Corporate Credit & Issue Rating

☐New ☒Update

Sector: Banking
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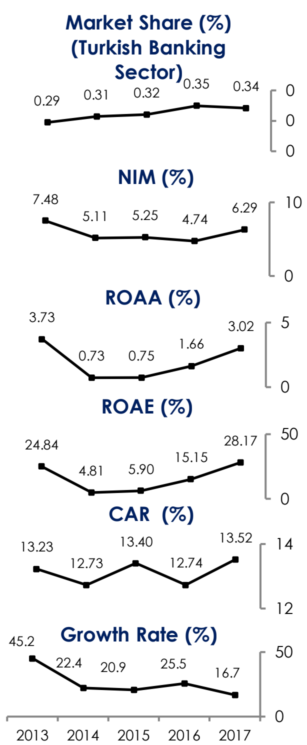
RATINGS

			Long	Short
International	Foreign		BBB-	A-3
International	Local Currency		BBB-	A-3
International	Outlook	FC	Stable	Stable
International	Outlook	LC	Stable	Stable
International	Issue Rating		BBB-	A-3
National	Local Rating		AA+(Trk)	A-1+(Trk)
National	Outlook		Stable	Stable
National	Issue Rating		AA+(Trk)	A-1+(Trk)
Sponsor Support			2	-
Stand-Alone			AB	-
Sovereign*	Foreign		BBB-	-
Sovereign*	Local Currency		BBB-	-
Sovereign*	Outlook	FC	Stable	-
Sovereign*	Outlook	LC	Stable	-

*Affirmed by JCR on November 10, 2017



Aktif Yatırım Bankası A.Ş.

Company Overview

Financial Data	2017*	2016*	2015*	2014*	2013*
Total Assets (000,000 USD)	2,935	2,695	2,599	2,696	2,398
Total Assets (000,000 TRY)	11,071	9,483	7,557	6,252	5,109
Total Deposit (000,000 TRY)	3,978	3,951	2,903	3,411	2,461
Total Net Loans (000,000 TRY)	6,539	5,520	4,638	3,983	3,578
Equity (000,000 TRY)	1,223	984	880	887	837
Net Profit (000,000 TRY)	234	98	26	34	125
Market Share (%) **	6.35	6.68	7.09	7.40	7.28
ROAA (%)	3.02	1.66	0.75	0.73	3.73
ROAE (%)	28.17	15.15	5.90	4.81	24.84
Equity/Assets (%)	11.05	10.37	11.64	14.18	16.39
CAR - Capital Adequacy Ratio (%)	13.52	12.74	13.40	12.73	13.23
Asset Growth Rate (Annual) (%)	16.75	25.49	20.87	22.38	45.23

** End of year ** On solo basis among the Development and Investment Banking Sector*

Aktif Yatırım Bankası A.Ş. (hereinafter referred to as "Aktif Bank" or the "Bank") was incorporated as an investment bank under the name of Çalık Yatırım Bankası A.Ş. in July 1999 before changing its name to Aktif Yatırım Bankası A.Ş. on August 1, 2008. The Bank carries out operations in the fields of corporate banking, retail banking, leasing, factoring, trade finance and consulting through a network of eight branches along with a workforce of 656 as of FYE2017. With the largest number of alternative delivery channels, the Bank offers a wide range of products and services to the customers without the need to open new branches. The Bank has turned into a true retail platform through over 12k customer touch points including PTT Branches, N Kolay Points, Dealers, E-Kent Points, N-Kolay Stores and Branches.

JCR Eurasia Rating has upgraded Aktif Bank's National Long Term Local Rating Note to **"AA+ (Trk)"** from **"AA (Trk)"**, which denotes a high investment grade along with a **"Stable"** outlook, concerning notable enhancement in profit and profitability indicators, improvement in capital adequacy level, diversified income streams, growth performance, sizeable free provisions for possible negative circumstances which can arise from any changes in the economy or market conditions, recorded sound net profit in 1Q2018 as well as expected year-end 2018 profit. The Bank's International Long Term Local and Foreign Currency notes have been affirmed as **"BBB-"** representing the ceiling for the sovereign national ratings of the Republic of Turkey, with **"Stable"** outlooks.

Strengths

- Notable progress in core profitability metrics in the last two consecutive years
- Sound return on asset and equity that outstripped the sector average at FYE2017
- The widest alternative delivery channels through thousands of customers touch points, providing the Bank with a true retail platform and unique business model in the sector
- Largest privately-owned investment bank of Turkey
- Below Turkish Banking Sector average NPLs ratio coupled with high free provisioning for possible negative circumstances contributing to asset quality
- Diversified funding bases through issued bank bonds, Eurobonds, asset-based securities and Sukuk
- Entrepreneurial-oriented management structure with established track record in the financial services industry

Constraints

- Despite the decrease in the overall share of the loans, persistent high level of extended cash and non-cash loans to group companies
- Continuity of high credit risk concentration among the cash and non-cash loans customers,
- Sector-wide structural maturity mismatches and short maturity profile of funds
- Reliance on capital and money markets increasing liquidity risk under the current economic environment with high volatility and stress levels
- Lower collateralization of extended loans and increase in overdue but not impaired loan book
- Below sector average capitalization level despite being above the legal boundaries
- Increase in interest rates, depreciation of TRY against hard currencies, persistence of high geopolitical risks in the nearby region and cross-border military operations exerting pressure on the investment environment

1. Rating Rationale

JCR Eurasia Rating has upgraded Aktif Bank's National Long Term Local Rating Note to "AA+ (Trk)" from 'AA (Trk)', which denotes a high investment grade and assigned a "Stable" outlook, regarding remarkable enhancement in profit and profitability indicators, improvement in capital adequacy level, diversified income streams, continuity of growth performance, sizable provided free provisions, recorded sound net profit in 1Q2018 as well as expected year-end 2018 profits. The Bank's International Long Term Local and Foreign Currency notes have been affirmed as "BBB-" representing the ceiling for the sovereign national ratings of the Republic of Turkey, with "Stable" outlooks.

No separate rating report has been compiled as the resources obtained from the debt issues will be carried in the Company's balance sheet and has been subject to analysis in the corporate credit rating report. The debt instruments to be issued carry no difference in comparison to the Company's other liabilities with respect to its legal standing and collateralization. As such, the notations outlined in the corporate credit rating report also reflect the issue rating taking into account aggregated exposure of the issues. The issue ratings do not cover any structured finance instruments that are not recorded under balance sheet items. Issue ratings are assigned for both outstanding and prospective debt instruments and incorporate assessments until their maturities.

The rating study is primarily based on Aktif Bank's consolidated independent audit reports prepared in line with the International Financial Reporting Standards (IFRS). Furthermore, the banking sector comparison is based on unconsolidated financial statements compiled according to Banking Regulation and Supervision Agency (BRSA) regulations which have been independently audited. In addition to financial indicators such as equity level & quality, profitability, asset quality, funding structure, and growth performance rates, the Bank's widest alternative delivery channel network, pioneering position with respect to innovative products, market perception as the largest investment bank of Turkey and corporate & risk management practices were also taken into consideration in the assignment of the ratings.

Fundamental rating considerations are as below;

<u>Sound Profitability Metrics</u>

As per to the consolidated IFRS based reports, the Bank's net profit was TRY 233.8mn at FYE2017, more than double that of the previous year's net profit of TRY 98.1mn. It should also be borne in mind that in line with cautious management policy, the Bank provided additional free provisions amounting to TRY 140mn in FY2017 for possible losses due to negative circumstances which may arise from any changes in market conditions. If the aforementioned provisions had not been provided, the net profit for the period would have increased by TRY 170mn, aggregating previous year's free provision TRY 30mn. The notable enlargement in profit was supported by higher increases in net interest income (NII) and net fee & commission income in particular along with higher increase in operating income in comparison to the OPEX.

According to the solo based audited financial statements prepared in line with BRSA standards, Aktif Bank's net profit was TRY 177.9mn at FYE2017 and increased by 60.12% YoY and outperformed both Turkish Banking Sector (30.88%) and the Development & Investment Banking sector (32.00%). The Bank's return on assets and equity ratios exhibited a notable improvement in FY2017 and outperformed both the Turkish Banking and the Development & Investment Banking Sectors.

<u>Turkey's Largest Privately-Owned Investment Bank</u>

At FYE2017, the Bank ranked 23rd among 46 banking institutions with an asset size of TRY 11,106mn. Furthermore, the Bank's asset size-based market share was 0.34% among the entire Turkish Banking Sector and 6.35% across the Development & Investment Banking Sector and slightly down compared to FYE2016 figures. The Bank's asset size growth performance outpaced the Turkish Banking Sector, while it stayed below the Development & Investment Banking Sector over the last five-year period.

<u>Maintained Growth Performance</u>

At FYE2017, the Bank's growth performance in assets, loans, equity and net profit were 16.43%, 17.34%, 17.26% and 60.12% respectively. The below chart present growth rates in comparison with the entire Turkish Banking and the Development & Investment Banking Sectors. Although the Bank's assets and loans growth stayed below the sectors' averages, the net profit enlargement doubled that of the sectors, indicating the Bank's efficiency.

Change % FYE2016-2017	Aktif Bank	Turkish Banking Sector	Dev.&Investment Banking Sector
Assets	16.43	19.29	22.54
Loans	17.34	20.83	30.64
SHE	17.26	19.63	16.07
Net Profit	60.12	30.88	32.00

Remarkable Increase in Non-performing Loan Portfolio, Though the NPLs Ratio Still Below the Turkish Banking Sector Average

At FYE2017, as per on solo financial statements, the Bank's non-performing loans portfolio was TRY 190.7mn and increased by 84.2% YoY in absolute values. Hence, despite the compensatory effects of the growth in loans portfolio (17.34%), the NPLs ratio increased to 2.72% at FYE2017 from 1.74% at FYE2016. As in the previous year, the Bank's NPLs ratio was stayed below the Turkish Banking Sector average, though remained above the averages of the Development and Investment Banking Sectors.

Moreover, overdue but not impaired loans (up to 90 days) was TRY 533.9mn at FYE2017 and exceptionally increased by 280.70% on a YoY basis, principally due to receivables from construction sector, that harbors a potential to increase NPLs portfolio in future.

The Bank's specific loan loss reserves coverage was 58.91% at FYE2017 and down from the previous year's ratio of 74.01% and fell below the sector averages. Although the lower coverage ratio exerts pressure on asset quality, provided free provisions (TRY170mn) for the negative circumstances that may derive from changes in market and economic conditions offset the negative effects.

Below Sector Average Capitalization Level Nonetheless Being Well Above the Legal and Required Boundaries

At FYE2017, Aktif Bank's non-consolidated capital adequacy ratio (CAR) increased to 13.37% from the previous year's ratio of 12.70% and remained well above the minimum CAR requirements set by the Basel Accord (8%) and that recommended by the BRSA (12%). On the other hand, the Bank's CAR ratios stayed notably below the averages of both the Turkish Banking Sector and the Turkish Development & Investment Banks throughout the reviewed period.

At FYE2017, total buffer requirement (capital conservation and bank specific countercyclical buffers) of the Bank was 1.275%. Consequently, the Bank's non-consolidated Common Equity Tier 1 Capital Ratio was 12.85% and more than twice the required minimum level (5.78%), indicating the core capital's strength and high loss absorbing capability.

As of 1Q2018, the Bank's unconsolidated Common Equity Tier 1 Capital Ratio and Capital Adequacy Ratio were 12.66% and 13.15% respectively. Accordingly, the current level of capitalization has the adequate buffer capability against incidental loan losses.

High Credit Risk Concentration

As per to the consolidated financial statements prepared in line with BRSA standards, only 12.93% of the total cash loans were collateralized and received collaterals cover 47.40% of the collateralized loans book as of FYE2017. The low level of the collateralized loans portfolio increases credit risk level; however, nearly 1/3 of the cash loans were extended to group companies, offsetting those effects to a certain extent. At FYE2017, 33.42% (FYE2016: 41%) and 48.92% (FYE2016: 59.85%) of the Bank's cash and non-cash loans directly or indirectly were given to group companies, respectively. In addition, extended cash and non-cash loans were highly concentrated. The Bank's largest 20 cash and non-cash loan customers comprised 60.65% and 82.41% of the total cash and non-cash loan portfolio at FYE2017 respectively.

Diversified but Short-Term Funding Profile

As an investment bank, Aktif Bank is not entitled to collect customer deposits and has funded itself through issued debt securities, borrowed funds from domestic & international institutions, current balances of its loan customers, equity and obligations under repurchase agreements. Aktif Bank has effectively used capital markets instruments with pioneering products and issuances to date exceeded TRY 25bn.

At FYE2017, issued debt instruments (TRY and FC) accounted for 28.19% (FYE2016:37.28%) of total external resources of the Bank. Since the first bank bond issue in 2009, Aktif Bank successfully settled unsecured bond issuances (Aktif Bono) which reached TRY 22bn up to date. Moreover, Aktif Bank, as originator and servicer, established Assets Finance Fund- SPV, and issued Asset Backed Securities (ABS) through this vehicle amounted to TRY 2.7bn to date. The Bank issued a total of TRY 300mn sukuk in three tranches for financing IIFC project. Mudaraba Sukuk has been issued amounting to USD 118mn on 10 May 2017, with a seven-year maturity which is listed on the Irish Stock Exchange GEM.

To extend the maturity of funding sources, the Bank issued Eurobonds amounting to USD 100mn and Euro 50mn with a maturity of 5 years in 2016. Despite the Bank's efforts to extend the maturity of provided funds, 54.43 % of financial liabilities, which accounted for significant portion of total liabilities, were placed in the up to one-month bracket. Short maturity profile of the funding and concentration in high net-worth fund providing customers in exerts pressure on liquidity management through renewal risks along with dependence on capital and money markets.

The recent rises in interest rates and hard currencies in particular as well as the deterioration in fiscal discipline through the incentives and spending resulting due to the early elections and delay in structural reforms coupled with decrease in foreign funding flows to emerging economies via alteration of FED's interest rate and monetary policies may lead to persistence of high tension in the markets for longer than expected. In this case, rising difficulties in accessing the markets have the potential to generate complications due to maturity mismatches of assets and liabilities.

Having One of the Largest Distribution Network Through Unique Banking Model Centered on Digitalization and Innovation

Instead of inaugurating conventional branches, Aktif Bank attaches great importance to utilizing digital platforms and third-party distribution channels. In this way, the Bank reached over 12k of customer touch points including post offices (PTT), N'Kolay Points, Dealers, E-Kent Points, N-Kolay Stores and Money Post Offices as well as call centers, ATMs and mobile and internet banking. In addition, the Bank provides a wide range of products and services through its subsidiaries namely; E-Kent (Smart Cities & Electronic Payment Systems & Stadium Access Control Systems), N Kolay (Payment & Transaction Points), PAVO (POS Device Sales & VAS Applications), Shoop (innovative software solutions), UPT (universal payment transfer) and Sigortayeri (Insurance Brokerage). Passolig, a multi-application card, provides e-ticketing, access control and transportations features reached 3.8mn members and Passolig mobile phone applications downloaded 1.5mn in the last one-year period. UPT was ranked 173rd in 500 great service exporters and 4th in banking and other financial services in 2017.

Volatility in Macroeconomic Indicators through Ongoing Regional Tensions and Developments in the Domestic and International Arena

Despite the measures taken by the government to ease pressure on the economy and financial system to counterweigh the increasing risks, acceleration of the depreciation of the Turkish Lira against the hard currencies, the maintenance of geo-political risks in the nearby region and cross border military operations, turbulence in the Middle East, high inflation, international developments concerning the increase in customs tariffs with the potential to trigger trade wars, continuity of the state of emergency in the country, the scheduled early elections and the associated spending plans with eroding effects on fiscal discipline along with the FED's policies regarding interest rate rises and restriction of monetary emissions are expected to increase the difficulties in accessing international funding flows and costs of funding.

Although the Bank and Turkish Banking Sector are strong enough to offset the effects of macroeconomic conditions for the present, if the deterioration in macroeconomic metrics continues and becomes permanent, the asset quality and the profitability indicators would be subject to erosion rapidly.

2. Outlook

JCR Eurasia Rating has assigned "**Stable**" outlooks on the Short and Long Term National and International Ratings perspectives of Aktif Bank, considering the sound outcomes of 1Q2018, satisfactory capitalization level, asset quality, business mix, growth forecasts along with the expectations of no further deterioration in the operating environment and continuity of political and economic stability as well as the Bank's market influence and efficiency.

Key concerns which would impede the ratings and outlooks status are: (i) difficulties in accessing external funding resources, (ii) acceleration of deterioration in asset quality through an increase in NPLs resulting from weakened debt-servicing capabilities of loan customers, (iii) weakening profitability ratios, (iv) developments in international politics particularly relating to Turkey's neighboring countries and in domestic politics, (v) changes in the sovereign rating level of Turkey, (vi) possible regulatory actions that would restrain the profitability & growth performance of the sector, (vii) disruption of economic & political stability and (viii) deterioration in capital adequacy and liquidity levels.

On the other hand, (i) notable improvement in profitability indicators, (ii) strengthening capitalization level through sizable cash equity injection, (iii) upgrades in Turkey's sovereign ratings, (iv) improvement in the domestic and global financial climate, (v) progress in market position, (vi) diversifying funding mix and extending maturity profile, (vii) progress in asset quality through decreasing credit risk concentration coupled with continuity of successful collection from non-performing loan book, (viii) enhancement of the compliance level with corporate governance principals and (ix) the ability to manage additional risks combined with the growth of the Bank are driving factors that can contribute to any future positive changes in ratings and outlook status.

3. Sponsor Support and Stand-Alone Assessment

The Sponsor Support notes and their risk estimations reflect the financial and non-financial state and expected support of the ultimate shareholder, Çalık Holding A.Ş. The Holding, one of Turkey's most prominent conglomerates with 84 subsidiaries, presently operating in three continents, principally including countries in the Middle East, North Africa, the Commonwealth of Independent states (CIS) and Europe. It has stakes in various industries with a primary interest in the energy, construction, textiles, finance, telecom and mining sectors. At FYE2017, the Group's consolidated financial figures in asset size, equity and net profit were TRY 38.4bn, 5.9bn and 1.7bn, respectively. The Group provides job opportunities for nearly 19k employees. In the light of the Group's financial and operational positions, it is considered that Çalık Holding has the willingness to supply liquidity and equity within its financial capability when financial needs arise in the short or long term and have the sufficient experience to provide operational support to the Bank when required. Based on the above factors, JCR Eurasia Rating has assigned the Bank's Sponsor Support Note as **"2"**, denoting an adequate external support.

The Bank's Stand-Alone Note has been affirmed as **"AB"** regarding its sound profitability, good track record, business mix and market perception, asset size and quality, equity base and capitalization level, risk management practices associated with its growth performance along with fund diversification capacity and access to external funds. This note provides that the Bank is expected to be able to manage its balance sheet risks successfully even if the shareholders or public authorities do not provide any assistance.

4. Company Profile

a) History & Activities

Aktif Yatırım Bankası A.Ş. was established under the name of Çalık Yatırım Bankası A.Ş. in July 1999 as an investment bank. On August 1, 2008, the Bank adopted its new name of Aktif Yatırım Bankası A.Ş. While corporate, retail, investment and private banking constitute the principal axis of Aktif Bank's operations, the Bank also offers financial leasing, factoring, trade finance and consulting services along with insurance, service and payment transactions through its subsidiaries.

b) Organization & Employees

The Bank has eight branches and in line with its "New Generation Banking" business model and non-branch-based growth strategy through digital channels and cooperation with the leading institutions of various sectors, the number of branches has not been changed in the last five years. The branches provide corporate, investment and private banking-oriented services, which mainly require one to one communication.

Aktif Bank's organizational structure is formed principally under fourteen Groups : (i) Digital Banking and Payment Systems, (ii) Finance, (iii) Information Technologies and Operation, (iv) Financial Institutions, (v) Venture Capital, (vi)Treasury, (vii)Internal Systems, (viii) Credit Analytic and Capital Markets, (ix) Corporate Banking, (x) Retail Banking Sales and Subsidiaries Coordination, (xi) Legislation Development and Management, (xii) Human

Resources, (xiii) Subsidiary Management and (xiv) Legal Groups.

In addition to services provided through the branch network, the Bank effectively utilizes alternative delivery channels through over 12k of customer touch points including post offices (PTT), N'Kolay Points, Dealers, E-Kent Points, N-Kolay Stores and Money Post Offices as well as call centers, ATMs and mobile and internet banking facilities.

c) Shareholders, Subsidiaries & Affiliates

The shareholder structure of Aktif Bank is provided in the below chart. Çalık Holding A.Ş., the qualified shareholder of the Bank, holds 99.42% of the Bank shares. As of FYE2017, the Bank's paid in capital was TRY 1,034mn.

Shareholders	FYE2017	FYE2016
	Share %	Share %
Çalık Holding A.Ş.	99.42	99.42
GAP Güneydoğu Tekstil Sanayi ve Tic.A.Ş.	0.30	0.30
Ahmet ÇALIK	0.14	0.14
Başak Enerji Elektrik Üretim San.ve Tic.A.Ş.	0.07	0.07
Irmak Enerji Elektrik Üretim Madencilik San.ve Tic.A.Ş.	0.07	0.07
Total	100.00	100.00
Paid Capital-TRY (000)	1,033,585	933,585

The consolidated subsidiaries & affiliates of Aktif Bank are listed below according to their sector diversification and geographical location. As we, JCR Eurasia Rating, have not presently analyzed the independent risk level of those companies, no opinion regarding their creditworthiness has been formed.

	Country	Sector	Direct/ Indirect Interest Rates %	
			2016	2017
Consolidated Subsidiaries				
Sigortayeri Sigorta ve Reasürans Brokerliği A.Ş.	Turkey	Insurance Brokerage	100.00	100.00
Epost Elektronik Perakende Otomasyon Satış Tic. A.Ş.	Turkey	Payment System	99.27	99.27
E-Kent Teknoloji ve Ödeme Sistemleri San. ve Tic. A.Ş.	Turkey	Payment System	99.27	99.27
N Kolay Mağazacılık A.Ş.	Turkey	Payment System	99.99	99.99
UPT Para Transfer ve Ödeme Hizmetleri A.Ş.	Turkey	Payment System	100.00	100.00
Emlak Girişim Danışmanlığı A.Ş.	Turkey	Real Estate	100.00	100.00
Pavo Teknik Servis Elektrik Elektronik Sanayi ve Tic. A.Ş.	Turkey	Service	79.42	79.42
Asset Aktif Sportif ve Sanatsal Etkinlik Hizmetleri A.Ş.	Turkey	Service	99.80	-
Mükafat Porföy Yönetimi A.Ş.	Turkey	Service	80.00	80.00
Echo Bilgi Yönetim Sistemeleri A.Ş.	Turkey	Service	49.40	-
Equity Accounted Investees				
Kazakhstan Ijara Company Jsc	Kazakhstan	-	14.31	14.31
İFM İstanbul Finans Merkezi İnşaat Taahhüt A.Ş.	Turkey	-	5.00	5.00
Eurasian Leasing Company	Tatarstan	-	25.00	36.71
Euro Mediterranean Investment Company	TRNC	-	21.23	25.53
Haliç Finansal Kiralama A.Ş.	Turkey		32.00	32.00
Aktif Halk Enerji Yatırımları A.Ş.	Turkey		-	50.00
Halk Yenilenebilir Enerji A.Ş.	Turkey		-	50.00
Soleren S4 Enerji Üretim A.Ş.	Turkey		-	50.00

d) Corporate Governance

Aktif Bank carries out its operations under the Banking Law along with the supervision and regulations of the BRSA. The Bank has committed to complying with corporate governance principles and the Communiqué on Corporate Governance Principles of Banks' published by the BRSA.

The Bank's corporate webpage is well organized and provides a decent degree of transparency. Periodic audited financial reports, annual activity reports, rating reports, vision, mission, anti-bribery corruption policy, shareholder structure, minutes of the General Meeting, corporate governance compliance report, ethical rules, organizational structure and background of the Board of Directors & senior managers are disclosed to the public via its web site. In addition, the required information is disseminated through the Public Disclosure Platform (PDP) and the Information Society Services. On the other hand, dividend distribution, disclosure and social responsibility policies have not yet been disclosed to the public.

Although there are no privileges on the shares, the transfer of shares is subject to the approval of the Board of Directors.

The Bank's Board is currently composed of seven members none of whom are independent, and qualifications of the members meet the terms expressed in the principles. As can be seen in the resumes found on the Bank's website, the members possess the necessary qualifications in terms of educational, professional and managerial experience. There are 4 sub-committees operating under the Board namely including the audit, credit, corporate governance and remuneration committees.

Board Members	
AHMET **ÇALIK**	Chairman
MEHMET **USTA**	Vice Chairman
MEHMET ERTUĞRUL **GÜRLER**	Board Member
VEYSEL **ŞAHİN**	Board Member
Kemaleddin **KOYUNCU**	Board Member
DR. SERDAR **SÜMER**	CEO/Board Member
İbrahim **YAŞAR**	Board Member

Accordingly, considering its status as an unlisted bank as well as the best practices of corporate governance and internal regulations, the general compliance level of the Bank is quite reasonable. It is also noted that, over the last one-year period, there has been no considerable enhancement in this field.

e) The Company & Its Group Strategies

In line with its vision, " Our vision is to approach products and services, developed with the target of being an effective financial group, provide a management structure and entire workflow with a global vision, create a decentralized work environment that embraces opportunities and risks in different geographies, and to perform sustainable, value adding activities that respect the environment, not just in Turkey, but also throughout the region", Aktif Bank continues its uninterrupted growth by principally using alternative and digital channels. In this sense, the Bank integrates technological development into its activities with an innovative approach, without compromising profitability and efficiency.

The Bank has adopted Its "New Generation Banking" business model to present quick and easily-accessible solutions to its customers through alternative distribution channels, rather than establishing new branches. The Bank has invested in various segments of the retail sector where the low levels of competition provide advantages to the bank that became a real platform integrated to thousands of customer touch points in which financial and non-financial products are being provided. The Bank's innovative products and implementations have been granted with a total of 129 awards by several international organizations over the last eight years.

5. Turkish Banking Sector

The banking sector is the largest component of the Turkish financial system. Any developments that may occur in the banking sector create real impact in terms of the corporate sector and the financial stability of Turkey's economy.

The Turkish banking sector, regulated by the Banking Regulation and Supervision Agency (BRSA), is comprised of deposit banks, development and investment banks, and participation banks which operate on the basis of dividends in the frame of Islamic rules. The asset size of the banking sector, was 864 Billion Dollars (3.257 Billion TRY), the largest share in the Turkish financial system, by the end of 2017.

Summary of Key Indicators of the Turkish Banking Sector

(000,000)	2017	2016	2015	2014
Asset Size – TL	3,257,819	2,731,016	2,357,387	1,994,263
Asset Size – USD	863,708	799,150	807,850	857,047
Equity – TL	359,091	300,264	262,214	231,941
Profit – TL	49,122	37,530	26,052	24,610
ROAE %	18.62	16.81	13.39	14.81
ROAA %	2.05	1.86	1.52	1.69
NPL %	2.95	3.24	3.09	2.85
Capital Adequacy Ratio %	16.87	15.57	15.56	16.28
Equity / T. Assets %	11.02	10.99	11.12	11.63

The wealth/GDP ratio in Turkey is at a level close to the average for developing countries and lower than that of developed countries. Therefore, the growth potential of the Turkish banking sector is high.

Although the Turkish banking sector achieved an increase of 30.89% in profitability in absolute terms in 2017 compared to the previous year, the profitability performance of the US dollar was 18.59% due to the depreciation of the TRY.

Macro-prudential measures taken against credit cards and consumer loans aiming to curb the current account deficit forced changes in the business model and competition level of the banking sector. However, new regulations enacted in 2016 have relaxed.

The financial strength of the banking sector in Turkey to support economic activity and growth has been partially hampered by the losses in value of the TRY in 2017. However, access to foreign funding continues to be strong. International borrowing costs has increased in anticipation of monetary tightening measures taken by the Federal Reserve (the Fed). However, this trend is counterbalanced by expansionary monetary policies in the Eurozone and Far Eastern markets. In fact, the monetary policy of the European Central Bank will continue to contribute to the Turkish banking sector in terms of funding costs in 2018.

Despite ongoing geopolitical risks, banks in Turkey do not suffer from refinancing risks. In addition, the Turkish banking sector is able to sustain its long-term expansion and increase its credit volume owing to its high capital adequacy due to the double buffer of banks in Turkey in terms of CAR. Therefore, we evaluate the outlook of the Turkish banking sector as stable.

The sector continued to maintain its positive position in 2017 in terms of high profitability, high deposit share, high interest expenditures, high capital ratio, high inflation, and high real growth. However, the continuation of the growth rate in 2018 depends on the stability of the local currency.

Fifty-two banks operated in the Turkish banking sector as of 2017. Internet, ATM, and POS investments continue to increase in order to facilitate access to banking services more effective. The concentration of assets, credits, and deposits in the sector is quite high. In all three areas, the share of the top five banks is close to 60%. The share of non-residents in the equity structure of the sector is also quite high.

Key Numbers Turkish banking sector (*)		Deposit Banks (*)	Development % Investment Banks (*)	Participation Banks (**)	Total
Number Of banks	State Banks	3	3	2	**8**
	Private Banks	9	6		**15**
	SDIF Bank		1		**1**
	Foreign Banks	16	4	3	**23**
	Foreign Banks Branches		5		**5**
	Total	**28**	**19**	**5**	**52**
Number of Branches	State Banks	3.697	30	127	**3.854**
	Private Banks	4.077	15		**4.092**
	SDIF Bank		1		**1**
	Foreign Banks	2.827	4	907	**3.738**
	Foreign Banks Branches		7		**7**
	Total	**10.061**	**57**	**1.034**	**11.692**
Number of Staff	State Banks	58.330	**3.636**	1.669	**63.635**
	Private Banks	73.684	**1.388**		**75.072**
	SDIF Bank		**232**		**232**
	Foreign Banks	57.389	**200**	13.453	**71.042**
	Foreign Banks Branches		**205**		**205**
	Total	**189.403**	**5.661**	**15.122**	**210.186**

(*) As of September 30, 2017.
(**) As of December, 31,2017

The legal framework of the Turkish banking sector, which is in compliance with the main framework of EU legislation with the exception of provisions concerning foreign branches and deposit guarantees, has been shaped in accordance with the criteria of consolidation of integration with global economies, the Basel process, and the Capital Requirements Directive (CRD). In this context, in December 2016 the European Commission accepted that both the control and the regulatory framework of Turkish banking system were largely compatible and equivalent to the EU regime. This high equivalence was considered to have originated from the further implementation of Basel III in Turkish legislation. In terms of risk management, the Turkish banking sector is capable of managing its pricing and balance sheet balances according to international norms.

The banking sector is affected notably by national and international regulations, constantly changing customer demands, developing technology, and social and political structure changes. With this open interaction, it is expected that the agenda of the banks will become more and more occupied with basic subjects such as capital, liquidity, profitability, cost management, and digitalization in internal processes. Particularly in 2018, digitalization for efficiency in cost and competition management will remain essential.

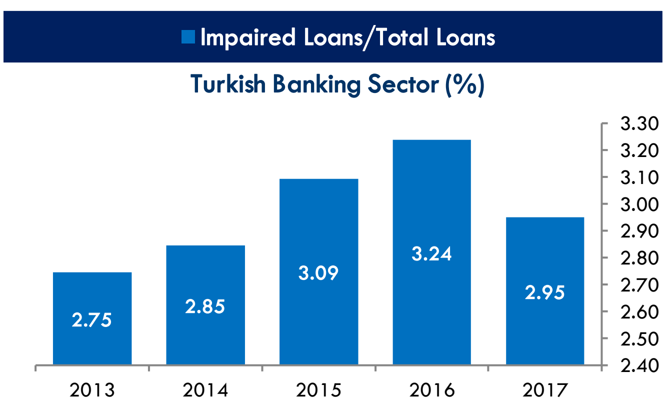
Formed with a flexible infrastructure in response to the continually changing demands of credit and deposit customers and investors, the Turkish banking sector has a highly dynamic structure in the formation of products and services. The deepening of capital markets along with the strong capital structure of the banking sector will continue in 2018 as an advantage in deposit collection and domestic and international borrowing.

The Turkish banking sector will intensify its structuring and growth strategies so as to push towards optimal levels.

While innovative approaches to branching are commonplace, the importance of multi-branching in alternative channels is still prevalent in Turkey. The elasticity coefficients of the Turkish banking sector against lending capacity, interest volatility, and regulatory pressures are well above the global optimum levels. Legal regulations increase the resistance of banks to crises, simultaneously creating downward pressure on efficiency and profitability. However, financial innovations created at the national and global level can significantly eliminate the negative effects of regulatory constraints.

While banks mainly provide deposit-based financing, the use of alternative sources is also increasing. In developed countries, banks' foreign liabilities have increased in recent years due to the increasing funding opportunities parallel to the expansion of the quantities. The external debt restructuring rate of the banking sector is above 100 percent and the fact that the funds provided from abroad are long-term contributes to the extension of the average maturity of the liabilities. Banks' securities issuances continue to grow with a growing momentum.

The ratio of impaired loans to equity was 12.87% in 2012, 15.27% in 2013, 15.69% in 2014, 18.13% in 2015, 19.35% in 2016, and 17.80% in 2017. In 2017, impaired loans rose by 10.05% in nominal terms & receivables and the NPL ratio compared to the previous year decreased mathematically due to the fact that the nominal rate of increase in total loans (20.80%) was higher than the increase in the NPL. As of 2017, the impairment rate was 2.95%. However, there is no statistical data about the amount of firm-specific special applications in restructuring and payment difficulties. In any case, it is clear that such treatments help contain the sector's NPL ratio.



As of the end of 2012, the capital adequacy ratio of the sector increased from 17.90% to 15.30% at the end of 2013, 16.30% at the end of 2014, 15.56% at the end of 2015, 15.57% in 2016, and 16.87% in 2017. The fact that while 83.46% of equity is composed of core capital shows that the industry maintains a high-quality equity structure, this is a decrease from the past ratio of 90%.

In 2016 and 2017, as in 2015, the banking sector fundamentally funded its asset growth from loans and required reserves through an increase in deposits, equity, issued securities, and borrowings.

Market Share %	2013	2014	2015	2016	2017
Participation Banks	5,55	5,23	5,10	4,87	4,92
Development & Investment Banks	4,05	4,24	4,52	5,23	5,37
Deposit Banks	90,41	90,53	90,37	89,91	89,71
Sector	**100**	**100**	**100**	**100**	**100**

As of the end of 2017, 89.71% of the banking sector assets were comprised of deposit banks, whereas 4.92% and 5.37% stemmed from participation banks development and investment banks, respectively. After the global crisis in 2009, the Turkish banking sector started to continuously grow. In the last 5 years, the sector reached a very high cumulative rate of 137.67%.

On the basis of the US dollars, the Turkish banking sector grew by 12.01% cumulatively, between 2013 and2017. For the last two years, the Turkish banking sector shrank in dollar terms due to the depreciation of the TRY.

In 2017, development and investment banks sustained the most growth at 22.55%. The annual growth rate of participation banks was 20.52% and the growth rate of deposit banks was 19.03%, year on year.

The sector's growth was 19.29% in 2017, foreign currency resources by 22.21%, and TRY resources by 16.82%. On the asset side, foreign currency assets grew by 14.85% while TRY assets performed 22.26%.

In terms of contributing to growth in resources, foreign currency deposits were ranked first, followed by TRY deposits and borrowing from banks, respectively. TRY loans contributed the most growth among assets, followed by foreign currency loans and statutory reserves.

The share of deposits in total resources has decreased from 61.9% in 2005, to 53.23% in 2016, and 52.52% in 2017, while the basic funding balance within banking resources is still deposits.

In the sector as a whole the share of equity in the balance sheet declined from 13.17% in 2012 to 11.19% in 2013, 11.64% in 2014, 11.12% in 2015, and 10.99% in 2016. As of 2017, the ratio was 11.02%. Participation banks have the lowest equity / total resources ratio in the sector. On the other hand, despite the fact that development and investment banking has lost its attractiveness in developed countries due to the worsening equity balance of assets, Turkey still maintains its high capital and high capital ratios and continues its attractiveness.

In terms of assets, the weight of the securities in the Turkish banking sector decreased gradually to 11.85%. Loans increased from 38.93% in 2005 to 64.40% at the end of 2017. The highest increase among the assets due to the CBRT's reserve ratios within macroeconomic policies has been challenged in the item of statutory reserved items. Provisions constituting 3.68% of assets in 2005 accounted for 6.96% of assets at the end of 2017. While there was previously a desire to slow down credit growth as the basis for raising the allowance rates, in 2017 the main purpose was preserving the liquidity opportunities in the market. As can be seen in the composition of the sector's balance sheet, 64.95% of assets are composed of Loans and Leasing Receivables and 11.85% of government securities-weighted securities. While the share of the securities within the balance sheet has decreased, the share of the loans increased.

Despite the fact that the Turkish banking sector has generally started to show a downward trend in its profitability indicators, the current relatively high levels continued in 2017 as well. The funding structure of the sector is dominated by deposits, necessitating more branching and operating expenses, which in turn causes downward reflection on the sector's profitability. On the other hand, the banks fully reflect the expected loss rates in the lending process to interest margins on prudential principles. This weakens the return on assets. The high level of non-interest expenses indicates that banks might still need to increase their operational efficiency.

The sector achieved an asset return of 2.05% and an equity return of 18.61%. One of the reasons for the high profitability in 2017 is the increase in growth rate in loans.

Profitability Indicators %	2013	2014	2015	2016	2017
Interest Margin	4.02	3.80	3.85	3.91	4.15
ROAA	2.01	1.69	1.52	1.86	2.05
ROAE	16.59	14.79	13.38	16.81	18.61
Net Profit Margin	25.91	25.75	22.59	27.97	32.48
Provision Expenses / Revenues	19.81	21.74	21.38	22.84	21.24

Funding costs have increased throughout the country, but the high level of interest margins generated by the banking sector has not yet been negatively affected. Moreover, the net interest margin, which was 3.85% in 2015, rose to 3.91% in 2016 and 4.15% in 2017. However, the provision for expenses continues to bear negative pressures on the balance sheet.

Net interest income is the main income, and the sector cannot diversify its income sufficiently. Within the components of the net interest margin, the marginal impact of provisioning costs appears to be greater than in the EU countries. The main income of the Turkish banking sector is interest income, constituting 74.98% of the total income as of the end of 2017. The ratio of primary expenditures to total incomes is lower than in EU countries.

Moreover, the fact that the return on equity of the Turkish banking sector could be lower than that of public debt paper or interest paid to deposits in certain periods, accounting for the risk adjusted returns, is a basic indicator that the Turkish banking sector remains below the potential scale.

The ratio of 'Total Foreign Currency Position / Assets' to 'Total Foreign Currency Position / Equities', which are the main indicators of the net foreign exchange position risk of the sector, stood at 0.07% and 0.60% at the end of 2017, respectively, and these figures are deemed low. Therefore, the effect of the foreign currency position risk on the income generation of the sector is quite narrow. However, the closing of off-balance sheet open positions by off-balance sheet hedging increased the risk of renewal and counterparties of the Turkish banking sector.

There is no liquidity shortage in almost any maturity on balance sheet transactions. The highest liquidity surplus, due to the increase in the allowance rates, occurred in the maturity zone up to 7 days and at the same time at the annual level. In off-balance sheet transactions, the liquidity is in the open for almost every maturity. However, there is a liquidity surplus of the Turkish banking system in net positive total as the sector is working with a high liquidity asset composition structure.

As of 2017, the banking sector financed 52.52% of its assets with deposits and/or participation funds. Although the long-term deposits are encouraged by creating tax differences starting from 2013, the average deposit of 74 days in 2012 was 72.77 days in 2014, 84.80 in 2015, 72.27 in 2016, and 71.06 in 2017.

The sector's Loan Risks, Market Risks and Operational Risks are measured in parallel with internal methods and BRSA regulations. Independent external rating agencies have not yet been involved in the measurement of these risks, notably credit risks. According to the BRSA data, 90.23% of the total risks is comprised of credit risk while 7.41% corresponded to operational risks and 2.36% to market risk. The total amount of risk is 2,241,482 million TRY.

The Turkish banking sector generally covers the on-balance sheet foreign currency short position with an off-balance sheet foreign currency long position. The net foreign currency net general position of the sector has stood at low levels for many years.

The capital adequacy ratio is calculated according to Basel II rules. For many years, the CAR maintained its high level. As of 2017, the CAR was 16.87%. **Country ratings** of **Fitch, Moody's, S&P, JCR, DBRS,** and **IIRA** rating institutions are used in determining the credit quality stages of foreign currency receivables due from central governments and central banks. Rating scales of **Fitch, Moody's, S & P, JCR, DBRS,** and **IIRA** rating agencies are used to determine the level of credit quality of receivables from the banks and intermediary institutions, regional or local administrations, administrative units and non-commercial enterprises, and multilateral development banks, if the institutions are resident abroad. **JCR Eurasia Rating** has been authorized to determine the risk weights of the collective receivable classes from banks, borrowing instruments issued by banks, financial institutions other than banks, borrowing instruments issued by financial institutions other than banks, corporate companies not included in Small and Medium Size Enterprises, and those by corporate companies not included in Small and Medium Enterprises, both for domestic and foreign residents. However, since the ratings issued by JCR Eurasia Rating have not yet been matched to appropriate risk weights, the CAR is calculated at 100% risk weight assuming that the bank receivables in this scope are not rated.

Despite high profitability and capital adequacy ratios in the Turkish banking sector in 2017 and the high level of doubtful receivables transferred to restructuring and asset management companies, the increase in the conversion rate of the assets to impaired receivable class could not be prevented. The reason for this trend is the deterioration of the borrowers' balance sheets in the wake of significant foreign currency rate increases.

Considering the possible increases in interest expenses, high level of loan-to-deposit ratio and problems to generate extra resources may lead to a slowdown in loan growth and yield to a drawback in profitability in the future.

Although the increase of the risk premium of Turkey led to an increase in the costs of syndication loans from abroad, we, as JCR Eurasia Rating, do not expect any distortion in debt conversion capacity of the sector. The sector has high agility level and financial and executional power of the sector is more than enough to absorb any external shock and sustain growth performance.

The good structure of equity, profitability level, and asset quality facilitate the loan supply and financing of the real sector companies. Although we expect that the resource costs will continue to be high and interest margin of the banks will squeeze in 2018, sector outlook has been determined as *Stable*.

The weakness of national saving tendency and power, the high level of foreign debt and liabilities, the possible effects of political actions on short positions, the failure of the country to exit from the middle-income trap, the high share of commercial loans, high resource expenses, and the large underground economy are factors that weaken the Turkish banking sector.

On the other hand, the continuation of the interest of reputable global investors, strong experienced managerial structure, high integration efficiency with world economies, high liquidity, good quality capital structure, and easy access to international funds are positive features defining the Turkish banking sector.

2017 saw a growth of approximately 21% principally based on Credit Guarantee Fund (CGF) loans. This growth on loans also affected the profit performance of the sector in a positive way. Deposit interest rates will also continue to rise in 2018, supported by the CGF.

The weak demand for loans towards construction sector and investment-purpose-mortgage-loans will result in diminished crediting for these loans. In 2018, we expect that an incentive scheme will be put forward for these loans, such as the CGF.

Due to increased loan volume, deposit rates have increased. Moreover, swap interest rates remain high due to the deterioration in risk perception in the market and volatility. Market rates, swap interest rates, and rising inflation are expected to push up deposit costs.

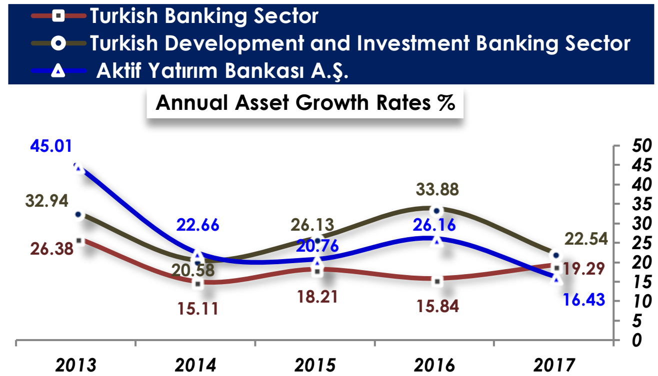
On the other hand, despite the high dependence of Turkish banks on foreign borrowing, it is sufficient that foreign currency liquidity meets short-term foreign currency denominated debts. High sensitivity of FX rates by the exposure to political fluctuations, the country's long-lasting geopolitical risks, negative expectations and the decline of the EU accession process, the private sector's high foreign exchange borrowing and the depreciation of the Turkish Lira threatening asset quality of the sector and the fact that the credits of the construction sector are among the high-risk assets are also the factors that cause the Turkish banking sector to blink negative signals.

6. Financial Foundation

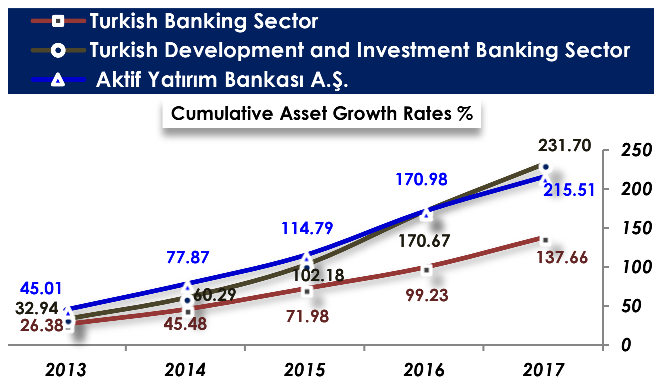
a) Financial Indicators & Performance

i. Indices relating to size

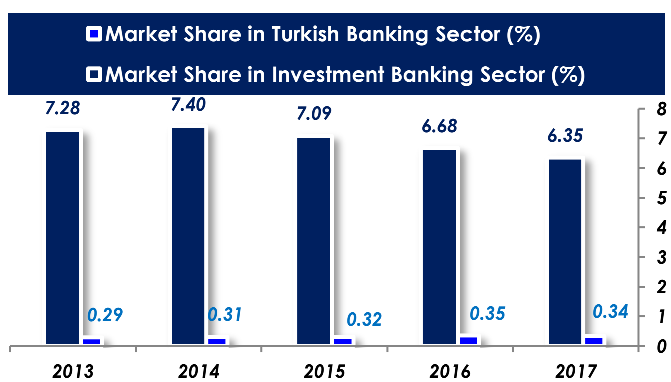
At FYE2017, Aktif Bank recorded an asset growth rate of 16.43% YoY, whereas those of the Turkish Development & Investment Banking Sector and the Turkish Banking Sector as a whole were 22.54% and 19.27%, respectively, and as such underperformed the sector averages. The graphs below display the growth of the Bank's asset base in comparison to those of the sectors.



The Bank's cumulative asset-based growth performance over the last five years was 215.51% and notably remained above the Turkish Banking Sector average, whilst slightly below the Development & Investment Banking Sector average.



Aktif Bank's market shares in terms of assets within the Turkish Banking Sector and among Turkish Development & Investment Banking Sector exhibited a slight contraction compared to the previous year's figures. The Bank was the 23rd largest bank among the 46 total banking institutions regarding the solo based asset size of TRY 11,106mn as of FYE2017.

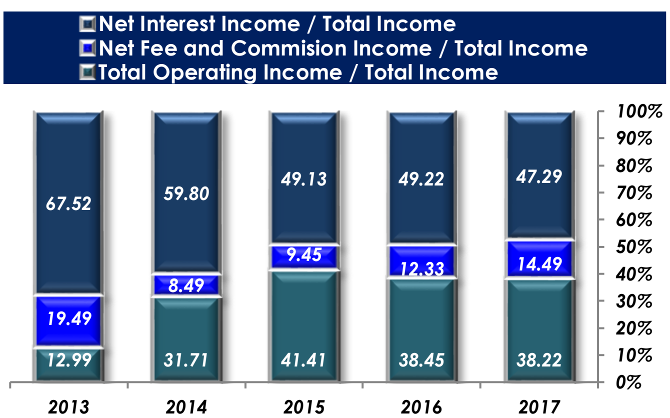


As per to IFRS based consolidated 2017 year-end financial statements; the Bank's assets, equity and loans increased by 16.75%, 24.87% and 18.46%, respectively.

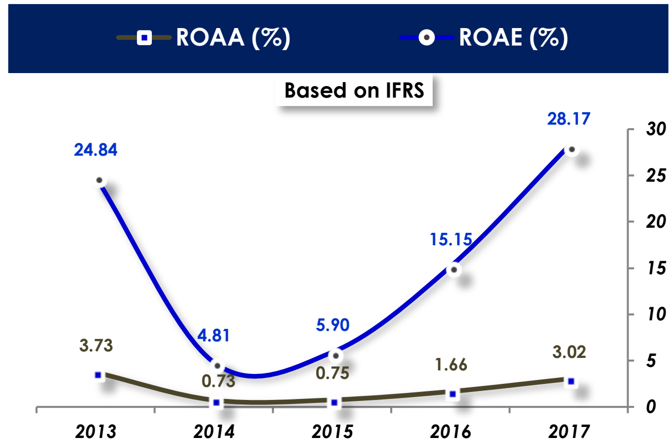
ii. Indices relating to profitability

As per to the IFRS-compliant consolidated financials, the Bank recorded a net profit of TRY 233.8mn at FYE2017, more than double the previous year's profit figure of TRY 98.1mnmn. The notable enlargement in profit was supported by higher increases in net interest income (NII) and net fee & commission income in particular-principally derived from exceptional increase in remittance fee- along with operating income than the OPEX. It should also be borne in mind that the Bank provided additional free provisions amounting to TRY 140mn in FY2017 and reached a total of TRY 170mn at FYE2017 for possible losses due to negative circumstances which may arise from any changes in market conditions. If the aforementioned provisions had not been provided, the net profit for the period would have increased by TRY 140mn.

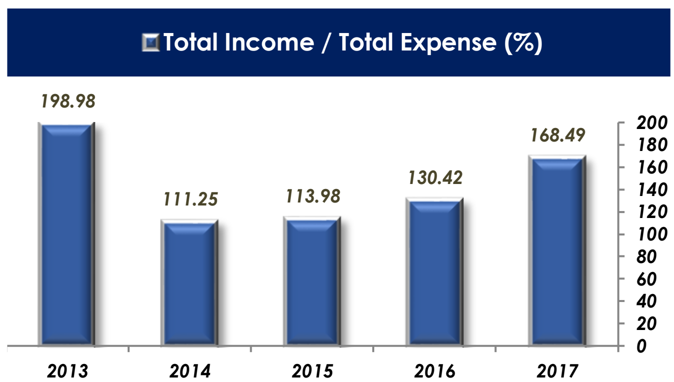
As in the previous year, the Bank's income sources did not display major alterations in FY2017 and net interest revenues accounted for the largest portion of total income with a rate of 47.29%. The Bank generated 61.78% (FYE2016:61.55%) of its total income through interest income and net fee & commission incomes.



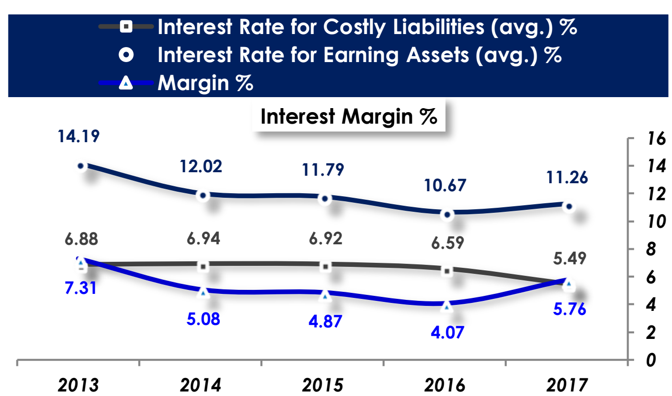
In line with the notable progress in profitability in the last two consecutive years, the Bank's ROAA and ROAE ratios (based on IFRS) exhibited remarkable increases to 3.02% and 28.42% at FYE2017 from 0.75% and 5.90% at FYE2015, respectively.



The Bank's total income to total expenses ratio was 168.49% at FYE2017 and up from the previous year's figure of 130.42%. However, it has remained below the FY2013 figure of FY2013.

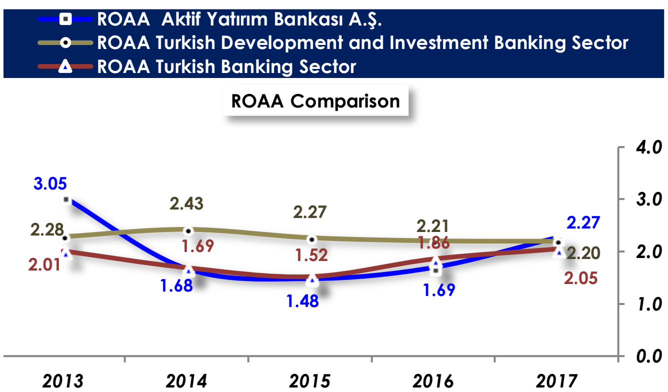


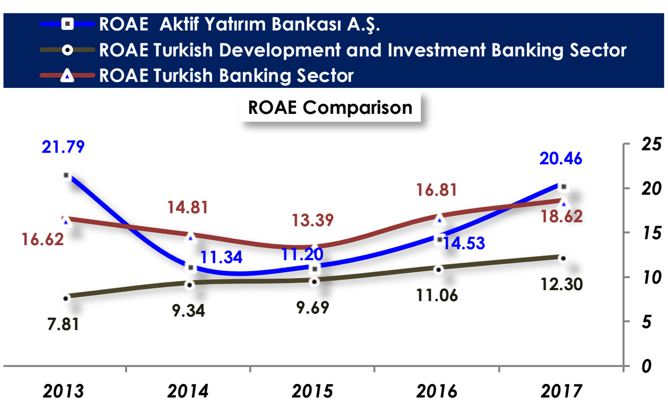
The corrosion in the interest margin notably reversed in FY2017. The Bank's interest margin remained above both the averages of the Turkish Banking and the Development & Investment Banking sectors throughout the reviewed period.



According to the unconsolidated financial statements prepared in line with BRSA standards, Aktif Bank's net profit was TRY 177.9mn at FYE2017 and increased by 60.12% YoY and outperformed the average growth of both the Turkish Banking Sector (30.88%) and the Development & Investment Banking sector (32.00%).

Considering the return on assets and equity ratios, which are principal profitability metrics in financial sector, improvement was accelerated in FY2017 and outperformed both the Turkish Banking and the Development & Investment Banking Sectors. Taking into account the Bank's free provisions amounting to TRY 140mn in FY2017 for possible losses due to negative circumstances, the Bank's ROAA and ROAE ratios would be higher than the reported levels.



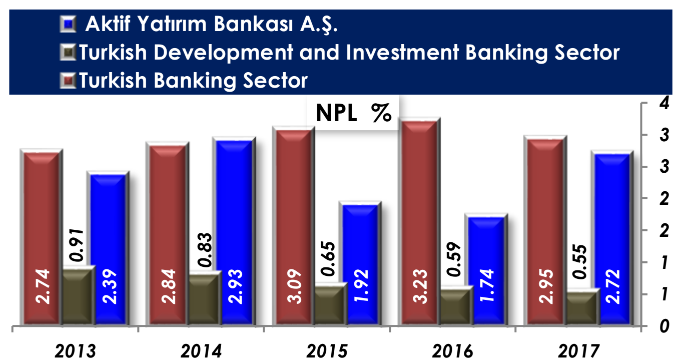


As of March 31, 2018, the Bank recorded a net profit of TRY 94.2mn, (1Q2017: TRY 47.23mn) and almost doubled the previous year's net profit, based on solo figures. In the same term, the Turkish Banking and Development & Investment Banking Sectors' net profit figures demonstrated growths of 5.11% and 26.65%, respectively.

b) Asset quality

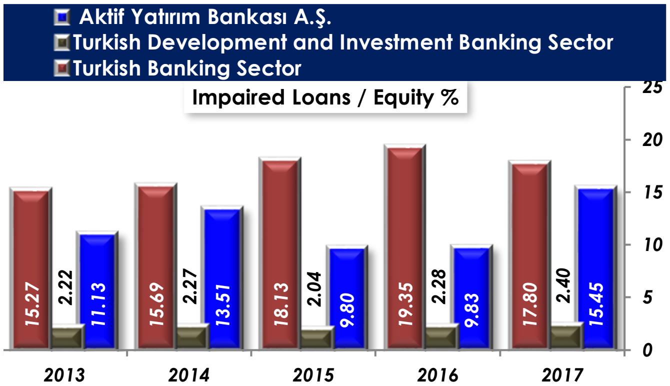
At FYE2017, the Bank's non-performing loans book, based on bank only figures, was TRY 190.7mn and remarkably augmented by 84.20% compared to the previous year's figure of TRY 103.5mn. In line with the growth in the non-performing loans portfolio, the NPLs ratio increased to 2.72% at FYE2017 from 1.74% at FYE2016. As in the previous year, the Bank's NPLs ratio stayed below the Turkish Banking Sector average, though remained above the averages of the Development and Investment Banking Sectors.

It should also be noted that the Bank did not sell or write-off any non-performing loans in FY2017, whereas such practices are frequently observed in the sector. When including non-performing loans written off from the assets, the sector's NPLs ratio would be notably higher (approximately 5%) than the stated current level.

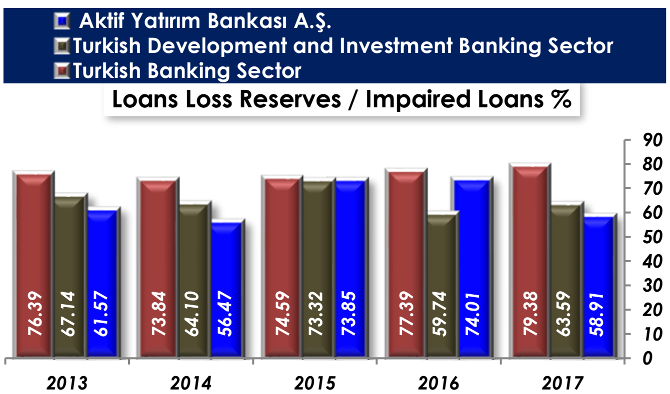


On the other hand, overdue but not impaired loans (up to 90 days) was TRY 533.9mn at FYE2017 and exceptionally increased by 280.70% on a YoY basis, principally due to receivables from construction sector, that harbors a potential to increase the NPLs portfolio in future. In FY2017, TRY 118.4mn (FY2016: TRY 35.95mn) loans were transferred to the non-performing loans portfolio. However, net change (growth) in NPLs portfolio was TRY 87.2mn, due to recovery, collection and other transactions.

The non-performing loans portfolio of the Bank as a proportion of its equity was 15.45% at FYE2017 and exhibited a deterioration compared to the previous year's figure of 9.83%. However, the ratio stayed below the Turkish Banking Sector however was notably above the Deposits & Investment Banking Sector averages over the reviewed period.



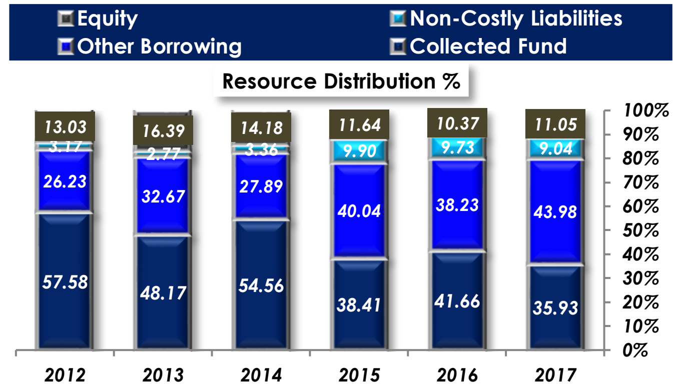
Aktif Bank's specific loan loss reserves coverage contracted to 58.91% at FYE2017 from 74.01% at FYE2016. The coverage ratio was below both the Turkish Banking Sector and the Deposits & Investment Banking Sector averages at FYE2017.



According to the IFRS based consolidated financial statements, the NPLs ratio was 2.86% at FYE2017 (FYE2016: 1.85%).

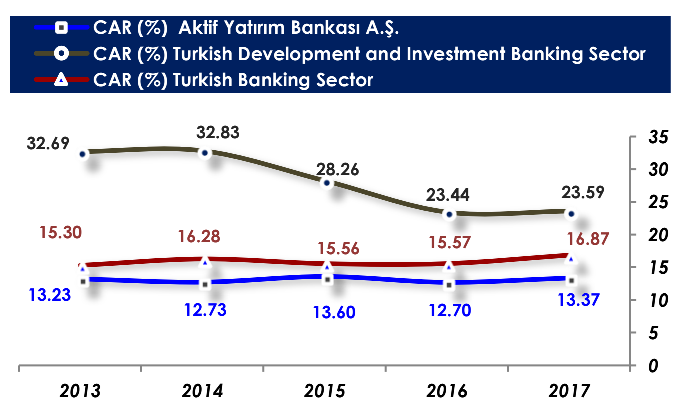
c) Funding & Adequacy of Capital

The Bank's funding sources did not exhibit a major alteration in FY2017. Aktif Bank, as an investment bank, is not entitled to collect customer deposits. The Bank meets its funding requirements through issued debt securities, borrowed funds from domestic & international institutions, current balances of its loan customers, equity and obligations under repurchase agreement. The Bank's collected funds, which comprises issued debt securities and current balances of loan customers, accounted for 35.93% of the total funding resources. Other borrowing consisting of bank loans and obligations under repurchase agreement formed 43.98% of total sources.



Aktif Bank has used capital market instruments effectively and issuances exceeded TRY 25bn to date. On 10 May 2017, Mudaraba Sukuk has been issued amounting to USD 118mn with a seven-year maturity, which is listed on the Irish Stock Exchange GEM. To extend maturity of the funding sources, the Bank issued Eurobonds amounting to USD 100mn and Euro 50mn with a maturity of 5 years in 2016. Despite the Bank's efforts to extend the maturity of provided funds, 54.43% of financial liabilities, which accounted for the significant portion of total liabilities, were placed in the up to one-month bracket. Short maturity profile of funding exerts pressure on liquidity management through renewal risks along with dependence on capital and money markets. Adverse developments in the overall economic, political and geopolitical surroundings of Turkey may limit access to money and capital markets.

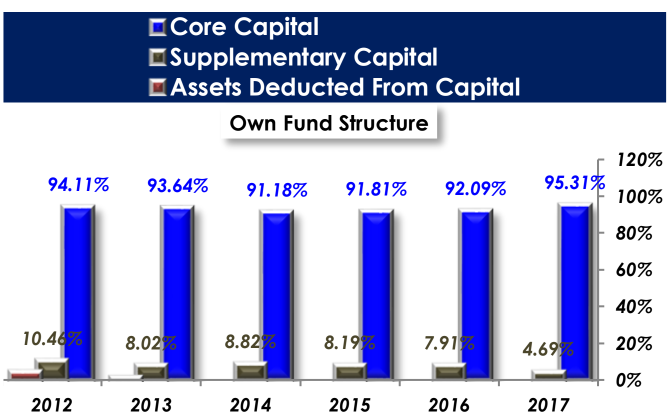
At FYE2017, the Bank's non-consolidated Capital Adequacy Ratio (CAR) was 13.37%, up from the previous year's ratio of 12.70% and remained above the minimum CAR requirements set by the Basel Accord (8%) and recommended by the BRSA (12%). On the other hand, the Bank's CAR ratios stayed notably below the averages of both the Turkish Banking Sector and the Turkish Development & Investment Banks throughout the reviewed period.



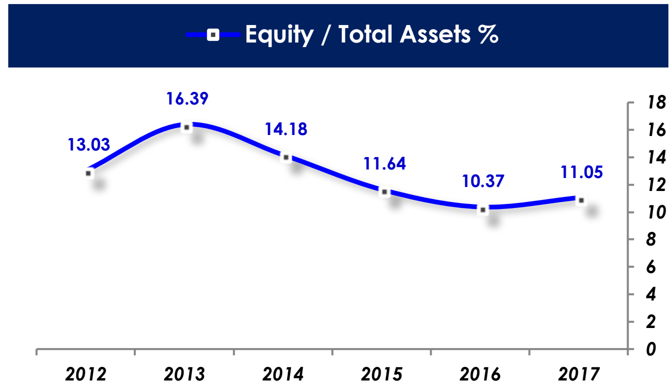
The Bank also remained compliant with the minimum requirements of Common Equity Tier 1 Capital Ratio (4.5%) and Total Tier 1 Capital Ratio (6%) set by the BRSA, with figures of 12.85% and 12.74%, respectively. The Common Equity Tier 1 Ratio of the Turkish Banking and the Development & Investment Banking Sectors were 14.08% and 23.11%, respectively, and remained well above the Bank's ratio. Additionally, the Bank's consolidated CAR ratio was 13.52% at FYE2017, up from 12.74% at FYE2016.

Amendments regarding the definition of SMEs in capital adequacy and provisions by BRSA, mandatory provisions held by Banks in the CBT in the form of foreign currency and gold reserves treated as zero weighted risk assets in line with BRSA regulations along with the treatment of extended loans through Credit Guarantee Fund (CGF), as zero risk weighted assets has supported the improvement in CAR for both the sector and the Bank.

The Bank's own fund dispersion is given in the chart below. The share of core capital (Tier 1), principally consisting of paid-up capital and retained earnings, comprised 95.31% of the Bank's total own fund structure at FYE2017 and indicates capital strength. The supplementary capital accounted for 4.69% of the Bank's own fund structure at FYE2017 and stayed below the Turkish Banking Sector's average of 16.69%. The provisions amounting to TRY 58.82mn were classified as supplementary capital/second-tier capital under the regulatory capital and accounted for 0.63% of the regulatory capital adequacy ratio of 13.52%.



The declining trend in equity to assets ratio following FYE2013 was slightly reversed at FYE2017. The same ratio for the Turkish Banking and Development & Investment Banking Sectors' were 11.02% and 17.44% respectively.



Consequently, we as JCR Eurasia Rating, assume that the current CAR ratio provides a modest buffer against potential incidental losses.

7. Risk Profile and Management

a) Risk Management Organization & its Function – General Information

Aktif Bank is principally exposed to Credit, Market, Liquidity and Operational risks stemming from the nature of its operations and utilization of financial instruments. Risks are executed under the risk management framework and implementation communiques. The Bank's risk management policies and strategies are reviewed according to arising needs. The Board of Directors has the overall responsibility of establishing and supervising an effective risk management framework and principals. The Audit Committee and Risk Management Unit are responsible for developing and monitoring the Bank's risk management policies. The Audit Committee, as a coordinator of Internal Systems, jointly administers the operations of the departments within the Bank's Internal Systems and monitors its efficiency and adequacy.

Credit, Audit, Corporate Governance and Remuneration Committees have been formed under the BoD and the Bank has also set up Asset & Liability Committee with the participation of senior executives under the presidency of the CEO. Furthermore, Internal Control, Internal Audit, Compliance and Risk Management Departments have been formed under Internal Systems in line with the BRSA regulations to establish a thorough and comprehensive risk management system. In 2017, a new GRC (Governance, Risk Management and Compliance) application known as the RISE Platform was introduced.

b) Credit Risk

Aktif Bank's credit risk management policy is initially set on three pillars; customer assessment, credit allocation and credit pricing. In this sense, through the guides of the comprehensive risk management framework, the Bank manages its credit risk by the allocation of loan limits for customers and customer groups as well as the definition of limits for sectors with considerations of maximizing risk-adjusted returns. The Bank continuously monitors customer credit assessments, takes necessary precautions and reviews allocated limits when necessary. In accordance with the lending policies, collaterals such as cash, bank guarantees, mortgages, pledges, cheques & notes and personal or corporate guarantees are required in line with the financial position of the debtor and its creditworthiness. As per to the consolidated financial statements prepared in line with BRSA standards, only 12.93% of the total cash loans were collateralized and received collaterals cover 47.40% of the collateralized loans book.

The Bank utilizes an in-house developed internal risk rating model for its corporate loans portfolio. The internal risk rating model grades all cash and non-cash loans in three categories as low, medium and high risk. The ratings are dynamically used for credit allocation and authorization limits at approval stage.

At FYE2017, Aktif Bank extended 68.92% (FYE2016:69.70%) of its loan book to corporates and the remaining 31.08% (FYE2016:30.30%) were consumer loans. On the other hand, 33.42% (FYE2016: 41%) and 48.92% (FYE2016: 59.85%) of the Bank's cash and non-cash loans were given directly or indirectly to group companies, respectively. In line with the management's medium-term growth projections, the share of cash loans allocated to the Group companies maintained a decrease in FY2017.

The Bank's (i) largest 100 cash loan customers composed 69.60% of the total cash loan portfolio at FYE2017 (FYE2016: 71.48%) (ii) largest 100 non-cash loan customers composed 99.71% of the total non-cash loan portfolio at FYE2017 (FYE2016: 100%). Despite a slight progress, those figures indicate the continuity of high credit concentrations.

c) Market Risk

Within the financial risk management framework, the Bank aims to keep the FX position in balance and to minimize the liquidity and interest risks in order to hedge against the risks that may arise in the market conditions. In this scope, "Financial Emergency Procedure" was set up with the approval of the BoD and began to monitor the defined criteria.

The Bank management executes and monitors its market risks related issues and takes the necessary measurements in accordance with the Communiqué on Measurement and Evaluation of Capital Adequacy of Banks'. The Bank calculates and reports general market risk using the 'Standard Method' in line with the methodology outlined in the regulations. In addition to the 'Standard Method', The Bank measures and monitors its market risk daily with the value at risk (VaR) methods in the context of the 'Internal Model'. VaR is calculated using the 'Historical Simulation' and 'Parametric' methods and is supported with back-tests & stress tests. The results are shared with the related units.

Aktif Bank is principally exposed to the fluctuations in interest rates and foreign currency risks in the context of market risk. The overall authority for market risk is assigned to the Asset Liability Committee (ALCO). To manage any particular interest rate risk, pre-approved limits of re-pricing bands have been set and interest rate gaps are continuously monitored by ALCO and is assisted by Risk Management Department. At FYE2017, the Bank's total foreign currency position to assets and equity ratios were 0.17% and 1.58%, respectively, and were almost balanced and compatible with the regulations.

d) Liquidity Risk

The Bank executes its liquidity risk by maintaining an adequate level of liquid assets to meet its obligations even in stressed conditions and accomplishes the regulations regarding liquidity implemented by the BRSA. Within its "Contingency Funding Plan" the Bank engages appropriate mechanisms to avoid increases in liquidity risk during normal and liquidity crisis scenarios for different conditions and risk levels. In addition to the requirement of legal liquidity ratios, ALCO sets internal liquidity ratios such as liquid assets to total assets and liquid assets to portfolio of issued bank bonds. The risk management unit closely monitors the liquidity conditions under the pre-determined limits.

Funds for short-term liquidity needs are provided through either internal sources or interbank lines, while long term liquidity needs are managed by utilizing capital market instruments through both domestic and foreign markets.

As in the previous year, significant part
of the financial total liabilities (54.43%) were placed in the up to one-month bracket that resulted in the Bank's short term funding profile, placing pressure on liquidity management through renewal risks along with an increase in dependence on capital and money markets. Despite the very short-term funding structure, the management provided adequate funding sources through good access to financial markets and no violation was observed in this field in FY2017.

It should also be borne in mind that investment securities which amounted to TRY 1,224mn (accounted for 77.79% of total investment securities portfolio) are given as collateral for performing stock exchange and repurchase agreement transactions. These transactions reduce the liquidity function of investment securities, which are deemed as liquid assets, and do not contribute to the liquidity management.

Within the framework of the Basel III harmonization process, the BRSA published an initial Communiqué (the Regulation on Liquidity Coverage Ratios) dated March 21, 2014 published in the Official Gazette no. 28948 and amendment Communiqués dated 20 August 2015, 20 January 2016, 28 February 2017, 13 July 2017 and 15 August 2017 stipulating that Banks must maintain an adequate level of high quality liquid assets (HQLA) on consolidated and unconsolidated bases to meet the net cash outflows. The ratios of the HQLA stock to the net cash outflows have been kept to a minimum of 100% in respect of total consolidated and unconsolidated liquidity and 80% in respect of total consolidated and unconsolidated foreign currency liquidity.

Recent regulations on November 04, 2017 stipulated that reserves held by the banks in the Central Bank is considered as 100% "high quality liquid assets" for the calculation of the liquidity coverage rate. (It was considered 30% before the amendment).

Pursuant to the decision of BRSA dated 12 December 2016 and numbered 7123;

Development and Investment Banks will;

- Maintain weekly and monthly liquidity ratios on a bank-only basis for foreign currency assets/liabilities for calculating and reporting liquidity ratios as per the framework of the 'Communiqué on Measurement and Evaluation of Liquidity Adequacy of Banks' and total assets/liabilities should stand at a minimum of 80% and 100%, respectively.

- Calculate liquidity coverage ratios as zero until otherwise stated by BRSA.

The average Liquidity Coverage Ratios of the Bank on consolidated and unconsolidated bases for the last quarter of FY2017 are given below.

Average LCRs FY2017 of Aktif Bank	Turkish Lira + Foreign Currency	Foreign Currency
Consolidated LCR	39.93%	48.93%
Unconsolidated LCR	41.68%	50.20%

e) Operational, Legal Regulatory & Other Risks

The Bank measures and reports operational risk by using the "Basic Indicator Approach" in accordance with the "Communiqué on Measurement and Evaluation of Capital Adequacy of Banks". The Bank places importance on compliance with the regulations set by the authorities and changes to the legal framework. Operational risks are managed effectively through the formation and implementation of risk management policies, network security and human resources. Business continuity is ensured by implementing back-up and disaster recovery plans and systems. A hot side center in Ümraniye-Istanbul and emergency center in Ankara were established to provide uninterrupted services in the event of natural disasters. In addition to the Bank's timely risk management applications assisted by the risk management, internal audit, internal control and compliance departments, the Bank insures its premises and equipment, money transfers, business interruption as well as offering liability insurance. The Bank has also set a comprehensive financial emergency plan to immediately respond to fluctuations in the market.

During FY2017, the Bank reported losses totaling TRY 444k and TRY 194 of it derived from the system failures & errors and human related factors and the remaining TRY 250k fine was imposed by legal authorities largely associated with the Saving Deposit Insurance Fund of

Turkey. Regarding the asset and equity size, the mentioned figures were immaterial.

8. Budget & Debt Issue

a. Budget

Within the framework of projections and budgeting activities in FY2018, the Bank management's expectations are given in the chart below.

Actual and Projected Balance Sheet

(TRY 000)	2017A	2018F	Change
Cash and Balances with CBRT	1,580,987	1,523,688	-3.62%
Loans	6,830,238	7,234,465	5.92%
NPL (net)	78,353	92,929	18.60%
Investment Securities	1,493,430	1,537,790	2.97%
Fixed Assets	289,317	306,027	5.78%
Other Assets	833,358	852,050	2.24%
Total Assets	**11,105,683**	**11,546,950**	**3.97%**
Debt Securities Issued	2,783,011	3,458,625	24.28%
Funds Borrowed	3,774,308	3,469,457	-8.08%
Money Markets Debts	1,100,030	1,270,831	15.53%
Customers' Accounts	1,305,040	1,245,298	-4.58%
Other Liabilities	908,668	593,658	-34.67%
Total Liabilities	**9,871,057**	**10,037,869**	**1.69%**
Equity	**1,234,626**	**1,509,081**	**22.23%**
Total Liabilities and Total Equity	**11,105,683**	**11,546,950**	**3.97%**

Based on solo figures in line with BRSA standards

Actual and Projected Income Statement

(TRY 000)	2017A	2018F	Change
Interest Income	1,082,915	1,182,245	9.17%
Interest Expense	-507,838	-642,522	26.52%
Net Interest Income	575,077	539,723	-6.15%
Net Fees and Commissions	165,322	80,345	-51.40%
Net Trading Gain/Loss	-37,356	31,903	185.40%
Other Income	107,468	84,320	-21.54%
Total Income	810,511	736,291	-9.16%
Total Operating Expenses	-350,342	-323,375	7.70%
Provision Expenses	-226,184	-91,063	59.74%
Profit Before Tax	233,985	321,852	37.55%
Net Profit	**177,947**	**260,009**	**46.12%.**

Based on solo figures in line with BRSA standards

Aktif Bank is expected to reach a net profit of TRY 260mn by FYE2018, an increase of 46.12% YoY. At 1Q2018, the Bank recorded a net profit of TRY 94.2mn, almost double that of the previous year's net profit. The first quarter net profit outcome indicates that the Bank's profit enlargement target is easily achievable if the same performance is maintained in the remainder of the year.

CAR	14.86%
ROAA*	2.84%
ROAE*	23.46%
NPLs	3.45%

*Pre-tax profit figure is used

The management assumes that NPLs and CAR ratios would be higher at FYE2018 compared to FYE2017 figures. Accordingly, taking into account past performance of the Bank, JCR-ER is of the opinion that the projections are quite conservative and achievable.

b. Debt Issue

Since the first bank bond issue in 2009, Aktif Bank successfully settled unsecured bond issuances (Aktif Bono) which reached TRY 22bn up to date and the Bank has made payments of all issued bonds on their maturity date.

No separate rating report has been compiled as the resources obtained from the debt issues will be carried in the Company's balance sheet and has been subject to analysis in the corporate credit rating report. The debt instruments to be issued carry no difference in comparison to the Company's other liabilities with respect to its legal standing and collateralization. As such, the notations outlined in the corporate credit rating report also reflect the issue rating taking into account aggregated exposure of the issues. The issue ratings do not cover any structured finance instruments that are not recorded under balance sheet items. Issue ratings are assigned for both outstanding and prospective debt instruments and incorporate assessments until their maturities.

Given the budget estimations and the previous track record, all interests and principal payments are expected to be paid on their maturities through renewal of the issued debt instruments or generating funds via downsizing extended loans.

Aktif Yatırım Bankası A.Ş. BALANCE SHEET - ASSET (000)	FYE 2017 USD (Converted)	FYE 2017 TRY (Original)	FYE 2017 TRY (Average)	FYE 2016 TRY (Original)	FYE 2016 TRY (Average)	FYE 2015 TRY (Original)	FYE 2015 TRY (Average)	FYE 2014 TRY (Original)	As % of 2017 Assets (Original)	As % of 2016 Assets (Original)	As % of 2015 Assets (Original)	FYE 2017 Growth Rate %	FYE 2016 Growth Rate %	FYE 2015 Growth Rate %
A- TOTAL EARNING ASSETS (I+II+III)	**2,605,174**	**9,826,455**	**9,074,824**	**8,323,193**	**7,508,645**	**6,694,096**	**5,860,282**	**5,026,467**	**88.76**	**87.77**	**88.59**	**18.06**	**24.34**	**33.18**
I- LOANS AND LEASING RECEIVABLES (net)	**1,733,736**	**6,539,477**	**6,029,923**	**5,520,369**	**5,079,315**	**4,638,261**	**4,310,777**	**3,983,292**	**59.07**	**58.21**	**61.38**	**18.46**	**19.02**	**16.44**
a) Short Term Loans	1,717,788	6,479,324	5,985,739	5,492,154	5,050,579	4,609,003	4,262,654	3,916,305	58.53	57.92	60.99	17.97	19.16	17.69
b) Lease Assets	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
c) Medium & Long-Term Loans	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
d) Over Due Loans	50,558	190,700	147,113	103,526	97,883	92,240	106,146	120,052	1.72	1.09	1.22	84.20	12.24	-23.17
e) Others	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
f) Receivable from Customer due to Brokerage Activities	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
g) Allowance for Loan and Receivables Losses (-)	-34,610	-130,547	-102,929	-75,311	-69,147	-62,982	-58,024	-53,065	-1.18	-0.79	-0.83	73.34	19.58	18.69
II- OTHER EARNING ASSETS	**454,430**	**1,714,066**	**1,696,575**	**1,679,084**	**1,402,089**	**1,125,094**	**640,216**	**155,337**	**15.48**	**17.71**	**14.89**	**2.08**	**49.24**	**624.29**
a) Balance with Banks -Time Deposits	40,872	154,166	356,776	559,386	387,843	216,299	185,818	155,337	1.39	5.90	2.86	-72.44	158.62	39.24
b) Money Market Placements	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
c) Reserve Deposits at CB	267,245	1,008,020	857,808	707,595	696,600	685,604	342,802	0	9.11	7.46	9.07	42.46	3.21	n.a
d) Balance With CB- Demand Deposits	146,314	551,880	481,992	412,103	317,647	223,191	111,596	0	4.98	4.35	2.95	33.92	84.64	n.a
III- SECURITIES AT FAIR VALUE THROUGH P/L	**417,008**	**1,572,912**	**1,348,326**	**1,123,740**	**1,027,241**	**930,741**	**909,290**	**887,838**	**14.21**	**11.85**	**12.32**	**39.97**	**20.74**	**4.83**
a) Treasury Bills and Government Bonds	186,689	704,173	635,633	567,093	685,473	803,853	791,899	779,944	6.36	5.98	10.64	24.17	-29.45	3.07
b) Other Investment	230,319	868,739	712,693	556,647	341,768	126,888	117,391	107,894	7.85	5.87	1.68	56.07	338.69	17.60
c) Repurchase Agreement	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
B- INVESTMENTS IN ASSOCIATES (NET) + EQUITY SHARE	**12,184**	**45,957**	**34,380**	**22,803**	**17,772**	**12,741**	**11,984**	**11,226**	**0.42**	**0.24**	**0.17**	**101.54**	**78.97**	**13.50**
a) Investments in Associates (Net)	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
b) Equity Share	12,184	45,957	34,380	22,803	17,772	12,741	11,984	11,226	0.42	0.24	0.17	101.54	78.97	13.50
C- NON-EARNING ASSETS	**317,765**	**1,198,579**	**1,167,800**	**1,137,020**	**993,416**	**849,812**	**1,031,973**	**1,214,134**	**10.83**	**11.99**	**11.25**	**5.41**	**33.80**	**-30.01**
a) Cash and Cash Equivalents	6,610	24,934	21,074	17,213	14,664	12,115	10,031	7,947	0.23	0.18	0.16	44.86	42.08	52.45
b) Balance with Banks - Current Accounts	0	0	0	0	0	0	310,399	620,798	n.a	n.a	n.a	n.a	n.a	-100.00
c) Financial Assets at Fair Value through P/L	13,774	51,956	51,221	50,486	29,879	9,271	6,761	4,251	0.47	0.53	0.12	2.91	444.56	118.09
d) Accrued Interest from Loans and Lease	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
e) Other	297,380	1,121,689	1,095,505	1,069,321	948,874	828,426	704,782	581,138	10.13	11.28	10.96	4.90	29.08	42.55
- Intangible Assets	38,135	143,841	159,964	176,087	150,261	124,434	114,038	103,641	1.30	1.86	1.65	-18.31	41.51	20.06
- Property and Equipment	68,081	256,796	266,356	275,916	253,818	231,719	212,664	193,608	2.32	2.91	3.07	-6.93	19.07	19.68
- Deferred Tax	2,716	10,246	5,750	1,254	4,147	7,039	9,657	12,275	0.09	0.01	0.09	717.07	-82.18	-42.66
- Other	188,448	710,806	663,435	616,064	540,649	465,234	368,424	271,614	6.42	6.50	6.16	15.38	32.42	71.28
TOTAL ASSETS	2,935,123	11,070,991	10,277,004	9,483,016	8,519,833	7,556,649	6,904,238	6,251,827	100.00	100.00	100.00	16.75	25.49	20.87

Aktif Yatırım Bankası A.Ş. BALANCE SHEET LIABILITIES & SHAREHOLDERS' EQUITY (000)	FYE 2017 USD (Converted)	FYE 2017 TRY (Original)	FYE 2017 TRY (Average)	FYE 2016 TRY (Original)	FYE 2016 TRY (Average)	FYE 2015 TRY (Original)	FYE 2015 TRY (Average)	FYE 2014 TRY (Original)	As % of 2017 Assets (Original)	As % of 2016 Assets (Original)	As % of 2015 Assets (Original)	FYE 2017 Growth Rate %	FYE 2016 Growth Rate %	FYE 2015 Growth Rate %
A- COST BEARING RESOURCES (I+II)	2,345,467	8,846,868	8,211,731	7,576,594	6,752,431	5,928,267	5,541,699	5,155,131	79.91	79.90	78.45	16.77	27.80	15.00
I- DEPOSIT	1,054,597	3,977,833	3,964,465	3,951,097	3,426,834	2,902,570	3,156,922	3,411,273	35.93	41.66	38.41	0.68	36.12	-14.91
a) TRY Deposit	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
b) FC Deposit	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
c) FC & LC Banks Deposits	1,054,597	3,977,833	3,964,465	3,951,097	3,426,834	2,902,570	3,156,922	3,411,273	35.93	41.66	38.41	0.68	36.12	-14.91
II- BORROWING FUNDING LOANS & OTHER	1,290,871	4,869,035	4,247,266	3,625,497	3,325,597	3,025,697	2,384,778	1,743,858	43.98	38.23	40.04	34.30	19.82	73.51
a) Borrowing from Domestic Market	177,927	671,122	526,862	382,602	377,826	373,050	294,458	215,865	6.06	4.03	4.94	75.41	2.56	72.82
b) Borrowing from Overseas Markets	822,731	3,103,258	2,775,002	2,446,746	2,290,941	2,135,135	1,714,614	1,294,093	28.03	25.80	28.26	26.83	14.59	64.99
c) Borrowing from Interbank	0	0	0	0	0	0	0	0	n.a	n.a	n.a	n.a	n.a	n.a
d) Securities Sold Under Repurchase Agreements	284,872	1,074,509	918,459	762,409	620,218	478,027	335,852	193,677	9.71	8.04	6.33	40.94	59.49	146.82
e) Subordinated Loans & Others	5,341	20,146	26,943	33,740	36,613	39,485	39,854	40,223	0.18	0.36	0.52	-40.29	-14.55	-1.83
B- NON-COST BEARING RESOURCES	265,429	1,001,173	961,987	922,800	835,634	748,467	479,280	210,092	9.04	9.73	9.90	8.49	23.29	256.26
a) Provisions	63,885	240,966	155,282	69,597	53,295	36,992	33,488	29,983	2.18	0.73	0.49	246.23	88.14	23.38
b) Current & Deferred Tax Liabilities	485	1,830	4,685	7,539	8,976	10,412	10,148	9,883	0.02	0.08	0.14	-75.73	-27.59	5.35
c) Trading Liabilities (Derivatives)	32,815	123,774	127,918	132,061	136,125	140,188	88,892	37,595	1.12	1.39	1.86	-6.28	-5.80	272.89
d) Other Liabilities	168,245	634,603	674,103	713,603	637,239	560,875	346,753	132,631	5.73	7.53	7.42	-11.07	27.23	322.88
C- TOTAL LIABILITIES	2,610,897	9,848,041	9,173,718	8,499,394	7,588,064	6,676,734	6,020,979	5,365,223	88.95	89.63	88.36	15.87	27.30	24.44
D- EQUITY	324,227	1,222,950	1,103,286	983,622	931,769	879,915	883,260	886,604	11.05	10.37	11.64	226.70	256.95	-445.40
a) Prior Year's Equity	260,776	983,622	931,769	879,915	883,260	886,604	862,051	837,498	8.88	9.28	11.73	11.79	-0.75	5.86
b) Equity (Added from Internal & External Resources at This Year)	-1,432	-5,400	-4,424	-3,447	-20,712	-37,977	-13,527	10,924	-0.05	-0.04	-0.50	56.66	-90.92	-447.65
c) Profit & Loss	61,992	233,827	165,941	98,054	62,011	25,967	29,846	33,725	2.11	1.03	0.34	138.47	277.61	-23.00
d) Minority Interest	2,890	10,901	10,001	9,100	7,211	5,321	4,889	4,457	0.10	0.10	0.07	19.79	71.02	19.39
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,935,123	11,070,991	10,277,004	9,483,016	8,519,833	7,556,649	6,904,238	6,251,827	100.00	100.00	100.00	16.75	25.49	20.87
	USD Rates 1=TRY	3.7719												

Aktif Yatırım Bankası A.Ş. INCOME STATEMENT (000) TRY	FY 2017	FY 2016	FY 2015
Net Interest Income	**570,519.00**	**355,663.00**	**307,398.00**
a) Interest Income	1,021,509.00	800,847.00	690,729.00
b) Interest Expense	450,990.00	445,184.00	383,331.00
Net Fee and Commission Income	**174,782.00**	**89,137.00**	**59,148.00**
a) Fee and Commission Income	248,439.00	131,631.00	91,818.00
b) Fee and Commission Expense	73,657.00	42,494.00	32,670.00
Total Operating Income	**461,053.00**	**277,852.00**	**259,101.00**
Net trading income (+/-)	-38,740.00	4,374.00	-3,932.00
Foreign Exchange Gain or Loss (net) (+/-)	0.00	0.00	0.00
Gross Profit from Retail Business	0.00	0.00	0.00
Premium income from insurance business	0.00	0.00	0.00
Income on Sale of Equity Participations and Consolidated Affiliates	0.00	0.00	0.00
Gains from Investment Securities (Net)	0.00	0.00	0.00
Other Operating Income	489,640.00	273,478.00	263,033.00
Taxes other than Income	0.00	0.00	0.00
Dividend	10,153.00	0.00	0.00
Provisions	**195,362.00**	**27,386.00**	**25,087.00**
Provision for Impairment of Loan and Trade Receivables	55,362.00	12,386.00	10,087.00
Other Provision	140,000.00	15,000.00	15,000.00
Total Operating Expense	**700,227.00**	**554,081.00**	**548,440.00**
Salaries and Employee Benefits	166,246.00	164,930.00	168,629.00
Depreciation and Amortization	71,624.00	55,009.00	32,190.00
Other Expenses	462,357.00	334,142.00	347,621.00
Profit from Operating Activities before Income Tax	**310,765.00**	**141,185.00**	**52,120.00**
Income Tax – Current	76,938.00	43,131.00	26,153.00
Income Tax – Deferred	0.00	0.00	0.00
Net Profit for the Period	**233,827.00**	**98,054.00**	**25,967.00**
Total Income	**1,245,094.00**	**722,652.00**	**629,579.00**
Total Expense	**738,967.00**	**554,081.00**	**552,372.00**
Provision	**195,362.00**	**27,386.00**	**25,087.00**
Pre-tax Profit	**310,765.00**	**141,185.00**	**52,120.00**

Aktif Yatırım Bankası A.Ş. FINANCIAL RATIOS %	FY 2017	FY 2016	FY 2015
I. PROFITABILITY & PERFORMANCE			
1. ROAA - Pre-tax Profit / Total Assets (avg.)	3.02	1.66	0.75
2. ROAE - Pre-tax Profit / Equity (avg.)	28.17	15.15	5.90
3. Total Income / Equity (avg.)	112.85	77.56	71.28
4. Total income / Total Assets (avg.)	12.12	8.48	9.12
5. Provisions / Total Income	15.69	3.79	3.98
6. Total Expense / Total Liabilities (avg.)	8.06	7.30	9.17
7. Net Profit for the Period / Total Assets (avg.)	2.28	1.15	0.38
8. Total Income / Total Expenses	168.49	130.42	113.98
9. Non-Cost Bearing Liabilities + Equity- Non-Earning Assets / Total Assets	9.26	8.11	10.30
10. Non-Cost Bearing Liabilities - Non-Earning Assets / Total Assets	-1.78	-2.26	-1.34
11. Total Operating Expenses / Total Income	56.24	76.67	87.11
12. Net Interest Margin	6.29	4.74	5.25
13. Operating ROAA (avg.)	7.41	6.88	6.31
14. Operating ROAE (avg.)	69.04	62.93	49.30
15. Interest Coverage – EBIT / Interest Expenses	168.91	131.71	113.60
16. Net Profit Margin	18.78	13.57	4.12
17. Gross Profit Margin	24.96	19.54	8.28
18. Market Share in Turkish Development and Investment Banking Sector	6.35	6.68	7.09
19. Market Share in Entire Banking System	0.34	0.35	0.32
20. Growth Rate	16.75	25.49	20.87
II. CAPITAL ADEQUACY (year-end)			
1. Equity Generation / Prior Year's Equity	-0.55	-0.39	-4.28
2. Internal Equity Generation / Previous Year's Equity	23.77	11.14	2.93
3. Equity / Total Assets	11.05	10.37	11.64
4. Core Capital / Total Assets	10.79	10.38	11.21
5. Supplementary Capital / Total Assets	0.53	0.89	1.00
6. Tier 1 Capital Ratio	12.89	11.73	12.30
7. Own Fund / Total Assets	11.32	11.27	12.21
8. Standard Capital Adequacy Ratio	13.52	12.74	13.40
9. Surplus Own Fund	40.85	37.19	40.30
10. Free Equity / Total Assets	7.01	5.37	6.76
11. Equity / Total Guarantees and Commitments + Equity	16.93	21.83	13.76
III. LIQUIDITY (year-end)			
1. Liquidity Management Success (On Demand)	93.74	99.85	97.53
2. Liquidity Management Success (Up to 1 Month)	91.79	93.39	97.24
3. Liquidity Management Success (1 to 3 Months)	96.82	90.69	87.90
4. Liquidity Management Success (3 to 6 Months)	97.93	95.49	98.64
5. Liquidity Management Success (6 to 12 Months)	97.93	95.49	98.64
6. Liquidity Management Success (Over 1 Year & Unallocated)	86.50	92.94	90.91
IV. ASSET QUALITY			
1. Loan and Receivable's Loss Provisions / Total Loans and Receivables	1.96	1.35	1.34
2. Total Provisions / Profit Before Provision and Tax	38.60	16.25	32.49
3. Impaired Loans / Gross Loans	2.86	1.85	1.96
4. Impaired Loans / Equity	15.59	10.52	10.48
5. Loss Reserves for Loans / Impaired Loans	68.46	72.75	68.28
6. Total FX Position / Total Assets	0.17	0.26	0.23
7. Total FX Position / Equity	1.57	2.51	2.00
8. Assets / Total Guarantees and Commitments + Assets	64.86	72.91	57.81

The Previous Rating Results Issued by JCR Eurasia Rating

aktif bank			June 10, 2010		May 31, 2011		May 23, 2012		May 31, 2013		May 22,2014		June 01, 2015	
			Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term
International	Foreign currency		BB	B	BB	B	BB	B	BBB-	A-3	BBB-	A-3	BBB-	A-3
	Local currency		BB	B	BB	B	BB	B	BBB-	A-3	BBB-	A-3	BBB-	A-3
	Outlook	FC	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable
		LC	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable	Stable
National	Local Rating		A- (Trk)	A–1(Trk)	A (Trk)	A–1(Trk)	A+ (Trk)	A–1(Trk)	AA(Trk)	A–1+ (Trk)	AA (Trk)	A-1+(Trk)	AA (Trk)	A-1+(Trk)
	Outlook		Positive	Stable	Positive	Stable	Positive	Stable	Stable	Stable	Stable	Stable	Stable	Stable
Sponsor Support			2	-	2	-	3	-	3	-	3		2	
Stand Alone			BC	-	B	-	AB	-	AB	-	AB		AB	
Sovereign*	Foreign currency		BB	-	BB	-	BB	-	BBB-	-	BBB-		BBB-	
	Local currency		BB	-	BB	-	BB	-	BBB-	-	BBB-		BBB-	
	Outlook	FC	Stable		Stable		Stable		Stable		Stable		Stable	
		LC	Stable		Stable		Stable		Stable		Stable		Stable	

The Previous Rating Results Issued by JCR Eurasia Rating

aktif bank			June 01,2016		June 05,2017									
			Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term
International	Foreign currency		BBB-	A-3	BBB-	A-3								
	Local currency		BBB-	A-3	BBB-	A-3								
	Outlook	FC	Stable	Stable	Stable	Stable								
		LC	Stable	Stable	Stable	Stable								
National	Local Rating		AA (Trk)	A–1+(Trk)	AA (Trk)	A-1+(Trk)								
	Outlook		Stable	Stable	Positive	Stable								
Sponsor Support			2	-	2									
Stand Alone			AB	-	AB									
Sovereign*	Foreign currency		BBB-	-	BBB-									
	Local currency		BBB-	-	BBB-									
	Outlook	FC	Stable		Stable									
		LC	Stable		Stable									