:			
Equity holders of the Bank		156,951	91,179
Non-controlling interest		1,636	848
Total comprehensive income for the period		**158,587**	**92,027**
Basic and diluted earnings per share (full TL amount per TL 1 face value each)		**0.169**	**0.083**

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Condensed Consolidated Statement of Changes in Equity
For the Six-Month Period Ended 30 June 2017

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

	Note	Share capital	Adjustment to share capital	Legal reserves	Unrealised gains/(losses) on available-for-sale assets	Translation reserve	Actuarial gain/(loss)	Special funds	Retained earnings	Total	Non-controlling interest	Total equity
At 1 January 2017		**933,585**	**4,510**	**24,237**	**(23,011)**	**(2,356)**	**441**	**618**	**36,498**	**974,522**	**9,100**	**983,622**
Total comprehensive income for the year												
Profit for the year		-	-	-	-	-	-	-	85,642	85,642	848	86,490
Other comprehensive income		-	-	-	4,420	1,117	-	-	-	5,537	-	5,537
Net change in fair value of available-for-sale financial assets		-	-	-	*4,420*	-	-	-	-	*4,420*	-	*4,420*
Net change in actuarial gain related to employee benefits		-	-	-	-	-	-	-	-	-	-	-
Foreign currency translation differences		-	-	-	-	*1,117*	-	-	-	*1,117*	-	*1,117*
Total comprehensive income for the year		**-**	**-**	**-**	**4,420**	**1,117**	**-**	**-**	**85,642**	**91,179**	**848**	**92,027**
Transactions with owners, recorded directly in equity												
Capital increase		100,000	-	-	-	-	-	-	(100,000)	-	10,050	10,050
Transfer to reserves		-	-	14,106	-	-	-	-	(14,106)	-	-	-
Dividend paid		-	-	-	-	-	-	-	-	-	(300)	(300)
Total transactions with owners, recorded directly in equity		**100,000**	**-**	**14,106**	**-**	**-**	**-**	**-**	**(114,106)**	**-**	**9,750**	**9,750**
At 30 June 2017		**1,033,585**	**4,510**	**38,343**	**(18,591)**	**(1,239)**	**441**	**618**	**8,034**	**1,065,701**	**19,698**	**1,085,399**

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Condensed Consolidated Statement of Changes in Equity
For the Six-Month Period Ended 30 June 2018

(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**
IFRS 9 Adjustment	*6*	-	-	-	-	-	-	-	(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		-	-	-	-	-	-	-	175,139	175,139	1,636	176,775
Other comprehensive income		-	-	-	(20,389)	2,201	-	-	-	(18,188)	-	(18,188)
Net change in fair value of financial assets measured at fair value through other comprehensive income		-	-	-	*(20,389)*	-	-	-	-	*(20,389)*	-	*(20,389)*
Net change in actuarial gain related to employee benefits		-	-	-	-	-	-	-	-	-	-	-
Foreign currency translation differences		-	-	-	-	*2,201*	-	-	-	*2,201*	-	*2,201*
Total comprehensive income for the year		**-**	**-**	**-**	**(20,389)**	**2,201**	**-**	**-**	**175,139**	**156,951**	**1,636**	**158,587**
Transactions with owners, recorded directly in equity												
Capital increase		-	-	-	-	-	-	-	-	-	174	174
Transfer to reserves		-	-	18,010	-	-	-	36,387	(54,397)	-	-	-
Dividend paid		-	-	-	-	-	-	-	-	-	(1,000)	(1,000)
Total transactions with owners, recorded directly in equity		**-**	**-**	**18,010**	**-**	**-**	**-**	**36,387**	**(54,397)**	**-**	**(826)**	**(826)**
At 30 June 2018		**1,033,585**	**4,510**	**56,353**	**(38,969)**	**1,792**	**(136)**	**37,005**	**251,781**	**1,345,921**	**11,711**	**1,357,632**

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Condensed Consolidated Statement of Cash Flows
For the Six-Month Period Ended 30 June 2018

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

	Notes	**1 January – 30 June 2018**	**1 January – 30 June 2017**
Cash flows from operating activities			
Net profit for the year		176,775	86,490
Adjustments for:			
Depreciation and amortisation of tangible and intangible assets booked in operating expenses	13,14	22,767	25,280
Depreciation and amortisation of tangible and intangible assets booked in cost of goods sold	13,14	254	440
Impairment on financial assets		31,021	10,570
Net interest income and expense		(228,647)	(256,180)
Share of profit of equity investee		6,196	(233)
(Reversal) / provision for possible losses		-	120,000
Unrealised foreign exchange loss / (gain)		(49,429)	28,352
Other accruals		(6,321)	54,080
Income tax		59,134	55,183
		11,750	**123,982**
Change in reserve deposit at Central Bank		(51,713)	(359,022)
Change in trading assets		(68,469)	32,794
Change in loans and advances to customers		(86,088)	(237,850)
Change in other assets		(87,166)	4,543
Change in obligations under repurchase agreements		624,374	136,391
Proceeds from borrowings		(22,643)	(490)
Change in other liabilities		34,557	(3,878)
		342,852	**(427,512)**
Interest received		561,936	511,844
Interest paid		(341,318)	(294,926)
Income tax paid		(43,091)	(39,744)
Net cash used in operating activities		**177,527**	**177,174**
Cash flows from investing activities			
Purchase of investment securities		(4,182,761)	(1,389,942)
Sale of investment securities		3,602,674	1,184,460
Purchase of tangible assets	13	(339,587)	(30,385)
Equity accounted investees		-	(9,099)
Proceeds from the sale of tangible assets		210	3,078
Purchase of intangible assets	14	(10,648)	(8,347)
Dividend paid		(1,000)	(300)
Net cash used in investing activities		**(931,112)**	**(250,535)**
Cash flows from financing activities			
Proceeds from debt securities issued		12,530,430	10,570,980
Repayment of debt securities issued		(12,124,217)	(10,433,210)
Change in financial lease liabilities		(9,414)	(7,288)
Net cash provided from financing activities		**396,799**	**130,482**
Net increase/(decrease) in cash and cash equivalents		**(2,184)**	**(246,409)**
Effect of exchange rate fluctuations on cash		(3,474)	2,933
Cash and cash equivalents on 1 January		726,952	987,083
Cash and cash equivalents on 30 June		**721,294**	**743,607**

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

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 lending, financial leasing, factoring, corporate lending. As an investment bank, the Bank borrows funds from other banks, financial markets, partners and credit customers, but is not entitled to receive deposits from customers.

The head office of the Bank is located at Büyükdere Cad. No: 163/A Zincirlikuyu / Istanbul, and the Bank has eight branches.

The Bank and its subsidiaries are hereafter referred to as the "Group".

The Bank employs 662 people as at 30 June 2018 (31 December 2017: 656).

The Group controls equity stakes in companies that are active in the areas of technology system integration, payment center, 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"): Sigortayeri.com is an online insurance comparison website which ensures the best match between insurance products and customer needs in minutes. Operating across the global market since 2013, Sigortayeri has differentiated its corporate insurance services under the brand of "Asron Sigorta" since May 2017.

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

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

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

N Kolay Ödeme Kuruluşu A.Ş. ("N Kolay"): 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"): Emlak Girişim works on real estate projects, structures and systems, and makes active counselling and guidance.

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

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

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

1. Reporting entity *(continued)*

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

Aktif Halk Enerji Yatırımları A.Ş.: The company, which was established in April 2017, makes investments in the field of solar energy production.

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

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 condensed consolidated financial statements in Turkish Lira ("TL") in accordance with the accounting principles as promulgated by the Banking Regulation and Supervision Agency ("BRSA"), 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.

In accordance with the transition rules of IFRS 9, the prior period financial statements and notes are not restated. Accounting policies and valuation principles used for the year 2018 and 2017 periods are separately presented in the footnotes.

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

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

The condensed 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 condensed consolidated interim financial statements were authorised for issue by the Group's management on 24 October 2018. The Bank's General Assembly and the other reporting bodies have the power to amend the condensed consolidated interim financial statements after their issue.

2.2 Basis of measurement

The financial statements have been prepared on historical cost basis except for the following:

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

2. Basis of preparation *(continued)*

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgements

The preparation of the condensed consolidated interim 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 condensed consolidated interim financial statements, the significant judgements made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at 31 December 2017.

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

2.5 Earnings per share

Earnings per share disclosed in the consolidated statements of income is determined by dividing the net income attributable to the equity holders of the Group by the weighted average number of ordinary shares outstanding during the period concerned.

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.

3. Significant accounting policies

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

Except as described below, the accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements, and have been applied consistently by Group entities. The following changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2018. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

Standards and interpretations issued but not yet effective

Standards issued but not yet effective and not early adopted

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

IFRS 16 Leases

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

3. Significant accounting policies *(continued)*

Standards and interpretations issued but not yet effective *(continued)*

Standards issued but not yet effective and not early adopted *(continued)*

IFRIC 23 –Uncertainty over Income Tax Treatments

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

The revised Conceptual Framework

The revised Conceptual Framework issued on 28 March 2018 by the IASB. The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the Board in developing IFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The Conceptual Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards. The revised Framework is more comprehensive than the old one – its aim is to provide the Board with the full set of tools for standard setting. It covers all aspects of standard setting from the objective of financial reporting, to presentation and disclosures. For companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction, the revised Conceptual Framework is effective for annual reporting periods beginning on or after 1 January 2020, with earlier application permitted.

Annual Improvements to IFRSs 2015-2017 Cycle

Improvements to IFRSs

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

IFRS 3 Business Combinations and *IFRS 11 Joint Arrangements*

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

IAS 12 Income Taxes

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

IAS 23 Borrowing Costs

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

3. Significant accounting policies *(continued)*

Annual Improvements to IFRSs 2015-2017 Cycle *(continued)*

Improvements to IFRSs *(continued)*

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

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

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of these amendments to IAS 28.

Amendments to IFRS 9 - Prepayment Features With Negative Compensation

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

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IFRS 9.

Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement

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

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of the amendments to IAS 19.

4. Basis of consolidation

Subsidiaries

The consolidated financial statements incorporate the condensed consolidated interim financial statements of the Bank and entities controlled by the Bank (its subsidiaries). 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 reassesses 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 period are included in the condensed consolidated statement of interim comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

4. Basis of consolidation *(continued)*

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. Transaction 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 condensed 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.

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.

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

4. Basis of consolidation *(continued)*

Group entities

The subsidiaries included in the consolidation and their ownership percentages are as follows:

Subsidiaries		Direct ownership %		Indirect ownership %	
	Country of Incorporation	30 June 2018	31 December 2017	30 June 2018	31 December 2017
Insurance Brokerage					
Sigortayeri Sigorta ve Reasürans Brokerliği A.Ş.	Turkey	100.00%	100.00%	-	-
Payment Systems					
Epost Elektronik Perakende Otomasyon Satış Tic. A.Ş.	Turkey	99.27%	99.27%	-	-
E-Kent Teknoloji ve Ödeme Sistemleri San ve Tic. A.Ş.	Turkey	-	-	99.27%	99.27%
N Kolay Mağazacılık A.Ş.	Turkey	99.99%	99.99%	-	-
UPT Ödeme Hizmetleri A.Ş.	Turkey	100.00%	100.00%	-	-
Real Estate					
Emlak Girişim Danışmanlığı A.Ş.	Turkey	100.00%	100.00%	-	-
Service					
Pavo Teknik Servis Elektrik Elektronik Sanayi ve Ticaret A.Ş.	Turkey	-	-	79.42%	79.42%
Mükafat Portföy Yönetimi A.Ş.	Turkey	80.00%	80.00%	-	-
Solar Energy					
Albatros Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	-
Kamelya Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	-
Kırlangıç Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	-
Çöl Yıldızı Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	-
Deniz Yıldızı Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	-
İpek Güneş Enerjisi Üretimi A.Ş.	Turkey	-	-	100.00%	-
Esen Güneş Enerjisi Üretimi A.Ş.	Turkey	-	-	100.00%	-
Mehtap Güneş Enerjisi Üretim A.Ş.	Turkey	-	-	100.00%	-
Tanyeri Güneş Enerjisi Üretim A.Ş.	Turkey	-	-	100.00%	-
Seher Güneş Enerjisi Üretimi A.Ş.	Turkey	-	-	100.00%	-
Ufuk Güneş Enerjisi Üretim A.Ş.	Turkey	-	-	100.00%	-
Yakamoz Güneş Enerjisi Üretim A.Ş.	Turkey	-	-	100.00%	-
Duru Güneş Enerjisi Üretimi A.Ş.	Turkey	-	-	100.00%	-
Deniz Güneş Enerjisi Üretimi A.Ş.	Turkey	-	-	100.00%	-
Pasifik Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	-
Olimpos Solar Enerji Üretım A.Ş.	Turkey	-	-	100.00%	-
Yakut Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	-
Seher Yıldızı Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	-
Kuzey Yıldızı Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	-
Gök Safir Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	-
Kızıl Yıldızı Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	-
Kasımpatı Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	-
Martı Solar Enerji Üretim A.Ş	Turkey	-	-	100.00%	-
Nilüfer Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	-
Mercan Solar Enerji Üretim A.Ş.	Turkey	-	-	100.00%	-
Other					
İnovaban İnovasyon Ve Finansal Danışmanlık A.Ş.	Turkey	-	-	67%	-
Attivo Bilişim Anonim Şirketi	Turkey	-	-	90%	-

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

4. Basis of consolidation *(continued)*

Equity accounted investees	Country of Incorporation	30 June 2018 Ownership %	31 December 2017 Ownership %
Kazakhstan Ijara Company Jsc	Kazakhstan	14.31%	14.31%
İFM İstanbul Finans Merkezi İnşaat Taahhüt A.Ş.	Turkey	5.00%	5.00%
Euroasian Leasing Company	Republic of Tatarstan	36.71%	36.71%
Haliç Finansal Kiralama Anonim Şirketi	Turkey	32.00%	32.00%
Aktif Halk Enerji Yatırımları Anonim Şirketi	Turkey	50.00%	50.00%
Halk Yenilenebilir Enerji Anonim Şirketi	Turkey	50.00%	50.00%
Soleren S4 Enerji Üretim Anonim Şirketi	Turkey	-	50.00%
Euro Mediterianean Investment Company	Turkish Republic of Northern Cyprus	25.53%	25.53%

Carrying amount of equity accounted investees is summarized below:

	30 June 2018	31 December 2017
Kazakhstan Ijara Company Jsc.	11,314	9,299
Aktif Yatırım Bankası Sukuk Varlık Kiralama A.Ş.(*)	100	100
Eurasian Leasing Company	4,869	4,372
Company Euro Mediterranean Investment	6,684	6,415
Haliç Finansal Kiralama Anonim Şirketi	7,000	6,670
Aktif Halk Enerji Yatırımları A.Ş.	1,512	9,128
Halk Yenilenebilir Enerji A.Ş.	10,483	10,915
Solaren S4 Enerji Üretim A.Ş.	-	(942)
Idea Farm Ventures Limited	8,095	8,095
Equity accounted investees	**50,057**	**54,052**

(*) Aktif Bank Sukuk Varlık Kiralama A.Ş. ("VKŞ") engages in the operating activities of issuance of Sukuk. According to IFRS 10, the Bank should have the major effect on the financial statements of the company. On the other hand, the Bank does not have the major effect on VKŞ's financial statements because it requires power over VKŞ, exposure or rights to variable returns from its involvement with VKŞ and the ability to use its power over VKŞ to affect the movement of 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 2017 and 30 June 2018.

	1 January – 30 June 2018	1 January – 30 June 2017
Balance at 1 January	54,052	22,803
Share of profit/(loss) of equity-accounted investees	(6,196)	233
Additions	-	9,099
Currency translation difference	2,201	1,117
Balance at the end of the period	**50,057**	**33,252**

5. 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.

5. Explanations and disclosures on financial assets *(continued)*

5.1 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.

5.2. 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.

5.3. 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.

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

6. Explanations of IFRS 9 financial instruments

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

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

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

Explanation of the effect of the Group's application of IFRS 9 is stated below:

6.1. Classification and measurement of financial assets

	Before IFRS 9		In scope of IFRS 9	
	31 December 2017		1 January 2018	
	Measurement bases	**Book Value**	**Measurement bases**	**Book Value**
Cash and Cash Equivalents	Loans and receivables	730,980	Measured at amortized cost	730,980
Reserve Deposits at Central Bank	Loans and receivables	1,008,020	Measured at amortized cost	1,008,020
Investment Securities	Trading assets	42,971	Fair value through profit and loss	42,971
	Available for sale financial assets	1,318,792	Fair value through other comprehensive income	1,318,792
	Investment securities held to maturity	254,120	Measured at amortized cost	254,120
Derivative Financial Assets	Trading assets	8,985	Fair value through profit and loss	8,985
	Fair value through other comprehensive income	-	Fair value through other comprehensive income	-
Loans and Advances to Customers	Loans and receivables	6,670,024	Measured at amortized cost	6,670,024

6.2. Reconciliation of statement of financial position balances to IFRS 9

There are no classifications in financial assets within in the scope of IFRS 9.

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

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

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

6.4. Effects on equity with IFRS 9 transition

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

6. Explanations of IFRS 9 financial instruments *(continued)*

6.4. Effects on equity with IFRS 9 transition *(continued)*

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

7. Explanations on expected credit losses of the Group

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

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

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

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

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

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

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

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

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

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

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

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

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

8.1. Financial assets at fair value through profit or loss

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

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

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

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

8.2. Financial assets available for sale

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

8.3. Investments held to maturity

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

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

8. Explanations on prior period accounting policies not valid for the current period *(continued)*

8.4. Loans and other receivables

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

8.5. Allowances for loan losses

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

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

9. Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group’s risk management framework. The Board has established the Audit Committee and Risk Management Department, which are responsible for developing and monitoring Group 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 Group’s risk management policies are established to identify and analyse the risks faced by the Group, 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 Group, 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 Group’s risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. 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.

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

10. Segment Reporting

2018	Retail banking	Corporate banking	Investment banking	Other	Total banking	Brokerage	Other	Combined	Adjustments	Total
Operating income	254,915	395,044	119,039	45,000	813,998	35,553	127,193	976,744	(85,639)	891,105
Operating expense	(133,142)	(62,595)	(9,944)	(356,506)	(562,187)	(9,890)	(125,194)	(697,271)	42,075	(655,196)
Income from operations	**121,773**	**332,449**	**109,095**	**(311,506)**	**251,811**	**25,663**	**1,999**	**279,473**	**(43,564)**	**235,909**
Taxation charge	-	-	-	(51,406)	(51,406)	(5,726)	(2,045)	(59,177)	43	(59,134)
Net income for the year	**121,773**	**332,449**	**109,095**	**(362,912)**	**200,405**	**19,937**	**(46)**	**220,296**	**(43,521)**	**176,775**
Segment assets	2,373,376	4,747,680	3,908,347	-	11,029,403	96,788	295,972	11,422,163	(477,974)	10,944,189
Investments in equity participations	-	-	357,708	-	357,708	-	282,620	640,328	(590,271)	50,057
Other assets	-	-	-	843,616	843,616	5,118	636,855	1,485,589	(6,749)	1,478,840
Total assets	**2,373,376**	**4,747,680**	**4,266,055**	**843,616**	**12,230,727**	**101,906**	**1,215,447**	**13,548,080**	**(1,074,994)**	**12,473,086**
Segment liabilities	2,926,565	2,717,507	4,863,299	-	10,507,371	1,031	716,053	11,224,455	(2,049,299)	9,175,156
Equity and other liabilities	-	-	-	1,723,356	1,723,356	100,875	499,394	2,323,625	974,305	3,297,930
Total liabilities and equity	**2,926,565**	**2,717,507**	**4,863,299**	**1,723,356**	**12,230,727**	**101,906**	**1,215,447**	**13,548,080**	**(1,074,994)**	**12,473,086**
Other segment items										
Capital investment	-	-	-	-	-	-	-	-	-	356,096
Depreciation / Amortization	-	-	-	-	-	-	-	-	-	23,021

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

10. Segment Reporting *(continued)*

2017	Retail banking	Corporate banking	Investment banking	Other	Total banking	Brokerage	Other	Combined	Adjustments	Total
Operating income	205,011	426,999	78,782	14,500	725,292	32,196	130,111	887,599	(68,486)	819,113
Operating expense	(92,626)	(49,001)	(38,043)	(391,846)	(571,516)	(7,964)	(148,047)	(727,527)	50,087	(677,440)
Income from operations	**112,385**	**377,998**	**40,739**	**(377,346)**	**153,776**	**24,232**	**(17,936)**	**160,072**	**(18,399)**	**141,673**
Taxation charge	-	-	-	(50,103)	(50,103)	(4,898)	(1,554)	(56,555)	1,372	(55,183)
Net income for the year	**112,385**	**377,998**	**40,739**	**(427,449)**	**103,673**	**19,334**	**(19,490)**	**103,517**	**(17,027)**	**86,490**
Segment assets	2,080,582	4,828,009	3,270,241	-	10,178,832	111,399	517,010	10,807,241	(520,115)	10,287,126
Investments in equity participations	-	-	357,708	-	357,708	-	286,665	644,373	(590,321)	54,052
Other assets	-	-	-	569,143	569,143	8,972	165,057	743,172	(13,359)	729,813
Total assets	**2,080,582**	**4,828,009**	**3,627,949**	**569,143**	**11,105,683**	**120,371**	**968,732**	**12,194,786**	**(1,123,795)**	**11,070,991**
Segment liabilities	2,155,727	2,830,759	4,534,069	-	9,520,555	646	601,262	10,122,463	(2,353,366)	7,769,097
Equity and other liabilities	-	-	-	1,585,128	1,585,128	119,725	367,470	2,072,323	1,229,571	3,301,894
Total liabilities and equity	**2,155,727**	**2,830,759**	**4,534,069**	**1,585,128**	**11,105,683**	**120,371**	**968,732**	**12,194,786**	**(1,123,795)**	**11,070,991**
Other segment items										
Capital investment	-	-	-	-	-	-	-	-	-	38,732
Depreciation	-	-	-	-	-	-	-	-	-	25,720

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

11. Loans and advances to customers

As of 30 June 2018 and 31 December 2017, all loans and advances to customers are at amortised cost.

	Gross amount	**Impairment allowance**	**Carrying amount**	**Gross amount**	**Impairment allowance**	**Carrying amount**
	30 June 2018			**31 December 2017**		
Other lending	6,992,310	(160,214)	6,832,096	6,670,024	(130,547)	6,539,477
Corporate loans	4,500,233	(41,756)	4,458,477	4,539,122	(32,031)	4,507,091
Consumer loans	2,492,077	(118,458)	2,373,619	2,130,902	(98,516)	2,032,386
	6,992,310	**(160,214)**	**6,832,096**	**6,670,024**	**(130,547)**	**6,539,477**

Allowance for impairment

	30 June 2018
Allowances for individual impairment	
Balance on 31 December 2017	96,405
Impact of adopting IFRS 9 at 1 January 2018	10,324
Balance on 1 January 2018	106,729
Impairment loss for the year	15,351
- Charge for the year	15,536
- Recoveries	(185)
Balance at the end of the period	**122,080**
Allowances for collective impairment	
Balance on 31 December 2017	34,142
Impact of adopting IFRS 9 at 1 January 2018	17,505
Balance on 1 January 2018	51,647
Impairment loss for the year	(13,513)
- Charge for the year	5,569
- Recoveries	(19,082)
Balance at the end of the period	**38,134**
Total allowances for impairment	**160,214**

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

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

12. Investment securities

	30 June 2018		
	Interest rate %	**Latest maturity**	**Carrying amount**
Financial assets measured at amortized cost			
- Government bonds	11.03	11 August 2027	237,878
- Corporate bonds	7.12-19.48	10 May 2024	299,694
Financial assets measured at fair value through other comprehensive income			
- Government bonds	1.1-18.76	11 May 2047	751,966
- Corporate bonds	4.83-25.68	10 May 2024	829,989
			2,119,527

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

As at 30 June 2018, TL 151,609 and TL 1,827,926 of investment securities are given as collateral for performing transaction at stock exchange and repurchase agreement, respectively (31 December 2017: TL 625,162 and TL 598,404, respectively).

13. Tangible assets

For the six-month period ended 30 June 2018, acquisitions of tangible assets are TL 339,587 (30 June 2017: TL 30,385). Capitalized borrowing costs are TL 11,829 (30 June 2017: TL 9,786). Disposal of tangible assets are TL 210 (30 June 2017: TL 3,078). Depreciation charge for the six-month period ended 30 June 2018 is TL 10,469 (30 June 2017: TL 10,758). Depreciation amount of disposal of tangible assets is TL 21 (30 June 2017: TL 52).

14. Intangible assets

For the six-month period ended 30 June 2018, acquisitions of intangible assets are TL 10,648 (30 June 2017: TL 8,347). There is no disposal of tangible assets (30 June 2017: None). Amortisation charge for the six-month period ended 30 June 2018 is TL 12,552 (30 June 2017: TL 14,962).

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

15. Debt securities issued

	30 June 2018	31 December 2017
Debt securities issued-TL	2,566,727	2,314,083
Debt securities issued-FC	591,760	462,205
Total	**3,158,487**	**2,776,288**

	30 June 2018	31 December 2017
Nominal of debt securities issued	3,462,901	3,059,585
Valuation difference of debt securities issued	(304,414)	(283,297)
Total	**3,158,487**	**2,776,288**

16. Provisions

	30 June 2018	31 December 2017
Provision for possible losses	170,000	170,000
Employee benefits provision	12,365	10,687
Other	49,736	60,279
Total	**232,101**	**240,966**

17. Net fee and commission income

	30 June 2018	30 June 2017
Intermediary commissions	35,899	36,494
Delivery fee	13,647	4,650
Commitment fee	13,452	13,256
Financial guarantee contracts issued	7,455	7,105
Remittance fee	6,342	101,544
Insurance fee	13	1,931
Other	6,714	1,678
Total	**83,522**	**166,658**

18. Sales income from subsidiaries and cost of sales & services from subsidiaries

Sales income:

	30 June 2018	30 June 2017
Commission income	66,076	60,327
Revenue from sale of goods	32,572	34,625
Revenue from cash register POS	23,661	35,388
Revenue from GSM sales	228	464
Other sales income	16,479	8,134
Total	**139,016**	**138,938**

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

18. Sales income from subsidiaries and cost of sales & services from subsidiaries *(continued)*

Cost of services:

	30 June 2018	30 June 2017
Cost of merchandises sold	13,429	14,198
Maintenance expenses	11,321	11,069
Cost of cash register POS	10,585	27,547
Dealer commission expenses	7,798	8,010
Rent expenses	2,176	2,303
Consultancy expenses	1,023	1,025
Depreciation and amortization expenses	254	440
Other	7,686	7,229
Total	**54,272**	**71,821**

19. Administrative expenses

	30 June 2018	30 June 2017
Publicity expenses	19,913	15,243
Rent expenses	10,858	7,759
Taxes and dues other than on income	9,440	5,843
Consultancy expenses	7,838	3,638
Outsource expenses	4,882	4,396
Communication expenses	3,862	4,194
Maintenance expenses	3,835	5,506
Expenses on vehicles	3,518	2,726
Others	17,400	16,859
Total	**81,546**	**66,164**

20. Capital and reserves

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

As at 30 June 2018, all issued shares are fully paid and there is no preference shares assigned to shareholders of the Group.

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

20. Capital and reserves *(continued)*

Share capital and share premium

As of 30 June 2018 and 31 December 2017, the composition of shareholders and their respective percentage of ownership are summarised as follows:

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

Reserves

Fair value reserve

As at 30 June 2018, this reserve includes the cumulative net change in the fair value of financial assets measured at fair value through other comprehensive income until the investment is derecognised or impaired.

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

Other reserves

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

Translation reserve

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

Special funds

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

21. Related parties

Parent and ultimate controlling party

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

Compensation of key management personnel of the Group

Total salaries and other benefits paid to the Board of Members and top management during the period are TL 22,057 (30 June 2017: TL 12,846).

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

21. Related parties *(continued)*

Balances with related parties *(continued)*

Balances with related parties

30 June 2018	Related party balances	Total balance	Rate %
Loans and advances to customers	2,528,285	6,832,096	37.01
Other liabilities (Customer accounts)	1,326	840,219	0.16
Debt securities issued	124,958	3,158,487	3.96

31 December 2017	Related party balances	Total balance	Rate %
Loans and advances to customers	2,185,383	6,539,477	33.42
Other liabilities (Customer accounts)	61,482	1,201,545	5.12
Debt securities issued	28,317	2,776,288	1.02

Off balance sheet balances with related parties

30 June 2018	Related party balances	Total balance	Rate %
Non-cash loans	668,374	1,183,785	56.46

31 December 2017	Related party balances	Total balance	Rate %
Non-cash loans	640,395	1,308,957	48.92

Transactions with related parties

	30 June 2018	30 June 2017
Interest income on loans	119,508	114,747
Fee and commission income	3,166	3,088
Other expenses	1,837	3,177

22. Commitments and contingencies

	30 June 2018	31 December 2017
Letters of guarantee	978,801	1,151,664
Letters of credit	23,822	136,693
Other guarantees	181,162	20,600
	1,183,785	**1,308,957**
Check limits	2,043	1,718
Other commitments	253,824	410,207
Total	**1,439,652**	**1,720,882**

23. Subsequent events

Between the date of 30 June 2018 and the date of approval of the financial statements, 24 October 2018, considering the currency exchange buying rate of the bank for the relevant dates, the Turkish Lira depreciated about 27% against the US dollar and about 25% against the Euro.

The Monetary Policy Committee of CBRT ("Central Bank of Turkey") decided to increase the benchmark interest rate from 17.75% to 24% on 14 September 2018. The Bank management does not expect that the increase in benchmark interest rate will have significant impact on its financial statements.