

Annual Report 2018



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Part I

Introduction

2018 Review: The Economy and Financial Markets

Slowdown signals had started to occupy the global economic agenda especially during the second half of 2018. The most important indicator on this front is definitely the US ISM index, which declined from 59.4 by end 2017, to 54.3 in December 2018. Notwithstanding the fact that any index figure above 50 represents an economic expansion, the downward course of the indicator is worth to mention anyway. Indeed, the mid-year figure in June was at 60.0. The same leading indicator for the Eurozone, the PMI index, declined towards low fifties in 2018 and ended the year at 51.4. Accordingly, unlike the case in the past, messages from world's leading central banks recently contained more dovish messages. While, a relaxed monetary policy from leading central banks will result in a more suitable environment for emerging market economies due to easier funding, lower growth in developed market will definitely affect EM economies' performances negatively. In addition, the FED seems to continue to reduce its balance sheet, although at a smaller margin. In fact, a total reduction of 373 bln USD of FED's balance sheet had affected EM markets negatively in 2018. Global trade war between China and US seem to continue for the medium term, as a final solution is not easy to reach. Indeed, almost half of US trade deficit stems from trade with China and hence both sides' stakes are high on the negotiations.

The Turkish economy grew by 2.6% in 2018. In spite of a higher than expected contraction of household expenditures at 8.9% in the last quarter of the year, the overall economy faced a smaller reduction of 3.0% in the same period due to a superior export performance. Indeed, exports' contribution to overall growth in 2018 was 7.9 percentage points. We expect this export performance and its contribution to overall growth to continue in 2019. The annual Turkish consumer inflation increased from 11.9% in 2017 to 20.3% by end 2018. Although depreciation of the TRY took its toll on inflation rates in 2018, strong measures taken by the Turkish economy administration seem to have affected markets positively. Hence we think that YE19 inflation target of 15.9% detailed in government's New Economy Program seem to be achievable, although some fluctuations due to strong base effects is yet to be seen.

In Brief

In 2018, Yapı Kredi Asset Management maintained its strong position in the market by adapting to changing conditions and increasing the number of corporate customers while maintaining the superior service quality provided to individual customers.

At the beginning of 2018, Yapı Kredi Asset Management increased the number of customers serving in private pension funds to 5 with the implementation of a single portfolio management company managing more than 40% of Private Pension funds. Having successfully completed this transition process, the company continued to increase customer satisfaction.

In 2018, the company was awarded 8 different awards from Asset Management to Pension Fund management by prestigious financial magazines operating in the international arena. In addition, Turkey Capital Market Association awards for 3 consecutive years as Leader Returns of Pension Funds - 2017 as it strengthened its position in the leadership.

Yapı Kredi Asset Management (YKAM) is a leading asset management company in Turkey with a diverse and comprehensive range of products and services including mutual funds, pension funds, discretionary portfolios, investment advisory.

YKAM is a member of Yapı Kredi Group under Koç Financial Services, which is ultimately owned by Koç Group (50%) and UniCredit from Italy (50%).

As of the end of 2018, YKAM manages a total of 30 mutual funds and 25 pension funds that comprise an extensive range of investment management products further enhanced by best-of-breed discretionary portfolios currently under management.

YKAM manages portfolios on a collaborative basis, with dedicated teams composed of professionals who are specialized in each asset class. Applying proprietary research and analysis derived from international resources with precise benchmarking and diligent risk management, YKAM produces tailor-made solutions for each client according to the guidelines and objectives of each portfolio.

As of 31 December 2018, YKAM manages assets totaling TL19.5bn (US\$ 3.7 bn) with 16.6% market share in mutual funds and 11.7% in pension funds.

Core Strengths

With its continued success YKAM aims to sustain its leader position on asset management sector with innovative approaches

• Strong Awards Portfolio

Yapı Kredi Asset Management has been awarded by 9 prestigious awards in 2019. The company awarded by "Turkey's Best Asset Management Company" by Global Brands Magazine and International Business Magazine as well as "Best Investment Strategy - Turkey 2018" by Business Vision. Furthermore, YKAM has been awarded as "Pension Fund Management – 2017 Highest Return" in the category of "Asset Management" by Turkish Capital Markets Association (TCMA) third time in a row. On the other hand YKAM has been awarded by "Recognised Leaders in Pension Fund Management – Turkey" and "Best Asset Management Company - Turkey" from Wealth and Finance and "Best Pension Fund Manager – Turkey, 2018" from Global Business Outlook. YKAM completed 2018 with a total of 9 awards.

• A Broad Product Range

As one of the pre-eminent asset management companies in Turkey, YKAM benefits from its broad presence and diversified range of products to meet the changing needs of investors with different risk/return profiles. The Company is also a pioneer in Turkey with its alternative investment products including hedge fund, foreign currency denominated fund and funds-of-funds.

• Strength in Investment Management

All investment decision-making and portfolio management processes are implemented by relevant committees using well-established procedures and benchmark-driven strategies at YKAM. All investment cases are evaluated at the Investment Committee and Asset Allocation Committee before they are finalized.

• Proven Internal Control Systems

YKAM is very much aware of the fact that prudent risk management policies lie at the heart of longevity in asset management. Therefore, a disciplined approach is taken towards risk management with well implemented monitoring and reporting processes. Independent internal control and audit functions provide the necessary oversight functions. Mutual funds and pension funds reports are delivered daily with composites available for discretionary portfolios and tailor-made reporting services available for institutional mandates.

• Robust Technological Resources

YKAM utilizes proprietary software as its asset management system, which is designed in-house with third party support to optimally wield YKAM's know-how with numerous analytical modules. The quality of fund administration processes including non-standard transactions like OTC options is fully supported by the Company's well-developed IT framework. On the other hand the operational risks are minimized by integrated systems.

• A Consistent and Solid Track Record in Performance

YKAM aims to provide its clients with long-term competitive risk-adjusted returns. YKAM funds have consistently delivered superior risk adjustment vis-à-vis the benchmarks utilized with optimally low volatility due to prudent risk management policies.

• Well-established Client Management Services and Sales Support Functions

With a strong and well-established client service tradition, YKAM makes a difference to investors looking for premium value for their assets. The marketing, sales and customer relations functions are overseen by its dedicated and highly competitive capital markets professionals who have a keen focus on customer needs. The teams continuously come up with innovative product solutions to serve clients better and offer a full range of services for institutional and HNW clients.

• Advanced Product Management Expertise

YKAM has extensive product management expertise gained through years of in-depth experience, highly educated and skilled risk managers as well as fund managers. YKAM creates new products and strategies responsive to investors' changing needs by intensively following the fund market trends all around the world. YKAM product management functions are well supported by a dedicated and competent in-house team that conducts cutting edge research and quantitative analysis.

Key Operational Indicators

	2018		2017		2016		2015		2014	
	Asset Size (US\$ Million)	Market Share (%)	Asset Size (US\$ Million)	Market Share (%)	Asset Size (US\$ Million)	Market Share (%)	Asset Size (US\$ Million)	Market Share (%)	Asset Size (US\$ Million)	Market Share (%)
Mutual Funds	1,428	16.45%	2,530	18.91%	2,096	17.09%	2,262	17.52%	2,746	17.97%
Pension Funds	2,070	11.70%	2,756	13.07%	2,276	13.17%	2,268	13.74%	2,379	14.60%
All Funds	3,498	13.26%	5,286	15.34%	4,372	14.80%	4,531	15.40%	5,125	16.23%

	2018		2017		2016		2015		2014	
	Asset Size (US\$ Million)	Number of Clients	Varlık Değeri (Milyon TL)	Müşteri Sayısı	Varlık Değeri (Milyon TL)	Müşteri Sayısı	Varlık Değeri (Milyon TL)	Müşteri Sayısı	Varlık Değeri (Milyon TL)	Müşteri Sayısı
Discretionary Portfolio Management	188	655	213	667	200	537	201	451	256	388
Investment Advisory	239	57	254	42	247	39	252	29	362	40
Portfolio Management and Advisory	427	712	466	709	447	576	453	480	618	428

Assets Under Management*	3,686	5,499	4,572	4,732	5,381
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# of Mutual Funds Managed	30	33	35	32	40
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# of Pension Funds Managed	25	25	21	20	19
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* Mutual Funds, Pension Funds and DPM size are considered
Source: Yapı Kredi Asset Management as of December 31st, 2018

Key Financial Indicators

Net Revenues (US\$ Million)

2018	14.9
2017	20.2
2016	17.8
2015	20.0

Net Profit (US\$ Million)

2018	6.8
2017	10.1
2016	8.6
2015	9.6

Shareholder (US\$ Million)

2018	12.5
2017	17.1
2016	15.3
2015	17.2

Milestones

2002

- Mutual funds management has been taken over.

2003

- Management of Koç Allianz and Yapı Kredi pension funds started.
- Establishment of risk management.
- Launch of Private Banking funds for HNWIs.

2004

- Building 3rd party distribution with two other banks.
- Initiation and support for distribution of foreign funds in Turkey.
- Introduction of "Pusula", a saving system based on mutual funds and risk profile questionnaire developed by the Company.

2005

- Portfolio advisory started to run in order to serve for HNWIs.
- Managing mutual funds of a third party.

2006

- International rating company Fitch Ratings rated YKAM at M2 (tur).
- Merger of Koç and YKAM* (market leader in mutual funds)

2007

- International rating company Fitch Ratings reaffirmed YKAM's rating at M2 (tur).
- 'Fund of World Funds' (1st Fund of Funds investing in foreign funds in Turkey).
- Merger process of mutual funds established by both Koçbank and Yapı Kredi Bank completed.

2008

- International rating company Fitch Ratings rated YKAM's rating at M2+ (tur) which stand for "strong".
- Portfolio advisory service to a foreign fund introduced.
- Turkey's 1st capital guaranteed funds.

2009

- Yapı Kredi Istanbul Hedge Fund.
- A new business line for the low risk category clients launched in Discretionary Portfolio Management.

2010

- A new business line for the medium risk category clients launched in Discretionary Portfolio Management.
- International credit rating company Fitch Ratings reaffirmed YKAM's rating at M2+ (tur).

2011

- Yapı Kredi issued Turkey's largest capital guaranteed funds so far with a volume of TL280 million.
- International Credit rating company Fitch Ratings reaffirmed YKAM's rating at M2+ (tur).

2012

- 3 new equity funds, 5 fixed income funds and 6 capital guaranteed funds were presented to Yapı Kredi clients in 2012.
- Turkey's 1st private sector focused and ISE Dividend Index Funds.
- Fitch Ratings reaffirmed YKAM's asset manager rating at M2+ (tur)

2013

- YKAM honored as "The Best Asset Management Company in Turkey" in 2013 by EMEA Finance Magazine.
- Fitch Ratings rated Yapı Kredi Asset Management at 'Highest Standards(tur)' the highest National Scale
- First asset management company with rated funds in Turkey
- Yapı Kredi SICAV has been launched

2014

- Yapı Kredi Asset Management has been selected by Global Banking and Finance Review Magazine, EMEA Finance Magazine, World Finance Magazine and International Finance Magazine as the "Best Asset Manager in Turkey" in 2014.
- YKAM's "Highest Standards (tur)" rating, has been reconfirmed by Fitch Ratings.
- YKAM maintained both its position as the first asset management company with rated funds in Turkey and its high quality rating on its funds.

2015

- Yapı Kredi Asset Management has been selected as Best of Turkey by 7 prestigious finance magazine in 2015.**
- YKAM's "Highest Standards (tur)" rating, which is the highest grade in Fitch's scale of asset management rating, has been reconfirmed by Fitch Ratings.
- Only rated asset manager company in Turkey, Yapı Kredi Asset Management's 4 Mutual Funds' ratings have been reaffirmed, 3 Pension Funds have been rated at "Good".
- Founder ship transference with Yapı Kredi Bank has been completed. The process of orientation to TEFAS has been completed.

2016

- YKAM has been awarded by EMEA Finance Magazine, Global Brands Magazine and Turkish Capital Markets Association.
- YKAM's Highest Standards (tur) grade has been reaffirmed and withdrawn by Fitch Ratings.
- YKAM's 4 mutual funds² and 3 pension funds' grades has been confirmed and withdrawn by Fitch Ratings
- First foreign currency denominated fund and 2 new hedge funds have been launched.

2017

- YKAM awarded by Global Banking and Finance Review Magazine and Finance Digest Magazine with 4 awards
- YKAM won "Pension Fund Management - 2016 Highest Return" award of Turkish Capital Markets Association for the second time in a row
- Launched first fund of funds, reached to TL 635mn

2018

- 6 prestigious global magazine awarded YKAM
- YKAM won "Pension Fund Management - 2017 Highest Return" award of Turkish Capital Markets Association for the third time in a row.
- Started to work with 6 different pension companies.

* The largest merger in the history of the Turkish banking sector bringing Yapı Kredi Bank and Koçbank under one roof, so that the new Yapı Kredi Bank is positioned as the fourth largest privately-owned commercial bank.

**According to evaluations made by Global Brands Magazine, EMEA Finance Magazine, Global Banking and Finance Review, Business Worldwide Magazine, Global Finance Magazine, International Finance Magazine and Global Investor Magazine in 2015.

Shareholders

Shareholder Name	Number of Shares (TL)	%
Koç Holding		
UniCredit		
Yapı Kredi Bankası A.Ş.		
Yapı Kredi Yatırım Menkul Değerler A.Ş.	2,051,616.42	87.32
Yapı Kredi Bankası A.Ş.	297,191.42	12.65
Other	634.94	0.03
Total	2,349,442.78	100,00

Koç Group

Koç Group, founded in 1926, is the largest business Group in Turkey with its turnover, exports and over 94 thousand employees. Koç Group's turnover comprises 7% of Turkey's total Gross Domestic Product (GDP) and exports comprise 10% of Turkey's total exports.

UniCredit

UniCredit Group, with roots dating back to 1473, is a simple, successful, pan-European, commercial bank with a unique Western, Central and Eastern European network in 14 core markets.

Yapı Kredi

In 29 June 2018, Yapı Kredi completed TL 4.1 billion of rights issue and the Bank's issued capital increased to TL 8.447.051 thousand from TL 4.347.051 thousand. Yapı Kredi has been sustainably strengthening its positioning in the sector since its establishment in 1944 through a customer-centric approach and focus on innovation. Yapı Kredi is the 3rd largest private bank in Turkey with total asset size of TL 373,4 billion as of the end of 2018. Constantly in the pursuit of increasing its contribution to the financing of the Turkish economy, Yapı Kredi increased the volume of its total cash and non-cash loans by 10% in 2017 to TL 306.3 billion. Accordingly, Yapı Kredi maintained its position at 2nd place among private banks.

The Bank serves its customers with its 854 branches covering all regions of Turkey and 17,577 employees. Yapı Kredi's Alternative Delivery Channels (ADCs) comprise 4,330 ATMs, innovative internet banking, leading mobile banking, 3 call centers and approximately 551 thousand POS terminals. 96% of the Bank's transactions go through non-branch channels.

Yapı Kredi is a fully integrated financial services group supported by its domestic and international subsidiaries. Yapı Kredi serves its customers through retail banking (comprising of individual banking, Small and Medium Size Enterprises (SME) banking and card payment systems, private banking and wealth management), as well as corporate and commercial banking. The Bank's operations are supported by domestic subsidiaries in asset management, brokerage, leasing and factoring as well as international banking subsidiaries in the Netherlands, Malta and Azerbaijan.

Chairman's Message

Dear Stakeholders,

In 2018, super-power US money markets policies were followed closely. Brexit in Europe and macro developments in domestic markets were monitored as well. Due to those developments as Yapı Kredi Asset Management we showed the most effort to protect the funds from the fluctuations and to provide optimum return with effective portfolio management against the unexpected market movements.

For Yapı Kredi Asset Management 2018 was a very successful year with its products which aim asset allocation and effective risk management. The increasing market share of our company in Mutual Funds excluding Money Market funds, which has been leading the sector in mutual funds for many years, has continued to make us proud. On the other hand, we started to work with five different institutions in the management of Pension Funds after the change of the law and increased the number of our institutional clients, and we achieved high satisfaction of them with the synergy that we provided with our fund management, operations and sales teams.

As in previous years, Yapı Kredi Asset Management has been awarded by both national and international prestigious publications in 2018 as well. The Best Asset Management, Funds Strategy and Pension Fund Management company awards given by Global Brands Magazine, Business Vision, International Business Magazine, Wealth and Finance, International Finance and Global Business Outlook. In the domestic arena, Yapı Kredi Asset Management repeated its award third time and won "Pension Fund Management – 2017 Highest Return" by Turkish Capital Markets Association (TCMA).

In 2018, we succeeded to please our clients by adapting rapidly to market conditions that are changing both in financial and commercial terms. I would like to thank my colleagues who have managed this adaptation process with great success. In 2019, I have no doubt that Yapı Kredi Asset Management will lead the portfolio management sector with new products and strategies

Sincerely,



Bahar Seda İkizler
Chairman

CEO's Message

Dear Shareholders,

Despite the global economic developments, Yapı Kredi Asset Management left 2018 behind with many memorable works, both social and business.

We completed last year by managing the portfolios in the most effective manner by responding to economic and sectoral developments by increasing both individual and corporate customer satisfaction. It has been a year in which different experiences have been gained for the whole sector which started to work with different pension companies with the change of legislation.

Yapı Kredi Asset Management completed this year with lot of gains. By working with different corporate investors, we have increased customer satisfaction in terms of both operational and portfolio management by operating all our business units in an integrated manner with the flexibility and smoothness to adapt to different pension companies.

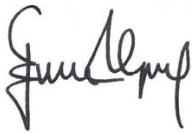
At the end of 2018, Yapı Kredi Asset Management has a market share of 11.3 percent with a size of approximately 19,5 billion TL asset under management. It had a market share of TL 10,9 billion in pension funds and TL 7,5 billion in mutual funds with a markets share of respectively 11.7 percent and 16.6 percent. As a result of new models and asset allocation strategy we reached to TL 2,1 billion in 2018 from 1,7 billion in 2017. Yapı Kredi Asset Management, which was the market share leader in qualified mutual funds (mutual funds excluding money market and short term bonds&bills) for many years, increased its size in 2018 and reached 31.8 percent. We launched two hedge funds and one fund of funds in 2018.

In 2018, Yapı Kredi Asset Management's achievements rewarded by nine domestic and international distinguished financial institutions. Yapı Kredi Asset Management won "Pension Fund Management – 2017 Highest Return" by Turkish Capital Markets Association (TCMA) award third time in a row which is a great pride for us.

Last year, with the support of volunteers in Yapı Kredi Asset Management, we did a project to raise social awareness with Tomurcuk Foundation. The foundation, carries out studies on the education of children with mental disabilities and down syndrome and their integration to social life. In the coming years, we will try to increase social welfare and awareness with similar social responsibility projects.

In 2019 just like recent years, we will continue to provide the best service to our customers despite all the challenging market conditions without losing our enthusiasm and dedication. We will continue to do our best to take our company, sector and country one step further.

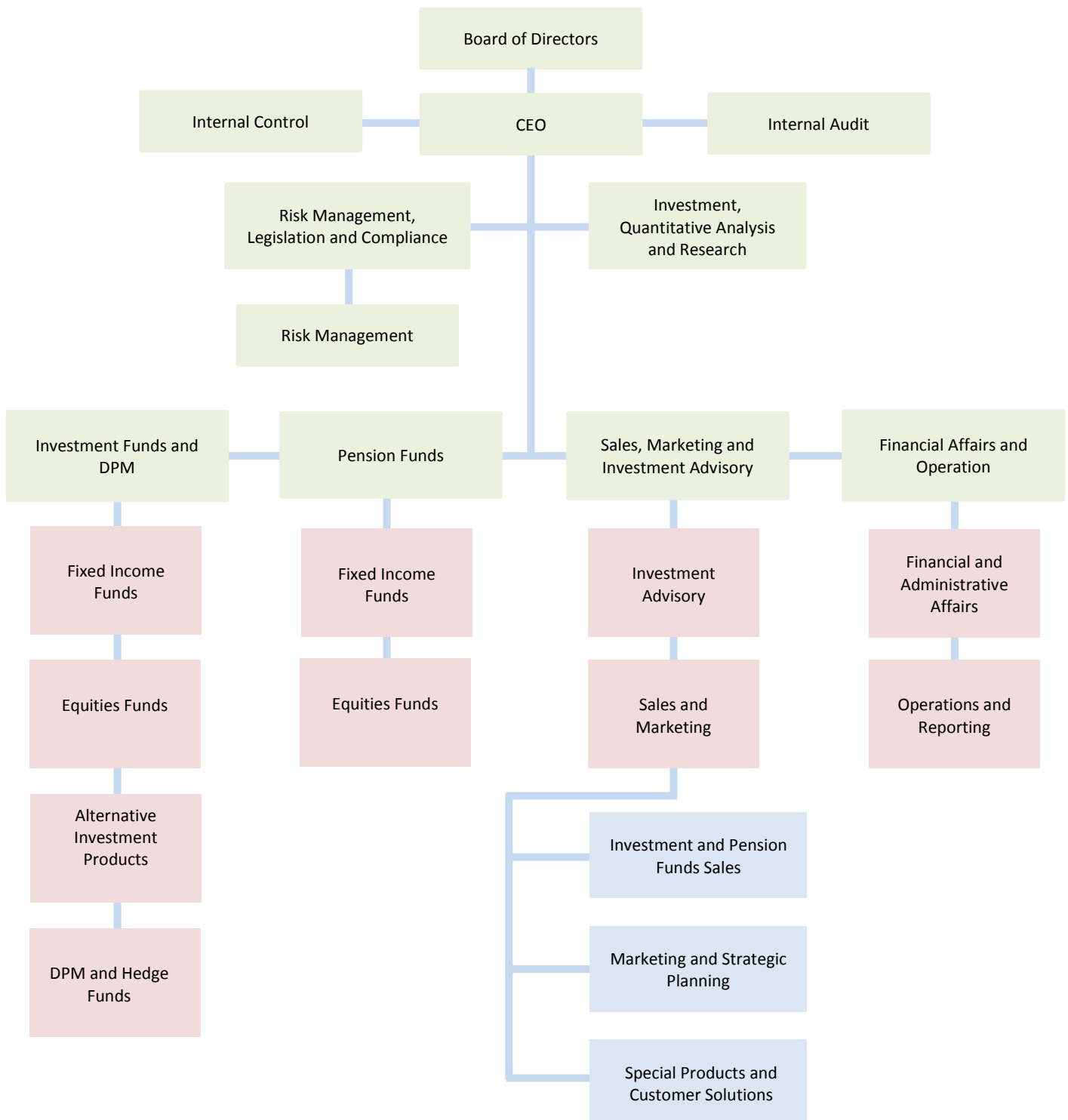
Sincerely,



Emir Alpay
CEO

Functional Organization Chart

Its streamlined functional organizational structure enables YKAM to provide faster and more flexible service in responding diverse customer needs with 61 employees.



Directors

Bahar Seda İKİZLER

Chairman of the Board of Directors

Seda İkizler (1972) studied at Çağaloğlu Anadolu Lisesi between years 1983-1990 and graduated from Bosphorus University Business Administration at 1995. She worked for two years in Ernst&Young at Audit Department (1995-1997). She moved to Ulusalbank "Financial Control" department as manager until 2000. She continued her career at Managed Market Risk Management departments in Kocbank and Yapı Kredi until 2012. In 2012, she was appointed to the "Executive Vice President" for heading the divisions "Financial Reporting", "General Accounting", "Treasury Products and Payments" and "Basel Reporting".

Ahmet ÇİLOĞLU

Vice Chairman of the Board of Directors

Ahmet Çiloğlu, who graduated from Middle East University with a major of Business Administration in 2002, began to his career as an assistant and then worked as an assistant audit manager at PricewaterhouseCoopers between September 2002 and December 2006. After beginning at Yapı Kredi Bank in January 2007, he worked as Budget and Planning Director until December 2016. He continues to work as Planning and Control Group Director in Yapı Kredi Bank from December 2016 onwards.

Emir ALPAY

CEO and Member of the Board of Directors

Emir Alpay is the CEO and the Board Member of Yapı Kredi Asset Management since May 21st 2013. He began his career at the treasury department of Kocbank in 1997. Between 1997-1998 he served at Money market desk, after 1999 held various senior dealer positions at Fixed Income Desk. Between 2006 and 2011, he served as manager and director at Institutional Sales Department. In 2011, he was promoted to be an Executive VP of FX and Derivatives Markets. Emir Alpay received his MAIB from University of North London International Business in 1997, and a BA in Business Administration from Istanbul University in 1996.

Officers

Bülent İMRE

Sales, Marketing and Portfolio Advisory Assistant General Manager

Bülent İmre is the Assistant General Manager of Sales, Marketing and Investment Advisory and he joined Yapı Kredi Asset Management or one of its predecessor firms in 1999. He started his career in the Private Banking Division of Garanti Bankası in 1990. Afterwards, he worked at the proprietary desks of Marmara Bank and Finansbank. He served for Interbank as the Director in Investment Banking Department until 1995. He then worked for Acar Securities. He joined Koç Securities as the Division Head in DPM and Mutual Funds Department. Bülent İmre had an MBA in Finance and Economics from Louisiana Tech University (1990), and a BSc. in Mechanical Engineering from Boğaziçi University (1987).

Müge PEKER

Mutual Funds and DPM Assistant General Manager

Müge Peker is Assistant General Manager of Mutual Funds and DPM section and she joined Yapı Kredi Asset Management or one of its predecessor firms in 2003. Müge Peker holds an MBA from Yeditepe University, and a BSc. in Environmental Engineering from Marmara University (1990). Müge Peker started her career as a Management Trainee at Alternatif Bank in 1995 and she worked at the proprietary desks. Between 1995-1998 she worked as Assistant Manager in the Treasury Department of Alternatif Yatırım A.Ş. Müge Peker moved to Koç Asset Management as a Senior Portfolio Manager in 2003. Müge Peker has been in the industry since 1995.

Murat ÖNER

Pension Funds Assistant General Manager

Murat Öner is Assistant General Manager of Pension Funds Section and he joined at Yapı Kredi Asset Management or one of its predecessor firms in 2003. After graduating from Istanbul Technical University with an MS degree in Managerial Engineering (1993), he began his career at Karon Securities Inc. in 1995 as Assistant Specialist. Shortly after, in 1996, he joined Yapı Kredi Invest, serving as a Fixed Income Securities Dealer in Investment Banking Department. During his tenure, he managed various mutual and pension funds both personally and as the leader of the managing teams. Additionally, from 2007 to 2010, he served as the Head of the Discretionary Portfolio Management Section.

Nihat Cenk TÜRELİ

Risk Management and Compliance Executive Manager

Cenk Türelİ is the Executive Manager of Risk Management and Compliance and he joined Yapı Kredi Asset Management or one of its predecessor firms in 2000. Upon completion of his BA in Mathematics from Boğaziçi University (1995) followed by MBA in Finance from Providence College (1998), Cenk Türelİ started his career in the Sales and Trading Department of the brokerage company of KFS Group in 2000. He joined YKAM in 2003 for conducting buy-side research and risk management. In 2010, he was promoted to his current position at the Risk Management and Compliance Department, managing the team responsible for designing, maintaining and monitoring the risk and compliance framework of the Company.

Benan Bilge KÖKSAL

Financial Affairs and Operations Executive Manager

Benan Bilge Köksal is the Executive Manager of Finance Affairs and Operations and she joined Yapı Kredi Asset Management or one of its predecessor firms in 2003. After graduating from the University of Bahrain with a major in Business Administration, Benan Köksal began her career at Arthur Andersen Worldwide (Turkey) in 2000. She specialized in FSI, financial services and institutions market, also worked as an external auditor for many prestigious firms in Turkey. In 2003, she became assistant CFO of the newly established Koç Asset Management. She played an important role in merging process of Koç Asset Management and YKAM in 2006. She has been working as the CFO responsible from Finance, Operations and Administration functions since 2010.

Okan UZUNOĞLU

IFDPM Equities Funds Executive Manager

Okan Uzunoğlu is an Executive Manager of Equities Funds section and he joined Yapı Kredi Asset Management or one of its predecessor firms in 2001. After graduating from Istanbul University with a major in Business Administration (1994), Okan Uzunoğlu began his career at Dow Jones Financial Services Istanbul Branch in 1995. In 2001, he joined Koç Invest as Investment Products Division Manager. He graduated from the UniCredit Young Talents Master Program of Bocconi University in 2004. After the merger of Koç Asset Management and YKAM, he started to work as Senior Fund Manager in YKAM.

Officers

Ümit ERSAMUT

MF Fixed Income Funds Executive Manager

Ümit Ersamut, Group Head of Mutual Fund Fixed Income, has joined Yapı Kredi Asset Management in March 2015. He graduated from Istanbul University Business Administration faculty, Business in English programme. Then he started to University of Virginia for Finance MA with scholarship by Istanbul University. After graduating, he worked at Citibank, Turkey Corporate Banking Unit in 2000-2001, and then joined Akbank Corporate Banking Credit Department. In 2003-2004 periods, he worked in PriceWaterhouseCoopers as a senior auditor and moved to Koçbank Treasury department in September 2004. After the merger of Koç Asset Management and YKAM, he rotated ALM-fixed income and FX desks respectively in 11 years. Finally in March 2015 he was attended to YKAM as a group head.

Mehmet Güçlü ÇOLAK

DPM and Hedge Funds Executive Manager

Mehmet Güçlü Çolak joined Yapı Kredi Asset Management or one of its predecessor firms in 2003. After graduating from METU Civil Engineering Department in 1996 and Bilkent University MBA Programme in 1998, Mehmet Güçlü Çolak began his career at Inter Asset Management in 1998 as a Portfolio Manager. In 2003, he joined Koç Asset Management. After the merger of Koç Asset Management and YKAM, he started to work as a Senior Portfolio Manager in YKAM.

Onursal YAZAR

PF Fixed Income Funds Executive Manager

Onursal Yazar is Senior Manager of Alternative Investment Products and he joined Yapı Kredi Asset Management or one of its predecessor firms in 2006. After graduating from Boğaziçi University with a major in Civil Engineering in 1999, Onursal Yazar began his career at Osmanlı Bank in 2000. Between 2002 and 2004, he studied in US at Baruch College, City University of New York and has earned MBA degree in Finance. After working at the Treasury Department of Koç Invest between 2005 and 2006 as Senior Dealer, he continued his career as a Portfolio Manager at Koç Portföy (merged with YKAM in 2007). After working at Fixed Income Funds Department for approximately 10 years, he has been heading the Alternative Investment Products Department since April 2015. Onursal Yazar has been awarded the CFA Designation (Chartered Financial Analyst) in 2010.

Ferzan PEYK

Alternative Investment Products Executive Manager

Ferzan Peyk is the Executive Manager of Pension Fund Fixed Income Funds and graduated from Marmara University with a major of Business Administration in 1996 and he holds a Master of Business Administration degree from Saint Mary's University. He started to his career at Koçbank Treasury in 2000. He continued to his career in Treasury division of Yapı Kredi Bank and moved to Yapı Kredi Asset Management in 2016.

Investment Process

Yapi Kredi Asset Management's traditional, research-driven investment process is implemented in a disciplined and controlled manner.

The YKAM Investment Process includes the following:

Employing a corporate investment decision-making process based on knowledge and team-work

At YKAM, asset allocation decisions are made weekly by the Investment Committee which is composed of all portfolio managers. Fundamental equity research constitutes the backbone of stock selection decisions. Portfolio managers rely on both in-house and third party researches to determine the fundamental merits of stocks. Company visits and valuation screens are also used for stock picking by YKAM analysts.

The Committee encourages free expression of merits and drawbacks of all investment cases by all portfolio managers. After thorough discussion including analysis of the macro economic circumstances, equity valuations and fixed-income possibilities, potential investment ideas are assigned to three categories: under benchmark, market-weight and above benchmark.

Active portfolio management strategy

YKAM, actively manages all portfolios and monitors both absolute return funds and relative return funds against various benchmarks on a daily basis. In equity funds, stock selection decisions are reviewed on an ongoing basis by taking into account multiple criteria such as valuation metrics, financial structure, business prospects and market environment of target companies among others.

The top-down analysis approach for asset allocation

In YKAM, top-down analysis is the primary approach in investment decisions. This method is to analyze the market from the big picture all the way down to individual stocks. Accordingly, the evaluation process starts with the analysis of the macroeconomic variables in the world and the Turkish economy. This is followed by sector and company analyses, which identify those sectors / companies that will benefit from the projected macro environment. An example of top-down decision making would be the company's preference for cyclicals and financials during high growth periods and for defensives and utilities during recessionary periods.

The bottom-up analysis approach for asset selection to gain optimum return

YKAM also utilizes extensive bottom-up analysis instruments for stock selection. The bottom-up approach starts with the analysis of the company's present operations and its growth prospects for the future. By relying on company visits and an in-depth analysis of the operations, earning models are prepared to predict future cash flows in target stocks. Through rigorous analysis, YKAM aims to select those stocks and or companies that have strong potential to outperform their peers in the near future. Valuation screens including P/E, P/BV, EV/EBITDA, profit margins and growth rates are compared with averages of both local and international peers to help asset managers select those stocks that will offer optimal portfolio return relative to risk undertaken.

Developing the proper management strategies to match the objectives of the managed portfolios

YKAM utilizes and constantly develops proper management strategies for managed portfolios in order to match the return objectives and risk profiles of clients with diverse risk/return preferences.

Managing assets with disciplined risk management principles

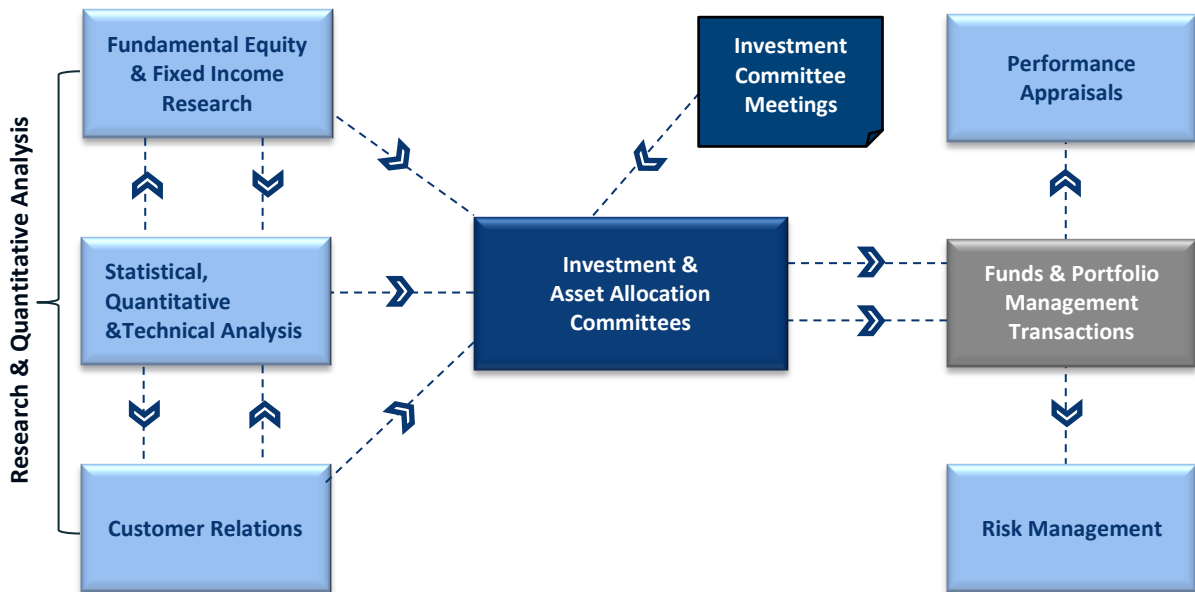
YKAM places great importance on stringent risk management principles above all other criteria in its portfolio management process. The main risks that are managed are liquidity, concentration, credit and market risks. Investment bands are defined for all assets while internationally accepted Value at Risk calculations are conducted and monitored on a daily basis using proprietary software. Stop-loss limits are tracked and if necessary, prompt action is taken by the Risk Management and Compliance departments. Portfolio managers take immediate action when stop-loss limits are reached informing relative departments on the actions undertaken in a timely manner.

Investment Process

Through pre-trade and post-trade checks, compliance with investment restrictions is continuously monitored. Regulatory or client-imposed restrictions and controls on investment constraints at the portfolio level are automatically monitored through the GTP on a pre-trade basis. GTP provides position keeping, trade simulation and a wealth of portfolio surveillance facilities to assist portfolio managers in their decision making processes. All funds are spontaneously valued by the GTP every day to ensure enhanced transparency of risk positions and efficiency in compliance controls. For discretionary management mandates, compliance is facilitated through the GTP system. Within the context of post-trade checks, all transactions undergo a compliance check in end-of day processing after being reconciled with fund accounting. If breaches occur, both active and passive, these are automatically recorded and a daily report is brought to the management’s attention.

Thanks to its solid infrastructure, effective risk mapping systems and strong control mechanisms, YKAM is well prepared to adopt regulatory changes in the period ahead.

Yapı Kredi Asset Management Investment Process



- Analysis
- Macro (Turkey, other EMs & DMs)
- Bottom-up
- Asset Allocation Suggestions (including commodity & foreign equity)
- Equity Proposals

- Assessment and Suggestions of Research and Quantitative Analysis
- Mid and Long – Term Investment Perspective
- Market data & Repercussions
- Short – Term Tactical Asset Allocation Decisions

- Portfolio Construction Process
- Trading & Realization of Transactions
- Assessment of Daily Results
- Performance vs. Benchmark
- Risk Management

Risk Management, Legislation and Compliance

Yapi Kredi Asset Management has an effective risk and governance framework that is well-embedded in the business and also benefits from the independent oversight of control functions and committees.

Monitoring of Risk Indicators and Realized Portfolio Risk

The purpose of risk management is to identify and quantify risks while mitigating and managing them within the overall risk appetite criteria of the company as well as providing ongoing monitoring of such risks. YKAM maps investment risks relevant to mandates and makes necessary implementations in its risk system to cover such mapped risks in a thorough and timely manner. The Company has an integrated risk system that enables it to monitor most risks systematically in accordance with regulations. As such, all risk indicators (tracking error, information ratio, stop-loss, VaR, etc.) are displayed online real-time through GTP system and RiskTürk. Such real time monitoring enables early warnings when approaching relevant limits, the cautionary elevations of which are communicated immediately, if necessary.

Portfolio Performance and Benchmark Reporting

Risk management system involve many contemporary tools including but not limited to the use of historical Value at Risk (VaR), Monte Carlo simulated VaR, marginal VaR, relative VaR, commitment approach measures, leverage ratio, liquidity measures, counterparty risk, concentration risk, expected shortfall, maximum drawdown, volatility, tracking error and information ratio.

YKAM benefits from its extensive information technology to apply best-in-class risk management practices ensured by the GTP system and the third party developed RiskTürk market risk analysis software. YKAM also performs peer analyses (Rasyonet) and performance attribution (RiskTürk) to pinpoint peer-relative performance and decompose the performance itself. Analyses and reports are shared with the upper management on a daily basis while warnings and alerts are reported on an intraday frequency. In addition, a separate Risk Committee on a weekly basis chaired by the CEO is held for a broader view and assessment of risk related issues with asset managers and CIO.

Peer Group Performance Reporting

YKAM follows benchmark-relative returns for funds and discretionary portfolio composites within the context of peer group performance reporting. Tracking error and information ratio figures are also calculated and monitored daily. Investment results versus peers are also continually reviewed.

Monitoring of Investment Committee Decisions and Management Principles

The dedicated unit focused on risk management determines the framework of controls and oversight required to ensure that risk exposures remain within acceptable levels, including investment performance risk, which is the risk that portfolios fail to meet their investment objectives.

Controlling Stop Loss Limits and Leverage

YKAM risk management system also covers stop loss limits for each managed fund and provides real time alerts and early warnings to portfolio managers. As a result, the number of breaches is low and primarily passive in nature. Stop-loss limits are activated if the daily gap between an asset, asset class, fund or discretionary portfolio composite performance and its benchmark falls below a threshold level. The risk framework includes parametric maximum drawdown limits for absolute return products. The procedures, rules and actions involving such situations are clearly depicted in the risk management directive and its annexes where the threshold values on asset classes and mandates are identified.

Regulatory and Legal Compliance Checks

Through pre-trade and post-trade checks, compliance with investment restrictions is continuously monitored. Regulatory or client-imposed restrictions and controls on investment constraints at the portfolio level are automatically monitored through the GTP on a pre-trade basis. GTP provides position keeping, trade simulation and a wealth of portfolio surveillance facilities to assist portfolio managers in their decision-making processes. All funds are spontaneously valued system every day to ensure enhanced transparency of risk positions and efficiency in compliance controls. For discretionary management mandates, compliance is facilitated through the GTP system. Within the context of post-trade checks, all transactions undergo a compliance check in end-of day processing after being reconciled with fund accounting. If breaches occur, both active and passive, these are automatically recorded and a daily report is brought to the management's attention.

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Risk Management, Legislation and Compliance

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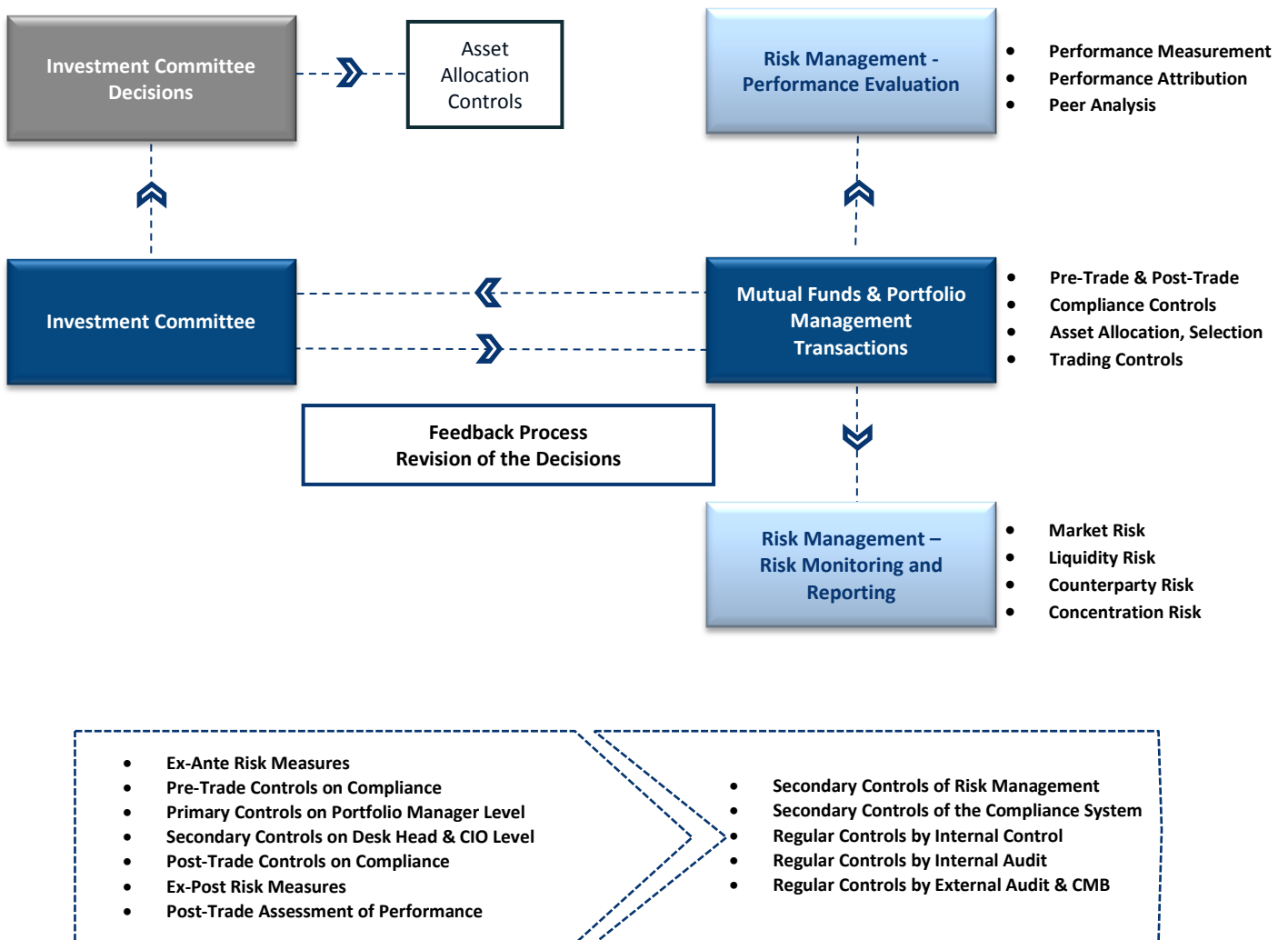
YKAM has an effective and well-established risk management system with clearly assigned responsibilities. The system is supported by systematic and periodic controls across primary risk and compliance areas, daily reporting and a dedicated risk committee responsible for independent oversight.

Risk management function ensures decomposition of risks into their factors and contributions, identification of key drivers of risk-adjusted returns and sources of benchmark deviation.

YKAM’s risk management process is composed of monitoring and control of six separate areas:

- Monitoring of Risk Indicators and Realized Portfolio Risk
- Portfolio Performance and Benchmark Reporting
- Peer Group Performance Reporting
- Monitoring of Investment Committee Decisions and Management Principles
- Control of Stop Loss Limits and Leverage
- Regulatory and Legal Compliance Checks

Yapı Kredi Asset Management Investment Process



Products and Services

A. Mutual Funds

Managing 24 mutual funds and 6 hedge funds, YKAM Mutual Funds (MF) Unit aims to ensure consistently positive return above the pre-specified benchmarks for each fund at minimum risk. Mostly composed of investment professionals with strong research background, the Unit has a clear edge over the competition in asset selection and active portfolio management. Thanks to its high asset base, the MF Unit is able to work with relatively lower transaction costs and reflect this advantage directly to investors.

Hedge Funds

Istanbul Hedge Fund, registered by Capital Markets Board (CMB) in September 2008, was offered to qualified investors at the end of June 2009. Since hedge funds in Turkey are regulated as “on-shore” funds, they fall under the supervision of the local regulator, the CMB. The fund is designed as a market-directional fund that aims to profit from volatility in the equity, fixed income and currency markets. The fund targets investors with assets at least TL1 million in terms of cash and/or money/capital instruments.

In 2016 two new hedge funds established, Galata and Yeditepe. Yapı Kredi Portföy Galata Hedge fund mostly invests in fixed income and derivatives of which underlying asset is fixed income instruments. Its investment strategy is directional and/or absolute value return. Yapı Kredi Portföy Yeditepe Hedge Fund’s investment strategy is also directional and/or absolute value whereas Yeditepe invests in equities and FX as well as fixed income instruments and derivatives. By the help of raising customer interest in funds in 2018 2 new hedge funds launched and at the end of the year Yapı Kredi Asset Management is managing 6 hedge funds in total.

Yapı Kredi Asset Management First Fund of Funds

Yapı Kredi Asset Management First Fund of Funds should invest minimum 80% of its portfolio in mutual funds and ETFs. Investment strategy of the fund is distributing its assets in 6 different investment strategies equally weighted. Those strategies are; equities, sovereign and corporate bonds; Turkish Eurobonds, foreign equities and repo/reverse repo. Target of the fund is to maintain its investor the optimum return with low volatility.

Yapı Kredi Asset Management Second Fund of Funds

Yapı Kredi Asset Management First Fund of Funds should invest minimum 80% of its portfolio in mutual funds and ETFs. Investment strategy of the fund is distributing its assets in 7 different investment strategies. Those strategies are; equities, sovereign and corporate bonds; Turkish Eurobonds, foreign equities, gold and repo/reverse repo. Target of the fund is to maintain its investor the optimum return with low volatility.

Yapı Kredi Asset Management Foreign Fund of Funds

Yapı Kredi Asset Management Foreign Fund of Funds, the first such fund in the Turkish mutual funds market, was established to provide a solution to tax disadvantages on foreign mutual funds. Yapı Kredi Asset Management Foreign Fund of Funds generally caters to the investment needs of investors who prefer to invest in foreign exchange-based investment products and have a long-term horizon regarding investments in international markets. The Foreign Fund of Funds invests;

- Minimum 80% of its portfolio in foreign exchange traded funds and foreign mutual funds approved by CMB,
- 0-20% of its portfolio in other investment instruments in which fund’s key investor information document.

Cutting-edge In-house Research

Research and fundamental analysis is the backbone of the asset selection process for YKAM mutual funds. For equity funds, the Unit utilizes both top-down and bottom-up analysis. Utilizing third party research services as well, YKAM also prepares proprietary in-house research through company visits and analyses on selected companies’ business models, financial performance and growth opportunities. The valuation models formed through such researches establish the basis of the portfolio management process.

Strict Risk Management Standards

The Unit keeps a very close watch on variance limits and takes decisive actions on breach of pre-defined stop-loss limits. The in-house risk management software is pivotal to all risk management activities. The Unit also works very closely with the Risk Management, Legislation and Compliance Department.

Products and Services

Key Performance Indicators

Mutual Funds	2018	2017	2016	2015	2014
Number of Funds	30	33	35	32	40
Number of Clients (thousand)	605	737	585	556	523
Assets under Management (TL mn)	7,514	9,544	7,377	6,578	6,368

Source: Rasyonet as of December 31st, 2018

Mutual funds launched in 2018

Fund	Launch Date
Yapı Kredi Asset Management Balat Hedge (Foreign Currency) Fund	25.06.2018
Yapı Kredi Asset Management Py Kuzguncuk Private Hedge Fund	12.04.2018
Yapı Kredi Asset Management Second Fund Of Funds	19.03.2018

Products and Services

B. Pension Funds

The department is responsible for the management of Pension Funds which is under YKAM umbrella. The Funds are operating in almost all local markets as well as in main foreign markets and the desk has been running 25 pension funds of 6 different pension companies. In 2016, the department has begun to manage one pension fund of Vakıf Emeklilik A.Ş. In 2018 with the new legislation, Yapı Kredi Asset Management started to manage funds of 4 new pension companies, Allianz Hayat ve Emeklilik A.Ş., Anadolu Hayat Emeklilik A.Ş., Avivasa Emeklilik ve Hayat A.Ş. and Nn Hayat Ve Emeklilik A.Ş..

Turkish Pension System is the most promising part of the Turkish Financial System due to its striking growth and growth prospects. The new regulation, which was launched as of January 1, 2013, has made significant contribution to the pension system. The new regulations brought government contribution of 25% of all participants' installments up to a yearly minimum wage.

Active Fund Management

Pension funds are managed in combination of team-based decision process based on research and analysis with effective risk management. Pension funds investing in equities heavily utilize delta management principles. In funds with fixed income instruments denominated in TL, liquidity issues have to be managed well because of the market structure.

Yield curve analysis, scenario analysis and international market developments are some of the many variables affecting optimum portfolio allocation. The Investment Committee makes fixed income decisions by taking into account the fund's maturity structure and possible risks in a rising interest rate environment.

Multi-step research and asset selection process

Prudential macroeconomic analysis involves scenario analysis and quantitative models. Selections of core portfolio are applied via rigorous methods to screen out investable assets and alpha creation over medium-to-long-term. Also the selection of trade portfolio is applied via technical and quantitative tools to screen out investment opportunities due to short-term market inconsistencies and beta-plays. In addition, for fixed income funds, yield curve analysis, real return and spread analysis are used.

Key Performance Indicators

Pension Funds	2018	2017	2016	2015	2014
Number of Funds	25	25	21	20	19
Number of Clients (thousand)	2,169	2,529	1,989	1,892	1,636
Assets under Management (TL mn)	10,889	10,396	8,009	6,592	5,317

Source: Rasyonet, as of December 31st, 2018

Products and Services

The DPM Department provides professional asset management services presenting diversified business and client mix.

C. Discretionary Portfolio Management (DPM)

The Discretionary Portfolio Management (DPM) Department manages portfolios on behalf of institutional investors such as insurance companies, foundations and corporations as well as high net worth individuals. The DPM Department provides professional asset management services for its clients in order to meet each client's specified investment goals by using custom-tailored portfolios. And the DPM funds are managed with priority of minimizing risks while maximizing returns. Special emphasis is placed on actively managing funds considering the risk appetite and investment habits of each individual client. Hence, portfolio structures which best fit the client portfolios are established depending on the client's risk/return preferences and requirements. The DPM Department also supports clients in making their own decisions in capital markets transactions by drawing upon its strength, experience and expertise in the financial markets.

Disciplined Asset Selection Process

All asset selection activities of the Department are carried out according to clearly established internal regulations, which require the review, approval and constant monitoring of all relevant bodies vis-à-vis investment decisions. During this process, special attention is paid to clients' risk tolerance and benchmark assets. Rigorous fundamental and quantitative analysis provides the necessary framework for asset selection.

High Liquidity

DPM portfolios are composed of highly liquid assets, which make it possible to enter and exit these assets during interim periods at very low transaction costs. In addition, the Unit charges no commission in the event of account closure.

Dedicated Client Relations

YKAM's dedicated client representatives continuously provide in-depth personal analysis of the clients' portfolios through market highlights and professional comments. YKAM takes special care to communicate clearly and frequently with clients through quarterly meetings on economic developments, investment strategies and portfolio performances as well as tailor-made reporting at requested intervals.

Benchmark Based Dynamic Management Style

The benchmarks are taken into consideration during the portfolio performance analysis, accordingly, plays an important role in portfolio management. All portfolios are managed proactively by considering the effects of changing micro and macro variables on each asset class and responding to these changes appropriately.

Comprehensive Risk Management Process

The risk indicators of all DPM portfolios are constantly monitored by the Risk Management, Legislation and Compliance Department and regularly overviewed at the weekly Risk Committee. The value of risk calculations are tracked closely while stress-test calculations are undertaken using the RiskTurk application.

TL Portfolio models are as follows:

- TRY Deposit
- TRY Benchmark
- TRY Absolute Return
- Functional

Equity Portfolio models are as follows:

- Equity Dynamic

Foreign Exchange Portfolio models are as follows:

- FX Deposit (EUR/USD)
- FX Dynamic (EUR/USD)

Products and Services

Key Performance Indicators

	2018	2017	2016	2015	2014
Number of Clients	655	669	537	451	389
Institutional	10	12	15	14	13
Individual	645	657	522	437	376
Assets under Management (TL mn)	2,098	1,710	1,299	1,075	954
Institutional	852	1,025	644	568	361
Individual	1,245	685	655	507	593

Products and Services

D. Investment Advisory

The investment Advisory Department provides consultancy services to domestic and international institutions and individual clients in determining investment strategies for their portfolios. The main objective of the Department is to provide customized asset allocation based on the risk profile and requirements of the client. By creating investment ideas focused on customer satisfaction, advisory services are provided to the client with priority given towards achieving targeted risk-adjusted returns along with targeted volume and profitability. The primary objective of this strategic service is to reach institutional and individual investors who are in need of tailored investment strategy solutions developed by professional asset managers on their view and expectations.

Proactive and Efficient Asset Allocation

The Department is responsible for continuously monitoring client portfolios and offering advice according to client asset allocations and risk preferences. During the asset allocation process, efficient frontier of Turkish investment instruments, which are able to give the best return on a given level of risk, are used in addition to a variety of selected instruments. Portfolio diversification is efficiently exercised in accordance with the client's risk profile in order to reduce the risk exposure. The Portfolio Advisory Department differentiates itself from the competition with its highly skilled, well-educated team of professionals. Qualified teamwork and a wide range of experience in different asset classes back up the strong position of the Unit.

Unique Risk Standards

Since financial goals and needs of the investors may vary, the Investment Advisory Department puts the utmost emphasis on knowing the risk parameters and return expectations of the client. Consequently, the Unit classifies its client base according to their risk perception and asset class preferences. In order to determine the clients' risk preferences, questionnaires and personal meetings are conducted. The Department has its own risk standards for each risk/asset class group. Utilizing these standards, the Investment Advisory Committee monitors and supervises the portfolios within the asset/risk group on a weekly basis.

Managed Fund Accounts

Managed Fund Accounts has been offered in March 2012 to serve affluent and private banking clients. Throughout the year, accounts' returns have been evaluated by weekly investment advisory committees, accounts' performance widely followed and achieved return over benchmark.

Investment Advisory Department in 2018

In 2018, the Investment Advisory Unit was successful in improving service quality as well as the client loyalty.

Key Performance Indicators

	2018	2017	2016	2015	2014
Number of Clients	60	47	39	33	40
Assets under Management (TL mn)	1,258	957	870	767	839

Marketing and Sales Management

YKAM aims to create high value for its clients and strives to achieve its performance targets in all investment products under management. The Company takes advantage of its strength in innovation, advanced know-how in asset management, expertise in all asset classes traded in both global and local markets and commitment to produce alternative investment products with clearly defined risk parameters. YKAM has been the pioneer in Turkey to launch the first capital guaranteed funds, fund of funds and foreign currency denominated fund.

YKAM supports its marketing processes with intensive advertising and product promotion activities and enhances its investor information platforms. Additionally, the Company reshuffles product management portfolio in line with investors' needs, potential trends and designs as well as changes in legislation.

New Product Development Process

Ensuring strong and steady coordination among company, sales network and support units, YKAM has always exhibited outstanding performance in designing new asset management products. The main decision hub for product development process is the New Product Committee meeting, which meets regularly and comprises of extensive quorum of employees from different functions including marketing and sales management teams of distribution channels, representatives of the sales force and portfolio managers. With utmost attention on investment performance, the Portfolio Management Group, in close cooperation with Marketing and Sales Management, discusses prospect products, evaluates and decides on the suggestions to be delivered to the New Product Committee. At committee meetings, decisions about the new products are taken with consensus of all participants.

Innovation and Leadership

Being the innovation leader in Turkey, YKAM introduced these high value-adding products for the first time to the market:

- Only asset management company in Turkey with international rating and holding the highest grade in Fitch Ratings' scale of asset management rating.
- Pioneering the fund specific international rating, YKAM is the first and only asset management company in Turkey which manages funds having international rating.
- First comprehensive CRM infrastructure
- First Capital Guaranteed Funds
- First Fund of Funds
- First Private Sector Bonds&Bills Fund
- First BIST - Dividend Index Fund
- First Target Date Fund
- First Foreign Currency Denominated Fund

Core Strengths

Sales Management at YKAM is based on the following core strengths:

- Being the only asset management company in Turkey which has international rating and holding the highest grade in Fitch ratings' scale of asset management rating.
- Advanced communication skills, efficient communication tools, strong sales support and coaching experience
- Client centric approach in all steps of the product sales process
- Providing all know-how and knowledge about products' specifications to distribution channels
- Providing support for after sales process and all CRM services given by distribution channels

Competitive Advantages

Benefiting from its high competitive advantages, YKAM displays outstanding performance by providing tailor-made solutions to meet the investment demands of all client segments:

- First and only international rating agency rated Asset Manager in the premier league of the fund sector.
- First and only asset management company in Turkey which manages funds having international rating.
- Holding the "Highest Standards (tur)" grade which is the top grade in Fitch Ratings' scale of asset management rating between 2013 and 2016.
- First Target Date Fund has been launched.
- First Foreign Currency Denominated Fund has been launched.
- Private banking funds are offered exclusively for HNWIs.
- Hedge fund is offered to HNWIs and institutional investors.
- Managed Fund Accounts, a fund basket product, constituted by 3 different risk levels and return potentials, which is offered to individual clients.
- 2 new retail banking products launched. «Deposit + Fund» and «İlk Param»
- Portfolio Advisory is offered for the UHNWI and institutional client investors segments of Yapı Kredi Bank.
- Volume of assets directed to Investment Advisory has reached to TL 870 mn.

Marketing and Sales Management

- YKAM enjoys its operational strength established by courtesy of cooperation with several business partners.
- YKAM takes advantage of its in-depth experience in third party business and pioneers the sector in many fields.
- YKAM has considerable strength in fixed income and equity funds.
- YKAM has a leading position in alternative investments.
- Platinum Funds has been offered to qualified investors.
- Lease Certificates Fund (SUKUK) has been offered to investors.
- YKAM is one of the pioneers in the management of discretionary mandates.
- New IT & CRM & IVR projects have been completed successfully.
- Luxembourg domiciled Yapı Kredi SICAV fund has been launched for sales and marketing phase in major European countries
- Founder ship transference with Yapı Kredi Bank has been completed.
- The process of orientation to TEFAS has been completed.

International Recognition

With its marketing efforts in international area, YKAM continued to receive recognition from leading institutions. In 2013, Fitch Ratings upgraded Yapı Kredi Asset Management's credit note to Highest Standards (tur) which is the highest grade in Fitch's scale of asset management rating and is the only rating assigned to a Turkish asset management company.

Four mutual funds and three pension funds managed by Yapı Kredi Asset Management have earned "High Fund Quality Rating" first in 2013 by Fitch Ratings. Thus, Yapı Kredi Asset Management manages four mutual and three pension funds, rated by an international rating group first time in Turkey. In 2016, Highest Standards (tur), 4 Mutual Funds and 2 Pension Funds grades have been affirmed by Fitch Rating, which has chosen not to rate asset management companies in Turkey in the field of fund and company ratings for commercial reasons. Therefore, Fitch Ratings no longer provide rating as of 5th of August, 2016.

In 2018, Yapı Kredi Asset Management has been awarded with "Pension Funds Management - 2017 Highest Return" third year in a row from Turkish Capital Markets Association. From international magazines YKAM won "Best Asset Management Company Turkey - 2018" from 4 magazines, Global Brands, Global Business Outlook, Wealth and Finance and International Business. On the other hand two awards for pension funds management as well as "Most Innovative Asset Management Company - Turkey, 2018" from International Finance Awards and "Best Investment Strategy - Turkey 2018" from Business Vision.

YKAM has been awarded with 6 awards in 2017 from Finance Digest, Global Banking and Finance Review and Turkish Capital Markets Association (TCMA). It was an honor to get awarded as "Best Asset Management Company, Turkey 2017" and "Best Pension Funds Management Company, Turkey 2017" from Global Banking and Finance Review and "Brand Excellence in Asset Management, Turkey 2017" and "Brand Excellence in Pension Funds Turkey 2017" from Finance Digest. On the other hand we have been awarded with "Pension Funds Management - 2016 Highest Return" second year in a row and "The Best Social Responsibility Project" from Turkish Capital Markets Association.

YKAM has been selected as "Best Asset Manager, Turkey" by EMEA Finance Magazine and has won "Best Asset Management Company, Turkey" award of Global Brands Magazine in 2016. In addition, YKAM has been awarded "Pension Fund Management – 2015 Highest Return" in the category of "Asset Management" by Turkish Capital Markets Association (TCMA).

Yapı Kredi Asset Management has been selected as Best* of Turkey by 7 prestigious finance magazine in 2015: Global Brands Magazine, EMEA Finance Magazine, Global Banking and Finance Review Magazine, International Finance Magazine, Business Worldwide Magazine, Global Investor Magazine and Global Finance Magazine . Yapı Kredi Asset Management's investment performance, total AuM size, leading position in the market, competence in risk management and investment processes become the key drivers.

Selection and assessment criteria included investment performance, outstanding success in risk management and investment process, leading position in the sector, assets under management; strong IT infrastructure and various other factors. These awards indicate Yapı Kredi Asset Management's outstanding performance in growing its assets under management (AuM) with high profitability as well as international recognition of its experience.

*According to evaluations made by Global Brands Magazine, EMEA Finance Magazine, Global Banking and Finance Review, Business Worldwide Magazine, Global Finance Magazine, International Finance Magazine and Global Investor in 2015

Internal Control

Internal Control Department determines necessary steps to be taken at all levels and in all functions.

Internal control activities are maintained as an integrated part of daily activities of the Company by monitoring the predefined risks. Internal Control Department carries out its activities with the aim of protecting the Company's assets, ensuring efficiency of business processes and reliability of the data as well as full compliance of operations with prevailing legislation, other regulations and the Company's rules and procedures. The Department targets to mitigate risks, which the Company is exposed through its activities, by implementing effective control points in processes. Internal Control Department is concerned with the entire range of YKAM's internal controls, including operational, financial and compliance controls.

In YKAM, all control and audit activities are conducted in accordance with international audit standards. Comprehensive software called My-Con is being used in order to monitor and report all results of audit activities within the Company. Control problems are identified and deficiencies are regularly reported, whereas serious matters are immediately reported to the Board of Directors through Audit Committee. The Board of Directors and Audit Committee are responsible for making sure that the internal control systems within the Company are adequate. On behalf of the Board of Directors, the Audit Committee provides independent review and oversight on the efficiency and adequacy of internal control systems.

Reviewing all transactions and operations throughout the Company with a risk-based approach, Internal Control Department addresses risks to achievement of the Company's objectives and determines necessary steps to be taken at all levels and in all functions for effectively managing risks. In this context, Internal Control Department perform risk assessment on the processes annually and updates the control points according to new risk assessment. The assessment of the Department is reported to the senior management. At risk analysis executed with the business units of the Company, risk analysis of the internal control system are reviewed and updated. In coordination with relative units of the Company, Internal Control Department establishes policies, procedures and objectives as well as control points to ensure that management directives are thoroughly carried out. Internal Control Department also takes a pro-active role on development of technology based projects within the Company or adapting the Company to the changes in legal regulations by supporting or consulting the related units. An executive summary of control activities of the Internal Control Department are reported to the Board of Directors with an annual activity report.

Internal Audit

Depending on the decision of the Board of Directors, Internal Audit Department fulfills its duties and responsibilities independently with its own initiative.

Providing an independent and objective assurance function, Internal Audit Department performs audits in compliance with internal regulations, local laws and international internal audit standards, and recommends the best practices. The Internal Audit Department is also responsible for evaluating the effectiveness and adequacy of management procedures and business processes from a risk-oriented perspective.

At Yapı Kredi Asset Management, regular and process audits are determined based on an Annual Audit Plan and submitted to the Board of Directors for approval via the Audit Committee. The Annual Audit Plan is prepared following meetings with senior management to assess each unit's risk priorities and follow-up corrective actions on previously identified risks. In addition, internal audit findings are submitted to the Board of Directors at least 4 times a year via the Audit Committee. In 2018, Internal Audit Department achieved its goal by performing 9 regular process audits.

As per the decision of the Board of Directors, Yapı Kredi Asset Management Internal Audit Department independently fulfills its tasks and responsibilities under its own initiative. Within the Internal Audit Department Charter, the BoD granted unrestricted access to all information and the authority to investigate any Company activity. The Charter is aligned with "the Capital Market Board Communiqué on Portfolio Management Companies and Activities Of Such Companies" and "the Capital Market Board Regulation Regarding the Principles of Internal Audit" where the fundamental tenets of internal audit activities are described.

The Internal Audit Department aims to provide a world-class internal audit service that meets expectations coming from various stakeholders and counterparties such as the Audit Committee, Board of Directors, regulatory bodies, external auditors, etc. The audit methodology used in the Company conforms to international audit standards of the Quality Assessment Review of Deloitte in 2017.

Technology

All YKAM operations rely heavily on advanced use of technology. By means of this awareness, the Company strives to stay ahead of the technological curve by implementing solutions that give a technological edge to current and potential operations. Along with many power users those have extensive knowledge and experience, YKAM enjoys a critical advantage in diagnosing operational problems due to technological inadequacies, as well as aversion of bottlenecks by providing alternative solutions, and in-house development capabilities.

Such a buoyant culture of technological innovation has yielded many positive results for the Company in terms of efficiency; many front office operations as well as most investment compliance, risk management and back office functions are well automated. The level of automation at YKAM allows employees to spend more time on value adding processes instead of operational routines. The Company works with many solution partners for development of technological solutions and uses customized solution packs for each and every function. Fund management and private portfolio management clients are managed via the portfolio management system. This system is a system capable of instant fund management and is a complementary part of the investment compatibility function within the intra-day flows deterring active violations, reporting passive ones with advanced pre-settlement compatibility system. This system which is also capable of calculating the fund price is used with a view to controlling accuracy of fund prices so calculated by the Fund Service Department, as well. Furthermore, this platform enables activities such as CRM, MIS, auditing, compatibility, total data and analysis-based marketing and sales reporting as required by and set forth in the legislation to be carried out whilst providing accounting, taxes, NAV and operational applications making other various calculations.

An IT transformation program has been created by taking into consideration requirements of the renovated business model, a result of the growth strategy and new competencies supported by the new legislation. The program aimed to design the IT infrastructure in a manner meeting the new business model and expectations of the legislation and was finalized.

The front office also relies heavily on the prompt and accurate flow of real-time market data and news that is disseminated by service providers such as Reuters, Bloomberg, Matrix and Foreks. Financial analysis packages such as Finnet and Stockground, technical analysis packages such as Metastock and statistical analysis packages such as EViews assist both the research teams and asset managers in decision-making processes.

RiskTurk, a third party risk assessment solution package and Rasyonet, another third party solution, are widely used by asset management, risk management, marketing and sales units in risk assessment and evaluation of the competitive environment. YKP looked for new ways of integrating in-house technological solutions and ones provided by our business partners with a view to further increasing efficiency and eradicating user errors stemming from use of multiple platforms and succeeded in finding a solution to this problem owing to the new platform. Such integration built under a single roof increased the company's analytic skills and reporting capacity and, moreover, decision-making processes were strengthened.

It is aimed to eliminate the operational risk in manual data entries by integrating the data, used in programs and reports, with the service providers. The service area was expanded in the development of analysis and return reports, which were initiated following data improvement studies. Developments in the reporting tools are made and result-oriented production is targeted.

Human Resources

Considering employees among its most valuable assets, YKAM truly acknowledges employee satisfaction as one of the prerequisites of sustainable business results and client satisfaction. With this awareness, the Human Resources Unit closely cooperates with all business segments to provide, protect and control the working environment, which is of crucial importance for solid and sustainable growth.

YKAM's fundamental human resources approach is to ensure that the right employee is matched with the right job and that the Company's workforce is effectively utilized at all times. YKAM also intensively focuses on training and development programs to ensure continuous improvement in service quality. All employees are provided with opportunities to participate in projects designed to improve their skills and abilities, facilitate their international career opportunities within the UniCredit Group and increase their experiences.

Yapı Kredi Banking Academy has a structured training catalogue corresponding to each function at the Company. Employees are strongly encouraged to plan their own annual training programs taking into consideration both compulsory and elective courses from the training catalogue. In addition to ongoing training and development activities, Yapı Kredi Banking Academy cooperates with Europe's leading business schools such as IMD and INSEAD and organizes joint certificate programs with universities and other important institutions in Turkey.

YKAM provides competitive benefits for its employees. All YKAM employees and their families benefit from Yapı Kredi Bank's employee group pension plan, which provides additional support during retirement. Employees also benefit from group health and life insurance.

YKAM Employee Profile

YKAM Employee Profile

39
AGE

10
TENURE with
FIRM

GENDER

66%
MALE

34%
FEMALE

EDUCATION

41%
Bachelor's Degree

2%
PhD Degree

7%
High School

2%
Associate Degree

49%
Graduate Degree

Community Involvement

On 22 November 2018, Yapı Kredi Asset Management hosted the dance and percussion show of the Tomurcuk Foundation for intellectual disability and mentally retarded students with the help of Yapı Kredi Volunteers. The show was held at the Yapı Kredi Plaza Conference Hall and aimed to raise awareness of mentally disabled people.



Yapı Kredi Asset Management launched a social responsibility fund called “Koç For My Country Variable Fund” within the context of “For My Country” project undertaken by Koç Holding in 2006. At least 50 percent of the revenues earned from the sale of the fund are donated to “For My Country” project. Thus, investors not only earn revenue by adding a new product to their existing portfolio but also contributing to a very valuable project without having to pay anything else. Each year different project is chosen; in 2017 we have supported ACEV’s “When Dads Change Society Change” project, in 2016 ten schools have been retrofitted to allow disabled students to continue with their education and in 2015 project supported TEV’s scholarships.

Business Partners

Finance/ Account / Administration

PricewaterhouseCoopers – Financial audit
Ernst & Young – Tax Audit
Yapı Kredi Bank – Custodian
ATP Tradesoft – Financial and operational software

Risk Management / Compliance

RiskTürk – Market, Leverage & Liquidity Risk, Performance Report
Rasyonet – Investment fund and pension funds data reporting / Fixed Income Module
GTP Tradesoft – Concentration, Counterparty & Correlation Risk, Compliance, Risk Management Module

Marketing

Magiclick – Corporate Website

Fund Performance

Mutual Funds Performance

Code	Fund Name	2018	2017	2016	2015	2014
YLB	Yapı Kredi Asset Management Money Market Fund	18.22%	11.86%	9,50%	9,56%	8,54%
YDK	Yapı Kredi Asset Management Working Account Short Term Bonds and Bills Fund	15.70%	10.44%	8,67%	8,09%	7,47%
YHT	Yapı Kredi Asset Management Short Term Bonds and Bills Fund	16.47%	10.45%	8,76%	8,53%	7,74%
YOT	Yapı Kredi Asset Management Mid Term Bonds and Bills Fund	13.80%	9.10%	8,82%	7,58%	10,15%
YBE	Yapı Kredi Asset Management Eurobond (Dollar) Bonds and Bills Fund	26.94%	17.21%	21,41%	20,92%	21,42%
YOD	Yapı Kredi Asset Management Second Variable Fund	0.25%	13.19%	6,18%	3,81%	11,37%
YBS	Yapı Kredi Asset Management Private Sector Bonds and Bills Fund	16.18%	11.24%	9,82%	9,31%	9,84%
YAN*	Yapı Kredi Asset Management First Fund of Funds	14.48%	13.44%	-	-	-
YKT	Yapı Kredi Asset Management Gold Fund	36.03%	17.05%	27,95%	7,55%	6,57%
YBP	Yapı Kredi Asset Management DPM First Variable Private Fund	23.09%	14.29%	11,02%	9,04%	8,43%
YDP	Yapı Kredi Asset Management DPM Third Variable Private Fund	17.68%	15.35%	11,80%	7,13%	11,67%
YSU	Yapı Kredi Asset Management Third Variable Fund	11.58%	13.16%	5,88%	4,75%	10,53%
YFV	Yapı Kredi Asset Management SUKUK Fund	15.96%	8.71%	5,82%	5,67%	3,73%
YAK	Yapı Kredi Asset Management Balanced Fund	-5.61%	26.39%	8,70%	-4,41%	18,01%
YHS	Yapı Kredi Asset Management First Equity Fund (Equity Intense Fund)	-16.43%	48.29%	9,81%	-12,10%	25,83%
YEF	Yapı Kredi Asset Management ISE 30 Index Equity Fund (Equity Intense Fund)	-17.79%	50.23%	10,26%	-14,60%	28,39%
YAU	Yapı Kredi Asset Management ISE 100 Index Equity Fund (Equity Intense Fund)	-10.14%	43.46%	8,74%	-13,96%	27,60%
YAS	Yapı Kredi Asset Management Koc Holding Affiliate and Equity Fund (Equity Intense Fund)	-23.03%	27.09%	17,93%	0,60%	31,70%
YAY	Yapı Kredi Asset Management Foreign Technology Sector Equity Fund	26.85%	39.46%	22,30%	22,43%	24,36%
YDE	Yapı Kredi Asset Management ISE Dividend 25 Index Equity Fund (Equity Intense Fund)	-14.94%	38.64%	18,88%	-13,08%	24,10%
YDI	Yapı Kredi Asset Management Second Equity Fund (Equity Intense Fund)	-18.68%	46.47%	6,56%	-14,57%	31,04%
YTD	Yapı Kredi Asset Management Foreign Fund Basket Fund	29.95%	16.33%	21,17%	15,69%	6,65%
YOA	Yapı Kredi Asset Management DPM Bonds and Bills (Foreign Currency) Private Fund	34.77%	14.86%	20,16%	-	-
YAC*	Yapı Kredi Asset Management Second Fund of Funds*	12.52%	-	-	-	-

*As of 31 December 2017

**As of 19 March 2018

Fund Performance

Pension Funds Performance

Code	Fund Name	2018	2017	2016	2015	2014
ALR	Allianz Yaşam ve Emeklilik Mixed Pension Fund	21.15%	43.45%	24,35%	32,36%	26,07%
AMG	Allianz Yaşam ve Emeklilik First Government External Debt Securities Pension Fund	30.72%	15.05%	17,32%	21,94%	26,42%
ALU	Allianz Yaşam ve Emeklilik Dynamic Variable Pension Fund	-1.26%	19.04%	13,91%	-5,07%	16,77%
ALU	Allianz Yaşam ve Emeklilik Koç Companies Affiliates Index Pension Fund	-22.40%	29.27%	20,81%	0,92%	36,35%
AEN	Allianz Yaşam ve Emeklilik Prudent Variable Pension Fund	16.42%	11.07%	10,19%	7,92%	9,58%
AUA	Allianz Yaşam ve Emeklilik 2035 Target Date Pension Fund	-1.73%	26.55%	10,17%	-4,32%	-
VGP	Vakıf Emeklilik Ve Hayat Pera 1 Variable Group Pension Fund	15.55%	17.96%	1,88%	-	-
ALL	Allianz Yaşam ve Emeklilik Money Market Temporary Liquid Managed Pension Fund (1)	-	10.70%	8,10%	9,16%	8,49%
AMP	Allianz Yaşam ve Emeklilik Money Market Liquid Managed Pension Fund (1)	-	11.88%	9,61%	9,74%	8,80%
AMA	Allianz Yaşam ve Emeklilik Income-oriented Government Debt Instrument Pension Fund (1)	-	7.55%	8,12%	0,11%	14,65%
AMB	Allianz Yaşam ve Emeklilik Income-oriented Government Debt Instrument Group Pension Fund (1)	-	8.60%	8,44%	1,84%	16,64%
ALH	Allianz Yaşam ve Emeklilik Growth-oriented Equity Pension Fund (1)	-	54.98%	13,09%	-14,39%	26,93%
ALS	Allianz Yaşam ve Emeklilik Managed Pension Fund (1)	-	15.38%	9,51%	2,89%	11,93%
AGL	Allianz Yaşam ve Emeklilik First Managed Group Pension Fund (1)	-	21.25%	11,90%	0,97%	16,94%
AMY	Allianz Yaşam ve Emeklilik Second Managed Group Pension Fund (1)	-	15.45%	21,72%	22,32%	28,04%
AMR	Allianz Yaşam ve Emeklilik Income-oriented Second Government External Debt Instruments Pension Fund (1)	-	24.64%	15,41%	11,69%	3,58%
AEU	Allianz Yaşam ve Emeklilik ISE Dividend Index Pension Fund (1)	-	40.27%	12,71%	-12,01%	25,15%
AMN	Allianz Yaşam ve Emeklilik Pera Y Managed Group Pension Fund (1)	-	11.11%	12,09%	6,49%	13,44%
AMZ	Allianz Yaşam ve Emeklilik Gold Pension Fund (1)	-	18.36%	30,44%	7,88%	6,59%
AMS	Allianz Yaşam ve Emeklilik Standard Pension Fund (1)	-	11.24%	9,79%	2,05%	14,31%
AMF	Allianz Yaşam ve Emeklilik Contribution Pension Fund (1)	-	10.73%	9,92%	0,29%	17,57%
AMH*	Allianz Yaşam Ve Emeklilik Attack Variable Group Pension Fund (1)	-	34.48%	-	-	-
ACV**	Allianz Yaşam Ve Emeklilik Initial Participation Pension Fund (1)	-	8.40%	-	-	-
ALZ**	Allianz Yaşam Ve Emeklilik Initial Pension Fund (1)	-	11.12%	-	-	-
KOE***	Allianz Yaşam Ve Emeklilik Koç Holding Emekli Vakfı First Variable Group Pension Fund (1)	-	8.87%	-	-	-
AZD	Allianz Hayat ve Emeklilik First Government External Debt Securities Pension Fund (2)	33.02%				
AUG	Allianz Hayat ve Emeklilik Second Government External Debt Securities Pension Fund (2)	23.48%				
AZM	Allianz Hayat ve Emeklilik Government External Debt Securities Group Pension Fund (2)	34.35%				
AZO	Allianz Hayat ve Emeklilik Mixed Pension Fund (2)	21.36%				
AZT	Allianz Hayat ve Emeklilik Contribution Pension Fund (2)	-1.44%				
KOE	Allianz Yaşam ve Emeklilik Koç Holding Emekli Vakfı First Variable Group Pension Fund (2)	18.30%				
AO1	Anadolu Hayat Emeklilik Initial Pension Fund (2)	15.53%				
AO2	Anadolu Hayat Emeklilik Initial Participation Pension Fund (2)	12.95%				
AER	Anadolu Hayat Emeklilik Contribution Participation Pension Fund (2)	7.57%				
AH2	Anadolu Hayat Emeklilik Money Market Pension Fund (2)	16.02%				
ATK	Anadolu Hayat Emeklilik Standard Pension Fund (2)	3.59%				
AVU	Avivasa Emeklilik ve Hayat Second Variable Pension Fund (2)	33.42%				
AVG	Avivasa Emeklilik ve Hayat Government External Debt Securities Pension Fund (2)	31.09%				
AVK	Avivasa Emeklilik ve Hayat Long Term Debt Securities Pension Fund (2)	5.68%				
NHN	NN Hayat ve Emeklilik Aggressive Variable Pension Fund (3)	-6.73%				
IEA	NN Hayat ve Emeklilik Variable Pension Fund (3)	29.32%				
IEF	NN Hayat ve Emeklilik Dynamic Variable Pension Fund (3)	-5.35%				
IGE	NN Hayat ve Emeklilik Contribution Pension Fund (3)	-0.93%				

* Fund manager changed as YKAM in 2017

** As of 26 January 2017

*** As of 27 April 2017

(1) Funds started to manage by YKAM in 2018

(2) As of 7 March 2018

(3) As of 12 February 2018

Source: Rasyonet, 31 December 2018

Part II

Financial Report

YAPI KREDİ PORTFÖY YÖNETİMİ A.Ş.

**CONVENIENCE TRANSLATION INTO ENGLISH OF
FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2018
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT
ORIGINALLY ISSUED IN TURKISH**



**CONVENIENCE TRANSLATION INTO ENGLISH OF
INDEPENDENT AUDITOR'S REPORT
ORIGINALLY ISSUED IN TURKISH**

INDEPENDENT AUDITOR'S REPORT

To the General Assembly of Yapı Kredi Portföy Yönetimi A.Ş.

A. Audit of the Financial Statements

1. Opinion

We have audited the accompanying financial statements of Yapı Kredi Portföy Yönetimi A.Ş. (the "Company") which comprise the statement of financial position as at 31 December 2018 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and the notes to the financial statements including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with Turkish Accounting Standards ("TAS").

2. Basis for Opinion

Our audit was conducted in accordance with the Standards on Independent Auditing (the "SIA") that are part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority (the "POA"). Our responsibilities under these standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We hereby declare that we are independent of the Company in accordance with the Ethical Rules for Independent Auditors (the "Ethical Rules") and the ethical requirements regarding independent audit in regulations issued by POA that are relevant to our audit of the financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Ethical Rules and regulations. We believe that the audit evidence we have obtained during the independent audit provides a sufficient and appropriate basis for our opinion.

3. Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. Key audit matters were addressed in the context of our independent audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Key audit matter	How our audit addressed the key audit matter
<p>Recognition of revenue from financial service activities</p> <p>The Company recognized a total of TRY 77,258,867 of income under the “Revenue from financial service activities” item on its statement of profit or loss and other comprehensive income for the period 1 January-31 December 2018 period. Disclosures and notes related to revenue are discussed in notes 2.D.(i) and 12 of the accompanying financial statements prepared as of 31 December 2018.</p> <p>This area is regarded as a key audit matter due to the significance of the amount of revenue from financial activities in the financial statements; total revenue being earned through different channels such as investment and private pension fund management fees, private pension fund performance fees, portfolio management commissions, portfolio performance premiums and investment consultancy fees; and the income from financial activities being calculated using different methods and parameters due to the nature of the Company's operations.</p>	<p>Within the scope of the audit procedures we applied related to the recognition of revenue from financial activities, we evaluated the compliance of accounting policies determined by Company management regarding recording revenue with TAS and the relevant legislation. We also evaluated the design and operational effectiveness of internal controls applied by Company management regarding recognising revenue from financial service activities in line with the relevant accounting standards. We tested the transaction details using a selected sample from revenue transactions subject to the audit by comparing these transaction details to the relevant supporting documentation to verify that the amounts were recognised properly on a transaction basis.</p>

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

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

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

Those charged with governance are responsible for overseeing the Company’s financial reporting process.



5. Auditor's Responsibilities for the Audit of the Financial Statements

Responsibilities of independent auditors in an independent audit are as follows:

Our aim is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance expressed as a result of an independent audit conducted in accordance with SIA is a high level of assurance but does not guarantee that a material misstatement will always be detected. Misstatements can arise from fraud or error. Misstatements 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 financial statements.

As part of an independent audit conducted in accordance with SIA, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the 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.
- Assess the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 independent auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.



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

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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.

B. Other Responsibilities Arising From Regulatory Requirements

1. No matter has come to our attention that is significant according to subparagraph 4 of Article 402 of Turkish Commercial Code ("TCC") No. 6102 and that causes us to believe that the Company's bookkeeping activities concerning the period from 1 January to 31 December 2018 period are not in compliance with the TCC and provisions of the Company's articles of association related to financial reporting.
2. In accordance with subparagraph 4 of Article 402 of the TCC, the Board of Directors submitted the necessary explanations to us and provided the documents required within the context of our audit.

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

Didem Demer Kaya, SMMM
Partner

Istanbul, 23 January 2019

YAPI KREDİ PORTFÖY YÖNETİMİ A.Ş.

CONVENIENCE TRANSLATION INTO ENGLISH OF FINANCIAL STATEMENTS FOR THE PERIOD 1 JANUARY - 31 DECEMBER 2018 ORIGINALLY ISSUED IN TURKISH

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YAPI KREDİ PORTFÖY YÖNETİMİ A.Ş.

CONVENIENCE TRANSLATION INTO ENGLISH OF AUDITED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2018 ORIGINALLY ISSUED IN TURKISH

(Amounts expressed in Turkish lira (“TRY”) unless otherwise indicated.)

	Notes	31 December 2018	31 December 2017
ASSETS			
Current assets		78,456,310	76,898,223
Cash and cash equivalents	4	66,938,499	63,534,346
Trade receivables	5	10,957,732	13,052,034
- Trade receivables due from related parties	18	8,926,626	13,001,319
- Trade receivables due from other parties		2,031,106	50,715
Prepaid expenses	10	560,079	311,843
- Prepaid expenses to related parties	18	152,266	107,539
- Prepaid expenses to non-related parties		407,813	204,304
Non-current assets		1,672,680	1,695,200
Plant, property and equipment (net)	6	417,028	542,324
Intangible assets (net)	7	608,042	404,228
Deferred tax asset	16	647,610	748,648
Total assets		80,128,990	78,593,423
LIABILITIES			
Short term liabilities		12,357,859	12,894,171
Trade payables	5	2,564,672	1,630,460
- Trade payables due to related parties	18	1,606,811	1,406,110
- Trade payables due to other parties		957,861	224,350
Tax liability for the period	16	2,499,742	3,236,732
Short term provisions		5,900,577	6,818,462
- Short-term provisions for employee benefits	8	5,900,577	6,698,462
- Other short-term provisions	9	-	120,000
Other liabilities	10	1,392,868	1,208,517
- Other liabilities due to other parties		1,392,868	1,208,517
Long-term liabilities		1,799,224	1,307,182
Long term provisions	8	1,799,224	1,307,182
- Long term provisions for employee benefits		1,799,224	1,307,182
Shareholders' equity		65,971,907	64,392,070
Share capital	11	2,349,443	2,349,443
Adjustment to share capital	11	2,208,186	2,208,186
Accumulated other comprehensive income or (expenses)			
that will not be reclassified to profit or loss	11	(904,876)	(796,153)
- Revaluation and remeasurement profit (loss)		(904,876)	(796,153)
Restriction reserves from profit	11	9,421,544	9,421,544
- Legal reserves		9,421,544	9,421,544
Retained earnings	11	17,209,050	13,035,717
Net income for the period		35,688,560	38,173,333
Total liabilities and equity		80,128,990	78,593,423

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

YAPI KREDİ PORTFÖY YÖNETİMİ A.Ş.

CONVENIENCE TRANSLATION INTO ENGLISH OF AUDITED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018 ORIGINALLY ISSUED IN TURKISH

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

	Notes	1 January - 31 December 2018	1 January - 31 December 2017
PROFIT OR LOSS			
Sales	12	77,258,867	77,442,446
Cost of sales (-)	12	(10,497,333)	(8,472,773)
Gross profit		66,761,534	68,969,673
General administrative expenses (-)	13	(31,602,689)	(27,973,625)
Marketing expenses (-)	13	(509,764)	(496,362)
Operating profit		34,649,081	40,499,686
Financial income	14	11,656,019	7,068,393
Financial expenses (-)	15	(299,312)	(330)
Profit before tax from continuing operations		46,005,788	47,567,749
Tax expense from continuing operations		(10,317,228)	(9,394,416)
- Tax expense for the period (-)	16	(10,185,525)	(9,720,625)
- Deferred tax income / (expense)	16	(131,703)	326,209
Net income		35,688,560	38,173,333
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to profit or loss		(108,723)	(767,721)
Defined benefits plans remeasurement gains (losses)	8	(139,388)	(984,258)
Defined benefits plans remeasurement gains (losses), tax effects	16	30,665	216,537
Other comprehensive expense		(108,723)	(767,721)
Total comprehensive income		35,579,837	37,405,612

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

YAPI KREDİ PORTFÖY YÖNETİMİ A.Ş.

**CONVENIENCE TRANSLATION INTO ENGLISH OF
AUDITED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
ORIGINALLY ISSUED IN TURKISH**

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

	Notes	Paid capital	Adjustments to share capital	Accumulated other comprehensive income or expenses that will not be reclassified to profit or loss Defined benefit plans remeasurement gains / losses (-)	Restricted reserves	Accumulated profits		Total equity
						Retained earnings	Net profit / loss for the year	
1 January 2017		2,349,443	2,208,186	(28,432)	9,421,544	9,887,449	30,148,268	53,986,458
Transfers		-	-	-	-	30,148,268	(30,148,268)	-
Total comprehensive income		-	-	(767,721)	-	-	38,173,333	37,405,612
- Net income for the period		-	-	-	-	-	38,173,333	38,173,333
- Other comprehensive expense (-)		-	-	(767,721)	-	-	-	(767,721)
Dividends (-)	11	-	-	-	-	(27,000,000)	-	(27,000,000)
31 December 2017	11	2,349,443	2,208,186	(796,153)	9,421,544	13,035,717	38,173,333	64,392,070
1 January 2018	11	2,349,443	2,208,186	(796,153)	9,421,544	13,035,717	38,173,333	64,392,070
Transfers		-	-	-	-	38,173,333	(38,173,333)	-
Total comprehensive income		-	-	(108,723)	-	-	35,688,560	35,579,837
- Net income for the period		-	-	-	-	-	35,688,560	35,688,560
- Other comprehensive expense (-)		-	-	(108,723)	-	-	-	(108,723)
Dividend payment	11	-	-	-	-	(34,000,000)	-	(34,000,000)
31 December 2018	11	2,349,443	2,208,186	(904,876)	9,421,544	17,209,050	35,688,560	65,971,907

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

YAPI KREDİ PORTFÖY YÖNETİMİ A.Ş.

CONVENIENCE TRANSLATION INTO ENGLISH OF AUDITED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018 ORIGINALLY ISSUED IN TURKISH

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

	Notes	1 January - 31 December 2018	1 January - 31 December 2017
A. Cash flows from operating activities		26,687,298	32,142,971
Net income for the period		35,688,560	38,173,333
Adjustments to reconcile net income to net cash provided by operating activities		5,347,968	9,193,031
Adjustments for depreciation and amortization	6, 7	512,182	465,695
Adjustments for provisions		6,113,645	6,377,305
- <i>Adjustments for provision of employee benefits</i>		5,934,335	6,377,305
- <i>Adjustments for provision of lawsuit</i>		(120,000)	-
- <i>Adjustments for other provisions</i>		299,310	-
Adjustments for interest income and expenses		(11,595,087)	(7,044,385)
- <i>Adjustments for interest income</i>		(11,595,087)	(7,044,385)
Adjustments for provision for tax expense		10,317,228	9,394,416
Changes in operating profit		2,964,629	(1,477,384)
Adjustments for decrease / (increase) in trade receivables		2,094,302	(1,949,053)
- <i>Decrease / (increase) in trade receivables due from related parties</i>		4,074,693	(1,915,391)
- <i>Decrease / (increase) in trade receivables due from other parties</i>		(1,980,391)	(33,662)
Adjustments for increase in prepaid expenses (-)		(248,236)	(47,773)
Adjustments for (decrease) / increase in trade payables		934,212	333,435
- <i>Increase in trade payables due to related parties</i>		200,701	804,536
- <i>(Decrease) / increase in trade payables due to other parties</i>		733,511	(471,101)
Adjustments for increase in other payables		184,351	186,007
- <i>Increase in other payables due to other parties</i>		184,351	186,007
Cash flows from operating activities		44,001,157	45,888,980
Employment benefits paid		(6,379,566)	(4,751,361)
Taxes paid		(10,922,515)	(8,987,554)
Other cash outflows		(11,778)	(7,094)
- <i>Change in securities given for collateral</i>		(11,778)	(7,094)
B. Cash flows from investment activities		10,860,438	6,670,263
Cash outflow from purchase of property, equipment and intangible assets		(590,700)	(261,899)
- <i>Cash outflow from purchase of property, equipment assets</i>	6	(128,136)	(185,825)
- <i>Cash outflow from purchase of intangible assets</i>	7	(462,564)	(76,074)
Cash inflows from derivatives	14	2,576,284	291,094
Interest received		8,874,854	6,641,068
C. Cash flows used in financing activities		(34,000,000)	(27,000,000)
Dividend payment	11	(34,000,000)	(27,000,000)
D. Net increase/decrease in cash and cash equivalents (A+B+C)		3,547,736	11,813,234
E. Cash and cash equivalents at the beginning of the period		63,099,415	51,286,181
Cash and cash equivalents at the end of the period (D+E)	4	66,647,151	63,099,415

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

YAPI KREDİ PORTFÖY YÖNETİMİ A.Ş.

CONVENIENCE TRANSLATION INTO ENGLISH OF EXPLANATORY NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 ORIGINALLY ISSUED IN TURKISH

(Amounts expressed in Turkish lira (“TRY”) unless otherwise indicated.)

1. ORGANISATION AND NATURE OF OPERATIONS

Yapı Kredi Portföy Yönetimi A.Ş. (“the Company”), has been established under the name Koç Portföy Yönetimi A.Ş. at January 30, 2002 and started its operations in June 25, 2002, The Company's principal shareholders are Yapı Kredi Yatırım Menkul Değerler A.Ş. and Yapı ve Kredi Bankası A.Ş. with a total share of 99.97%, which are also subsidiaries of Koç Finansal Hizmetler A.Ş. (“KFH”) which was incorporated on March 16, 2001 for the purpose of combining financial sector companies of the Koç Group, On October 12, 2002, Koç Group entered into a joint strategic partnership with UniCredit Italiano S.p.A. (“UCI”), in KFH, Koç Portföy Yönetimi A.Ş. has legally merged with Yapı Kredi Portföy Yönetimi A.Ş. at December 29, 2006 and changed its name as Yapı Kredi Portföy Yönetimi A.Ş. on December 21, 2006.

Yapı Kredi Portföy Yönetimi A.Ş. has been entitled to portfolio management and investment consultancy activities by obtaining certificate of authorization issued by Capital Market Board (“CMB”) dated May 13, 2015 numbered PYŞ/PY.17-YD.9/391 in accordance with Communiqué on “Portfolio Management Companies and Activities On Such Companies” numbered III-55.1. On October 17, 2015, Yapı Kredi Portföy Yönetimi A.Ş. has been authorized by CMB to take over investment funds founded by Yapı ve Kredi Bankası A.Ş. and Yapı Kredi Yatırım Menkul Değerler A.Ş. as establisher.

Within the context of the Capital Market Board regulations the Company’s principal activities are managing mutual, pension and private funds and performing discretionary portfolio management (“DPM”) for institutions, endowments and individuals.

As of December 31, 2015, 87.32% of the shares of the Company is owned by Yapı Kredi Yatırım Menkul Değerler A.Ş. Since the principal shareholder of Yapı Kredi Yatırım Menkul Değerler A.Ş. is Yapı ve Kredi Bankası A.Ş. who also owns 12.65% of the shares of the Company, the ultimate principal shareholder of the Company is Yapı ve Kredi Bankası A.Ş.

The Company’s head office is as follows:

Büyükdere Cad, Yapı Kredi Plaza A Blok Kat: 13 Levent, İstanbul.

The Company has 62 employees as at December 31, 2018 (December 31, 2017: 61).

Approval of financial statements:

The Company’s financial statements for the year then ended December 31, 2018 have been approved by Board of Directors on January 23, 2019. General Assembly and regulatory bodies have the right to amend the financial statements within the legal framework.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

A. BASIS OF PRESENTATION

(a) Basis of presentation of financial statements

The accompanying financial statements have been prepared in accordance with the Turkish Accounting Standards (“TAS”) promulgated by the Public Oversight Accounting and Auditing Standards Authority (“POA”) in compliance with the communiqué numbered II-14.1 “Communiqué on the Principles of

**CONVENIENCE TRANSLATION INTO ENGLISH OF EXPLANATORY
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2018 ORIGINALLY ISSUED IN TURKISH**

(Amounts expressed in Turkish lira (“TRY”) unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

Financial Reporting In Capital Markets” (the Communiqué) announced by the CMB on June 13, 2013 which is published on Official Gazette numbered 28676. TAS consists of the Turkish Accounting Standards, Turkish Financial Reporting Standards (“TFRS”) and related supplements and interpretations.

The financial statements were based on the legal records of the Company and expressed in Turkish Lira; and they have been subject to certain adjustments and classifications in order to fairly present the financial position of the Company in accordance with the Turkish accounting standards issued by POA.

The Company's accompanying financial statements prepared in accordance with 2016 TAS Taxonomy approved by No. 30 Board decision dated June 2, 2016 developed on the basis of (b) subparagraph of 9th article of statutory decree No. 660 of POA.

(b) Adjustments to financial statements in hyperinflationary periods

With the decision taken on March 17, 2005, the CMB announced that, effective from January 1, 2005, the application of inflation accounting is no longer required for listed companies in Turkey. The Company's financial statements have been prepared in accordance with this decision.

(c) Comparative figures and the reclassification to the financial statements of the prior period

The Company complies with the principles and articles of valid commercial laws and regulations and Communiqués announced by CMB in the accounting records and the preparation of the financial statements.

In order to determine the financial status and performance trends, the financial statements of the Company have been prepared in comparison with the financial statements of previous periods. The Company prepared its statement of financial position as of 31 December 2018 in comparison with the statement of financial position prepared as of 31 December 2017; prepared statement of profit or loss and other comprehensive income, statement of changes in shareholders' equity and statement of cash flows between 1 January - 31 December 2018 in comparison with 1 January - 31 December 2017. Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current period.

Classifications made in year 2016 financial statements

The TRY 12,543,972 balance related to the profits of the previous years which was classified under “onerous reserve allocated from profit” in the Company's statement of financial position for the previous period was classified under “profits of previous years” in the statement of financial position dated 31 December 2017, which was provided in comparison to the statement of financial position dated 31 December 2018.

(d) Offsetting

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

**CONVENIENCE TRANSLATION INTO ENGLISH OF EXPLANATORY
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2018 ORIGINALLY ISSUED IN TURKISH**

(Amounts expressed in Turkish lira (“TRY”) unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

(e) Going concern

The Company prepared its financial statements based on going concern principle.

(f) Changes in accounting policies and interpretations

The Company adopted the standards, amendments and interpretations published by Public Oversight Accounting and Auditing Standards Authority (“POA”) and which are mandatory for the accounting periods beginning on or after 31 December 2018.

New standards, amendments and interpretations effective as of 31 December 2018:

- **TFRS 9, “Financial instruments”**; effective from annual periods beginning on or after 1 January 2018, this standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.
- **TFRS 15, ‘Revenue from contracts with customers’**; effective from annual periods beginning on or after 1 January 2018. TFRS 15, ‘Revenue from contracts with customers’ is a converged standard from the IASB and FASB on revenue recognition. The standard will improve the financial reporting of revenue and improve comparability of the top line in financial statements globally.
- **TFRS 15, ‘Revenue from contracts with customers’**; effective from annual periods beginning on or after 1 January 2018. These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licenses of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). New and amended illustrative examples have been added for each of those areas of guidance. The IASB has also included additional practical expedients related to transition to the new revenue standard.
- **Amendments to TFRS 4, ‘Insurance contracts’**; regarding the implementation of TFRS 9, ‘Financial Instruments’; effective from annual periods beginning on or after 1 January 2018. These amendments introduce two approaches: an overlay approach and a deferral approach, The amended standard will:
 - give all companies that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when TFRS 9 is applied before the new insurance contracts standard is issued; and
 - give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying TFRS 9 until 2021. The entities that defer the application of TFRS 9 will continue to apply the existing financial instruments standard IAS 39.
- **Amendment to IAS 40, ‘Investment property’**; relating to transfers of investment property; effective from annual periods beginning on or after 1 January 2018. These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition; this change must be supported by evidence.

**CONVENIENCE TRANSLATION INTO ENGLISH OF EXPLANATORY
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2018 ORIGINALLY ISSUED IN TURKISH**

(Amounts expressed in Turkish lira (“TRY”) unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

- **Amendments to TFRS 2, ‘Share based payments’;** on clarifying how to account for certain types of share-based payment transactions; effective from annual periods beginning on or after 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in TFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee’s tax obligation associated with a share-based payment and pay that amount to the tax authority.
- **Annual improvements 2014-2016;** effective from annual periods beginning on or after 1 January 2018. These amendments impact 2 standards:
 - TFRS 1, ‘First time adoption of TFRS’, regarding the deletion of short-term exemptions for first-time adopters regarding TFRS 7, IAS 19 and TFRS 10.
 - IAS 28, ‘Investments in associates and joint venture’ regarding measuring an associate or joint venture at fair value.
- **IFRIC 22, ‘Foreign currency transactions and advance consideration’;** effective from annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice.

Standards, amendments and interpretations effective after 31 December 2018:

- **Amendment to TFRS 9, ‘Financial instruments’;** effective from annual periods beginning on or after 1 January 2019. This amendment confirm that when a financial liability measured at amortized cost is modified without this resulting in de-recognition, a gain or loss should be recognized immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.
- **Amendment to IAS 28, ‘Investments in associates and joint venture’;** effective from annual periods beginning on or after 1 January 2019. These amendments clarify that companies’ account for long-term interests in associate or joint venture to which the equity method is not applied using TFRS 9.
- **TFRS 16, ‘Leases’;** effective from annual periods beginning on or after 1 January 2019, this standard replaces the current guidance in IAS 17 and is a far-reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet), TFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a ‘right of use asset’ for virtually all lease contracts. The IASB has included an optional exemption short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under TFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration.

**CONVENIENCE TRANSLATION INTO ENGLISH OF EXPLANATORY
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2018 ORIGINALLY ISSUED IN TURKISH**

(Amounts expressed in Turkish lira (“TRY”) unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

IFRIC 23, ‘Uncertainty over income tax treatments’; effective from annual reporting periods beginning on or after 1 January 2019. This IFRIC clarifies how the recognition and measurement requirements of IAS 12 ‘Income taxes’, are applied where there is uncertainty over income tax treatments. The TFRS IC had clarified previously that IAS 37 ‘Provisions, contingent liabilities and contingent assets’, not IAS 12 should be applied to accounting for uncertain income tax treatments, IFRIC 23 clarifies how to measure and account deferred income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. For example, a decision to claim a deduction for a specific expense or not to include a specific item of income in a tax return is an uncertain tax treatment if its acceptability is uncertain under tax law, IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

- **TFRS 17, ‘Insurance contracts’;** effective from annual periods beginning on or after 1 January 2021. This standard replaces TFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. TFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.
- **Annual improvements 2015-2017;** effective from annual periods beginning on or after 1 January 2019. These amendments include minor changes to:
 - IFRS 3, ‘Business combinations’, - a company remeasures its previously held interest in a joint operation when it obtains control of the business.
 - IFRS 11, ‘Joint arrangements’, - a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
 - IAS 12, ‘Income taxes’ - a company accounts for all income tax consequences of dividend payments in the same way.
 - IAS 23, ‘Borrowing costs’ - a company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

Amendments to IAS 19, ‘Employee benefits’ on plan amendment, curtailment or settlement’; effective from annual periods beginning on or after 1 January 2019. These amendments require an entity to:

Use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and

- Recognize in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognized because of the impact of the asset ceiling.

**CONVENIENCE TRANSLATION INTO ENGLISH OF EXPLANATORY
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2018 ORIGINALLY ISSUED IN TURKISH**

(Amounts expressed in Turkish lira (“TRY”) unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

Amendments to IAS 1 and IAS 8 on the definition of material; effective from annual periods beginning on or after 1 January 2020. These amendments to IAS 1, ‘Presentation of financial statements’ and IAS 8, ‘Accounting policies, changes in accounting estimates and errors’, and consequential amendments to other IFRSs:

- i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting;
- ii) clarify the explanation of the definition of material; and
- iii) incorporate some of the guidance in IAS 1 about immaterial information.

- **Amendments to IFRS 3 - definition of a business;** effective from Annual periods beginning on or after 1 January 2020. This amendment revises the definition of a business, According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

The following standards, comments and adjustments have not yet been published by the KGK:

- IFRS 17, ‘Insurance contracts’
- Amendment to IFRS 15, ‘Revenue from contracts with customers’
- Amendments to IAS 1 and IAS 8 on the definition of material
- Amendments to IFRS 3 - definition of a business

Company management is currently evaluating the impact of the aforementioned changes to its operations and will start implementation as of the effective date.

B. CHANGES IN ACCOUNTIN POLICIES AND ERRORS

Significant changes in accounting policies and significant accounting errors identified are to be applied retrospectively and the prior period financial statements are to be restated. There has been no change in accounting policies in 2018, except for the Group's accounting policy changes required by TFRS 9 "Financial Instruments".

First transition to TFRS 9 “Financial Instruments” standard

The TFRS 9 “Financial Instruments” standard, effective on 1 January 2018 or as of the annual reporting periods that start after this date, replaced TAS 39 “Financial Instruments: Recognition and Measurement”. Because its effect as of 1 January 2018 was insignificant, the Company registered the cumulative effect related to the transition to the TFRS 9 standard in the statement of profit or loss and other comprehensive income statement without adjusting the profits related to the previous years in the statement of financial position dated 31 December 2018. The statement of financial position dated 31 December 2017, the profit or loss or other statement of comprehensive income, the cash flow statement and the statement of changes in equity related to 1 January - 31 December 2017 are presented as per TAS 39.

YAPI KREDİ PORTFÖY YÖNETİMİ A.Ş.

CONVENIENCE TRANSLATION INTO ENGLISH OF EXPLANATORY NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 ORIGINALLY ISSUED IN TURKISH

(Amounts expressed in Turkish lira (“TRY”) unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

The amendments regarding the classification of financial assets and liabilities within the scope of TFRS 9 are summarized below. Aforementioned classification differences do not have an effect on the measurement of the financial assets listed below:

Financial assets	Prior classification according to TAS 39	New classification according to TFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost
Trade receivables	Loans and receivables	Amortized cost

Financial liabilities	Prior classification according to TAS 39	New classification according to TFRS 9
Trade payables	Amortized cost	Amortized cost

IFRS 9 includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

C. CHANGES IN ACCOUNTING ESTIMATES

Changes in the accounting estimates are reflected in the financial statements in the current period in which the change is related to future periods and in the period in which the change is made and in the future period so as to take into account the net profit or loss for the period. No significant changes were made to the accounting estimates during the January 1 - December 31 2018 accounting period.

D. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and cash equivalents

For the purpose of regulating cash flow statements, the Company has taken into account cash and cash equivalents as cash deposits and banks with original maturities of 3 months or less. (Note 4)

(b) Financial investments

The financial assets of the Company are largely made up of cash and cash equivalents as well as trade receivables, and said financial assets are classified and recognized as “financial assets measured by amortized cost”.

Sales and purchases of the financial assets mentioned above are recognized at the “settlement dates”.

The appropriate classification of financial assets of the Company is determined at the time of purchase and according to the “market risk policies” by the Company management, taking into consideration the purpose of holding the investment.

All financial assets initially are recognized at fair value with purchase expenses of investment, except financial assets at fair value through profit or loss.

**CONVENIENCE TRANSLATION INTO ENGLISH OF EXPLANATORY
NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED
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(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

Financial assets recognized at amortized cost

The financial assets for which management adopted a contractual cash flow collection business model, for which the agreement terms involve only payment of interest arising out of the principal and principal balance at certain dates, which have fixed or definite payments, which are not quoted in an active market and are not derivative instruments are classified as assets that are recognized at their amortized cost. The assets are classified as current assets if they have a maturity period of less than 12 months as of the statement of financial position date, and as non-current assets if they have a maturity period of more than 12 months as of the balance sheet date. Assets that are recognized at their amortized costs include "trade receivables" and "cash and cash equivalents" items.

Expected credit losses measurement

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

A group of important decisions is required to apply the accounting requirements for measuring expected credit losses. These are:

- Determination of criteria for significant increase in credit risk
- Selection of appropriate models and assumptions for measuring expected credit losses
- Identify the related expected credit loss and the number and likelihood of prospective scenarios for each type of product / market
- Identification of a similar group of financial assets for the purposes of measuring expected credit losses

Derivative financial instruments

The derivative transactions of the Company consist of foreign currency / interest swap transactions. Derivative financial instruments are accounted at fair value at the contract date and are remeasured at their fair value at subsequent reporting periods.

(c) Leases

Where the company is a "tenant" - financial leasing

The Company records its assets acquired through financial leasing based on "Fair value" and "Present value of rent payments". Assets acquired through finance leases are classified as property, plant and equipment and depreciated based on their useful lives. Debts arising from financial lease contracts are shown in "Trade payables" account.

Where the company is a "tenant" - operational leasing

The Company records the rent payments made in respect of the lease agreements included in its operational activities as expense at equal amounts during the lease term. The benefits gained and incurred to incentivize operational leases are also equally reflected in the profit or loss and comprehensive income statement over the operational lease term.

YAPI KREDİ PORTFÖY YÖNETİMİ A.Ş.

CONVENIENCE TRANSLATION INTO ENGLISH OF EXPLANATORY NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 ORIGINALLY ISSUED IN TURKISH

(Amounts expressed in Turkish lira ("TRY") unless otherwise indicated.)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

(d) Trade receivables

Trade receivables are receivables from the financial statements relating to all or part of a revenue item. Trade receivables arising from the provision of services to a buyer by the Company are shown netted from unearned finance income. Trade receivables after unearned finance income are calculated by discounting the amounts to be obtained in the following periods of receivables from the original invoice amount by the effective interest method. Short-term receivables with no stated interest rate are stated at their cost values unless the effect of the original effective interest rate is significant.

The Company reserves doubtful receivables for related trade receivables if there is objective evidence that the collectability does not exist. In other words, the amount of this difference is the difference between the recorded value of the receipt and the possible amount of receivable. Possible amount of receivable is the amortized cost of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated transaction.

If all or part of the doubtful receivable is collected, the collected amount is deducted from the provision for doubtful receivables and other income is recorded from the main operations (Note 5).

(e) Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated amortization (Note 6). Depreciation is amortized using the straight-line method over the estimated useful lives of the tangible assets. Estimated useful lives of the related assets are as follows:

Furniture and fixtures	5 years
Special costs	5 years

If the carrying amount of property, plant and equipment exceeds its estimated recoverable amount, the asset's carrying amount is reduced to its recoverable amount and the resulting impairment loss is recognized in profit or loss,

Gains or losses on disposal of property, plant and equipment are determined by comparing recoverable amounts with recoverable amounts and reflected in the related income and expense accounts in the current period.

(f) Intangible assets

Intangible assets include acquired rights, information systems and computer software (Note 7). They are recorded at cost of acquisition and are depreciated on a straight-line basis over their estimated useful lives, which are 5 years from the date of acquisition. If there is an impairment, the carrying amount of the intangible asset is reduced to its recoverable amount.

(g) Provisions, contingent assets and liabilities

Provisions are recognized when it is probable that an outflow of economic benefits will be required to settle the obligation, a reliable estimate of the amount of the obligation can be made, and a legal or constructive obligation as a result of past events. If the amount cannot be measured reliably and it is not probable that an outflow of resources will be required to settle the obligation, the liability is recognized as "Conditional" and disclosed in footnotes (Note 9).

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

(h) Employee benefits

On behalf of its employees, the Company has to pay contributions the Social Security Institution (Institution) in the amount determined by law. There is no other obligation to pay to the employee or the Corporation other than the contribution paid by the Company. These contributions are expensed on the date they are accrued.

(i) *Employment termination benefits*

The provision for employment termination benefits is calculated as required by Turkish Labor Law as a statutory obligation of the Company and reflects the present value of severance pay entitlement to employee retirement, dismissal, call for military service or death in case of completion of at least one year of service (Note 8).

(ii) *Obligation of paid leave*

As per the existing labour law in Turkey, in the event of termination of labour contracts by any reason, the Company is obliged to pay the amount for annual leaves that were earned but not used by the employees on basis of wages at the date of termination of the contract (Note 8).

(iii) *Bonus payments*

The Company recognizes as an obligation and an expense based on a method that takes into consideration the Company's profitability, budget performance and performance criteria (Note 8).

(i) Fee, commission, interest incomes / expenses

(i) *Fees and commissions*

Fund management fees, special portfolio management fees, performance premiums and investment consulting fees shown in the profit or loss table are recognized on an accrual basis.

(ii) *Interest income and expenses*

Interest income and expenses are recognized in profit or loss and comprehensive income statement on an accrual basis. Interest income includes income from coupons of fixed income investment instruments and discounted valuations of the discounted government bonds according to the internal rate of return method.

(j) Borrowing costs

When it comes to assets that require significant time to prepare for use and sale, borrowing costs that are directly attributable to the acquisition, construction or production of the asset are included in the cost of the asset until the asset is ready for use or sale. Financial investment, which is obtained by evaluating the investment portion of an investment-related loan for an indefinite period of time, is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss and comprehensive income in the period in which they are incurred.

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

(k) Effects of changes in exchange rates

Transactions denominated in foreign currency are denominated by the exchange rate on the date of the transaction; monetary assets and liabilities denominated in foreign currencies, end of period exchange buying rate of the Central Bank of the Republic of Turkey have been translated into Turkish Lira. Income and expenses resulting from the translation of foreign currency items are included in the profit or loss and comprehensive income statement for the period.

(l) Taxes calculated on the basis of corporate income

Corporate tax

Corporate tax is calculated according to the provisions of the Tax Procedure Law and tax expenses other than those taxes are accounted in general administrative expenses (Note 16).

If there is a legal right to offset current tax assets and current tax liabilities or if the related assets and liabilities are associated with income tax collected by the same tax authority.

Deferred tax

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements (Note 16).

Significant temporary differences arise from retirement pay provision, personnel premium provision, other expense provisions, unused vacation provision, fixed assets and bank deposit valuation differences.

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

Deferred tax assets and deferred tax liabilities are offset against each other if the same entity is subject to tax legislation and there is a legally enforceable right to offset current tax assets against current tax liabilities.

(m) Related parties

In these financial statements, the shareholders of the Company and the Koç and UCI Group companies, the Company's top management and members of the Board of Directors, their families and companies controlled by them or having significant influence are considered as “related parties” (Note 18).

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2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS (Continued)

(n) Subsequent events

Subsequent events include all events between the balance sheet date and the date of issuance of the balance, even if any announcement related to the profit for the period or other selected financial information occurred after the public disclosure. The Company corrects the amounts recognized in the financial statements in accordance with this new situation in the case of events that require corrections after the balance sheet date.

(o) Impairment of assets

Any asset other than financial assets is reviewed at the balance sheet date for the existence of indicators of impairment of that asset. An impairment loss is recognized if the carrying amount of an asset is greater than its estimated recoverable amount. Replacement value is taken as the higher of the net sales value and value of use of the asset. Usage value is the present value of the sum of the estimated cash inflows to be obtained in the future and the sales value at the end of the service life.

E. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Company makes estimates and assumptions that affect the assets and liabilities disclosed in the financial statements for the next period. Estimates and assumptions are constantly evaluated. Such forecasts and assumptions, including those expected to occur under the circumstances, are based on Management's experience and other factors. At the same time, the management also makes some decisions regarding the application of accounting principles separately from the estimates. The estimates that may require significant adjustments to significant judgments in the financial statements and forward-looking assets and liabilities are as follows:

Recognition of deferred tax assets

Deferred tax assets can be recognized as soon as the tax benefit is probable. The amount of future taxable profits and future tax benefits is based on the medium-term business plan prepared by the Company and the estimates issued thereafter. The business plan is based on the Company's reasonable expectations in the circumstances.

3. SEGMENT REPORTING

The Company does not prepare segment reporting in the financial reporting period that ends as of 31 December 2017 and 2018 since it performs its activities in Turkey and only in portfolio management industry.

4. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Cash at banks		
- Time deposit	67,125,117	63,440,304
- Demand deposit	12,208	5,336
- Blockage deposit	100,484	88,706
- Allowances for expected credit losses	(299,310)	-
	66,938,499	63,534,346

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4. CASH AND CASH EQUIVALENTS (Continued)

As of 31 December 2018, TRY 67,136,520 (31 December 2017: TRY 2,601,593) of bank deposits is held by related parties (Note 18).

As of 31 December 2018, time deposits have a maturity of less than 3 months and the interest rate is between 20.89% and 23.50% (31 December 2017: 9.19% to 16.95%).

The amount of TRY 100,484 (31 December 2017: TRY 88,706) is held by Istanbul Takas ve Saklama Bankası A.Ş. ("Takasbank") as collateral for securities transactions.

As of 31 December 2018 and 2017, the Company's cash and cash equivalents were presented in the cash flow statement after interest accruals and blocked deposits from total liquid assets before the expected credit loss were deducted:

	31 December 2018	31 December 2017
Cash and cash equivalents	66,938,499	63,534,346
Accruals of interest (-)	(490,174)	(346,225)
Blockage deposits (-)	(100,484)	(88,706)
Allowances for expected credit losses	299,310	-
	66,647,151	63,099,415

5. TRADE RECEIVABLES AND PAYABLES

	31 December 2018	31 December 2017
Trade receivables		
Investment fund management fee receivables (Note 18) (*)	5,007,395	5,687,977
Individual pension fund performance fee receivables (Note 18) (**)	2,555,073	4,776,383
Investment advisory receivables (Note 18)	1,823,135	1,245,779
Individual pension fund management fee receivables (Note 18) (**)	843,439	1,292,340
Other	728,690	49,555
	10,957,732	13,052,034

(*) Investment fund management commission receivables are obtained management fee receivables from 30 (31 December 2017: 33) investment funds established in accordance with the Capital Markets Law and related legislations.

(**) Pension fund commission and performance fee receivables are derived from 25 (31 December 2017: 25) individual pension funds, 12 (31 December 2017: 24) of which are related institutions.

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5. TRADE RECEIVABLES AND PAYABLES (Continued)

	31 December 2018	31 December 2017
Trade payables		
Payables to related parties (Note 18)	1,606,811	1,406,110
Invoice payables	523,272	60,513
Expense accruals	434,589	163,837
	2,564,672	1,630,460

6. PROPERTY, PLANT AND EQUIPMENT

31 December 2018	Furniture and fixtures	Leasehold improvements	Total
Net book value, 1 January 2018	404,408	137,916	542,324
Additions	100,332	27,804	128,136
Depreciation (-) (Note 13)	(202,113)	(51,319)	(253,432)
Net book value, 31 December 2018	302,627	114,401	417,028
Cost	2,263,276	864,566	3,127,842
Accumulated depreciation (-)	(1,960,649)	(750,165)	(2,710,814)
Net book value, 31 December 2018	302,627	114,401	417,028
31 December 2017	Furniture and fixtures	Leasehold improvements	Total
Net book value, 1 January 2017	534,706	84,447	619,153
Additions	79,964	105,861	185,825
Depreciation (-) (Note 13)	(210,262)	(52,392)	(262,654)
Net book value, 31 December 2017	404,408	137,916	542,324
Cost	2,162,944	836,762	2,999,706
Accumulated depreciation (-)	(1,758,536)	(698,846)	(2,457,382)
Net book value, 31 December 2017	404,408	137,916	542,324

As of 31 December 2018 and 2017, there are no pledges and mortgages on property, plant and equipment.

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7. INTANGIBLE ASSETS

31 December 2018

Net book value, 1 January 2018	404,228
Additions	462,564
Accumulated amortization (-) (Note 13)	(258,750)

Net book value, 31 December 2018 **608,042**

Cost	2,319,445
Amortization (-)	(1,711,403)

Net book value, 31 December 2018 **608,042**

31 December 2017

Net book value, 1 January 2017	531,195
Additions	76,074
Accumulated amortization (-) (Note 13)	(203,041)

Net book value, 31 December 2017 **404,228**

Cost	1,856,881
Amortization (-)	(1,452,653)

Net book value, 31 December 2017 **404,228**

8. PROVISIONS FOR EMPLOYEE BENEFITS

Provisions for employee benefits

	31 December 2018	31 December 2017
Short-term provisions		
Personnel bonus provisions	5,400,000	6,258,842
Unused vacation provisions	500,577	439,620
	5,900,577	6,698,462
Long-term provisions		
Provision for employment termination benefits	1,799,224	1,307,182
	1,799,224	1,307,182

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8. PROVISIONS FOR EMPLOYEE BENEFITS (Continued)

Provision for employment termination benefits:

The reserve for employment termination benefits is set out below:

According to the Turkish Labour Law, the Company is obliged to pay seniority indemnity for the employees who completed one year of employment and are terminated, who retired after completing 25 years of service (20 years for women), who are retired (at the age 60 for men and at the age of 58 for women), who are called for the military or who died. After the legislative amendment on May 23, 2002, some transition period provisions related to the previous service period before retirement were issued.

The termination indemnity obligation is not legally subject to any funding and there are no funding requirements.

Provision for employment termination benefits is calculated by estimating the present value of the probable liability in the case of retirement of the employees.

TAS 19 requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

	31 December 2018	31 December 2017
Discount rate (%)	5.65	4.95
Turnover rate to estimate the probability of retirement (%)	96.70	93.60

The basic assumption is that the determined value for every working year increases proportional to inflation. Using this assumption, the existing discount ratio shows the real ratio, unaffected by inflation. Therefore the maximum amount of employment termination benefits of the Company is determined every six months and is calculated using the maximum amount of TRY 6,017,60 valid from 1 January 2019 (1 January 2018: TRY 5,001,76).

Movements in the reserve for employment termination benefits during the current year are as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Opening balance	1,307,182	357,285
Interest cost	301,190	33,790
Service cost	158,144	91,971
Actuarial loss / (profit)	139,388	984,258
Payment within the period (-)	(106,680)	(160,122)
End of the period	1,799,224	1,307,182

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8. PROVISIONS FOR EMPLOYEE BENEFITS (Continued)

Movement of unused vacation provision for the periods are shown below:

	1 January - 31 December 2018	1 January - 31 December 2017
Opening balance	439,620	480,197
Decrease during the period	75,001	(20,883)
Payments during the period (-)	(14,044)	(19,694)
End of the period	500,577	439,620

Movement of personnel bonus provision for the periods are shown below:

	1 January - 31 December 2018	1 January - 31 December 2017
Opening balance	6,258,842	4,557,960
Decrease during the period	5,400,000	6,272,427
Payments during the period (-)	(6,258,842)	(4,571,545)
End of the period	5,400,000	6,258,842

9. PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

(a) Provisions

	31 December 2018	31 December 2017
Other short-term provisions		
Provision for lawsuits (*)	-	120,000
	-	120,000

(*) As of 31 December 2018, there were no litigation provisions, and as of 31 December 2017 a TRY 120,000 provision was allocated for the re-employment lawsuits against the Company.

(b) Guarantees

As of December 31, 2018, there are no mortgages or guarantees on assets. However, the cash collateral amounting to TRY 100,484 nominal value (31 December 2017: TRY 88,706) stated in the Communiqué Serial: V No: 59 of the Capital Markets Board Regulation and Principles Regarding Institutions to be Operated by the CMB has been placed in Takasbank on behalf of the CMB (Note 4).

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10. OTHER ASSETS AND LIABILITIES

	31 December 2018	31 December 2017
Prepaid expenses		
Insurance expenses (*)	273,411	108,281
Information technology expenses (**)	254,668	160,747
Prepaid fees and contributions	2,073	17,992
Other	29,927	24,823
	560,079	311,843

- (*) The insurance expenses amounting to TRY 149,293 (31 December 2017: TRY 105,834) of the Company are made to related parties (Note 18).
- (**) The information technology expenses of the Company amounting to TRY 2,973 (31 December 2017: TRY 1,705) are prepaid expenses to related parties (Note 18).

	31 December 2018	31 December 2017
Other short-term liabilities		
Taxes and funds payable	776,512	696,260
Income tax	345,557	281,261
SGK premium	261,670	223,515
Stamp tax	9,129	7,481
	1,392,868	1,208,517

11. SHAREHOLDERS' EQUITY

At December 31, 2018 and 2017, the issued and fully paid-in share capital held is as follows:

Shareholders	31 December 2018			31 December 2017		
	No of shares	Share (%)	TRY	No of shares	Share (%)	TRY
Yapı Kredi Yatırım Menkul Değerler A.Ş.	205,161,600	87.32	2,051,616	205,161,600	87.32	2,051,616
Yapı ve Kredi Bankası A.Ş.	29,719,200	12.65	297,192	29,719,200	12.65	297,192
Other	63,478	0.03	635	63,478	0.03	635
Total	234,944,278	100.00	2,349,443	234,944,278	100.00	2,349,443
Adjustments to share capital			2,208,186			2,208,186
Total			4,557,629			4,557,629

Adjustment to share capital represents the restatement effect of cash and cash equivalent contributions to share capital in terms of equivalent purchasing power at December 31, 2004.

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11. SHAREHOLDERS’ EQUITY (Continued)

Board decision no, 56 dated 21 September 2018, increasing the Company’s capital, raised to TRY 2,349,443 within its registered TRY10,000,000 capital cap, to TRY5,000,000, and covering the increase with profits from the previous years, was approved by CMB letter no.12233903-350.11-E.14929 dated 25 December 2018. An application to register amending article 8 of the Company's articles of association, which is related to “Capital and Shares”, and to announce this in the Turkish Trade Registry Gazette was filed with the Istanbul Registry Directorate. The registration and announcement have not yet been carried out as of the date the Company’s Board of Directors’ approved the financial statements.

Retained earnings and legal reserves:

	31 December 2018	31 December 2017
Retain earnings	17,209,050	13,035,717
Restricted reserves (Legal reserves)	9,421,544	9,421,544
	26,630,594	22,457,261

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

Details of restricted reserves allocated from profit is as follows:

	31 December 2018	31 December 2017
Primary legal reserves	469,889	469,889
Secondary legal reserves	8,951,655	8,951,655
	9,421,544	9,421,544

Details of retained earnings is as follows;

	31 December 2018	31 December 2017
Retained earnings	15,153,899	10,980,566
Extraordinary reserves	2,055,151	2,055,151
	17,209,050	13,035,717

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11. SHAREHOLDERS' EQUITY (Continued)

Defined benefit plans remeasurement losses

According to TAS 19, actuarial loss of the Company after tax effect arising from the terminations benefits liability of the Company amounts to TRY 904,876 (31 December 2017: TRY 796,153).

Dividend distribution

Publicly held joint stock companies whose shares are traded on the stock exchange are subject to the following principles determined by CMB regarding profit distribution:

In accordance with the decision of Capital Market Board dated January 28, 2010, no minimum dividend distribution requirement has been made for the dividends to be paid for the joint ventures whose shares are traded in the stock exchange with respect to the principles of distribution of profits from 2010 operations. The Communiqué on Principles Regarding the Subsidiaries of Dividend and Dividend Advance Distribution of Publicly Held Joint Ventures Subject to the Capital Markets Law Serial: IV. No: 27. which regulates the profit distribution principles of publicly traded companies, the provisions in the articles of association of the partnership and the profit distribution within the framework of the policies, such distribution may be carried out by distributing the shares to be issued by the cash or dividend to the share capital free of charge, or distributing cash or certain bonus shares to the shareholders, free of charge; in the event that the first dividend amount to be determined is less than 5% of the paid / issued capital, it is allowed to leave the related amount in the partnership without being distributed, but from the joint stock companies which make capital increase without dividing the dividend related to the previous period and whose shares are divided into "old" they are required to distribute dividends from the profit of the period they have obtained as a result of their activities and to distribute the first dividend to be calculated in cash.

In this context, if the net distributable profit calculated in accordance with the CMB regulations can be met from the distributable profit in the statutory records, if the total amount is not met, the entire net distributable profit included in the statutory records will be distributed, If there is a loss on the financial statements prepared in accordance with the CMB regulations or any of the legal records, no profit distribution will be made. After the deduction of the amounts required to be allocated by the Law and the Articles of Association, the remaining amount of TRY 34,000,000 is distributed as dividends in order to be met from the profit of the period after deduction of losses of the previous years and the reserves from the previous year extraordinary reserves. Paid to partners on March 16, 2018 (2017: 27,000,000 TL).

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12. SALES AND COST OF SALES

	1 January - 31 December 2018	1 January - 31 December 2017
Revenue from financial activities		
Investment funds management fee	56,735,950	53,696,436
Pension funds management fee	9,726,502	13,176,423
Pension funds performance fee	2,600,256	4,548,936
Funds management fee	69,062,708	71,421,795
Discretionary portfolio management commission	4,056,722	3,136,145
Discretionary portfolio management performance fee	2,466,836	1,660,755
Discretionary portfolio management income	6,523,558	4,796,900
Investment advisory fees	1,672,601	1,223,751
Other business operations fees	1,672,601	1,223,751
Total revenue (a)	77,258,867	77,442,446
Cost of financial activities		
Investment and individual pension funds management commission expenses (*)	6,135,480	3,246,798
Discretionary portfolio management commission fees	2,647,803	2,075,261
Other commission fees	1,714,050	3,150,714
Total cost (b)	10,497,333	8,472,773
Gross profit from financial activities (a-b)	66,761,534	68,969,673

(*) According to Article 33 of the Communiqué on Principles Regarding Mutual Funds published in the Official Gazette No. 28702 dated July 9, 2013, the upper limit of the sum of all expenditures stated in the explanation including the management fees paid from the Funds cannot exceed the maximum limits set forth in Annex 4 of the same Communiqué. If the specified ratios are exceeded, the exceeding amount is refunded within five business days following the relevant period. The reimbursed amount is deducted from the total expense in calculating the total expense ratio for the following periods in the related year. As of 31 December 2018, this amount is TRY 6,135,480 (31 December 2017: TRY 3,246,798).

13. EXPENSES BY NATURE

	1 January - 31 December 2018	1 January - 31 December 2017
General administrative expenses	31,602,689	27,973,625
Marketing expenses	509,764	496,362
	32,112,453	28,469,987

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13. EXPENSES BY NATURE (Continued)

	1 January - 31 December 2018	1 January - 31 December 2017
General administrative expenses		
Personnel expenses	16,194,513	14,165,336
Personnel bonus expenses	5,522,920	6,272,998
Provision expenses for employment termination benefits (Note 8)	459,334	125,761
Personnel expenses (a)	22,176,767	20,564,095
Information technology expenses	3,898,746	3,088,568
Rent expenses	1,405,257	1,052,995
Audit and consultancy expenses	805,037	476,173
Donations	500,400	400,650
Office general expenses	435,067	356,086
Communication expenses	428,400	331,614
Taxes, fees and duties	301,331	205,523
Transportation expenses	276,482	221,515
Amortization expenses (Note 7)	258,750	203,041
Depreciation expenses (Note 6)	253,432	262,654
Insurance expenses	70,029	124,995
Other expenses	792,991	685,716
General administrative expenses (b)	9,425,922	7,409,530
Total general administrative expenses (a+b)	31,602,689	27,973,625
Marketing and selling expenses		
Marketing and selling expenses	509,764	496,362
Total	509,764	496,362

14. FINANCIAL INCOME

	1 January - 31 December 2018	1 January - 31 December 2017
Financial income		
Interest income from deposits (*)	9,018,803	6,753,291
Interest income from derivatives	2,576,284	291,094
Reversed provision expenses	15,017	15,028
Foreign exchange gain	118	2,148
Other	45,797	6,832
	11,656,019	7,068,393

(*) Interest income from deposits amounting to TRY 5,884,008 (31 December 2017: 4,454,934) obtained from related parties (Note 18).

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15. FINANCIAL EXPENSES

	1 January - 31 December 2018	1 January - 31 December 2017
Financial expenses		
Allowances for expected credit losses	299,310	-
Foreign exchange loss	2	330
	299,312	330

16. TAX ASSETS AND LIABILITIES

The breakdown of cumulative temporary differences and the resulting deferred tax assets and liabilities provided at December 31, 2018 and December 31, 2017 using the enacted tax rates is as follows:

	<u>Cumulative temporary differences</u>		<u>Deferred tax assets / (liabilities)</u>	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Deferred tax assets				
Reserve for employment termination benefits	1,799,224	1,307,182	395,829	287,580
Personnel bonus provision	938,912	1,664,225	206,561	366,130
Unused vacation provision	500,577	439,620	110,127	96,716
Allowances for expected credit losses	299,310	-	65,848	-
Expense provision	653	660,441	144	145,297
Valuation differences	-	2,205	-	485
			778,509	896,208
Deferred tax liabilities				
Difference between tax base and carrying value of tangible and intangible assets	594,994	670,726	(130,899)	(147,560)
			(130,899)	(147,560)
Deferred tax asset, net			647,610	748,648

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16. TAX ASSETS AND LIABILITIES (Continued)

Movement table of deferred tax assets and liabilities is as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Deferred tax asset at the beginning of the period	748,648	205,902
Current deferred tax income / (expense)	(131,703)	326,209
Deferred tax carried under equity	30,665	216,537
Deferred tax asset at the end of the period	647,610	748,648

Many clauses of Corporate Tax Law No.5520 which are valid starting from 1 January 2006 came into effect after being published in Official Gazette No. 26205, dated 21 June 2006. According to the New Tax Law, the corporate tax rate in Turkey is payable at the rate of 22% for 2018 (2017: 20%). The corporate tax rate is calculated on the total income of the Company after adjusting for certain disallowable expenses, exempt income and other allowances. No further tax is payable unless the profit is distributed. (Except withholding tax at the rate of 19.8% on the investment incentive allowance amount utilized within the scope of the Income Tax Law transitional article 61).

The Law on the Amendment of Certain Tax Acts was approved by the Parliament on 28 November 2017 and published in the Official Gazette dated December 5, 2017, putting the rate of corporate taxation to be increased from 20% to 22% for the years 2018, 2019 and 2020. In this context, the effect of the tax rate change in the deferred tax asset/liability calculation made by the Company as of 31 December 2017 is taken into consideration.

Dividends paid to non-resident corporations, which have a place of business in Turkey or to resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 10%. An increase in capital via issuing bonus shares is not considered as profit distribution and thus does not incur withholding tax.

Corporations are required to pay advance corporate tax quarterly at a rate of 20% on their corporate income. Advance tax is declared by the 14th and paid by the 17th day of the second month following each calendar quarter end. Advance tax paid by corporations which is for the current period is credited against the annual corporation tax calculated on their annual corporate income in the following year. Despite the offset, if there is temporary prepaid tax remaining, this balance can be refunded or used to offset any other financial liabilities to the government.

In accordance with Tax Law No: 5024 “Law Related to Changes in Tax Procedure Law, Income Tax Law and Corporate Tax Law” that was published on the Official Gazette on 30 December 2003 effective from 1 January 2004, the income and corporate taxpayers will prepare the statutory financial statements by adjusting the non-monetary assets and liabilities for the changes in the general purchasing power of the Turkish Lira In accordance with the law in question, cumulative inflation rate for the last 36 months, and inflation rate for the last 12 months must exceed (DIE WPI increase rate) 100% and 10% respectively. Since these conditions in question were not fulfilled in 2005 and 2006, no inflation adjustment was performed.

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16. TAX ASSETS AND LIABILITIES (Continued)

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Tax returns are required to be filled and delivered to the related tax office until the evening of the 25th of the fourth month following the balance sheet date.

Tax returns are open for five years from the beginning of the year following the date of filing during which period the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

Under the Turkish Corporate Tax Law, losses can be carried forward to offset against future taxable income for up to five years. Losses cannot be carried back to offset profits from previous periods.

The Corporate Tax Legislation consists of various numbers of exemptions regarding the corporations. Hence, the exceptional earnings that are classified as profit or loss is taken into consideration by the corporate tax law.

Besides the exceptions stated above, the discounts those are stated in the 8th, 9th, and 10th articles of the Corporate Tax Law and 40th article of Income Tax Law are taken into consideration in the fixation of the corporate tax assessment.

	31 December 2018	31 December 2017
Corporate tax payable	10,564,769	9,891,458
Less: Prepaid taxes (-)	(8,065,027)	(6,654,726)
Tax liability - net	2,499,742	3,236,732

	1 January - 31 December 2018	1 January - 31 December 2017
Current tax expense	10,564,769	9,891,458
Prior year tax adjustment	(379,244)	(170,833)
Deferred tax (income) / expense	131,703	(326,209)
Total tax expense	10,317,228	9,394,416

Reconciliation between the theoretical tax amount that would arise using the basic tax rate of the Company and the actual taxation charge for the year is stated below:

	1 January - 31 December 2018	1 January - 31 December 2017
Profit before tax	46,005,788	47,567,749
Theoretical tax expense with calculated tax rate (*)	10,121,273	9,513,550
Nondeductible expenses and other additions	195,955	(119,134)
Current year tax expense	10,317,228	9,394,416

(*) The Law on the Amendment of Certain Tax Acts was approved by the Parliament on 28 November 2017 and published in the Official Gazette dated December 5, 2017, putting the rate of corporate taxation to be increased from 20% to 22% for the years 2018, 2019 and 2020, In this context, the Group's effect on the tax rate change in deferred tax asset / liability calculation as of 30 June 2018 is taken into consideration.

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17. EARNINGS PER SHARE

In accordance with the Turkish Accounting Standards 33 - Earning per share (“TAS 33”), the companies, whose common stocks are not quoted on the stock exchange, do not have to disclose earning per share information. Since the parent Company’s common stocks are not quoted on the stock exchange, earnings per share information is not calculated in the accompanying financial statements.

18. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a) Transactions with related parties during the periods ended at December 31, 2018 and 2017 are as follows:

	31 December 2018	31 December 2017
Cash and cash equivalents (Note 4)		
Yapı ve Kredi Bankası A.Ş. (Time Deposit-TRY)	67,125,117	2,596,593
Yapı ve Kredi Bankası A.Ş. (Deposit-TRY)	11,403	5,000
	67,136,520	2,601,593
Trade receivables		
Yapı Kredi Portföy Yatırım Fonları (Note 5)	5,007,395	5,687,977
Allianz Yaşam ve Emeklilik A.Ş. Emeklilik Fonları	2,096,096	6,067,563
Yapı ve Kredi Bankası A.Ş. (Note 5)	1,823,135	1,245,779
	8,926,626	13,001,319
Prepaid expenses (Note 10)		
Allianz Sigorta A.Ş.	149,293	105,834
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	2,973	1,705
	152,266	107,539
Trade payables (Note 5)		
Yapı Kredi Portföy Yatırım Fonları	1,504,885	976,431
Yapı ve Kredi Bankası A.Ş.	73,584	101,430
Allianz Yaşam ve Emeklilik A.Ş.	-	274,519
Other	28,342	53,730
	1,606,811	1,406,110

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18. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Continued)

b) Transactions with related parties during the periods ended at December 31, 2018 and 2017 are as follows:

	1 January - 31 December 2018	1 January - 31 December 2017
Fee and commission received from related parties:		
Yapı Kredi Portföy Yatırım Fonları	52,887,069	53,696,436
Allianz Yaşam ve Emeklilik A.Ş. Emeklilik Fonları	8,731,935	17,713,254
Yapı ve Kredi Bankası A.Ş.	3,848,881	1,767,408
Koç Ailesi Üyeleri	669,476	740,882
Vehbi Koç Vakfı	36,655	77,920
Türk Eğitim Vakfı	-	6,768
	66,174,016	74,002,668
Interest income from related parties		
Yapı ve Kredi Bankası A.Ş.	5,884,008	4,454,934
	5,884,008	4,454,934
Fee and commission paid to related parties		
Yapı Kredi Portföy Yatırım Fonları	5,961,546	2,972,279
Yapı ve Kredi Bankası A.Ş.	3,562,418	3,317,029
Allianz Yaşam ve Emeklilik A.Ş.	103,837	274,519
Yapı Kredi Yatırım Menkul Değerler A.Ş.	-	1,574,750
	9,627,801	8,138,577
Other expenses paid to related parties		
Yapı ve Kredi Bankası A.Ş.	556,751	335,989
Avis - Otokoç Otomotiv Tic. ve San. A.Ş.	541,440	259,317
Zer Merkezi Hizmetler ve Ticaret A.Ş.	424,246	348,708
Allianz Sigorta A.Ş.	401,704	368,303
YKS Tesis Yönetim Hizmetleri A.Ş.	372,079	310,125
Opet Petrolcülük A.Ş.	73,681	60,325
Koç Holding A.Ş.	66,478	53,149
Setur Servis Turistik A.Ş.	54,697	36,717
Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş.	54,069	157,140
Akpa Day. Tük. LPG ve Akaryakıt Ür. Paz. A.Ş.	5,056	4,361
Vehbi Koç Vakfı	-	400,000
	2,550,201	2,334,134
Dividends paid to related parties		
Yapı Kredi Yatırım Menkul Değerler A.Ş.	29,690,001	23,577,354
Yapı ve Kredi Bankası A.Ş.	4,300,811	3,415,350
Other	9,188	7,296
	34,000,000	27,000,000

c) Total salaries and benefits paid to the members of the Board of Directors, general manager, assistant general managers and other top management for the whole year 2018 amount to TRY 3,559,265 (31 December 2017 - TRY 2,864,723).

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19. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Company is exposed to capital market, interest rates and various other financial risks due to its portfolio management and investment consulting activities. The Company manages its financial risks according to market risk policies determined by KFS on a group basis. According to the policy, which is also approved by the Company's Board of Directors, the Company Management is primarily responsible for managing financial risks. In addition, the Company has an investment committee and a risk management committee. These committees decide on portfolio strategies and risk management policies on a weekly and/or as needed basis. The risks that the Company is exposed to and the methods used to manage them are as follows.

i. Credit risk disclosures

Credit risk is the risk that one party to a financial instrument will fail to meet the terms of their agreements as foreseen and cause the other party to incur a financial loss.

The Company's credit risk exposure mainly consist of trade receivables, and bank deposits.

The credit risk that Company exposed is as follows:

31 December 2018	<u>Trade Receivables</u>		<u>Other Receivables</u>		Bank deposits (*)	Financial investments
	<u>Related parties</u>	<u>Other parties</u>	<u>Related parties</u>	<u>Other parties</u>		
Maximum credit risk exposure as of the financial statements date	8,926,626	2,031,106	-	-	66,938,499	-
Net carrying value of financial assets which are neither impaired nor overdue	8,926,626	2,031,106	-	-	66,938,499	-
Net book value of impaired financial assets	-	-	-	-	-	-
- Past due financial assets (Gross)	-	-	-	-	-	-
- Impairment charge (-)	-	-	-	-	-	-
- Collateralized portion of the net exposure	-	-	-	-	-	-

(*) The bank deposits amount includes TRY 67,136,520 in Yapı ve Kredi Bankası A.Ş., which is a related party.

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19. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

31 December 2017	<u>Trade Receivables</u>		<u>Other Receivables</u>		Bank deposits (*)	Financial investments
	Related parties	Other parties	Related parties	Other parties		
Maximum credit risk exposure as of the financial statements date	13,001,319	50,715	-	-	63,534,346	-
Net carrying value of financial assets which are neither impaired nor overdue	13,001,319	50,715	-	-	63,534,346	-
Net book value of impaired financial assets	-	-	-	-	-	-
- Past due financial assets (Gross)	-	-	-	-	-	-
- Impairment charge (-)	-	-	-	-	-	-
- Collateralized portion of the net exposure	-	-	-	-	-	-

(*) The bank deposits amount includes TRY 2,601,593 in Yapı ve Kredi Bankası A.Ş., which is a related party.

The Company does not have past due assets as of December 31, 2018 and December 31, 2017. The majority of the Company's trade receivables consist of the investment and private pension funds under management for the last one month. The relevant amount is collected in the first week of the month in which it continues.

In determining the above amounts, factors that increase credit reliability, such as collateral received, are not considered. The Company's financial assets exposed to credit risk do not have any impaired assets. In addition, the Company does not have assets that are subject to off-balance sheet credit risk and outstanding assets that have not been impaired.

ii. Information on liquidity risk

The need of Company's dealing ways with interest risk rate arises from effects of interest rates changes on the financial instruments. The sensitivity of the Company to interest rate risk is related with maturity mismatch of assets and liabilities. This risk is managed through corresponding assets that are sensitive to interest rates with similar liabilities.

As of December 31, 2018 and December 31, 2017, the Company has no assets and liabilities which will be effected from the changes in interest rates.

	31 December 2018					Total of contractual cash outflows
	Carrying value	Up to 3 months	3 months to 1 year	1 years to 5 year	Demand	
Trade payables	2,564,672	2,564,672	-	-	-	2,564,672
Other current liabilities	1,392,868	1,392,868	-	-	-	1,392,868
Total liabilities	3,957,540	3,957,540	-	-	-	3,957,540

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19. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Continued)

	31 December 2017					Total of contractual cash outflows
	Carrying value	Up to 3 months	3 months to 1 year	1 years to 5 year	Demand	
Trade payables	1,630,460	1,630,460	-	-	-	1,630,460
Other current liabilities	1,208,517	1,208,517	-	-	-	1,208,517
Total liabilities	2,838,977	2,838,977	-	-	-	2,838,977

iii. Information on market risk

a. Exchange rate risk

None. (31 December 2017: None).

b. Interest rate risk

The need of Company’s dealing ways with interest risk rate arises from effects of interest rates changes on the financial instruments. The sensitivity of the Company to interest rate risk is related with maturity mismatch of assets and liabilities. This risk is managed through corresponding assets that are sensitive to interest rates with similar liabilities.

The table below shows the interest rate position details and sensitivity analysis as of December 31, 2018 and 2017:

Assets	31 December 2018 TRY (%)	31 December 2017 TRY (%)
Cash and cash equivalents:		
- Time deposits	23.44	16.66

iv. Capital management

The Company aims to minimize financial investment risk by diversified portfolio, The Company's objectives when managing capital, return on shareholders and other stakeholders in order to provide benefits to ensure continuity of operations of the Company to maintain an optimal capital structure, In order achieve that the Company invests in securities with high-yield securities and closely monitors recent developments on financial sector and institutions, shareholders and take due precautions,

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20. FINANCIAL INSTRUMENTS

Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

The estimated fair values of financial instruments have been determined by the Company using available market information and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange.

The discount effect is considered to be insignificant due to the very short term nature of the financial assets and liabilities and therefore it is foreseen that their fair values are close to their book values:

	31 December 2018		31 December 2017	
	Fair value	Book value	Fair value	Book value
Cash and cash equivalents	66,938,499	66,938,499	63,534,346	63,534,346
Trade receivables	10,957,732	10,957,732	13,052,034	13,052,034
Trade payables	2,564,672	2,564,672	1,630,460	1,630,460

21. SUBSEQUENT EVENTS

None.

22. OTHER MATTERS THAT AFFECT THE FINANCIAL STATEMENTS IN A SIGNIFICANT WAY OR THAT NEED TO BE DISCLOSED IN TERMS OF CLEAR, INTERPRETABLE AND UNDERSTANDABLE FINANCIAL STATEMENTS

a. Capital adequacy obligation

The Company defines and manages its capital in accordance with the Capital Markets Board Communiqué Serial: V No: 34 Communiqué on Capital Adequacy and Capital Adequacy of Intermediary Institutions ("Communiqué Serial: V No: 34"). According to the Communiqué, portfolio management companies are also subject to the provisions of this Communiqué and they are subject to the provisions of this Communiqué and are subject to the provisions of the Communiqué Serial: V No: 34. Is the Company in which the amounts expressing are included. According to Communiqué Serial: V No: 34. minimum amount of paid-up capital announced for portfolio management companies was found to be sufficient for the ending accounting period as of 31 December 2018.

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**22. OTHER MATTERS THAT AFFECT THE FINANCIAL STATEMENTS IN A
SIGNIFICANT WAY OR THAT NEED TO BE DISCLOSED IN TERMS OF CLEAR,
INTERPRETABLE AND UNDERSTANDABLE FINANCIAL STATEMENTS
(Continued)**

Portfolio Management Companies are obliged to calculate their capital adequacy in accordance with the regulations of the same communiqué and to report them to CMB in accordance with Article 25 of CMB's Communiqué on Principles Regarding Capital and Capital Adequacy of Intermediary Institutions Serial: V No: 34. The net amount of tangible and intangible fixed assets calculated according to article 4 of Series: V No: 34 according to Article 3 of Serial: V No: 34 of the Communiqué Serial: V No: 34. the net amount of tangible and intangible fixed assets. Personnel, partnerships, associates, subsidiaries and persons directly or indirectly related to capital, management and supervision, with or without customer default, with remaining financial assets and other fixed assets after deducting impairment provision and capital commitments. In addition, unsecured receivables from corporations and the amount of capital market instruments issued by such persons and institutions that are not traded in stock exchanges and other organized markets.

According to Article 8 of Series: V No: 34. the capital adequacy bases of the portfolio management companies, the minimum equity capital corresponding to the authorization certificates they hold, the risk provisions stated in the Communiqué Serial: V No: 34 and the last three months Operating expenses cannot be less than any of the items.

b. Procedures and disclosures about asset management activities

As of December 31, 2018, the Company manages 30 investments and 25 pension funds (31 December 2017 - 33 mutual funds, 25 pension funds) established under the provisions of the CMB Legislation and obtains fund management fees. Fund management fee income obtained from funds during the period ended 31 December 2018 is net TRY 62,927,228 (December 31, 2017: TRY 68,174,997).

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