aktif bank

2017 Annual Report


We Bring in
New Colors
to Banking
aktif bank

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Introduction

Sectoral Status and Activities in 2017

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Vision

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

Mission

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

Aktif Bank in Figures

Turkey's Largest Privately Owned Investment Bank

Total Credits
6.9 billion*

Total Assets
11 billion*

Net Profit
TL 178 million*

Number of Customers
6.6 million

Touch Points
15 k

Market Share in Retail Banking
14.3%

FIGURES PER EMPLOYEE

Number of Customers
5 k

Consumer Loan
1.5 million

Number of Cards
2.500

125
International Awards in 8 Years

Passolig Card
3.5 million

* BRSA Standalone Figure

ekent — Smart urban transportation and stadium systems

- **1 billion** smart transportation transactions annually
- **6.1 million** tickets sold at over 3,000 competitions since April 2015, **12 million** turnstile systems

n kolay — The largest payment institution in Turkey

- **4,000** kiosks and **515** stores
- **3.5 million** customers every year with **75 million** transactions

UPT — The first licensed paying agent in Turkey

- **2.4 million** transactions annually
- **22%** market share

sigortayeri — The largest local broker in Turkey

- Turkey's largest broker with a **177%** increase in the insurance brokerage channel in 2 years
- With a **290%** growth rate achieved in 2 years, Sigortayeri grows six times faster than the sector average

PAVO — Leader in value-added application income that steers cash register industry

- Approximately **200,000** Ingenico cash register POS devices
- Over **180,000** value-added applications and software integrations
- One of the two major players in the sector with a market share of **20%**

echopos — Echo Information Management Systems redefine the rules of the game

- **1.560** devices installed at **773** stores

MÜKAFAT ASSET MANAGEMENT — Bank of interest-free profit

- Turkey's first interest-free "liquid" lease certificate funds with the partnership of İslamic Development Bank and Aktif Bank
- Spanning **53** countries

Our Milestones

1999
Establishment of Çalık Bank

2008
Change of title as Aktif Bank
Acquisition of E-Kent

2009
First bank bond issuance in Turkey

2010
Establishment of UPT

2011
First asset backed securities issuance in Turkey

2012
Establishment of Euroasia Leasing Company

2013
Establishment of PAVO
Establishment of Sigortayeri
Turkey's first issuance of sukuk based on equity partnership
Establishment of Emlak Girişim
Establishment of Kazakhstan Ijara Company

2014
Establishment of N Kolay
Launch of Passolig

2015
Establishment of Islamic Portfolio Management Company in partnership with ICD, an affiliate of Islamic Development Bank
Establishment of Mükafat Portföy Yönetimi A.Ş.
Establishment of Euro-Mediterranian Investment Company

2016
First Eurobond issuance
Establishment of Echo Information Management System
Establishment of Haliç Leasing

2017
Establishment of Aktif Halk Enerji Yatırımları A.Ş.
First International Sukuk issuance arranged by the Bank

About Aktif Bank

New Generation Banking

Turkey's largest privately-owned investment bank, Aktif Bank pioneers a new generation banking system as it diverts from the conventional, branching-based expansion model and instead builds its processes through digital channels and according to the business partnership agreements performed with the leading organizations of the sector. As a reflection of this philosophy, the number of Aktif Bank branches remained at eight over the last five years. These branches heavily focus on services that require one-to-one communication such as corporate banking, investment banking and private banking.

In retail banking, which needs a large distribution network, Aktif Bank provides services to 6.6 million people, accounting for 14.3% of the entire retail banking customer market in the Turkish banking sector, with 652 employees, driven by its collaborations with other distribution organizations that are active in the market, innovative business models to which it provides marketing and operational support, and investments into digital channels. In addition to its main areas of activity, the Bank has made significant difference in a wide range of services and products with its subsidiaries which provide innovative solutions in a variety of areas, such as money transfer, insurance, card products and extensive kiosk solutions.

New subsidiaries the Bank brought into the fold in 2017 are Aktif Halk Enerji Yatırımları and Halk Yenilenebilir Enerji, both of which are founded as a 50-50% partnership with Halk Enerji Yatırımları Üretim Taahhüt A.Ş. These subsidiaries provide long-term financing for the establishment of Solar Power Plants, Hydroelectric Power Plants and Wind Power Plants.

Having received hundreds of global awards for its groundbreaking products and solutions, Aktif Bank is among Turkey's top international award-winning organizations for its performance in various fields such as payment systems, technology, quality, innovation, investment products, distribution channels and communication. The Bank's achievements in 2017 were crowned with 21 awards, bringing its total number of accolades to 127.

Financials

	2017 (Thousand TRY)	2016 (Thousand TRY)	Change
Balances With Banks & Money Market Placements	154,166	559,386	-72%
Trading Securities (Net)	51,956	50,486	3%
Investment Securities (Net)	1,572,912	1,123,740	40%
Loans & Factoring Receivables (Net)	6,539,477	5,520,369	18%
Financial Lease Receivables (Net)	-	-	-
Shareholders' Equity	1,222,950	983,622	24%
Total Assets	11,070,991	9,483,016	17%
Guarantees And Indemnities	1,308,957	928,423	41%
Net Interest Income	570,519	355,663	60%
Net Fee And Commission Income	174,782	89,137	96%
Profit Before Taxes	310,765	141,185	120%
Provision For Taxes On Income	-76,938	-43,131	78%
Net Profit	**233,827**	**98,054**	**138%**

Performance Ratios

	2017	2016
Capital Adequacy Standard Ratio	13,37%	12,70%
Return On Average Equity	21.19%	10.52%
Return On Average Assets (Profit Before Tax Basis)	3.02%	1.66%
Return On Average Assets (Net Profit Basis)	2.28%	1.15%
Net Fee And Commission Income / Operating Costs	19.52%	15.33%
Fixed Assets (Net) / Average Equity	36.27%	48.46%
Non-Performing Loans / Total Loans	2.86%	1.85%
Interest Incomes / Interest Expenditures	226.50%	179.89%
Yielding Assets / Total Assets	75.14%	76.49%

Capital and Shareholding Structure

The Bank's capital and main shareholding structures as of December 31, 2017 are as follows:

Full Name/Trade Name	Total Value of Shares	Share	Paid Shares	Unpaid Shares
Çalık Holding A.Ş.	1,027,636	99.42	1,027,636	-
Çalık Denim Tekstil San. ve Tic. A.Ş.	3,149	0.30	3,149	-
Ahmet Çalık	1,400	0.14	1,400	-
Başak Yönetim Sistemleri A.Ş.	700	0.07	700	-
Irmak Yönetim Sistemleri A.Ş.	700	0.07	700	-
Total	**1,033,585**	**100.00**	**1,033,585**	**-**

Amendments to the Articles of Association and Reasons

Due to the capital increase made using internal resources, a change was made in the relevant article of the Articles of Association at the Ordinary General Assembly Meeting of March 23, 2017.

Çalık Holding, founded in 1981 with the initiative of Ahmet Çalık, operates across a diversified range of industries, namely energy, construction and real estate, textile, mining, finance and telecommunications areas. Çalık Holding currently employs around 31,000 people as one of the top Turkish investors in 22 countries in Central Asia, Balkans and the MENA region.

Çalık Group affiliates, regarded as among the top business groups in Turkey and the region, deliver successful projects in a variety of countries thanks to their innovative practices and competent solutions developed in line with the current needs in their respective business areas. To this end, in 2017, Çalık Holding partnered with GE (General Electric) and established Çalık Digital, ushering the next generation of enterprises within the Group's organization. Set to focus on the digital transformation of the group companies, Çalık Digital operates with the goal of expanding outwards to penetrate global markets.

Çalık Energy maintained its initial momentum in the region with two combined power plants (1,500 MW in total) in Uzbekistan, followed by the engagement of the "Al-Khums Simple Cycle Power Plant" in Libya, its first mobile power plant contract in the Middle East, and the Aden Simple Cycle Power Plant Project in Yemen. The company also signed a construction contract for Tedzani-4 Hydroelectric Power Plant, the first ever power plant project in Sub-Saharan Africa. It started power generation upon completing the construction of its Solar Power Plants in Erzincan, Çorum and Amasya this year as part of its operations in the renewable energy sector and oil-gas activities in Turkey. Taking on the Expansion Project for the Port of Basra with GAP Construction, Çalık Enerji ranked 110th in the "ENR Top 250 International Contractors" in 2016 and first among Turkish Contractors in the categories of power systems, fossil-fired power systems and transmission distribution line.

In the power distribution industry, YEDAŞ combined Smart Measurement Circuits and Low Voltage Network Monitoring System, first of their kind in Turkey, with the existing Meter Reading System, achieving the capacity to monitor power status real time at approximately 150,000 locations.

In 2017, Gap Construction, the Group's construction company, is at the final stage of the Turkmenistan Garaboğaz Fertilizer Plant, the largest chemical project in Central Asia, and the Türkmenbaşı Seaport, the largest port on the Caspian Sea and the most important logistics hub on the historical Silk Road. In Turkmenistan, the company opened the Endocrinology Hospital that operates in two buildings, namely Endocrinology and Surgical Center. Gap Construction attained greater success at the "ENR Top 250 International Contractors" list to rank 92nd, securing a place in the top 100 contractors. According to the 2016 figures by the Turkish Exporters' Assembly, it ranked fourth in the construction industry and 10th in Turkey with USD 321 Million in the "Turkey's 500 Large Service Exporters" list.

One of the top 10 premium denim producers in the world, Çalık Denim celebrated in 2017 its 30th anniversary with the "Denim Loves Art" exhibition by 30 young international designers showcasing their inspiration for the interdisciplinary use of denim. The company has also initiated its transformation as part of Industry 4.0. Meanwhile, the construction of the Sulfite facilities of the Çöpler Gold Mine, which is owned by the Anagold company and with Lidya Madencilik as a partner, and the feasibility study of the Balıkesir Gediktepe Gold Mine of Lidya Madencilik are at their final phases.

Turkey's largest privately-owned investment bank operating in the finance sector under the group's umbrella, Aktif Bank recorded a significant improvement in its 2017 balance-sheet figures and growth parameters, increasing its profit by 60% year-over-year. Maintaining its pioneering approach in 2017, Aktif Bank proved that it is poised to claim a substantial share of the digital banking sector in the near future with its N Kolay Bond and Passo Mobile applications. It has also founded two new companies to invest in solar power plant projects.

Banka Kombetare Tregtare, one of Çalık Group's companies operating in the Balkans, was named Albania's "Bank of the Year" for the sixth consecutive time by Euromoney, eighth consecutive time by The Banker, and seventh consecutive time by Emea Finance. ALBtelecom, a telecom service provider operating in Albania, continued its activities with a customer-oriented approach.

Çalık Holding, with its entrepreneurial spirit, thoroughly conceived schemes, focus on inclusiveness and diversity, innovative and sustainable business models, investments in technology and human resources, continues its efforts for the last 36 years to add long-lasting value to people's lives in every field and in every country where the group operates.

Ahmet Çalık
Chairman

As the Çalık Group, we invest in digitalization and take firm steps towards transforming our business practices with next generation information technologies.

Esteemed Business Partners and Colleagues,

Despite facing many challenges in 2017, the Turkish economy showcased a strong growth, attaining a growth rate of 11.1% in the third quarter year-over-year. This growth elevated Turkey to among the fastest growing economies of the G20 countries. The year-long recovery of the tourism revenue contributed to the financing of current account deficit.

As foreign trade recorded an increase in exports, the growth trajectory achieved a positive curve. The increase in Euro-based economic activity had a positive impact on our export figures.

In late 2016 and early 2017, the Turkish Lira went through significant depreciation vis-à-vis other developing currencies. However, the remedial actions and the funding policies of the Central Bank were able to level the fluctuations.

Throughout the year, portfolio investments played a very crucial role in financing the current account deficit. In the period between January-November, a net total of USD 22 billion capital inflow was attracted by portfolio investments.

2017 witnessed enhanced progress in Aktif Bank's balance sheet figures, profitability and growth parameters. The profit generated in the third quarter increased by 60% year-over-year. Signing a 50% partnership deal with Halk Enerji to invest in solar power plant projects, our Bank founded the Aktif Halk Enerji Yatırımları and Halk Enerji İnşaat companies.

Aktif Bank subsidiaries E-Kent and UPT (Universal Money Transfer) continued their innovative operations without compromising success. UPT ranked fourth on Turkey's Top 500 Large Service Exporters list in Banking and Other Financial Services. Over 150,000 Passolig users entered stadiums using only the mobile application on their mobile phones. The E-Kent urban transportation business recorded one billion public transport operations.

As the Çalık Group and Aktif Bank, we strive to keep current and sustainable by enhancing our innovative and entrepreneurial aspects, making efficient use of digitalization, and in line with our mission of creating value for human life.

Managing the digital transformation requires a strong leadership and vision. Digital transformation is among the top agenda items of all of our companies. As Çalık Group, we invest in digitalization and take firm steps towards transforming our business practices with next generation information technologies. We view digitalization as a means of maintaining a competitive advantage in a very dynamic global atmosphere with our Group companies in the front lines. In 2017, we partnered with GE and founded Çalık Digital. Çalık Digital will focus our efforts towards digital transformation across all of our companies. We are planning on developing projects in the fields of cyber security and artificial intelligence in the next three years ahead. We are carrying out our processes for adaptive agility and analyzing our potential to ensure that Turkey and the countries where we operate are among those that lead the new industrial revolution. All of us are working towards contributing to the development of our country and driving development using latest technologies in our companies to be able to compete in a world transformed by Industry 4.0.

I would like to thank all our stakeholders for their unwavering support for our operations in 2017, all our colleagues for their selfless efforts, and also our business partners and customers. I hope together we will create more added value for Turkey in the coming year.

Sincerely,

Ahmet Çalık

Dr. Serdar Sümer
CEO

Through our digital transformation processes, we have changed the sectoral dynamics of branch banking.

Dear Stakeholders,

2017 was a year of recovery for the global economy and trade volume. At the same time, through timely and accurate remedial actions such as the Credit Guarantee Fund, KOSGEB subsidies and tax reliefs, Turkish economy took advantage of the current situation, recording the highest growth rate in recent years. Thanks to these efforts that supported both the Turkish economy and the Turkish banking sector, total assets of the sector recorded a 19% nominal increase year-over-year in 2017, hitting TRY 3.3 trillion. Regarding the banking sector, the year 2018 will maintain this stability, while the growth will continue, albeit on a more modest course.

As Turkey's largest privately-owned investment bank, we have worked very hard to actively support our economy and to further our subsidiary structure in line with our business goals in 2017. Increasing our profitability by 60% to achieve TRY 178 million (BRSA Standalone Figure), we have achieved an above-sector performance yet again. We sustained our growth in 2017 with the products and services we engaged in 2016. Through our digital transformation processes, we have changed the sectoral dynamics of branch banking. We are planning to launch many more new products in the coming period thanks to our new generation digital banking system that revolutionized the conventional banking systems in Turkey. Regarding the latest developments in our products, which we have 100% digitalized as part of our innovative business models, nkolaykredi.com.tr, providing access to our N Kolay Credit product, has been visited over 7.5 million times by more than four million users, as a result of which 2 million people applied for a total of TRY 16 billion in loans. We have integrated N Kolay Credit into Facebook Messenger to increase and facilitate digital access. A first in the world, we have provided our customers with the option of applying for loans through a ChatBot on Facebook Messenger.

The high-yield, fully digital investment instrument we launched in 2017, N Kolay Bond, which is well-suited for investors from all income brackets who wish to utilize their savings, continues to expand its customer base. It is highly popular thanks to its unique structure providing competitive interest rates while bringing in daily interest income without any loss. Securing three public offerings for N Kolay Bond, our Bank issued bonds worth TRY 1 billion in total.

We actively work on developing new products and services for our subsidiaries. İnovaban, which will be announced to the public in the coming days, will provide consultation services to a variety of organizations ranging from SMEs to entrepreneurs and large-scale companies. İnovaban will provide services in various fields from idea development to project design all the way to commercialization and penetration into overseas markets.

As Aktif Bank, we are proud to have achieved the same level of active support we have provided to our country's economy in the field of renewable energy. Accordingly, we provide long-term financing for installing Solar Power Plants, Hydroelectric Power Plants and Wind Power Plants. To that end, we signed a 50-50% partnership agreement with Halk Enerji Yatırımları Üretim Taahhüt A.Ş., Turkey's leading SPP EPC company, and founded two companies for the installation and financing of Solar Power Plants: Aktif Halk Enerji Investment and Halk Yenilenebilir Enerji. We will reap the fruits of our investments in 2018 and continue our investment efforts in this field.

We have furthered our innovations in the capital markets by issuing the first loan-based debt instrument, the first Sukuk to be listed on Irish Stock Exchange GEM which we mediated overseas, two asset-based securities worth TRY 200 million on behalf of Turkcell Financing, and N Kolay Bono's public offering.

Striving for the past five years to enhance the quality and standards of Turkish football and to facilitate the digital integration and standardization between the sports club and fans, Passolig has reached 3.5 million cards, 70% of which sold through digital channels. In addition to the Passolig card, we have also launched a Passo Mobile application that enables users to buy tickets and gives fans the opportunity to enter stadiums using their smartphones. The Passo Mobil application has been downloaded more than one million times and its number of subscribers increases every day.

Meanwhile, all of our subsidiaries are carrying out successful operations in their respective fields. UPT has outperformed several banks with its infrastructure investments and ranked fourth in Turkey in the service exports category. N Kolay has continued to be the most reputable organization within the sector with new lines of work and collaborations. Sigortayeri has become one of the leading organizations in Turkey with its corporate brokering services alongside retail. E-Kent has completely renewed its balance-sheet to bloom into an operation-wise profitable organization that manages Turkey's two large integrated entry control operations. With its value-added services, PAVO has begun generating revenue equal to twice its operational expenses with monthly service invoices alone. Our newest subsidiary, Mükafat Management succeeded to exceed the TRY 100 million threshold in assets under management as of the end of 2017.

As Aktif Bank and its subsidiaries, we will continue providing active support for our country in every aspect, particularly economy. On this journey that we set out as the sector's pioneering bank in innovation and digitalization, I wholeheartedly believe that, the Aktif Bank family, has a future full of success.

Sincerely,

Dr. Serdar Sümer

Future is today with Aktif Bank

With our strong technological infrastructure and customer-oriented digital transformation, we have revolutionized the banking sector through a brand-new approach to banking.

Having adopted a sustainable and low-cost oriented growth strategy, Aktif Bank reached an asset size of TRY 11 billion as of the end of 2017. With a record performance, the Bank increased its net profits to TRY 233.8 million with a 138% increase over the previous year. Asset profitability reached 2.28% in 2017 compared to the 1.15% of last year. Average return on equity also increased from 21.19% in the previous period to 10.52% in 2017. Meanwhile, Aktif Bank continued to actively support the growth of the Turkish economy by extending TRY 6.5 billion in loans to retail and corporate customers in 2017.

Thanks to its innovative vision, Aktif Bank continued to improve its business models in retail banking, investment banking, and corporate banking, and achieved an upwards momentum with its innovative products and services, results of its investments in digital channels. Aktif Bank served 6.6 million retail customers in 2017 thanks to its business model that provides marketing and operational support without the cost of branching.

Retail Banking Credits

100% Aktif Bank in Digital

The business model for the Retail Banking Credits Group is set up to overlap with Aktif Bank's productivity -and profitability- focused sustainable growth strategy. The Bank can offer products and services to its customers thanks to collaboration efforts in place with third parties -bearing more feasible costs than normally possible in the sector- and through an efficient distribution network.

Standing apart with its fully digital-oriented business model, Aktif Bank has built its growth strategy for individual banking around digital channels as well. The Bank enjoys the privilege of being the only bank to offer fully digital access to services like funding, loans, and card payment systems through the N Kolay brand.

Using automated systems for loan applications and sales through Facebook Messenger while marketing one of its products N Kolay Credit with the slogan "100% Digital Loan", Aktif Bank has broken new ground in the global banking industry. The Bank received about 2 million loan applications worth TRY 16 billion in a single year through its website www.nkolaykredi.com.tr, which was visited 7.5 million times by 4 million people. In terms of private loans, N Kolay Credit has recorded a growth rate of 90% growth compared to the industry average of 19%, all thanks to its fast and secure digital sales strategy.

Furthermore, the Bank conducted three public offerings and exported TRY 1 billion in bonds thanks to the high demand for its product N Kolay Bond, which was launched in 2017 as an investment product for every income group from TRY 200 up to TRY 500,000. N Kolay Bond eliminated the need to visit branches by making it possible to carry out all kinds of transactions online, from account opening to investment, changing the dynamics of the industry thanks to the excellent flexibility it offers for investors with regard to interest revenue.

Turkey's most advanced and featured sports fan program, Passolig increased its number of cardholders by 40% in 2017, reaching 3.5 million users.

Retail Banking Sales and Subsidiaries Coordination

A Delivery Network of 15,000 Points Through Collaborations Instead of New Branches

The Group manages the sales of the Bank and its subsidiaries through over 4,700 PTT branches and 2,000 PTT ATMs across Turkey, particularly for pension loan, money transfer, and Ptt Sigorta products, and in 2017, it increased its loan volume to TRY 1.6 billion in 2017. The Group functions as a widespread retail network for 12 large brands in the white goods and furniture industries, and offers the Bank's financing products to the customer as part of their purchases.

In terms of vehicle loans, the Group has reached 550 vendors and an active balance of TRY 213 million as of the end of 2017. With a non-performing loan ratio below the industry average and a profit margin above it, the product shows great potential for the future. Furthermore, with the implementation of micro SME packages in late 2017 has served to meet stock financing needs of vehicle retailers, thus increasing the frequency of N Kolay Vehicle System's use by the retailers.

In the context of synergy with our subsidiaries, 676 of our current white goods and furniture dealerships have started to operate as Universal Money Transfer operators; about 300,000 transactions have been completed at these offices. Additionally, 4,250 N Kolay Kiosks have mediated applications for bank products.

Offering the retail product range for sales over widespread channels managed by itself around Turkey, the Group adds value to and creates a synergy with the Bank and its subsidiaries in terms of delivery channels in 2018.

Corporate Banking

Active Support for the Turkish Economy

The Corporate Banking Group develops strategies for a competitive advantage on the basis of Aktif Bank's collaboration with its subsidiaries. The Group efficiently uses current channels and opportunities to increase the Bank's total productivity and profitability.

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

In 2017, the Group realized projects aimed towards the financial needs of football clubs. In this context, it provided over TRY 2.4 billion in financing for 16 clubs, including the financing of Beşiktaş A.Ş. Vodafone Park's construction.

The primary focus of Corporate Banking is the integrated financing solutions developed in partnership with Aktif Bank subsidiary E-Kent, and financing models designed to meet the needs of football clubs - an area Aktif Bank entered with the introduction of Passolig. Through its guiding efforts on sports financing, the Bank has taken significant steps towards sector leadership.

Another main field of concentration is the revenue and profit sharing real estate urban transformation projects supported by innovative financing models and run in synergy with Emlak Girişim A.Ş. in the field of real estate development.

Driven by the Group's efforts, the Bank founded İnovaban A.Ş. in 2017 to provide consultancy services for SMEs, entrepreneurs, and large-scale corporations. İnovaban A.Ş. will provide guidance for all types of commercial organizations from day one with its innovative philosophy and professional approach, and secure pre-financing to entrepreneurs without any cash collateral requirement.

The Group also continues its activities in the field of renewable energy, which is poised to become one of the key investment instruments of the future, bolstering its presence in this area with specifically designed financing models and systematic integration solutions. Through its partnerships, the Group added financing to its list of EPC services, and became the first in the industry to offer EPCF services. The financing it provided as an investor has paved the way for SPP projects with a total capacity of over 250 MWp, securing it a leading position in the industry.

Treasury

A First from Aktif Bank: Turkey's First Loan-Based Debt Instrument Issue

The Treasury Group contributed to growth and profitability through effective pricing in types of transactions required by the Bank's balance sheet development in 2017. It has increased its coverage by pricing comprehensive financial products to complement conventional treasury solutions.

By keeping abreast of capital markets and through strong inter-corporate relations, the Group played a pivotal role in the export of innovative capital market products in 2017 as well. Besides issuing the first "Loan-Based Debt Instrument" of Turkey, the Group made another groundbreaking move and successfully completed the first non-bank asset-backed security issue with one of the leading corporations in the country, Turkcell.

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

In 2018, the Group will continue its efforts towards becoming a trusted partner in treasury operations for domestic and international players.

Credit Analytics and Capital Markets

First Sukuk Issue Listed on the Irish Stock Exchange Global Exchange Market

The Credit Analytics and Capital Markets Group has achieved a number of key milestones as part of the Bank's vision, including the public offering of the first digital bond product, N Kolay Bond, on behalf of Aktif Bank in 2017. The seven year tenor Sukuk issuance arranged by the group is the first ever international Mudarabah Sukuk issuance by a company out of Turkey and the first Sukuk listed on Irish Stock Exchange Global Exchange Market. This issue was named the "Sukuk Deal of the Year" by the Islamic Finance News (IFN). In foreign markets, the Group also arranged the issuance of two Eurobonds with a maturity of five years on behalf of the Bank.

Thanks to the innovative credit policies and decision-making systems it developed, the Group has made remarkable progress in retail banking, which is characterized by stiff competition and low profit margins. Furthermore, in 2017 the Credit Analytics and Capital Markets Group took key steps towards developing alternative credit rating models, collaborating with academic institutions locally and internationally for the purpose. The outcomes of these efforts, namely the social media, psychometric, Big Data, and payment behavior-based rating systems have enabled the Bank to access new audiences and record a loan repayment performance well above the industry average.

Combining its experience in loans and capital markets, the Group has successfully completed two Asset-Backed Security (ABS) issues by securitizing the loans in the Bank's portfolio. The first non-banking ABS for Turkcell Finansman was issued successfully in April, followed by a second issuance again in 2017.

Financial Institutions

866 Correspondents in 127 Countries

In 2017, the Group continued full throttle to set new cash and non-cash limits to facilitate the foreign trade and treasury transactions of the Bank's customers.

Aktif Bank, with its more than 866 correspondents in 127 countries, has achieved a level of TRY 3.8 billion in loans procured from its correspondent banks. It produced a successful upward trend in the volume of foreign trade transactions it brokered.

The Group, in parallel with its strategies and requirements, aims to diversify and expand upon its borrowing schemes in the areas of Foreign Trade Financing and Capital Markets and to continue to achieve success in its operations in 2017.

Information Technologies and Operation

Next Generation Banking at Aktif Bank

The Information Technologies and Operations Group continued to work in 2017 to bring the latest technologies and the highest quality of service to all of the Bank's customers, business partners and employees.

Having been designated as an "on-site R&D Center" by the Ministry of Science, Industry and Technology last year on the basis of its meritable achievements in the areas of technological investments and innovation, the Bank maintained this title throughout 2017 thanks to its achievements in the goals set by the Ministry and the projects it developed in the banking industry.

In 2017, the Group also renewed the Information Security Management Certificate ISO 27001 which it had obtained as an outcome of the efforts in the area of banking security. Activities carried out especially in the second half of the year were geared towards EU projects, with participation in events that promoted the Bank in Europe. As part of the said efforts, the Group was accepted to the NESSI (Networked European Software and Services Initiative) platform in December 2017.

The Group maintained its focus on establishing new channels and developing products in the business of payment systems, investing in technology for debit and prepaid card production. With a new card project developed with MChip Advance technology for the first time in Turkey, existing cards used for public transportation were merged with contactless debit and/or credit cards, providing fare discounts and connections at the turnstiles. Thanks to this newly developed product, customers can deposit money on their card and use it in any payment point with a MasterCard logo anywhere in the world, within statutory limits.

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

Human Resources

The Source of Our Creativity: Our Talented Human Resources

Driven by a strong belief that human resources are its most valuable asset Aktif Bank sustained an egalitarian HR policy in 2017 to maintain employee satisfaction, contributing to the development of the knowledge, skills and competences of the employees and creating equal opportunities in career planning.

In line with the mission and vision of the Bank, recruitment interviews were made digital in 2017, and are now carried out through video conferencing. The Bank follows the motto "Our most important candidates are our employees and the people they recommend." With that in mind, two projects were carried out, namely "You Are The Candidate" and "We Want Your Friend." In order to accelerate our newly-hired employees' orientation process, we continued the "Aktif Guide" practice. As part of the "Getting Together with HR" project, the department carried out one-to-one conversations with employees in order to get to know them better.

"Aktif Academy", launched in 2016, was divided into three categories in 2017 to serve our employees more efficiently. All training programs now fall under the following categories:

- Development Time at Aktif Academy
- Entertainment Time at Aktif Academy
- Aktif Café

Additionally, as of 2017, compulsory training courses are designated for our employees on the digital training platform, which is now completely integrated with current systems.

The Performance Management System was enhanced in 2017 to ensure even more efficient use. Employees enter their user name and password to access the human resources portal, which was also enhanced in 2017. HR systems are now integrated with various other systems. Additionally, human resources metrics are now automatically reported based on the data provided by the current reporting system. In order to improve budget management, individual human resources budgets are now planned and standard rules are set for premium models.

Developments both within the industry and the Bank in particular were followed to ensure maximum employee satisfaction. To serve that end, "Flexible Work Day" and "Flexible Office Hours" practices were launched in 2017. Furthermore, all efforts channeled into improving employee satisfaction are combined under "Come on, Smile" brand. The HR department maintained cooperation with NGOs for social responsibility purposes.

Eyes can see within the wavelengths of 380 and 780nm, we can see a lot more

Through our "Next Generation" banking approach, you will be able to see the possibilities within the impossible.

E-Kent

Turkey's Leading Producer and Integrator of Smart Transport Solutions

Providing smart city solutions and integration services, E-Kent carries out 1 billion smart transport transactions annually. E-Kent brings technological transformation to the cities it serves while developing value-added business models for public administrations. E-Kent offers smart public transport solutions to nearly 8 million citizens in various cities including the capital Ankara, and manages transportation operations as well. Since the day of its inception, E-Kent has carried out 12.5 million smart transport card transactions and 363 million transport ticket operations in total.

In the meantime, E-Kent successfully carried out the world's biggest stadium infrastructure transformation project which involves entrance control and surveillance systems, integrated ticketing, stadium box office services and infrastructure for 47 stadiums in 27 cities in Turkey.

E-Kent enables access to stadiums for 12 million sports fans. With the e-ticket project, as of April 2014, more than 6.1 million tickets and 630 thousand seasonal combined tickets were sold for more than 3 thousand sports games. The total revenues earned from these sales, worth TRY 655 million, were transferred to sports clubs.

UPT

Turkey's First and Only Locally Developed, Global Money Transfer and Payment Platform

UPT Payment System, Turkey's first licensed payment agency, offers money transfer services in multiple currencies to cards and accounts both in Turkey and abroad. Operating in Istanbul, Izmir and Antalya provinces of Turkey, UPT reaches customers via nearly 10,000 points including UPT branches, all PTT offices, Aktif Bank branches, UPT Agencies and N Kolay Transaction Points.

In 2017, UPT carried out more than 2.4 million transactions in 128 countries, achieving a transaction volume of more than USD 1 billion. In terms of number of transactions, UPT achieved a 77% growth and 67% in terms of volume compared to the previous year. It reached 22% market share in transactions abroad. In 2017, UPT also began to provide UPT cards for customers and to open UPT payment accounts. It also entered into new contracts in the Middle East, Turkic Republics and Europe.

As a result of all these activities, UPT ranked 4th in the "Banking and Other Financial Services" sector on the list of "Turkey's 500 Largest Service Exporters."

Sigortayeri

Turkey's Biggest Local Broker

Sigortayeri Sigorta ve Reasürans Brokerliği A.Ş., Turkey's innovative insurance broker, provides insurance and reassurance intermediary services to more than one million retail and corporate customers in its portfolio. Sigortayeri offers digital insurance services to retail customers on sigortayeri.com and mobile applications. It also develops tailored projects, products and services to member merchants in sports clubs, electricity distribution and retail industries via physical service points supported by kiosks. As of 2017, it is possible to obtain compulsory earthquake insurance policy in a fast, easy and secure manner via kiosks and online channels of Sigortayeri. Generating TRY 160 million with services, Sigortayeri increased its broker channel rate to 3.48% in 2017.

In order to expand its service network for corporate customers, Sigortayeri created Asron insurance brand within the company and started to operate in Turkey and in 15 neighboring countries to provide corporate insurance products. Asron Sigorta offers major insurance coverage, consulting and risk analysis services to construction, health, energy, textile, automotive and financial services industries In 2017, the company partnered with Allianz Climate Solutions in renewable energy to provide coverage for the building and operating phases of solar and wind power plants. For the first time in the industry, solar and wind power systems businesses were provided with insurance with a guaranteed renewable policy for 10 years. With a 30% market share, ASRON Insurance is the largest insurance broker in solar power systems.

PAVO

The Smartest Cash Register POS Device

PAVO Teknik Servis Elektrik Elektronik San. Tic. offers solutions to Turkish and foreign customers chiefly in financially approved cash register payment services (PRD - Payment Registration Device) with a strong base in R&D infrastructure, solution-oriented sales and marketing strategies, as well as high quality production, operations and services, PAVO aims to keep customer satisfaction at the highest level. Drawing from vast experiences in cash register systems, PAVO entered into partnership with Ingenico, a world leader in payment system providing, in order to develop two different models with EFT POS features. PAVO offers services to customers with nearly 200,000 Ingenico Cash Register POS devices across Turkey, more than 180,000 value-added applications and software integration.

N Kolay

Turkey's Biggest Collection and Payment Channel with 6 Million Transactions Monthly

Boasting the largest and widest network in the industry across Turkey, N Kolay Payment Agency offers its services through 550 N Kolay Transaction Centers and 4,100 N Kolay Kiosks. Acting as an agent throughout Turkey in a variety of payment services including chiefly utility bill collections, domestic and international money transfers, N Kolay provides customers with fast, convenient and reliable payment transactions. With the N Kolay Kiosk project, Aktif Bank won first place in a competition organized by European Financial Management Association (EFMA).

N Kolay achieved major success in a brief amount of time with fast, online practices guaranteeing practical transactions. N Kolay, Turkey's biggest collection and payment channel with six million transactions per month, also started to offer low-cost virtual POS services to companies with the "Pay N Kolay" brand in 2017.

Echo Information Management Systems

Next Generation Solution Partner

Launched in August 2016 with a view to becoming the retail sector's "Next Generation Solution Partner" with the EchoPOS brand, Echo Information Management Systems develops end-to-end payment systems and integration solutions for front and back offices of companies. In 2017, EchoPOS successfully installed a total of 2.019 hardware sets and software programs in 1,002 Şok Marketler Ticaret A.Ş. stores across 76 provinces of Turkey. In late 2017, EchoPOS started pilot activities with BİM Birleşik Mağazalar A.Ş. and carried out activities with 50 hardware sets in 19 stores in Bursa and Izmir.

Mükafat Portföy Yönetimi A.Ş.

A Breath of Fresh Air in Interest-Free Finance Markets

Mükafat Portföy Yönetimi was founded in partnership between Islamic Corporation for the Development of the Private Sector (ICD), an affiliate of Islamic Development Bank, and Aktif Bank. The company carries out all of its activities within interest-free finance principles. While serving to utilize the savings of people in Turkey who avoid interest revenue, Mükafat Asset works on securing foreign funding for the national economy. By the end of 2017, the company launched its first, TRY 50 million venture capital fund (Buket) for qualified investors. Mükafat Asset is expanding its product range with a second venture capital fund worth TRY 70 million, patent venture fund and real estate funds. The preparatory work for the said funds is complete.

Emlak Girişim A.Ş.

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

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

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

Haliç Finansal Kiralama A.Ş.

Established by the partnership of Aktif Bank and ICD in 4Q16, the Haliç Leasing Company aims to be the leading finance lease company to provide its customers with products that are in line with Islamic principles. To that end, Haliç Leasing works to fill the gaps in the market where local banks' large leasing companies operate. Furthermore thanks to Aktif Bank's experience in capital markets, Haliç Leasing aims to attract long term funds from Middle Eastern and Asian countries to Turkey through sukuk issuance.

Kazakhstan Ijara Company Joint Stock Company (KIC)

Founded in 2013, KIC started operations in early 2014. KIC is the first Sharia-compliant "financial leasing" company in Kazakhstan. The company is a partner to ICD, an affiliate of Islamic Development Bank that finances private sector investments, as well as to Eurasia Group, Al Hilal Bank, Zaman Leasing in Kazakhstan and Kolon Group, a leading South Korean company. Predominantly offering leasing services to small and medium-sized enterprises (SMEs), KIC continues operations with a vision to become one of the biggest private leasing companies in Kazakhstan in five years.

Euroasia Leasing Company (ELC)

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

Euro - Mediterranean Investment Company Ltd. (EMIC)

Founded in Nicosia in 2015, EMIC is both the first and only "Islamic investment company" of Cyprus and the biggest international investment company in the Turkish Republic of Northern Cyprus (TRNC). The company's partners include ICD, an affiliate of Islamic Development Bank that finances private sector investments, as well as CreditWest Bank Ltd. and Kıymet Trading & Contracting Ltd. from TRNC. Its goal is to contribute in the best way to sustainable development by seeking, developing and carrying out investment possibilities to advance the private sector in the Turkish Republic of Northern Cyprus and other countries in the region. To serve that aim, EMIC started to transfer funds into the real sector in 2017 by investing in four different projects, chiefly in the construction industry.

Board of Directors

Ahmet Çalık
Chairman

Ahmet Çalık was born in Malatya in 1958. He started his career in business in 1981 in the field of textiles. The denim factory that he founded in Malatya became the first large-scale industrial investment in Eastern Anatolia. Çalık started his first international investments in Central Asia in the same period in order to attain his international business and investment goals. Building on his business experiences in Turkey, Ahmet Çalık started investing abroad as of 1992 with major investments in energy, construction, mining, textile, finance and telecom under Çalık Group. In 1997, he founded Çalık Holding in an effort to bring all group companies under the same roof. One of the biggest Turkish investors in Albania and Kosovo, Çalık was given the Order of the State of Turkmenistan and Turkmenistan Mahdum Guli Award in 1997, Order of Merit of the Republic of Turkey in 1999 and Order of Turkmenistan Gayrat, Turkmenistan Golden Age Order in 2001, Order of Merit of the Ministry of Foreign Affairs of the Republic of Turkey in June 2002, Order of Merit of the Grand National Assembly of Turkey in 2006 and the "Turkey in Europe - Franco Nobili'' Award in 2010. In 2012, Mr. Çalık was granted the title Honorary Consul of the Republic of Kazakhstan in Bursa and Ellis Island Medal of Honor by National Ethnic Coalition of Organizations (NECO) in 2014. The same year, he received the title of honorary PhD from Matsumoto Dental University and University of Tirana in Albania. In 2016, Ahmet Çalık was granted an honorary PhD title by Kindai University in Japan. He continues to serve as Chairman of the Board of Directors of Çalık Holding and its companies.

Mehmet Usta
Deputy Chairman

Born in 1950, Mehmet Usta graduated from the Finance Department of Eskişehir Academy of Economic and Commercial Sciences. He has a background of more than 35 years in banking. He served as inspector and manager in Anadolu Bank between 1979 and 1987, before holding senior positions in Emlak Bank both in Turkey and abroad until 1994. Between May 1994 and March 2007, he sat on the Board of Directors of Banque du Bosphore, Paris, of which he was also General Manager. In April 2008, he was named Deputy Chairman of the Board in Aktif Bank. Since July 2009, Mr. Usta has been the Chairman of the Board of Directors of Banka Kombetare Tregtare, a company of Çalık Holding operating in Albania and Kosovo. As of May 2012, he has been Board Member of WSBI - World Savings and Retail Banking Institute based in Brussels, and Chairman of the Board in UPT Ödeme Hizmetleri A.Ş. and Reasürans Brokerlik A.Ş., both of which are subsidiaries of Aktif Bank.

Mehmet Ertuğrul Gürler
Board Member

Born in 1958, Mehmet Ertuğrul Gürler graduated from the Economics Department of Marmara University. He has 40 years of professional experience. Mr. Gürler served in various levels in Dow Türkiye A.Ş. between 1994 -1987, including Management of Financial Affairs and Board Membership. Between 1994 and 1998, He was Deputy General Manager and Secretary General of Total Oil Türkiye A.Ş. He was named General Manager of Çalık Holding A.Ş. in 1998. Mehmet Ertuğrul Gürler is currently the Deputy Chairman of Çalık Holding, Banka Kombetare Tregtare and Çalık Denim Tekstil. He sits on the Boards of Aktif Bank, ALBtelecom, Gap Construction, Gap Marketing, and serves as Chairman in YEPAŞ.

Veysel Şahin
Board Member

Born in 1959, Veysel Şahin has a degree in Public Administration Department of Ankara Academy of Economic and Commercial Sciences. He obtained a master's degree in business administration from Bahçeşehir University. He started his career in banking as deputy inspector in 1985. He served as department and branch manager, overseas representative and chairman of the Inspection Board in Anadolu Bank, Emlak Bank and Ziraat Bank. He sat on the Audit Committee of Axa Insurance, and the Board of Directors of TKİ Bank Kazakhstan. As of 2009, Mr. Şahin has served as Board Member and Audit Committee Member of Aktif Bank.

Kemaleddin Koyuncu
Board Member

Born in 1970, Kemaleddin Koyuncu studied in Middle East Technical University and obtained his MBA in the University of Illinois at Urbana-Champaign. Mr. Koyuncu has a professional background of 26 years. He began his banking career as deputy inspector in Türkiye İş Bankası A.Ş. in 1992. Between 1996 and 2001, he served as Treasury Specialist in the Undersecretariat of Treasury of the Prime Ministry of the Republic of Turkey. Between 2001 and 2015, he worked as Banking Specialist, Vice Head of Department, Senior Chief Specialist of Banking and Head of Department in Banking Regulation and Supervision Agency (BRSA). Between 2003 and 2004, he sat on the Boards of Toprak Sigorta and Ege Sigorta insurance companies. He joined Aktif Bank in 2015 as Executive Vice President. In September 2017, he was named Board Member and Audit Committee Member of Aktif Bank.

Dr. Serdar Sümer
CEO and Board Member

Born in 1973, Dr. Serdar Sümer holds a degree in Business Administration from the Faculty of Political Sciences in Ankara University. He obtained his master's degree in the College of William and Mary in Virginia, US and in April 2011, he received his PhD from the Institute of Banking and Insurance in Marmara University. Mr. Sümer is a certified Financial Risk Manager (FRM) and Public Accountant. In 1996, he started his career as Certified Auditor of Banks in 1996. Between 2008 and 2014, he served as Executive Vice President of Capital Markets Board in Aktif Bank. In 2014, he sat on the Board of Tera Menkul Değerler of which he is a partner. With an industry background of 22 years, Mr. Sümer returned to Aktif Bank in 2015 and has since been the CEO and Board Member of the company.

Executive who resigned from office:
Ahmet Celalettin Yıldırım, Board Member (August 2017)

Executive who took office:
Kemaleddin Koyuncu, Board Member (September 2017)

Senior Management

Senior Management

Dr. Serdar Sümer

CEO and Board Member

Born in 1973, Dr. Serdar Sümer holds a degree in Business Administration from the Faculty of Political Sciences in Ankara University. He obtained his master's degree in the College of William and Mary in Virginia, US and in April 2011, he received his PhD from the Institute of Banking and Insurance in Marmara University. Mr. Sümer is a certified Financial Risk Manager (FRM) and Public Accountant. In 1996, he started his career as Certified Auditor of Banks in 1996. Between 2008 and 2014, he served as Executive Vice President of Capital Markets Board in Aktif Bank. In 2014, he sat on the Board of Tera Menkul Değerler of which he is a partner. With an industry background of 22 years, Mr. Sümer returned to Aktif Bank in 2015 and has since been the CEO and Board Member of the company.

Murat Barlas

Executive Vice President, Finance

Born in 1968, Murat Barlas holds a Mathematics degree from Istanbul University. With a background of 22 years in banking, Mr. Barlas joined Aktif Bank in 2015.

Ahmet Erdal Güncan

Executive Vice President, Corporate Banking

Born in 1969, Ahmet Erdal Güncan holds a Civil Engineering degree from Istanbul Technical University. He obtained his master's degree in Construction Management from the same university. With 21 years of banking experience, Mr. Güncan joined Aktif Bank in 2008.

Gürol Güngör

Executive Vice President, Retail Banking Sales and Subsidiaries Coordination

Born in 1976, Gürol Güngör obtained his undergraduate degree in Industrial Engineering from Istanbul Technical University and a master's degree in Banking from Marmara University. Güngör has 20 years of experience in banking and joined Aktif Bank in 2015.

Dr. Uğur Gökhan Özdinç

Executive Vice President, Information Technologies and Operations

Born in 1975, Gökhan Özdinç holds a bachelor's degree in Computer Engineering from Boğaziçi University where he also obtained his Master's and PhD degrees in Business Administration. He has more than 19 years of experience in banking. On top of his current position in Aktif Bank, Özdinç serves as part-time lecturer in MIS and Computer Engineering Departments of Boğaziçi University. He joined Aktif Bank in 2014.

Ömer Ünveren

Executive Vice President, Treasury

Born in 1976, Ömer Ünveren studied Business Administration at the Faculty of Political Sciences of Istanbul University. With a background of 17 years in the banking industry, Ünveren joined Aktif Bank in 2014.

Muzaffer Suat Utku

Executive Vice President, Financial Institutions

Born in 1974, Muzaffer Suat Utku holds a bachelor's degree in Business Administration from U.S. International University San Diego. He holds an MBA degree from London University College. Mr. Utku has 19 years of banking experience and joined Aktif Bank in 2007.

Tevfik Kınık

Executive Vice President, Credit Analytics and Capital Markets

Born in 1977, Tevfik Kınık obtained his bachelor's degree in Public Administration and an MBA degree from Ankara University. He also obtained a master's degree in Public Administration from Harvard University. With 19 years of experience in financial markets, Mr. Kınık joined Aktif Bank in 2017.

Managers for Internal Systems

Filiz Erendaç
Chief Legal Advisor

Born in 1976, Filiz Erendaç earned a Bachelor's Degree in Faculty of Law Ankara at University and Master's Degree in Commercial Law at the same university. Ms. Erendaç has 19 years of experience in business and joined Aktif Bank in 2016.

Osman Gencer
Head of Group, Venture Capital

Born in 1973, Osman Gencer studied Economics in Boğaziçi University. With 23 years of experience in the industry, Mr. Gencer joined Aktif Bank in 2017.

Selcan Kaytancı
Head of Group, Human Resources

Born in 1974, Selcan Kaytancı obtained her undergraduate degree in Political Science and Public Administration from Middle East Technical University. She obtained her Human Resources master's degree from Bahçeşehir University. With a background of 19 years in banking, Ms. Kaytancı joined Aktif Bank in 2014.

Hakan Özat
Head of Group, Internal Systems

Born in 1980, Hakan Özat studied Economics in Marmara University. With 14 years of banking experience, Mr. Özat joined Aktif Bank in 2015.

Executives who resigned from office:

Ayşegül Adaca, Executive Vice President, Retail Banking Credits (June 2017)

Serhat Yılmaz, Executive Vice President, Retail Banking Credits (December 2017)

Hakan Özat
Head of Group, Internal Systems

Born in 1980, Hakan Özat studied Economics in Marmara University. With 14 years of banking experience, Mr. Özat joined Aktif Bank in 2015.

Volkan Kölege
Head of Internal Control

Born in 1977, Volkan Kölege holds a Business Administration Degree from the Faculty of Economic and Administrative Sciences in Anadolu University. With 18 years of background in banking, Mr. Kölege joined Aktif Bank in 2008.

Pınar Gürkan
Compliance Director

Born in 1981, Pınar Gürkan holds an Econometrics degree from the Faculty of Economic and Administrative Sciences of Marmara University. With a background of 13 years in banking, Ms. Gürkan joined Aktif Bank in 2009.

Mehmet Anıl Bolayır
Supervisory Board President

Born in 1981, Mehmet Anıl Bolayır is a graduate of Istanbul University International Relations Department. He has a master's degree in Accounting and International Reporting from Bahçeşehir University. With 10 years of banking experience, Bolayır joined Aktif Bank in 2016.

Hamdi Önder
Risk Manager

Born in 1982, Hamdi Önder holds a Mathematical Engineering degree from Istanbul Technical University and an MBA degree from Koç University. With a background of nine years in banking, Mr. Önder joined Aktif Bank in 2009.

Executive who resigned from office:

Deniz Turunç, Head of Risk Management (July 2017)

Executive who took office:

Hamdi Önder, Risk Manager (July 2017)

Committees

Audit Committee

In order to assist with the performance of audit and supervision activities under its own responsibility, the Board of Directors appointed two of its members, whose qualifications are identified by the Banking Regulation and Supervision Authority (BRSA), as the Audit Committee. They are recognized as internal systems supervisors and jointly conduct the administration, management and performance of their duties under internal systems.

On behalf of the Board of Directors, the Audit Committee supervises the efficiency and effectiveness of the Bank's internal systems, the functioning of these systems as well as accounting and reporting systems in line with Banking Law, other legislation provisions and intra-bank regulations. The Audit Committee certifies the integrity of the information produced; conducts preliminary assessments to assist in selection of independent audit firms and rating, appraisal and support service firms by the Board of Directors; regularly monitors the activities of those firms that are selected and contracted by the Board of Directors; and ensures the consolidated delivery and coordination of internal audit activities covering all Departments/Units/Branches.

The Audit Committee submits an audit report to the Board of Directors once every six months.

Committee Members

Veysel Şahin
Chairman of the Audit Committee

Kemaleddin Koyuncu
Member of the Audit Committee

Credit Committee

The Credit Committee consists of the CEO and two persons elected from among those Members of the Board who meet all the criteria, professionally and in terms of qualifications, required of the CEO, and who, in their role as committee members, will exercise their authority delegated by the Board of Directors to open credit lines.

Committee Members

Mehmet Usta
Chairman of the Credit Committee

Mehmet Ertuğrul Gürler
Vice Chairman of the Credit Committee

Dr. Serdar Sümer
Member of the Credit Committee
CEO

Alternate Members

Veysel Şahin
Alternate Member

Corporate Governance Committee

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

The Corporate Governance Committee meets once a year, or more frequently when necessary, with complete attendance by all members. Other attendees may also be invited to meetings by the Chairman of the Committee. A report on Compliance with the Corporate Governance Principles is prepared and published on the corporate website on an annual basis.

Committee Members

Mehmet Usta
Deputy Chairman of the Board
Chairman of the Committee

Mehmet Ertuğrul Gürler
Member of the Board
Deputy Chairman of the Committee

Veysel Şahin
Member of the Board
Member of the Committee

Remuneration Committee

The Remuneration Committee is responsible for evaluating the remuneration policy and practices established by the Headquarters within the context of risk management. The Committee submits an annual report containing suggestions to this end to the Board of Directors.

The Remuneration Committee holds ordinary meetings once a year and extraordinary meetings when necessary, with all members attending the meeting.

Committee Members

Mehmet Usta
Deputy Chairman of the Board
Chairman of the Committee

Mehmet Ertuğrul Gürler
Member of the Board of Directors
Vice Chairman of the Committee

Assets-Liabilities Committee

The Assets-Liabilities Committee is an advisory board that sets rules in line with fiscal policies and strategies for management of the Bank's assets and liabilities in connection with liquidity restrictions, foreign exchange risk and capital adequacy.

Committee Members

Dr. Serdar Sümer
CEO
Chairman of the Committee

Murat Barlas
Executive Vice President, Finance

Ahmet Erdal Güncan
Executive Vice President, Corporate Banking

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

Muzaffer Suat Utku
Executive Vice President, Financial Institutions

Ömer Ünveren
Executive Vice President, Treasury

Tevfik Kınık
Executive Vice President, Credit Analytics and Capital Markets

Information on Board and Committee Members' Attendance to Meetings

The Board of Directors held 12 meetings where the necessary majority and the quorum of meeting was met in 2017.

The Audit Committee held 5 meetings in 2017, 4 of which were attended by independent auditors.

The Credit Committee held 12 meetings in 2017.

The Corporate Governance Committee held 2 meetings in 2017.

The Remuneration Committee held 2 meetings in 2017.

Summary of the 2017 Board of Directors Report Presented to the General Assembly

Dear Shareholders,

Our Bank completed a productive year in 2017, thanks to the successful work of the management team and efforts to accomplish all activities. As a result of activities conducted throughout 2017:

Our net profit was TRY 233,827,000 and total asset size was TRY 11,070,991,000. With these results, our net profit increased by 138.47% while size of assets rose by 16.75% when compared to the previous year.

Our capital adequacy ratio stood at 13.37%. Our Bank succeeded in meeting the equity requirements due to Balance Sheet growth, with the profit obtained from operations in the period.

Our Bank has been one of the most profitable banks in the sector with an average Return on Equity of 21.19% and an average Return on Assets of 2.28%.

Our non-equity foreign assets pioneered growth, surging by 15.87% to TRY 9,848,041,000. This significant development in foreign assets' inflow is a highly positive development in terms of our Bank's credibility.

Our cash credits increased by 18.46% compared to the previous year, rising to TRY 6,539,477,000.

The NPL ratio stood at 2.86%. Given these results, while growing quite significantly in Balance Sheet terms, Aktif Bank has maintained its profitability and asset quality at a high level.

We submit the Financial Statements of our Bank showing the activity outcomes pertaining to the Balance Sheet period January 1, 2017 - December 31, 2017, the respective highlights and footnotes, Independent Auditor's Report and Auditors' report for your examination and approval.

Pending Board approval, we present the adoption of this "Report" herein, and other reports submitted to you, and the release of our Board of Directors for your evaluation and approval. We would like to express our warmest greetings, wishing you an even more productive and profitable year.

Sincerely,

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

Ahmet Çalık
Chairman of the Board of Directors

Mehmet Usta
Vice Chairman of the Board of Directors

We not only contribute to the economy of our country, but we also actively work to secure a brighter future for Turkey

We take pride in carrying over the support we provide for real estate and finance solutions for sports and R&D to what we deem to be the future of our country: renewable energy.

1. Declaration of Compliance with the Principles of Corporate Governance

Aktif Bank pledges to exercise utmost diligence to ensuring compliance with its Corporate Governance Principles. The Board of Directors and Senior Management conduct their activities with the core principles of accountability, inclusion and equality, and carry out their tasks and responsibilities while prioritizing the interests of stakeholders.

Aktif Bank operates in full compliance with all banking legislation, including Banking Law No. 5411 and other relevant regulations.

The aim of Aktif Bank executives is to increase the value of the Bank. To this end, its approach to corporate governance is based on the principles of fairness, transparency, equality, responsibility, and accountability.

With the exception of trade secrets and nonpublic information, it is crucial that financial and non-financial information about the Bank is disclosed to the public in an accurate, complete, comprehensive, and an accessible manner. The Bank's disclosure activities are carried out with the principle of transparency at their core. In this framework, the Bank website is structured with the stakeholders' goal of accessibility in mind and contains annual reports, independent auditor's reports, general assembly information, codes of ethics, information on the organizational structure and other announcements.

PART I - SHAREHOLDERS

2. Shareholder Relations Unit

The Bank has no "Shareholder Relations Unit" as its shares are not publicly listed.

The Bank's partnership structure is as follows:

Partner	Share (%)
Çalık Holding A.Ş.	99,42
Çalık Denim Tekstil Sanayi ve Ticaret A.Ş.	0,30
Ahmet Çalık	0,14
Başak Yönetim Sistemleri A.Ş.	0,07
Irmak Yönetim Sistemleri A.Ş.	0,07
Total	**100,00**

3. Exercise of Shareholders' Right to Information

Developments that may affect the decisions of investors are announced via the Public Disclosure Platform. The Bank website contains documents that offer public information under the Corporate Governance section.

The Bank has responded to inquiries for information made during the period. Bank shareholders are provided access to all forms of information they may require, with the exception of trade secrets and nonpublic information.

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

4. General Assembly Meetings

The Ordinary General Assembly meeting for 2016 was held on the date of March 24, 2017. As the Bank's partnership structure favors an "Invitation Based" General Assembly, information about the place, date, and the agenda of the meeting was shared with shareholders. The call for a General Assembly was carried out in accordance with the provisions of the law, and the meetings were held at the Aktif Bank Headquarters at the address Büyükdere Caddesi No:163/A Zincirlikuyu, Şişli. The shareholders opted not to exercise their right to ask questions at the General Assembly.

The annual report, financial statements, profit distribution proposals, general assembly agenda and the Articles of Association that forms the basis of the agenda are shared with shareholders via the Bank headquarters at least 15 days in advance of the assembly.

Minutes of the General Assembly are kept accessible to shareholders at the company headquarters, and published on the Turkish Trade Registry Gazette in accordance with the relevant legal provisions. Additionally, these are also released on the Bank website as per regulations.

5. Voting Rights and Minority Rights

The partnership structure of the Bank does not contain and provision for minority shareholders. Bank shareholders do not have any voting privileges.

6. Right to Dividends

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

7. Transfer of Shares

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

PART II - PUBLIC DISCLOSURE AND TRANSPARENCY

8. Shareholder Relations Unit

The Bank's Disclosure Policy is updated pursuant to the legislation it is subject to, and published on the Bank website in Turkish and English.

The aim of the Disclosure Policy is to share with the Bank's shareholders, employees, customers, and other relevant parties all non-trade secret information and statements in a timely, accurate, complete, comprehensive, and a simple manner, and to ensure this disclosure is carried out with minimum cost and maximum accessibility. Thus, every financial statement, announcement, or disclosure is conducted in accordance with the related legislation, generally accepted principles of accounting, and the principles of corporate governance.

The Board of Directors is responsible for supervising, reviewing, and improving the Public Disclosure Policy. The Bank releases press statements through print or visual media as it deems necessary. Press statements on print or visual media are made by the Chairman of the Board of Directors, CEO, or any unit or personnel authorized to do so.

The Annual Report is prepared prior to every General Assembly meeting to include the relevant information and announcements, presented to the Members of the Board of Directors, and published on the Bank website (www.aktifbank.com.tr). The BRSA-compliant report is sent to the relevant institutions and published on the Bank website within the statutory deadline. The financial statements are signed by the Chairman of the Board of Directors, Members of the Auditing Committee, and the CEO and Vice President of Financial Reporting in attestation. Information about the position of the Bank in the market, general financial performance, and other important topics is presented in the Annual Report.

Aktif Investment Bank A.Ş. website is used actively for public disclosure.

9. Corporate Website and its Contents

The Bank's website is located at the address www.aktifbank.com.tr. Announcements are made in Turkish and English. The Bank website contains information and data stipulated by the legislation. The website is regularly updated and actively used for Public Disclosure.

Some of the important topics found in the website are as follows:

- Detailed Information on Corporate Identity
- Bank's Vision and Mission
- Members of the Board of Directors
- Equity Structure of the Company
- Articles of Association
- Trade Registry Information
- Financial Statements
- General Assembly Information
- Corporate Governance Practices
- Assessment and Evaluation Information
- Annual Reports
- Independent Auditor's Reports

10. Annual Report

The annual report contains information described in the Corporate Governance Principles and information stipulated by the relevant legislation.

PART III - STAKEHOLDERS

11. Informing Stakeholders

The Bank informs stakeholders about matters of interest through general assembly minutes, material disclosures, press statements, meetings, e-mails, and the website. Employees are informed using the corporate intranet. Necessary procedures are established to report activities that are in violation of the legislation or the code of ethics.

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

Customers

Customers are provided with informed about the Bank. Customers may receive information and guidance directly through branches as needed. The Bank's website contains all information, news, and announcements about the Bank; and customers are informed via e-mail, SMS, and other communication channels.

Employees

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

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

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

Regulatory and Supervisory Authorities

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

12. Stakeholder Participation in Management

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

Participation in the management is encouraged at all times, and the Bank receives, reviews and awards innovative ideas by the personnel about the improvement and development of its business model. The Bank organizes regular corporate social responsibility activities and team-building exercises to establish effective and efficient business relations as well as to foster team spirit. Customer feedback and complaints received via the website or other communication channels are evaluated efficiently.

Information on employee suggestions implemented are shared across the organization.

13. Human Resources Policy

The Bank's Human Resources Policy aims to increase employee efficiency and satisfaction using human resource tools at its disposal, including compensation, performance evaluation, career planning, and training among others, and in line with the aims and strategies of the Bank. Thus, the Bank aims to create a working environment that promotes the energy and creativity of employees, and enables them to display their capabilities.

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

The Bank's Human Resources Policy and Practices are disclosed and carried out through working procedures. Its Human Resources Policy and Discipline Procedures stipulate the working conditions, recruitment standards, personnel affairs, performance evaluations, career planning, provisions about rewards and penalties, and training opportunities. The Bank has established a safe working environment for its employees, and strives to improve these conditions and opportunities as necessary. Decisions and developments concerning employees are communicated through announcements and procedures. The Bank takes necessary precautions to prevent any and all forms of discrimination between employees on the basis of ethnicity, language, religion, and gender and to ensure that human rights are respected and its employees are protected against all kinds of physical, mental and emotional abuse within the organization.

14. Code of Ethics and Social Responsibility

The Bank's relations with customers are discussed under a separate section under the "Code of Ethics", which is available on its website.

As part of its corporate governance approach, the Bank has adopted the "Banking Code of Ethics", published by the Banks Association of Turkey. The Code of Ethics is built around the core principles of our Bank's corporate culture and management (honesty, integrity, impartiality, harmony, and transparency) and disclosed to the public through the Bank's website. All Bank personnel are informed about the code of ethics and are asked to sign documents to pledge their support in reflecting these principles in their daily operations.

Aktif Bank continues its efforts to improve and enhance its quality of service through its customer-oriented approach. It assesses customer satisfaction through periodic surveys and by monitoring its social media channels, planning and rapidly implementing any actions that may be required in the light of customer feedback. The Bank has a dedicated system for addressing customer complaints, a customer complaints database, and established standards and principles guiding these functions.

The Bank's current and potential customers, suppliers, and other stakeholders are informed through the Bank's corporate website, public statements, product booklets, presentations, and visits.

The Bank's Support Services Operating Procedure contains mandatory principles for supplier-related matters as well as acquisitions.

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

PART IV - BOARD OF DIRECTORS

15. Structure and Composition of the Board of Directors

The Bank's Board of Directors consists of the following 6 members:

Title	Name	Education	Business Experience (Years)
Chairman of the Board of Directors	Ahmet ÇALIK	High School	36
Vice Chairman of the Board of Directors	Mehmet USTA	Undergraduate	39
Member of the Board of Directors	Mehmet Ertuğrul GÜRLER	Undergraduate	40
Member of the Board of Directors, Chairman of the Audit Committee	Veysel ŞAHİN	Master's	33
Member of the Board of Directors, Member of the Audit Committee	Kemaleddin KOYUNCU (*)	Graduate	26
Member of the Board of Directors, CEO	Serdar SÜMER	Doctorate	22

(*) Replaced Ahmet Celaleddin Yıldırım in September 2017.

The list of current Board Members and their resumes can be found in the Annual Report and the "About Us" section of the Bank website. Members of the Aktif Bank Board of Directors are elected pursuant to Article 32 of the Bank's Articles of Association and the provisions stipulated by the Banking Law. As per the Banking Law, Deputy CEO serves as a natural member of the Board in the absence of the CEO.

The Board of Directors may convene as frequently as the required. However, it must convene at least once per month. The structure, powers, responsibilities, rights, principles, and the procedures of the Board of Directors are stipulated by the "Regulation on Board of Directors".

The qualities that members of the Board of Directors must possess are set forth by the Banking Law, and Aktif Bank ensures full compliance with said legislation when electing members. The Articles of Association dictates that the Board Member elections must be in accordance with the relevant provisions of the Turkish Commercial Code and relevant Banking legislation, and that one more than half of the Board Members must possess the qualities necessary to take office as CEO (As a minimum, bank CEOs must have a Bachelor's Degree in either Law, Economy, Finance, Banking, Business, or Public Management", or hold a Master's Degree in one of these fields in addition to ten years of experience in banking or business management if they hold a Bachelor's Degree in Engineering).

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

16. Operating Principles of the Board of Directors

The Banking Law and relevant legislations, the Turkish Commercial Code, Aktif Bank's Articles of Association, and the Regulation on Board of Directors regulate the powers and responsibilities of the Bank's Board of Directors, which operates to ensure the Bank's progress towards its strategic goals within the framework of its Mission, Vision, and Values.

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

The Private Office convenes when needed, and at least 12 times per year. Its agenda is submitted to the Board Members before the meeting.

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

Members of the Board of Directors do not have weighed voting rights or veto rights.

17. Number, Structure, and Independence of the Board Committees

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

Audit Committee

The Audit Committee, established pursuant to Article 24 of the Banking Law, conducts its activities in accordance with provisions stipulated by the BRSA's Regulation on Internal Systems and Internal Capital Adequacy Evaluation Process, Aktif Bank's Regulation on Board of Directors, and the Auditing Committee by-laws. Members of the Audit Committee are Board Member Veysel ŞAHİN and Board Member Kemaleddin KOYUNCU. The Audit Committee convenes as necessary and at least four times every year with attendance from Independent Auditors as well as department heads of the units formed under the Internal Audit, Internal Control, Compliance, and Audit Departments and Risk Management Systems to evaluate its activities during the period, and reports its results to the Board of Directors every six months.

Corporate Governance Committee

The Bank has a three-member dedicated Corporate Governance Committee to ensure compliance with its Corporate Governance Principles, drive improvements in this area. The Corporate Governance Committee operates within its own power and responsibilities and offers suggestions to the Board of Directors, but the final decision is made by the Board. Members of the Corporate Governance Committee are Mehmet USTA, M. Ertuğrul GÜRLER, and Veysel ŞAHİN, all members of the Board without executive duties. The Corporate Governance Committee convenes twice per year upon the invitation of the Chairman. The Corporate Governance Committee held two meetings in 2017. The committee conducts its activities in accordance with the BRSA's "Regulation on Corporate Governance Principles", published on Official Gazette No. 26333 on November 1, 2006.

Credit Committee

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

Remuneration Committee

The Remuneration Committee, formed to inspect and supervise compensation practices on behalf of the Board of Directors, consists of Board Members Mehmet USTA and M. Ertuğrul GÜRLER. The committee held two meetings in 2017. The committee conducts its activities in accordance with the BRSA's "Regulation on Corporate Governance Principles" published on Official Gazette No. 26333 on November 1, 2006.

18. Risk Management and Internal Control Mechanism

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

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

The Audit Committee was created in accordance with the provisions of the Banking Law, the Regulations on the Internal Systems of Banks and the Process of Valuation of Internal Capital Adequacy, and Aktif Bank Regulations on Board of Directors and Audit Committee to assist the Board of Directors with its inspection and audit duties. The Audit Committee reports its activities to the Bank's Board of Directors every activity period. General evaluations about the 2017 activities of the Internal Systems Units are included in the Annual Report.

19. Strategic Goals of the Company

The Vision and Mission of the Bank, as disclosed to the public via its website, can be found below.

Vision

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

Mission

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

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

20. Financial Rights

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

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

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

Statement of Responsibility

Upon our evaluation of the year-end Annual Report of Aktif Yatırım Bankası A.Ş. for the period January 1, 2017-December 31, 2017, drawn up in accordance with the Communiqué (II-14.1) of the Capital Markets Board on Principles of Financial Reporting in Capital Markets, we have concluded that;

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

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

Yours faithfully,

Veysel Şahin
Chairman of the Auditing Committee

Dr. Serdar Sümer
CEO

Murat Barlas
Executive Vice President

What makes us unique is our creative human resource

We are a big and colorful family.
Together, we innovate
to make a difference.

Human Resources Practices

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

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

It is among the basic objectives of Aktif Bank to offer a working environment where employees can improve themselves without being discriminated. The Bank provides equal career opportunities and systems that promote success. In parallel with this understanding, Aktif Bank employs competent employees with sectoral experience and recruits recent graduates with promising potential.

In 2017, Aktif Bank hired 110 new employees. A total of 41 hours per employee was allocated for training in 2017 in order to improve their knowledge and skills for successful development.

Master's Degree / Doctorate	15%	Number of employees	652
Bachelor's Degree	62%	Average age	34

Transactions of the Bank with Its Own Risk Group

The Bank's Risk Group	Direct and Indirect Shareholders of the Bank		Shareholders of the Bank		Other Entities Included in the Risk Group	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
Loans and other receivables						
Balance at beginning of period	-	21,662	1,999,781	3,798	324,439	530,218
Balance at end of period	-	66,926	1,671,201	23,787	514,182	549,682
Interest and commission income	-	-	134,054	70	31,261	7,604

Individuals and Companies Providing Support Services

Support services on IT processes are provided by İnfina Yazılım A.Ş., Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş., OBSS Bilişim Bilgisayar Hizmetleri Ltd. Şti., EGA Elektronik Güvenlik Altyapısı A.Ş., Formalis Bilgi Teknolojileri Ltd. Şti., Codec İletişim ve Dan. Hizm. Ltd. Şti., Asseco See Teknoloji A.Ş., Kartek Kart ve Bilişim Ltd. Şti., Provus Bilişim Hizmetleri A.Ş., Emobil Bilişim İletişim Teknolojileri San. ve Tic. Ltd. Şti., Simternet İletişim Sis. Rek. San. ve Tic. Ltd. Şti., Global Bilişim Bilg. Yazılım Dan. San. ve Tic. Ltd. Şti., Küresel Beta Teknoloji Telekomünikasyon San. Tic. Ltd. Şti., Superonline İletişim Hizmetleri A.Ş., Netaş Telekomünikasyon A.Ş., V.R.P. Veri Raporlama Programlama Bilişim Yazılım ve Dan. Hiz. Tic. A.Ş., Finecus Yazılım Danışmanlık San. A.Ş., İdeal Bilişim Hizmetleri San. ve Tic. Ltd. Şti., Data Market Bilgi Hizmetleri A.Ş, SIMANT Bilgi İşlem Sanayi ve Ticaret A.Ş and Fineksus Bilişim Çözümler Tic. A.Ş. Vega Bilgisayar Ltd. Şti. also provides support services for Financial Management processes.

Support services for Corporate Banking processes are provided by Collectürk Alacak Yönetimi ve Danışmanlık A.Ş., RGN İletişim Hizmetleri A.Ş., Bilkay Bilgi Kayıt Organizasyon ve Tic. Ltd. Şti., Nuevo Yazılım Çözümleri A.Ş., Alternatif Çözümler Bilgi Sistemleri Finansal Danışmanlık ve Pazarlama Hizmetleri Ltd. Şti., Etcbase Yazılım ve Bilişim Teknolojileri A.Ş. and Fu Gayrimenkul Yatırım Danışmanlık A.Ş.

Support services for Operational processes are provided by Iron Mountain Arşivleme Hizmetleri A.Ş., Desmer Güvenlik Hizm. Tic. A.Ş., Tele Kurye Dağıtım ve Kurye Hizmetleri A.Ş., Kuryenet Motorlu Kuryecilik ve Dağıtım Hiz. A.Ş., Artekay Teknoloji Araştırma Sistemleri Tic. Ltd. Şti., Güzel Sanatlar Çek Basım Ltd. Şti., Aktif İleti ve Kurye Hizmetleri A.Ş., Callpex Çağrı Merkezi ve Müşteri Hizmetleri A.Ş., Plaskart Kart ve Bilişim Sis. San. Tic. Ltd. Şti., Austria Card Turkey Kart Operasyonları A.Ş. , E-Kart Elektronik Kart Sistemleri San. ve Tic. A.Ş., Hobim Digital Elektronik Hizmetler A.Ş., Comdata Teknoloji ve Müşteri Hizmetleri A.Ş., G4S Güvenlik Hizmetleri A.Ş., EKent Teknoloji and Ödeme Sistemleri San. ve Tic. A.Ş.

Support services for Retail Banking processes are provided by Intellica - Evam Yazılım Danışmanlık A.Ş., Inviso Destek Hizmetleri A.Ş., PTT (Postal and Telegraph Corporation of the Republic of Turkey), Experian Bilgi Hizmetleri Ltd. Şti., Motto23 İletişim Hizmetleri ve Tic. A.Ş.

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

Financial Information and Risk Management

Audit Committee Report

Information on Evaluation by the Audit Committee Regarding the Functioning of Internal Control, Internal Audit, Compliance and Risk Management Systems, and on Their Activities During the Accounting Period

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

The internal organization and working principles of the departments are determined in consideration of national laws and regulations as well as international standards. The activities of the Internal Audit, Internal Control, Compliance and Risk Management Departments, which have been established in accordance with the Regulations on the Internal Systems of Banks and the Process of Valuation of Internal Capital Adequacy, set forth by the Banking Regulation and Supervision Agency (BRSA) and dated July 11, 2014, are evaluated at meetings of the Audit Committee. A total of five Audit Committee meetings were held in 2017. Operations of Internal Systems Departments were closely monitored, and the Audit Committee shared significant matters with the Board of Directors.

In 2017, Internal Audit, Internal Control, Compliance and Risk Management Departments carried out control, audit, monitoring and advisory activities as well as process related efforts. Afterwards, those departments made suggestions for the establishment of new control points, thus improving the business processes of the Bank.

In line with the "Annual Auditing Plan" approved by the Board of Directors, audits were carried out in 2017 at the branches, general management units, and at the companies and affiliates from which supporting services are procured. Over the year, the Internal Audit Department audited 5 branches, 21 headquarters units and processes, 7 monitoring activities, 3 information technologies, 6 affiliates and 2 companies providing supporting services, amounting to 44 individual cases of auditing.

The Internal Control Department inspected 462 control points established for banking activities in the first quarter of 2017 and prepared 4 control reports. Following the second quarter of 2017, all banking processes were combined in a single report, and three control reports were prepared for all processes. Moreover, 371 first-level controls on Bank Information Systems and Banking Processes were tested within the scope of Statement of Management activities.

The Compliance Department provided consulting services to the Bank with regard to whether the activities, new services, products, projects, advertising, promotions and campaigns it had planned were in compliance with Banking Law and other regulations, with internal banking policies, rules, regulations and banking practices. The Law on the Prevention of Money Laundering of Crime Revenues and the provisions of this Law along with the duties and responsibilities assigned to the compliance officer have been fulfilled by the Head of the Internal Systems Group, who has also been appointed the Bank's Compliance Officer. Banking policies and procedures were created in the context of the bank's anti-crime revenue and terror financing operations to maintain their currency, and the monitoring of customer transactions, the control of correspondent banks with which correspondence relations have been established, and the detecting and reporting of suspicious transaction have been carried out in order to fulfill the obligations of the relevant regulation. Moreover, various activities were carried out in line with national and international legislation. An effort was made through in-class online training programs to raise awareness among staff members about preventing money laundering of crime revenues and terror financing.

The RISE Platform, which is the new GRC (Governance, Risk Management and Compliance) program of the Bank, was launched by the Project coordinated by the Internal Systems Group in 2017. Within the same period, the implementation of Internal Control, Statement of Management, and Compliance activities was initiated on the aforementioned Platform. The Project, which is carried out for the Platform which will begin to be used by the Supervisory Board and Risk Management Department in 2018, was rewarded the "2017 Technology Projects of the Year Award" award by The Banker in the Compliance category.

The Risk Management Department continued to identify risk exposures, conducting various stress tests and scenario analyses, working to manage risks within the limits determined by the Board of Directors. The work carried out in this area and the reports drawn up were shared with APKO and the Board of Directors.

As a result of the Supervisory Board, Internal Control, and Compliance and Risk Management Departments' efforts focused on the Bank's organizational structure, which grew and was improved in 2017, total assets, transaction volume and variety, the aim was to increase the effectiveness and efficiency of activities, reduce the risk of damage to assets and resources, ensure reports of activities are accurate and reliable, and carry out activities in compliance with laws and legal obligations. Moreover, the Bank's exposure to risks was minimized.

Evaluation of Financial Status

As of the end of 2017, the Bank's total assets increased by 16.75% to TRY 11,070.9 million on a year-over-year basis. In US dollar terms, the Bank's asset size grew by 8.92% to reach USD 2,935 million by the end of 2017, up from USD 2,695 million at year-end 2016. As of the end of 2017, the Bank obtained a net profit of TRY 233.8 million, which marks a 138.47% increase in profitability as compared to the end of 2016.

While the average return on assets based on net profit stood at 1.15% in 2016, it increased to 2.28% in 2017.

Standing at 10.52% in the previous period, the average return on equity was 21.19% in 2017. As of the end of 2017, the Bank's equity stood at approximately TRY 1,222.9 million, amounting to an increase of approximately TRY 239.33 million. Further strengthening its equity structure thanks to such figures, Aktif Bank had a capital adequacy ratio of 13.37%.

In 2017, the Bank managed its loan portfolio with optimal the risk-return balance, thus catering to the funding needs of its customers on various maturities within the most appropriate conditions. In 2017, loans and financial leasing transactions grew by 18.46% and stood at TRY 6,539 million. The total non-cash loans of the Bank stood at TRY 1,309 million. On the other hand, despite the global economic crisis and its negative impact, rational and balanced risk policies restricted the share of non-performing loans within total loans to 2.86%.

Establishing the first asset finance fund in Turkey and issuing the first asset-backed security (ABS) on October 20, 2011, the Bank carried out 2 institutional and 2 non-institutional (Turkcell Finansman A.Ş.) exports in 2017, amounting to a total of 4 exports. The said securitization transaction based on Aktif Bank's retail loan portfolio was rated AAA, the highest possible credit rating in Turkey. Marking the first exported transaction in Turkey based on retail loans, this transaction constituted a pioneering, innovative step in terms of resourcing, a basic problem for investment banks.

Information on Risk Management Policies Implemented for Various Risk Types

Aktif Bank conducts its Risk Management operations in accordance with legal regulations and in-Bank regulations. The Risk Management Department is responsible for the formulation of risk management policies and the minimizations of risks by identifying, measuring and managing loan, market and operational risks defined as initial structural block risks along with national, reputational, and concentration risks defined as secondary structural block risks.

All projected risks are limited by the upper limits within the framework of risk limits prepared by the Risk Management Department and approved by the Board of Directors. The risk appetite structure of the Bank has been developed by the Risk Management Department and has been approved by the Board of Directors. Risk appetite limits are regularly monitored by the Risk Management Department.

Risk Management Policies

Credit Risk

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

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

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

Market and Liquidity Risk

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

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

Within the scope of market and liquidity risk management, the Risk Management Department applies various scenario analyses and stress tests to monitor the liquidity risk, interest risk, exchange rate risk, and structural interest rate risk. The results of the analyses are shared with senior management, ALCO, the Auditing Committee, and the Board of Directors.

Operational Risk

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

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

Credit Ratings by Rating Agencies

Long-Term International Foreign Currency Rating	BBB- / (Stable Outlook)
Long-Term International Local Currency Rating	BBB- / (Stable Outlook)
Long-Term Local Rating	AA (Trk) / (Stable Outlook)
Short-Term International Foreign Currency Rating	A - 3 / (Stable Outlook)
Short-Term International Local Currency Rating	A - 3 / (Stable Outlook)
Short-Term Local Rating	A-1+ (Trk) / (Stable Outlook)
Sponsored Support	2
Stand Alone Rating	AB

Aktif Bank Yatırım Bankası A.Ş. was rated "Highly Investable" by JCR in 2017, with a Long Term National Credit Rating of "AA (Trk)," a Long-Term International Local and Foreign Currency Rating of "BBB-", and a stable outlook.

Five-Year Summary Financial Highlights

FIVE-YEAR SUMMARY FINANCIAL HIGHLIGHTS - IN NOMINAL VALUES (TRY ,000)	2017	2016	2015	2014	2013
BALANCES WITH BANKS & MONEY MARKET PLACEMENTS	154,166	559,386	216,299	155,337	82,873
TRADING SECURITIES (NET)	51,956	50,486	9,271	4,251	6,248
INVESTMENT SECURITIES (NET)	1,572,912	1,123,740	930,741	887,838	644,789
LOANS & FACTORING RECEIVABLES (NET)	6,539,477	5,520,369	4,638,261	3,983,292	3,576,617
FINANCIAL LEASE RECEIVABLES (NET)	-	-	-	-	1,252
SHAREHOLDERS' EQUITY	1,222,950	983,622	879,915	886,604	837,498
TOTAL ASSETS	**11,070,991**	**9,483,016**	**7,556,649**	**6,251,827**	**5,104,307**
GUARANTEES AND INDEMNITIES	**1,308,957**	**928,423**	**631,362**	**991,109**	**993,470**
NET INTEREST INCOME	570,519	355,663	307,398	238,622	271,512
NET FEE AND COMMISSION INCOME	174,782	89,137	59,148	33,863	78,390
PROFIT BEFORE TAXES	310,765	141,185	52,120	41,439	160,912
PROVISION FOR TAXES ON INCOME	-76,938	-43,131	-26,153	-7,714	-36,372
NET PROFIT	233,827	98,054	25,967	33,725	124,540

FIVE-YEAR SUMMARY FINANCIAL HIGHLIGHTS - IN NOMINAL VALUES (USD ,000)	2017	2016	2015	2014	2013
BALANCES WITH BANKS & MONEY MARKET PLACEMENTS	40,872	158,953	74,391	66,987	38,829
TRADING SECURITIES (NET)	13,774	14,346	3,189	1,833	2,927
INVESTMENT SECURITIES (NET)	417,008	319,317	320,106	382,870	302,108
LOANS & FACTORING RECEIVABLES (NET)	1,733,736	1,568,643	1,595,220	1,717,751	1,675,780
FINANCIAL LEASE RECEIVABLES (NET)	-	-	-	-	587
SHAREHOLDERS' EQUITY	324,227	279,502	302,626	382,338	392,399
TOTAL ASSETS	**2,935,123**	**2,694,651**	**2,598,930**	**2,696,031**	**2,391,560**
GUARANTEES AND INDEMNITIES	**347,029**	**263,816**	**217,142**	**427,405**	**465,478**
NET INTEREST INCOME	151,255	101,064	105,722	102,903	127,214
NET FEE AND COMMISSION INCOME	46,338	25,329	20,343	14,603	36,729
PROFIT BEFORE TAXES	82,390	40,118	17,925	17,870	75,393
PROVISION FOR TAXES ON INCOME	-20,398	-12,256	-8,995	-3,327	-17,042
NET PROFIT	61,992	27,863	8,931	14,544	58,352
USD/TRY	3.7719	3.5192	2.9076	2.3189	2.1343

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DRT Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
Maslak no1 Plaza Eski Büyükdere Cad.
Maslak Mah. No:1 Maslak, Sarıyer
34485 İstanbul, Turkey

Tel: +90 (212) 366 6000
Fax: +90 (212) 366 6010
www.deloitte.com.tr

CRS Number: 0291001097600016
Trade Register Number: 304099

Independent Auditor's Report

To the Board of Directors of Aktif Yatırım Bankası Anonim Şirketi

Report on the Audit of the Consolidated Financial Statements

Qualified Opinion

We have audited the consolidated financial statements of Aktif Yatırım Bankası Anonim Şirketi (the "Bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of 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 2017, 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 2017 consist of a general provision amounting to TL 170,000 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 170,000 thousand, net profit for the prior period would increase by TL 30,000 thousand and net profit for the period would increase by TL 140,000 thousand as at 31 December 2017.

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.

Allowance for probable losses on due from corporate and commercial financial activities

At 31 December 2017, due from financing activities were TL 6,670,024 thousands against which allowance for impairment on due from financing activities of TL 130,547 thousands were recorded ending with a net carrying amount of TL 6,539,477 thousands. The details are disclosed in Note 13 of the consolidated financial statements.

For impairment allowances, 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 performing /funds in arrears due from financial activities in accordance with IAS 39.

Furthermore, the specific allowances are made against the carrying amount of due from financing activities that are identified as being impaired based on regular reviews of outstanding balances to reduce these due from financing activities to their recoverable amounts. In assessing the recoverable amounts of the due from financing activities, the estimated future cash flows are discounted to their present value using the loans' original yield which requires management's significant judgement to exercise.

Portfolio basis (collective) allowances are maintained to reduce the carrying amount of portfolios of similar due from financing activities 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.

Because of the significance of these judgements and the size of due from financing activities, the audit of allowance for probable losses on due from corporate and commercial financing activities 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 due from corporate and commercial financing activities (specific and collective) in accordance with IAS 39 in the IFRS financial statements.

How the matter was addressed in the audit

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 due from financing activities, 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 due from financing activities.

In addition to testing the key controls, we selected samples of due from financing activities outstanding at the reporting date and assessed critically the criteria for determining whether an impairment event had occurred and therefore whether there was a requirement to calculate an impairment provision. For the samples selected, we also verified whether all impairment events as identified by us had also been identified by the Bank's management. Our selected samples also included non-performing due from financing activities, where we assessed management's forecast of recoverable cash flows, valuation of collaterals, estimates of recovery on default and other sources of repayment. For the performing due from financing activities, we assessed that the borrowers did not exhibit any possible default risk that may affect the repayment abilities. We also tested 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.

For the specific and collective provision, we obtained clients calculation, reperformed the calculation if possible, understood the client's assumptions and evaluated if these assumptions are in line with the IAS 39 impairment requirements.

Finally, we understood and tested the controls over related disclosures.

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.

How the matter was addressed in the audit

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. 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 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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, 26 April 2018

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AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017
(Currency - In thousands of Turkish Lira ("TL"))

ASSETS	Note	31 December 2017	31 December 2016
Cash and cash equivalents	9	730,980	988,702
Reserve deposits at Central Bank	10	1,008,020	707,595
Trading assets	11	51,956	50,486
Trade and other receivables		254,154	301,179
Inventories		137,722	8,202
Loans and advances to customers	13	6,539,477	5,520,369
Investment securities	12	1,572,912	1,123,740
Equity accounted investees	14	45,957	22,803
Tangible assets	15	256,796	275,916
Intangible assets	16	143,337	175,583
Goodwill	7	504	504
Deferred tax assets	22	10,246	1,254
Assets held for sale	18	71,067	-
Other assets	17	247,863	306,683
Total Assets		**11,070,991**	**9,483,016**
LIABILITIES			
Trading liabilities	11	8,987	7,234
Trade and other payables		114,787	124,827
Obligations under repurchase agreements	19	1,074,509	762,409
Financial lease liabilities		20,146	33,740
Debt securities issued	21	2,776,288	3,168,648
Funds borrowed	20	3,774,380	2,829,348
Provisions	23	240,966	69,597
Income taxes payable	22	18,392	11,918
Deferred tax liability	22	1,830	7,539
Other liabilities	24	1,817,756	1,484,134
Total Assets		**9,848,041**	**8,499,394**
EQUITY			
Share capital	25	1,038,095	938,095
Legal reserves	25	38,343	24,237
Unrealised gains/(losses) on available-for-sale assets		(18,580)	(23,011)
Actuarial gain/ (loss)		(136)	441
Special funds		618	618
Translation reserves		(409)	(2,356)
Retained earnings		154,118	36,498
Total equity attributable to equity holders of the Bank		**1,212,049**	**974,522**
Non-controlling interests		10,901	9,100
Total equity		**1,222,950**	**983,622**
Total liabilities and equity		**11,070,991**	**9,483,016**

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 2017
(Currency - In thousands of Turkish Lira ("TL"))

	Note	2017	2016
Interest income	26	1,021,509	800,847
Interest expense	26	(450,990)	(445,184)
Net interest income		**570,519**	**355,663**
Fees and commission income	27	248,439	131,631
Fees and commission expense	27	(73,657)	(42,494)
Net fee and commission income		**174,782**	**89,137**
Net trading gain/loss	28	(38,740)	4,374
Sales income	29	407,270	268,441
Other income	30	82,370	4,266
Other expenses	34	(140,000)	(15,000)
Net impairment loss on financial assets	13,31	(55,362)	(12,386)
Operating expenses		(402,446)	(345,917)
- Personnel expenses	32	(166,246)	(164,930)
- Depreciation and amortisation	15,16	(71,624)	(55,009)
- Other operating expenses	33	(164,576)	(125,978)
Cost of sales		(65,794)	-
Cost of services	29	(170,031)	(177,977)
Other operating expenses	34	(61,956)	(30,187)
Total operating income		**300,612**	**140,414**
Share of profit of equity accounted investee	14	10,153	771
Profit before income tax		**310,765**	**141,185**
Income tax expense	22	(76,938)	(43,131)
Net profit for the year from continuing operations		**233,827**	**98,054**
Profit attributable to			
Equity holders of the Bank		231,726	96,292
Non-controlling interest		2,101	1,762
Profit for the year		**233,827**	**98,054**
Other comprehensive income			
Items that will not be reclassified to profit or loss:		**(577)**	**1,967**
Change in actuarial (loss) / gain related to employee benefits	23	(721)	1,686
Special funds		-	773
Tax effect	22	144	(492)
Items that are or may be reclassified subsequently to profit or loss:		**6,378**	**1,669**
Change in fair value of available-for-sale financial assets		5,539	(1,378)
Foreign currency translation differences		1,947	2,771
Tax effect	22	(1,108)	276
Other comprehensive income for the year, net of tax		**5,801**	**3,636**
Total comprehensive income for the year		**239,628**	**101,690**
Total comprehensive income attributable to:			
Equity holders of the Bank		237,527	99,928
Non-controlling interest		2,101	1,762
Total comprehensive income for the year		**239,628**	**101,690**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017
(Currency - In thousands of Turkish Lira ("TL"))

	Note	Share capital	Adjustment to share capital	Legal reserves	Unrealised gains/ (losses) on available-for-sale assets	Translation reserve	Actuarial gain/(loss)	Special Funds	Retained earnings	Total	Non-controlling interest	Total equity
At 1 January 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	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**

	Note	Share capital	Adjustment to share capital	Legal reserves	Unrealised gains/ (losses) on available-for-sale assets	Translation reserve	Actuarial gain/(loss)	Special Funds	Retained earnings	Total	Non-controlling interest	Total equity
At 1 January 2017		**933,585**	**4,510**	**24,237**	**(23,011)**	**(2,356)**	**441**	**618**	**36,498**	**974,522**	**9,100**	**983,622**
Total comprehensive income for the year												
Profit for the year		-	-	-	-	-	-	-	231,726	231,726	2,101	233,827
Other comprehensive income		-	-	-	4,431	1,947	(577)	-	-	5,801	-	5,801
Net change in fair value of available-for-sale financial assets		-	-	-	*4,431*	-	-	-	-	*4,431*	-	*4,431*
Net change in actuarial gain related to employee benefits		-	-	-	-	-	*(577)*	-	-	*(577)*	-	*(577)*
Foreign currency translation differences		-	-	-	-	*1,947*	-	-	-	*1,947*	-	*1,947*
Total comprehensive income for the year		**-**	**-**	**-**	**4,431**	**1,947**	**(577)**	**-**	**231,726**	**237,527**	**2,101**	**239,628**
Transactions with owners, recorded directly in equity												
Capital increase		100,000	-	-	-	-	-	-	(100,000)	-	-	-
Transfer to reserves		-	-	14,106	-	-	-	-	(14,106)	-	-	-
Dividend paid		-	-	-	-	-	-	-	-	-	(300)	(300)
Total transactions with owners, recorded directly in equity		**100,000**	**-**	**14,106**	**-**	**-**	**-**	**-**	**(114,106)**	**-**	**(300)**	**(300)**
At 31 December 2017	**25**	**1,033,585**	**4,510**	**38,343**	**(18,580)**	**(409)**	**(136)**	**618**	**154,118**	**1,212,049**	**10,901**	**1,222,950**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017
(Currency - In thousands of Turkish Lira ("TL"))

	Note	2017	2016
Cash flows from operating activities			
Net profit for the year		233,827	98,054
Adjustments for:			
Depreciation and amortisation of tangible and intangible assets	15,16	72,336	56,460
Retirement pay provision expense	23	2,579	3,485
Unused vacation provision expense		1,091	375
Bonus provision expense	23	19,051	12,086
Impairment on financial assets	31	55,362	12,386
Net interest income and expense		(534,296)	(333,621)
Share of profit of equity investee	14	(10,153)	(771)
(Reversal) / provision for possible losses	23	140,000	15,000
Unrealised foreign exchange loss / (gain)		(317,997)	74,673
Gain on sale of assets	30	(27,877)	-
Gain on sale of subsidiary	30	(43,232)	-
Other accruals		69,177	30,975
Income tax	22	76,938	43,131
		(263,194)	**12,233**
Change in reserve deposit at Central Bank		(300,425)	(21,991)
Change in trading assets		(4,685)	(36,754)
Change in loans and advances to customers		(951,917)	(1,110,934)
Change in other assets		(26,731)	(93,265)
Change in obligations under repurchase agreements		311,900	283,993
Proceeds from borrowings		1,055,273	382,216
Change in other liabilities		305,242	646,868
		388,657	**50,133**
Interest received		1,036,074	807,628
Interest paid		(501,165)	(511,313)
Retirement pay provision and unused vacation paid	23	(2,052)	(938)
Bonus payment	23	(19,051)	(12,086)
Income tax paid	22	(79,309)	(36,939)
Net cash used in operating activities		**434,497**	**246,352**
Cash flows from investing activities			
Purchase of investment securities		(2,515,510)	(5,064,851)
Sale of investment securities		2,083,077	4,874,292
Purchase of tangible assets	15	(11,788)	(48,694)
Equity accounted investees	14	(11,054)	(6,552)
Proceeds from the sale of tangible assets		68	674
Proceeds from the sale of subsidiary		50,000	-
Purchase of intangible assets	16	(19,376)	(92,441)
Proceeds from the sale of intangible assets	16	899	-
Net cash used in investing activities		**(423,684)**	**(337,572)**
Cash flows from financing activities			
Proceeds from debt securities issued		23,692,443	17,852,369
Repayment of debt securities issued		(24,070,901)	(17,275,102)
Change in financial lease liabilities		(17,281)	(8,860)
Net cash provided from financing activities		**(395,739)**	**568,407**
Net increase/(decrease) in cash and cash equivalents		**(259,463)**	**539,553**
Effect of exchange rate fluctuations on cash		(668)	(3,830)
Cash and cash equivalents on 1 January	9	987,083	451,360
Cash and cash equivalents on 31 December	**9**	**726,952**	**987,083**

Notes to the consolidated financial statements **Page**

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1. Reporting entity

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

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

The head office of the Bank is located at Büyükdere Cad. No: 163/A Zincirlikuyu / Istanbul, and the Bank have also seven branches. The Bank employs 656 people as at 31 December 2017 (31 December 2016: 666).

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

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

E-Kent Teknoloji ve Ödeme Sistemleri Sanayi ve Ticaret A.Ş. ("E-Kent"): E-Kent is a technology integrator offering smart city solutions to provide infrastructural transformation and introduces value added profitable business models. In addition, as a result of the tender performed by Turkey Football Federation (TFF) in 2013, the Company is appointed as 'E-Ticket System Integrator' and realized the world's largest stadium transformation project including infrastructure transformation in 47 stadiums in 27 different cities, passage control and monitoring systems, centralized integrated ticketing and stadium box office services infrastructure.

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

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

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

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

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.

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

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

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

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

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

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

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.

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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.

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 in come.

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.

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.

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 2017	31 December 2016	31 December 2017	31 December 2016
Insurance Brokarage					
Sigortayeri Sigorta ve Reasürans Brokerliği A.Ş.	Turkey	100.00%	100.00%	-	-
Payment Systems					
Epost Elektronik Perakende Otomasyon Satış Tic. A.Ş.	Turkey	99.27%	99.27%	-	-
E-Kent Teknoloji ve Ödeme Sistemleri San ve Tic. A.Ş.	Turkey	-	-	99.27%	99.27%
N Kolay Mağazacılık A.Ş.	Turkey	99.99%	99.99%	-	-
UPT Ödeme Hizmetleri A.Ş.	Turkey	100.00%	100.00%	-	-
Real Estate					
Emlak Girişim Danışmanlığı A.Ş.	Turkey	100.00%	100.00%	-	-
Service					
PAVO Teknik Servis Elektrik Elektronik Sanayi ve Ticaret A.Ş.	Turkey	-	-	79.42%	79.42%
Asset Aktif Sportif ve Sanatsal Etkinlik Hizmetleri Tic. A.Ş.	Turkey	-	-	-	99.80%
Mükafat Portföy Yönetimi A.Ş.	Turkey	80.00%	80.00%	-	-
Echo Bilgi Yönetim Sistemleri A.Ş.	Turkey	-	-	-	49.90%

Equity accounted investees	Country of Incorporation	31 December 2017 Ownership %	31 December 2016 Ownership %
Kazakhstan Ijara Company Jsc	Kazakhstan	14.31%	14.31%
İFM İstanbul Finans Merkezi İnşaat Taahhüt A.Ş.	Turkey	5.00%	5.00%
Euroasian Leasing Company	Republic of Tatarstan	36.71%	25.00%
Haliç Finansal Kiralama Anonim Şirketi	Turkey	32.00%	32.00%
Aktif Halk Enerji Yatırımları Anonim Şirketi	Turkey	50.00%	-
Halk Yenilenebilir Enerji Anonim Şirketi	Turkey	50.00%	-
Soleren S4 Enerji Üretim Anonim Şirketi	Turkey	50.00%	-
Euro Mediterianean Investment Company	Turkish Republic of Northern Cyprus	25.53%	21.23%

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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.

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.

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

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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.

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.

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.

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.

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.

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(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".

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.

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The estimated useful lives for as at 31 December 2017 and 2016 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.

(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.

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.

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.

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

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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 69,309 for the qualifying asset as of 31 December 2017 (2016: TL 46,136).

3.31 New and Revised International Financial Reporting Standards

a) Amendments to IFRSs affecting amounts reported and/or disclosures in the financial statements: None.

b) New and revised IFRSs applied with no material effect on the financial statements:

Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses 1
Amendments to IAS 7	Disclosure Initiative 1
Annual Improvements to IFRS	Standards 2014–2016 Cycle IFRS 12 1

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

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.

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.

Annual Improvements to IFRS Standards 2014-2016 Cycle

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.

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

The Company 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	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IFRS 9	Financial Instruments 1
IFRS 15	Revenue from Contracts with Customers 1
Amendments to IFRS 15	Revenue from Contracts with Customers 1
Amendments to IFRS 2	Classification and Measurement of Share-Based Payment Transactions 1
IFRS 16	Leases 2
Amendments to IFRS 4	Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'
IFRIC 22	Foreign Currency Transactions and Advance Consideration 1
Amendments to IAS 40	Transfers of Investment Property 1

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Annual Improvements to IFRS Standards 2014–2016 Cycle	IFRS 1 1, IAS 28 1
IFRS 17	Insurance Contracts 3
IFRIC 23	Uncertainty over Income Tax Treatments 2
Amendments to IFRS 9	Prepayment Features with Negative Compensation 2
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures 2

(1) Effective for annual periods beginning on or after 1 January 2018.
(2) Effective for annual periods beginning on or after 1 January 2019.
(3) Effective for annual periods beginning on or after 1 January 2021.

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.

IFRS 9 Financial Instruments

As of the date of the first transition, implementation by the Bank of accounting policies, related to the relevant processes and internal controls is in progress. Within this framework, changes can be made until the first financial statements are disclosed that includes the date January 1, 2018 and the estimated effects of IFRS 9 on the financial statements may vary. The Bank will apply the classification, measurement and impairment effects to the opening equity amounts without making any adjustments during the comparative periods in the opening balance sheet as of 1 January 2018. In addition, the effect of deferred tax assets to be calculated under IFRS 9 will be reflected in equity during the first transition.

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.

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.

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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.

- **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.

IFRS 17 Insurance Contracts

This new standard requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.

IFRIC 23 Uncertainty over Income Tax Treatments

This interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

This amendment amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

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

This amendment clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

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

4. Use of estimates and judgements

Management decides to the development, selection and disclosure of the 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. 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.

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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.

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:

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At 31 December 2017	Note	Level 1	Level 2	Level 3	Total
Trading assets	11	42,313	9,643	-	51,956
Investment securities – AFS portfolio	12	704,173	614,619	-	1,318,792
		746,486	**624,262**	**-**	**1,370,748**
Trading liabilities	11	-	(8,987)	-	(8,987)
		-	**(8,987)**	**-**	**(8,987)**

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)**

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.

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.

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.

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

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Exposure to credit risk

	Cash at banks (excluding cash at Central Bank)		Trade receivables		Loans and advances to customers		Investment securities	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Carrying amount	**154,166**	**559,386**	**254,154**	**301,179**	**6,539,477**	**5,520,369**	**1,572,912**	**1,123,740**
Assets at amortised cost								
Non-performing financial assets	-	-	126	57	190,700	103,526	-	-
Gross amount	**154,166**	**559,386**	**254,280**	**301,236**	**6,670,024**	**5,595,680**	**254,120**	**51,177**
Allowance for impairment								
- Individual impairment	-	-	(126)	(57)	(96,405)	(57,481)	-	-
- Collective impairment	-	-	-	-	(34,142)	(17,830)	-	-
Carrying amount amortised cost	**154,166**	**559,386**	**254,154**	**301,179**	**6,539,477**	**5,520,369**	**254,120**	**51,177**
Assets at fair value								
Available-for-sale assets								
Neither past due nor impaired								
- Low risk	-	-	-	-	-	-	1,318,792	1,072,563
Carrying amount fair value	**-**	**-**	**-**	**-**	**-**	**-**	**1,318,792**	**1,072,563**
Total carrying amount	**154,166**	**559,386**	**254,154**	**301,179**	**6,539,477**	**5,520,369**	**1,572,912**	**1,123,740**

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.

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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 2017	Derivatives trading assets	8,985	-	8,985	(8,985)	-	-
31 December 2016	Derivatives trading assets	12,378	-	12,378	(12,378)	-	-

					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 2017	Derivatives trading liabilities	8,987	-	8,987	(8,987)	-	-
31 December 2016	Derivatives trading liabilities	7,234	-	7,234	(7,234)	-	-

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 2017		
Individually impaired	190,700	94,295
31 December 2016		
Individually impaired	103,526	46,045

Concentration risk by location

The Bank's total risk for loans and advances to customers and investment debt securities (held-to-maturity portfolio) is mainly concentrated on Turkey. The Bank monitors concentrations of credit risk for cash loans and advances to customer and non-cash loans to customers by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

	31 December 2017				31 December 2016			
Sector	**Cash loans**	**%**	**Non-cash loans**	**%**	**Cash loans**	**%**	**Non-cash loans**	**%**
Construction	424,304	7	257,033	20	502,834	10	267,878	29
Financial institution	-	-	239,991	18	20,183	-	69,372	7
General services	2,775,526	42	346,332	26	1,845,509	33	93,769	10
Media	-	-	-	-	-	-	-	-
Automotive	130,657	2	63,165	5	114,563	2	28,987	3
Textile	-	-	-	-	-	-	-	-
IT industry	-	-	-	-	-	-	-	-
Electricity industry	-	-	177,353	14	-	-	384,028	42
Iron and steel industry	-	-	-	-	-	-	-	-
Public	-	-	-	-	-	-	-	-
Machinery and equipment	-	-	-	-	-	-	-	-
Energy industry	276,138	4	835	-	1,495	-	2,538	-
Trade	460,750	7	110,263	8	175,439	3	39,988	4
Sports	-	-	-	-	-	-	-	-
Agriculture	10,070	-	-	-	13,154	-	-	-
Other(*)	2,462,032	38	113,985	9	2,847,192	52	41,863	5
	6,539,477	**100**	**1,308,957**	**100**	**5,520,369**	**100**	**928,423**	**100**

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

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Liquidity risk

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

Management of liquidity risk

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

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

Exposure to liquidity risk

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

	31 December 2017	31 December 2016
Average for the year	108%	110%
Maximum for the year	125%	146%
Minimum for the year	100%	100%

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 2017									
Non-derivative liabilities									
Obligations under repurchase agr.	19	1,074,509	(1,076,603)	-	(967,025)	(104,113)	(5,465)	-	-
Debt securities issued	21	2,776,288	(2,885,059)	-	(1,459,468)	(1,040,540)	(363,324)	(21,727)	-
Funds borrowed	20	3,774,380	(3,844,069)	-	(1,132,318)	(1,300,354)	(1,353,049)	(58,348)	-
Trade payables		114,787	(114,787)	(114,787)	-	-	-	-	-
Financial lease liabilities		20,146	(20,473)	-	(400)	(4,706)	(11,522)	(3,845)	-
Customer accounts (*)	24	1,201,545	(1,201,545)	(1,201,545)	-	-	-	-	-
Derivative financial instruments									
Inflow	11	(8,985)	2,027,621	-	595,916	792,911	638,794	-	-
Outflow	11	8,987	(2,031,723)	-	(597,945)	(793,310)	(640,468)	-	-
		8,961,657	**(9,146,638)**	**(1,316,332)**	**(3,561,240)**	**(2,450,112)**	**(1,735,034)**	**(83,920)**	**-**

(*) Included in other liabilities.

	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									
Non-derivative liabilities									
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)	-	-	-
Derivative financial instruments									
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.

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

Market risk

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

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

Exposure to market risks – trading portfolios

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

A summary of the Standard Method position of the Bank's portfolios on 31 December 2017 and 2016 and during the period is as follows:

	31 December 2017	31 December 2016
Interest rate risk	61,370	58,625
Foreign currency risk	2,533	840
Other risk	7,164	400
	71,067	**59,865**

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:

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	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 2017									
Cash and cash equivalents	9	730,980	-	179,675	551,305	-	-	-	-
Reserve deposits at Central Bank	10	1,008,020	-	-	1,008,020	-	-	-	-
Trading assets	11	42,971	-	42,220	-	-	-	658	93
Loans and advances to customers	13	6,539,477	-	-	1,884,580	1,010,405	1,256,668	1,958,957	428,867
Investment securities	12	1,572,912	10,655	-	66,492	52,494	413,781	544,757	484,733
		9,894,360	**10,655**	**221,895**	**3,510,397**	**1,062,899**	**1,670,449**	**2,504,372**	**913,693**
Obligations under repurchase agr.	19	1,074,509	-	-	1,069,130	5,379	-	-	-
Debt securities issued	21	2,776,288	-	-	2,421,584	136,072	200,243	18,389	-
Financial lease liabilities		20,146	-	-	5,034	1,107	10,160	3,845	-
Funds borrowed	20	3,774,380	-	-	2,424,334	548,001	749,653	52,392	-
		7,645,323	**-**	**-**	**5,920,082**	**690,559**	**960,056**	**74,626**	**-**
Interest rate gap		**2,249,037**	**10,655**	**221,895**	**(2,409,685)**	**372,340**	**710,393**	**2,429,746**	**913,693**

	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	**1,719**	**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**	**1,719**	**576,599**	**(2,819,327)**	**1,152,964**	**595,239**	**1,825,810**	**251,365**

Interest rate sensitivity

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

		31 December 2017		31 December 2016	
Currency	Applied Shock (+/- x basis points)	Gains/Losses	Gains/Shareholder's Equity Losses/Shareholder's Equity	Gains/Losses	Gains/Shareholder's Equity Losses/Shareholder's Equity
TL	500	(125,266)	(10.11)%	(96,772)	(9.07)%
	(400)	116,170	9.37%	87,778	8.23 %
EUR	200	5,810	0.47%	6,927	0.65 %
	(200)	2,246	0.18%	875	0.08 %
USD	200	(43,955)	(3.55)%	6,928	0.65 %
	(200)	52,370	4.23%	(4,774)	(0.45)%
Total (for negative shocks)		**170,786**	**13.78%**	**83,879**	**7.86 %**
Total (for positive shocks)		**(163,411)**	**(13.19)%**	**(82,917)**	**(7.77)%**

Summary of average interest rates

As at 31 December 2017 and 2016, the summary of average interest rates for different assets and liabilities are as follows:

	31 December 2017			31 December 2016		
	Euro	USD	TL	Euro	USD	TL
Assets						
Cash and cash equivalents	-	1.35	13.25	2.17	3.15	11.97
Loans and advances to customers	7.23	7.82	21.06	7.98	8.53	19.22
Investment securities – AFS	-	6.41	9.84	3.03	6.02	9.20
Investment securities – HTM	-	7.12	15.78	-	-	10.14
Liabilities						
Obligations under repurchase agreements	2.58	4.31	12.89	1.87	2.98	7.15
Debt securities issued	3.04	4.86	14.96	2.84	4.00	11.77
Funds borrowed	1.67	3.27	12.44	1.24	2.79	12.56

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Foreign currency risk

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

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)**

Sensitivity analysis

A 10 percent weakening of TL against the foreign currencies on 31 December 2017 and 2016 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 2017	Equity	Profit or loss
Euro	2,550	2,550
USD	(1,208)	(266)
Other currencies	577	577
	1,919	**2,861**

31 December 2016	Equity	Profit or loss
Euro	36	17
USD	(3,034)	(3,635)
Other currencies	530	530
	(2,468)	**(3,088)**

A 10 percent strengthening of the TL against the foreign currencies on 31 December 2017 and 2016 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.

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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 2016, 2015 and 2014 ("the Basic Indicator Approach). The amount calculated as TL 57,285 as at 31 December 2017 (31 December 2016: TL 49,749) 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 716,059 (31 December 2016: TL 621,864) 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 2017, the Bank's capital adequacy ratio is 13.37% (31 December 2016: 12.70%).

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.

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 2017								
Cash and cash equivalents	9	-	730,980	-	-	-	730,980	730,980
Trade and other receivables		-	-	-	-	254,154	254,154	254,154
Reserve deposits at Central Bank	10	-	1,008,020	-	-	-	1,008,020	1,008,020
Trading assets	11	51,956	-	-	-	-	51,956	51,956
Loans and advances to customers	13	-	6,539,477	-	-	-	6,539,477	6,463,765
Investment securities	12	-	-	1,318,792	254,120	-	1,572,912	1,572,912
		51,956	**8,278,477**	**1,318,792**	**254,120**	**254,154**	**10,157,499**	**10,081,787**
Trading liabilities	11	8,987	-	-	-	-	8,987	8,987
Trade and other payables		-	-	-	-	114,787	114,787	114,787
Financial lease liabilities		-	-	-	-	20,146	20,146	20,146
Obligations under rep. agr.	19	-	-	-	-	1,074,509	1,074,509	1,074,509
Debt securities issued	21	-	-	-	-	2,776,288	2,776,288	2,776,288
Funds borrowed	20	-	-	-	-	3,774,380	3,774,380	3,774,380
		8,987	**-**	**-**	**-**	**7,760,110**	**7,769,097**	**7,769,097**

	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**

7. Business combinations

Goodwill arising on acquisition of PAVO is TL 504 (2016: TL 504).

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8. Segment Reporting

2017	Retail banking	Corporate banking	Investment banking	Other banking	Total banking	Brokerage	Other	Combined	Adjustments	Total
Operating income	472,787	800,146	167,381	14,500	1,454,814	75,566	438,894	1,969,274	(199,533)	1,769,741
Operating expense	(233,142)	(121,676)	(50,897)	(815,114)	(1,220,829)	(17,701)	(363,104)	(1,601,634)	142,658	(1,458,976)
Income from operations	**239,645**	**678,470**	**116,484**	**(800,614)**	**233,985**	**57,865**	**75,790**	**367,640**	**(56,875)**	**310,765**
Taxation Charge	-	-	-	(56,038)	(56,038)	(11,380)	(16,647)	(84,065)	7,127	(76,938)
Net income for the year	**239,645**	**678,470**	**116,484**	**(856,652)**	**177,947**	**46,485**	**59,143**	**283,575**	**(49,748)**	**233,827**
Segment assets	2,080,582	4,828,009	3,270,241	-	10,178,832	111,399	525,105	10,815,336	(520,115)	10,295,221
Investments in equity participations	-	-	357,708	-	357,708	-	278,570	636,278	(590,321)	45,957
Other assets (*)	-	-	-	569,143	569,143	8,972	165,057	743,172	(13,359)	729,813
Total assets	**2,080,582**	**4,828,009**	**3,627,949**	**569,143**	**11,105,683**	**120,371**	**968,732**	**12,194,786**	**(1,123,795)**	**11,070,991**
Segment liabilities	2,155,727	2,830,759	4,534,069	-	9,520,555	646	601,262	10,122,463	(2,353,366)	7,769,097
Equity and other liabilities	-	-	-	1,585,128	1,585,128	119,725	367,470	2,072,323	1,229,571	3,301,894
Total liabilities and equity	**2,155,727**	**2,830,759**	**4,534,069**	**1,585,128**	**11,105,683**	**120,371**	**968,732**	**12,194,786**	**(1,123,795)**	**11,070,991**
Other segment items										
Capital investment	-	-	-	-	-	-	-	-	-	50,265
Depreciation	-	-	-	-	-	-	-	-	-	72,336

2016	Retail banking	Corporate banking	Investment banking	Other banking	Total banking	Brokerage	Other	Combined	Adjustments	Total
Operating income	307,829	572,495	110,527	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	(1,332,507)	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**	**(903,935)**	**9,483,016**
Other segment items										
Capital investment	-	-	-	-	-	-	-	-	-	63,936
Depreciation	-	-	-	-	-	-	-	-	-	56,460

9. Cash and cash equivalents

	31 December 2017	31 December 2016
Cash and balances with Central Bank	576,814	429,316
- Cash on hand	*24,934*	*17,213*
- Unrestricted balances with Central Bank	*551,880*	*412,103*
Placements with other banks	154,166	559,386
Cash and cash equivalents	**730,980**	**988,702**
Less: Interest income accruals on cash and cash equivalents	(4,028)	(1,619)
Cash and cash equivalents in the statement of cash flows	**726,952**	**987,083**

10. Reserve deposits at Central Bank

	31 December 2017	31 December 2016
Foreign currency	1,008,020	707,595
	1,008,020	**707,595**

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 2016: 4-10.5% for TL and 4-24% for USD).

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

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11. Trading assets and liabilities

Trading assets	31 December 2017	31 December 2016
Trading securities		
- Government bonds and treasury bills	93	-
- Corporate Bonds	658	27,441
- Investment funds	42,220	10,667
Derivative assets		
- Foreign exchange	8,985	12,378
-Swap contracts	*7,287*	*8,853*
-Forward contracts	*1,687*	*2,852*
-Options	*11*	*673*
	51,956	**50,486**

Trading liabilities	31 December 2017	31 December 2016
Derivative assets		
- Foreign exchange	8,987	7,234
-Swap contracts	*7,275*	*3,837*
-Forward contracts	*1,712*	*2,726*
-Options	*-*	*671*
	8,987	**7,234**

As at 31 December 2017 and 2016, no trading securities are kept for legal requirements and as a guarantee for stock exchange and money market operations.

As at 31 December 2017 and 2016, 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 2017	31 December 2016
Forward foreign exchange contracts – buy (*)	238,929	116,317
Forward foreign exchange contracts – sell (*)	238,992	115,415
Swap foreign exchange contracts – buy	1,069,644	636,472
Swap foreign exchange contracts – sell	1,073,658	633,310
Option contracts – buy	719,048	338,525
Option contracts – sell	719,073	338,524
Future contracts – buy	-	-
Future contracts – sell	-	-

(*) Includes spot and forward transactions

12. Investment securities

	Interest rate %	31 December 2017 Latest maturity	Carrying amount
Held-to-maturity investment securities			
- Government bonds	-	-	-
- Corporate bonds	7.12-20.45	10 May 2024	254,120
Available-for-sale investment securities			
- Government bonds	1.66-13.16	11 May 2047	704,173
- Corporate bonds	4.53-19.95	10 May 2024	614,619
			1,572,912

	Interest rate %	31 December 2016 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

As at 31 December 2017, TL 625,162 and TL 598,404 of investment securities are given as collateral for performing transaction at stock exchange and repurchase agreement, respectively (31 December 2016: TL 94,300 and TL 743,014, respectively).

13. Loans and advances to customers

As at 31 December 2017 and 2016, all loans and advances to customers are recognized at amortised cost.

	Gross amount	Impairment allowance 31 December 2017	Carrying amount	Gross amount	Impairment allowance 31 December 2016	Carrying amount
- Other lending	6,670,024	(130,547)	6,539,477	5,595,680	(75,311)	5,520,369
Corporate loans	4,539,122	(32,031)	4,507,091	3,855,864	(8,320)	3,847,544
Consumer loans	2,130,902	(98,516)	2,032,386	1,739,816	(66,991)	1,672,825
	6,670,024	**(130,547)**	**6,539,477**	**5,595,680**	**(75,311)**	**5,520,369**

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Allowance for impairment

	31 December 2017	31 December 2016
Allowances for individual impairment		
Balance on 1 January	57,481	48,939
Impairment loss for the year	38,924	8,542
- Charge for the year	38,924	12,765
- Recoveries	-	(4,223)
Balance on 31 December	**96,405**	**57,481**
Allowances for collective impairment		
Balance on 1 January	17,830	14,043
Impairment loss for the year	16,312	3,787
- Charge for the year	16,312	3,787
Balance on 31 December	**34,142**	**17,830**
Total allowances for impairment	**130,547**	**75,311**

Finance lease receivables

None (2016: None).

14. Equity accounted investees

Carrying amount of equity accounted investees is summarized below:

	31 December 2017	31 December 2016
Kazakhstan Ijara Company Jsc.	9,299	8,494
İFM İstanbul Finans Merkezi İnşaat Taahhüt A.Ş.	-	-
Aktif Yatırım Bankası Sukuk Varlık Kiralama A.Ş. (*)	100	100
Eurasian Leasing Company	4,372	2,679
Company Euro Mediterranean Investment	6,415	4,978
Haliç Finansal Kiralama Anonim Şirketi	6,670	6,552
Aktif Halk Enerji Yatırımları A.Ş.	9,128	-
Halk Yenilenebilir Enerji A.Ş.	10,915	-
Solaren S4 Enerji Üretim A.Ş.	(942)	-
Equity accounted investees	**45,957**	**22,803**

(*) 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 2017 and 2016.

	2017	2016
Balance at 1 January	22,803	12,741
Share of profit/(loss) of equity-accounted investees	10,153	771
Additions	11,054	6,520
Currency translation difference	1,947	2,771
Balance at the end of the year	**45,957**	**22,803**

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

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

2016	Ownership (%)	Total assets	Total liabilities and Equities	Profit / (loss) in the year
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	20,690	20,489	201

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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 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**
Balance on 1 January 2017	67,962	24,826	10,405	198	235,368	868	339,627
Additions	1,804	5,833	163	108	50	3,830	11,788
Transfers to intangible assets	-	-	-	-	(1,113)	-	(1,113)
Capitalized borrowing costs	-	-	-	-	23,173	-	23,173
Disposals	(50)	(5)	(69)	(52)	(32,400)	-	(32,576)
Balance on 31 December 2017	**69,716**	**30,654**	**10,499**	**254**	**225,078**	**4,698**	**340,899**
Depreciation and impairment							
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**
Balance on 1 January 2017	42,690	15,845	5,388	28	-	(240)	63,711
Depreciation for the year	12,644	5,937	450	23	-	1,446	20,500
Disposals	(4)	(3)	(69)	(32)	-	-	(108)
Balance on 31 December 2017	**55,330**	**21,779**	**5,769**	**19**	**-**	**1,206**	**84,103**
Carrying amounts							
Balance on 1 January 2016	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
Balance on 31 December 2017	14,386	8,875	4,730	235	225,078	3,492	256,796

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 69,309 for the qualifying asset as of 31 December 2017 (31 December 2016: 46,136).

16. Intangible assets

	Software	Computer programme	Rights (*)	Total
Cost				
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 property and equipment	-	-	77,582	77,582
Balance on 31 December 2016	**46,796**	**44,318**	**191,396**	**282,510**
Balance on 1 January 2017	46,796	44,318	191,396	282,510
Additions:				
-Purchases	7,467	9	65	7,541
-Acquisitions from subsidiaries	386	-	-	386
-Internally developed	-	11,449	-	11,449
Disposals	-	-	(4,834)	(4,834)
Transfers from property and equipment	-	193	920	1,113
Balance on 31 December 2017	**54,649**	**55,969**	**187,547**	**298,165**
Amortisation and impairment				
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 property and equipment	-	-	6,464	6,464
Balance on 31 December 2016	**20,313**	**21,919**	**64,695**	**106,927**
Balance on 1 January 2017	20,313	21,919	64,695	106,927
Impairment charges for the year	-	-	-	-
Amortisation for the year	9,493	11,758	30,585	51,836
Disposals	-	-	(3,935)	(3,935)
Transfers from property and equipment	-	-	-	-
Balance on 31 December 2017	**29,806**	**33,677**	**91,345**	**154,828**
Carrying amounts				
Balance on 1 January 2016	32,222	23,273	68,435	123,930
Balance on 31 December 2016	26,483	22,399	126,701	175,583
Balance on 31 December 2017	24,843	22,292	96,202	143,337

There is no capitalised borrowing cost related to the internally developed software during the year (2016: 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 157,332 to TFF, TL 33,191 has been recognized as an expense, and the remaining amount of TL 124,141 has been classified under other assets that will be recognized as an expense during the upcoming years the E-Ticket System will be used (31 December 2016: 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).

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17. Other assets

	31 December 2017	31 December 2016
Fund service fee accrual	7,928	20,614
Prepaid expenses	31,653	25,299
Suspense accounts	24,885	22,805
Advances given	128,247	113,205
Guarantees given	5,693	8,168
Credit card accounts	9,902	9,278
Assets to be disposed-off	-	69,868
Income accrual	22,940	14,731
Others	16,615	22,715
	247,863	**306,683**

18. Assets held for sale

	2017	2016
Balance at 1 January	-	-
Transfer from	71,067	-
Balance at 31 December	**71,067**	**-**

19. Obligations under repurchase agreements

	31 December 2017	31 December 2016
Obligations under repurchase agreements-TL	31,351	384,940
Obligations under repurchase agreements-FC	387,694	252,469
Money market fundings-TL	655,464	125,000
	1,074,509	**762,409**

20. Funds borrowed

	31 December 2017	31 December 2016
Domestic banks – TL	349,477	66,903
Domestic banks – Foreign currency	321,645	315,699
Foreign banks – TL	22,741	88,477
Foreign banks – Foreign currency	3,080,517	2,358,269
	3,774,380	**2,829,348**

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21. Debt securities issued

As at 31 December 2017 and 2016, all debt securities issued are at amortised cost.

	31 December 2017	31 December 2016
Debt securities issued-TL	2,314,083	2,596,475
Debt securities issued-FC	462,205	572,173
	2,776,288	**3,168,648**
Nominal of debt securities issued	3,059,585	3,353,316
Unaccrued interest expense	(283,297)	(184,668)
	2,776,288	**3,168,648**

In 2017, the Bank issued TL debt securities with maturities between 2 January 2018 and 2 October 2019 (2016: 2 January 2017 and 22 March 2018). The interest rate for TL debt securities is between 11.69%-17.52% (2016: 10.50%-14%).

In 2017, the Bank issued USD denominated debt securities with maturities between 2 January 2018 and 27 June 2021 (2016: 2 January 2017 and 4 May 2017). The interest rate for USD debt securities is between 3%-5.30% (2016: 3%-4.50%).

In 2017, the Bank issued EUR denominated debt securities with maturities between 2 January 2018 and 31 October 2018 (2016: 2 January 2017 and 29 June 2017). The interest rate for EUR debt securities is between 1.50%-3.35% (2016: 1.80%-3.28%).

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

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

As at 31 December 2017 and 2016, the current tax liability is as follows:

	31 December 2017	31 December 2016
Income tax liability	85,783	45,363
Prepaid taxes	(67,391)	(33,445)
Income taxes payable	**18,392**	**11,918**

For the year ended 31 December 2017 and 2016, the income tax expense recognised in profit or loss and income tax recognised directly in equity are as follows:

Recognised in profit or loss

	2017	2016
Current tax expense from continuing operations	(92,603)	(40,435)
Deferred tax from continuing operations	15,665	(2,696)
Total income tax	**(76,938)**	**(43,131)**

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 2017 and 2016 is as follows:

	2017	Rate %	2016	Rate %
Profit for the year	233,827		98,054	
Total income tax expense	76,938		43,131	
Profit before income tax	**310,765**		**141,185**	
Income tax using the domestic corporation tax rate 20%	(62,153)	(20)	(28,237)	(20)
Non-deductible expenses	(27,763)	(8.93)	(5,785)	(4.10)
Non-utilized tax losses	(3,233)	(1.04)	(9,776)	(6.92)
Tax exempt income	16,211	5.22	667	0.47
Total income tax in the profit or loss	**(76,938)**	**(24.75)**	**(43,131)**	**(30.55)**

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 2017			31 December 2016		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Available-for-sale investment securities	(857)	-	(857)	1,242	-	1,242
Reserve for employee benefits	2,137	-	2,137	1,670	-	1,670
Tangible assets and intangible assets	5,870	(14,463)	(8,593)	825	(10,689)	(9,864)
Tax losses carried forward	1,098	-	1,098	919	-	919
Other	16,939	(2,308)	14,631	7,821	(8,073)	(252)
Deferred tax	**25,187**	**(16,771)**	**8,416**	**12,477**	**(18,762)**	**(6,285)**

Expiration schedule of carry forward tax losses is as follows:

	31 December 2017	31 December 2016
Expiring in 2017	-	-
Expiring in 2018	-	26
Expiring in 2019	-	61
Expiring in 2020	5,490	4,505
Expiring in 2021	-	-
Expiring in 2022	-	-
Total	**5,490**	**4,592**

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

	31 December 2017	31 December 2016
Deferred tax assets	10,246	1,254
Deferred tax liability	(1,830)	(7,539)
	8,416	**(6,285)**

Movements in temporary differences during the year

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

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2016	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
Available-for-sale investment securities	309	657	276	1,242
Reserve for employee benefits	1,422	585	(337)	1,670
Tangible assets and intangible assets	(7,873)	(1,991)	-	(9,864)
Tax losses carried forward	5,788	(4,869)	-	919
Other	(3,019)	2,922	(155)	(252)
	(3,373)	**(2,696)**	**(216)**	**(6,285)**

23. Provisions

	31 December 2017	31 December 2016
Provision for possible losses (*)	170,000	30,000
Reserve for employee benefits	10,687	8,348
Other	60,279	31,249
Total	**240,966**	**69,597**

(*) As at 31 December 2017, the accompanying consolidated statement of financial position includes a free provision amounting to TL 170,000 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 2016: TL 30,000).

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 4.73 and TL 4.30 on 31 December 2017 and 2016, 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 2017 and 2016, 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 2017	31 December 2016
Discount rate	11.50%	11.80%
Inflation rate	8.30%	8%

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

	2017	2016
Opening balance	5,354	4,493
Interest cost	184	233
Service cost	2,395	3,252
Payment during the year	(2,052)	(938)
Actuarial difference	721	(1,686)
Balance at the end of the year	**6,602**	**5,354**

24. Other liabilities

	31 December 2017	31 December 2016
Intermediary payment account	364,037	512,816
Customer accounts (*)	1,201,545	782,449
Blocked amounts (**)	87,316	79,372
Expense accrual	5,567	9,005
Taxes and due payable	27,577	18,243
Suspense accounts	26,028	16,911
Payables to compulsory government funds	6,602	5,503
Unearned income	31,780	1,478
Cash collaterals received	3,071	2,523
Credit card accounts	15,353	14,580
Other	48,880	41,254
	1,817,756	**1,484,134**

(*) The Bank is not entitled to collect deposits. The customer accounts represent the current balances of loan customers. As at 31 December 2017, there are no time customer accounts (31 December 2016: None). (**) The balance is resulted from wage payment accounts blocked till the date of wage payment (31 December 2016: None).

25. Capital and reserves

	31 December 2017	31 December 2016
Number of common shares, TL 1,000 (in full TL), par value (Authorised and issued)	1,033,585	933,585

As at 31 December 2017 and 2016, 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 2017 and 2016, the composition of shareholders and their respective percentage of ownership are summarised as follows:

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	31 December 2017		31 December 2016	
	Amount	%	Amount	%
Çalık Holding A.Ş.	1,027,636	99.42	928,213	99.42
Çalık Denim Tekstil San. ve Tic. A.Ş.	3,149	0.30	2,844	0.30
Ahmet Çalık	1,400	0.14	1,264	0.14
Başak Yönetim Sistemleri A.Ş.	700	0.07	632	0.07
Irmak Yönetim Sistemleri A.Ş.	700	0.07	632	0.07
Total paid-in-capital	**1,033,585**	**100.00**	**933,585**	**100.00**
Restatement effect per IAS 29	4,510		4,510	
Total paid-in-capital	**1,038,095**		**938,095**	

At the extraordinary general meeting dated 24 March 2017, the Bank's paid-in capital of TL 933,585 reaches TL 1,033,585 with an increase of TL 100,000, which consist of TL 100,000 from retained earnings (31 December 2016: 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).

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 38,343 (31 December 2016: TL 24,237).

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.

26. Net interest income

Interest income	**2017**	**2016**
Loans and advances to customers	853,228	700,439
Investment securities	133,781	90,021
Cash and cash equivalents	31,156	8,882
Other	3,344	1,505
Total interest income	**1,021,509**	**800,847**
Interest expense		
Debt issued	349,513	322,114
Funds borrowed	43,402	79,186
Money market transactions	56,486	41,090
Other	1,589	2,794
Total interest expense	**450,990**	**445,184**
Net interest income	**570,519**	**355,663**

27. Net fee and commission income

Fees and commission income	**2017**	**2016**
Financial guarantee contracts issued	13,308	8,825
Remittance fee	108,340	11,877
Intermediary commissions	44,238	50,313
Commitment fee	33,683	36,434
Insurance fee	3,092	1,471
Delivery fee	9,849	5,602
Other	35,929	17,109
Total fees and commission income	**248,439**	**131,631**
Fees and commission expense		
Clearance commissions	55,196	25,387
Credit card commissions	11,298	12,275
Financial guarantee contracts issued	1,193	1,108
Other	5,970	3,724
Total fees and commission expense	**73,657**	**42,494**
Net fees and commission income	**174,782**	**89,137**

28. Net trading loss / Income

	2017	**2016**
Foreign exchange gain	5,468	(11,054)
Trading account income	8,512	11,486
Loss from derivative financial instruments	(52,720)	3,942
Total	**(38,740)**	**4,374**

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29. Sales income and cost of services

Sales income:

	2017	**2016**
Revenue from sale of goods	180,157	58,275
Insurance commission income	60,739	33,603
Transaction and other commission income	59,994	45,005
Revenue from license fee	381	13
Revenue from cash register POS	96,065	119,104
Revenue from sales of ticket	-	5,080
Other sales income	9,934	7,361
Total	**407,270**	**268,441**

Cost of services:

	2017	**2016**
Depreciation and amortization expenses	712	1,451
Cost of merchandises sold	6,906	6,244
Dealer commission and other commission expenses	25,646	19,519
Cost of cash register POS	72,389	102,627
Cost of match ticket sales	-	5,077
Rent expenses	4,383	3,101
Maintenance expenses	48,034	21,388
Consultancy expenses	1,129	1,193
Other expenses	10,832	17,377
Total	**170,031**	**177,977**

30. Other income

	2017	**2016**
Gain on sale of assets (*)	27,877	-
Gain on sale of subsidiary (**)	43,232	-
Asset-backed security profit sharing	310	458
Dividend income	-	1,200
Other	10,951	2,608
Total	**82,370**	**4,266**

(*) Bank's consumer loans were transferred to the Asset Backed Securitization Fund and TL 27,877 of profit gained from the transaction is accounted as "Gains on Sales of Assets".
(**) This profit is gained from sale of Echo Bilgi Yönetim Sistemleri A.Ş..

31. Net impairment on financial assets

	2017	**2016**
Individual impairment for loans	38,924	8,542
Collective impairment provision for loans	16,312	3,787
Individual impairment for trade receivables	126	57
Total	**55,362**	**12,386**

32. Personnel expenses

	2017	2016
Wages and salaries	108,875	110,464
Social security premiums	13,636	14,578
Provision for employee benefits	2,664	4,293
Other	41,071	35,595
Total	**166,246**	**164,930**

33. Administrative expenses

	2017	2016
Publicity expenses	43,862	28,044
Consultancy expenses	7,968	7,043
Communication expenses	9,595	10,954
Outsource expenses	10,701	8,870
Expenses on vehicles	6,254	6,416
Rent expenses	16,902	17,385
Taxes and dues other than on income	14,471	9,271
Maintenance expenses	17,600	9,628
Others	37,223	28,367
Total	**164,576**	**125,978**

34. Other operating expenses

	2017	2016
Marketing expenses	4,587	7,487
Provision expenses	16,316	-
Other	41,053	22,700
Total	**61,956**	**30,187**

Other expenses	**2017**	**2016**
Provision for possible losses	140,000	15,000
Total	**140,000**	**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 2016: 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 22,973 (31 December 2016: TL 22,584).

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Balances with related parties

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

Off statement of financial position balances with related parties

31 December 2017	**Related party balances**	**Total balance**	**Rate (%)**
Non-cash loans	640,395	1,308,957	48.92
31 December 2016	**Related party balances**	**Total balance**	**Rate (%)**
Non-cash loans	555,678	928,423	59.85

Transactions with related parties

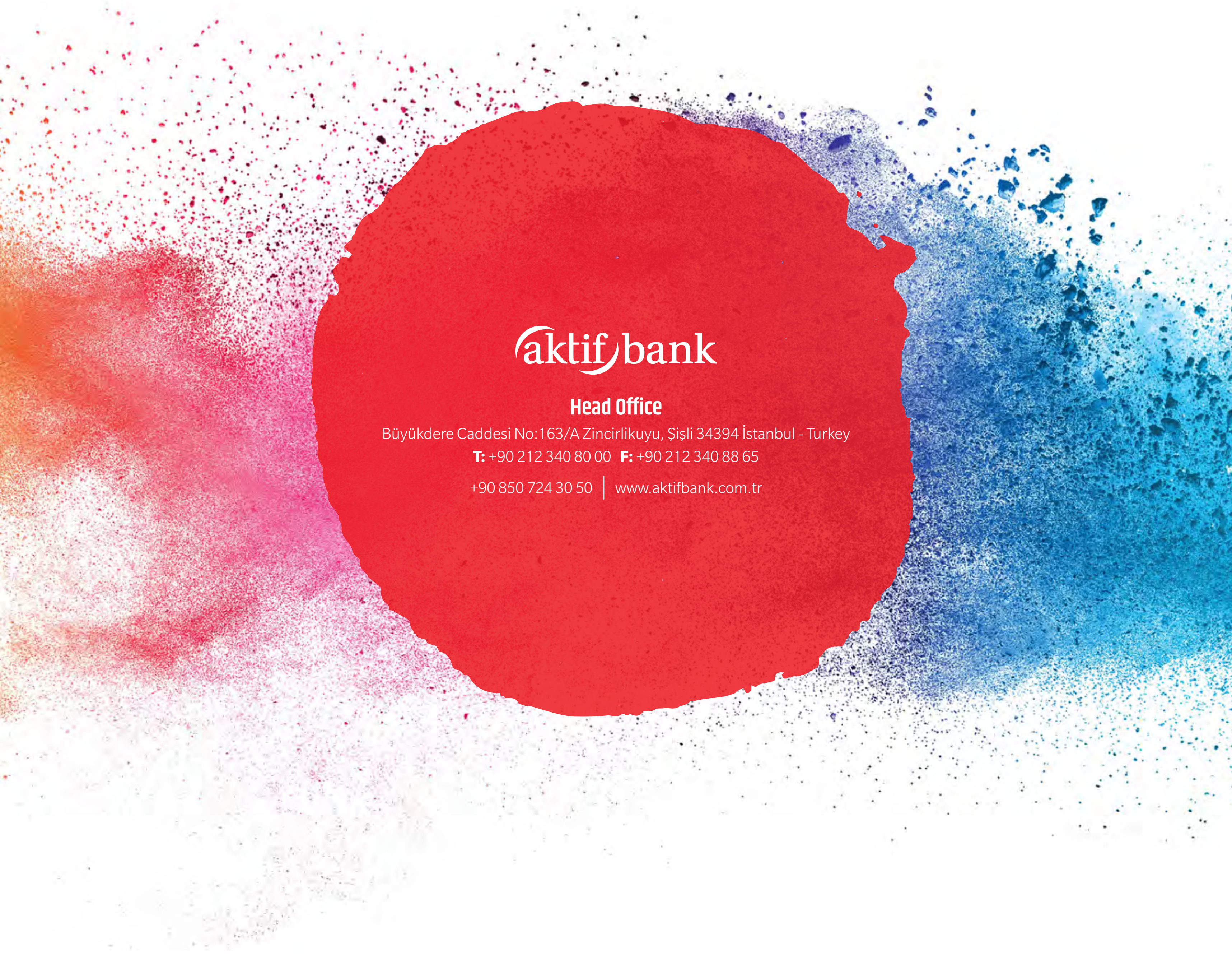
	2017	2016
Interest income on loans	165,315	201,061
Fee and commission income	5,966	23,147
Other expenses	4,476	8,320

36. Commitments and contingencies

	31 December 2017	31 December 2016
Letters of guarantee	1,151,664	903,755
Letters of credit	136,693	4,068
Acceptance credits	-	-
Other guarantees	20,600	20,600
Total non-cash loans	**1,308,957**	**928,423**
Check limits	1,718	1,274
Other commitments	410,207	55,924
Total	**1,720,882**	**985,621**

37. Subsequent events

None.



Head Office

Büyükdere Caddesi No:163/A Zincirlikuyu, Şişli 34394 İstanbul - Turkey

T: +90 212 340 80 00 **F:** +90 212 340 88 65

+90 850 724 30 50 | www.aktifbank.com.tr