

**Aktif Yatırım Bankası
Anonim Şirketi
and Its Subsidiaries**

**Consolidated Financial Statements
As at and for the year ended
31 December 2016 with
Independent Auditor's Report Thereon**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Aktif Yatırım Bankası A.Ş.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Aktif Yatırım Bankası A.Ş. (the “Bank”) and its subsidiary (the “Group”), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”).

Basis for Qualified Opinion

The accompanying consolidated financial statements as at 31 December 2016 consist of a general provision amounting to TL 30,000 thousand provided by the Bank management for the possible result of the negative circumstances which may arise from any changes in the economy or market conditions. If the mentioned general provision were not provided, the other provisions would decrease by TL 30,000 thousand, net profit for the prior period would increase by TL 15,000 thousand and net profit for the period would increase by TL 15,000 thousand as at 31 December 2016.

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (the “IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

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

Key Audit Matter	How the matter was addressed in the audit
<p>Allowance for probable losses on corporate and commercial loans</p> <p>At 31 December 2016, gross loans and advances to customers were TL 5,595,680 thousands against which allowance for loan losses of TL 75,311 thousands were recorded ending with a net carrying amount of TL 5,520,369 thousands. The details are disclosed in Note 13 of the consolidated financial statements.</p> <p>For allowance for loan losses, a management decision and judgement is required to determine when an impairment event has occurred and a necessary classification should be done. So there is a risk of misstatement in the calculation of the allowance related to the classification of non-performing loans and advances to customers in accordance with IAS 39.</p> <p>Furthermore, the specific allowances are made against the carrying amount of loans and advances to customers that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to customers to their recoverable amounts. In assessing the recoverable amounts of the loans and advances to customers, the estimated future cash flows are discounted to their present value using the loans' original effective interest rates which requires management's significant judgement to exercise.</p> <p>Collective allowances are maintained to reduce the carrying amount of portfolios of similar loans and advances to customers to their estimated recoverable amounts at the date of financial position. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties.</p> <p>Because of the significance of these judgements and the size of due from loans and advances to customers, the audit of allowance for probable losses on corporate and commercial loans and advances to customers is a key area of focus. Furthermore there is a risk of misstatement in the calculation of allowance related to errors in the main parameters of allowance for probable losses on corporate and commercial loans and advances to customers (specific and collective) in accordance with IAS 39 in the IFRS financial statements.</p>	<p>We reviewed the provisioning methodology implemented by the Group. We understood and tested the key controls over the classification and provisioning methodology such as; system based and manual controls over the timely recognition of impaired loans and advances, controls over the impairment calculation models including data inputs, controls over cash flow estimates and finally governance controls which includes the management meetings for the approval process of allowance for probable losses on loans and advances to customers.</p> <p>In addition to testing the key controls, we performed a loan review over the performing loans and advances to customers in order to assess whether the borrowers exhibit any possible default risk that may affect the repayment abilities; and tested a sample of loans to assess whether impairment events had occurred and whether impairments had been identified in a timely manner. We also verified whether all impairment events as identified by us had also been identified by the Group's management. Our selected samples also included non-performing loans and advances to customers, where we assessed management's forecast of recoverable cash flows, valuation of collaterals, estimates of recovery on default and other sources of repayment. For allowances provided on a collective basis we tested the underlying models, the appropriateness and accuracy of the inputs to those models, such as probability of default and loss given default rates, and where available, compared data and assumptions made to external benchmarks. Finally, we understood and tested the controls over related disclosures.</p>

Key Audit Matter

How the matter was addressed in the audit

IT Audit

The Group is dependent on the IT-infrastructure for the continuity of their operations, the integrity of its financial data. The demand for technology-enabled business services is rapidly growing in the Bank and its subsidiaries. Controls over reliability and continuity of the electronic data processing are within the scope of the information systems internal controls audit. The reliance on information systems within the Group means that the controls over access rights, continuity of systems, privacy and integrity of the electronic data are critical and found to be a key area of focus. In addition, automated business level controls act as a significant component of control environment in the Group.

We understood and tested the Group's controls over information systems as part of our audit procedures. Our audit procedures include all layers that the data is transmitted, which are databases, operating systems, applications, and network. Tested information systems controls are categorized in the following areas:

- Manage security
- Manage changes
- Manage operations

We selected high-risk areas as, database logging and change management control activities, to prevent and detect whether inappropriate access to financial data had been identified in a timely manner. We tested the access and logging controls underlying all applications which have direct or indirect impact on financial data generation and reporting. Automated controls and integrity controls are tested to verify that changes are implemented as intended on the relevant applications. We also tested the appropriateness and accuracy of the information produced by the entity and information used in controls reports as inputs to our controls and outputs generated by the IT components. S.The same set of control tests were conducted on the database and the operating system layer. Finally, critical automated business controls were tested to verify that controls are in essence exist and are adequate for the the purpose their serving.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year 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.

The engagement partner on the audit resulting in this independent auditor's report is Yaman Polat.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**



Yaman Polat
Partner

Istanbul, 3 May 2017

Aktif Yatırım Bankası Anonim Şirketi and Its Subsidiaries

TABLE OF CONTENTS

	Page
Independent auditor's report	
Consolidated statement of financial position	1
Consolidated statement of profit or loss and other comprehensive income	2
Consolidated statement of changes in equity	3-4
Consolidated statement of cash flows	5
Notes to the consolidated financial statements	6-68

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**Consolidated Statement of Financial Position****As at 31 December 2016***(Currency - In thousands of Turkish Lira ("TL"))*

	<i>Note</i>	31 December 2016	31 December 2015
ASSETS			
Cash and cash equivalents	9	988,702	451,605
Reserve deposits at Central Bank	10	707,595	685,604
Trading assets	11	50,486	9,271
Trade and other receivables		301,179	100,308
Inventories		8,202	14,498
Loans and advances to customers	13	5,520,369	4,638,261
Investment securities	12	1,123,740	930,741
Equity accounted investees	14	22,803	12,741
Tangible assets	15	275,916	231,719
Intangible assets	16	175,583	123,930
Goodwill	7	504	504
Deferred tax assets	22	1,254	7,039
Assets held for sale	18	-	-
Other assets	17	306,683	350,428
Total assets		9,483,016	7,556,649
LIABILITIES			
Trading liabilities	11	7,234	9,848
Trade and other payables		124,827	130,340
Obligations under repurchase agreements	19	762,409	478,027
Financial lease liabilities		33,740	39,485
Debt securities issued	21	3,168,648	2,619,947
Funds borrowed	20	2,829,348	2,508,185
Provisions	23	69,597	36,992
Income taxes payable	22	11,918	3,494
Deferred tax liability	22	7,539	10,412
Other liabilities	24	1,484,134	840,004
Total liabilities		8,499,394	6,676,734
EQUITY			
Share capital	25	938,095	867,095
Legal reserves	25	24,237	20,007
Unrealised gains/(losses) on available-for-sale assets		(23,011)	(21,909)
Actuarial gain/ (loss)		441	(908)
Special funds		618	-
Translation reserves		(2,356)	(5,127)
Retained earnings		36,498	15,436
Total equity attributable to equity holders of the Bank		974,522	874,594
Non-controlling interests		9,100	5,321
Total equity		983,622	879,915
Total liabilities and equity		9,483,016	7,556,649

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
Consolidated Statement of Profit or Loss and Other Comprehensive Income
As at 31 December 2016
(Currency - In thousands of Turkish Lira ("TL"))

	<i>Note</i>	2016	2015
Interest income	26	800,847	690,729
Interest expense	26	(445,184)	(383,331)
Net interest income		355,663	307,398
Fees and commission income	27	131,631	91,818
Fees and commission expense	27	(42,494)	(32,670)
Net fee and commission income		89,137	59,148
Net trading gain/loss	28	4,374	(3,932)
Sales income	29	268,441	215,848
Other income	30	4,266	45,545
Other expenses	34	(15,000)	(15,000)
Net impairment loss on financial assets	13,31	(12,386)	(10,087)
Operating expenses		(345,917)	(324,891)
- Personnel expenses	32	(164,930)	(168,629)
- Depreciation and amortisation	15,16	(55,009)	(32,190)
- Other operating expenses	33	(125,978)	(124,072)
Cost of sales		-	-
Cost of services	29	(177,977)	(198,217)
Other operating expenses	34	(30,187)	(25,332)
Total operating income		140,414	50,480
Share of profit of equity accounted investee	14	771	1,640
Profit before income tax		141,185	52,120
Income tax expense	22	(43,131)	(26,153)
Net profit for the year from continuing operations		98,054	25,967
Profit attributable to			
Equity holders of the Bank		96,292	25,103
Non-controlling interest		1,762	864
Profit for the year		98,054	25,967
Other comprehensive income			
Items that will not be reclassified to profit or loss:		1,967	(408)
Change in actuarial (loss) / gain related to employee benefits		1,686	(537)
Special funds		773	-
Tax effect	22	(492)	129
Items that are or may be reclassified subsequently to profit or loss:		1,669	(32,248)
Change in fair value of available-for-sale financial assets		(1,378)	(34,716)
Foreign currency translation differences		2,771	(4,372)
Tax effect	22	276	6,840
Other comprehensive income for the year, net of tax		3,636	(32,656)
Total comprehensive income for the year		101,690	(6,689)
Total comprehensive income attributable to:			
Equity holders of the Bank		99,928	(7,553)
Non-controlling interest		1,762	864
Total comprehensive income for the year		101,690	(6,689)

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2016

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

	Note	Share capital	Adjustment to share capital	Legal reserves	Unrealised gains/(losses) on available-for-sale assets	Translation reserve	Actuarial gain/(loss)	Retained earnings	Total	Non-controlling interest	Total equity
At 1 January 2015		697,085	4,510	15,970	5,967	(755)	(500)	159,870	882,147	4,457	886,604
Total comprehensive income for the year											
Profit for the year		-	-	-	-	-	-	25,103	25,103	864	25,967
Other comprehensive income		-	-	-	(27,876)	(4,372)	(408)	-	(32,656)	-	(32,656)
<i>Net change in fair value of available-for-sale financial assets</i>		-	-	-	(27,876)	-	-	-	(27,876)	-	(27,876)
<i>Net change in actuarial gain related to employee benefits</i>		-	-	-	-	-	(408)	-	(408)	-	(408)
<i>Foreign currency translation differences</i>		-	-	-	-	(4,372)	-	-	(4,372)	-	(4,372)
Total comprehensive income for the year		-	-	-	(27,876)	(4,372)	(408)	25,103	(7,553)	864	(6,689)
Transactions with owners, recorded directly in equity											
Capital increase		165,500	-	-	-	-	-	(165,500)	-	-	-
Transfer to reserves		-	-	4,037	-	-	-	(4,037)	-	-	-
Total transactions with owners, recorded directly in equity		165,500	-	4,037	-	-	-	(169,537)	-	-	-
At 31 December 2015	25	862,585	4,510	20,007	(21,909)	(5,127)	(908)	15,436	874,594	5,321	879,915

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2016

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

	Note	Share capital	Adjustment to share capital	Legal reserves	Unrealised gains/(losses) on available-for-sale assets	Translation reserve	Actuarial gain/(loss)	Special Funds	Retained earnings	Total	Non-controlling interest	Total equity
At 1 January 2016		862,585	4,510	20,007	(21,909)	(5,127)	(908)	-	15,436	874,594	5,321	879,915
Total comprehensive income for the year												
Profit for the year		-	-	-	-	-	-	-	-	96,292	1,762	98,054
Other comprehensive income		-	-	-	(1,102)	2,771	1,349	618	-	3,636	-	3,636
Net change in fair value of available-for-sale financial assets		-	-	-	(1,102)	-	-	-	-	(1,102)	-	(1,102)
Net change in actuarial gain related to employee benefits		-	-	-	-	-	1,349	618	-	1,967	-	1,967
Foreign currency translation differences		-	-	-	-	2,771	-	-	-	2,771	-	2,771
Total comprehensive income for the year		-	-	-	(1,102)	2,771	1,349	618	96,292	99,928	1,762	101,690
Transactions with owners, recorded directly in equity												
Capital increase		71,000	-	-	-	-	-	-	(71,000)	-	2,017	2,017
Transfer to reserves		-	-	4,230	-	-	-	-	(4,230)	-	-	-
Total transactions with owners, recorded directly in equity		71,000	-	4,230	-	-	-	-	(75,230)	-	2,017	2,017
At 31 December 2016	25	933,585	4,510	24,237	(23,011)	(2,356)	441	618	36,498	974,522	9,100	983,622

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
Consolidated Statement of Cash Flows
For the Year Ended 31 December 2016
(Currency - In thousands of Turkish Lira ("TL"))

	<i>Note</i>	2016	2015
Cash flows from operating activities			
Net profit for the year		98,054	25,967
Adjustments for:			
Depreciation and amortisation of tangible and intangible assets	15,16	56,460	39,477
Impairment on intangible assets	16	-	5,298
Retirement pay provision expense	23	3,485	1,536
Unused vacation provision expense		375	(951)
Bonus provision expense	23	12,086	8,585
Impairment on financial assets	31	12,386	10,087
Net interest income and expense		(333,621)	(344,784)
Share of profit of equity investee	14	(771)	(1,640)
(Reversal) / provision for possible losses	23	15,000	10,000
Unrealised foreign exchange loss / (gain)		74,673	(52,372)
Other accruals		30,975	4,847
Income tax	22	43,131	26,153
		12,233	(267,797)
Change in reserve deposit at Central Bank		(21,991)	(187,992)
Change in trading assets		(36,754)	1,880
Change in loans and advances to customers		(1,110,934)	(514,540)
Change in other assets		(93,265)	(192,803)
Change in obligations under repurchase agreements		283,993	284,207
Proceeds from borrowings		382,216	958,052
Change in other liabilities		646,868	411,024
		50,133	759,828
Interest received		807,628	657,081
Interest paid		(511,313)	(409,908)
Retirement pay provision and unused vacation paid	23	(938)	(1,904)
Bonus payment	23	(12,086)	(16,066)
Income tax paid	22	(36,939)	(12,948)
Net cash used in operating activities		246,352	216,255
Cash flows from investing activities			
Purchase of investment securities		(5,064,851)	(4,886,804)
Sale of investment securities		4,874,292	4,815,158
Purchase of tangible assets	15	(48,694)	(68,704)
Equity accounted investees	14	(6,552)	(4,137)
Proceeds from the sale of tangible assets		674	27,086
Purchase of intangible assets	16	(92,441)	(46,726)
Net cash used in investing activities		(337,572)	(164,127)
Cash flows from financing activities			
Proceeds from debt securities issued		17,852,369	8,823,073
Repayment of debt securities issued		(17,275,102)	(9,200,518)
Change in financial lease liabilities		(8,860)	(1,943)
Net cash provided from financing activities		568,407	(379,388)
Net increase/(decrease) in cash and cash equivalents		539,553	164,771
Effect of exchange rate fluctuations on cash		(3,830)	130
Cash and cash equivalents on 1 January	9	451,360	286,459
Cash and cash equivalents on 31 December	9	987,083	451,360

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2016

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

Notes to the consolidated financial statements

	<u>Page</u>
1. Reporting entity	7
2. Basis of preparation	8
3. Significant accounting policies	9-29
4. Use of estimates and judgements	30-33
5. Restatement of prior year financial statements	34
6. Financial risk management	34-47
7. Business combinations	47
8. Segment reporting	48-49
9. Cash and cash equivalents	50
10. Reserve deposits at Central Bank	50
11. Trading assets and liabilities	51
12. Investment securities	52
13. Loans and advances to customers	52-53
14. Equity accounted investees	54
15. Tangible assets	55
16. Intangible assets	56
17. Other assets	57
18. Assets held for sale	57
19. Obligations under repurchase agreements	57
20. Funds borrowed	57
21. Debt securities issued	57-58
22. Taxation	58-60
23. Provisions	61
24. Other liabilities	62
25. Capital and reserves	62-63
26. Net interest income	64
27. Net fee and commission income	64
28. Net trading income	64
29. Sales income and cost of sales	65
30. Other income	65
31. Net impairment on financial assets	65
32. Personnel expenses	66
33. Administrative expenses	66
34. Other operating expenses	67
35. Related parties	67-68
36. Commitments and contingencies	68
37. Subsequent events	68

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2016

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

1. Reporting entity

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

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

The head office of the Bank is located at Büyükdere Cad. No: 163/A Zincirlikuyu / İstanbul, and the Bank have also seven branches. The Bank employs 666 people as at 31 December 2016 (31 December 2015: 784).

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

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

Sigortayeri Sigorta ve Reasürans Brokerliği A.Ş. ("Sigortayeri"): With the virtual and physical multi-channel structure that is shaped according to the needs of potential policyholders, comparative insurance products provide customers with fast and intuitive way to operate in the field of insurance broking.

EPost Elektronik Perakende Otomasyon Satış Ticaret A.Ş. ("EPost"): EPost allocated to business with the brand through reliable/secure devices, sales and collection operations for making the dealership system.

E-Kent Teknoloji ve Ödeme Sistemleri Sanayi ve Ticaret A.Ş. ("E-Kent"): E-Kent increases both the new products and services applied in the field and the number of cities in which services are offered in its fields of operation with its vision which is "building city technologies".

Pavo Teknik Servis Elektrik Elektronik Sanayi ve Ticaret A.Ş. ("Pavo"): Pavo operates in the area of new generation payment systems (especially ECR business); import, manufacture sales and technical services.

N Kolay Ödeme Kuruluşu A.Ş. ("N Kolay"): N Kolay operates in the area of invoice payment point and payment services licence obtained from Banking Regulation and Supervision Agency in 2015.

Asset Aktif Sportif ve Sanatsal Etkinlik Hizmetleri Ticaret A.Ş. ("Asset"): Asset operates in the area of ticket sale organization of sports and arts activities.

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

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

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

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

UPT Ödeme Hizmetleri A.Ş. ("UPT"): UPT operates for electronic money and money transfer and payment services licence obtained from Banking Regulation and Supervision Agency in 2015.

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2016

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

1. Reporting entity (continued)

Euro Mediterranean Investment Company ("EMIC"): EMIC is a portfolio management company.

Mükafat Portföy Yönetimi A.Ş. ("Mükafat") : Mükafat is a portfolio management company.

Haliç Finansal Kiralama A.Ş. ("Haliç") : Initiating its business operations in 2004, Haliç Leasing aims to achieve growth by accelerating its business operations at the last quarter of 2016 with the partnership of ICD and Ijara Management Company under the organization of Aktif Bank. Being the first financial leasing company offering Islamic products to its customers in Turkey, Haliç Leasing develops customer-tailored development packages for its customers, operating in Turkey, especially SMEs, as well as financing options in order to provide support to their investments in technological machines and equipment. Thereby, it intends to fill the gaps at the market where major leasing companies, especially those owned by local banks, maintain their operations. Haliç Leasing aims to bring long-term resources to Turkey from the Gulf and Asian countries through Sukuk issues by leveraging on Aktif Bank's knowledge in capital markets.

Echo Bilgi Yönetim Sistemleri A.Ş. ("Echo") has been established by E-Kent Teknoloji ve Ödeme Sistemleri A.Ş. and Echo Perakende Ödeme Sistemleri Bilişim A.Ş in 2016. Echo offers Windows based automation systems which are integrated with new generation cash registers and provide end-to-end payment systems for front and back office of retail chains.

2. Basis of preparation

2.1 Statement of compliance

The Bank and its subsidiaries operating in Turkey maintain their books of account and prepare their statutory consolidated financial statements in Turkish Lira ("TL") in accordance with the accounting principles as promulgated by the Banking Regulation and Supervision Agency ("BRSA"), Capital Markets Board of Turkey, the Turkish Commercial Code and tax legislation. The foreign subsidiaries maintain their books of account in accordance with the laws and regulations in force in the countries in which they are registered.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations adopted by the International Accounting Standards Board ("IASB").

2.2 Basis of measurement

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

- derivative financial instruments are measured at fair value
- financial assets at fair value through profit or loss are measured at fair value
- available-for-sale financial instruments

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgements

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are described in notes 4.

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements As at and for the Year Ended 31 December 2016

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

3. Significant accounting policies

3.1 Accounting in hyperinflationary economies

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

3.2 Foreign currency transactions

Foreign currency transactions

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

Financial statements of foreign operations

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

3.3 Basis of consolidation

Subsidiaries

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

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements As at and for the Year Ended 31 December 2016

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

3. Significant accounting policies (continued)

3.3 Basis of consolidation (continued)

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

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

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in profit or loss.

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

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

Interests in equity-accounted investees

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

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

Non-controlling interests

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements
As at and for the Year Ended 31 December 2016***(Currency - In thousands of Turkish Lira ("TL"))***3. Significant accounting policies (continued)****3.3 Basis of consolidation (continued)***Loss of control*

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

Transactions eliminated on consolidation

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

Acquisitions from entities under common control

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

Group entities

Subsidiaries	Country of Incorporation	Direct ownership %		Indirect ownership %	
		31 December 2016	31 December 2015	31 December 2016	31 December 2015
Insurance Brokerage					
Sigortayeri Sigorta ve Reasürans Brokerliği A.Ş.	Turkey	100.00%	100.00%	-	-
Payment Systems					
Epost Elektronik Perakende Otomasyon Satış Tic. A.Ş.	Turkey	99.80%	99.27%	-	-
E-Kent Teknoloji ve Ödeme Sistemleri San ve Tic. A.Ş.	Turkey	-	-	99.80%	99.27%
N Kolay Mağazacılık A.Ş.	Turkey	99.99%	-	-	99.27%
UPT Ödeme Hizmetleri A.Ş.	Turkey	100.00%	100.00%	-	-
Real Estate					
Emlak Girişim Danışmanlığı A.Ş.	Turkey	100.00%	100.00%	-	-
Service					
Pavo Teknik Servis Elektrik Elektronik Sanayi ve Ticaret A.Ş.	Turkey	-	-	79.84%	79.42%
Asset Aktif Sportif ve Sanatsal Etkinlik Hizmetleri Tic. A.Ş.	Turkey	-	-	99.80%	99.27%
Mükafat Portföy Yönetimi A.Ş.	Turkey	80.00%	-	-	-
Echo Bilgi Yönetim Sistemleri A.Ş.	Turkey	-	-	49.90%	-
Equity accounted investees					
	Country of Incorporation	31 December 2016 Ownership %		31 December 2015 Ownership %	
Kazakhstan İjara Company Jsc	Kazakhstan	14.31%		14.31%	
İFM İstanbul Finans Merkezi İnşaat Taahhüt A.Ş.	Turkey	5.00%		5.00%	
Euroasian Leasing Company	Republic of Tatarstan	25.00%		25.00%	
Haliç Finansal Kiralama Anonim Şirketi	Turkey	32.00%		-	
Euro Mediterranean Investment Company	Turkish Republic of Northern Cyprus	21.23%		21.28%	

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements As at and for the Year Ended 31 December 2016

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

3. Significant accounting policies *(continued)*

3.4 Interest income / expense

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and commissions paid or received transaction costs, and discounts or premiums that are integral part of the effective interest rate.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense presented in profit or loss include the interest income on financial assets and liabilities at amortised cost on an effective interest rate basis.

3.5 Fees and commission

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

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

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

3.6 Net trading income

Net trading income comprises gains less loss related to trading assets and liabilities, and includes all realised and unrealised fair value changes and foreign exchange differences.

3.7 Dividends

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

3.8 Lease payments made

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

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2016

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

3. Significant accounting policies (continued)

3.9 Other operations revenue

Revenues are recognised on an accrual basis at the fair values incurred or to be incurred when the goods are delivered, the risks and rewards of ownership of the goods are transferred, when the amount of revenue can be reliably measured and it is probable that the future economic benefits associated with the transaction will flow to the entity. Net sales represent the fair value of goods shipped less sales discounts and returns. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognised in the period on an accrual basis as financial income.

Sales of the goods

Income obtained from the sales of the goods is accounted after the below conditions are executed:

- The Group's transferring all the important risks and gains related to the property to the buyer,
- The Group not having any control on the continued administrative participation associated with property and on the sold properties,
- Measuring the amount of income reliably,
- Possibility of a flow of the economic benefits related to the act to the Group, and
- Measuring the costs resulting from the act reliably.

Services provided

Contract revenue and costs related to the projects are recognised when the amount of revenue can be reliably measured and the increase in the revenue due to change in the scope of the contract related with the project is highly probable. Contract revenue is measured at the fair value of the consideration received or receivable. Projects are fixed price contracts and revenue is recognised in accordance with the percentage of completion method. The portion of the total contract revenue corresponding to the completion rate is recognised as contract revenue in the relevant period.

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2016

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

3. Significant accounting policies (continued)

3.10 Financial assets and liabilities

Recognition

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

Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

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

Offsetting

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

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

Amortised cost measurement

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

Fair value measurement

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

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

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2016

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

3. Significant accounting policies (continued)

3.10 Financial assets and liabilities (continued)

Fair value measurement (continued)

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

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

Derivative financial instruments

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

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements As at and for the Year Ended 31 December 2016

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

3. Significant accounting policies (continued)

3.10 Financial assets and liabilities (continued)

Identification and measurement of impairment

On each reporting date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Bank considers evidence of impairment for loans and advances and investment debt security portfolio at both a specific asset and collective level. All individually significant loans and advances and investment debt security portfolio are assessed for specific impairment. Loans and advances found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances portfolio with similar risk characteristics.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including:
 - adverse changes in the payment status of borrowers; or
 - national or local economic conditions that correlate with defaults on the assets in the Bank.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances.

Impairment losses on available-for-sale assets are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale equity security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements As at and for the Year Ended 31 December 2016

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

3. Significant accounting policies (continued)

3.10 Financial assets and liabilities (continued)

Identification and measurement of impairment (continued)

In assessing collective impairment, the Bank uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

3.11 Cash and cash equivalents

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

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

3.12 Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

3.13 Loans and advances to customers

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans and advances to customers.

Loans and advances to customers are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements As at and for the Year Ended 31 December 2016

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

3. Significant accounting policies (continued)

3.14 Investment securities

Investment securities are initially measured at fair value plus, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity or available-for-sale.

(i) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

(ii) Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments except the equity securities are recognised in profit or loss.

Other fair value changes are recognised directly in equity until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in equity are recognised in profit or loss.

3.15 Repurchase transactions

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

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements As at and for the Year Ended 31 December 2016

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

3. Significant accounting policies (continued)

3.16 Trade receivables

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

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

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

3.17 Inventories

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

3.18 Tangible assets

Recognition and measurement

Items of tangible assets are restated for the effects of inflation to 31 December 2005, less accumulated depreciation and impairment losses. Tangible assets acquired after 31 December 2005 is reflected at cost, less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

Subsequent costs

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

Depreciation

Depreciation is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of tangible assets. Leased assets are depreciated over the shorter of the lease term and their useful lives.

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements As at and for the Year Ended 31 December 2016

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

3. Significant accounting policies (continued)

3.18 Tangible assets (continued)

Depreciation (continued)

The estimated useful lives for as at 31 December 2016 and 2015 are as follows:

- machinery or equipment 3-15 years
- furniture and fixtures 2-50 years
- motor vehicles 5 years
- other fixed assets 5-50 years

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

3.19 Intangible assets

(i) Service agreements

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

(ii) Software

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

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

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

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2016

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

3. Significant accounting policies (continued)

3.19 Intangible assets (continued)

(iii) Goodwill

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

Acquisitions of non-controlling interests

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

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(iv) Intangible assets acquired in a business combination

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

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

3.20 Non-current assets held for sale

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

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2016

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

3. Significant accounting policies (continued)

3.21 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed on each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.22 Leased assets - lessee

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

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

3.23 Funds borrowed and debt securities issued

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2016

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

3. Significant accounting policies (continued)

3.24 Provisions

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

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

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

3.25 Employee benefits

As a result of IAS 19 (2011), the Group has changed its accounting policy with respect to the basis for determining the income or expense related to defined benefit.

Under IAS 19 (2011), the Group determines the net interest expense (income) for the period on the net defined benefit liability by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability at the beginning of the annual period, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Consequently, the net interest on the net defined benefit liability now comprises:

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

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

3.26 Trade and other payables

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2016

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

3. Significant accounting policies (continued)

3.27 Income tax expense

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

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

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

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

3.28 Events after the reporting period

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

3.29 Segment reporting

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

3.30 Borrowing Costs

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

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

The bank has started a construction project to build a new head office that is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale and capitalized the borrowing costs amounting to TL 46,136 for the qualifying asset as of 31 December 2016 (2015: TL 28,022).

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements As at and for the Year Ended 31 December 2016

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

3. Significant accounting policies (continued)

3.31 Application of new and revised international financial reporting standards (IFRSs)

a) *Amendments to IFRSs affecting amounts reported and/or disclosures in the consolidated financial statements*

None.

b) *New and Revised IFRSs applied with no material effect on the consolidated financial statements*

IFRS 14	<i>Regulatory Deferral Accounts</i> ¹
Amendments to IFRS 11	<i>Accounting for Acquisition of Interests in Joint Operations</i> ¹
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ¹
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i> ¹
Amendments to IAS 27	<i>Equity Method in Separate Financial Statements</i> ¹
Annual Improvements to 2012-2014 Cycle	<i>IFRS 5, IFRS 7, IAS 19, IAS 34</i> ¹
Amendments to IAS 1	<i>Disclosure Initiative</i> ¹
Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2016.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 *Regulatory Deferral Accounts* permits an entity, which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements.

IFRS 14 was issued by the IASB on 30 January 2014 and is applied to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016.

Amendments to IFRS 11 Accounting for Acquisition of Interests in Joint Operations

This amendment requires an acquirer of an interest in a joint operation in which the activity constitutes a business to:

- apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11,
- disclose the information required by IFRS 3 and other IFRSs for business combinations.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

This amendment clarifies that that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment, and introduces a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendment also adds guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements As at and for the Year Ended 31 December 2016

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

3. Significant accounting policies (continued)

3.31 Application of new and revised international financial reporting standards (IFRSs) (continued)

b) New and Revised IFRSs applied with no material effect on the consolidated financial statements (continued)

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

This amendment includes 'bearer plants' within the scope of IAS 16 rather than IAS 41, allowing such assets to be accounted for a property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with IAS 16. The amendment also introduces a definition of 'bearer plants' as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales, and clarifies that produce growing on bearer plants remains within the scope of IAS 41.

Amendments to IAS 27 Equity Method in Separate Financial Statements

This amendment permits investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

Annual Improvements 2012-2014 Cycle

IFRS 5: Adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

IFRS 7: Additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset, and clarification on offsetting disclosures in condensed interim financial statements.

IAS 19: Clarify that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.

IAS 34: Clarify the meaning of 'elsewhere in the interim report' and require a cross-reference.

Amendments to IAS 1 Disclosure Initiative

This amendment addresses perceived impediments to preparers exercising their judgment in presenting their financial reports.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

This amendment addresses issues that have arisen in the context of applying the consolidation exception for investment entities by clarifying the following points:

- The exemption from preparing consolidated financial statements for an intermediate parent entity is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all of its subsidiaries at fair value.
- A subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity.
- When applying the equity method to an associate or a joint venture, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.
- An investment entity measuring all of its subsidiaries at fair value provides the disclosures relating to investment entities required by IFRS 12.

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2016

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

3. Significant accounting policies (continued)

3.31 Application of new and revised international financial reporting standards (IFRSs) (continued)

c) New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealized Losses</i> ¹
Amendments to IAS 7	<i>Disclosure Initiative</i> ¹
IFRS 9	<i>Financial Instruments</i> ²
IFRS 15	<i>Revenue from Contracts with Customers</i> ²
Amendments to IFRS 15	<i>Revenue from Contracts with Customers</i> ²
Amendments to IFRS 2	<i>Classification and Measurement of Share-Based Payment Transactions</i> ²
IFRS 16	<i>Leases</i> ³
Amendments to IFRS 4	<i>Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'</i>
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i> ²
Amendments to IAS 40	<i>Transfers of Investment Property</i> ²
Annual Improvements to IFRS Standards 2014–2016 Cycle	<i>IFRS 1 2, IFRS 12 1, IAS 28 2</i>

1 Effective for annual periods beginning on or after 1 January 2017.

2 Effective for annual periods beginning on or after 1 January 2018.

3 Effective for annual periods beginning on or after 1 January 2019.

Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

This amendment clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture.

Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealized Losses*

This amendment clarifies the following aspects:

- Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2016

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

3. Significant accounting policies (continued)

3.31 Application of new and revised international financial reporting standards (IFRSs) (continued)

c) New and revised IFRSs in issue but not yet effective (continued)

Amendments to IAS 7 Disclosure Initiative

This amendment clarifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduces new requirements for the classification and measurement of financial assets. IFRS 9 is amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 is issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income ("FVTOCI") measurement category for certain simple debt instruments.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer,
- Identify the performance obligations in the contract,
- Determine the transaction price,
- Allocate the transaction price to the performance obligations in the contracts,
- Recognise revenue when the entity satisfies a performance obligation.

Amendments to IFRS 15 Revenue from Contracts with Customers

This amendment clarifies three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and provides some transition relief for modified contracts and completed contracts.

Amendments to IFRS 2 Classification and Measurement of Share-Based Payment Transactions

This amendment clarifies the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity settled.

IFRS 16 Leases

This new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 "Leases" and related interpretations and is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied.

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements As at and for the Year Ended 31 December 2016

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

3. Significant accounting policies (continued)

3.31 Application of new and revised international financial reporting standards (IFRSs) (continued)

c) New and revised IFRSs in issue but not yet effective (continued)

Amendments to IFRS 4 Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'

This amendment provides optional approaches for entities that issue insurance contracts within the scope of IFRS 4, and the entities are permitted to stop applying them before the new insurance standard is applied.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

The Interpretations Committee came to the following conclusion:

- The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
- If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

Amendments to IAS 40 Transfers of Investment Property

The amendments to IAS 40 Investment Property:

- Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.
- The list of examples of evidence in paragraph 57(a) – (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.

Annual Improvements to IFRS Standards 2014–2016 Cycle

- **IFRS 1:** Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.
- **IFRS 12:** Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2016

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

3. Significant accounting policies (continued)

3.31 Application of new and revised international financial reporting standards (IFRSs) (continued)

c) New and revised IFRSs in issue but not yet effective (continued)

IAS 28: Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

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

4. Use of estimates and judgements

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

These disclosures supplement the commentary on financial risk management (see note 6).

Key sources of estimation uncertainty

Allowances for loan losses

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements As at and for the Year Ended 31 December 2016

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

4. Use of estimates and judgements (continued)

Key sources of estimation uncertainty (continued)

Allowances for loan losses (continued)

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

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

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3.10. For financial instruments that require varying degrees of judgement depending liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

Critical accounting judgements in applying the Bank's accounting policies

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

Impairment of investment in equity securities

Investments in equity securities are evaluated for impairment on the basis described in accounting policy 3.10.

Valuation of financial instruments

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

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

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

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

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

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements As at and for the Year Ended 31 December 2016

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

4. Use of estimates and judgements (continued)

Critical accounting judgements in applying the Bank's accounting policies (continued)

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

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

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

At 31 December 2016	Note	Level 1	Level 2	Level 3	Total
Trading assets	11	780	49,706	-	50,486
Investment securities – AFS portfolio	12	537,796	534,767	-	1,072,563
		538,576	584,473	-	1,123,049
Trading liabilities	11	-	(7,234)	-	(7,234)
		-	(7,234)	-	(7,234)
At 31 December 2015	Note	Level 1	Level 2	Level 3	Total
Trading assets	11	1,459	7,812	-	9,271
Investment securities – AFS portfolio	12	660,229	114,680	-	774,909
		661,688	122,492	-	784,180
Trading liabilities	11	-	(9,848)	-	(9,848)
		-	(9,848)	-	(9,848)

Financial asset and liability classification

The Bank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

In classifying financial assets and liabilities as "trading", the Bank has determined that it meets the description of trading assets and liabilities set out in accounting policy 3.10.

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2016

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

4. Use of estimates and judgements (continued)

Critical accounting judgements in applying the Bank's accounting policies (continued)

Deferred taxes

Deferred tax assets and liabilities are recorded using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. Currently, there are deferred tax assets resulting from operating loss carry-forwards and deductible temporary differences, all of which could reduce taxable income in the future. Based on available evidence, both positive and negative, it is determined whether it is probable that all or a portion of the deferred tax assets will be realized. The main factors which are considered include future earnings potential; cumulative losses in recent years; history of loss carry-forwards and other tax assets expiring; the carry-forward period associated with the deferred tax assets; future reversals of existing taxable temporary differences; tax-planning strategies that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset. If based on the weight of all available evidence, it is the Group's belief that taxable profit will not be available sufficient to utilize some portion of these deferred tax assets, then some portion of or all of the deferred tax assets are not recognized. The Group has not recognized deferred tax assets because it is in the development stage and it is not apparent that taxable profit will be available sufficient to recognize deferred tax assets. If future results of operations exceed the Group's current expectations, the existing unrecognized deferred tax assets may be recognized, resulting in future tax benefits.

Impairment of tangible and intangible assets

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2016

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

5. Restatement of prior year financial statements

The Group's consolidated financial statements presented comparatively with prior period in order to allow financial position and performance trend analysis. If it is necessary, current period's consolidated financial statement presentations and comparative statements can be reclassified and significant changes will be explained. The Group did not make any restatement or reclassification related to its prior year financial statements.

6. Financial risk management

Introduction and overview

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

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

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

Risk management framework

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

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

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

Credit risk

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

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

Management of credit risk

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2016

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

6. Financial risk management (continued)

Credit risk (continued)

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

Exposure to credit risk

	Cash at banks (excluding cash at Central Bank)		Trade receivables		Loans and advances to customers		Investment securities	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Carrying amount	559,386	216,299	301,179	100,308	5,520,369	4,638,261	1,123,740	930,741
Assets at amortised cost								
Non-performing financial assets	-	-	57	170	103,526	92,240	-	-
Gross amount	559,386	216,299	301,236	100,478	5,595,680	4,701,243	51,177	155,832
Allowance for impairment								
- Individual impairment	-	-	(57)	(170)	(57,481)	(48,939)	-	-
- Collective impairment	-	-	-	-	(17,830)	(14,043)	-	-
Carrying amount amortised cost	559,386	216,299	301,179	100,308	5,520,369	4,638,261	51,177	155,832
Assets at fair value								
Available-for-sale assets								
Neither past due nor impaired								
- Low risk	-	-	-	-	-	-	1,072,563	774,909
Carrying amount fair value	-	-	-	-	-	-	1,072,563	774,909
Total carrying amount	559,386	216,299	301,179	100,308	5,520,369	4,638,261	1,123,740	930,741

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2016

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

6. Financial risk management (continued)

Credit risk (continued)

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

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

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

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

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

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

				Related amounts not offset in the statement of financial position			
	Types of financial assets	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments (including non-cash collateral)	Cash collateral received	Net amount
31 December 2016	Derivatives trading assets	12,378	-	12,378	(12,378)	-	-
31 December 2015	Derivatives trading assets	7,812	-	7,812	(7,812)	-	-

				Related amounts not offset in the statement of financial position			
	Types of financial liabilities	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Financial instruments (including non-cash collateral)	Cash collateral received	Net amount
31 December 2016	Derivatives trading liabilities	7,234	-	7,234	(7,234)	-	-
31 December 2015	Derivatives trading liabilities	9,848	-	9,848	(9,848)	-	-

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****As at and for the Year Ended 31 December 2016***(Currency - In thousands of Turkish Lira ("TL"))***6. Financial risk management (continued)****Credit risk (continued)***Impaired loans and advances to customers*

Impaired loans and advances to customers are those for which the Bank determines that it is probable that it will be unable to collect all principal and interest due to according to the contractual terms of the loans.

Allowance for impairment

The Bank establishes an allowance for impairment losses on assets carried at amortised cost that represents its estimate of incurred losses in its loan. This allowance is a specific loss component that relates to individually significant exposures.

Due to the increase in the consumer loan portfolio of the Bank and the availability of the historical trends of the probability of default, starting from 1 January 2012, the Bank started to provide collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified except for loans and receivables subject to individual assessment for impairment.

Write-off policy

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

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

	Loans and advances to customers	
	Gross	Net
31 December 2016		
Individually impaired	103,526	46,045
31 December 2015		
Individually impaired	92,240	43,301

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2016

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

6. Financial risk management (continued)

Concentration risk by location

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

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

Sector	31 December 2016				31 December 2015			
	Cash loans	%	Non-cash loans	%	Cash loans	%	Non-cash loans	%
Construction	502,834	10	267,878	29	458,613	11	287,546	45
Financial institution	20,183	-	69,372	7	22,494	-	34,473	5
General services	1,845,509	33	93,769	10	1,729,310	37	-	-
Media	-	-	-	-	-	-	-	-
Automotive	114,563	2	28,987	3	90,946	2	37,178	6
Textile	-	-	-	-	-	-	-	-
IT industry	-	-	-	-	-	-	-	-
Electricity industry	-	-	384,028	42	-	-	215,620	35
Iron and steel industry	-	-	-	-	-	-	-	-
Public	-	-	-	-	-	-	-	-
Machinery and equipment	-	-	-	-	-	-	-	-
Energy industry	1,495	-	2,538	-	1,423	-	2,552	-
Trade	175,439	3	39,988	4	67,966	1	9,730	2
Sports	-	-	-	-	-	-	-	-
Agriculture	13,154	-	-	-	203	-	-	-
Other ^(*)	2,847,192	52	41,863	5	2,267,306	49	44,263	7
	5,520,369	100	928,423	100	4,638,261	100	631,362	100

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****As at and for the Year Ended 31 December 2016***(Currency - In thousands of Turkish Lira ("TL"))***6. Financial risk management (continued)****Liquidity risk**

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

Management of liquidity risk

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

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

Exposure to liquidity risk

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

	31 December 2016	31 December 2015
Average for the year	110%	127%
Maximum for the year	146%	167%
Minimum for the year	100%	102%

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements As at and for the Year Ended 31 December 2016

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

6. Financial risk management (continued)

Liquidity risk (continued)

Residual contractual maturities of financial liabilities

	Note	Carrying amount	Gross nominal inflow / (outflow)	On demand	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
31 December 2016									
<i>Non-derivative liabilities</i>									
Obligations under repurchase agr.	19	762,409	(763,206)	-	(634,908)	(124,630)	(3,668)	-	-
Debt securities issued	21	3,168,648	(3,216,580)	-	(1,619,706)	(1,375,700)	(161,107)	(60,067)	-
Funds borrowed	20	2,829,348	(2,866,791)	-	(971,161)	(927,620)	(862,476)	(105,534)	-
Trade payables		124,827	(124,827)	(124,827)	-	-	-	-	-
Financial lease liabilities		33,740	(38,616)	-	-	(11,614)	(11,032)	(15,970)	-
Customer accounts (*)	24	782,449	(783,208)	(752,390)	(27,844)	(2,974)	-	-	-
<i>Derivative financial instruments</i>									
Inflow	11	(12,378)	1,091,316	-	294,350	438,181	323,593	35,192	-
Outflow	11	7,234	(1,087,247)	-	(292,304)	(437,776)	(327,217)	(29,950)	-
		7,696,277	(7,789,159)	(877,217)	(3,251,573)	(2,442,133)	(1,041,907)	(176,329)	-

(*) Included in other liabilities.

	Note	Carrying amount	Gross nominal inflow / (outflow)	On demand	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
31 December 2015									
<i>Non-derivative liabilities</i>									
Obligations under repurchase agr.	19	478,027	(478,594)	-	(468,808)	(8,376)	(1,410)	-	-
Debt securities issued	21	2,619,947	(2,659,843)	-	(1,267,695)	(1,248,087)	(143,551)	(510)	-
Funds borrowed	20	2,508,185	(2,547,665)	-	(936,868)	(880,262)	(641,415)	(89,120)	-
Trade payables		130,340	(130,340)	(130,340)	-	-	-	-	-
Financial lease liabilities		39,485	(39,485)	-	-	-	-	(39,485)	-
Customer accounts (*)	24	282,623	(282,623)	(282,623)	-	-	-	-	-
<i>Derivative financial instruments</i>									
Inflow	11	(7,812)	1,105,861	-	321,470	534,339	246,320	3,732	-
Outflow	11	9,848	(1,112,316)	-	(320,967)	(540,263)	(247,350)	(3,736)	-
		6,060,643	(6,145,005)	(412,963)	(2,672,868)	(2,142,649)	(787,406)	(129,119)	-

(*) Included in other liabilities.

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

Market risk

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

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****As at and for the Year Ended 31 December 2016***(Currency - In thousands of Turkish Lira ("TL"))***6. Financial risk management (continued)****Market risk (continued)***Exposure to market risks – trading portfolios*

The principal tool used to measure and control market risk exposure within the Bank's portfolios is Standard Method.

A summary of the Standard Method position of the Bank's portfolios on 31 December 2016 and 2015 and during the period is as follows:

	31 December 2016	31 December 2015
Interest rate risk	58,625	18,884
Foreign currency risk	840	2,313
Other Risk	400	2,562
	59,865	23,759

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements As at and for the Year Ended 31 December 2016

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

6. Financial risk management (continued)

Interest rate risk

Exposure to interest rate risk – non-trading portfolios

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

	Note	Carrying amount	Unallocated	On demand	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
31 December 2016									
Cash and cash equivalents	9	988,702	-	576,599	412,103	-	-	-	-
Reserve deposits at Central Bank	10	707,595	-	-	707,595	-	-	-	-
Trading assets	11	38,108	-	-	38,108	-	-	-	-
Loans and advances to customers	13	5,520,369	-	-	1,472,929	1,365,921	955,457	1,685,339	40,723
Investment securities	12	1,123,740	1,719	-	171,127	108,039	331,685	300,528	210,642
		8,378,514	1719	576,599	2,801,862	1,473,960	1,287,142	1,985,867	251,365
Obligations under repurchase agr.	19	762,409	-	-	758,800	3,609	-	-	-
Debt securities issued	21	3,168,648	-	-	2,962,141	139,947	13,499	53,061	-
Financial lease liabilities		33,740	-	-	10,614	-	9,532	13,594	-
Funds borrowed	20	2,829,348	-	-	1,889,634	177,440	668,872	93,402	-
		6,794,145	-	-	5,621,189	320,996	691,903	160,057	-
Interest rate gap		1,584,369	1719	576,599	-2,819,327	1,152,964	595,239	1,825,810	251,365

	Note	Carrying amount	Unallocated	On demand	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
31 December 2015									
Cash and cash equivalents	9	451,605	-	228,414	223,191	-	-	-	-
Reserve deposits at Central Bank	10	685,604	-	-	685,604	-	-	-	-
Trading assets	11	1,459	-	-	1,459	-	-	-	-
Loans and advances to customers	13	4,638,261	-	-	2,047,472	337,848	680,396	1,572,545	-
Investment securities	12	930,741	258	-	197,494	31,933	217,864	389,077	94,115
		6,707,670	258	228,414	3,155,220	369,781	898,260	1,961,622	94,115
Obligations under repurchase agr.	19	478,027	-	-	476,636	1,391	-	-	-
Debt securities issued	21	2,619,947	-	-	2,483,348	93,949	42,201	449	-
Financial lease liabilities		39,485	-	-	-	-	-	39,485	-
Funds borrowed	20	2,508,185	-	-	1,813,438	267,750	358,716	68,281	-
		5,645,644	-	-	4,773,422	363,090	400,917	108,215	-
Interest rate gap		1,062,026	258	228,414	(1,618,202)	6,691	497,343	1,853,407	94,115

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2016

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

6. Financial risk management (continued)

Interest rate risk (continued)

Interest rate sensitivity

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

	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
At 31 December 2016				
Investment securities – available-for-sale	-	-	(10,678)	10,678
	-	-	(10,678)	10,678
	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
At 31 December 2015				
Investment securities – available-for-sale	-	-	(13,109)	13,109
	-	-	(13,109)	13,109

Summary of average interest rates

As at 31 December 2016 and 2015, the summary of average interest rates for different assets and liabilities are as follows:

	31 December 2016			31 December 2015		
	Euro	USD	TL	Euro	USD	TL
Assets						
Cash and cash equivalents	2.17	3.15	11.97	0.99	0.47	8.10
Loans and advances to customers	7.98	8.53	19.22	8.6	9.28	17.44
Investment securities – AFS	3.03	6.02	9.20	3.66	5.58	9.32
Investment securities – HTM	-	-	10.14	-	-	8.63
Liabilities						
Obligations under repurchase agreements	1.87	2.98	7.15	1.24	2.10	7.86
Debt securities issued	2.84	4.00	11.77	2.3	2.70	12.91
Funds borrowed	1.24	2.79	12.56	0.74	2.37	13.72

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2016

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

6. Financial risk management (continued)

Foreign currency risk

31 December 2016	Euro	USD	Other	Total
Cash and cash equivalents	582,006	49,290	23,928	655,224
Reserve deposits at Central Bank	405,283	302,311	-	707,594
Loans and advances to customers	1,472,492	1,422,743	-	2,895,235
Investment securities – AFS	28,535	285,874	-	314,409
Equity accounted investees	-	7,196	4,292	11,488
Other assets	2,880	55,565	-	58,445
Trade and other payables	-	-	-	-
Funds borrowed	(1,508,699)	(1,143,233)	(17,244)	(2,669,176)
Obligations under repurchase agreements	(52,017)	(200,452)	-	(252,469)
Debt securities issued	(267,840)	(304,333)	-	(572,173)
Other liabilities	(1,030,473)	(238,699)	(29,231)	(1,298,403)
Net statement of financial position	(367,833)	236,262	(18,255)	(149,826)
Derivative financial instruments	368,190	(266,604)	23,552	125,138
Net total position	357	(30,342)	5,297	(24,688)
31 December 2015	Euro	USD	Other	Total
Cash and cash equivalents	190,483	74,622	18,756	283,861
Reserve deposits at Central Bank	118,470	555,872	11,262	685,604
Loans and advances to customers	758,437	1,186,520	-	1,944,957
Investment securities – AFS	12,069	60,863	-	72,932
Equity accounted investees	-	7,196	1,035	8,231
Other assets	2,532	11,797	-	14,329
Trade and other payables	-	-	-	-
Funds borrowed	(788,575)	(1,521,465)	(37,576)	(2,347,616)
Obligations under repurchase agreements	(6,429)	(48,667)	-	(55,096)
Debt securities issued	(128,281)	(337,587)	-	(465,868)
Other liabilities	(432,088)	(158,766)	(24,939)	(615,793)
Net statement of financial position	(273,382)	(169,615)	(31,462)	(474,459)
Derivative financial instruments	274,077	184,888	33,077	492,042
Net total position	695	15,273	1,615	17,583

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****As at and for the Year Ended 31 December 2016***(Currency - In thousands of Turkish Lira ("TL"))***6. Financial risk management (continued)****Foreign currency risk (continued)***Sensitivity analysis*

A 10 percent weakening of TL against the foreign currencies on 31 December 2016 and 2015 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

31 December 2016	Equity	Profit or loss
Euro	36	17
USD	(3,034)	(3,635)
Other currencies	530	530
	(2,468)	(3,088)
31 December 2015	Equity	Profit or loss
Euro	70	51
USD	1,527	1,706
Other currencies	162	162
	1,759	1,919

A 10 percent strengthening of the TL against the foreign currencies on 31 December 2016 and 2015 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Operational risk

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

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

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2016

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

6. Financial risk management (continued)

Operational risk (continued)

The Bank calculated the value of operational risk in accordance with the fourth section regarding the "Computation of Value of Operational Risk" of the circular, "Regulation on Measurement and Assessment of Capital Adequacy of Banks" Communiqué, using gross profit of the last three years 2015, 2014 and 2013 ("the Basic Indicator Approach). The amount calculated as TL 49,749 as at 31 December 2016 (31 December 2015: TL 41,630) represents the operational risk that the Group may be exposed to and the amount of minimum capital requirement to eliminate this risk. Value of operational risk amounted to TL 621,864 (31 December 2015: TL 520,375) and is calculated as 12.5 times the operational risk.

Capital management

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

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

Capital adequacy ratio is calculated based on total capital requirements needed for credit risk, market risk and operational risk. Credit risk is calculated by holding risk-weighted assets and non-cash loans subject to risk weights in the relevant legislation and taking risk mitigation techniques into account; the standard method is used to calculate market risk and the basic indicator approach is used to calculate operational risk.

Current capital legislation set by BRSA requires the Bank to maintain an 8% ratio of total capital to total risk-weighted assets.

As at 31 December 2016, the Bank's capital adequacy ratio is 12.70% (31 December 2015: 13.60%).

Financial assets and liabilities

Accounting classification and fair values

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

Valuation technique used for determining the fair value of the loans and advances to customers is net present value model. Assumptions and inputs used in net present value model include benchmark interest rates, credit spreads or other premium used in estimating discount rates. The fair value of the investment securities is determined based on the quoted market prices. The objective of valuation technique is to arrive at a fair value determination that reflects the prices of the loans and advances to customers and investment securities at the reporting date that would have been determined by market participants acting at arm's length.

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements As at and for the Year Ended 31 December 2016

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

6. Financial risk management (continued)

Financial assets and liabilities (continued)

Accounting classification and fair values (continued)

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

The fair value measurement for fixed rate loans and receivables are calculated by using the discounted cash flow method and has been categorised as a Level 2 fair value based on the inputs to the valuation technique used.

	Note	Trading	Loans and receivables	Available-for-sale	Held-to-maturity	Other amortised cost	Total carrying amount	Fair value
31 December 2016								
Cash and cash equivalents	9	-	988,702	-	-	-	988,702	988,702
Trade and other receivables		-	-	-	-	301,179	301,179	301,179
Reserve deposits at Central Bank	10	-	707,595	-	-	-	707,595	707,595
Trading assets	11	50,486	-	-	-	-	50,486	50,486
Loans and advances to customers	13	-	5,520,369	-	-	-	5,520,369	5,498,439
Investment securities	12	-	-	1,072,563	51,177	-	1,123,740	1,123,775
		50,486	7,216,666	1,072,563	51,177	301,179	8,692,071	8,670,176
Trading liabilities	11	7,234	-	-	-	-	7,234	7,234
Trade and other payables		-	-	-	-	124,827	124,827	124,827
Financial lease liabilities		-	-	-	-	33,740	33,740	33,740
Obligations under rep. agr.	19	-	-	-	-	762,409	762,409	762,409
Debt securities issued	21	-	-	-	-	3,168,648	3,168,648	3,168,648
Funds borrowed	20	-	-	-	-	2,829,348	2,829,348	2,829,348
		7,234	-	-	-	6,918,972	6,926,206	6,926,206
31 December 2015								
Cash and cash equivalents	9	-	451,605	-	-	-	451,605	451,605
Trade and other receivables		-	-	-	-	100,308	100,308	100,308
Reserve deposits at Central Bank	10	-	685,604	-	-	-	685,604	685,604
Trading assets	11	9,271	-	-	-	-	9,271	9,271
Loans and advances to customers	13	-	4,638,261	-	-	-	4,638,261	4,608,316
Investment securities	12	-	-	774,909	155,832	-	930,741	930,741
		9,271	5,775,470	774,909	155,832	100,308	6,815,790	6,785,845
Trading liabilities	11	9,848	-	-	-	-	9,848	9,848
Trade and other payables		-	-	-	-	130,340	130,340	130,340
Financial lease liabilities		-	-	-	-	39,485	39,485	39,485
Obligations under rep. agr.	19	-	-	-	-	478,027	478,027	478,027
Debt securities issued	21	-	-	-	-	2,619,947	2,619,947	2,619,947
Funds borrowed	20	-	-	-	-	2,508,185	2,508,185	2,508,185
		9,848	-	-	-	5,775,984	5,785,832	5,785,832

7. Business combinations

Goodwill arising on acquisition of Pavo is TL 504 (2015: TL 504).

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2016

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

8. Segment Reporting

2016	Retail banking	Corporate banking	Investment banking	Other banking	Total banking	Brokerage	Other	Combined	Adjustments	Total
Operating income	307,829	572,495	110,327	1,200	992,051	37,711	302,671	1,332,433	(126,477)	1,205,956
Operating expense	(244,960)	(78,938)	-	(523,293)	(847,191)	(17,137)	(295,939)	(1,160,267)	95,496	(1,064,771)
Income from operations	62,869	493,557	110,527	(522,093)	144,860	20,574	6,732	172,166	(30,981)	141,185
Taxation Charge	-	-	-	(33,728)	(33,728)	(3,846)	(7,421)	(44,995)	1,864	(43,131)
Net income for the year	62,869	493,557	110,527	(555,821)	111,132	16,728	(689)	127,171	(29,117)	98,054
Segment assets	1,821,234	4,066,410	2,829,426	-	8,717,070	34,350	565,511	9,316,931	(616,658)	8,700,273
Investments in equity participations	-	-	282,708	-	282,708	-	180,313	463,021	(440,218)	22,803
Other assets	-	-	-	538,470	538,470	16,057	232,773	787,300	(27,360)	759,940
Total assets	1,821,234	4,066,410	3,112,134	538,470	9,538,248	50,407	978,597	10,567,252	(1,084,236)	9,483,016
Segment liabilities	2,760,217	1,248,459	3,610,915	-	7,619,591	691	638,431	8,258,713	(1,332,508)	6,926,206
Equity and other liabilities	-	-	-	1,918,657	1,918,657	49,716	159,865	2,128,238	428,572	2,556,810
Total liabilities and equity	2,760,217	1,248,459	3,610,915	1,918,657	9,538,248	50,407	798,296	10,386,951	(903,936)	9,483,016
Other segment items										
Capital investment	-	-	-	-	-	-	-	-	-	63,936
Depreciation	-	-	-	-	-	-	-	-	-	56,460

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2016

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

8. Segment Reporting (continued)

2015	Retail banking	Corporate banking	Investment banking	Other banking	Total banking	Brokerage	Other	Combined	Adjustments	Total
Operating income	187,080	586,137	101,125	5,000	879,342	14,271	336,687	1,230,300	(184,720)	1,045,580
Operating expense	(192,771)	(79,959)	(16,032)	(488,172)	(776,934)	(16,450)	(284,878)	(1,078,262)	84,802	(993,460)
Income from operations	(5,691)	506,178	85,093	(483,172)	102,408	(2,179)	51,809	152,038	(99,918)	52,120
Taxation Charge	-	-	-	(21,544)	(21,544)	448	(8,141)	(29,237)	3,084	(26,153)
Net income for the year	(5,691)	506,178	85,093	(504,716)	80,864	(1,731)	43,668	122,801	(96,834)	25,967
Segment assets	1,266,817	3,458,048	2,066,226	-	6,791,091	6,349	365,763	7,163,203	(332,915)	6,830,288
Investments in equity participations	-	-	135,108	-	135,108	-	-	135,108	(122,367)	12,741
Other assets	-	-	-	634,263	634,263	25,328	183,422	843,013	(129,393)	713,620
Total assets	1,266,817	3,458,048	2,201,334	634,263	7,560,462	31,677	549,185	8,141,324	(584,675)	7,556,649
Segment liabilities	1,972,399	941,421	3,018,684	-	5,932,504	1,042	394,606	6,328,152	(542,320)	5,785,832
Equity and other liabilities	-	-	-	1,627,958	1,627,958	30,635	154,590	1,813,183	(42,366)	1,770,817
Total liabilities and equity	1,972,399	941,421	3,018,684	1,627,958	7,560,462	31,677	549,196	8,141,335	(584,686)	7,556,649
Other segment items										
Capital investment	-	-	-	-	-	-	-	-	-	115,430
Depreciation	-	-	-	-	-	-	-	-	-	39,477

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements
As at and for the Year Ended 31 December 2016***(Currency - In thousands of Turkish Lira ("TL"))***9. Cash and cash equivalents**

	31 December 2016	31 December 2015
Cash and balances with Central Bank	429,316	235,306
- <i>Cash on hand</i>	17,213	12,115
- <i>Unrestricted balances with Central Bank</i>	412,103	223,191
Placements with other banks	559,386	216,299
Cash and cash equivalents	988,702	451,605
Less: Interest income accruals on cash and cash equivalents	(1,619)	(245)
Cash and cash equivalents in the statement of cash flows	987,083	451,360

10. Reserve deposits at Central Bank

	31 December 2016	31 December 2015
Foreign currency	707,595	685,604
	707,595	685,604

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

The banks operating in Turkey keep reserve deposits for Turkish currency and foreign currency liabilities in TL and USD at the rates of 4-10.5% and 4-24%, respectively according to their maturity terms as per the Communiqué no. 2005/5 "Reserve Deposits" of the Central Bank of Turkey (31 December 2015: 5-11.5% for TL and 5-25% for USD).

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****As at and for the Year Ended 31 December 2016***(Currency - In thousands of Turkish Lira ("TL"))***11. Trading assets and liabilities****Trading assets**

	31 December 2016	31 December 2015
Trading securities		
- Investment funds	10,667	1,459
- Corporate Bonds	27,441	-
Derivative assets		
- Foreign exchange	12,378	7,812
-Swap contracts	8,853	7,438
-Forward contracts	2,852	374
-Options	673	-
	50,486	9,271

Trading liabilities

	31 December 2016	31 December 2015
Derivative liabilities		
- Foreign exchange	7,234	9,848
-Swap contracts	3,837	9,577
-Forward contracts	2,726	271
-Options	671	-
	7,234	9,848

As at 31 December 2016 and 2015, no trading securities are kept for legal requirements and as a guarantee for stock exchange and money market operations.

As at 31 December 2016 and 2015, no trading debt securities pledged under repurchase agreements.

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

	31 December 2016	31 December 2015
Forward foreign exchange contracts – buy (*)	116,317	79,740
Forward foreign exchange contracts – sell (*)	115,415	79,536
Swap foreign exchange contracts – buy	636,472	908,546
Swap foreign exchange contracts – sell	633,310	915,204
Option contracts – buy	338,525	117,575
Option contracts – sell	338,524	117,576
Future contracts – buy	-	-
Future contracts – sell	-	-

(*) Includes spot and forward transactions

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2016

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

12. Investment securities

31 December 2016			
	Interest rate %	Latest maturity	Carrying amount
Held-to-maturity investment securities			
- Government bonds	8.96-9.03	17 May 2017	29,297
- Corporate bonds	10.61-13.09	28 June 2019	21,880
Available-for-sale investment securities			
- Government bonds	1.85-11.35	15 January 2030	537,796
- Corporate bonds	2.31-13.22	18 December 2020	534,767
			1,123,740
31 December 2015			
	Interest rate %	Latest maturity	Carrying amount
Held-to-maturity investment securities			
- Government bonds	7.33-8.45	24 February 2016	143,624
- Corporate bonds	5.27-12.29	28 December 2018	12,208
Available-for-sale investment securities			
- Government bonds	1.16-10.77	15 January 2030	660,229
- Corporate bonds	1.00-6.12	18 December 2020	114,680
			930,741

As at 31 December 2016, TL 94,300 and TL 743,014 of investment securities are given as collateral for performing transaction at stock exchange and repurchase agreement, respectively (31 December 2015: TL 98,856 and TL 487,810, respectively).

13. Loans and advances to customers

As at 31 December 2016 and 2015, all loans and advances to customers are recognized at amortised cost.

	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
	31 December 2016			31 December 2015		
- Other lending	5,595,680	(75,311)	5,520,369	4,701,243	(62,982)	4,638,261
Corporate loans	3,855,864	(8,320)	3,847,544	3,380,748	(3,882)	3,376,866
Consumer loans	1,739,816	(66,991)	1,672,825	1,320,495	(59,100)	1,261,395
	5,595,680	(75,311)	5,520,369	4,701,243	(62,982)	4,638,261

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****As at and for the Year Ended 31 December 2016***(Currency - In thousands of Turkish Lira ("TL"))***13. Loans and advances to customers (continued)****Allowance for impairment**

	31 December 2016	31 December 2015
Allowances for individual impairment		
Balance on 1 January	48,939	42,686
Impairment loss for the year	8,542	6,253
- Charge for the year	12,765	25,231
- Recoveries	(4,223)	(18,978)
Balance on 31 December	57,481	48,939
Allowances for collective impairment		
Balance on 1 January	14,043	10,379
Impairment loss for the year	3,787	3,664
- Charge for the year	3,787	3,664
Balance on 31 December	17,830	14,043
Total allowances for impairment	75,311	62,982

Finance lease receivables

None (2015: None).

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

**Notes to the Consolidated Financial Statements
As at and for the Year Ended 31 December 2016**

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

14. Equity accounted investees

Carrying amount of equity accounted investees is summarized below:

	31 December 2016	31 December 2015
Kazakhstan Ijara Company Jsc.	8,494	6,599
İFM İstanbul Finans Merkezi İnşaat Taahhüt A.Ş.	-	-
Aktif Yatırım Bankası Sukuk Varlık Kiralama A.Ş. (*)	100	100
Eurasian Leasing Company	2,679	1,905
Company Euro Mediterranean Investment	4,978	4,137
Haliç Finansal Kiralama Anonim Şirketi	6,552	-
Equity accounted investees	22,803	12,741

(*) Aktif Bank Sukuk Varlık Kiralama A.Ş. ("VKŞ") engages in the operating activities of issuance of Sukuk. According to IFRS 10, the Bank should have the major effect on the financial statements of the company. On the other hand, the Bank does not have the major effect on VKŞ's financial statements because ,it requires power over VKŞ, exposure or rights to variable returns from its involvement with VKŞ and the ability to use its power over VKŞ to affect the movement of VKŞ's returns. Thus, VKŞ does not comply with consolidation requirements of IFRS 10 so it is not being consolidated in the financial statements as at 31 December 2016 and 2015.

The Group's share of income in its equity accounted investees for the year ended 31 December 2016 is TL 771 (31 December 2015: TL 1,640).

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

	Ownership (%)	Total assets	Total liabilities and Equities	Profit / (loss) in the year
2016				
Kazakhstan Ijara Company Jsc.	14.31	61,680	61,609	71
İFM İstanbul Finans Merkezi İnşaat Taahhüt A.Ş.	5	359,230	359,298	(68)
Aktif Yatırım Bankası Sukuk Varlık Kiralama A.Ş.	100	66,523	66,504	19
Eurasian Leasing Company	25	11,143	11,588	(445)
Company Euro Mediterranean Investment	21.23	27,308	24,014	3,294
Haliç Finansal Kiralama Anonim Şirketi	32.00	20,690	20,489	201
2015				
Kazakhstan Ijara Company Jsc.	14.31	49,472	38,269	11,203
İFM İstanbul Finans Merkezi İnşaat Taahhüt A.Ş.	5	359,230	359,298	(68)
Aktif Yatırım Bankası Sukuk Varlık Kiralama A.Ş.	100	7,654	7,590	64
Eurasian Leasing Company	25	9,036	9,483	(447)
Company Euro Mediterranean Investment	21.28	19,672	18,972	700

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

**Notes to the Consolidated Financial Statements
As at and for the Year Ended 31 December 2016**

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

15. Tangible assets

	Machinery and equipment	Furniture and fixtures	Leasehold improvements	Motor vehicles	Construction in progress	Other fixed assets	Total
Cost							
Balance on 1 January 2015	47,354	17,468	9,171	78	144,899	-	218,970
Additions	19,521	6,422	1,975	61	40,442	283	68,704
Transfers to intangible assets	(1,512)	(1,196)	-	-	(252)	-	(2,960)
Capitalized borrowing costs	-	-	-	-	15,865	-	15,865
Disposals	-	(2,663)	(564)	-	(23,859)	-	(27,086)
Balance on 31 December 2015	65,363	20,031	10,582	139	177,095	283	273,493
Balance on 1 January 2016	65,363	20,031	10,582	139	177,095	283	273,493
Additions	2,872	4,798	217	59	40,159	589	48,694
Transfers to intangible assets	-	-	-	-	-	-	-
Capitalized borrowing costs	-	-	-	-	18,114	-	18,114
Disposals	(273)	(3)	(394)	-	-	(4)	(674)
Balance on 31 December 2016	67,962	24,826	10,405	198	235,368	868	339,627
Depreciation and impairment							
Balance on 1 January 2015	13,531	8,359	3,463	9	-	-	25,362
Depreciation for the year	13,420	3,842	1,353	6	-	(970)	17,651
Disposals	-	(1,155)	(84)	-	-	-	(1,239)
Balance on 31 December 2015	26,951	11,046	4,732	15	-	(970)	41,774
Balance on 1 January 2016	26,951	11,046	4,732	15	-	(970)	41,774
Depreciation for the year	15,803	4,802	784	13	-	734	22,136
Disposals	(64)	(3)	(128)	-	-	(4)	(199)
Balance on 31 December 2016	42,690	15,845	5,388	28	-	(240)	63,711
Carrying amounts							
Balance on 1 January 2015	33,823	9,109	5,708	69	144,899	-	193,608
Balance on 31 December 2015	38,412	8,985	5,850	124	177,095	1,253	231,719
Balance on 31 December 2016	25,272	8,981	5,017	170	235,368	1,108	275,916

The Bank has started a construction project to build a new head office that is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale and capitalized the borrowing cost amounting to TL 46,136 for the qualifying asset as of 31 December 2016 (31 December 2015: 28,022).

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2016

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

16. Intangible assets

	Software	Computer programme	Rights (*)	Total
Cost				
Balance on 1 January 2015	28,770	30,516	90,511	149,797
Additions:				
-Purchases	12,199	4,233	24,370	40,802
-Internally developed	-	5,924	-	5,924
Disposals	-	(2,558)	(6,856)	(9,414)
Transfers from property and equipment	252	-	2,708	2,960
Balance on 31 December 2015	41,221	38,115	110,733	190,069
Balance on 1 January 2016	41,221	38,115	110,733	190,069
Additions:				
-Purchases	5,575	186	3,081	8,842
-Internally developed	-	6,017	-	6,017
Disposals	-	-	-	-
Transfers from prepaid expenses	-	-	77,582	77,582
Balance on 31 December 2016	46,796	44,318	191,396	282,510
Amortisation and impairment				
Balance on 1 January 2015	6,296	8,439	31,925	46,660
Impairment charges for the year	-	-	5,298	5,298
Amortisation for the year	2,703	7,192	11,931	21,826
Disposals	-	(789)	(6,856)	(7,645)
Balance on 31 December 2015	8,999	14,842	42,298	66,139
Balance on 1 January 2016	8,999	14,842	42,298	66,139
Impairment charges for the year	-	-	-	-
Amortisation for the year	11,314	7,077	15,933	34,324
Disposals	-	-	-	-
Transfers from prepaid expenses	-	-	6,464	6,464
Balance on 31 December 2016	20,313	21,919	64,695	106,927
Carrying amounts				
Balance on 1 January 2015	22,474	22,077	58,586	103,137
Balance on 31 December 2015	32,222	23,273	68,435	123,930
Balance on 31 December 2016	26,483	22,399	126,701	175,583

There is no capitalised borrowing cost related to the internally developed software during the year (2015: None).

(*) A ten-year General Contract dated 27 August 2013, has been signed between the Bank and Turkish Football Federation (TFF) about the E-Ticket System which will be used for the entrance of the sport halls in Sport Clubs' league matches. Within the scope of the contract, the Bank has capitalized TL 12,946 amount as intangibles which was paid to Football Clubs in return of the consent for ticketing. As of the balance sheet, following the TFF acceptances of the stadiums in the E-Ticket System, the Bank has paid TL 102,645 to TFF, TL 19,440 has been recognized as an expense, and the remaining amount of TL 83,205 has been classified under other assets that will be recognized as an expense during the upcoming years the E-Ticket System will be used (31 December 2015: As of the balance sheet, following the TFF acceptances of the stadiums in the E-Ticket System, the Bank has paid TL 93,321 to TFF, TL 9,705 has been recognized as an expense, and the rest TL 83,616 has been classified under other assets that will be recognized as an expense in the upcoming years during the E-Ticket System will be used).

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****As at and for the Year Ended 31 December 2016***(Currency - In thousands of Turkish Lira ("TL"))***17. Other assets**

	31 December 2016	31 December 2015
Fund service fee accrual	20,614	43,179
Prepaid expenses	25,299	93,829
Suspense accounts	22,805	9,429
Advances given	113,205	90,806
Guarantees given	8,168	9,466
Credit card accounts	9,278	1,453
Assets to be disposed-off	69,868	69,868
Others	37,446	32,398
	306,683	350,428

18. Assets held for sale

	2016	2015
Balance at 1 January	-	69,868
Transfer	-	(69,868)
Balance at 31 December	-	-

19. Obligations under repurchase agreements

	31 December 2016	31 December 2015
Obligations under repurchase agreements-TL	384,940	380,393
Obligations under repurchase agreements-FC	252,469	55,096
Money market fundings-TL	125,000	42,538
	762,409	478,027

20. Funds borrowed

	31 December 2016	31 December 2015
Domestic banks – TL	66,903	3,056
Domestic banks – Foreign currency	315,699	369,994
Foreign banks – TL	88,477	148,868
Foreign banks – Foreign currency	2,358,269	1,986,267
	2,829,348	2,508,185

21. Debt securities issued

As at 31 December 2016 and 2015, all debt securities issued are at amortised cost.

	31 December 2016	31 December 2015
Debt securities issued-TL	2,596,475	2,154,079
Debt securities issued-FC	572,173	465,868
	3,168,648	2,619,947

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****As at and for the Year Ended 31 December 2016***(Currency - In thousands of Turkish Lira ("TL"))***21. Debt securities issued (continued)**

	31 December 2016	31 December 2015
Nominal of debt securities issued	3,353,316	2,947,745
Unaccrued interest expense	(184,668)	(327,798)
	3,168,648	2,619,947

In 2016, the Bank issued TL debt securities with maturities between 2 January 2017 and 22 March 2018 (2015: 4 January 2016 and 20 January 2017). The interest rate for TL debt securities is between 10.50%-14% (2015: 11%-14%).

In 2016, the Bank issued USD denominated debt securities with maturities between 2 January 2017 and 4 May 2017 (2015: 4 January 2016 and 31 October 2016). The interest rate for USD debt securities is between 3%-4.50% (2015: 3%-5%).

In 2016, the Bank issued EUR denominated debt securities with maturities between 2 January 2017 and 29 June 2017 (2015: 4 January 2016 and 14 November 2016). The interest rate for EUR debt securities is between 1.80%-3.28% (2015: 2%-3%).

22. Taxation**General information**

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

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

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

As at 31 December 2016 and 2015, the current tax liability is as follows:

	31 December 2016	31 December 2015
Income tax liability	45,363	16,442
Prepaid taxes	(33,445)	(12,948)
Income taxes payable	11,918	3,494

For the year ended 31 December 2016 and 2015, the income tax expense recognised in profit or loss and income tax recognised directly in equity are as follows:

Recognised in profit or loss

	2016	2015
Current tax expense from continuing operations	(40,435)	(13,419)
Deferred tax from continuing operations	(2,696)	(12,734)
Total income tax	(43,131)	(26,153)

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

**Notes to the Consolidated Financial Statements
As at and for the Year Ended 31 December 2016**

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

22. Taxation (continued)

Reconciliation of effective tax rate

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate of the Bank for the year ended 31 December 2016 and 2015 is as follows:

	2016	Rate %	2015	Rate %
Profit for the year	98,054		25,967	
Total income tax expense	43,131		26,153	
Profit before income tax	141,185		52,120	
Income tax using the domestic corporation tax rate 20%	(28,237)	(20)	(10,424)	(20)
Non-deductible expenses	(5,785)	(4.10)	(7,848)	(15.06)
Intra-group sales income	-	-	(10,649)	(20.43)
Non-utilized tax losses	(9,776)	(6.92)	-	-
Tax exempt income	667	0.47	2,768	5.31
Total income tax in the profit or loss	(43,131)	(30.55)	(26,153)	(50.18)

Deferred tax

Recognised deferred tax assets and liabilities

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

	31 December 2016			31 December 2015		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Available-for-sale investment securities	1,242	-	1,242	309	-	309
Retirement pay liability	1,071	-	1,071	1,274	-	1,274
Unused vacation liability	599	-	599	148	-	148
Tangible assets and intangible assets	825	(10,689)	(9,864)	615	(8,488)	(7,873)
Bonus provision	4,100	-	4,100	1,683	-	1,683
Tax losses carried forward	919	-	919	5,788	-	5,788
Acquisition of subsidiaries	-	(1,174)	(1,174)	-	(2,306)	(2,306)
Other	3,721	(6,899)	(3,178)	4,562	(6,958)	(2,396)
Deferred tax	12,477	(18,762)	(6,285)	14,379	(17,752)	(3,373)

Expiration schedule of carry forward tax losses is as follows:

	31 December 2016	31 December 2015
Expiring in 2016	-	1,121
Expiring in 2017	-	2,661
Expiring in 2018	26	1,412
Expiring in 2019	61	18,956
Expiring in 2020	4,505	4,792
Expiring in 2021	-	-
Total	4,592	28,942

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****As at and for the Year Ended 31 December 2016***(Currency - In thousands of Turkish Lira ("TL"))***22. Taxation (continued)****Deferred tax (continued)**

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

	31 December 2016	31 December 2015
Deferred tax assets	1,254	7,039
Deferred tax liability	(7,539)	(10,412)
	(6,285)	(3,373)

Movements in temporary differences during the year

2016	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
Available-for-sale investment securities	309	657	276	1,242
Retirement pay liability	1,274	134	(337)	1,071
Unused vacation liability	148	451	-	599
Tangible assets and intangible assets	(7,873)	(1,991)	-	(9,864)
Bonus provision	1,683	2,417	-	4,100
Tax losses carried forward	5,788	(4,869)	-	919
Other	(4,702)	505	(155)	(4,352)
	(3,373)	(2,696)	(216)	(6,285)

2015	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
Available-for-sale investment securities	92	(6,623)	6,840	309
Retirement pay liability	865	280	129	1,274
Unused vacation liability	713	(565)	-	148
Tangible assets and intangible assets	(4,290)	(3,583)	-	(7,873)
Bonus provision	2,671	(988)	-	1,683
Tax losses carried forward	7,853	(2,065)	-	5,788
Other	(5,512)	810	-	(4,702)
	2,392	(12,734)	6,969	(3,373)

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****As at and for the Year Ended 31 December 2016***(Currency - In thousands of Turkish Lira ("TL"))***23. Provisions**

	31 December 2016	31 December 2015
Bonus provision	20,501	8,415
Provision for possible losses (*)	30,000	15,000
Employee termination benefits	5,354	4,493
Vacation pay liability	2,994	2,619
Other	10,748	6,465
Total	69,597	36,992

(*) As at 31 December 2016, the accompanying consolidated statement of financial position includes a free provision amounting to TL 30,000 provided by the Bank management in line with conservatism principle considering the circumstances which may arise from any changes in the economy or market conditions (31 December 2015: TL 15,000).

Employee termination benefits

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 4.30 and TL 3.83 on 31 December 2016 and 2015, respectively) per year of employment at the rate of pay applicable on the date of retirement or termination. In the consolidated financial statements as at 31 December 2016 and 2015, the Group reflected a liability calculated using the hypothetical method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds on the reporting date.

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

	31 December 2016	31 December 2015
Discount rate	11.80%	10.80%
Inflation rate	8%	7.75%

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

	2016	2015
Opening balance	4,493	4,324
Interest cost	233	112
Service cost	3,252	1,424
Payment during the year	(938)	(1,904)
Actuarial difference	(1,686)	537
Balance at the end of the year	5,354	4,493

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****As at and for the Year Ended 31 December 2016***(Currency - In thousands of Turkish Lira ("TL"))***24. Other liabilities**

	31 December 2016	31 December 2015
Intermediary payment account	512,816	428,278
Customer accounts (*)	782,449	282,623
Blocked amounts (**)	79,372	57,650
Expense accrual	9,005	5,928
Taxes and due payable	18,243	16,065
Suspense accounts	16,911	11,518
Payables to compulsory government funds	5,503	2,687
Unearned income	1,478	11,642
Cash collaterals received	2,523	6,557
Credit card accounts	14,580	7,283
Other	41,254	9,773
	1,484,134	840,004

(*) The Bank is not entitled to collect deposits. The customer accounts represent the current balances of loan customers. As at 31 December 2016, there are no time customer accounts (31 December 2015: None).

(**) The balance is resulted from wage payment accounts blocked till the date of wage payment (31 December 2015: None).

25. Capital and reserves

	31 December 2016	31 December 2015
Number of common shares, TL 1,000 (in full TL), par value (Authorised and issued)	933,585	862,585

As at 31 December 2016 and 2015, all issued shares are fully paid and there is no preference shares assigned to shareholders of the Bank.

Share capital and share premium

As at 31 December 2016 and 2015, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	31 December 2016		31 December 2015	
	Amount	%	Amount	%
Çalık Holding A.Ş.	928,213	99.42	857,621	99.42
Çalık Denim Tekstil San. ve Tic. A.Ş.	2,844	0.30	2,628	0.30
Ahmet Çalık	1,264	0.14	1,168	0.14
Başak Yönetim Sistemleri A.Ş.	632	0.07	584	0.07
İrmak Yönetim Sistemleri A.Ş.	632	0.07	584	0.07
Total paid-in-capital	933,585	100.00	862,585	100.00
Restatement effect per IAS 29	4,510		4,510	
Total share capital	938,095		867,095	

At the extraordinary general meeting dated 29 November 2016, the Bank's paid-in capital of TL 862,585 reaches TL 933,585 with an increase of TL 71,000, which consist of TL 71,000 from retained earnings (31 December 2015: At the extraordinary general meeting dated 18 December 2015, the Bank's paid-in capital of TL 697,085 reaches TL 862,585 with an increase of TL 165,500, which consist of TL 89,131 from extraordinary reserves and TL 76,369 from retained earnings).

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements As at and for the Year Ended 31 December 2016

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

25. Capital and reserves (continued)

Reserves

Fair value reserve

This reserve includes the cumulative net change in the fair value of available-for-sale investment securities until the investment is derecognised or impaired.

Other reserves

Other reserves consist of legal reserves and other restricted reserves.

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted. In the accompanying consolidated financial statements, the total of the legal reserves are amounting to TL 24,237 (31 December 2015: TL 20,007).

According to the Corporate Tax Law, 75% of the capital gains arising from the sale of tangible assets and investments owned for at least two years are exempted from corporate tax on the condition that such gains are reflected in the other restricted reserves in equity with the intention to be utilised in a share capital increase within five years from the date of the sale. The remaining 25% of such capital gains are subject to corporate tax.

Foreign currency translation reserve

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

As at and for the Year Ended 31 December 2016

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

26. Net interest income

	2016	2015
Interest income		
Loans and advances to customers	700,439	588,672
Investment securities	90,021	76,679
Cash and cash equivalents	8,882	8,553
Other	1,505	16,825
Total interest income	800,847	690,729
Interest expense		
Debt issued	322,114	272,729
Funds borrowed	79,186	76,779
Money market transactions	41,090	33,043
Other	2,794	780
Total interest expense	445,184	383,331
Net interest income	355,663	307,398

27. Net fee and commission income

	2016	2015
Fees and commission income		
Financial guarantee contracts issued	8,825	9,277
Remittance fee	11,877	12,255
Intermediary commissions	50,313	57,879
Commitment fee	36,434	1,553
Insurance fee	1,471	733
Delivery fee	5,602	4,559
Other	17,109	5,562
Total fees and commission income	131,631	91,818
Fees and commission expense		
Clearance commissions	25,387	19,283
Credit card commissions	12,275	7,093
Financial guarantee contracts issued	1,108	919
Other	3,724	5,375
Total fees and commission expense	42,494	32,670
Net fees and commission income	89,137	59,148

28. Net trading loss

	2016	2015
Foreign exchange gain	(11,054)	(1,808)
Trading account income	11,486	13,908
Loss from derivative financial instruments	3,942	(16,032)
Total	4,374	(3,932)

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****As at and for the Year Ended 31 December 2016***(Currency - In thousands of Turkish Lira ("TL"))***29. Sales income and cost of services***Sales income:*

	2016	2015
Revenue from sale of goods	58,275	93,489
Insurance commission income	33,603	11,758
Transaction and other commission income	45,005	29,149
Revenue from license fee	13	1,265
Revenue from cash register POS	119,104	56,751
Revenue from sales of ticket	5,080	13,563
Other sales income	7,361	9,873
Total	268,441	215,848

Cost of services:

	2016	2015
Personnel expenses	9,132	13,677
Depreciation and amortization expenses	1,451	7,287
Cost of merchandises sold	6,244	61,113
Dealer commission and other commission expenses	19,519	15,992
Cost of cash register POS	102,627	51,033
Cost of match ticket sales	5,077	11,720
Rent expenses	3,101	4,333
Maintenance expenses	21,388	8,750
Consultancy expenses	1,193	978
Other expenses	8,245	23,334
Total	177,977	198,217

30. Other income

	2016	2015
Reversal of general provisions	-	5,000
Gain on sale of assets	-	10,646
Asset-backed security profit sharing	458	865
Dividend income	1,200	-
Other	2,608	29,034
Total	4,266	45,545

31. Net impairment on financial assets

	2016	2015
Individual impairment for loans	8,542	6,253
Collective impairment provision for loans	3,787	3,664
Individual impairment for trade receivables	57	170
Total	12,386	10,087

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****As at and for the Year Ended 31 December 2016***(Currency - In thousands of Turkish Lira ("TL"))***32. Personnel expenses**

	2016	2015
Wages and salaries	110,464	128,809
Bonus expenses	21,061	10,394
Social security premiums	14,578	13,160
Employee termination indemnity and vacation pay liability	4,293	3,582
Other	14,534	12,684
Total	164,930	168,629

33. Administrative expenses

	2016	2015
Publicity expenses	28,044	25,903
Consultancy expenses	7,043	10,045
Communication expenses	10,954	8,351
Outsource expenses	8,870	9,896
Expenses on vehicles	6,416	7,038
Rent expenses	17,385	20,734
Taxes and dues other than on income	9,271	9,891
Maintenance expenses	9,628	7,457
Others	28,367	24,757
Total	125,978	124,072

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****As at and for the Year Ended 31 December 2016***(Currency - In thousands of Turkish Lira ("TL"))***34. Other operating expenses**

	2016	2015
Marketing expenses	7,487	6,582
Other	22,700	18,750
Total	30,187	25,332

Other expenses

	2016	2015
Provision for possible losses	15,000	15,000
Total	15,000	15,000

35. Related parties**Parent and ultimate controlling party**

The Bank is controlled by Çalık Holding A.Ş. which owns 99.42% of ordinary shares (31 December 2015: 99.42%).

Compensation of key management personnel of the Bank

Total salaries and other benefits paid to the Board of Members and top management during the year is TL 22,584 (31 December 2015: TL 17,564).

Balances with related parties

31 December 2016	Related party balances	Total balance	Rate (%)
Loans and advances to customers	2,263,310	5,520,369	41.00
Other liabilities (Customer accounts)	2,332	782,449	0.30
Debt securities issued	3,543	3,168,648	0.11

31 December 2015	Related party balances	Total balance	Rate (%)
Loans and advances to customers	2,148,273	4,638,261	46.32
Other liabilities (Customer accounts)	115	282,623	0.04
Debt securities issued	389	2,619,947	0.01

Off statement of financial position balances with related parties

31 December 2016	Related party balances	Total balance	Rate (%)
Non-cash loans	445,419	928,423	47.98

31 December 2015	Related party balances	Total balance	Rate (%)
Non-cash loans	339,544	631,362	53.78

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES**Notes to the Consolidated Financial Statements****As at and for the Year Ended 31 December 2016***(Currency - In thousands of Turkish Lira ("TL"))***35. Related parties (continued)****Transactions with related parties**

	2016	2015
Interest income on loans	201,061	265,109
Fee and commission income	23,147	22,332
Other expenses	8,320	7,933

36. Commitments and contingencies

	31 December 2016	31 December 2015
Letters of guarantee	903,755	601,878
Letters of credit	4,068	18,884
Acceptance credits	-	-
Other guarantees	20,600	10,600
Total non-cash loans	928,423	631,362
Check limits	1,274	1,188
Other commitments	55,924	2,799,377
Total	985,621	3,431,927

37. Subsequent events

None.