aktif bank

skill with imagination

WHY TANGRAM?

Tangram, a “game of wisdom”, invented by the Chinese, that has attracted the attention of the whole world for centuries is based on the use of a total of seven different geometrical pieces to create different, abstract or concrete meaningful wholes.

In its essence, the pieces provide an unlimited number of possibilities to reach the whole and test your creativity at every step of the game. Tangram looks very simple but the 7 basic pieces expand the limits of our perception.

At Aktif Bank, our vision to produce a solution in every area where our stakeholders display a need as well as our ability to achieve this in various shapes and forms is an excellent replica of this “game of wisdom.” This is because we work outside of conventional banking concepts and represent an understanding that embraces change and growth in our search for solutions. Our innovative business models and our exemplary investments made in the right areas serve the community, actively support the economy, and inspire the sector.

As we inform you about our operations in the past year, we take pleasure in sharing with you a report on our activities in which you will travel through the endless possibilities of the world of Tangram.

Contents

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.

About Aktif Bank

New Generation Banking

Since the first day, Turkey's largest privately owned investment bank works with a philosophy to do "New Generation Banking via alternative delivery channels instead of physical branches." Productivity and efficiency are at the foundation of Aktif Bank's sustainable growth strategy. As a reflection of this philosophy, the number of Aktif Bank branches serving for corporate banking, investment banking and private banking (all of which require one-to-one communication) has remained at eight over the last four years. Retail banking, which requires an expansive distribution network, new generation techniques have been adopted in cooperation with other distribution organizations effective in the market and as a result of this flexible cost-focused strategy, Aktif Bank was able to reach a high-level capability of capital formation, leading to the continuation of steady growth in 2016.

While retail banking, corporate banking and investment banking constitute Aktif Bank's main sphere of activity, the Bank also offers customers a broad spectrum of services throught its subsidiaries and affiliates, ranging from money transfers to insurance and from transportation cards to extensive kiosk solutions. This comprehensive, visionary perspective has enabled Aktif Bank achieve a much more broad-ranging position than a traditional bank.

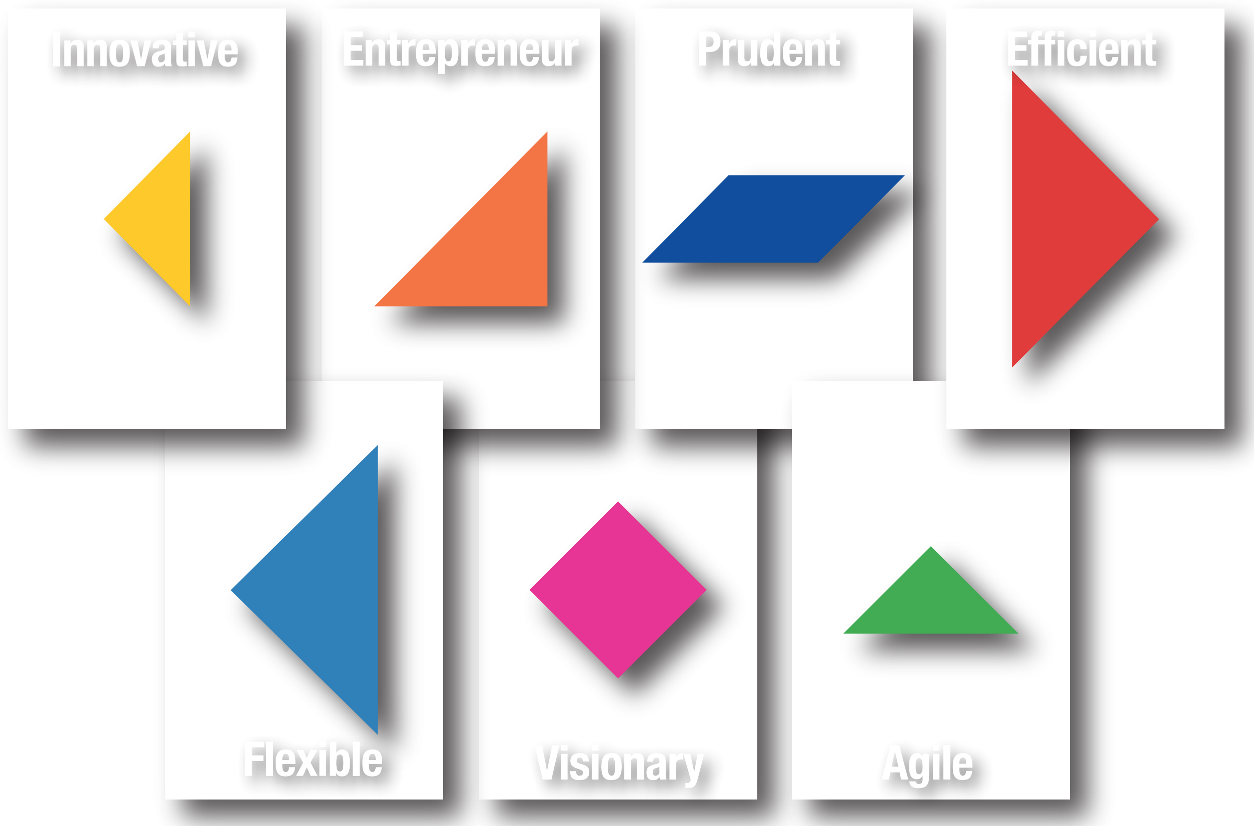
With the acquisition of new subsidiaries, Mükafat Asset Management and EchoPOS in 2016, Aktif Bank contributed to the development of the sectors in which it operates.

Since 2006, the year in which a course of reorganization began, the Bank grew 144-fold and the size of its assets exhibited a surge of 26% over the end of the previous year, rising to TRY 9.5 billion. Aktif Bank and its Subsidiaries together form an institution with an annual track record of offering smart city and smart stadium services to a population of 50 million, providing about 2 million smart transit card sales and managing a total of close to 9 million smart cards, mediating 1 billion transit card transactions, producing 1 million new bank cards, achieving approximately 1.5 million money transfers, 68 million invoice collections, TRY 90 million worth of premium production, over 350,000 private loans and 200,000 insurance policy sales. Aktif Bank, together with its new subsidiary EchoPOS, aims to ensure market automation solutions at 20,000 retail sales points.

Taking an investment bank perspective, Aktif Bank prioritizes the design of high-return investment products catering to all investor needs. To this end, the Bank has pioneered the sector in designing a number of new products while introducing many innovations to investors as Turkey's first Asset Backed Securities (ABS), first Islamic participation certificate, first project finance Sukuk, and first Turkish Lira denominated bank bond issuance.

Aktif Bank is among Turkey's top international award-winning organizations not only for its success in numbers, but also for its performance in products, services and innovation. The Bank is recognized in categories such as world-class payment systems, technology, quality, innovation, investment products, delivery channels and communication. The Bank has received 106 awards in total, including "The World's Most Innovative Bank" from major international competitions such as The Banker, Financial World Innovation, EFMA, Paybefore, VRL Financial, Global Banking and Finance Review, Mercomm Galaxy, Interactive Media, LACP and Hermes Creative. While such awards have brought our country's banking and finance sector great pride, they also illustrate Turkey's difference and innovative understanding.

Skill with imagination: the source of our achievements



The combination of our imagination and the 7 competencies that define us the best establish us in a unique position in the sector.

From the outside, we may look like your classic bank. In essence, however, we are an out-of-the-ordinary organization that positions itself with a wider perspective than that of a bank; one that avoids conventional methods of doing business, thinking outside the box to see and do what others cannot.

Financials

	2016 Thousands of TRY	2015 Thousands of TRY	Change
BALANCES WITH BANKS & MONEY MARKET PLACEMENTS	559,386	216,299	159%
TRADING SECURITIES (NET)	50,486	9,271	445%
INVESTMENT SECURITIES (NET)	1,123,740	930,741	21%
LOANS & FACTORING RECEIVABLES (NET)	5,520,369	4,638,261	19%
FINANCIAL LEASE RECEIVABLES (NET)	-	-	0%
SHAREHOLDERS' EQUITY	983,622	879,915	12%
TOTAL ASSETS	9,483,016	7,556,649	25%
GUARANTEES AND INDEMNITIES	928,423	631,362	47%
NET INTEREST INCOME	355,663	307,398	16%
NET FEE AND COMMISSION INCOME	89,137	59,148	51%
PROFIT BEFORE TAXES	141,185	52,120	171%
PROVISION FOR TAXES ON INCOME	-43,131	-26,153	65%
NET PROFIT	**98,054**	**25,967**	**278%**

Performance Ratios

	2016	2015
CAPITAL ADEQUACY STANDARD RATIO	12.70%	13.60%
RETURN ON AVERAGE EQUITY	10.52%	2.94%
RETURN ON AVERAGE ASSETS (PROFIT BEFORE TAX BASIS)	1.66%	0.75%
RETURN ON AVERAGE ASSETS (NET PROFIT BASIS)	1.15%	0.38%
NET FEE AND COMMISSION INCOME / OPERATING COSTS	15.33%	10.31%
FIXED ASSETS (NET) / AVERAGE EQUITY	48.46%	40.27%
NON-PERFORMING LOANS / TOTAL LOANS	1.88%	1.99%
INTEREST INCOMES / INTEREST EXPENDITURES	179.89%	180.19%
YIELDING ASSETS / TOTAL ASSETS	76.49%	76.68%

Credit Ratings by Rating Agencies

JCR Eurasia Rating

Long-Term International Foreign Currency Rating : BBB- / (Stable Outlook)
Long-Term International Local Currency Ratio : 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 : AB

In 2016, JCR-Eurasia Rating rated Aktif Investment Bank Inc. (Aktif Yatırım Bankası A.Ş.) as "Highly Investable," affirming the Bank's Long Term Local rating as "AA (Trk)", International Local and Foreign Currency ratings as "BBB-", and outlook as "Stable."

Capital and Shareholding Structure

The Bank's capital and major shareholding structures as of December 31, 2016 are as follows:

Name Surname / Trade Name	Total Value of Shares	Share	Paid Shares	Unpaid Shares
Çalık Holding A.Ş.	928,213	99.42	928,213	-
Çalık Denim Tekstil San. ve Tic. A.Ş.	2,844	0.30	2,844	-
Ahmet Çalık	1,264	0.14	1,264	-
Başak Yönetim Sistemleri A.Ş.	632	0.07	632	-
Irmak Yönetim Sistemleri A.Ş.	632	0.07	632	-
Total	**933,585**	**100**	**933,585**	**-**

Position in the Sector

Aktif Bank is Turkey's largest privately owned investment bank. Working constantly towards sustainable profitability, the Bank had another profitable growth year in 2016 to reach a year-end net profit of TRY 111 million (BRSA Standalone Figure).

In 2016, Aktif Bank once again topped the list of banks offering banking services via PTT (Post and Telegraph Offices Organization) while increasing the share of Aktif Bank in PTT channels to 50%. The number of loans the Bank produced in 2016 through the PTT channel was 160,000; this corresponded to over TRY 1 billion.

In 2016, new business models were adopted for our point of sales finance loan N Kolay Installment and different sectors were engaged with extended to about 100,000 customers. In the furniture sector, our collaboration continued with almost all brand names with large retail networks--Arçelik, Beko and BSH, for example, in the white and brown goods market--as well as natural gas suppliers in the different provinces in the heating sector, and the network of workplaces offering sales on credit was expanded. Thanks to 24/7 support, customer and dealer-focused business models and the essential service quality offered to business partners, the Bank succeeded in maintaining its powerful competitive edge.

Over the year, Aktif Bank successfully transferred its vast experience in the retail sector into the automative sector. With rapid improvements in infrastructure and attractive campaign models for dealers, the Bank soon became one of the major players in the car financing sector.

Furthermore, in 2016, the Bank launched the "100% digital loan" as part of digital banking strategies that bring more productivity and efficiency to retail banking where a wider delivery network is required. Aktif Bank breathes new life into the Turkish loan business by offering current and new customers a fully online lending experience at nkolaykredi.com.tr. On that same internet platform, current and new customers applying for a loan can also request an N Kolay Card, one of Turkey's youngest card brands. The N Kolay Card lets customers access their accounts with ease, withdraw cash from all ATMs, and experience safe shopping both physically and virtually using their available balance. Using this channel, more than 800,000 customers applied for loans totaling TRY 7 billion in 2016 and the Bank extended digital loans to 75,000 customers. A project was formulated in 2016 to provide alternative loan ratings for the unbanked segment and therefore no current KKB (Credit Reference Agency) rating; this is a first in Turkey and the launching of this plan is scheduled for 2017.

As a result of all of these retail loan distribution strategies, throughout 2016, the volume of Aktif Bank's consumer loans grew by 60%. During a year in which overall consumer loans in the banking sector expanded at a rate of around 6.5%, the successful growth achieved with branchless strategies is an important indicator of how effective the Bank's business model proved to be.

The digital banking service model, with the N Kolay brand, will soon be expanded to mobile applications in transport, utility bill payments and money transfers. These apps will allow the digitalization of physical services delivered by subsidiaries to bring the Bank's New Generation mobile strategy to life. A major transformation project in internet banking was completed in 2016 and resulted in Turkey's first completely mobile responsive internet branch, providing an end user experience at the highest level.

The foundations for Aktif Bank's latest digital banking breakthrough, the digital bond, were laid in 2016 and its public launching under the name of "N Kolay Bond" is planned for the first quarter of 2017.

Turkey's most advanced and featured sports fan program, Passolig, increased its number of cardholders by more than 830 thousand to reach 2.5 million cards issued. In 2016, the Passolig Card was used 4.2 million times for stadium entries. Football lovers from 81 provinces of Turkey as well as 150 countries used their Passolig cards to buy tickets and enter stadiums. The card sales and use generated income for Turkish football and local football clubs while permitting their supporters to enjoy special offers from many renowned Turkish brands. On the other hand, recorded a significant year-to-date increase both in the number of football fans attending games and sales proceeds. The number of tickets sold in the first half of the 2015-2016 season and the first half of the 2016-2017 season rose by 33%, from 625,000 to 832,000; the revenues from tickets climbed from TRY 21 million with a 100% increase to TRY 42 million. The bank completed its work to combine all card and ticketing needs in a single mobile application in 2016; the launching of the Passo Mobile App is planned for the first half of 2017. Passo Mobile's objective in the first phase is to facilitate all financial and ticketing transactions under the Passolig umbrella for football lovers, and then in the next stages, to create significant added value by offering a series of mobile surprises for mobile shopping, stadium admittance and other perks pertaining to football.

Thanks to the entrepreneurial approach of N Kolay, this service is now Turkey's largest collection channel with 6 million transactions monthly. N Kolay Payment Institution runs all transactions online in accordance with the contacts between organizations and the Bank, and provides multiple services from any single location. Thanks to its positive image in the eyes of customers and organizations, this business has earned the sector leader position. In 2016, N Kolay Payment Institution, with the highest sector collection volume in Istanbul, increased the number of transaction centers to 500 and number of kiosks to 4,250 to continue rapid expansion in Turkey.

Turkey's most widespread and cheapest money transfer system, Universal Money Transfer (UPT), which is the first of its kind in Turkey to receive a payments company license, reached a transaction level of more than 1 million as of the end of 2016. It is the market leader with a market share of 54% in high transaction corridors.

Sigortayeri, the first and only insurance and reassurance broker working with a multiple distribution channel in the Turkish insurance sector, not only designs its own products but also acts as a leader in the sector, developing different perspectives and providing corporate and private customers with the same high quality service. The enterprise collaborates with many insurance and reassurance companies active in Turkey and in global markets. As of the end of 2016, Sigortayeri doubled its transactions volume as compared with the year before, attaining an operational profit of approximately TRY 18 million.

EKent Smart Transportation Solutions, with its infrastructure that facilitates 1 billion transactions a year, annual sales of 2 million smart transportation and the management of a total of 9 million smart cards, an annual 33 million, a total of 282 million magnetic ticketing, is the operator of Turkey's most widespread and high-volume Electronic Fare Collection system. EKent smart city solutions aims to design solutions for beyond today's needs and to do this, in 2016, it began to operate the EKent İTÜ (Istanbul Technical University)

Technopark Unit. After starting a new era in Turkish football in 2013, EKent now continues to conduct its e-ticket project together with 40 sports clubs in order to provide almost 2.5 million Passolig Card hold sports lovers with the opportunity to watch the stadium matches safely and comfortably.

PAVO, the exclusive business partner of one of Turkey's top POS players, Ingenico, presents member merchants with a unique opportunity to grow without enlarging their stores thanks to the value-added services offered via payment registration devices using cash register features. With more than 140,000 active devices all around Turkey, PAVO is taking sound strides to reach its targets with over 20,000 value added applications and the software integration that has been achieved in its cash registers.

Working with the objective of becoming the "New Generation Solution Partner" for the retail sector, EchoPOS, which was established in August 2016, offers organized retail chains and the SEM's end-to-end payment systems and integration solutions to create differentiated alternatives for its customers.

In 2016, Aktif Bank continued innovations in investment and corporate banking through innovative solutions similar to those offered in retail banking.

As of year-end 2016, Aktif Bond issuance reached TRY 19 billion. Aktif Bank continued to diversify its customer base through customized offers to different customer and professional groups, in addition to innovative products such as Progressive Aktif Bond, Fund Bond, and Dual Currency Bond (DCB). Aktif Bond amount in circulation topped the TRY 3.5 billion level in 2016. Likewise, last year, thanks to the Lease Certificate (Murabaha Sukuk) by Aktif Bank Sukuk Asset Leasing Inc., the Bank continued to offer customers Islamic lending instruments as well. Asset Backed Securities (ABS) issuance that was pioneered in 2011 by Turkey's first Asset Finance Fund (AFF), established by Aktif Bank, continues to attract great interest on the secondary market. In this context, in 2016, besides providing securitized consumer loans for Social Security Administration pensioners in 2016, the securitization of invoice-based consumer loans was achieved for the first time. The total amount of ABS issued by the AFF exceeded TRY 2.2 billion. In 2016, Aktif Bank successfully completed the issue of USD 100 million and Euro 50 million Eurobonds on the Irish Stock Exchange, this issue becoming a significant indicator of the trustworthiness of Aktif Bank in international markets.

Research and Development Finance Program, one of the most significant projects initiated in 2014, has supported many entrepreneurs throughout it was established. Within the framework of this program, the letter of guarantee procedures (including the application phase) required from entrepreneurs before taking prepayments from the Technology and Innovation Funding Programs of the Scientific and Technological Research Council of Turkey (TÜBİTAK/TEYDEB) were moved to a web based, smart platform. R&D Finance Program continues to develop with new product types such as cash loans for Tekno Yatırım (Techno Investment) and TÜBİTAK/TEYDEB projects.

Aktif Bank starts providing agricultural financing even before the seed hits the soil, and continues funding through different models up until produce is processed in integrated plants on its way to the consumer's table. The innovative models piloted in 2015 to offer solutions for the financing problems of farmers and integrated facilities and to provide the means for higher quality production and raw material input at lower cost were channeled to a wider audience in 2016. Different product groups will be included in this effort in 2017 to increase penetration in the business area of agriculture. Work on renewable energy projects continued in 2016, with long-term financing support extended for the installation of solar energy plants, hydroelectric power plants and wind energy facilities.

Aktif Bank concluded agreements with 40 football clubs, generated over USD 150 million in funds to the clubs through multifaceted cooperation including Passolig card, ticket sales, direct sponsorship, stadium security and box office operating systems. Enabled by its strong presence in the sports sector and close cooperation with the clubs, Aktif Bank developed and launched an automated credit rating and update system with active control mechanism, greatly needed by the sector. This system made the Bank a leading actor in the sector by creating over TRY 1.6 billion to dozens of clubs, primarily including financing the funds Beşiktaş Vodafone Arena Stadium.

Mükafat Asset Management, established under the partnership of ICD, a subsidiary of Islamic Development Bank and Aktif Bank, operates within the framework of the principles of interest-free financing. This project, besides attracting funds from a segment in our country that is sensitive to interest transactions, also acts as a bridge to bring resources from international funds into the country's real economy. The foundation procedures of Mükafat Asset Managemnt were completed in 2016 and, having obtained permission to operate, the company's main area of activity has been defined as "Alternative Investments." Toward this end, its aim is to bring in a seed capital of USD 20 million in the initial stage to launch the first Private Equity Fund, and to establish a Real Estate Fund that will combine conventional investments with innovative products. Besides appealing to qualified investors with its products, the company's product range will be enriched with Lease Certificate Funds that will be offered to the public and Share Funds that will be registered on the Stock Exchange. The company places great importance on serving the cause of contributing to increased savings in the country through its management of Interest-free Retirement Funds.

The activities of Haliç Leasing, a company in which Aktif Bank has a partnership with ICD, gained momentum in the last quarter of 2016 and the enterprise is expected to exhibit growth for this period. The partnership aims to make Haliç Leasing the only financial leasing company in Turkey that provides customers with products that are compatible with Islamic rules and regulations. In this context, the aim of the company is to fill the gaps, especially in the market in which the large leasing companies owned by local banks operate. With Aktif Bank's know-how and experience in capital markets, the goal of Haliç Leasing is to bring to Turkey long-term resources from the Middle East and Asia by way of sukuk exports.

The bank expanded its correspondent bank network in 2016 by reaching more than 650 correspondents in 115 countries while working at the same time in line with its accepted understanding of regional banking by collaborating with BKT, another Çalık Group bank based in Albania and operating in the Balkan peninsula.

In 2016, Japan Credit Rating Agency (JCR) assigned a credit rating of "AA (Trk)" along with a "Stable" outlook to Aktif Investment Bank Inc. (Aktif Yatırım Bankası A.Ş.) on the Long-Term National scale, which denotes the highest investment grade. For the Long-Term International Local and Foreign Currency category, the Bank has been assigned a "BBB-" rating.

Amendments to the Articles of Association and Reasons

Due to the capital increase made from internal resources, a change was made in the relevant article of the Articles of Incorporation at the Extraordinary Meeting of the General Assembly on November 29, 2016.

Çalık Holding

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 28,000 people as one of the top Turkish investors in 17 countries in Central Asia, Balkans and the MENA region.

Çalık Group and its affiliates, regarded as one of Turkey's and the region's leading business groups, carry out successful projects in different countries thanks to their competent solutions and innovative practices driven by daily needs in their respective business areas.

In 2016, Çalık Energy, a Çalık Group company, commissioned the facilities that it had completed within the scope of the project to reinforce the electrical infrastructure of the city of Ashkhabad, Turkmenistan. The "Watan State Power Plant" with its capacity of 254 MW was thus built in the city of Türkmenbaşy and delivered upon completion. After signing an agreement for the construction of 2 new combined energy plants of a capacity of 1350 MW in Uzbekistan, Çalık Enerji accelerated its work in the Middle East and Africa, currently conducting the Al Khums project in Libya as well as others in Yemen, Dubai, Tunisia, Nigeria and Ethiopia. The Company has also completed its drilling operation at the South Çalıktepe-1 oil well in the Southeastern Anatolian Region of the country and has begun production. The Wind Power Plants that Çalış Enerji built in Izmir have begun to operate. Çalık Enerji ranks 101 in the world, 8th in Turkey on the 2016 ENR TOP 250 Contractors List, drawn up on the basis of 2015 data.

Our companies YEDAŞ and YEPAŞ, which operated in the Black Sea Region, jointly engaging in the business of electricity distribution and retailing, completed their physical separation in 2016. YEPAŞ underwent infrastructure adjustments that allowed its transition into an integrated SAP system that is the only one of its kind in Turkey. YEDAŞ completed its work in 2016 on the SCADA/DMS system, the most important layer of the Smart Network System, now assuming the capability of remotely monitoring and managing 40% of its network.

ARAS (in partnership with Kiler Holding), a Çalık Group subsidiary in the area of energy, started in 2016 the implementation of its mobile field management system, designed to increase productivity in operational procedures and enable faster intervention in breakdowns. The Holding's subsidiary in Kosovo, KEDS (in partnership with Limak Holding) has imitated investments on the basis of its distribution network development plan for the period leading up to 2025.

A Group company in the construction sector, Gap İnşaat (Gap Construction) continued to work in 2016 on its projects for the Turkmenistan Garabogaz Fertilizer Plant and the Türkmenbaşy Seaport, which will be the largest harbor in the Caspian Sea. The Turkmenbaşy Seaport project, which is located on the historical Silk Road and will meet Turkmenistan's sea export and import needs, is planned to be put into service in 2018. Again in 2016, the Company opened Turkmenistan's Morphology, Neurology, Dangerous Infections and Public Health Centers. Gap İnşaat is also continuing work on the Zincirlikuyu Office Project which, when completed, will be Turkey's first LEED v4 certified project.

Çalık Gayrimenkul (Çalık Real Estate) successfully continued its ongoing work on its various projects in 2016, particularly the Tarlabaşı Urban Renewal Project.

Çalık Denim, one of the Çalık Group's textile companies and among the top 10 premium denim producers in the world, increased its capacity in 2016, making a USD 25.1 million operational investment. The company continued work on its Research and Development projects. Çalık Denim completed its two year-long efforts to join the ranks of Turquality, a certification that supports companies vying for brand recognition in international markets, with the result that Çalık Denim has now taken its place among the Turquality brands.

Gap Pazarlama (Gap Marketing), active in the textiles sector's international trade and supply segment, continued its successful activities.

Gap İnşaat has undertaken the construction and assembly work of the Çöpler Gold Mine Sulfide facilities belonging to the Anagold Company, a partner of Lidya Madencilik (Lidya Mining). In addition, Balıkesir Gediktepe Gold Mine, also a part of the Lidya Mining organization, received an Environmental Impact Assessment Report (ÇED), after which Gap İnşaat initiated infrastructure building operations.

Banka Kombetare Tregtare (BKT), active in the Balkans, was chosen in 2016 as Albania's "Bank of the Year" for the fourth consecutive time by Euromoney, The Banker and Emea Finance. Innovative investments continued in 2016 with the launch of the "BKT Smart" mobile banking application for Albania and Kosovo, followed by the first implementation of "Commercial Banking" in Albania.

The Group's company ALBtelecom, active in Albania's telecom sector, continues to operate with its customer-focused approach to provide faster and higher quality service. The Company was recognized with the Golden Bee's "Innovation Entrepreneurship" award in 2016.

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 of the last 35 years to add long-lasting value to people's lives in every field and in every country where the group operates.

Message from the Chairman

Esteemed Business Partners and Colleagues,

We left 2016 behind as a year in which global economic fluctuations were experienced and major developments had an impact on financial markets.

In 2016, the European and Japanese Central Banks continued to pursue an expansionary monetary policy, sustaining their support of global liquidity. The decision of the British people to secede from the European Union, the presidential elections in the United States, the rise of populist political movements in the countries of the Euro Zone, as well as events in neighboring geographies all affected global risk appetites throughout the year.

The year 2016 was a challenging year for Turkey from every perspective. The attempted coup of July 15 in particular and other schemes directed at disrupting the unity and solidarity of our nation, along with the increasing incidents of terror that plagued our country and the world deeply troubled and distressed us. The key role the people of our country played in thwarting the attempted coup of July 15 has shown all of us the strength of our nation. I would like to take this opportunity to ask for the blessings of God upon all the martyrs who lost their lives during the July 15 attempted coup and terror attacks.

The Turkish economy successfully managed its risks in 2016 despite the challenges it faced. While international credit rating agencies have lowered Turkey's creditworthiness rating, thanks to the measures taken, a net capital input of USD 6.4 billion was achieved in portfolio investments. Following the

steps taken by the USD Federal Reserve's (FED) to increase interest rates, the USD dollar continued to appreciate against international currencies. As other currencies did, the Turkish Lira also depreciated against the USD dollar, assuming a horizontal pattern in the last part of the year thanks to the support of our public enterprises and the country's citizens. Turkey and other rising economies and developing countries experienced a year in 2016 in which risks rose significantly but our country continued to motivate us with regard to the management of our investment and growth plans without compromising macro-economic discipline. We at the Çalık Group are determined to continue to create added value for our country, our stakeholders and our business partners by sustaining our successful performance in the next period, fortified by the strength we derive from our country.

In 2016, the Çalık Group renewed its vision and mission in an effort to add momentum to its sustainable growth performance. In line with stakeholder expectations, our new vision has been redefined as, "To work together with our reliable teams in the spirit of innovation-focused entrepreneurship, to add value to each life we touch in our activities and to grow 4 times in 4 continents in our 44th year (2025)." Our mission is now, "To use our talents and energy to produce solutions for human life in all geographies in which we are active in order to contribute to increasing prosperity."

In the light of our 35-year expertise and experience, the feeling of being part of the "Çalık Family" has become a common identity at all of the Group companies as well as a determinant in the realization of our goals in the period of operations in 2016. Thanks to the wholehearted support of our management and employees, we developed effective solutions in the face of challenging market conditions and continued with our investments at full speed. As of the end of 2016, we realized approximately USD 170 million in investments, succeeding in maintaining our competitive edge in the sectors we focused on.

As Turkey's largest privately owned bank and operating as part of Çalık Holding, Aktif Bank pursued the goal of achieving a sustainable financial structure, continuing its profitable growth in 2016 as well. Net period profit at the end of the year increased by 37% over the previous year, standing at TRY 111 million (BRSA Standalone Figure).

Having initiated many "firsts" in the banking sector in the past and with its record of serving the Turkish economy, Aktif Bank continued to lead the sector, establishing Turkey's first Islamic Portfolio Management Company, Mükafat Asset Management, in partnership with ICD. The enterprise aims to introduce different products that will add depth and growth to Turkey's capital markets and fill a significant gap by diversifying non-interest financial instruments. In the area of Corporate Banking, the bank has taken bold steps to introduce specially developed new financing models as well as systematic integration solutions to the sector. In retail banking, products that support the digital banking model will be collected under the brand "N Kolay." Two important elements in this family were the launch of "N Kolay Loan" and the "N Kolay Card." The digital bond product, is expected to be served to customer under the name "N Kolay Bond" in the first quarter of 2017.

As the Çalık Group, we will continue to focus on improvements in the regions and sectors in which we are active in the next period, steered by our belief in continuous innovation. The value we place on human life and dignity in all our business processes will remain an integral part of our corporate culture. As a Group enterprise, Aktif Bank will adhere to the joint responsibility inherent in the Çalık Family's vision, mission and corporate values. With its motto, "New Generation Banking," its innovative perspective, its dynamic and young staff of experts, the bank will maintain its strong position in the sector in 2017, continuing to add value to its customers, business partners, the banking sector and most important, to the Turkish economy.

Sincerely,

Ahmet Çalık

Message from the CEO

Dear Stakeholders,

The challenges and uncertainties in the world economy in 2016 activated finance and capital markets. Furthermore, the adverse conditions experienced in Turkey brought additional difficulties and fluctuations to the Turkish economy.

Despite all of the adversities, however, the magnitude of the Turkish banking sector's assets displayed a nominal increase of 15.8% compared to the end of 2015 and exceeded TRY 2.7 trillion as of December 2016. In terms of sector profitability, performance was good with a 45% increase in profitability over the year before and net period profit at the end of the year standing at TRY 38 billion. The sector's performance stems basically from the increase in net interest income and the cancellation of the extra provisions reserved in past years as a result of the series of macro interim relief measures that were undertaken. On the other hand, with the rapid increase of foreign exchange rates during the year remaining the main factor, the sector's capital adequacy standard ratio remained the same as the last year's.

The size of our bank's assets rose by 26% in 2016, reaching the level of TRY 9.5 billion and exhibiting a performance that was above the sector norm. This growth is an indication of our faith and support in the Turkish economy despite the adversities that we regard as temporary. While growth was achieved, the profitability to support that growth was also attained; our net profit reached TRY 111 million (BRSA Standalone Figure), a 37% increase over the previous year. In 2016, we stood out as one of the most successful banks of similar size in the sector with our 11.15% average return on equity and our 1.30% average asset profitability (BRSA Standalone Ratios).

As Turkey's largest privately owned investment bank, we have continued in every period to actively support the Turkish economy. We have constantly presented our customers and the leading institutions of the Turkish economy with innovative business models, expert human resources and know-how and services in the areas of corporate banking, investment banking, retail banking and private banking.

At Aktif Bank, we know that seeing the possible inside the impossible is the outcome of believing in our dreams. Our business model of "New Generation Banking," which forms the foundation of our achievements, is the essence of this perspective. It is the same visionary overview that allows us to position Aktif Bank as a bank with a wide perspective and to reinforce our strength with our subsidiaries that are active in the various sectors. In the knowledge that efficient use of technological opportunities will further our business model and create new breakthroughs for the country, in 2016, we were granted the status of a Research and Development Center by approval of the Ministry of Science, Industry and Technology. We hope that with this new identity, we will be able to offer the sector many more innovative products in the near future. Again in 2016, we established a subsidiary with Robotpos under the name of EchoPOS. Our aim with this enterprise is to create innovative cash register automation solutions for the retailing sector, becoming an effective solution partner and more important, using this method to contribute to payment systems with faster and more productive services, adding value to workplaces by making lives easier and ensuring cost advantages.

As an outcome of our New Generation Banking business model, we preferred the system of working with distribution networks that are effective in the market instead of branching out. Thanks to this choice, Aktif Bank and its Subsidiaries together form an institution with an annual track record of offering smart city and smart stadium services to a population of 50 million, providing about 2 million smart transit card sales and managing a total of close to 9 million smart cards, mediating for 1 billion transit card transactions, producing 1 million new bank cards, achieving approximately 1.5 million money transfers, 68 million invoice collections, TRY 90 million worth of premium production, over 350,000 private loans and 200,000 insurance policy sales.

The successful collaborations we formed in private banking, which needs a large distribution network, as well as our low and flexible cost-focused strategies have enabled us to reach similar levels as multi-branch banks in terms of the volume of our private loans and the numbers of credit card/debit cards in the area of private banking, where competition is keen and margins are low. As a result, while consumer loans in the banking sector grew by 6.5%, the growth rate of our bank's consumer loans was 60%.

To increase our competitive edge in retail banking, we focused in 2016 on substantially developing our digital channels. Based on our belief in the digitalization of the future, our first attempt was to launch our 100% digital loan product, N Kolay Loan, at the beginning of 2016. We saw how well-timed this move was when we soon witnessed an inflow of loan applications totaling TRY 7 billion from more than 800,000 customers. We ultimately furnished 75,000 new customers with digital loans.

Another product of our bank, Passolig, achieved a 50% rise in 2016 over the last year, the number of cards reaching 2.5 million. Another project completed in digitalization was to combine all card and ticketing needs in a single mobile application called Passo Mobile. This application is planned to be launched in the first half of 2017 and in the first phase, we will be facilitating all financial and ticketing processes for football lovers under the Passolig umbrella. I wholeheartedly believe that in the next stages, there will be many new surprises in the context of mobile shopping, mobile stadium admissions and other perks related to football and that this application will make a value added place for itself among financial applications.

In the last year, we continued to generate strategies and financing solutions that would give us a competitive edge in corporate banking and investment banking. Within the scope of football financing, we achieved the financing, at a total of TRY 1.6 billion extended to dozens of our football clubs, of the construction of the Beşiktaş A.Ş. Vodafone Arena. Our investments and know-how in the area of football were published in a report called "EkoLig" which we published as a review of football revenues and the economic outlook of Turkish football. Additionally, blazing another trail in Turkey and in our awareness of our social responsibility, we sponsored the first "Sports Financing Certification Program" in cooperation with Bahçeşehir University's Continuous Education Center (BAUEM) in order to answer the need for education in this field.

Aktif Bank and its Subsidiaries will continue to contribute sustainable value to all our stakeholders and to maintain our leadership role in the sector by focusing in 2017 on our human resources, the pivotal point of all our achievements, on our innovative concept of service and on our technological investments. In this context, I wish to thank all of our customers, employees and business partners who are all on this journey with us.

Sincerely,

Dr. Serdar Sümer

Board of Directors

AHMET ÇALIK

MEHMET USTA

MEHMET ERTUĞRUL GÜRLER

VEYSEL ŞAHİN

AHMET CELALETTİN YILDIRIM

Dr. SERDAR SÜMER

AHMET ÇALIK
Chairman

Ahmet Çalık was born in Malatya in 1958. He started his career in business in 1981 in the field of textiles. Establishing a denim factory in Malatya, the enterprise became the first large industrial investment in Eastern Anatolia and Çalık realized his first international investments in Central Asia in the same period, in line with his international and investment goals. Leveraging on his trade experience accumulated in Turkey since 1992, he went global investing in significant projects in energy, construction, mining, textile, finance and telecommunications sectors in numerous countries. Çalık Holding was founded in 1997 to unite all Group companies under one roof. In 1992, he became one of the business leaders bringing in the largest investment in Albania and Kosovo. Mr. Çalık was declared worthy of the Turkmenistan Order of State and presented with the Turkmenistan Mahdum Guli Award in 1997. In 1999, he received the State Medal of Distinguished Service from the Republic of Turkey and the Gayrat Medal from Turkmenistan. He was honored with the Turkmenistan Golden Age Merit in 2001, the Distinguished Service Medal by the Turkish Ministry of Foreign Affairs in 2002, the Distinguished Service Award of the Turkish Grand National Assembly and the “Turkey in Europe - Franco Nobili” award in 2006. In 2012, the Chairman was declared the Honorary Council of Bursa by the Republic of Kazakhstan, and in 2014 he was awarded the Ellis Island Medal of Honor by the National Ethnic Coalition of Organizations. That same year, Ahmet Çalık was awarded Honorary Ph.D. degrees from the Matsumoto Dental University in Japan and the University of Tirana in Albania. In 2016, Ahmet Çalık was granted an honorary doctorate 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

İktisat Born in 1950, Mehmet Usta graduated from the Department of Economics and Finance at the Eskişehir Academy of Economic and Commercial Sciences. He has more than 35 years of banking experience. Following his service in Anadolu Bank between 1979 and 1987 as inspector and executive, he hold various high-level executive positions in Emlak Bank both in Turkey and abroad between 1987 and 1994. Then, between May 1994 until March 2007, he served at the Banque du Bosphore in Paris as CEO and Board member. In April 2008 he joined Aktif Bank as the Deputy Chairman of the Board of Directors. Since July 2009, Mr. Usta also acts as the Chairman of the Board of Directors at Banka Kombetare Tregtare, a subsidiary of Çalık Holding operating in Albania and Kosovo. He has been a Member of Board at the Brussels-based World Savings and Retail Banking Institute (WSBI) since May 2012 and acts as Chairman of the Board at Aktif Bank subsidiaries UPT Ödeme Hizmetleri A.Ş. and Sigortayeri Sigorta ve Reasürans Brokerlik A.Ş.

MEHMET ERTUĞRUL GÜRLER
Board Member

Mehmet Ertuğrul Gürler was born in 1958 and graduated from Marmara University, Faculty of Economics. Since then he has accumulated 39 years of business experience. He held several positions at Dow Türkiye A.Ş. from 1987 until 1994, including the positions of CFO and Board Member. Following his positions in Total Oil Türkiye A.Ş. between 1994 and 1998 as the Deputy CEO and Secretary General, he became CEO of Çalık Holding in 1998. Mr. Gürler still serves as Vice-Chairman of the Board at Banka Kombetare Tregtare and Çalık Denim Textile. He serves on the Boards of Aktif Bank, ALBtelecom, Gap Construction and Gap Marketing. Mr. Gürler furthermore takes responsibility as Board Chairman at YEPAŞ.

VEYSEL ŞAHİN
Board Member

Born in 1959, Veysel Şahin graduated from Ankara Gazi University, Faculty of Economics and Administrative Sciences, earning a degree from the Public Administration Department. He completed his post-graduate studies at Bahçeşehir University. Having started his banking career in 1985 as an Assistant Auditor, he later assumed positions in different departments and branches, foreign representative offices as well as the position of Chairman of the Audit Board at Anadolu Bank, Emlak Bank and Ziraat Bank. He also worked as an Audit Board member at Axa Insurance and Board member at TKİ Bank Kazakhstan. Since 2009, Mr. Şahin serves on the Board of Directors and is an Audit Committee Member at Aktif Bank.

AHMET CELALETTİN YILDIRIM
Board Member

Born in 1968, Ahmet Celalettin Yıldırım pursued studies in English to earn a degree in Economics from Istanbul University in 1991. Starting his career as a management trainee at Yapı ve Kredi Bank the same year, he was appointed Head of Treasury in 1999 after fulfilling many different roles in the bank. He continued his career as the CEO and Board Member at Yapı Kredi Germany. Upon his return to Istanbul, he became the CEO of Yapı Kredi Invest and assumed board membership duties in other subsidiaries of the company. After serving as the CEO and Board Member of Alternatif Yatırım A.Ş., he joined Çalık Holding in 2014 as the Group Chairman Responsible for Financial Relations and Strategic Planning and also became a Board Member at that time. Mr. Yıldırım has furthermore taken responsibility as a Board Member at Aktif Bank since April, 2015.

Dr. SERDAR SÜMER
CEO and Board Member

Dr. Serdar Sümer was born in 1973 and took his undergraduate education from Ankara University Faculty of Political Sciences, Business Administration Department. He completed graduate study in Virginia, U.S.A., at the College of William and Mary before returning to Turkey to earn a Ph.D. from the Marmara University Banking and Insurance Institute. Certified as a Financial Risk Manager (FRM) and a Certified Public Accountant, Dr. Sümer started his career as Sworn-in Bank Auditor in 1996, then worked in Aktif Bank as Executive Vice-President responsible for Capital Markets between 2008 and 2014. Since 2014 he has served as a partner and Member of the Board at Tera Equities. Dr. Sümer brought his 21-year experience in banking back to Aktif Bank and has served as CEO and Board Member since May, 2015.

Top Management

Dr. SERDAR SÜMER

AYŞEGÜL ADACA

MURAT BARLAS

AHMET ERDAL GÜNCAN

GÜROL GÜNGÖR

KEMALEDDİN KOYUNCU

UĞUR GÖKHAN ÖZDİNÇ

ÖMER ÜNVEREN

Dr. SERDAR SÜMER
CEO and Board Member

Dr. Serdar Sümer was born in 1973 and took his undergraduate education from Ankara University Faculty of Political Sciences, Business Administration Department. He completed graduate study in Virginia, U.S.A., at the College of William and Mary before returning to Turkey to earn a Ph.D. from the Marmara University Banking and Insurance Institute. Certified as a Financial Risk Manager (FRM) and a Certified Public Accountant, Dr. Sümer started his career as Sworn-in Bank Auditor in 1996, then worked in Aktif Bank as Executive Vice-President responsible for Capital Markets between 2008 and 2014. Since 2014 he has served as a partner and Member of the Board at Tera Equities. Dr. Sümer brought his 21-year experience in banking back to Aktif Bank and has served as CEO and Board Member since May, 2015.

AYŞEGÜL ADACA
Executive Vice-President, Retail Banking Credits

Born in 1974, Ayşegül Adaca graduated from Boğaziçi University Civil Engineering Department and continued her graduate school at Stanford University. Adaca has 19 years of experience in banking and joined Aktif Bank in 2015.

MURAT BARLAS
Executive Vice-President, Finance

Murat Barlas, born in 1968, graduated from Istanbul University, Department of Mathematics. Been in the banking sector for 21 years, he joined Aktif Bank in 2015.

AHMET ERDAL GÜNCAN
Executive Vice-President, Corporate Banking

Born in 1969, Ahmet Erdal Güncan took a degree in Civil Engineering from Istanbul Technical University before specializing in construction management at the same institution. Mr. Güncan worked in the banking sector for 20 years before joining Aktif Bank in 2008.

GÜROL GÜNGÖR
Executive Vice-President, Retail Banking Sales and Subsidiaries Coordination

Gürol Güngör was born in 1976 and graduated from Istanbul Technical University, Industrial Engineering Department. He later earned his graduate degree in banking at Marmara University. With 19 years of banking experience, he joined Aktif Bank in 2015.

KEMALEDDİN KOYUNCU
Executive Vice-President, Legislation Development and Management

Kemaleddin Koyuncu was born in 1970 and graduated from Middle East Technical University Business Administration Department. He earned his M.B.A. from the University of Illinois at Urbana-Champaign on the way having experience, 25 years of Mr. Koyuncu joined Aktif Bank in 2015.

Dr. UĞUR GÖKHAN ÖZDİNÇ
Executive Vice-President, Information Technology and Operation

Born in 1975, Gökhan Özdinç earned a B.Sc. in Computer Engineering from Boğaziçi University. He continued on to complete M.B.A. and Ph.D. degrees in that institution's Business Administration Department. He has 18 years of banking experience and lectures part-time in the department of MIS and Computer Engineering at Boğaziçi University. Dr. Özdinç joined Aktif Bank in 2014.

ÖMER ÜNVEREN
Executive Vice-President, Treasury

Ömer Ünveren, born in 1976, graduated from Istanbul University, Faculty of Political Sciences and Business Administration Department. He brought his 16 years banking experience to Aktif Bank in 2014.

FİLİZ ERENDAÇ

SELCAN KAYTANCI

HAKAN ÖZAT

MUZAFFER SUAT UTKU

FİLİZ ERENDAÇ
Managing Director, Legal group

Born in 1976, Filiz Erendaç earned a Bachelor's Degree at the Ankara University Faculty of Law and completed a Master's Degree in Commercial Law at the same university. Erendaç has 18 years of experience in business and joined Aktif Bank in 2016.

SELCAN KAYTANCI
Managing Director, Human Resources

Selcan Kaytancı was born in 1974 and graduated from Middle East Technical University Faculty of Political Sciences and Public Administration. She then earned a graduate degree in Human Resources at Bahçeşehir University. Ms. Kaytancı, with her 18 years banking experience, joined Aktif Bank in 2014.

HAKAN ÖZAT
Managing Director, Internal Systems

Born in 1980, Hakan Özat is a graduate of the Marmara University Department of Economics. Aktif Bank hired Mr. Özat in 2015 on the basis of his 13 years of experience in the sector.

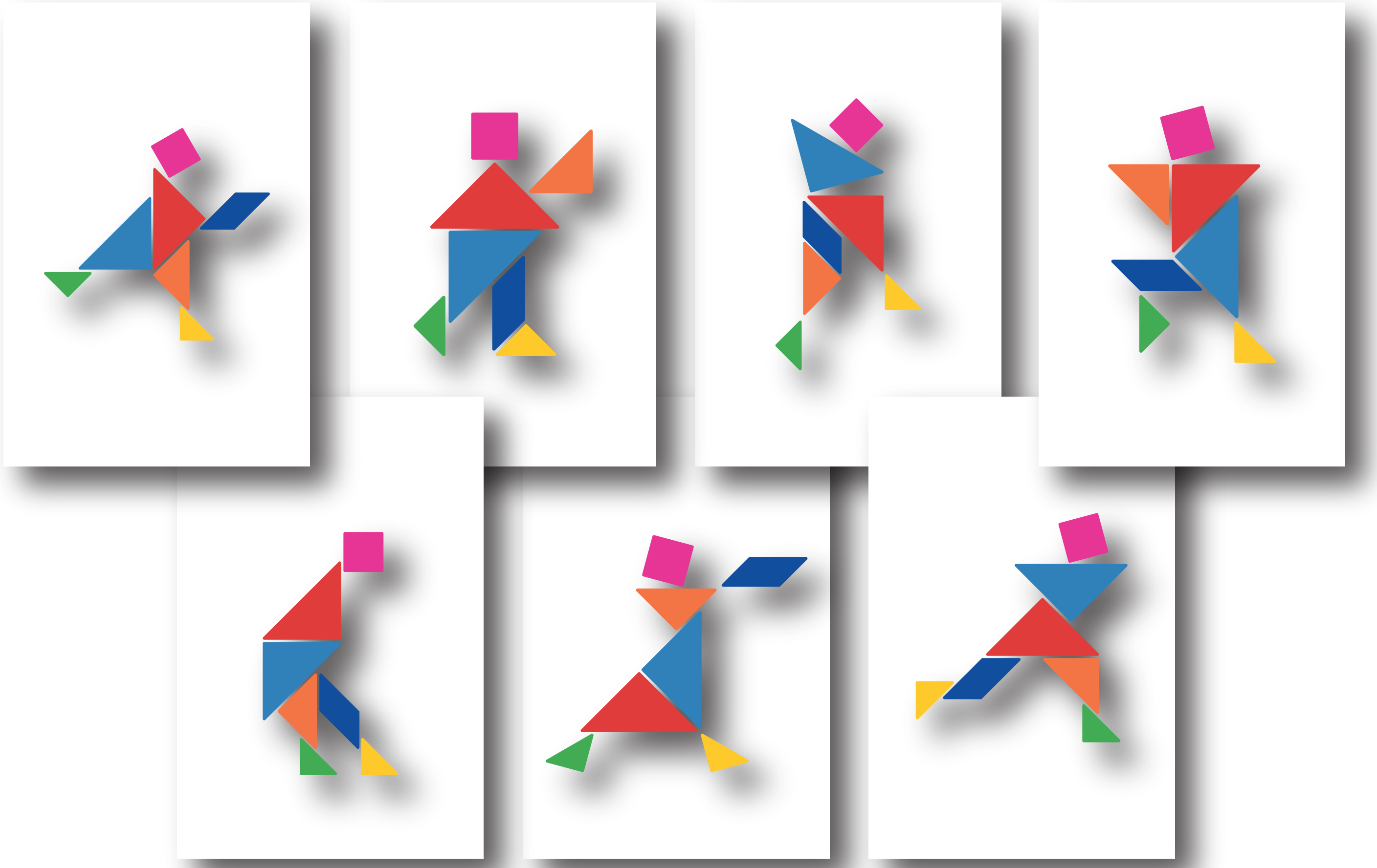
MUZAFFER SUAT UTKU
Managing Director, Financial Institutions

Muzaffer Suat Utku was born in 1974 and graduated from U.S. International University of San Diego, Business Administration Department. He completed his M.B.A. at London University College. He joined Aktif Bank in 2007 and has 18 years banking experience.

Executives who resigned from the office

Executive Vice-President, Capital Markets Tevfik Kınık (November 2016)
Board Member, İzzet Serhat Demir (December 2016)

our strength is in our **human resources**



Being an employee is easy, but being the leader of one's own business, is what differentiates our employees from others.

We derive the strength of our creative intelligence from our competent human resources. We rapidly adapt to new technologies and developments in the world, which is the fundamental source of our strategy, and with the strength we give each other, we always work to constantly provide our customers with better service.

Managers for Internal Systems

HAKAN ÖZAT
Head of Internal Systems Group
Hakan Özat was born in 1980 and graduated from Marmara University Department of Economics. Mr. Özat joined Aktif Bank in 2015 on the basis of his 13 years in business.

VOLKAN KÖLEGE
Director, Internal Control
Volkan Kölege was born in 1977 and graduated from Anadolu University Faculty of Economics and Administrative Sciences Department of Business Administration. With 17 years in banking, Mr. Kölege joined Aktif Bank in 2008.

PINAR GÜRKAN
Director, Compliance
Pınar Gürkan was born in 1981 and earned a degree in Econometrics from Marmara University Faculty of Economics and Administrative Sciences. Mrs. Gürkan with 12 years of experience, joined Aktif Bank in 2009.

DENİZ TURUNÇ
Director, Risk Management
Deniz Turunç was born in 1977 and graduated from Boğaziçi University Faculty of Economics and Administrative Sciences, Department of Economics. Deniz Turunç brought 16 years of banking experience to Aktif Bank upon joining the Internal Systems Management team in 2015.

MEHMET ANIL BOLAYIR
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 9 years of banking experience, Bolayır joined Aktif Bank in 2016.

Executive who separated from the office: Director, Internal Audit Gürkan Sezgün (September 2016)

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 minimum.

Committee Members

Mehmet Usta
Chairman of Audit Committee

Veysel Şahin
Member of 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.

Full Members of Credit Committee

Mehmet Usta
Chairman of Credit Committee

Mehmet Ertuğrul Gürler
Vice-Chairman of Credit Committee

Dr. Serdar Sümer
Member of Credit Committee - CEO

Alternate Members of Credit Committee

Veysel Şahin
1st Alternate Member

Ahmet Celalettin Yıldırım
2nd 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 incorporation, in-bank 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. The Bank's 2016 Report on Compliance with the Corporate Governance Principles is published on the corporate website.

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

Pricing Committee

The Pricing Committee is responsible for evaluating the compensation policy and practices relevant thereto that are established by the Headquarters. The Committee submits an annual report containing suggestions to this end to the Board of Directors.

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

The Pricing Committee holds ordinary meetings once a year and extraordinary meetings when necessary, with all members attending the meeting. The Chairman of the Committee may invite others to the meetings at his discretion.

Information on Committee Members' attendance at the related meetings held within the accounting year, based on the third sub paragraph of subsection (b) of article 6's first paragraph of the Regulation on Procedures and Principles on the Preparation and Publishing of Annual Reports by the Board, Committee and the Banks:

The Board of Directors meets once a month. Furthermore, it meets extraordinarily when necessary.

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

Ayşegül Adaca
Executive Vice-President, Retail Banking Credits

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
Managing Director, Financial Institutions Group

Ömer Ünveren
Executive Vice-President, Treasury

Summary of the 2016 Board of Directors Report Presented to the General Assembly

Dear Shareholders,

Our Bank completed a productive year in 2016, thanks to the successful work of the management team and efforts to accomplish all activities. As a result of activities conducted throughout 2016:

Our net profit was TRY 98,054 and total asset size was TRY 9,483,016. With these results, our net profit increased an amount of TRY 72,087 while size of assets rose by 25.49% when compared to the previous year.

Our capital adequacy ratio stood at 12.70%. 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 10.52% and an average Return on Assets of 1.15%.

Our non-equity foreign assets pioneered growth, surging by 27.30% to TRY 8,499,393. This significant development in foreign assets' inflow is a highly positive development in terms of our Bank's credibility.

Our cash credits increased by 19.02% compared to the previous year, rising to TRY 5,520,369.

The NPL ratio stood at 1.88%. 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, 2016 – December 31, 2016, 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,

Aktif Yatırım Bankası A.Ş Yönetim Kurulu Adına,

AHMET ÇALIK
YÖNETİM
KURULU BAŞKANI

MEHMET USTA
YÖNETİM KURULU
BAŞKAN VEKİLİ

Activities, Growth Strategy and Objectives for 2016

Retail Banking Credits Group

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.

This strategy focusing on low and flexible costs enables Aktif Bank to have similar retail loan volumes and credit card/debit card numbers with medium-sized banks in the field of retail banking, where competition is fierce and margins are low.

In contrast to the 12,000 bank branches in the sector, Aktif Bank and its subsidiaries call upon the supporting services of more than 4700 PTT (Post Office) offices and close to 1000 retail stores to offer a widespread customer audience loans and insurance sales. Such collaboration, which marks the first of its kind in the sector, allowed Aktif Bank to have access—solely achieved through marketing and operations support—to loan customers over a delivery channel that is equal to about half the total bank branch number in the sector. With the decision trees and the loan allocation systems developed by the Group itself, in 2016, more than 350,000 consumer loans were allocated with the result that credit repayment performance was better than the sector average in this product.

The Passolig Card has created Turkey's largest ecosystem on the theme of football and under the Passolig umbrella, credit cards, debit cards and prepaid card products have reached 2.5 million customers.

In order to gain competitive advantage in retail banking, which requires a widespread network of delivery, the majority of the Bank's resources are allocated to developing and improving digital channels in 2016. The first product of this strategy, the "100% digital loan" was launched at the beginning of 2016. All loan and potential customers of the Bank can complete the entire process over the web, simply visiting nkolaykredi.com.tr. At the same time, efforts were initiated in 2016 to combine the Passolig service model under a single mobile application called "Passo" and this application is expected to be launched in the first half of 2017.

In the fields of Corporate Communication and Digital Marketing, the Retail Banking Credits Group improved brand recognition and reputation through successful work in advertising, brand management, public relations, media relations, media purchasing, sponsorship, positioning of websites and digital communication, as well as an efficient representation of the Bank and its subsidiaries in international contests. Aktif Bank thus reinforces its distinct position in the sector.

Retail Banking Sales and Subsidiaries Coordination Group

The Retail Banking Sales and Subsidiaries Coordination Group delivers sales management for the Bank and its subsidiaries specifically for pensioners' loans, money transfers and PTT Insurance products through PTT Bank Channels around Turkey (more than 4,700 PTT offices and more than 2,000 ATMs).

The widespread dealer network of 12 reputed brands chiefly in white goods and furniture sectors offers the Bank's consumer financing products to customers at the moment of sales.

The vehicle loan product that was launched as of April 1, 2016 provides financing for 0-km. and second-hand passenger vehicles. The group will soon be channeling its experience in white and brown goods dealerships into this area to add close to 230 points of sale to the system.

In the context of synergy with our subsidiaries, 231 of our current white goods and furniture dealerships have started to operate as Universal Money Transfer operators; over 100,000 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 2017.

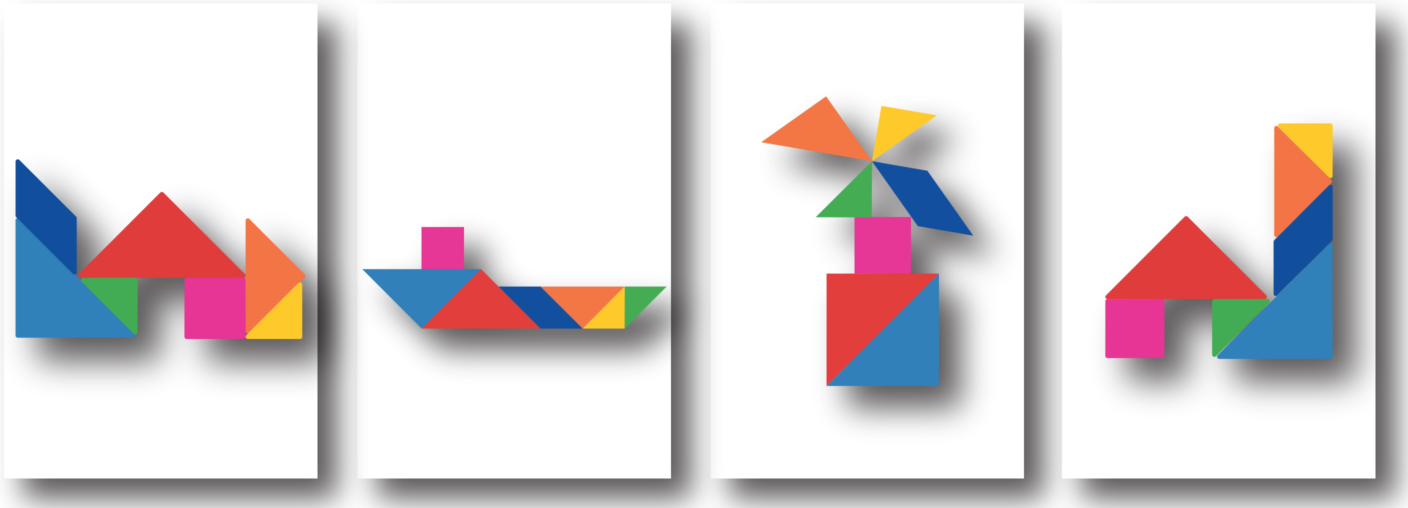
Corporate Banking Group

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.

In this sense, the Corporate Banking Group develops exclusive, innovative projects for various sectors in line with cash management products, integrated banking solutions, and the overall strategy of the Bank. The Group establishes advantageous banking packages to aid expansion of the business volume of Aktif Bank's affiliates.

Efforts spearheading work to this end are the cash management products and integrated financing solutions developed in cooperation with EKent, the subsidiary of the Bank, and the structured financing models catering to the needs of football

we actively support the Turkish **economy with our investments**



As Turkey's largest privately owned investment bank, our faith in the Turkish economy has always urged us to actively support the Turkish economy in every period.

We provide financing and investment support for the country's growing values, differentiating this support with the innovative solutions we offer. We are shaping the sector's future, offering Turkey its longest-term budgeted stadium financing project, presenting direct partnership, income and profit-sharing models for real estate as well as innovative approaches for financing in the areas of energy, agriculture and R&D.

clubs for which the Bank delivers services through Passolig. The Group's guiding work in sports finance constitutes remarkable steps taking the Bank to industry 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 Real Estate Venture Inc. in the field of real estate development.

The Research and Development Finance Program developed for pre-financing needs in TÜBİTAK/TEYDEB projects as well as technology investment projects offer entrepreneurs loans without a tangible collateral. These services combined with a system monitored online provide ease and prevalence. The Group continued its activities in 2016 with new finance models developed particularly for the sector in three areas and with systematic integration solutions. While developing financing solutions for automotive industry suppliers, the Group also continued to provide significant support to the agricultural sector by offering solutions to the financing problems of farmers and integrated facilities with innovative models of business.

Business development management and consultancy services are provided to invested companies, group companies, domestic and international customers by a team specialized in the evaluation of new business plans and ideas. The Corporate Banking Group identifies potential firms as investment targets and plays a role in the management of mergers and acquisitions. In addition, the Group also provides financing to the Bank and its customers through structured financing products in capital and credit markets. It extends financing to public and private sector projects within a broad range of services.

Treasury Group

The Treasury Group contributed to growth and profitability through effective pricing in types of transactions required by the Bank's balance sheet development in 2016. It played a significant role in successfully issuing capital market instruments via intensive secondary transactions and the inter-agency relations developing each year. While the Bank launched products based on interest-free financing model as well as Asset-Backed Securities, Aktif Bond, now a market classic, has become an increasingly popular investment instrument adopted by investors who wish to make effective use of their resources in the short or long run.

All employees in the Group hold advanced and derivative CMB licenses. Their teamwork continuously expands the product range as they combine their training and experience to penetrate the market deeply in all treasury transactions, spot and derivatives alike. The private banking team formed within the Group has continued to expand its retail customer base and increase the size of assets managed. In 2017, it will continue its efforts to become a reliable partner for domestic and international market players in the field of treasury transactions.

Finance Group

The Finance Group is critically important for the Bank's development and the realization of its business objectives. This Group has the competence to check the conformity of recording, grouping, assessment procedures and financial transactions as well as theoretical information to define rules. The Finance Group not only ensured due accounting and reporting of all transactions to which the Bank was a party, but also successfully managed operations for a timely and full performance of tax and similar liabilities in 2016.

In addition, the Bank's financial position and profitability were analyzed, its medium-term and long-term projections were prepared, and budgeting operations on the compliance of the Bank's trade policies with its budget objectives were carried out.

Furthermore, a procurement unit under the Finance Group carries out procurement operations, i.e. the procedures for finding suitable suppliers and procuring items with predefined, appropriate qualities on time and at reasonable cost. These procedures have an increasing strategic importance considering the changing conditions and competitive environment in today's world.

In addition to its existing functions of fulfilling financial liabilities, the Group will carry on its efficient reporting as part of monitoring and maintaining the Bank's financial stability in 2017.

Financial Institutions Group

In 2016, the Group continued at full throttle with its efforts 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 650 correspondents in 115 countries, has achieved a level of TRY 2.8 billion in loans procured from its correspondent banks. It produced a successful upward trend in the volume of foreign trade transactions it brokered. In addition, the Bank increased its borrowing from non-resident banks in the field of Islamic finance and launched Islamic finance and structured finance models for the financing of foreign trade in 2016. It was quite a successful year in marketing capital market instruments abroad, and groundbreaking operations were delivered for provision of long-term funds.

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 Technology and Operation Group

The Information Technologies and Operations Group continued to work in 2016 to bring the latest technologies and the highest quality of service to all of the Bank's customers, business partners and employees. On August 10, 2016, the Ministry of Science, Industry and Technology designated the bank as an “on-site R&D Center” on the basis of its meritable achievements in the areas of technological investments and innovation. As an outcome of the efforts to maintain security, the Bank received ISO 27001 Information Security Management Certification.

The Group is focused on establishing new channels and developing products in the business of payment systems, investing in technology for debit and pre-paid card production. IT processes were automated via integration software, minimizing human burden and margin of error, and the cutting-edge technology was adopted when improvement was made in data storage network infrastructure. This current structure enables us to respond to problems more quickly and allows for retrospective analysis. New technologies were adopted for network infrastructure and efforts were concentrated on the operations of the Disaster Action Center. Modernization of internet banking and call center operations continued and the Bank also initiated work on projects for mobile applications for strategic products and services.

In line with the bank’s productivity, quality and cost optimization strategies, the entire Operation Group focused on work flows and processes as well as systems development in constant efforts to make improvements and achieve sustainability. Automation projects in 2016 resulted in a significant amount of labor - saving operations. In payment systems and banking operations, the use of inhouse software substantially reduced reliance on outside sources and automation projects achieved minimized costs. Thanks to the Group’s paper-free office project, in 2016, a 1 million sheets of paper were saved as a contribution to the environment. OCR and robotic process possibilities were considered in 2016. With the technological investments that were made, the STP rate reached 90%. TROY certification was attained and cards were printed with the TROY logo while Aktif Bank Virtual POS devices started to accept Troy cards in transactions.

Collective and individual custody permits were obtained from the Capital Markets Board. Services began to be provided as a guarantor bank to the banks of two companies securing financing for imported vehicles, this being the first step in achieving the bank’s identity as a profit center.

In 2016, the Group achieved its goal of becoming a revenues-focused Operations Center, with the Communications Center initiating direct sales operations to contribute to Bank revenues. The contact of the Bank and its subsidiaries with customers through the Alternative Distribution Channels increased 1.5-fold over the last year, amounting to a total of 11 million customer contacts and operational transactions. Service quality, which had been granted EN15838 Customer Call Center Management System Certification in 2015 by the European Committee for Standardization (CEN), successfully passed inspection requirements in 2016.

Legal Consultancy Group

In 2016, the Group prepared contracts, warranty documents and additional documentation for high-priced joint ventures with various organizations in line with the Bank’s goals, thus establishing the legal basis for many projects. The contracts and other documents relevant to outsourcing relationships the Bank will launch were prepared while relevant developments and changes were monitored in order to ensure legal compliance in the said process. Legal support efforts within the Bank continued to this end. For the purposes of legal counseling, the Group evaluated all issues from branches and head office units within the framework of legislation and case law and continued to add value to the Bank through appropriately formulated legal solutions. Likewise the Group provided legal counseling service to subsidiaries in which the Bank is a shareholder, as per the permission on operational expansion granted by the BRSA.

Legislation Development and Management Group

With its efforts in 2016, the Group was active in providing the bank and its subsidiaries with products and services that help to evaluate the bank’s distribution channels and the transactions flowing through these channels in terms of fraud and security, to prevent financial losses and fraud-based reputational risks. The Group also works in coordination with the Complience Department and Legal Consultancy Group and other business units to develop regulations for the banking sector and create appropriate product designs and work flows to comply with regulations.

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.

As the outcomes of measures and actions during the course of these activities directly affect customers, achieving customer satisfaction and loyalty is the priority consideration. The group takes care to use a marketing approach in conducting its anti-fraud operations, aiming to achieve customer security while taking actions that do not disrupt the trust of the customer, also making an effort to regain trust at any time that customers become aware of interventions.

Internal Systems Group

Through the audits, controls, monitoring and consultancy activities conducted by the Internal Audit, Internal Control, Compliance and Risk Management Departments in 2016, actions were taken to identify and manage risks, control deficiencies and work processes were improved, efficiency was increased, compliance with the laws and legislation was ensured as well as fraud and misconduct were prevented.

Internal Audit Department conducted audits in branches, head office units, subsidiaries and support service companies in line with the "Annual Audit Plan" approved by the Board of Directors. Suggestions were made for correction of issues identified; consequences of the action plans agreed with the auditee were monitored. On the other hand, graft and misconduct were identified through examinations and investigations, and suggestions for prevention were submitted.

Internal Control Department ran periodic controls to identify points to control in relation to Treasury, Operation, Credits, Accounting, Information Technologies and Legal Reporting activities. Corrective action was taken in relation to the issues identified. The Internal Control Department contributes its views and evaluations concerning the Bank's ongoing and completed operations. The Department works on the Statement of Management and also contributes to developing the Bank's primary controls.

In line with the risk management policies established through legislation and in-Bank regulations, Risk Management Department carried out activities to identify, manage, control and report Credit Risks, Market Risks and Operational Risks.

Compliance Department conducted consultancy activities in terms of ensuring compliance of the Bank's existing and planned operations as well as its new services and products with the Banking Law and other relevant legislation, policies and rules within the Bank, as well as banking customs and practices. In addition, the Compliance Department ran controls to prevent laundering of illicit proceeds and the financing of terrorism.

In 2017, Internal System Group will continue to conduct risk-based audits, controls, monitoring and management activities in consideration of the Bank's goals and strategies and in line with the plans and procedures approved by the Board of Directors and the Audit Committee.

Human Resources Group

Aktif Bank strongly believes that human resources are the most valuable asset. In this framework, employee satisfaction was maintained through an egalitarian human resources policy while the knowledge, skills and competences of employees were improved. Equal opportunities were provided in career planning in 2016.

In line with the mission and vision of the Bank, human resources workshops were held with the attendance of employees, and 2017 plans for recruitment, training, performance management, work relations and internal communication activities were devised on the basis of workshop outcomes in 2016.

A human resources web portal accessible by user names and passwords was developed and set to function. This portal enables family members to view their private data as well as Bank and Group events, also giving them the chance to make their annual leave planning entries. At the same time, a new solution application was purchased for the purpose of carrying all hiring processes into the digital environment. This application automatically conducts all processes from the publishing of the hiring announcement to the moment a candidate is hired.

An "Aktif Academy" has been established to offer members of the Family in-class and online training so that they can improve on their knowledge and skills. In-class training programs were scheduled in 2016 and online training was also made available. Developments along these lines are ongoing since the entire training process in 2017 will start to be monitored in the digital medium.

Performance management system is rendered open, clear and available for use in order that tangible, measurable objectives are in place to support the development and high performance of both the Bank and its employees. Performance appraisal outcomes feed in data for career planning, bonus and salary payments.

Developments in both the sector and the Bank were monitored in order to maximize employee motivation, and a new compensation policy was established in 2016. Compensation policy is reviewed each year to ensure sustainable efficiency. This procedure is monitored and supervised by the Bank's Compensation Committee. Furthermore, employee satisfaction was measured regularly through surveys while improvement projects were devised on the basis of employee opinions and guidance.

Subsidiaries

EKent

EKent not only transforms infrastructure through integrated urban solutions in the cities it serves but also produces Smart City Solutions developing value-added business models that generate new revenues for local administrations. EKent, established in 2002, is Turkey's leading system integrator and operator in the field and serves 18 provinces, including the capital Ankara and 4 other Metropolitan Municipalities.

Commissioned in 2013 by the Turkish Football Federation (TFF) as an e-ticket system integrator, EKent took this project, which is what might be called the world's largest stadium renewal project, into 26 different cities, installing infrastructure in 46 stadiums as well as the infrastructure for access control and imaging systems, integrated ticketing and stadium ticket booth service. With the close to 7,500 security camera systems, 2,100 HD camera systems, 2,000 turnstiles, 500 ticket booths and 46 system control rooms installed in the stadiums, the e-ticketing project has so far served a total of 10 million sports enthusiasts.

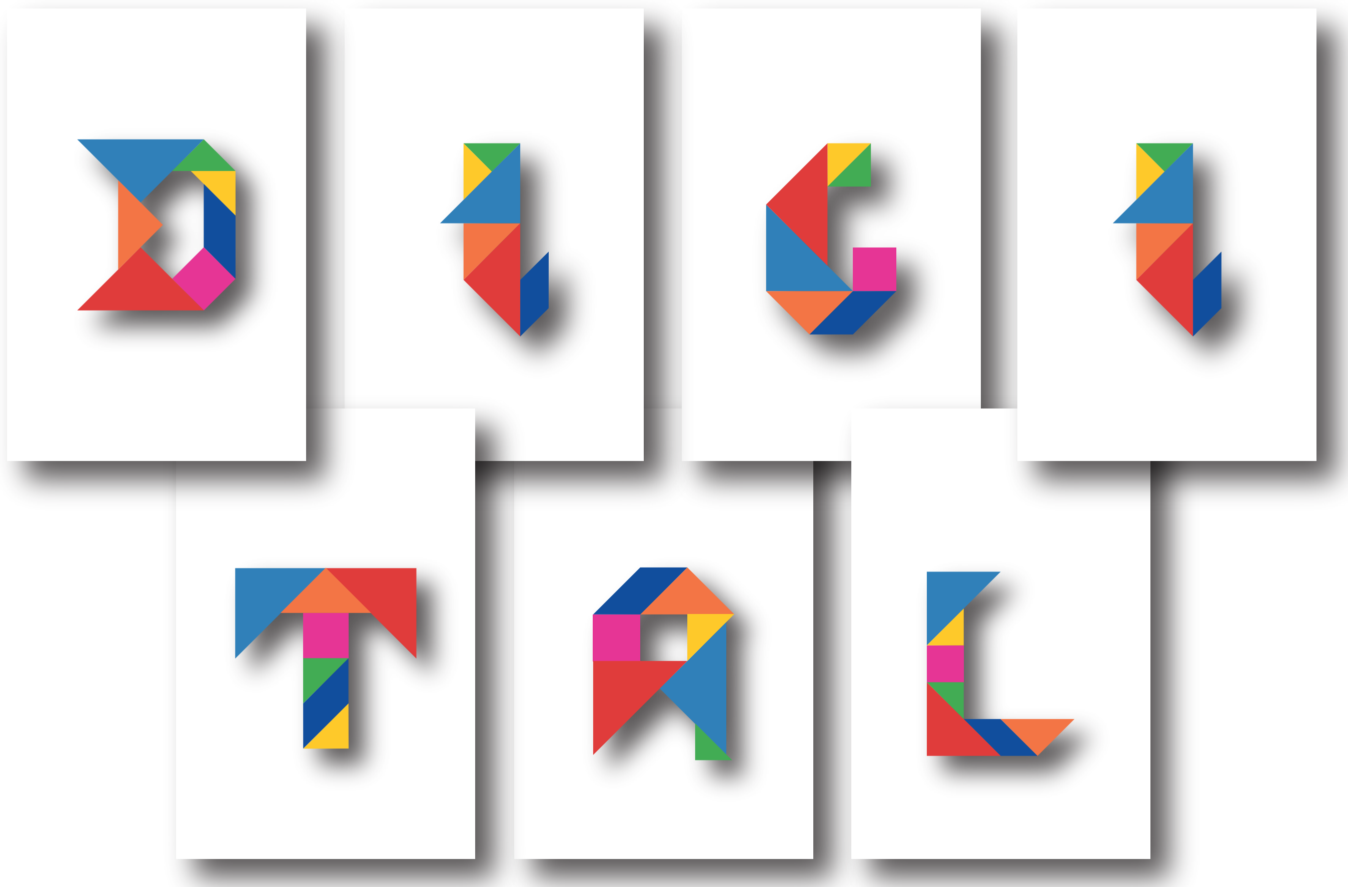
N Kolay

Turkey's largest payment channel, the N Kolay Payment Institution, provides services at its close to 500 N Kolay stores and at 4,250 N Kolay Kiosks. Acting as an agent throughout Turkey in utility bill collections, domestic and international money transfers and numerous other payment services, N Kolay provides customers with convenient, reliable and cordial service at walking distance in their own neighborhoods.

Today, millions of people prefer N Kolay Payment Institution as their payment channel. Through its customer-centric service system, N Kolay Payment Institution delivers uninterrupted customer service during long operational hours six days a week.

Aktif Bank's N Kolay Kiosk project was awarded the top prize at the contest held by the European Financial Management Association (EFMA), one of the most reputable agencies in the EU finance and banking sector.

we are investing in tomorrow's banking



We have the strong technological infrastructure to steer the future and unique projects to make a difference in the lives of our customers. Our innovative ideas give direction to the digital banking of tomorrow.

We make a difference with our creative, flexible and need-oriented solutions, answer customer needs with the latest developments in digital trends. Our business model that we call "New Generation Banking" enables us to invest in technology while planning our processes and we continue to increase the diversity of our services through digital channels without the need to add branches to our system.

UPT

UPT Payment Systems is the first licensed payment institution in Turkey. UPT system is fully integrated with EFT and SWIFT systems as well as with many other international banking and money transfer systems. This is an important reason why international business partners prefer UPT, which furthermore operates all around Turkey thanks to integration with PTT. UPT system does not require the customer to have a bank account in order to transfer money. It is possible to send money directly to accounts and credit cards in various currencies within Turkey and abroad.

This user-friendly, innovative product received top awards in the category of "Most Efficient Infrastructure" in the Financial World Innovation contest in 2012 and the "Payment System of the Year" category in the contest held by Payment Systems Magazine in 2011. According to the Turkish Exporters Assembly 2015 survey of the 500 largest exporters in Turkey, our UPT was ranked 20th in the roster of leading 500 exporters.

UPT provides services all over Turkey with its own branches in Istanbul, Antalya, Izmir and Sakarya, its representative offices, the N Kolay Processing Centers and the PTT branches. Today, the UPT service network operates on a wide expanse, covering 222 countries and regions and over 400,000 points of service around the world. UPT completed cash payment and transfer transactions with 125 countries in 2016.

On the digital side, UPT continuously works to offer customers the best solutions. A good example is the online order that allows UPT customers to enter transfer information over the web and mobile applications before completing transactions in the office through cash delivery.

The outstanding aspect of this solution is that the system provides an automatic translation of the information entered by users in their own language into Latin alphabet through the multiple language support function.

UPT also plays an active role in social responsibility, facilitating the delivery of toys, books and clothing in good condition to children in need at village schools within the framework of the "All for Children" charity. This project is a social recycling model that provides aid to about 100 schools.

Sigortayeri

Turkey's innovation insurance broker Sigortayeri Sigorta ve Reasürans Brokerliği A.Ş. ranks among the sector's 10 largest insurance brokers with its strong capital, staff of experts and its modern applications based on the latest technologies.

Sigortayeri provides major insurance coverage, consulting and risk analysis services to a wide geography both inside the country and abroad with its powerful placements team. In addition, it has taken its place as an insurance solution partner in major projects in the construction, healthcare, energy, textiles and financial services sectors.

At the same time, sigortayeri.com offers individual insurance products, and with its mobile applications, uses modern methods to rapidly reach its customers.A team of experts support customers in their online insurance experiences both before and after sales. Such activities enabled Sigortayeri to receive the "Best Web Site" award for sigortayeri.com website in the category of "Insurance" during the 13th Golden Spider Web Awards in 2015.

In 2016, Sigortayeri continued to invest in e-commerce, physical points of sale, telesales and mobile platform growth in an effort to provide easy access to its customers while also developing new products and services to match the needs of the transportation, power distribution and retail sectors.

With its activities in this area, Sigortayeri has been a trailblazer in the sector on many occasions, contributing to the growth of the market and aiming to support the positive perceptions of customers about the concept of insurance.

In line with these developments, profits and premium production in 2016 exhibited a 100% surge over 2015.

PAVO

With its well-established experience in the cash register systems sector, PAVO Teknik Servis Elektrik Elektronik San. Tic. A.Ş. offers payment system solutions to local and international customers, in particular, with Ministry-certified cash registers (Payment Registration Devices).

PAVO has been active as an Aktif Bank subsidiary since 2013 and coordinates all of its operations from Istanbul. With a strong base in R&D infrastructure, solution-focused sales and marketing strategies, as well as high quality production and operational services, PAVO aims to keep customer satisfaction at the highest level.

PAVO's collaboration with Ingenico, the world's leading payment systems provider, has resulted in the Ingenico iWE 280 product, a lightweight, easy-to-use and fast POS device with EFT POS features. The product's production license permission was obtained and the device introduced to the new generation cash register POS market in 2014.

Besides the EFT POS-featured Ingenico iWE 280 model mobile cash register, in November 2015, PAVO initiated the sales of the POS product Ingenico iDE 280, a desk-top cash register with EFT POS features that is now required, and continues to develop special solutions of added value for different sectors and companies.

Thanks to the GMP3 infrastructure applications integrating bank, meal cards and ERP software via the cash register POS devices, Ingenico cash registers have been recognized in many sectors as high-quality, reliable and end-to-end solution-producing cash registers of choice.

Echo Bilgi Yönetim Sistemleri

Echo Bilgi Yönetim Sistemleri A.Ş. began activities as a subsidiary of Aktif Bank in August 2016. Aiming to be the retailing sector's "New Generation Solution Partner" with its EchoPOS brand, the company develops end-to-end payment systems and integration solutions for company front and back offices. EchoPOS offers organized retailing chains Ingenico brand new generation cash registers and integrated Windows-based automation systems. Addressing the SME's are "Mobile-based" solutions that deal with stocks, sales, orders, campaigns, turnover and profitability follow-ups, all in an effort to offer customers differentiated alternatives. EchoPOS provides its customers with differentiated financial models based on the strength that Aktif Bank derives from being a group company.

This solution of offering all software and hardware units in one leasing model was devised as a first in Turkey; the model is based on real-time, two-way communication protocols and facilitates communications using third party applications. In addition, bearing a simple and scalable architecture, it can be personalized to meet project needs and may be managed with both mobile and web applications.

Mükafat Asset Management

This company was established in 2016 by Aktif Bank in partnership with the Islamic Corporation for the Development of the Private Sector (ICD), a subsidiary of Islamic Development Bank, for the purpose of engaging in activity in the area of non-interest financing methods. In December 2016, the Company obtained operations permission from the Capital Markets Board; its aim is to create a niche for itself in the sector as a source of providing alternative investment products such as venture capital and real estate funds in its position of being a point of entry to Turkey for international investors. Mükafat Asset Management will also deal with establishing and managing security investments and the management of retirement funds. Another goal of the company, besides the Private Portfolio Management services it will provide alongside of these products, is to achieve productivity through the management of portfolio models that it will develop in accordance with the risk and maturity preferences of portfolio-holding investors.

The company works with expertise to protect the interests of its partners, employees and customers with no eye for gain, making no compromises in its efforts to continuously add value to its services to the community and environment.

Emlak Girişim

Emlak Girişim was established to evaluate business opportunities in real estate and construction industry. Parallel to the growth trend in the sector, the company aims to be a sector leader with its direct partnerships and its urban renewal projects.

The first project by Emlak Girişim, financially supported on a revenue-sharing model, was the internationally awarded Kartalkule project in Istanbul. Emlak Girişim successfully fulfilled its part in the project, which is comprised of 205 residences and offices on a construction area of 32,000 m^2.

A candidate to become one of the leading financial centers in the world, Istanbul International Financial Center (IIFC) is the most significant investment by Emlak Girişim. The project involves key finance industry players such as the Central Bank, CMB, BRSA, Ziraat Bank, Halk REIT, Vakıf REIT and Emlak Konut Real Estate Inc.

Launched in 2013 and crowned as the largest regional planning project in Turkey with a construction area of three million square meters on a land of 303,000 m2, the IIFC also marks the first construction project in Turkey financed by a successful Sukuk issuance. Serving as a cornerstone for the industry, the IIFC project is scheduled for completion by the end of 2019.

Emlak Girişim A.Ş. is also part of the Metropolitan Project, a major endeavor that is being undertaken by Emlak Konut A.Ş. on a 99,000 m2 plot of land and a construction site of 835,000 m2 in Doğu (East) Ataşehir. The project is expected to be completed in the second quarter of 2017.

Kazakhstan Ijara Company Joint Stock Company (KIC)

KIC was founded in 2013 and started operations in early 2014. It is the first “financial leasing” company founded in Kazakhstan that observes Islamic rules in its operations. Aktif Bank and ICD, the member of Islamic Development Bank that finances private sector investments, are shareholders in the Company. Other shareholders are the Eurasia Group from Kazakhstan, Al Hilal Bank, Zaman Leasing and Kolon Group, a leading company from South Korea. Offering leasing services mainly to small and medium-size enterprises (SMEs), KIC sustains efforts in order to become one of the largest leasing companies in Kazakhstan within five years.

Euroasia Leasing Company (ELC)

Founded in 2012 in Tataristan, ELC is the first “Islamic financial leasing” company in Russia. Aktif Bank acquired 25% of the company’s shares in September 2014 to become shareholders with ICD, the member of Islamic Development Bank that finances private sector investments. Other shareholders are Eler New Energy Power GMBH, Zaman Leasing from Kazakhstan, and Kolon Group, a leading company from South Korea. Offering leasing services mainly to SMEs, ELC is a leading agency operating in Russia in the field of Islamic financial leasing. It also plans to become the market leader through a five-year strategic plan.

Euro - Mediterranean Investment Company Ltd. (EMIC)

Founded in Nicosia in 2015, EMIC is the first and only “Islamic investment company” in Cyprus and also the largest international investment company operating in the Turkish Republic of Northern Cyprus (TRNC). Aktif Bank and ICD, the member of Islamic Development Bank that finances private sector investments, are shareholders in the Company. Other shareholders from the TRNC are CreditWest Bank Ltd., Kıymet Trading & Contracting Ltd., and Tüfekçi Group. Its goal is to contribute in the best way to sustainable development by seeking, developing and realizing investment possibilities to further the private sector in the Turkish Republic of Northern Cyprus and other countries in the region. In this context, in 2016, EMIC turned 10 different investment possibilities into opportunities, particularly in the construction sector, investing in 3 different projects to transfer its funds into the real sector.

Innovative Operations in the Industry in 2016

- Aktif Bank launched the “100% digital loans” product in 2016 over the nkolaykredi.com.tr channel, bringing new life to the concept of loans in Turkey. The Bank evaluated close to TRY 7 billion worth of applications incoming from 800,000 customers on its website nkolaykredi.com.tr in 2016 and also extended widespread loans at low distribution cost to 75,000 customers. This process was designed to be completely digital and customers can access their contracts and documents on the electronic medium. In 2016, this ambitious business model won Aktif Bank an award in the category of “Innovation in Banking Products” in the world-leading and prestigious award program, the “Financial World Innovation Awards.” At the same time, the bank was recognized in the “Interactive Media Awards,” a competition organized to distinguish the leading websites around the world in terms of design and functionality, and won an “Award for Excellence” in the “Financial Services” category.

- Besides securing financing for Turkish sport industry, Aktif Bank continued to contribute its store of know-how to Turkish football in 2016 and after making an economic assessment, prepared a report that it called “EkoLig”, which is Turkey’s most comprehensive report on the economic map of football in Turkey. The report compares Turkish football’s financial data with the leading leagues in Europe and declares that the national sport has grown 5 times in the last 10 years, reaching a level of over TRY 2 billion in total revenues. Also included in the report are the most important items of income of the various clubs and related striking figures as well as stories of financial success in the Spor Toto Super League.

• With the integrated city solutions and infrastructure renewals that it has achieved in the cities it serves, EKent also seeks to develop new revenue-generating business models of added value. Its quality work force and its system of R&D infrastructure has produced a Turkish-patented software platform. Contrary to classic vehicle monitoring system applications, the platform makes possible vehicle monitoring in real time. The take-off times and routing information for public transportation vehicles can be viewed on the LCD screens at the stops. The Pallium reporting system reports how busy stops, transit lines and vehicles are by the hour, day and month. In the provinces that EKent serves, the “New Generation Public Transportation Information Management System” developed for “Public Transportation Transit Systems” makes it possible to review the municipality’s transit lines, the locations of stops, the number of buses, to revise these and measure on-the-spot performance of transit lines, stops and drivers, send momentary notices to drivers for city traffic control purposes, while also providing location- and time-based advertising services, announcements and other functional elements, all from a single platform.

• EKent continues to bring diversification to in-city transportation cards. The first steps for the Guaranteed Ankara Card (Güvenceli Ankara Kart) project planned to be launched throughout Ankara in the first quarter of 2017 were taken in the last quarter of 2016. This special card application will be offered in Ankara before the rest of the country and was developed in such a way as to make all end-to-end non-policy-covered processes available in other cities as well. In the event that the Guaranteed Ankara Card is lost or stolen, users will be furnished with new cards free of change, with dispatch to the user’s address and all costs arising from unauthorized use of the card being guaranteed.

• The Turkcell “Hayal Ortağım” (Dream-mate) Project organized by the Young Guru Academy (YGA) to meet the needs of the visually impaired so that they can navigate the city by themselves began to be implemented in Gaziantep with the help of EKent. The implementation, which still remains at the project stage in many companies, has been the first example of its kind to be launched in the world, thanks to the support and expertise in public transportation that EKent has provided to YGA. Launched in Turkey for the first time in Gaziantep, this application allows the visually impaired to use city buses and bus stops without having to ask anyone for help. The system provides a voiced announcement to let the visually impaired know which stop they are at, the list of buses that will stop at that point, when the next bus will arrive, as well as an alert when the desired bus has arrived at the stop. As the vehicle nears the stop, the bus driver is alerted to the fact that a visually challenged person will be boarding. The visually challenged user is also able to learn at which stops the bus is stopping and to receive a voice alert when the bus is nearing the desired stop.

• In the second half of 2016, Sigortayeri defined its vision as taking its place among the country’s 5 leading insurance brokerage houses, fortified with the best teams in the sector. It has brought innovations to the sector in the area of retail insurance that have been modeled after important projects in developed markets. The company developed the finance market’s most comprehensive payment card insurance product under the name of “Güvenli Cüzdan” (Secure Wallet), offering the card to customers via the PTT. Completing its preparations in the transportation sector in 2016, the Secure Wallet project, planned to be initiated in the first quarter of 2017, paved the way for transit cards to be insured against loss/theft for the first time in Turkey. In the retailing sector, the Secure Wallet concept prepared for the N Kolay Processing Center provided consumers with free insurance services, adding value to their transactions at bill payment stations. In the energy sector, as part of a partnership with YEPAŞ, retail consumers in the electricity distribution market and SME’s were provided with the sector’s most comprehensive customer loyalty program. Sigortayeri started the “best price guarantee” application on sales over Sigortayeri.com, its online platform in the individual insurance segment and, in the corporate insurance channel, partnerships were established with Unison Insurance in Georgia and with Sigal Insurance in Albania as additions to the collaborations already formed with local insurance companies. Sigortayeri started to operate in the individual retirement segment in 2016 in addition to its operations in the elemental, health and life insurance branches.

• PAVO, exclusive partner of the world-famous Ingenico, one of the most important players in Turkey’s POS market, brought special solutions of added value to different sectors and companies in the retail channels with its Ingenico iDE 280, a desktop cash register EFT POS device whose use has become required. Thanks to the GMP3 infrastructure applications integrating bank, meal card and ERP software via the cash register POS devices, Ingenico cash registers have been recognized in many sectors as high-quality, reliable and end-to-end solution-producing cash registers of choice.

• Starting operations in 2016, EchoPOS will be offering retail chains and back and front offices payment systems and automated solutions. EchoPOS uses Windows for organized retailing chains and mobile-based systems for small and medium-sized enterprises, offering firms the opportunity to serve their clients via tablets. The system moreover provides users with the chance to follow up on campaigns and turnover.

• As part of the vision to gain retail customers with subsidiaries, the first project toward this aim, N Kolay Card, was launched. The N Kolay stores, with the strength of the high volume of transaction traffic, will constitute the widespread distribution network for this new product and will be its first and most powerful synergetic partner. The N Kolay Card will enable bill payments at N Kolay Stores Centers and will aim at attracting a customer audience that does not have a commitment to any particular bank. These targeted customers will be given an N Kolay Card to introduce theme to the card payment system. This will be followed by efforts to introduce the same customers to other products of the bank. We are confident that this project will be a model of financial inclusion opportunities in Turkey. Holders of the N Kolay Card will not only be able to pay their bills with their cards but they will be able to follow up on their utility bill payments and arrange to instruct the bank to pay the bills automatically.

• The model that we had piloted in 2015 to provide especially farmers and integrated facilities as well as other links of the value chain with financing, offering them the opportunity to engage in higher quality production with raw material inputs at lower costs, was expanded. Particularly in the cotton sector, this led the way to increased quality in production and provided all stakeholders with easy access to financing.

• Innovative financing models were launched to expand the fleets of operational vehicle leasing companies. These models included the creation of a website where fleet companies could engage in second-hand vehicle sales and end-consumers were offered the opportunity to take out loans for these sales.

• The solutions developed for automotive auxiliary industry suppliers made access to financing easier for producers active in this branch of business. Producers are able to use this model to implement quick and practical methods of meeting their financing needs. This way, they are able to sustain their manufacturing quality and are less affected by any adverse developments in the market.

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 2016, Aktif Bank hired 156 new employees. A total of 40 hours per employee was allocated for training in 2016 in order to improve their knowledge and skills for successful development.

Master's Degree / Doctoral Degree	14%
Bachelor's Degree	64%
Number of employees	666
Average age	33

Transactions of the Bank with Its Own Risk Group

	Subsidiaries and Associates		Direct and Indirect Shareholders of the Bank		Other Entities Included in the Risk Group	
	Non-Cash	Cash	Non-Cash	Cash	Non-Cash	Cash
Loans and other receivables						
Balance at Beginning of Period	-	-	1,846,138	1,229	302,158	440,387
Balance at End of Period	-	-	1,999,781	3,798	324,439	530,218
Interest and Commission Income	-	-	168,065	41	36,482	5,899

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., İmperitek Bilişim Yönetimi Danışmanlık Mühendislik Eğitim San. ve Tic. Ltd. Şti., Cronom Bilişim ve Yazılım Teknolojileri San. Ve Tic. Ltd. Şti., 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. ve 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., Sistem Araştırma Yatırım ve Yönetim Danışmanlığı Eğitim Hizmetleri Ticaret Ltd. Şti., Etcbase Yazılım ve Bilişim Teknolojileri A.Ş. ve 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., E-Kart Elektronik Kart Sistemleri San. ve Tic. A.Ş., Hobim Digital Elektronik Hizmetler A.Ş., EKent Teknoloji ve 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 (Posta ve Telgraf Teşkilatı), Experian Bilgi Hizmetleri Ltd. Şti., Motto23 İletişim Hizmetleri ve Tic. A.Ş., Asset Aktif Sportif Sanatsal Etkinlik Hizmetleri 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 Supervisory Board, The Internal Audit, Internal Control and Complience 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 6 Audit Committee meetings were held in 2016. Operations of Internal Systems Departments were closely monitored, and the Audit Committee shared significant matters with the Board of Directors.

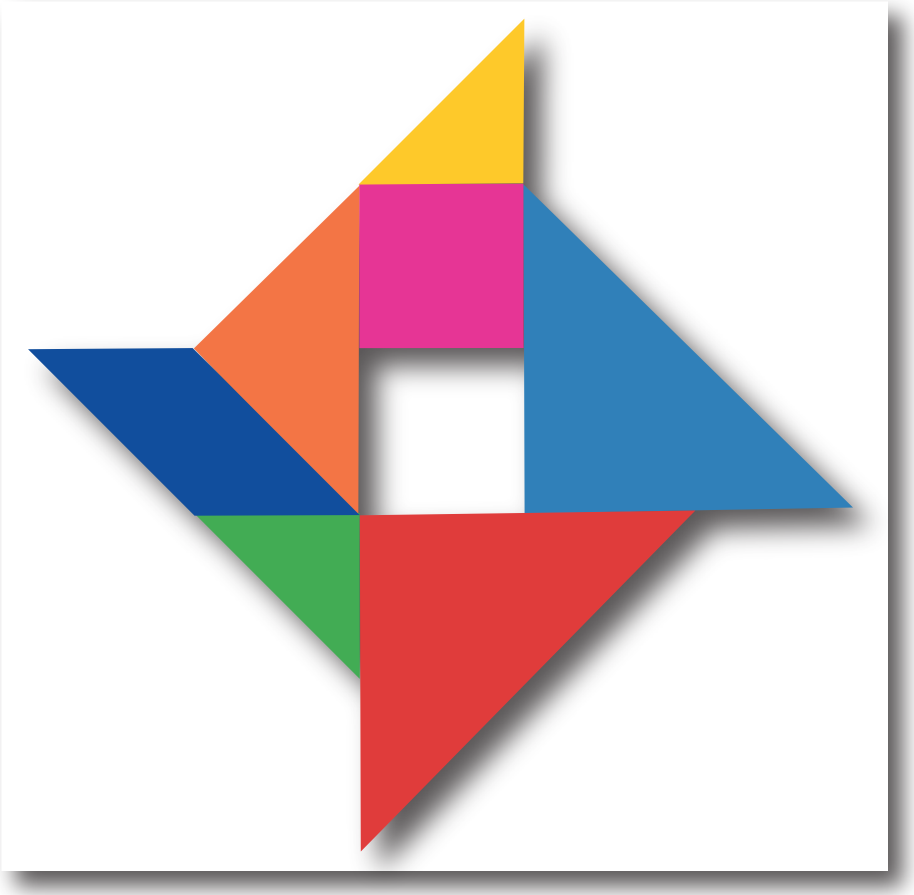
In 2016, Internal Audit, Internal Control, Compliance and Risk Management Departments carried out control, audit, monitoring and counseling activities as well as process-related efforts. Afterwards those departments made suggestions for the establishment of new control points, thus improving the business processes of the Bank.

In line with the "Annual Auditing Plan" approved by the Board of Directors, audits were carried out in 2016 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 3 branches, 24 head office and processes, conducted inspections of 9 information technologies, 4 affiliates and 5 companies providing supporting services, amounting to 45 different cases of auditing.

Internal Control Department inspected 667 control points established in relation to operations by Treasury, Operations, Credit, Accounting, Information Technology and Credit card, issued 17 control reports on said operations, and conducted 10 on-site branch controls in 2016. Furthermore, controls related to the Bank's information systems and banking processes were tested within the scope of Executive Statement efforts.

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. Inspections were carried out in the context of the bank's anti-crime revenue and terror financing operations in line with relevant national and international regulations. An effort was made through online training programs to raise awareness among staff members about preventing money laundering of crime revenues and terror financing.

we are pioneering in every sector **we serve**



Besides our banking operations, the synergy created with our subsidiaries, all leaders in their respective sectors, have made us unrivaled in the new avenues of business that we engage in.

Together with our subsidiaries, today we provide a population of 50 million smart cities and smart stadiums, we manage 9 million smart transit cards, act as an agency for 1 billion card transactions a year as well as 1.5 million money transfers, also making 68 million utility bill collections and supplying 1 out of every 4 smart POS devices.

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 Asset and Liabilities Committee (ALCO) and the Board of Directors.

Activities were undertaken in 2016 by Internal Audit, Internal Control, Compliance and Risk Management Departments in consideration of the growing and developing organizational structure, balance sheet size, transaction volume and transaction diversity of the Bank. The objectives were to increase the efficiency and effectiveness of operations, reduce the possibility of harm to the Bank's assets and resources, ensure that annual reports are accurate and reliable, and conduct operations in compliance with laws and legal liabilities. Such activities helped keep the risks to a minimum.

Evaluation of Financial Status

The Bank's total assets reached TRY 9,483,016 by the end of 2016, going up by 25.49% when compared to the previous year. In USD Dollar terms, the Bank's total assets increased by 3.68% from $ 2.599 billion at the end of 2015 to $ 2.695 billion by the end of 2016. By the end of 2016, the Bank achieved net profit worth TRY 98 million. This represents an increase in profitability of 278% compared to end-2015. While the return on average assets based on net gain was 0.38% in 2015, this ratio reached to 1.15% in 2016. The return on average equity, which was 2.94% in the previous period, reached to 10.52% in 2016.

By the end of 2016, the Bank's total shareholders' equity reached TRY 983.6 million with an increase amount of TRY 103.7 million. With this result, Aktif Bank further strengthened its shareholder equity structure and Aktif Bank's year-end capital adequacy ratio stood at 12.70%.

In 2016, the Bank continued to manage its credit portfolio with a view to optimizing the risk-return balance, meeting customers' financing needs at different maturities in the most suitable manner. The total volume of loans and financial leasing transactions grew by 19.02% to TRY 5,520 billion in 2016. The Bank's non-cash loans amounted to TRY 928.4 million. However, despite the economic crisis and its worldwide negative impact, the Bank's share of total non-performing loans remained at 1.88%, thanks to rational and balanced risk policies.

The Bank, implementing the first ABS (Asset-Backed Security) issue by establishing Turkey's first Asset Finance Fund on October 20, 2011. The aforementioned transaction of securitisation, based upon Aktif Bank's individual loan portfolio, was rated AAA, the highest possible credit rating in Turkey. By means of this operation, the first issuance based upon individual loans in Turkey, the Bank has taken a pioneering and innovative step towards obtaining funds, the main problem of 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. Risk Management Department is responsible for minimizing risk by identifying, measuring and managing credit, market and operational risks during formulation of risk management policies.

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 is developed by the Risk Management Department and 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 takes early warning signs into consideration. It is the policy of the Bank to consider safety, liquidity, efficiency and appropriate distribution of loans in the extension of credit.

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.

Risk Management Department monitors the creditworthiness of corporate and retail loan portfolios. It also monitors increases in risk and concentration levels to check compliance with the limits set by the Board of Directors. Results are reported to the Audit Committee and the Board of Directors.

Stress tests and scenario analyses are applied to the portfolio 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 is important 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 are developed to enable the Bank to incur minimum damage and losses in the case of a potential financial crisis. Financial contingency indicators are established 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, structural interest rate risk and counter-party credit risk. The results of the analyses are shared with senior management, ALCO, Audit Committee and the Board of Directors.

Operational Risk

In managing operational risks, operational risk categories are identified in conformity with Basel II. Data on operational losses are collected within the framework of these categories and monitored over a database.

The Bank also conducts Risk self-evaluations and draws up risk inventories to determine points of risks in bank processes and products and express these in measurable terms.

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.

In addition, the Contingency Center in Ankara will allow the Bank to continue operations during major disasters such as earthquakes, fires and floods. A backup of all corporate accesses and of critical servers is simultaneously kept at the center in Ankara. Both centers are equipped with an office environment that totally meets technical requirements of the core staff.

5-Year Summary Financial Highlights

5-YEAR SUMMARY FINANCIAL HIGHLIGHTS - IN NOMINAL VALUES (TRY ,000)

	2016	2015	2014	2013	2012
BALANCES WITH BANKS & MONEY MARKET PLACEMENTS	559,386	216,299	155,337	82,873	16,155
TRADING SECURITIES (NET)	50,486	9,271	4,251	6,248	4,726
INVESTMENT SECURITIES (NET)	1,123,740	930,741	887,838	644,789	571,521
LOANS & FACTORING RECEIVABLES (NET)	5,520,369	4,638,261	3,983,292	3,576,617	2,365,018
FINANCIAL LEASE RECEIVABLES (NET)	-	-	-	1,252	1,542
SHAREHOLDERS' EQUITY	983,622	879,915	886,604	837,498	458,292
TOTAL ASSETS	**9,483,016**	**7,556,649**	**6,251,827**	**5,104,307**	**3,517,595**
GUARANTEES AND INDEMNITIES	**928,423**	**631,362**	**991,109**	**993,470**	**1,135,133**
NET INTEREST INCOME	355,663	307,398	238,622	271,512	142,748
NET FEE AND COMMISSION INCOME	89,137	59,148	33,863	78,390	47,768
PROFIT BEFORE TAXES	141,185	52,120	41,439	160,912	117,708
PROVISION FOR TAXES ON INCOME	-43,131	-26,153	-7,714	-36,372	-22,664
NET PROFIT	98,054	25,967	33,725	124,540	95,044

5-YEAR SUMMARY FINANCIAL HIGHLIGHTS - IN NOMINAL VALUES (USD ,000)

	2016	2015	2014	2013	2012
BALANCES WITH BANKS & MONEY MARKET PLACEMENTS	158,953	74,391	66,987	38,829	9,063
TRADING SECURITIES (NET)	14,346	3,189	1,833	2,927	2,651
INVESTMENT SECURITIES (NET)	319,317	320,106	382,870	302,108	320,611
LOANS & FACTORING RECEIVABLES (NET)	1,568,643	1,595,220	1,717,751	1,675,780	1,326,724
FINANCIAL LEASE RECEIVABLES (NET)	-	-	-	587	865
SHAREHOLDERS' EQUITY	279,502	302,626	382,338	392,399	257,092
TOTAL ASSETS	**2,694,651**	**2,598,930**	**2,696,031**	**2,391,560**	**1,973,295**
GUARANTEES AND INDEMNITIES	**263,816**	**217,142**	**427,405**	**465,478**	**636,785**
NET INTEREST INCOME	101,064	105,722	102,903	127,214	80,079
NET FEE AND COMMISSION INCOME	25,329	20,343	14,603	36,729	26,797
PROFIT BEFORE TAXES	40,118	17,925	17,870	75,393	66,032
PROVISION FOR TAXES ON INCOME	-12,256	-8,995	-3,327	-17,042	-12,714
NET PROFIT	27,863	8,931	14,544	58,352	53,318
USD/TRY	3.5192	2.9076	2.3189	2.1343	1.7826

Aktif Yatırım Bankası Anonim Şirketi and Its Subsidiaries

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

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for Qualified Opinion

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

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

Key Audit Matters

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

Key Audit Matter

Allowance for probable losses on corporate and commercial loans

At 31 December 2016, gross loans and advances to customers were TRY 5,595,680 thousands against which allowance for loan losses of TRY 75,311 thousands were recorded ending with a net carrying amount of TRY 5,520,369 thousands. The details are disclosed in Note 13 of the consolidated financial statements.

For allowance for loan losses, a management decision and judgement is required to determine when an impairment event has occurred and a necessary classification should be done. So there is a risk of misstatement in the calculation of the allowance related to the classification of non-performing loans and advances to customers in accordance with IAS 39.

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

Collective allowances are maintained to reduce the carrying amount of portfolios of similar loans and advances to customers to their estimated recoverable amounts at the date of financial position. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties.
Because of the significance of these judgements and the size of due from loans and advances to customers, the audit of allowance for probable losses on corporate and commercial loans and advances to customers is a key area of focus. Furthermore there is a risk of misstatement in the calculation of allowance related to errors in the main parameters of allowance for probable losses on corporate and commercial loans and advances to customers (specific and collective) in accordance with IAS 39 in the IFRS financial statements.

Because of the significance of these judgements and the size of due from loans and advances to customers, the audit of allowance for probable losses on corporate and commercial loans and advances to customers is a key area of focus. Furthermore there is a risk of misstatement in the calculation of allowance related to errors in the main parameters of allowance for probable losses on corporate and commercial loans and advances to customers (specific and collective) in accordance with IAS 39 in the IFRS financial statements.

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 loans and advances, controls over the impairment calculation models including data inputs, controls over cash flow estimates and finally governance controls which includes the management meetings for the approval process of allowance for probable losses on loans and advances to customers.

In addition to testing the key controls, we performed a loan review over the performing loans and advances to customers in order to assess whether the borrowers exhibit any possible default risk that may affect the repayment abilities; and tested a sample of loans to assess whether impairment events had occurred and whether impairments had been identified in a timely manner. We also verified whether all impairment events as identified by us had also been identified by the Group's management. Our selected samples also included non-performing loans and advances to customers, where we assessed management's forecast of recoverable cash flows, valuation of collaterals, estimates of recovery on default and other sources of repayment. For allowances provided on a collective basis we tested the underlying models, the appropriateness and accuracy of the inputs to those models, such as probability of default and loss given default rates, and where available, compared data and assumptions made to external benchmarks. Finally, we understood and tested the controls over related disclosures.

Key Audit Matter

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. S.The same set of control tests were conducted on the database and the operating system layer. Finally, critical automated business controls were tested to verify that controls are in essence exist and are adequate for the the purpose their serving.

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

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

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

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

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

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

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

Yaman Polat
Partner

Istanbul, 3 May 2017

TABLE OF CONTENTS

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016
(Currency – In thousands of Turkish Lira ("TRY"))

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

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME AS AT 31 DECEMBER 2016
(Currency – In thousands of Turkish Lira ("TRY"))

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

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016
(Currency – In thousands of Turkish Lira ("TRY"))

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

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016
(Currency – In thousands of Turkish Lira ("TRY"))

	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**

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

(Currency – In thousands of Turkish Lira ("TRY"))

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

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

Notes to the consolidated financial statements

1. Reporting entity

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

The Bank operates as an "investment bank" and is mainly involved in corporate and consumer services such as cash or non-cash, 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 666 people as at 31 December 2016 (31 December 2015: 784).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Basis of preparation

2.1 Statement of compliance

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

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

2.2 Basis of measurement

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

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

2.3 Functional and presentation currency

These consolidated financial statements are presented in TRY, which is the Bank's functional currency. Except as indicated, financial information presented in TRY 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 TRY 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 TRY, 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 TRY 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 TRY at foreign exchange rates ruling at the date of the statement of financial positions. The revenues and expenses of foreign operations are translated to TRY 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.

(Currency – In thousands of Turkish Lira ("TRY"))

Acquisitions from entities under common control

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

Group entities

Subsidiaries		Direct ownership %		Indirect ownership %	
	Country of Incorporation	31 December 2016	31 December 2015	31 December 2016	31 December 2015
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	99.80%	99.27%	-	-
E-Kent Teknoloji ve Ödeme Sistemleri San ve Tic. A.Ş.	Turkey	-	-	99.80%	99.27%
N Kolay Mağazacılık A.Ş.	Turkey	99.99%	-	-	99.27%
UPT Ödeme Hizmetleri A.Ş.	Turkey	100.00%	100.00%	-	-
Real Estate					
Emlak Girişim Danışmanlığı A.Ş.	Turkey	100.00%	100.00%	-	-
Service					
Pavo Teknik Servis Elektrik Elektronik Sanayi ve Ticaret A.Ş.	Turkey	-	-	79.84%	79.42%
Asset Aktif Sportif ve Sanatsal Etkinlik Hizmetleri Tic. A.Ş.	Turkey	-	-	99.80%	99.27%
Mükafat Portföy Yönetimi A.Ş.	Turkey	80.00%	-	-	-
Echo Bilgi Yönetim Sistemleri A.Ş.	Turkey	-	-	49.90%	-

Equity accounted investees	Country of Incorporation	31 December 2016 Ownership %	31 December 2015 Ownership %
Kazakhstan 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	25.00%	25.00%
Haliç Finansal Kiralama Anonim Şirketi	Turkey	32.00%	-
Euro Mediterianean Investment Company	Turkish Republic of Northern Cyprus	21.23%	21.28%

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 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.

(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.

(Currency – In thousands of Turkish Lira ("TRY"))

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

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

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

3.19 Intangible assets

(i) Service agreements

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

(ii) Software

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

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

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

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

(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.

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016
(Currency – In thousands of Turkish Lira ("TRY"))

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 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.

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016
(Currency – In thousands of Turkish Lira ("TRY"))

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 TRY 46,136 for the qualifying asset as of 31 December 2016 (2015: TRY 28,022).

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

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

None.

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

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

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

IFRS 14 Regulatory Deferral Accounts

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

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

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

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

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

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

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

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

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

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

Amendments to IAS 27 Equity Method in Separate Financial Statements

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

Annual Improvements 2012-2014 Cycle

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

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

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

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

Amendments to IAS 1 Disclosure Initiative

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

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

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

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

(Currency – In thousands of Turkish Lira ("TRY"))

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

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

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

[1] Effective for annual periods beginning on or after 1 January 2017.
[2] Effective for annual periods beginning on or after 1 January 2018.
[3] Effective for annual periods beginning on or after 1 January 2019.

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

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

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

This amendment clarifies the following aspects:

- Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.

- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

Amendments to IAS 7 Disclosure Initiative

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

IFRS 9 Financial Instruments

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

IFRS 15 Revenue from Contracts with Customers

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

The five steps in the model are as follows:

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

Amendments to IFRS 15 Revenue from Contracts with Customers

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

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

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

IFRS 16 Leases

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

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

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

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

The Interpretations Committee came to the following conclusion:

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

Amendments to IAS 40 Transfers of Investment Property

The amendments to IAS 40 Investment Property:

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

Annual Improvements to IFRS Standards 2014–2016 Cycle

- **IFRS 1:** Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.

- **IFRS 12:** Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

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

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

4. Use of estimates and judgements

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

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

Key sources of estimation uncertainty

Allowances for loan losses

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

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

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

Determining fair values

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

Critical accounting judgements in applying the Bank's accounting policies

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

Impairment of investment in equity securities

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016
(Currency – In thousands of Turkish Lira ("TRY"))

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.

(Currency – In thousands of Turkish Lira ("TRY"))

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

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

Financial asset and liability classification

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

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

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.

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016
(Currency – In thousands of Turkish Lira ("TRY"))

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.

Exposure to credit risk

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

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

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

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

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

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

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

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

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016
(Currency – In thousands of Turkish Lira ("TRY"))

Impaired loans and advances to customers

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

Allowance for impairment

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

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

Write-off policy

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

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

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

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

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

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.

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016
(Currency – In thousands of Turkish Lira ("TRY"))

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

Exposure to liquidity risk

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

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

Residual contractual maturities of financial liabilities

	Note	**Carrying amount**	**Gross nominal inflow / (outflow)**	**On demand**	**Less than 1 month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**More than 5 years**
31 December 2016									
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 liabilitie

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

(*) Included in other liabilities.

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

Market risk

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

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

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.

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016
(Currency – In thousands of Turkish Lira ("TRY"))

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

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

Interest rate risk

Exposure to interest rate risk - non-trading portfolios

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

	Note	Carrying amount	Unallocated	On demand	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
31 December 2016									
Cash and cash equivalents	9	988,702	-	576,599	412,103	-	-	-	-
Reserve deposits at Central Bank	10	707,595	-	-	707,595	-	-	-	-
Trading assets	11	38,108	-	-	38,108	-	-	-	-
Loans and advances to customers	13	5,520,369	-	-	1,472,929	1,365,921	955,457	1,685,339	40,723
Investment securities	12	1,123,740	1,719	-	171,127	108,039	331,685	300,528	210,642
		8,378,514	**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**

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

Interest rate sensitivity

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

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016
(Currency – In thousands of Turkish Lira ("TRY"))

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

Summary of average interest rates

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

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

Foreign currency risk

31 December 2016	**Euro**	**USD**	**Other**	**Total**
Cash and cash equivalents	582,006	49,290	23,928	655,224
Reserve deposits at Central Bank	405,283	302,311	-	707,594
Loans and advances to customers	1,472,492	1,422,743	-	2,895,235
Investment securities – AFS	28,535	285,874	-	314,409
Equity accounted investees	-	7,196	4,292	11,488
Other assets	2,880	55,565	-	58,445
Trade and other payables	-	-	-	-
Funds borrowed	(1,508,699)	(1,143,233)	(17,244)	(2,669,176)
Obligations under repurchase agreements	(52,017)	(200,452)	-	(252,469)
Debt securities issued	(267,840)	(304,333)	-	(572,173)
Other liabilities	(1,030,473)	(238,699)	(29,231)	(1,298,403)
Net statement of financial position	**(367,833)**	**236,262**	**(18,255)**	**(149,826)**
Derivative financial instruments	368,190	(266,604)	23,552	125,138
Net total position	**357**	**(30,342)**	**5,297**	**(24,688)**

31 December 2015	**Euro**	**USD**	**Other**	**Total**
Cash and cash equivalents	190,483	74,622	18,756	283,861
Reserve deposits at Central Bank	118,470	555,872	11,262	685,604
Loans and advances to customers	758,437	1,186,520	-	1,944,957
Investment securities – AFS	12,069	60,863	-	72,932
Equity accounted investees	-	7,196	1,035	8,231
Other assets	2,532	11,797	-	14,329
Trade and other payables	-	-	-	-
Funds borrowed	(788,575)	(1,521,465)	(37,576)	(2,347,616)
Obligations under repurchase agreements	(6,429)	(48,667)	-	(55,096)
Debt securities issued	(128,281)	(337,587)	-	(465,868)
Other liabilities	(432,088)	(158,766)	(24,939)	(615,793)
Net statement of financial position	**(273,382)**	**(169,615)**	**(31,462)**	**(474,459)**
Derivative financial instruments	274,077	184,888	33,077	492,042
Net total position	**695**	**15,273**	**1,615**	**17,583**

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016
(Currency – In thousands of Turkish Lira ("TRY"))

Sensitivity analysis

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

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

31 December 2015	**Equity**	**Profit or loss**
Euro	70	51
USD	1,527	1,706
Other currencies	162	162
	1,759	**1,919**

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

Operational risk

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

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

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

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

Capital management

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

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

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

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

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

Financial assets and liabilities

Accounting classification and fair values

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

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

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

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

	Note	Trading	Loans and receivables	Available-for-sale	Held–to-maturity	Other amortised cost	Total carrying amount	Fair value
31 December 2016								
Cash and cash equivalents	9	-	988,702	-	-	-	988,702	988,702
Trade and other receivables		-	-	-	-	301,179	301,179	301,179
Reserve deposits at Central Bank	10	-	707,595	-	-	-	707,595	707,595
Trading assets	11	50,486	-	-	-	-	50,486	50,486
Loans and advances to customers	13	-	5,520,369	-	-	-	5,520,369	5,498,439
Investment securities	12	-	-	1,072,563	51,177	-	1,123,740	1,123,775
		50,486	**7,216,666**	**1,072,563**	**51,177**	**301,179**	**8,692,071**	**8,670,176**
Trading liabilities	11	7,234	-	-	-	-	7,234	7,234
Trade and other payables		-	-	-	-	124,827	124,827	124,827
Financial lease liabilities		-	-	-	-	33,740	33,740	33,740
Obligations under rep. agr.	19	-	-	-	-	762,409	762,409	762,409
Debt securities issued	21	-	-	-	-	3,168,648	3,168,648	3,168,648
Funds borrowed	20	-	-	-	-	2,829,348	2,829,348	2,829,348
		7,234	**-**	**-**	**-**	**6,918,972**	**6,926,206**	**6,926,206**

	Note	Trading	Loans and receivables	Available-for-sale	Held–to-maturity	Other amortised cost	Total carrying amount	Fair value
31 December 2015								
Cash and cash equivalents	9	-	451,605	-	-	-	451,605	451,605
Trade and other receivables		-	-	-	-	100,308	100,308	100,308
Reserve deposits at Central Bank	10	-	685,604	-	-	-	685,604	685,604
Trading assets	11	9,271	-	-	-	-	9,271	9,271
Loans and advances to customers	13	-	4,638,261	-	-	-	4,638,261	4,608,316
Investment securities	12	-	-	774,909	155,832	-	930,741	930,741
		9,271	**5,775,470**	**774,909**	**155,832**	**100,308**	**6,815,790**	**6,785,845**
Trading liabilities	11	9,848	-	-	-	-	9,848	9,848
Trade and other payables		-	-	-	-	130,340	130,340	130,340
Financial lease liabilities		-	-	-	-	39,485	39,485	39,485
Obligations under rep. agr.	19	-	-	-	-	478,027	478,027	478,027
Debt securities issued	21	-	-	-	-	2,619,947	2,619,947	2,619,947
Funds borrowed	20	-	-	-	-	2,508,185	2,508,185	2,508,185
		9,848	**-**	**-**	**-**	**5,775,984**	**5,785,832**	**5,785,832**

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016
(Currency – In thousands of Turkish Lira ("TRY"))

7. Business combinations

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

8. Segment Reporting

2016	Retail banking	Corporate banking	Investment banking	Other banking	Total banking	Brokerage	Other	Combined	Adjustments	Total
Operating income	307,829	572,495	110,527	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	(1,332,508)	6,926,206
Equity and other liabilities	-	-	-	1,918,657	1,918,657	49,716	159,865	2,128,238	428,572	2,556,810
Total liabilities and equity	**2,760,217**	**1,248,459**	**3,610,915**	**1,918,657**	**9,538,248**	**50,407**	**798,296**	**10,386,951**	**(903,936)**	**9,483,016**
Other segment items										
Capital investment	-	-	-	-	-	-	-	-	-	63,936
Depreciation	-	-	-	-	-	-	-	-	-	56,460

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

9. Cash and cash equivalents

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

10. Reserve deposits at Central Bank

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

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

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

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016
(Currency – In thousands of Turkish Lira ("TRY"))

11. Trading assets and liabilities

Trading assets

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

Trading liabilities

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

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

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

(Currency – In thousands of Turkish Lira ("TRY"))

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

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

(*) Includes spot and forward transactions

12. Investment securities

	31 December 2016		
	Interest rate %	Latest maturity	Carrying amount
Held-to-maturity investment securities			
- Government bonds	8.96-9.03	17 May 2017	29,297
- Corporate bonds	10.61-13.09	28 June 2019	21,880
Available-for-sale investment securities			
- Government bonds	1.85-11.35	15 January 2030	537,796
- Corporate bonds	2.31-13.22	18 December 2020	534,767
			1,123,740

	31 December 2015		
	Interest rate %	Latest maturity	Carrying amount
Held-to-maturity investment securities			
- Government bonds	7.33-8.45	24 February 2016	143,624
- Corporate bonds	5.27-12.29	28 December 2018	12,208
Available-for-sale investment securities			
- Government bonds	1.16-10.77	15 January 2030	660,229
- Corporate bonds	1.00-6.12	18 December 2020	114,680
			930,741

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

13. Loans and advances to customers

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

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

(Currency – In thousands of Turkish Lira ("TRY"))

Allowance for impairment

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

Finance lease receivables

None (2015: None).

14. Equity accounted investees

Carrying amount of equity accounted investees is summarized below:

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

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

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

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

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	32.00	20,690	20,489	201

2015	Ownership (%)	Total assets	Total liabilities and Equities	Profit / (loss) in the year
Kazakhstan Ijara Company Jsc.	14.31	49,472	38,269	11,203
İFM İstanbul Finans Merkezi İnşaat Taahhüt A.Ş.	5	359,230	359,298	(68)
Aktif Yatırım Bankası Sukuk Varlık Kiralama A.Ş.	100	7,654	7,590	64
Eurasian Leasing Company	25	9,036	9,483	(447)
Company Euro Mediterranean Investment	21.28	19,672	18,972	700

15. Tangible assets

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

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016
(Currency – In thousands of Turkish Lira ("TRY"))

16. Intangible assets

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

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

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

(Currency – In thousands of Turkish Lira ("TRY"))

17. Other assets

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

18. Assets held for sale

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

19. Obligations under repurchase agreements

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

20. Funds borrowed

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

21. Debt securities issued

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

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

(Currency – In thousands of Turkish Lira ("TRY"))

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

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

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

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

22. Taxation

General information

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

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

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

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

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

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

Recognised in profit or loss

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

Reconciliation of effective tax rate

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

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

(Currency – In thousands of Turkish Lira ("TRY"))

Deferred tax

Recognised deferred tax assets and liabilities

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

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

Expiration schedule of carry forward tax losses is as follows:

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

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

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

Movements in temporary differences during the year

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

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

23. Provisions

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

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016
(Currency – In thousands of Turkish Lira ("TRY"))

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 TRY 4.30 and TRY 3.83 on 31 December 2016 and 2015, respectively) per year of employment at the rate of pay applicable on the date of retirement or termination. In the consolidated financial statements as at 31 December 2016 and 2015, the Group reflected a liability calculated using the hypothetical method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds on the reporting date.

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

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

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

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

(Currency – In thousands of Turkish Lira ("TRY"))

24. Other liabilities

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

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

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

25. Capital and reserves

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

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

Share capital and share premium

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

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

At the extraordinary general meeting dated 29 November 2016, the Bank's paid-in capital of TRY 862,585 reaches TRY 933,585 with an increase of TRY 71,000, which consist of TRY 71,000 from retained earnings (31 December 2015: At the extraordinary general meeting dated 18 December 2015, the Bank's paid-in capital of TRY 697,085 reaches TRY 862,585 with an increase of TRY 165,500, which consist of TRY 89,131 from extraordinary reserves and TRY 76,369 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 TRY 24,237 (31 December 2015: TRY 20,007).

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

Foreign currency translation reserve

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016
(Currency – In thousands of Turkish Lira ("TRY"))

26. Net interest income

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

27. Net fee and commission income

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

28. Net trading loss

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016
(Currency – In thousands of Turkish Lira ("TRY"))

29. Sales income and cost of services

Sales income:

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

Cost of services:

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

30. Other income

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

31. Net impairment on financial assets

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

32. Personnel expenses

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016
(Currency – In thousands of Turkish Lira ("TRY"))

33. Administrative expenses

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

34. Other operating expenses

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

Other expenses

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

(Currency – In thousands of Turkish Lira ("TRY"))

35. Related parties

Parent and ultimate controlling party

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

Compensation of key management personnel of the Bank

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

Balances with related parties

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

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

Off statement of financial position balances with related parties

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

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

Transactions with related parties

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

36. Commitments and contingencies

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

37. Subsequent events

None.

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