

Dedication to Deliver

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(Convenience translation of a report originally issued in Turkish)

**INDEPENDENT AUDITOR'S REPORT
ON THE ANNUAL REPORT OF THE BOARD OF DIRECTORS**

To the Board of Directors of Yapı ve Kredi Bankası A.Ş.

Report on the Audit of the Annual Report of the Board of Directors in Accordance with the Independent Auditing Standards

We have audited the annual report of Yapı ve Kredi Bankası A.Ş. ("the Bank") and its consolidated subsidiaries (together will be referred as "the Group") as at December 31, 2016.

Responsibility of the Bank's Board of Directors on the Annual Report

In accordance with Article 514 of the Turkish Commercial Code (TCC) no.6102 and communique on 'Principles and procedures set out by the regulations on preparation and issuance of annual reports of Banks' published in official gazette no.26333 dated November 1, 2006, the Bank management is responsible for the preparation and fair presentation of annual report consistent with the consolidated and unconsolidated financial statements prepared in accordance with the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette no.26333 dated November 1, 2006 and other regulations on accounting records of Banks published by Banking Regulation and Supervision Agency (BRSA), circulars, interpretations published by BRSA and the provisions of Turkish Accounting Standards for the matters which are not regulated by these regulation; "BRSA Accounting and Reporting Legislation" ("consolidated and unconsolidated financial statements") and for the internal control considered for the preparation of a report of such quality.

Independent Auditor's responsibility

Our responsibility is to express an opinion based on the independent audit we performed on the Bank's annual report, in accordance with the Article 397 of TCC and "Communique on Independent Audit of Banks" published in the Official Gazette no.29314 dated April 2, 2015 on whether the financial information provided in this annual report is presented fairly and consistent with the Bank's consolidated and unconsolidated financial statements there on which auditor's report dated February 2, 2017 has been issued.

We conducted our audit in accordance Independent Standards of Auditing ("ISA") which is a part of Turkish Auditing Standards promulgated by the Public Oversight Accounting and Auditing Standards Authority ("POA"). These standards require compliance with ethical requirements the independent audit to be planned and performed to obtain reasonable assurance on whether the financial information provided in the annual report is free from material misstatement and consistent with the consolidated and unconsolidated financial statements. An independent audit involves performing audit procedures to obtain audit evidence about the historical financial information. The procedures selected depend on the independent auditor's professional judgment. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial information provided in the annual report of the Board of Directors is presented fairly and consistent with the audited consolidated and unconsolidated financial statements in all material respects.

Report on other responsibilities arising from regulatory requirements

In accordance with paragraph 3 of Article 402 of the Turkish Commercial Code, within the framework of the Independent Auditing Standards 570 "Going Concern", no material uncertainty has come to our attention to be disclosed which causes us to believe that the Bank will not be able to continue as a going concern in the foreseeable future.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited


Yaşar Bivas, SMMM
Partner
DENETÇİ

Istanbul, February 22, 2017

Part I

Introduction

Annual Shareholders' Meeting Agenda

28 March 2017 Annual Shareholders' Meeting Agenda

1. Opening and election of the Chairman of the Meeting,
2. Presentation of the Annual Activity Report of the Board of Directors, Financial Statements and Summary of Report of External Auditors related to the activities of the year 2016 and consideration and approval of the Annual Activity Report and Financial Statements for the year 2016,
3. Submission of appointments made by the Board of Directors for the vacated memberships of Board of Directors during the year as per article 363 of Turkish Commercial Code for approval by the General Assembly,
4. Clearing of members of the Board of Directors of liability related to activities of the Bank during the year 2016,
5. Approval of transactions due to waiver of our receivables within the frame of the payment made to our Bank regarding to some of Bank receivables within litigation process that are being followed up on doubtful receivables accounts ("Ataşehir Receivables"), and to clear Board members regarding these transactions,
6. Determining the number and the term of office of the Board members, electing members of the Board of Directors and independent members of the Board of Directors,
7. Submitting according to Corporate Governance Principles the Remuneration Policy for the Members of Board of Directors and Senior Managers, and the payments made within the scope of the Policy to the shareholders' knowledge and approval of the same,
8. Determining the gross attendance fees for the Members of the Board of Directors,
9. Approval, approval with amendments or rejection of the proposal of the Board of Directors regarding the Profit Distribution for the year 2016 created as per the Bank's profit distribution policy,
10. Approval of the Independent Audit Institution selected by the Board of Directors with the requirement of the Regulation issued by the Banking Regulation and Supervision Agency and the Turkish Commercial Code,
11. Submitting according to the regulations of the Capital Markets Board the donations and charities made by the Bank in 2016 to foundations and associations with the aim of social relief to the shareholders' knowledge and determining a ceiling amount for the donations to be made in 2017 in line with the Banking legislation and the regulations of the Capital Markets Board,
12. Granting permission to the shareholders holding the management control, the members of the Board of Directors, the senior managers and their spouses and blood relatives and relatives by virtue of marriage up to second degree in accordance with Articles 395 and 396 of the Turkish Commercial Code and submitting the transactions carried out in this context during the year 2016 to the shareholders' knowledge in line with the Capital Markets Board Corporate Governance Communique,
13. Wishes and comments.

Ammendments to the Articles of Association

At the Ordinary Annual Shareholders' Meeting dated 31 March 2016, it was decided that the article 6 of the Articles of Association of the Bank (titled "Capital") related to extending Banks' Capital Ceiling Registration period which would expire at 2016 until 2020, and the article 14 of the Articles of Association (titled "Remunerations of the Members of Board of Directors, Executive members and the Committee Members") be amended.

Dividend Distribution Policy

Principles regarding the Bank's dividend distribution are set out in detail in the Bank's Articles of Association. In this respect shareholders, taking into consideration the Bank's growth targets as well as its financing requirements and the opinion of the Banking Regulation and Supervision Agency (BRSA), are authorised to pass resolutions on whether the dividend distribution shall be in cash or in the form of capital increase, whereupon bonus shares will be issued to shareholders or if part of the distribution shall be in cash and part in the form of capital increase.

As per the Articles of Association, the General Assembly may decide to transfer a portion or all of the distributable profit to retained earnings or extraordinary reserves.

It is envisaged that the Dividend Distribution Policy of the Bank will be set out in a way to ensure the realisation of long-term growth plans. This policy is subject to revision by the Board of Directors whenever necessary, taking into consideration the domestic and international economic conditions and the projects and funds on the agenda.

Note on 2016 Net Profit

It is resolved that of the TL 2,932,795,082.68 unconsolidated net profit for the accounting period, TL 24,870,832.80 be reserved as first legal reserve, TL 146,050,428.73 be set aside as special reserve (corresponding to 75% of the profit from the sale of the real estate and share stocks on the basis of Article 5 clause 1/e of the Corporate Tax Law 5520), TL 2,761,873,821.15 be set aside as extraordinary reserves. The related 2016 dividend distribution table, as given on page 5, was submitted at the Annual Shareholder's Meeting for approval.

2016 Dividend Distribution Table

Yapı ve Kredi Bankası A.Ş. 2016 Profit Distribution Table (TL)		
1. Paid-in Capital		4,347,051,284.00
2. Legal Reserves (per Legal Book)		844,539,424.00
Information on whether Articles of Association has any privilege regarding profit distribution		None
		Per legal book
3	Gross Profit	3,644,685,537.68
4	Reserve for Taxes (-)	711,890,455.00
5	Net Profit (=)	2,932,795,082.68
6	Prior Years' Losses (-)	0
7	Legal Reserves (-)	24,870,832.80
8	NET DISTRIBUTABLE PROFIT (=)	2,907,924,249.88
9	Donations made during the year (+)	
10	Net distributable profit including donations	
11	1st dividend to shareholders	0
	-Cash	0
	-Bonus shares	0
	-Total	0
12	Dividend to shareholders which possess preferred shares	0
13	Dividend to Members of Board of Directors and employees etc.	0
14	Dividend to shareholders which possess redeemed shares	0
15	2nd dividend to shareholders	0
16	Legal Reserves	0
17	Statutory Reserves	0
18	Special Reserves	146,050,428.73
19	EXTRAORDINARY RESERVES	2,761,873,821.15
20	Other sources which are accepted as distributable	0,00

DIVIDEND RATIO TABLE						
	GROUP	TOTAL DIVIDEND AMOUNT		TOTAL DIVIDEND AMOUNT/NET DISTRIBUTABLE PROFIT	DIVIDEND TO 1 TL NOMINAL VALUE SHARE	
		CASH (TL)	BONUS (TL)	RATIO (%)	AMOUNT (TL)	RATIO (%)
GROSS	-	-	-	-	-	-
NET	-	-	-	-	-	-

Chairman’s Message

Dear Shareholders,

In 2016, the Turkish banking sector faced a volatile operating environment due to both global and domestic developments. At a global level, low-interest rate environment stemming from developed countries’ central banks’ expansionary monetary policies, as well as limited rate hikes by FED supported emerging markets. Meanwhile, despite the unfortunate domestic events, Turkish banking sector maintained its resilience, supported by rapid and determined actions by the Central Bank of the Republic of Turkey and the Banking Regulation and Supervision Agency.

In 2016, total loans in the banking sector increased by 17% annually to TL 1,673 billion while total deposits grew 17% to TL 1,457 billion. Despite the challenges, asset quality in the banking sector remained under control with non-performing loans ratio realising at 3.2%. On the other hand, sector’s total net income increased by 42% annually to reach TL 36.4 billion.

For Yapı Kredi, the fourth largest private bank in Turkey with a total asset size of TL 271.1 billion, 2016 marked the start of the “Harvest Period” which is the second phase in the Bank’s “Growth Oriented Investment Strategy” that was launched in 2013. In line with this strategy, the Bank maintained its market share in total loans and deposits and continued to contribute to the financing of the Turkish economy with its “Dedication to Deliver” approach. Yapı Kredi increased the volume of its total cash and non-cash loans by 17% to TL 244.9 billion, maintaining its position within the banking sector.

In 2016, sustainability continued to be among significant items on the Bank’s agenda. Yapı Kredi remained in the BIST Sustainability Index owing to its successful performance in environmental, social and corporate governance related issues. Yapı Kredi is one of the 43 companies included in the index for the period between November 2016 - October 2017.

Building on its strong dedication to corporate governance, Yapı Kredi has sustained its corporate governance rating, which is granted based on the principles set by the Capital Markets Board, at 9.34 (out of 10) in 2016. This is the highest corporate governance rating among deposit banks.

Yapı Kredi continued to receive important awards in 2016. Project Finance International selected Bilkent Ankara Integrated Health Campus, where Yapı Kredi played a financing role, as the “Deal of the Year” in Turkey. Throughout the year, Yapı Kredi sustained support to projects that are of critical importance for Turkey’s development, and five projects developed and financed by Yapı Kredi were awarded by the EMEA Finance magazine in six categories. Additionally, the Bank won Turkey’s Best Private Banking award from Global Finance Award. Meanwhile, Yapı Kredi’s communication efforts in 2016 brought a series of important awards to the Bank. Yapı Kredi won six awards at the 28th Crystal Apple Awards by the Advertisers’ Association, and seven awards at the 11th Felis Awards by MediaCat. In addition, for the fourth consecutive year, Yapı Kredi was awarded the title “Turkey’s Most Ethical Company” at the ETIKA awards by Ethical Values Center (EDMER).

I would hereby like to extend my thanks to all our customers and shareholders for their continuous support and trust, and our employees for their devoted efforts.

Ali Y. Koç
Chairman

CEO's Message

Dear Shareholders,

Financial markets were dominated by a challenging operating environment in 2016. The result of the US presidential elections increased uncertainties across the globe, especially in financial markets, and accelerated capital outflows from emerging markets. Meanwhile, Europe was shaken by Brexit and fell short of the desired economic momentum. Downgrade of Turkey's credit rating by Standard & Poor's and Moody's had a negative effect on foreign investor sentiment. Nevertheless, Turkey and the Turkish banking sector continued to preserve their strong fundamentals, thanks to support from the Central Bank of the Republic of Turkey and the Banking Regulation and Supervision Agency.

During this period, Yapı Kredi recorded a loan growth of 16% compared to the end of last year, increasing its cash loan volume to TL 176.5 billion. Deposit growth surpassed loan growth slightly, registering an increase of 21% and reached TL 157.1 billion. Demand deposits, a core focus area of the Bank, rose 34% compared to last year, outpacing the private bank average growth of 23%. The faster growth seen in deposits compared to loans has enabled Yapı Kredi to reduce its loan-to-deposit ratio including TL bonds to 110% from 114% at the end of 2015. Meanwhile, the Bank continued to provide significant support to critical projects for Turkey's development. Accordingly, project finance loans grew by 13% in 2016.

In 2016, Yapı Kredi recorded a net income of TL 2,933 million. The Bank's capital base grew stronger during the period. Capital adequacy ratio of the Bank on an unconsolidated basis improved by 40 basis points versus the previous year, reaching 14.2%.

Yapı Kredi's total revenues grew by 17% year-over-year. Meanwhile, total costs increased by 5%, slower than inflation, thanks to disciplined cost management approach. As a result, the Bank recorded a cost/income ratio of 44%.

Diversification of the funding base continued to hold significant importance for Yapı Kredi. Accordingly, Yapı Kredi raised US\$ 5.6 billion funding through syndications, securitizations, bond issuances and other financial instruments. The Bank's success in these deals confirmed its strong financial structure and reputation in the international arena once again.

A pioneer of banking sector's digital transformation, Yapı Kredi continued to invest in this area in 2016. The Bank delivered another breakthrough in Turkey with "eye scan technology", which enables faster, easier, and more secure access to its renewed mobile banking platform from smart phones, also eliminating the need to enter a password. Other features such as contactless cash withdrawal from ATMs via QR code and direct access to the Call Center has allowed Yapı Kredi Mobile to display its distinct position once again. The Bank continued to reap the benefits of these smart digital investments. In 2016, the number of active mobile banking customers grew by 62% to reach 2.4 million, while the number of active internet banking customers rose to 3.3 million with a 27% increase.

During 2016, Yapı Kredi continued to take significant steps in social responsibility. The Bank has begun to support AÇEV's "Change Fathers, Change Society" project, which raises awareness about child development through training efforts focused on fathers. Within the framework of this collaboration, revenues generated from investments to Yapı Kredi's For My Country Fund will be diverted to this valuable project. Additionally, Yapı Kredi continued to offer convenient and accessible banking services to individuals with disabilities through its Enabled Banking program, in line with its "Equal Banking for All" principle. The Bank continues to make life easier for 2,210 orthopedically and visually impaired customers across Turkey.

I would like to take this opportunity to thank our loyal customers, our shareholders for their trust and support, and our employees for their valuable efforts.

H. Faik Açıkalın
CEO

Vision, Mission and Strategy

Vision

To be the undisputed leader in the finance sector

Mission

To ensure long-term sustainable growth and value creation for all stakeholders, and become the first choice of customers and employees

Strategy

Healthy and consistent growth: Focus on core banking activities, growth in value generating segments and products, continuous improvement in commercial effectiveness and funding diversification to sustain long-term performance with a customer-oriented approach

Strong and sustainable profitability: Address specific customer needs via a segment-based service model, optimise cost to serve to improve competitiveness and maintain effective liquidity, risk and capital management

Superior and long-lasting customer satisfaction: Enhance easy to work with approach through continuous investments in technology and delivery channels while maintaining focus on innovation, employee satisfaction and loyalty

Values

Freedom: Yapı Kredi employees express their opinions easily through appropriate and constructive methods; they act in accordance with the Bank's values and contribute to the future of the Bank

Respect: Yapı Kredi employees listen to their customers and colleagues, irrespective of their identities, to understand their needs. They respect the opinion of others and know that their opinions and ideas also count

Fairness: Yapı Kredi employees treat their customers, colleagues and the Bank's stakeholders in a consistent manner without seeking personal gain; they make objective decisions and act in accordance with their values while focusing on corporate and social responsibility

Transparency: Yapı Kredi employees share relevant corporate information with their customers, colleagues and other stakeholders in a transparent and timely manner while adhering to the Bank's confidentiality principles and ensuring accessibility; they express their opinions with the same degree of transparency

Trust: Yapı Kredi employees build relationships based on trust with all relevant parties utilising their banking knowledge, skills and commitment to corporate values; they trust those that they grant responsibility and authority to. Consistent with the Bank's corporate values, Yapı Kredi employees keep their promises in a timely and accurate manner. They take responsibility for their customers' problems, find rapid solutions and follow up on the results

History

The Origins: Established in 1944 as Turkey's first retail focused private bank with a nationwide presence, Yapı Kredi has always played a pioneering role in the banking sector. Since its origins, Yapı Kredi has maintained a strong reputation in the banking sector leveraging on its customer-centric approach, dedication to innovation and contribution to the development of the financial sector in Turkey. In 2006, Yapı Kredi successfully completed the largest merger in the Turkish banking sector. The merger between Koçbank (8th largest bank) and Yapı Kredi (7th largest bank) formed the new Yapı Kredi, which became the 4th largest private bank. Since the merger, Yapı Kredi has consistently delivered a sustainable and strong performance.

2006: Merger and Integration

- Legal merger of Yapı Kredi and Koçbank
- Merger of the two banks' core subsidiaries operating in the same sectors
- Restructuring of the capital base
- Integration of information technology systems

2007: Restructuring

- Launch of branch expansion
- Completion of segment based service model
- Streamlining governance by bringing subsidiaries under the Bank
- Efficiency initiatives in systems and processes

2008: Re-launch of Growth

- Acceleration of branch expansion
- Innovation in product, service and delivery channels
- Tight cost discipline and emphasis on decreasing cost to serve
- Strengthening of capital base via capital increase

2009: Global Crisis

- Temporary suspension of branch expansion
- Continuous support for customers
- Tight cost management and efficiency efforts
- Proactive credit risk management

2010: Back to Strong Growth

- Re-launch of branch expansion
- Focus on innovation and customer acquisition
- Above sector growth and tight cost discipline
- Simplification of processes and improvement in efficiency

2011: Smart Growth

- Continuation of branch expansion
- Growth in value generating segments and products
- Sustainable revenue generation and tight cost control
- Diversification of funding base

2012: Smart Growth

- Continuation of branch expansion
- Growth in value generating segments and products
- Focus on core banking and disciplined cost control
- Diversification of funding base

2013: Continuation of Smart Growth

- Continuation of branch expansion
- Strengthening of capital base
- Effective liquidity management via balanced growth in loans and deposits
- Sustainable revenue generation via growth in value generating segments

2014: Growth Oriented Investment Strategy

- Balanced growth in both loans and deposits with strong market share gains
- Network expansion (headcount, branch, ATM)
- Focus on innovation and customer acquisition
- Continued focus on solid capital base and maintaining healthy liquidity profile

2015: Continuation of Growth Oriented Investment Strategy

- Ongoing network expansion and strong focus on digital
- Focus on rapid and healthy customer acquisition
- Balanced growth in both loans and deposits
- Strong revenue generation via effective loan book remix

2016: Harvesting Phase

- Maintaining solid market share in loans and deposits
- Continuation of support to Turkish economy
- Focus on efficiency and value creation
- Focus on digital banking

Yapı Kredi at a Glance

Yapı Kredi has been sustainably strengthening its positioning in the sector since its establishment in 1944 through a customer-centric approach and focus on innovation. Yapı Kredi is the **4th largest private bank in Turkey** with **total asset size of TL 271.1 billion** as of the end of 2016. **Constantly in the pursuit of increasing its contribution to the financing of the Turkish economy, Yapı Kredi** increased the volume of its total cash and non-cash loans by 17% in 2016 to TL 244.9 billion. Accordingly, Yapı Kredi maintained its position at 3rd place among private banks.

Yapı Kredi serves **12.9 million active (22.5 million total) customers** through a widespread and multi-channel service network. The Bank has **936 branches** and **18,366 employees** covering all regions of Turkey. Yapı Kredi's Alternative Delivery Channels (ADCs) comprise **4,300 ATMs, innovative internet banking, leading mobile banking, 4 call centers** and approximately **554 thousand POS** terminals. 88% of the Bank's transactions go through non-branch channels.

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

Shareholding Structure

Yapı Kredi has a strong shareholding structure which ensures sustainable and profitable growth. 81.8% of the Bank's shares are owned by Koç Financial Services (KFS), a 50%-50% joint venture between UniCredit Group and Koç Group. The remaining 18.2% is publicly traded on Borsa Istanbul and Global Depositary Receipts that represent the Bank's shares are quoted on the London Stock Exchange.

Koç Group, founded in 1926, is the largest conglomerate in Turkey with its turnover, exports and over 95 thousand employees. Koç Group's turnover comprises 6.3% of Turkey's total Gross Domestic Product (GDP) and exports comprise 9.5% of Turkey's total exports.

UniCredit Group, with roots dating back to 1473, is a systematically important European financial institution based in Italy. The Group operates through leading banks in 14 countries and its network in another 18 countries.

Shareholding Title	Share Price (TL)	Share Ratio (%)
Koç Financial Services	3,555,712,396.07	81.80
Other	791,338,887.93	18.20
Total	4,347,051,284.00	100.00

Notes:

Within the context of reorganization of UniCredit's banking group activities within the Central and Eastern European region, UniCredit S.p.A's fully owned subsidiary UniCredit Bank Austria AG's 50% direct shareholding in Koç Financial Services (KFS)- Yapı Kredi's majority shareholder- was transferred to UCG Beteiligungsverwaltung GmbH (UCG, wholly owned subsidiary of UniCredit S.p.A, by means of demerger, while UCG was transferred to UniCredit S.p.A by means of merger. As a result of these transactions that were concluded on September 30, 2016 following the required approvals from Banking Regulation and Supervision Agency, UniCredit Bank Austria AG has no remaining shares in KFS, and UniCredit S.p.A has become a shareholder of KFS with a shareholding of 50%. In addition to this, there has been no changes in the indirect shareholding of UniCredit S.p.A in Yapı Kredi's shareholding structure.

The Bank's direct shareholder Koç Financial Services's (KFS) shares with a nominal value of TL 140,663,158.60 in total, representing Vehbi Koç Vakfı's 0.69% shareholding in KFS and Arçelik A.Ş.'s 3.98% shareholding in KFS, were bought by Koç Holding A.Ş on June 30, 2016.

Positioning

	Market Share	Ranking	Market Share Change (among total sector) 2016-2013	Market Share Change (among private banks) 2016-2013
Total Bank				
Total Loans (Cash + Non-Cash)	10.9%	4	66 bps	191 bps
Cash Loans	10.2%	4	66 bps	217 bps
Cash Loans in Turkish Lira	9.8%	5	50 bps	151 bps
Cash Loans in Foreign Currency	11.0%	3	77 bps	328 bps
Deposits	10.6%	5	152 bps	229 bps
Deposits in Turkish Lira	10.3%	5	265 bps	449 bps
Deposits in Foreign Currency	11.0%	5	-32 bps	-41 bps
Delivery Channels				
Employees ⁽¹⁾	9.3%	4	139 bps	280 bps
Branches ⁽¹⁾	8.7%	5	7 bps	48 bps
ATMs	8.9%	4	174 bps	294 bps
Digital Banking	16.2%	-	461 bps	-
Mobile Banking	12.7%	-	180 bps	-
Retail Banking				
Credit Card Outstanding	22.1%	1	150 bps	242 bps
Credit Card Issuing	19.9%	2	228 bps	1,099 bps
Commercial Credit Card Outstanding	33.5%	1	34 bps	73 bps
Credit Card Acquiring	20.8%	2	159 bps	1,051 bps
Number of Credit Cards	17.8%	1	2 bps	28 bps
Consumer Loans	9.6%	5	188 bps	348 bps
General Purpose Loans	10.9%	5	456 bps	675 bps
Mortgages	8.2%	7	-64 bps	67 bps
Auto Loans	5.9%	8	-808 bps	-905 bps
Commercial Installment Loans	5.3%	7	-120 bps	-155 bps
Corporate and Commercial Banking				
Corporate Loans	9.4%	6	71 bps	223 bps
Non-Cash Loans	13.1%	2	65 bps	91 bps
Leasing Receivables	19.9%	1	550 bps	-
Factoring Turnover	18.0%	1	113 bps	-
Cheque Clearing	11.8%	1	70 bps	-
Private Banking and Wealth Management				
Mutual Funds	17.1%	2	-111 bps	-478 bps
Equity Transaction Volume	7.3%	3	42 bps	78 bps

(1) Bank only employee number: 18,366; Bank only branch number: 936

Notes:

bps (basis points) indicates difference between ratios

Calculations are based on BRSA weekly data as of December 31, 2016 and BRSA monthly data as of December 2016

Digital and mobile banking market shares are calculated based on number of customers

Summary Financials

	2015	2016	Growth
Volumes			
Assets (billion TL)	235.3	271.1	15%
Cash + Non-Cash Loans (billion TL)	210.1	244.9	17%
Cash Loans (billion TL)	152.5	176.5	16%
Deposits (billion TL)	130.0	157.1	21%
Profitability			
Revenues (million TL)	10,263	12,023	17%
Operating Expenses (million TL)	5,077	5,315	5%
Net Income (million TL)	1,909	2,933	54%
Return on Average Tangible Equity ⁽¹⁾	9.7%	12.8%	317 bps
Return on Assets	0.8%	1.1%	27 bps
Cost/Income Ratio	49%	44%	-526 bps
Capital and Liquidity			
Bank Capital Adequacy Ratio	13.8%	14.2%	40 bps
Bank Tier-1 Ratio	10.3%	10.3%	4 bps
Bank Leverage ⁽²⁾	8.5x	8.7x	0.2x
Bank Loans/Deposits Ratio	114%	110%	-427 bps
Asset Quality			
Non-Performing Loans Ratio	3.9%	4.8%	87 bps
Total Coverage ⁽³⁾	116%	109%	-699 bps
Cost of Risk ⁽⁴⁾	1.47%	1.37%	-10 bps

Note: bps (basis points) indicates difference between ratios

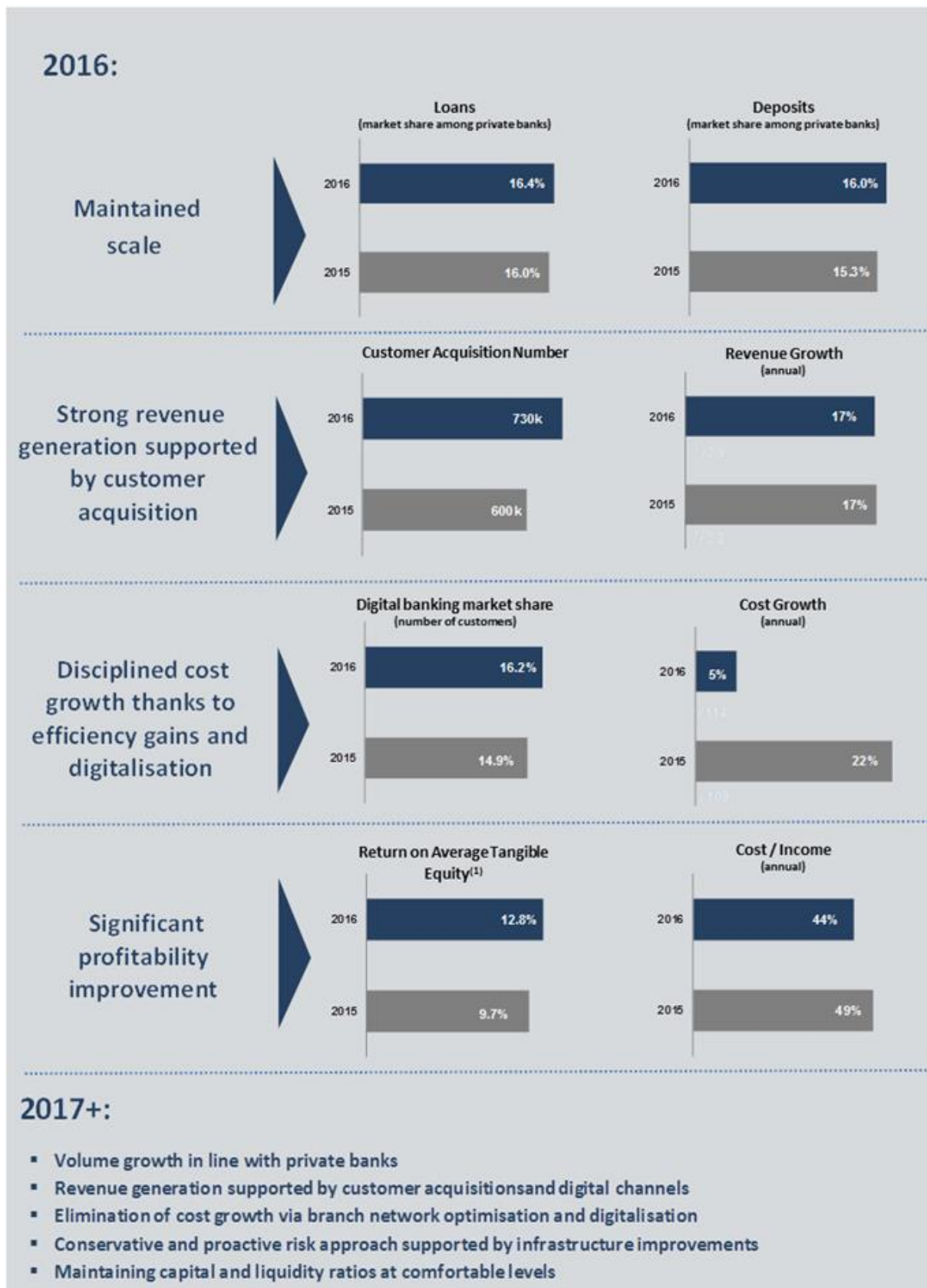
(1) Net Income/Average Shareholders' Equity. Average Shareholders' Equity is calculated by subtracting TL 979 million of goodwill generated from the merger of Koçbank and Yapı Kredi in 2006

(2) (Total Assets-Shareholders' Equity)/Shareholders' Equity

(3) Indicates specific and general provision coverage

(4) Cost of Risk = (Total Loan Loss Provisions-Collections)/Total Gross Loans

Strategic Review



Notes:

Calculations are based on BRSA weekly data as of December 31, 2016 and BRSA monthly data as of December 2016

(1) Net Income/Average Shareholders' Equity. Average Shareholders' Equity is calculated by subtracting TL 979 million of goodwill generated from the merger of Koçbank and Yapı Kredi in 2006

2016 Awards

Banking

Most Ethical Company in Turkey	ETİKA
Best Private Banking Award	Global Finance
Best Private Banking in Turkey	World Finance Magazine

Banking Products

Turkey's Best Trade Finance Provider	Euromoney
Yapı Kredi Private Banking - Best Philanthropy Advisory, Turkey	Euromoney
Best Bank in Cash Management, Turkey	Euromoney
Financing the Best Outreach Project	EBRD
Best Energy Conversating Deal of the Year	EBRD
Leading Bank in Project Origination	EBRD
Best Privatization Deal in CEE	EMEA Finance Magazine
Best Transport Infrastructure Deal in CEE and Best Infrastructure Deal of the Year in EMEA	EMEA Finance Magazine
Best Health Care and Best Social Development Deal in CEE	EMEA Finance Magazine
Best Structured Finance Deal in CEE	EMEA Finance Magazine
Best Project Finance Deal in CEE	EMEA Finance Magazine
Healthcare Deal of the Year	World Finance
Worldcard – The One Awards “The Most Successful Brand in Credit Card Sector of the Year”	Marketing Türkiye

Alternative Delivery Channels

Award for Innovation in Sales: "Loan Sales via Call Center", Silver Winner	Stevie Awards
Relationship Management Solution "44 Program Together Stronger", Bronze Winner	Stevie Awards
"Best Design" in Corporate Internet Banking	Global Finance Digital Bank Awards
"Best in Class" in Banking Category- yapikredi.com.tr	Interactive Media Awards
"Best in Class" in Financial Services Category - yapikredi.com.tr	Interactive Media Awards
Financial Services Category, Silver Winner	Stevie Awards
Best Web Site Design Category, Bronze Winner	Stevie Awards
Banking Category, Bronze Winner	Stevie Awards
Yapı Kredi Wallet - "Shopping" Category, Silver Winner	Stevie Awards
Yapı Kredi Wallet - "Assistant Applications & Services" Category, Bronze Winner	Stevie Awards
Yapı Kredi Mobile Banking - "Business/Management" Category, Bronze Winner	Stevie Awards
Best Interface Design, Silver Winner	Stevie Awards
"Best Deployment of Customer Insight Category", Bronze Winner	European Contact Centre and Customer Service
3rd in Corporate Website Category	Altın Örümcek Awards
3rd in Best Mobile Website Category	Altın Örümcek Awards
SME Web Portal - 2nd in Banking and Finance Category	Altın Örümcek Awards
Yapı Kredi Mobile App - Gamechanger in Mobile Banking Category	Digital Age
Self Service World - Best Big Data and Analytics Project	IDC
Self Service World - Best Financial Institution and Corporate Partnership Project	IDC
"vadaaclub.com.tr" Silver Award of Excellence in the Gaming Category	Communicator Award
Bronze Award in Web Site- Gaming Category with vadaaclub.com.tr and Gold Award in Gaming Category	Horizon Interactive Awards
Excellence Award with Adax Project	ITEA Awards

Human Resources and Yapı Kredi Banking Academy

Most Employees Hired	Kariyer.net
Most Applications Received	Kariyer.net
Respect for People Award	Kariyer.net
Best Advance in Creating a Learning Strategy/Bronze	Brandon Hall Group Excellence Awards

Subsidiaries

Yapı Kredi Asset Management - Highest Return in Pension Investment Fund	TSPB
Yapı Kredi Asset Management - Best Asset Manager Company, Turkey	EMEA Finance Magazine
Yapı Kredi Asset Management - Best Asset Manager Company, Turkey	Global Brands Magazine
Yapı Kredi Factoring - Third Best Export Factoring Company in the World, Turkey	Factors Chain International

Service Model

Retail Banking

Includes Card Payment Systems, Individual Banking and SME Banking. Individual Banking serves individuals with total financial assets up to TL 500 thousand and SME Banking serves companies with annual turnover of less than US\$ 10 million

Breakdown by Business Unit

Revenues: %50	Loans: 44%	Deposits: 36%
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Corporate and Commercial Banking

Serves companies with annual turnover more than US\$ 10 million, sub-segmented under Commercial Banking (between US\$ 10-100 million) and Corporate Banking (over US\$ 100 million)

Breakdown by Business Unit

Revenues: 31%	Loans: 56%	Deposits: 41%
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Subsidiaries

Yapı Kredi Leasing
Yapı Kredi Factoring
Yapı Kredi Nederland
Yapı Kredi Moscow
Yapı Kredi Azerbaijan
Yapı Kredi Malta

Private Banking and Wealth Management

Serves customers with total financial assets above TL 500 thousand

Breakdown by Business Unit

Revenues: 3%	Loans: 0.1%	Deposits: 23%
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Subsidiaries

Yapı Kredi Asset Management
Yapı Kredi Invest

Notes:
Business units account for 84% of total revenues. The remaining 16% of revenues is attributable to treasury and other operations
Yapı Kredi's other subsidiaries include Yapı Kredi Koray Real Estate Investment Company, Banque de Commerce et de Placements, Yapı Kredi Culture, Art and Publishing, Yapı Kredi Technology as well as Allianz Yaşam ve Emeklilik

Retail Banking: Card Payment Systems

Profile		
Credit Cards	10.5 million	
Debit Cards	9.7 million	
Customers	5.8 million	
POS Terminals	554 thousand	
Positioning		
Credit Card Outstanding	22.1%	1
Credit Card Issuing	19.9%	2
Commercial Credit Card Outstanding	33.5%	1
Credit Card Acquiring	20.8%	2
Number of Credit Cards	17.8%	1
Awards		
Worldcard – The One Awards “The Most Successful Brand in Credit Card Sector of the Year”		
Self Service World - Best Big Data and Analytics Project		
Self Service World - Best Financial Institution and Corporate Partnership Project		
Yapı Kredi Wallet - “Shopping” Category, Silver Winner		
Yapı Kredi Wallet - “Assistant Applications & Services” Category, Bronze Winner		
Products and Services		
Worldcard, World Gold, World Platinum, Play, taksitçi, World Eko, Opet Worldcard, Fenerbahçe Worldcard, KoçAilem Worldcard, adios, adios Premium, Crystal, World Business, Debit cards (TLcard, Play TLcard, Business TLcard)		
		Institution
		Marketing Türkiye
		International Data Corporation
		International Data Corporation
		Stevie Awards
		Stevie Awards

Sustained leadership for more than 25 years

Yapı Kredi has been the leader in card payment systems since 1988 with its main credit card brand, World. This leadership is reinforced every year with the Bank's focus on exceeding customer expectations and leading the sector in terms of innovation in card payment systems. In 2016, the Bank continued its innovative approach and maintained its leading position in the sector with over 10.5 million credit cards. According to the 2016 Nilson Report, Yapı Kredi's credit card program, World, still holds its leadership in Continental Europe (excluding the United Kingdom) and improved its position by one notch becoming the sixth largest credit card program in Europe. Globally, Yapı Kredi ranks 48th.

Despite social and economic developments in the country and intense competition in 2016, Yapı Kredi maintained its leadership position in credit card total outstanding volume, achieving strong growth in profitability. Throughout the year, the Bank focused on customer acquisition, retention, cross-sell and cost reduction activities while maintaining a disciplined approach regarding instalments and loyalty points.

In 2016, Yapı Kredi maintained its leadership with TL 22.2 billion credit card outstanding volume, while growing above sector in credit card issuing and acquiring volumes with TL 120 billion and TL 125.3 billion, respectively.

The Bank also remained leader in commercial credit cards with TL 6.3 billion outstanding volume as of 2016. Additionally, Yapı Kredi's debit card POS volume increased by 45%, outperforming the sector.

Continuous innovative solutions for card users

In 2016, Yapı Kredi carried out numerous innovative projects to further strengthen its market positioning and boost customer satisfaction:

- Achieved a significant increase in credit card volume and profitability in 2016. The Bank focused on customer satisfaction and retention to effectively manage growth and profitability in credit cards
- Implemented new data analysis approaches to understand the card usage behavior of customers and to present more effective and tailored offers for credit card users
- Increased synergies with other business units to offer suitable products and product features to individual and commercial customers
- Developed card sales via yapikredi.com.tr (in addition to internet banking), thereby not only increasing customer satisfaction but also decreasing costs to serve
- Accelerated customer preference for e-statements and providing effective cost management in the context of focus on sustainability, efficiency, and the environment
- Implemented foreign currency account statement function for customers who wish to use foreign currency in international transactions, taking into account the needs of customers using their cards abroad
- Launched Yapı Kredi Wallet, a mobile wallet and mobile marketing platform that digitalizes customer experience with credit cards before, during and after shopping in late 2015. Yapı Kredi Wallet application displays shopping locations closest to the location of the customer, enabling the customer to view special offers at these locations, benefit from these offers via the application rather than the traditional method of SMS, and pay with the contactless (NFC) feature of their mobile phone without needing to carry a physical card. It provides customers with a digital marketing platform that offers easy access to payment information during payment, such as limit, points, statement date, debt, and shopping transaction, without having to wait for the account statement. Coupled with its mobile payment feature that enables fast and secure payment via mobile phones, Yapı Kredi Wallet facilitated the highest number of mobile payments in the sector in 2016
- Enhanced debit card infrastructure further to provide a better customer experience. Launched a virtual debit card service for debit card holders to use in the ever-growing area of online transactions

- Launched Platinum TL card, an exclusive debit card for Platinum segment customers in 2016. Platinum TLcard offers a wide range of advantages, such as a 10% discount for premium hotels, restaurants and cafes, special loyalty points and discounts in shopping, priority service at 4440446 VIP Line, as well as a variety of assistance and concierge services facilitating lives of the customers
- Created the Web Payment Center, first in Turkey, that enables bill payment services without any subscription, regardless of whether users are Yapi Kredi customers or not
- Enhanced customer satisfaction by enabling customers to carry out certain transactions online, such as payment of credit card bills, linking current accounts with credit cards, and setting credit card passwords

Pioneering position in merchant business

In 2016, Yapi Kredi sustained its leading position in merchant business thanks to a wide range of innovative products. During the year, the Bank focused on the development of POS processes and infrastructure while maintaining its customer satisfaction-oriented approach. Yapi Kredi is actively serving its customers with a network of 475 thousand merchants, and over 80 merchant campaigns every month.

In 2016, despite the slowdown in economic activity and the macroeconomic volatility the Bank managed to sustain its positive performance in merchant business:

- Prioritized digital transformation and technological development in all merchant-related channels
 - Introducing the Self-Service World platform, the first of its kind in Turkey, which allows merchants to develop their own discount campaigns for their target audience through Corporate Internet Banking
 - Initiation of efforts to provide all functions that are used by virtual POS customers via Corporate Internet Banking in order to provide a more secure and modern infrastructure, which is expected to be completed in 2017
- Addition of two new offers to the product range of fixed-price POS offers, in response to the positive feedback from customers to the fixed-price POS offers that enable merchants to pay a fixed monthly fee for a specific amount of turnover with fee exemptions. Merchant acquisition was supported in 2016 through 10 different fixed-price POS offers and sector-based pricing policies
- Introduced merchant e-account statement feature through Corporate Internet Banking, enhancing customer satisfaction and reducing print costs
- Lead the sector with collaborations and developments related to new generation ECR-POS devices;
 - Sale of ECR-POS devices through Yapi Kredi branches thanks to cooperation with POS manufacturers, also offering price advantages to merchants in this context
 - Offer the widest range of products to merchants, thanks to agreements signed with a variety of ECR-POS manufacturers
 - Increase acquisition by supporting merchants thanks to joint campaigns with ECR-POS companies
 - Introduced an infrastructure for the first time in the sector, to enable Turkcell dealers to carry out TL top-up, bill payment and other product sales via ECR-POS devices
- Completed the required system improvements on time in order to comply with new regulation regarding instalment payments with relevant communiqué on purchases of goods and services via credit cards
- Enhanced customer experience by automating merchant application processes

Future Outlook

- Increase acquiring volume through technical improvements to merchant payment infrastructure
- Enhance existing card acquisition channels, particularly digital platforms to further accelerate customer acquisition, and increase efficiency
- Digitalise the shopping experience of customers by providing new generation payment methods
- Launch special campaigns to encourage increase of credit and debit card usage

Retail Banking: Individual Banking

Profile

Customers	11.4 million
Branches	854
Relationship Managers	1,764

Positioning

	Market Shares	Ranking
Consumer Loans	9.6%	5
General Purpose Loans	10.9%	5
Mortgages	8.2%	7
Auto Loans	5.9%	8

Products and Services

Mortgages, Home Equity Loans, Home Improvement Loans, General Purpose Loans, Auto Loans, FordFinans, Individual Flexible Account, Product Bundles, Bill Payments, Regular Payments, Rent Payments, University Payments, Safety Deposit Box, Deposits (Time Deposit, Demand Deposit, Flexible Time Deposit, Fund Deposit, Gold Deposit, 5D Deposit), Scrap Gold Collection, Working Account, Private Pensions, Health insurance, Life insurance, Property and Casualty Insurance, Snowball, My first money, Dowry Deposit, House Deposit, Findeks Package

Value generating healthy growth

In Individual Banking, Yapı Kredi serves value-added products and services to customers with total personal financial assets up to TL 500 thousand. Individual Banking is divided into Mass segment (personal financial asset up to TL 50 thousand) and Platinum (Affluent) Segment (personal financial asset between TL 50-500 thousand). In addition, Yapı Kredi performs all its insurance activities under Individual Banking through a dedicated Bancassurance unit.

Retail Banking plays a key role in Yapı Kredi's customer-oriented strategy. In 2016, the Bank focused on expanding its active customer base and providing more innovative products to its customers. One of the key priorities of the Bank was payroll customer acquisition. Another focus area was maintaining the Bank's strong position in strategic products by new product launches and increased usage of digital channels.

Mass Segment

In 2016, Yapı Kredi's successful new customer acquisition strategy was supported by new payroll customer acquisition. As of the end of 2016, the Bank reached over 1.8 million payroll customers indicating an annual growth of 18%. Relationship with payroll customers is not only a key part of the Bank's Retail Banking strategy but also allows Yapı Kredi to create synergies with Corporate Banking customers.

In 2016, Yapı Kredi continued to enhance its digital channels as part of the Bank's focus on customer satisfaction and with a view to offering rapid and multi-channel access to products and services. Yapı Kredi completely renewed its mobile banking application during 2016, cementing its position as a pioneer in the sector. As of the end of 2016, the Bank provides its services in the segment via 854 Retail Banking branches.

One of the Bank's key products is general purpose loans, which cover various needs of its customers. During 2016, one out of every three general purpose loans was allocated through alternative delivery channels, enhancing the digital loan experience of customers. In addition, the practice of paperless general purpose loans via digital approval was commenced in pilot branches, with the goal of extending this service to all branches and to other product sales in 2017.

During the year, Yapı Kredi increased Flexible Account volume by 37%, bringing its market share up to 11.9%. Investments into the Bank's Flexible Account e-statement infrastructure carried out in order to reduce mailing costs, has enabled customers to view their account statements in digital form, saving 7 million papers in 2016.

In 2016, Yapı Kredi continued its efforts without losing steam to become the main banking partner of its customers. The efforts of Yapı Kredi's relationship managers have driven cross sales in a variety of areas, such as bill payments, credit cards and tuition fees. At the same time, the Mass Segment demand deposits volume grew by 44%.

Additionally, Yapı Kredi's cooperation for providing auto loans for customers who want to buy vehicles from exclusive Ford Otosan dealers has been continuing since 2008. As of 2016, Yapı Kredi has also started offering branchless personal auto loans from Ford Otosan dealers.

Platinum Segment

In 2016, Yapı Kredi continued to offer its Platinum Banking customers exclusive services in all fields, both financial and non-financial. In addition to 514 expert relationship managers operating from 390 branches and the VIP Call Center, the Bank offers its customers advantages in their daily lives through its exclusive World of Privileges. The Bank also provides advisory services in a variety of areas, such travel, healthcare and sports to enhance customer experience, as well as regular discount campaigns.

In 2016, Platinum customers continued to generate a strong deposits base for the Bank. Total deposit growth of this segment reached 23% in 2016. The Bank's priority, particularly in time deposits, has been to offer advantageous interest rates to customers in order to enable them to value their savings.

In mortgages, Yapı Kredi continues to successfully serve its customers via a wide range of tailored products, 1,600 specially trained mortgage experts, a dedicated info line and website. Additionally, the Bank collaborates with real estate developers and real estate agents to offer mortgages for housing projects. Yapı Kredi also offers life insurance products to mortgage customers to provide them with more value, reaching an insurance penetration of 74%.

Yapı Kredi's customer satisfaction among Platinum Banking customers remained high according to the global TRIM index.

Bancassurance

Yapı Kredi is the bancassurance market leader in health insurance with 39% market share. Additionally, the Bank ranks third in life insurance with a market share of 10% and fourth in private pension funds with a market share of 13%.

After completing the branch insurance infrastructure improvements in 2015, Yapı Kredi focused on the digital channels in 2016. In 2016, 20% of all insurance policies by number were sold via non-branch channels. In 2017, the Bank will continue to offer new products and new channels to meet customers' insurance needs.

Future Outlook

- Continue to expand customer base while improving customer penetration
- Increase sales effectiveness by leveraging unique sales and service models
- Further solidify leading positioning in digital channels via ongoing focus on innovation
- Utilize a multi-channel approach to offer products to meet customer needs with the same service quality through every channel

Retail Banking: SME Banking

Profile		
Customers	1.5 million	
Branches	854	
Relationship Managers	2,163	
Positioning	Market Shares	Ranking
SME Loans	5.3%	7
Products and Services		
Commercial Installment Loans, Revolving Loans, Flexible Commercial Accounts, Product Bundles (Defne, Nar, Palmiye, Sedir, Çam), POS and Merchant Services, Agricultural Loans, Cash Management Products, Investment Products, Commercial Credit Cards, Commercial Purchasing Cards, Corporate Mobile Banking, Verimli Kart, SME web site		

Acting with its “Dedication to Deliver” philosophy, Yapı Kredi supports sustainable development of SMEs through its range of products and services tailored to the specific needs of customers. Yapı Kredi’s SME and Agricultural Banking segment offers its services to enterprises and their partners with annual turnover of up to US\$ 10 million.

Customer acquisition continued to be one of Yapı Kredi’s main priorities in SME Banking in 2016. The increase in the number of customers continued in 2016, bringing the total number of SME customers to 1.5 million. Customer acquisition activities were supported by a dedicated team SME Banking relationship managers.

In 2016, Yapı Kredi focused on sectoral needs, and implemented the Manufacturing Support Program to support the manufacturing industry. Within the context of the program, Yapı Kredi offers R&D, investment, office equipment and working capital loans as well as various advantages such as SME Banking package discounts, and card fee exemptions, to SMEs engaged in manufacturing sector. In addition to financial support, the Bank also organizes Organized Industrial Zone seminars to inform SMEs on developments in Turkish and global economy, foreign trade solutions, and grant and support programs.

Due to the significant share of SMEs in the country’s exports and their important role in sustainable growth and development in line with Turkey’s goals, the Bank has launched “Sedir Foreign Trade” packages for SMEs engaged in foreign trade in order to support their foreign trade transactions in addition to their banking needs. These packages are tailored to the frequency of foreign trade transactions, and offer SMEs the convenience of conducting their foreign trade transactions for a single fee.

In line with its complementary multi-channel service approach, the Bank has developed new functions for its Corporate Online Banking and Corporate Mobile Banking services. Yapı Kredi continued to support digital transformation via campaigns aimed at digitalization of SMEs through its SME exclusive website, which was launched in 2015.

Agricultural Banking

Yapı Kredi provides customers tailored products and services for the agricultural sector through 220 branches and dedicated relationship managers in 72 branches located in agricultural regions. Accordingly, the Bank sustained its mission of increasing productivity and driving modernization in agriculture. Yapı Kredi Agri Banking also continued to leverage on special products for farmers, such as Agri Card (Verimli Card), NAR Package, agriinsurance (TARSİM) products in 2016.

Future Outlook

- Utilize a multi-channel approach to enable SME customers use alternative delivery channels more efficiently, thereby facilitating their transactions
- Develop product sales and post-sale services via non-branch channels
- Enhance sub-segment service models to enable more efficient portfolio management and drive up customer satisfaction

Corporate and Commercial Banking

Profile		
Customers	39 thousand	
Branches	54	
Relationship Managers	591	
Positioning	Market Shares	Ranking
Company Loans	9.4%	6
Non-cash Loans	13.1%	2
Cheque Clearing	11.8%	1
Awards		
Best Trade Finance Provider in Turkey	Euromoney	
Best Bank in Cash Management in Turkey	Euromoney	
Financing the Best Outreach Project	EBRD	
Best Energy Conversating Deal of the Year	EBRD	
Leading Bank in Project Origination	EBRD	
Best Privatization Deal in CEE	EMEA Finance Magazine	
Best Transport Infrastructure Deal in CEE and Best Infrastructure Deal of the Year in EMEA	EMEA Finance Magazine	
Best Healthcare and Best Social Development Deal in CEE	EMEA Finance Magazine	
Best Structured Finance Deal in CEE	EMEA Finance Magazine	
Best Project Finance Deal in CEE	EMEA Finance Magazine	
Healthcare Deal of the Year	World Finance Magazine	
Products and Services		
Letter of Guarantee, Money Transfers, Working Capital, Long-Term Loans, Project Finance, Direct Debit, BANKO™-OHES, Payment Products, Collection Products, Business Cards, POS, Public Payments, Derivatives, Import and Export Letter of Credit, Documentary Collection, Payments, Letters of Guarantee, Import and Export Financing Products (ECA's, Banker's Acceptance, Post Financing, Trade Loans, Forfaiting, Import and Prefinancing Promissory Note Avaluation, T.Eximbank Credits), Corporate Finance Advisory, Financial Advisory, Merger and Acquisition Financing, Capital Structure Advisory		

Yapı Kredi is one of the leading banks in the sector in terms of Corporate and Commercial Banking. The Bank not only serves a wide range of local companies but also focuses on providing tailored services to large international and multinational businesses. Products and services include project finance, cash management, trade finance and corporate finance advisory, financial advisory, capital structure advisory and merger and acquisition financing under investment banking.

Corporate and Commercial Banking serves companies with annual turnover more than US\$ 10 million, sub-segmented under Commercial Banking (between US\$ 10-100 million) and Corporate Banking (over US\$ 100 million). The Bank's Corporate and Commercial Banking activities are coordinated via six regional offices and 50 branches in Commercial Banking, three branches in Corporate Banking and one branch in International and Multinational Banking. In addition, Yapı Kredi leverages its presence in the international arena through its subsidiaries in Azerbaijan, the Netherlands, Malta and Russia as well as its branch in Bahrein.

Considering the challenging operating environment in 2016 marked by increased market volatility, Yapı Kredi continued to provide full support to its Corporate and Commercial Banking customers while focusing on effective risk management.

The Bank aims to enhance customer experience through increased use of all channels by offering high-security digital solutions to meet customer needs. Investments in digital channels support Yapı Kredi's goal of becoming an easily accessible bank for its customers. Digital platforms continuously expand the range of tailored services offered to customers. Effective use of digital channels increases operational efficiency as the Bank serves its customers through transparent and rapid processes.

Project Finance

As one of the leading banks in long-term project and structured finance in Turkey, Yapı Kredi has a project financing portfolio that comprises projects in energy, infrastructure, real estate and acquisition financing. Through project finance, the Bank supports the growth of the country by promoting long term investments while also building long-term partnerships with its customers. Yapı Kredi provides the strong underwriting capacity required for large-scale project financing leveraging on its strong balance sheet as well as cooperation and synergies with UniCredit. Its differentiated service model and long-standing expertise enable the Bank to offer its customers a wide range of financial services including financial advisory, structuring, arranging and project financing.

In terms of project finance, 2016 was a year marked by the completion of state-guaranteed infrastructure projects, as well as refinancing and acquisition financing opportunities. While uncertainties in the operating environment, increased capital costs, low energy prices and volatility in exchange rates reduced the momentum of new investments, Yapı Kredi sustained its support to the country in this challenging environment, increasing its total project financing volume to USD 11.7 billion. In addition, the Bank assumed essential roles in projects of critical importance for the country's development. Yapı Kredi became the bank that secured the highest amount of financing in the Galataport project (EUR 1.3 billion in investment, EUR 1 billion in total loan amount), loan representative for Turkish banks in the Eurasian Tunnel project (USD 1.2 billion in investment, USD 960 million in total loan amount), the authorized leading arranger in the Yavuz Sultan Selim Bridge project (USD 3.7 billion in investment, USD 2.9 billion in total loan amount), and one of the eight Turkish banks that contributed to the financing of Turkey's largest project finance to date, the Gebze-Izmir Highway project (USD 7.3 billion in investment, USD 5 billion in total loan amount).

Project Finance will remain a strategic priority for Yapı Kredi in 2017. The Bank will continue to take part in major projects that create added value for the country and require specialized expertise. With the revival of Turkey's growth potential, Yapı Kredi will continue increasing its contribution to the development of the country.

Cash Management & Trade Finance

Yapı Kredi provides its customers cash management (both local currency and foreign currency) and trade finance products through diverse channels and maintains a strong position in the sector. While offering multinational solutions to local customers in this area, Yapı Kredi also leverages UniCredit's product scheme and utilizes its experience and funding sources in its countries of operation. Yapı Kredi's cash management and trade finance services are supported by a sales team of 21, operating from 3 corporate branches and 1 multinational branch in various commercial locations.

Yapı Kredi offers a wide range of products and cash management services including countrywide collection and payment services, cash transfer services, digital banking, and operational services. In addition to cash management, Yapı Kredi also offers a variety of data integration and reconciliation solutions related to these products. In 2016, Yapı Kredi further strengthened its market position in e-banking, with high turnover performance in direct debit and the BANKO bulk payment system, and launched new products such as Bulk Taxes with Electronic Files and Social Security Institution Payments.

The Bank also provides a variety of support services and payment management mechanisms to Turkish companies engaging in international trade transactions. In addition to traditional import and export products, it also supports its customers via innovative and alternative foreign trade products and structured solutions. Moreover, the Bank expands its trade finance business through Turkish Eximbank Export Credit Programs, the Central Bank of the Republic of Turkey's pre-shipping and post-shipping financing sources for supporting export credit agencies and Eximbanks of other countries, while developing long term and favorable financing products through correspondent banks for the investment needs of its customers.

As of the end of 2016, the number of customers that Yapı Kredi serves cash management and trade finance products reached from 256 thousand to 292 thousand. The Bank also holds leading positions in cheque clearing with 11.8% market share, import flows with approximately 15.0% market share and export flows with approximately 17.2% market share.

Investment Banking

Investment Banking oversees three advisory functions including corporate finance advisory, financial advisory and capital structure advisory.

- **Corporate Finance Advisory:** Yapı Kredi provides merger and acquisition advisory services to customers, especially those operating in energy, infrastructure, consumer goods, retail, finance, telecom-media-technology and general industrials. The Bank focuses on cross-border transactions, acting as a bridge between its customer base in Turkey and UniCredit's customer network in Italy, Germany, and Central and Eastern Europe. In 2016, Yapı Kredi advised the controlling stake sale of One Equity Partners in Netaş to Chinese ZTE, Yıldırım Holding's acquisition of Solventaş, and Abraaj Capital's acquisition of minority stake in Fibabanka. The Bank's other landmark transactions in the past include the acquisition of Yapı Kredi Sigorta by Allianz (the largest insurance transaction in Turkey), sale of three hydroelectric power plants by EnerjiSA, sale of minority stake in Orka Group to Investcorp, acquisition of Gebze natural gas power plant of Unit Group by Ansaldo Energia, and acquisition of Dentaş Ambalaj by Prinzhorn.
- **Financial Advisory:** Yapı Kredi is the sector leader in financial advisory together with UniCredit. With its Financial Advisory team, Yapı Kredi assists clients looking to finance large scale projects via advisory services in structuring, obtaining the right mix of financing from various lenders and negotiations with creditors. Yapı Kredi focuses primarily on infrastructure (airport, port, bridge, tunnel and highway) projects, healthcare PPPs as well as other sectors within UniCredit's field of expertise, such as power, oil and gas and mining. In 2016, Yapı Kredi took part in healthcare projects developed with a public-private partnership model, acting as financial advisor in the İzmir Bayraklı and Kocaeli PPP, and as coordinating bank in Konya PPP projects.
- **Corporate Structure Advisory (CSA):** Corporate structure advisory provides consultancy services for developing sound financial statement structure, ensuring optimum debt-equity ratios and satisfying financial needs by using the most suitable products in line with sector specific factors and to provide most appropriate banking products and financial options for this purpose. Furthermore, corporate structure advisory is responsible for mediating in balance-sheet-based structured financing services, such as syndications, club loans, and refinancing.

International and Multinational Banking (IMB)

Yapı Kredi serves international and multinational companies in Turkey via its International Banking branch through a team composed of professionals who are fluent in wide range of languages. With its expert team Yapı Kredi helps to improve efficiency and effectiveness of these clients, and coordinates their investment and structured finance deals. The team provides advisory services needed for new entrants into the market being in close cooperation with reputable law offices and consultants and supports them during their new company establishment procedures and account opening processes.

Yapı Kredi is the ideal business partner for both investors willing to invest in Turkey, Azerbaijan, Netherlands, Russia and Malta and local clients willing to invest in abroad, also thanks to UniCredit's expertise and extensive network in Europe and Central Eastern Europe.

Future Outlook

- Strengthen business partnerships with customers by providing a wide range of services from daily transactions to financial advisory
- Focus on value chain management to build stronger relationships with customers' subsidiaries and suppliers
- Solidify position in project finance lending, especially in renewable energy and infrastructure projects, while maintaining a value-creating approach in commercial real estate
- Create a difference in customer experience by incorporating smart systems in process design
- Achieve operational efficiency through effective use of digital channels, and give priority to digital channels in sales

Yapı Kredi Leasing

Profile

Customers	5,810
Branches	14
Number of Employees	141

Positioning

Leasing Receivables	Market Shares	Ranking
	19.9%	1

Established in 1987, Yapı Kredi Leasing is 99.99% owned by Yapı Kredi. Having been the sector leader for the past eight years, Yapı Kredi Leasing holds a market share of 19.9% in leasing receivables as of the end of 2016. Drawing from its extensive experience, Yapı Kredi Leasing provides smart leasing solutions and constant support to its customers through 14 branches and an expert team of 141. Additionally, it is constantly developing new products for niche areas such as renewable energy projects and large-scale hospital investments, leveraging on unique partnership agreements with local and global suppliers to deliver creative solutions.

In 2016, Yapı Kredi Leasing sustained its leading position in the sector. It continued to secure financing for machinery investments in the real sector, especially for the manufacturing and construction equipment industries.

Yapı Kredi Leasing aims to maintain its sector leadership, enhance its customer network and sector positioning in 2017.

Yapı Kredi Factoring

Profile

Customers	4,739
Branches	9
Number of Employees	118

Positioning

Factoring Turnover	Market Shares	Ranking
	18.0%	1

Awards

Third Best Export Factoring Company in the World	Institution
	Factors Chain International

Established in 1999 and 99.95% owned by Yapı Kredi, Yapı Kredi Factoring has been the sector leader in factoring turnover for the last 16 years thanks to its robust capital structure and performance, wealth of experience, high quality service and an expert team of 118 employees.

Yapı Kredi Factoring has a market share of 18.0% in total transaction volume, and 16.7% in export factoring. In addition, the Company reached a total transaction volume of TL 22 billion, of which 84% is derived from domestic transactions and 16% from international transactions. Yapı Kredi Factoring renders factoring services across the country through its HQ in Istanbul and branches in Adana, Ankara, Antalya, Beyoğlu, Bursa, Güneşli, İzmir, Kadıköy and Kartal. In 2016, Yapı Kredi Factoring diversified its funding sources with a bond issuance to provide financing to its customers at a more cost-effective rate.

The synergy created by the close relationship with Yapı Kredi and the Bank's national sales and service network in particular, constitutes one of Yapı Kredi Factoring's most important service and competitive advantages.

Since 2002, Yapı Kredi Factoring has been ranking among the top companies in the Factors Chain International's Best Export Factoring Company index worldwide. In 2016, the Company ranked third with a service quality of "excellent". Yapı Kredi Factoring is also a member of the Amsterdam-based FCI as well as a member of the Turkish Factoring Association.

Yapı Kredi Factoring aims to increase customer numbers and penetration in all segments in 2017, while deepening relationships with existing customers.

Yapı Kredi Bank Nederland

Profile

Asset Size	US\$ 2.1 billion
Customers	14.5 thousand
Branches	1
Number of Employees	51

Yapı Kredi Bank Nederland offers a wide array of products and services in retail, corporate and private banking. The bank's main objective is to support Yapı Kredi's customer base residing abroad. The bank, whose shares are fully owned by Yapı Kredi, serves its customers through its head office in Amsterdam with 51 employees.

In 2016, the bank continued to perform favorably despite regulatory pressure and volatile market conditions. Yapı Kredi Bank Nederland offers savings and deposit products to more than 14 thousand customers in the area of retail banking. In corporate banking, the bank provides structured commodity finance and trade finance solutions leveraging on synergies with Yapı Kredi and UniCredit. While continuing its trade finance activities where market conditions play a key role, Yapı Kredi Bank Nederland, provides its corporate customers marine finance, project finance, cash management as well as Islamic Banking products. In the area of correspondent banking, the bank assesses the opportunities presented by money and capital markets based on its balance sheet requirements.

In 2017, the bank will focus on sustaining its customer satisfaction at the highest level while increasing profitability by managing its risks effectively. The pilot internet banking service, made available only to a selected group of customers in 2016, will be offered to the entire customer base in 2017.

Yapı Kredi Bank Malta

Profile

Asset Size	US\$ 158 million
Customers	Less than 100
Branches	1
Number of Employees	8

Yapı Kredi Bank Malta was established in 2014 and started to operate in 2015. The bank mainly focuses on serving Yapı Kredi's corporate and commercial customers. By the end of 2016, the Bank increased its total loan volume by 102%, reaching EUR 143 million. While this rise in total loan volume is directly reflected in the bank's profitability, the Bank continued to take positive steps regarding its performance and its compliance to regulations by taking into account legal requirements.

In 2017, the bank will concentrate on expanding its customer base and increasing its profitability by strengthening its presence in the market, while considering the relevant risk management factors.

Yapı Kredi Bank Moscow

Profile

Asset Size	US\$ 127 million
Customers	1,074
Branches	1
Number of Employees	57

Established in 1988, Yapı Kredi Bank Moscow is 99.84% owned by Yapı Kredi and is the first Turkish bank to offer banking services in Russia. The bank supports Turkish companies operating in Russia as well as some selected Russian companies, primarily operating in construction, industrial production, textile, trade and tourism. Thus, Yapı Kredi Moscow has been playing a pivotal role in strengthening commercial ties between Turkey and Russia for almost 30 years.

2016 has been a challenging year for Yapı Kredi Bank Moscow, due to sluggish economic growth, currency volatility and geopolitical developments. However, the Bank was able to register a solid performance with focus on diversification of its customer base, efficiency and asset quality. In the first half of the year, the bank focused on loan growth while in the second half of the year, its focus shifted towards liquidity management and deposit collection.

In 2017, Yapı Kredi Bank Moscow aims to continue its corporate and commercial banking operations in a selective manner while maintaining its resilient asset quality.

Yapı Kredi Bank Azerbaijan

Profile

Asset Size	US\$ 262 million
Customers	245 thousand
Branches	14
Number of Employees	381

Positioning

Credit Card Outstanding Volume	5.7%
Credit Card Acquiring	8.7%

Market Shares

Yapı Kredi Bank Azerbaijan was established in 1998 and is 99.80% owned by Yapı Kredi. The bank provides a wide range of products and services in retail and corporate banking through its 14 branches located in Baku, Ganga and Sumgait. In 2016, the bank's number of customers increased by 9% annually, reaching 244.7 thousand.

In 2016, although the economic turmoil in the country continued, the bank delivered a successful performance maintaining its strong liquidity, funding and capital positions. The bank focused on expanding its customer base and improving its efficiency as well as its asset quality. The bank's CAR realized as 14.7% as of 2016.

In 2017, the bank aims to carry on its retail and corporate banking activities in a selected manner, while further improving its alternative revenue generation capabilities and sustaining its solid asset quality.

Private Banking and Wealth Management

Profile		
Customers	25 thousand	
Branches	22	
Relationship Managers	174	
Positioning		
Mutual Funds	Market Shares	Ranking
	17.1%	2
Equity Transaction Volume	7.3%	3
Awards		
Best Private Banking Awards	Institution	
Best Private Bank	Global Finance Award	
	World Finance Magazine	
Products and Services		
Mutual Funds, Yapi Kredi Bills and Bonds, Private Sector Bills, Indexed Time Deposits, Fund Deposits, Managed Fund Accounts Equity, TradeBOX, FXBOX, Warrants, TurkDEX Transactions, Derivatives Market (VIOP) Transactions, Structured Products, Derivatives, Smart Fund Basket		

Yapi Kredi, serves its customers with more than 500K total financial assets through Private Banking. Wealth management services are supported by its subsidiaries; Yapi Kredi Asset Management and Yapi Kredi Invest. Thanks to synergies with its strong subsidiaries, Yapi Kredi offers its private banking customers a complete set of wealth management products and services through a holistic approach.

Yapi Kredi targets to exceed customer expectations in the fields of wealth management and private banking, while achieving a healthy and sustainable growth leveraging on Turkey's growth potential.

Sustained leadership

Yapi Kredi maintained its leadership position in private banking and wealth management in 2016 as well, with its TL 47.4 billion customer assets, 22 private banking centers and 25 thousand customers.

Despite volatile market conditions, Yapi Kredi Private Banking and Wealth Management accomplished a strong growth in all areas through intensifying its communication efforts with both its customers and sales teams. Private banking deposits, on annual basis, rose by 13.7% to TL 32.6 billion, mutual funds by 27% to TL 4.0 billion, AUC by 11% to TL 3.4 billion and pension funds by 18% to TL 685 million.

Portfolio diversification approach, which occupied the heart of wealth management services in recent years, has also played a significant role in achieving customer satisfaction and thus a strong growth performance.

Customer acquisition, activation and deepening customer relationships remained among the priorities of Yapi Kredi's private banking service in 2016. The referral system, launched in 2014 for the sales teams and encompassing a very comprehensive incentive structure, continued to support the growth of the Bank's customer base and asset size with a more diversified portfolio.

New investment alternatives and developments

In 2016, Yapi Kredi completed infrastructure enhancements and process improvements to comply with the new communiqués of the Capital Markets Board. Parallel to this development, new investment products have been added to the portfolio after having re-evaluated the current portfolio.

Yapi Kredi launched three new mutual funds in order to further advance its mutual funds portfolio in 2016. The Private Foreign Currency Fund was launched in June, the first ever fund in the market that discloses prices on foreign currencies available in the market and that can be sold as foreign currency. Additionally, two more hedge funds, with a volume of almost up to TL 100 million, were introduced to investors in the beginning of the year allowing them to invest in different strategies.

Focus on customer-centeredness

Private Banking and Wealth Management continued to enhance customer experience through new services, exclusive events, digital channels and enhancements in new platforms for employees.

In 2016, the Bank continued to organize exclusive events for its Private Banking customers in a wide range of areas such as education consultancy, real estate markets, and culture tours, with the participation of speakers and consultants, all experts in their own areas.

The rolling-out of the new CRM platform for Private Banking, providing a better portfolio management facility for Private Banking relationship managers through customised content, simplified processes and one-click solutions, was completed in 2016 and the existing processes were integrated to this platform.

Private Banking web site (ykprivate.com.tr) was renewed, with the internet branch being now available to private banking customers with its renewed design and functions. Currently, customers have access to asset allocation proposals based on their risk groups and they can apply for Crystal card or request consultancy through the Internet branch.

As a result of Yapı Kredi's continued customer-centric approach, customer satisfaction in private banking maintained its performance at the highest level of the international TRIM index in 2016.

Future Outlook

- Develop innovative and tailor-made services offered through digital platforms, ensure that processes related to investment services are completed end-to-end through digital channels
- Continue new customer acquisition and deepening relations through focused relationship management approach
- Encourage long-term asset allocation approach and provide customers with the most appropriate asset mix in line with their risk appetite

Yapı Kredi Asset Management

Profile		
Number of Employees	62	
Positioning		
Mutual Funds	Market Shares	Ranking
	17.1%	2
Awards		
Yapı Kredi Asset Management - Highest Return in Pension Investment Fund		
Yapı Kredi Asset Management - Best Asset Manager Company		
Yapı Kredi Asset Management - Best Asset Manager Company		
Institution		
TSPB		
EMEA Finance Magazine		
Global Brands Magazine		

Established in 2002, Yapı Kredi Asset Management is one of the leading asset managers in Turkey. The company has 62 employees and serves customers of different asset classes with personalised research, analysis and solid risk management infrastructure.

Yapı Kredi Asset Management, strives to meet investors' needs in the best way possible through a wide range of products and services including 35 mutual funds, 21 private pension funds as well as retail and corporate private asset management models in diversified asset classes designed to fit investors' requirements and investment consultancy. Yapı Kredi Asset Management successfully maintained its second ranking in mutual funds with a market share of 17.1% and its total assets under management reached an all-time high of approximately TL 16 billion.

The company's successful progress in the international area has been recognised by prestigious awards. Various prestigious local and global institutions awarded Yapı Kredi Asset Management as Turkey's best asset management company in different categories in 2016.

In line with the new regulations, Yapı Kredi Asset Management will keep creating innovative solutions in 2017 too, as a response to the changing needs of its customers according to their risk profiles. In this direction, the company aims to further strengthen its pioneering position in the sector.

Yapı Kredi Invest

Profile			
Customers			116 thousand
Number of Employees			298
Positioning		Market Shares	Ranking
Equity Transaction Volume	7.3%		3

Yapı Kredi Invest is among Turkey's leading investment houses with more than 20 years of experience in capital markets. As a 99.98% owned subsidiary of Yapı Kredi, the company effectively utilises the Bank's wide branch network in reaching over 116 thousand retail and institutional customers. Aiming to be a one-stop shop in delivering solutions for its customers, Yapı Kredi Invest handles a wide range of transactions ranging from domestic and international equities to sophisticated derivative products and advisory services with its 298 experienced employees.

Yapı Kredi Invest carries on to prioritise digital channels to develop simple and rapid solutions tailored to meet customer needs. Meanwhile, remaining close to customers to better satisfy their needs and support their decision making process with in-depth research remains a fundamental element of the company culture.

Yapı Kredi Invest consistently ranks amongst the top tier investment institutions vis-à-vis business volume and profitability. Despite challenging market conditions in 2016, the company maintained its leadership position in terms of net income generation, as has been the case since 2008.

In 2017, Yapı Kredi Invest will continue to offer its customers unique, high quality products tailored to meet their needs in changing market conditions to ensure sustainable growth and development. Yapı Kredi Invest will also continue to invest in its infrastructure in order to better serve the needs of its customers.

Treasury

Yapı Kredi coordinates its treasury, correspondent banking and international debt capital markets activities through its treasury.

Treasury

Yapı Kredi is an active player in capital markets and provides customers with a wide range of products and financial advisory services. The Bank's treasury consists of five major groups: Fixed Income Securities, Money Markets and Balance Sheet Management, Foreign Exchange and Derivatives, Asset Liability Management Planning and Financial Monitoring and Treasury Marketing. The treasury manages the Bank's liquidity needs, interest rate risks, foreign exchange position and controls its proprietary investment portfolio.

2016 was characterized by a worsening outlook for emerging markets due to FED's tapering announcements, geopolitical developments and the sharp decline in oil prices. During the year, net capital inflows to emerging markets turned sharply negative which negatively affected the currencies of these countries.

Throughout the year, thanks to its strong expertise in interest rate and currency risk management Yapı Kredi was able to navigate through this challenging and volatile economic environment and effectively manage its liquidity and further diversify its funding base. In the meantime, the Bank continued to support the funding needs of real sector in Turkey with advantageous pricing and favorable maturity profiles.

Yapı Kredi's customer-centric approach is re-confirmed by the lower share of securities in total assets compared to its peers. This moderate approach helped Yapı Kredi to withstand the adverse effects of interest rate fluctuations during the year. In 2016, the share of securities in total assets was realized at 12%.

Yapı Kredi continued to utilize repo funding for short-term liquidity management purposes. The share of repo funding in total liabilities was recorded as 1.8% at the end of 2016. During the year, Yapı Kredi continued to utilize its Diversified Payment Rights securitization program for long-term funding purposes.

In 2016, the Bank executed US\$ 357 billion worth of foreign exchange transactions, of which US\$ 162 billion was generated from domestic customers. As a result, the Bank was able to maintain a market share of 12.51% and 11.96% in foreign exchange transactions and customer derivative products transactions, respectively.

Correspondent Banking

2016 proved to be yet another successful year for Yapı Kredi in terms of corresponding banking activities in spite of the volatile course of local and global markets. During the year, customers were provided trade finance services through a network of more than 2,600 international banks. Success in correspondent banking was reflected in syndication transactions as well as increasing market share in trade finance.

In May, Yapı Kredi successfully renewed a 367-day syndicated loan agreement comprised of a US Dollar tranche of US\$ 381 million and a Euro tranche of EUR 959,1 million to meet its clients' pre-export funding requirements. The syndication loan facility, that saw the highest participation of the year, has been raised by a syndicate including 48 relationship banks from 15 countries. The all-in cost was realized at Libor+0,85% and Euribor+0.75%.

Yapı Kredi, in October, secured the refinancing of another syndication transaction, a 367-day agreement comprised of a US Dollar tranche of US\$ 233,5 million and a Euro tranche of EUR 817,3 million. The Dual Currency Term Loan Facility has been raised by a syndicate including 33 relationship banks from 14 countries. The all-in cost was realized at Libor+1.10% and Euribor+1.00%. The reason for the higher interest rate of this transaction is the 25 basis points rise in interest rates of syndication following the downgrading of Turkey's rating by Moody's. The interest rate of this syndication is at the same level with the syndication interest rates of the banking industry.

Throughout the year, Yapı Kredi supported Turkish contractors' projects abroad by providing them import and export letters of guarantees, letters of credits and other foreign trade products. Furthermore, the Bank enhanced its leadership position in trade finance thanks to its ever-improving and sustainable business relationship with correspondent banks, superior services and its wide array of products.

International Capital Markets

In 2016, despite a difficult macro environment characterized by uncertainty and volatility, Yapı Kredi continued its strategy to secure funds from international markets by diversifying its funding base and secured international funds worth of US\$ 5.6 billion thanks to its strong international relations and partnerships.

The Bank;

- Obtained a funding of US\$ 500 million from international markets in March by issuing a Basel 3 compliant subordination loan.
- In October, Mortgage Backed Securities Program has been launched to allow issuance of mortgage-backed securities abroad, in different maturity schemes in the amount of up to EUR1 billion or equivalent foreign currency or TL

In addition, total funding obtained by the Bank's Global Medium Term Note (GTMN) program reached US\$ 3.4 billion.

Future Outlook

- Continue to support the funding needs of the real sector
- Maintain the Bank's leading position in international correspondent banking activities and further expand its correspondent network
- Further diversify funding
- Preserve the disciplined approach to sustain solid liquidity and funding position

Alternative Delivery Channels

Profile		
ATMs	4.300	
Active Digital Banking Users	3.3 million	
Active Mobile Banking Users	2.4 million	
Mobile Banking Application Download	8.2 million	
Annual Call Center Contacts	87 million	
Positioning		
ATMs	Market Shares	Ranking
Mobile Banking	8.9%	4
Digital Banking	12.7%	-
	16.2%	-
Awards		
Award for Innovation in Sales: "Loan Sales via Call Center", Silver Winner		
Relationship Management Solution "44 Program Together Stronger", Bronze Winner		
"Best Design" in Corporate Internet Banking		
"Best in Class" in Banking Category- yapikredi.com.tr		
"Best in Class" in Financial Services Category - yapikredi.com.tr		
Financial Services Category, Silver Winner		
Best Web Site Design Category, Bronze Winner		
Banking Category, Bronze Winner		
Yapı Kredi Wallet - "Shopping" Category, Silver Winner		
Yapı Kredi Mobile Banking - "Business/Management" Category, Bronze Winner		
Best Interface Design, Silver Winner		
Quality League Winner		
"Best Deployment of Customer Insight Category", Bronze Winner		
3rd in Corporate Website Category		
3rd in Best Mobile Website Category		
SME Web Portal - 2nd in Banking and Finance Category		
Yapı Kredi Mobile App - Gamechanger in Mobile Banking Category		
Institution		
Stevie Awards		
Stevie Awards		
Global Finance Digital Bank Awards		
Interactive Media Awards		
Interactive Media Awards		
Stevie Awards		
Stevie Awards		
Stevie Awards		
Stevie Awards		
Stevie Awards		
Telephone Doctor Turkey		
European Contact Centre and Customer Servi		
Altın Örümcek Awards		
Altın Örümcek Awards		
Altın Örümcek Awards		
Digital Age		

In 2016, Yapı Kredi, as the "Digital Bank of Turkey", continued to invest in digital channels in consideration of the country's technology penetration and young population so as to maintain its leading position in digital banking.

The Bank's main focus regarding Alternative Delivery Channels is to create value both for the bank and the customers through increasing direct product sales and cross-sell, decreasing service cost and enhancing customer satisfaction as well as customer experience. The Bank completed the "Single Experience" project in 2016 to offer an exclusive customer experience across all channels while introducing a single password application making customers' lives easier. The range of products sold through Digital Banking increased to 35 product types; and 43 different products are now directly sold or cross-sold through the Call Center leveraging on improvements to the Bank's infrastructure. In 2016, the share of ADC sales within total general purpose loan sales increased to 37%, reaching a sales performance equivalent to 680 branches, while credit card penetration reached 50%. 'Yapı Kredi Wallet', the app that offers special campaign and payment solutions to credit card customers, acquired over 7 million campaign subscriptions in the first year, realizing 70% of the mobile payments in Turkey.

Through ongoing focus on Alternative Delivery Channels, Yapı Kredi has increased its Mobile Banking penetration from 58% to 74% in a year turning 3 out of every 4 of its customers into mobile banking customers. Accordingly, the share of non-branch channels within total banking transactions increased from 56% in 2007 to 88% in 2016. In 2016, the penetration of deposit transactions through non-branch channels reached to 41%. 93% of non-cash financial transactions are now executed through digital channels.

In line with the Bank's digitalization vision and eco-friendly approach, a paperless process transformation was initiated leading to the elimination of paper use in loan procedures in branches; and delivery of vouchers via e-mail instead of ATMs expanding into a QR Code Withdrawal application.

In 2016, Yapı Kredi Corporate Internet Branch added on its technological services by offering customers a business platform with enriched functions, applications such as Self Service World and with its updated user friendly interface.

Digital Banking

In 2016, Yapı Kredi, the "Digital Bank of Turkey", delivered a unique identical experience across all digital platforms by renewing its mobile application. Meanwhile, mobile banking was positioned as the "remote-control" of all platforms with innovations centering the Yapı Kredi mobile platform.

The Bank recorded faster growth in the digital customer penetration in comparison to its intensive customer acquisition. The Bank increased its digital banking customer base by 27% last year, compared to the sector average of 17%. The non-cash transaction penetration of 93% in digital channels proves that all developments have turned out well. While the increase in digital customer and transaction penetration made customers' lives easier in parallel with the Bank's strategy, it has also brought revenue and cost advantages for the Bank. Digital channels provided a cross-selling opportunity for more than 80% of retail products by leveraging the digital transaction capability, thereby making it easier for customers to access various products. In line with these strategies, the Bank's digital banking market share has continued to increase for 17 subsequent quarters. In Turkey, one out of every four customers who started using digital channels in the last year chose Yapı Kredi's Digital Banking Channels.

In 2016, the Bank has laid the foundations for a free and open source program, Code.YapiKredi, for anyone who wants to learn about software development and to contribute to productivity. Code.YapiKredi, which will grow also in 2017, serves as a comprehensive platform composed of coding training and financial guidance sections. In addition, an end-to-end Fintech ecosystem providing financial technology application programming interfaces (OpenBankingAPI) for software developers was established. In this respect, the project overlaps with Yapi Kredi's innovative approach, taking innovation as an indispensable value and its vision for leading the digital transformation in banking.

Meanwhile, the Bank switched to an agile business methodology to adopt a start-up understanding in business processes.

The Bank highly focused on a holistic digital transformation; and took significant steps for process optimization, automation and branch digitalization and made developments allowing paperless processes. Processes requiring wet-ink signature and physical contracts have been minimized.

In addition, the Bank's digital channels received 14 awards in 2016, including 10 awards from international organizations. Moreover, UniCredit Best Practice team named Yapi Kredi as the bank with the highest digitalization index and as the best model practice among 14 countries.

Corporate Website

In 2016, remarkable developments and innovations were introduced to yapikredi.com.tr in an attempt to identify customer needs and provide personalized content and targeted offers to customers. The Bank focused on improving user experience to provide easier access to products and services, and shape customer's journey on the website. Innovative website design compatible with mobile devices has remarkably increased mobile device logins.

Innovative developments on the yapikredi.com.tr in 2016 include:

- Turkey's first Web Payment Center enabling everyone pay their bills without a subscription or a Yapi Kredi customer ID requirement, was launched
- The Web Application Center enabling customers apply for banking products such as loans, credit card and private pension on a single platform, was established. With the App Market, customers can now access all applications from a single point
- For credit card applications, the Bank initiated a process open to everyone regardless of being the Bank's customer
- With setting a credit card password, making transactions without logging in enabled
- The corporate website was enriched with Digital Banking and Non-Branch Sales media content offering visitors a unique experience in receiving information and making transactions

Internet Banking

In 2016, the Bank focused on increasing its sales at the Internet Branch designed in line with the latest user-friendly trends providing superior customer experience. More than 80% of retail products are offered to customers via internet banking. Yapi Kredi Corporate Internet Branch offers wholistic services to its customers serving as a business platform with enriched functions and renewed user friendly interface. With the renewed internet banking capabilities, the use by the corporate customers significantly increased and the number of transactions almost doubled. As a result of such developments in corporate internet banking, active customer market share reached up to 20% levels.

In 2016, Yapi Kredi's actions on efficiency and customer satisfaction include:

- With the Self Service World platform using the Big Data, a first in Turkey, World merchants are able to design their own campaigns with loyalty points and discounts through the Corporate Internet Branch
- Many products such as personal security insurance, "My Property" insurance, Compulsory Earthquake Insurance, Credit Bureau report sales are now accessible through web
- With the one-to-one pricing infrastructure established, personalized quotations are offered for general purpose loans and deposit products
- In 2016, the cross-sell rate for the life insurance sold with the general purpose loan has been quadrupled thanks to the improvement in user experience. This ratio is aimed to increase even further as of 2017 with the development of various pricing and package structures
- Internet Banking for Private Banking customers has been renewed with tailored design and content. Additionally, in 2016, "Asset Allocation Suggestions" are introduced as a first in Turkey through these channels. The robo-advisory service, launched last year, is planned to be accessible to all customers in digital channels with the support of artificial intelligence
- SIM card unblocking development made for the Internet Branch is now available at "Card Transactions" as well

Leveraging on these developments as well as its leading market position, Yapi Kredi achieved high customer satisfaction in digital banking once again in 2016. Yapi Kredi Internet Banking TRIM index hit 89 points as of December 2016.

Mobile Banking

In 2016, Yapi Kredi positioned the updated Yapi Kredi Mobile as the "remote control" for all channels in line with its vision of being Turkey's digital bank. With the introduction of "Internet of Things" into customers' lives, the Bank also included some connected products in to its Mobile Banking strategy. Yapi Kredi aims to assist customers at all times and to create routes for potential sales by including not only mobile application but also potential wearable technological products into its ecosystem. With the mobile, foundations of a paperless system, integrated into various other ecosystems, have been laid. Now, customers can withdraw cash from ATMs by only scanning a QR code, without

having to press a single button; or can contact the call center via mobile banking eliminating the need for ID verification, thereby increasing service speed. In addition, the Bank started to use biometric data to login to Yapı Kredi Mobile by adapting an advanced eye scan technology to mobile banking, for the first time in Turkey. This was the Bank's first project of its strategy to cooperate with the Fintechs. The Bank also introduced another first by offering all users, whether or not they are Yapı Kredi customers, access to Yapı Kredi BankingBot app through Facebook Messenger for all transactions that do not require security information. Furthermore, the renewal of the mobile branch marked the last pillar of the strategy to present the same design and experience to all customers across all channels. As a direct result, the number of mobile-only customers doubled, number of app downloads exceeded 8 million, the mobile branch was selected as Turkey's most popular mobile finance app at the App Store and crowned as the "Game Changer in Mobile Banking" by Digital Age Mag.

'Yapı Kredi Wallet', the app that offers special campaign and payment solutions to credit card customers, acquired over 7 million campaign subscriptions in the first year, realizing 70% of the mobile payments in Turkey.

Number of active mobile banking customers increased by 62% in 2016 leading to a market share of 12.68% with a 33 bps increase. Mobile transactions are the fastest growing area of online transactions with 105% growth rate.

In 2016, Yapı Kredi Mobile Banking developments included:

- Login with the Eye-ID, first in Turkey
- Cash withdrawal with QR Code
- Contacting call center directly via mobile banking
- Mobile branch app specially designed for Samsung Galaxy Gear S2
- Yapı Kredi Smart TV Finance app
- Yapı Kredi BankingBot app through Facebook Messenger
- Late EFT option
- Traffic Fine payment and bill payments to approximately up to 300 corporations
- Adding profile picture
- Integrating Google Search platform into Yapı Kredi Mobile

Alarm and Reminder Services

Smart Assistant, an alarm and reminder service that notifies customers instantly via SMS, e-mail or push notification for their banking transactions remained popular in 2016 and was used by over 4.4 million customers, indicating 13% annual growth.

ATM Network and Self Service Banking

Yapı Kredi ATMs located at 3,200 points offer easy access to 6.4 million users per month. Ranking among top four banks in Turkey in terms of ATM coverage with an ATM network of 4,300 Yapı Kredi sustained its growth strategy in non-branch channels to provide faster access to banking services for its customers. In line with the strategy of expansion, the share of Recycle ATMs, which enable withdrawal of the cash deposited in one of the 96% of cash-in ATMs by other customers and reducing the need for loading cash, increased to 40%. The rate of Enabled ATMs, specifically designed for customers with disabilities, increased to 51% as of the end of 2016.

During the year 193 million transactions were performed through ATMs by 6.4 million ATM users per month. Almost 90% of cash transactions were performed through ATMs. With the implementation of the new "QR Code Withdrawal" feature, enabling Yapı Kredi customers swift and easy cash withdrawals, the withdrawal process starts at Yapı Kredi Mobile and is completed at Yapı Kredi ATMs without the user having to touch any ATM button. With the increased use of ATMs due to the newly added transaction options and the effective sales activities, 1.5 million products were sold by the end of 2016. The Bank continues to work with the vision of expanding the variety of products and services offered through ATMs.

With the pilot implementation of the "New ATM" in 2016, user fronts were redesigned in line with customer needs and expectations and the ATM infrastructure went through an end-to-end renewal process. The new system reduces transaction times while adding a series of new features to ATMs that enable customers to gain optimum benefit from the Digital Channel experience in their ATM use and to complete their transactions in the easiest manner. The end-to-end redesign of the ATM infrastructure paved the way for a flexible platform for a variety of operations such new function development, product sales and ATM Monitoring, as well as new features such as Multivendor ATMs.

Call Center

Yapı Kredi's top priority is customer satisfaction. The Bank's award-winning call center is actively working for ensuring that customer contacts are handled in an effective manner so as to make customers' lives easier. Yapı Kredi Call Center provides 24/7 customer service with more than 1,500 employees located in three cities, both in Turkish and English. In 2016, Call Center handled over 87 million calls via phone, inbound, outbound, IVN, chat, e-mail and IVR. In line with the Bank's strategy, Call Center continues to grow as a sales channel, as well. Established in 2016, İzmir location, is positioned as a sales center with 310 employees.

Call Center acted as a strong sales channel with 16 million total outbound calls during 2016. 5.1 million products and services were sold through this channel, indicating 36% increase compared to 2015. With the general purpose loan sales started in the last month of 2015, Call Center performed 11% of the Bank's total general purpose loan sales. Call Center, as the main channel for the customer retention and win-back, achieved %69 success rate in these activities. The products and services sold through Call Center reached 43 products, increasing further in 2016. Carrying out intensive sales activities, Call Center sold a product and/or service in every six contacts.

In 2016, the technological infrastructure of Call Center was renewed to bring a new structure for 360- degree monitoring of customer experience and meeting their requirements faster.

Simplifying security processes enabled customers to access Call Center via mobile banking securely and quickly without entering any additional security information.

Complaint Management

In line with the customer-centric approach, Yapı Kredi is aware that sustainability can only be achieved through high customer satisfaction and customer loyalty. Therefore, the Bank has created a dedicated team to track and analyze customer feedback and complaints in order to ensure continuous improvement in systems and processes. This team is certified with an ISO 10002 Quality Certificate, indicating the high level of international standards. Customer Experience Committee, established with the aim of further improving service quality and customer experience through a dedicated approach as per the regulations of BRSA, continues to work for customer-oriented improvements.

The Bank has a wide range of customer feedback channels including a dedicated hotline (444 0 440) and a special section on the corporate website, a twitter account (@YapiKrediHizmet) and a postbox for written complaints. 80% of the complaints are solved at the first contact. In line with the Finalta benchmark, customers were provided a satisfactory response within 24 hours for 45% of the complaints records. With the Central Complaint Management strategy, it was aimed to finalize the complaints at the first point of contact centrally.

Future Outlook

- Continue to position Yapı Kredi Mobile as the remote-control of all platforms
- Enhance sales capacity and number of products sold from Call Center and digital channels
- Continue investing in technological developments to improve customer experience and provide faster services
- Continue to offer digital services including new service models and leading innovative solutions in this digitalizing world
- Keep up the intensive effort to ensure a seamless and unique user experience throughout the customer's digital journey

Information Technologies and Operations

Information Technologies

In 2016, Yapı Kredi IT focused on efficiency, innovation and security in order to reinforce its dynamic structure and to constantly improve its speed and quality of service. To serve that end, the department continued investing in security and digitalization.

- For a faster and more efficient access to data in a scalable infrastructure, Yapı Kredi IT launched data warehouse modernization program to renew data models and data warehouse technology
- In an effort to provide more efficient services to customers, new technologies are adopted in mobile banking, Internet banking and ATM applications
- The front-ends and processes of applications in the Call Center were renewed in order to maximize customer service quality and speed
- Following actions were taken with a view to boosting collection performance and to improve the well-developed risk management system and monitoring processes of the Bank
 - Credit risk models were renewed with an increase in systematic preliminary check
 - A more flexible, easily manageable and more efficient structure was established with the singularization of legal prosecution and collection platforms
 - Early warning, monitoring, collection and underwriting systems were improved
- Investments in information technologies infrastructure continued with an eye to increasing use and cutting back on costs
- Special emphasis was laid on cyber security investments in order to fulfill digital needs

Operations

Yapı Kredi works with a service approach that revolves around the customer and always prioritizes customer experience.

Operational efficiency; simple, faultless and fast operational models and risk-minimizing, controlled transaction processes have been areas of significant development at Yapı Kredi over the last several years and received equal attention in 2016. To serve that end, following actions were taken:

- With a focus on digitalization of operational activities in branches and further centralization, branches acquired a simpler working model
- Processes and infrastructures were launched in order to increase automated risk management and control in banking operations

Thanks to a more efficient use of machine learning and developed analytical techniques, resources utilization reached an optimum level and customer service further improved despite an increase in transaction volume;

- Operational service levels, significantly improved in previous years, achieved further progress despite lower time required to complete a transaction
- Time spent on completing high-volume transaction was reduced by 10% to 20 minutes
- Returned job rate was reduced by 45% to 2%, a rate sustained on a permanent basis
- Operational errors were reduced by 16%

In order to encourage the use of digital competencies in branch operations, a total of 139 systems and processes were improved, with around 2.3 hours rise in time allocated to customer relations in branches.

- Consequently, certain products and services customers obtain from the Bank are now carried out similarly in all channels available. In the coming term, emphasis will be laid on generalizing this practice across all products and services

Future Outlook

- Continue development in digital channels with an eye to offering singular and uninterrupted customer experience in all channels.
- Further integration of smart, decision-making infrastructure in processes with the help of advanced analytical techniques and machine learning technologies
- Improvement of data quality with private data management
- Improvement in branch service models to further enhance customer service quality
- Continue effort to reduce operational activities in branch network
- Complete the modernization of corporate data warehouse in order to provide a well-developed power of analysis and big data processing capacity and to improve data consumption costs, thereby maintaining the Bank's leadership in the sector in data management and analytics

Human Resources

Profile

Number of Group Employees	19,419 (Bank: 18,366)
Average age	34
Average working year	9 years
Share of female employees	62%
Share of university graduates	89%
Share of employees fluent at least in one language	30%
Share of employees who benefit from Yapı Kredi's pension plan	71%

Awards

Most Employees Hired
Most Applications Received
Respect for People Award
Best Advance in Creating a Learning Strategy/Bronze

Institution

Kariyer.net
Kariyer.net
Kariyer.net
Brandon Hall Group Excellence Awards

Further investment in human resources as key to success

Yapı Kredi attaches strong importance to its employees. In this regard, the Bank has a dynamic and structured human resources policy in place to manage recruitment, adaptation, career planning as well as development and training.

Yapı Kredi's (including Bank and subsidiaries) net employee number reached 19,419 in 2016. During the year, the Bank received 620 thousand applications and conducted 9 thousand interviews.

Yapı Kredi and BASİSEN (Banking and Insurance Workers Union) sign a collective bargaining agreement every two years, with the latest agreement covering the period from 1 April 2015 to 31 March 2017. 60% of all Yapı Kredi employees are union members.

Career Development

As part of Yapı Kredi's career development activities in 2016, 5,255 employees were appointed and 1,789 employees were promoted to new positions. In addition, telephone interviews were conducted with 1,486 employees as part of IK Calls projects, 177 branches were visited and face-to-face meetings were carried out with 1,947 employees.

Leadership and Talent Management

Talent management and backup activities seek to deliver the performances and potentials of employees in different levels of the Bank and to devise and implement development programs customized for their career goals. In addition to leadership and talent development programs jointly run by main partners Koç Holding and UniCredit Group, the Bank continues to support leadership development of employees with educational and development activities in cooperation with leading business schools in the sector.

Training Programs and Yapı Kredi Banking Academy

Yapı Kredi Banking Academy (YKBA) is responsible for coordinating the development activities for all employees of Yapı Kredi and its subsidiaries. Yapı Kredi Banking Academy's vision is to provide a proactive and continuous learning environment. YKBA provides development and certification programs via 250 in-house trainers, leading consultants and academicians to employees, their families, customers and university students. YKBA is also present in the Bank's subsidiary in Azerbaijan and has trained nearly 4,000 participants there since 2011. In 2016, 19,767 participants received training while total training hours was 686 thousand. Since its inception, Yapı Kredi Banking Academy has been continuously recognized for its successful implementations at every stage of the learning and development process by many reputable domestic and international institutions.

Yapı Kredi employees are provided specially designed certificate programs via cooperation with local and international universities as well as reputable institutions such as The Bankers Association of Turkey. Yapı Kredi also has partnership agreements with Koç University, Bilgi University, Özyeğin University, İstanbul Ticaret University, Bahçeşehir University and Yeditepe University to provide employees master programs with a special discount. YKBA also established an associate degree program in cooperation with MEF University in 2015 with the mission of building a bridge between business and academic life. A total of 100 students were enrolled in the program in its second year.

Recruitment and HR Development

- **Heroes Club:** A dedicated 2-year young talent and development program launched in 2012 and designed for 3rd year university students. The program allows students to engage in various training activities, projects, seminars and seize internship and part-time work opportunities at the Bank. As part of the program, each student is assigned a human resources advisor in the first year and receives career mentorship from managers during the second year. At the end of the program, the student may be eligible for a job offer based on their performance and the Bank's needs. In 2016, 100 students graduated from the Heroes Club. Additionally, 18 Heroes Club graduates were hired, 8 for branches and 10 for the Head Office. So far, a total of 70 Heroes club graduates have been hired by Yapı Kredi.
- **Campus Activities:** A program where students are visited at their campuses for career days. The program involves company presentations and panels. In 2016, over 1,200 students were reached through visits in 7 universities in 6 different cities

Employee Support Services and Benefits

- **HR IT Self Service:** An online platform where all aspects of HR including recruitment, performance management, training and development, leave and overtime can be viewed and managed by employees.
- **aloik:** An HR call center providing phone support to employees. In 2016, the center received more than 25 thousand calls.
- **Employee Support Line:** An exclusive 24/7 free help line created in 2010 to assist employees with both personal and professional inquiries, including financial, legal, medical, psychological help and dietician services. In 2016, almost 14 thousand inbound calls were received indicating a 27% annual increase.

Additionally, Yapı Kredi offers various employee incentives, such as health insurance which can be used by all employees and their immediate families, life insurance, shuttle services, contribution to private pension funds of employees and a Koç Ailem (My Family) Card that provides advantages in a variety of organizations.

Future Outlook

- Increasing branding and developing new work methods in line with the vision of becoming a preferred employer
- Recruitment of new colleagues with high competencies who will develop and support the digitalization strategy
- In line with the digitalization strategy, organizing training and development activities for current employees for a correct, fast and efficient use of digital channels
- Raising the best bankers in the Turkish banking sector
- Identifying employees with high potential and supporting them through special development programs increasing use of alternative learning technologies and designing a web-based learning portal and mobile applications

Other Subsidiaries

Yapı Kredi Koray Real Estate Investment Trust

Established in 1996 and 30.45% of which owned by Yapı Kredi, Yapı Kredi Koray Real Estate Investment Trust operates in both residential and commercial real estate development. The company is publicly traded in Borsa İstanbul with a market capitalisation of TL 48 million as of the end of 2016. In 2016, the Company merged with its fully-owned subsidiary Gelişim Real Estate Trading Inc. Also in progress in 2016 were sales of residencies and rental agreements for commercial spaces as part of the Ankara Çankaya Project. The goal for 2017 is to complete the sale of all residences and rental agreements of commercial spaces that are a part of the project.

Banque de Commerce et de Placements

Established in 1963 and 31% owned by Yapı Kredi, Banque de Commerce et de Placements (BCP) is a Swiss bank headquartered in Geneva with branches in Luxembourg and Dubai. BCP offers its clients the full service range of a Swiss bank. The bank specializes in commodity trade finance, foreign trade finance and asset management as part of its core activities, supported by treasury services and correspondent banking. In 2016, BCP handled a world-wide international commodity financing volume of CHF 21 billion and operates with a Tier 1 capital ratio of 14.8% as of the end of 2016. The Bank is rated as investment grade by Fitch Ratings.

Allianz Yaşam ve Emeklilik

Allianz Yaşam ve Emeklilik operates in private pension and life insurance, offering individual and corporate customers a wide range of tailored products. Allianz, one of the largest insurance companies and asset management groups in the world, became the main shareholder of Yapı Kredi Pension Fund on 12 July 2013 by purchasing 80% of its shares. On 27 September 2013, the name of the company was changed to Allianz Yaşam ve Emeklilik. Yapı Kredi remained a 20% shareholder in the company to support its long-term strategic partnership with Allianz. Yapı Kredi also has a 15 year exclusive bancassurance agreement with Allianz. Accordingly, customers continue to benefit from insurance and private pension products through Yapı Kredi's extensive branch network and innovative alternative delivery channels.

Yapı Kredi Cultural Activities, Arts and Publishing

Established in 1984 and fully owned by Yapı Kredi, Yapı Kredi Cultural Activities, Arts and Publishing (YKKSİY) is one of the most reputable culture and arts companies in Turkey. YKKSİY presents important publications, cultural events and exhibitions to the society.

Yapı Kredi Cultural Center organized 5 exhibitions and 90 art events in 2016 with around 38 thousand attendees. One of the major exhibitions of the year, which was also supported by Beşiktaş Municipality, was "Yaşar Kemal in the Eyes of Ara" that showcased Yaşar Kemal's photographs taken by Ara Güler. The exhibition prepared by Yapı Kredi Cultural Activities, Arts and Publishing included 43 photographs exclusively selected out of 125 photographs in the catalogue of the exhibition. The said images cover a period of Yaşar Kemal's life between the first years of his arrival in İstanbul until his death.

Another significant exhibition organized by YKKSİY in 2016 was "Sevgilerde/ Behçet Necatigil is 100 Years Old." The exhibition held on the occasion of the 100th birth anniversary of Behçet Necatigil, the great master of Turkish poetry showcased family portraits of the poet as well as his official documents, manuscripts, poetry, letters, books and personal belongings.

Yapı Kredi Publications (YKY) published 221 new titles and 856 reprints, a total of around 4 million books in 2016. During the year, around 150 school and library events brought together over 40 thousand students, teachers and librarians with authors and editors. In addition to these events YKY founded applied educational projects that support the development of self-expression and boost self-confidence in students in the name of legendary Turkish writers. Sabahattin Ali Literature School and Nâzım Hikmet Summer School programs enabled participants to create original works of art, images and objects and strengthened their visual and mental memory. The objective of the programs was to support and develop the creative processes where students can express their emotions. The programs encouraged children and young people to approach literary works with raised awareness and creative spirit.

Yapı Kredi Technology

Founded in June 2015 and fully owned by Yapı Kredi, Yapı Kredi Technology carries out the Bank's research and development activities. The company is located in İstanbul Technical University ARI Technopark.

Research and development activities focused on machine learning, artificial intelligence, natural language processing, mobile software development and data mining technologies.

In the world of technology, 2016 was a year marked by big data, artificial intelligence and machine learning. In the banking sector, mobile banking applications grab an increasing share in channels, already set to become the main distribution channel of banks. These developments indicate a higher importance for the research and development works of Yapı Kredi Technology. Additionally, R&D reform package becoming a law in 2016 played a role in further progress of R&D companies.

SAFİR project, which was further developed throughout 2016 and launched in Yapı Kredi, won the "Most Successful Koç Members" award in

the “Those Who Go Digital” category. The Intelligent Management System (IMS) won third prize in the National Productivity Awards granted by the Ministry of Science, Industry and Technology. Two papers were presented in international conferences, detailing the output of R&D projects in progress. One of these papers appeared in the “Communications in Computer and Information Science” published by Springer Publishing.

Yapı Kredi Technology developed the renewed Individual Mobile Banking Application (on iOS platform) launched by the Bank in November 2016. The application rated with 5 stars in the app market offers highly innovative functions such as eye scan technology and cash withdrawal using QR code. The Android version of the app will be announced in 2017.

As part of efforts to contribute to the R&D ecosystem, Yapı Kredi Teknology sponsors the annual “Bigbang” event and competition organized by İTÜ Early Stage Incubation Center.

In 2017, Yapı Kredi Technology aims to boost its human resources, the number of R&D projects and partnerships and thereby support the digitalization goals of Yapı Kredi and the R&D ecosystem it belongs to.

Customer Experience and Idea Management

Customer Experience and Analytics

Yapı Kredi carries out all investments with a customer-oriented approach. In an effort to find out customer satisfaction levels, the bank tracks customer experience by contacting customers the day after they make a transaction in a branch. In 2016, the call center started to monitor and measure “on-the-spot customer experience.” In 2016, approximately 400 thousand customers expressed views on the services they received at Yapı Kredi.

Aside from channel/ service based operational performance, Yapı Kredi measures and tracks customer experience with emphasis on “customer perception” as well. To serve this end, a platform effectively tracks “Customer Experience index” calculated with 170 indicators related to both operational services (waiting period in the branch, credit card delivery duration etc.) as well as customer perception (transparency in related documents/ prices etc.) The said platform adopts a holistic approach to customer experience with the Bank and carries out work to enhance this experience.

Internal customer satisfaction is another critical pillar for Yapı Kredi. In an effort to raise internal service quality and monitor employee experience, the Bank makes enquiries to track experiences of all Bank employees with the departments they’re related with. Also organized are events such as “A Day in the Head Office” for branch employees and “A Day in the Branch” for Head Office staff. The activities aim at boosting cooperation and a better understanding of various positions in the Bank.

In 2016, senior managers assigned as mentors continued to visit branches as part of Regional Consultancy program. The feedback gathered from these visits are shared with related managers and followed with action plans.

Idea Management (Evreka) and Innovation

Since 2012, Yapı Kredi has been tracking idea development and innovation through a dedicated system, Evreka, which is open to all employees. So far, 329 employee ideas have been implemented out of 49,000 submissions. These ideas not only support the Bank in many different areas including cost optimization and efficiency but also aim to improve customer and employee experience.

“Evreka²” organized and launched by Yapı Kredi in July 2016 is a competition that allows individual and team participation by all Koç Group employees. With applications ended in late October, a total of 422 ideas were delivered for the competition 25 out of which (16 from Yapı Kredi and 9 from Koç Group) became semi-finalists. The developers of these ideas improved themselves and their ideas in training courses organized jointly with “KWORKS/ Koç University Entrepreneurship Research Center.” Sponsors, who were senior managers of Yapı Kredi and evaluated ideas further matured during semi finals, selected 12 of them for finals. Winners in the finals will be rewarded by Yapı Kredi and will be brought to life.

Innovation is a key focus area of the bank and Yapı Kredi is part of the TUSIAD Innovation and Technology Working Group, Koç Holding Technology and Innovation Board and continuously cooperates with various universities.

Corporate Social Responsibility

Yapı Kredi believes in the significance of a sustainable future and strives to integrate its corporate citizenship understanding within all its operations. The Bank develops its own social responsibility projects in line with the needs and expectations of the society. Furthermore, Yapı Kredi supports the active engagement of its stakeholders and provides support to societal activities undertaken by its main shareholders, Koç Holding and UniCredit. Since its foundation in 1944, Yapı Kredi has been supplementing the investments made in education, culture & arts, environment and sports through innovative social responsibility projects seeking lasting solutions to social problems and collaborating with public institutions, Non-Governmental Organizations (NGOs) and universities in an effort to enable wider audiences to benefit from these projects.

Projects for Citizens with Disabilities

Enabled Banking: Initiated in 2008 as the first and most comprehensive Enabled Banking Program in Turkey, the project aims to provide disabled customers with convenient access to banking services. Yapı Kredi also launched the first enabled banking website in Turkey, www.engelsizbankacilik.com.tr, making the finance sector more accessible for disabled citizens. Additionally, the Bank provides dedicated call center and on-line chat services as well as Enabled ATMs for disabled customers. Working in cooperation with the Federation for the Hearing Impaired and GETEM (Assistive Technology and Education Laboratory for Individuals with Visual Disabilities), Yapı Kredi adds value to the lives of disabled citizens. Within the scope of this collaboration, 238 books were transferred onto digital media, converted into audio books and made available 24/7 to disabled citizens on the phone as of the end of 2016.

The project 'Speaking is in our hands' was started through joint efforts with the Federation of the Hearing Impaired and 300 volunteers from branches were provided with sign language training. Enabled ATMs started service for the orthopedically impaired citizens in 2009 and for the visually impaired citizens in 2010. Yapı Kredi facilitates the lives of its orthopedically and visually impaired customers via 2,210 Enabled ATMs throughout Turkey. One of the projects started in 2014 within the scope of Enabled Banking Program allowed disabled citizens to work from home and participate in the labor force. In 2016 alone, 6 disabled individuals were employed by Yapı Kredi.

I Know No Barriers for My Country: Yapı Kredi sustained its support to the project 'I Know No Barriers for My Country' led by Koç Holding. The Bank provided 4,127 employees with distanced training called 'The Right Approach to Disability' as of the end of 2016. By the end of 2016, the physical conditions of 10 schools were improved to ensure better access for disabled students through the "Koç for My Country Variable Fund".

Sustainability and Yapı Kredi

Sustainability Structure: Within the scope of studies conducted under the coordination of Yapı Kredi's Sustainability Committee, sub-working groups specialized in different subjects were established. The Sustainability Governance System Project was initiated to integrate sustainability principles into all of the Bank's operations.

Sustainability Report: Yapı Kredi prepared the 2015 Sustainability report in accordance with the principles of G4 Reporting Guidelines core option, the most up-to-date reporting standard by the Global Reporting Initiative (GRI).

BIST Sustainability Index: In 2016, as part of BIST Sustainability Index established by Borsa İstanbul, voluntary organizations among BIST 100 companies were included in the assessment by the London-based Ethical Investment Research Service (EIRIS) in addition to BIST 50 companies. Yapı Kredi was included among the 43 companies on the BIST Sustainability Index as the result of the assessment among BIST-50 companies thanks to its successful performance in environmental, social and corporate governance areas.

Carbon Disclosure Project: As a hallmark of its emphasis on climate change, Yapı Kredi joined the Climate Change program of Carbon Disclosure Project (CDP) for the first time in 2016.

Gender Equality for My Country: Yapı Kredi plays an active role in the project 'I Support Gender Equality for My Country' started in June 2015 under the leadership of Koç Holding. This project aims to raise awareness among the wider public on the reasons and consequences of gender inequality. As part of the project, voluntary trainers provide awareness training to employees in the Head Office and in branches. "Koç For My Country Variable Fund" started a project entitled "When Fathers Change, Society Changes" together with AÇEV (Mother Child Education Foundation). The project launched in March 2016 will deliver training in support of gender equality at home to 600 fathers in 9 provinces within a year of its inception.

Cultural and Arts Projects

Yapı Kredi Afife Theatre Awards: Hailed as the most prestigious and the long-lasting arts awards, Yapı Kredi Afife Theatre Awards has been organized each year since 1997 to commemorate Afife Jale, the first Turkish female artist to appear on stage, and to support the Turkish theatre. A grand jury comprising of 33 members who are doyens of theatre and have dedicated their lives to the art of theatre transparently vote for plays they watch during the season and grant awards in 15 categories including 11 main and 4 special awards.

Çatalhöyük Excavations: Çatalhöyük Excavations have been one of the most important projects supported by Yapı Kredi for a long period in the field of culture and arts. Located 10 kilometers southeast of Çumra district in Konya with an altitude of 21 meters, Çatalhöyük Hill houses 9,000-year-old secrets. Every year in August and September, a team of around 200 members from all over the world perform excavations at Çatalhöyük, one of the most important and impressive archaeological sites in the world. The 2016 excavation season marked a period in which new perspectives were adopted and significant finds were brought to light at Çatalhöyük, included in the UNESCO World Heritage List.

Educational Projects

I Read, I Play: Yapı Kredi has been running the project 'I Read, I Play' since 2006 in cooperation with the Educational Volunteers of Turkey Foundation (TEGV) to enable primary education students not having access to contemporary education opportunities to engage in extracurricular educational activities. The project has been delivered by more than 3,500 volunteers at all 48 activity centers including 10 educational parks and 38 learning units. This project reached almost 130 thousand children as of the end of 2016.

Environmental Projects

Recycling Project: Yapı Kredi has been running a recycling project since 2008 to support sustainability of natural resources. In 2016, almost 1 million kilograms of paper, more than 3 thousand kilograms of plastic, more than 900 kilograms of glass and almost 200 kilograms of metals were collected for recycling. Furthermore, Yapı Kredi prevented the emission of more than 36 thousand tons of greenhouse gases, saving over 17 thousand trees, 26 thousand cubic meters of water, 50 thousand 829 kWh of energy and 15,1 tons of crude oil from going to waste.

ISO 14064: Yapı Kredi continues the ISO 14064 Greenhouse Gas Emissions Reporting certification process annually, which was initiated in 2011. The certification process for 2015 was completed in 2016.

ISO 14001: In 2016, Yapı Kredi concluded efforts to obtain ISO 14001 environmental management system certification for its Head Office buildings, Yapı Kredi Plaza D Block and Banking Base.

Relations with the Academic Community

Anatolian Scholars: In 2016, Yapı Kredi sustained its support for the Anatolian Scholars Program established by Koç University in 2011 by supporting 5 students with scholarship.

Yapı Kredi Banking and Insurance Academic Program: In 2015, Yapı Kredi became a trailblazer in yet another field of education and collaborated with MEF University to launch the Yapı Kredi Banking and Insurance Associate Degree Program. The two-year associate degree program aims to educate future bankers and provide students with internship opportunities and graduates with employment opportunities. 100 students enrolled in the 2016-2017 academic year.

Yapı Kredi Vocational and Technical High School: Established in Kocaeli, Yapı Kredi Vocational and Technical High School started its educational activities in 2008-2009 academic year and has been one of the most important efforts by Yapı Kredi in the field of education. The school produced its first graduates in 2012 and now delivers education to over 500 students in the departments of child development and education, graphics and photography, IT, catering and office management. A total of 20 students benefited from the merit-based scholarship in 2016.

Part II

Bank Management and Corporate Governance Practices

Board of Directors

Ali Y. KOÇ

Chairman of the Board of Directors

Ali Y. Koç received his bachelor's degree at Management Faculty of Rice University (USA) and earned his MBA degree from Harvard Business School (USA). He started his career at American Express Bank as a Management Trainee in 1990 and continued as an Investment Analyst at Morgan Stanley Investment Bank between 1992 and 1994. Mr. Koç joined Koç Holding in 1997 and held senior-level positions until 2010 including new business development and information technologies. He was the President of Corporate Communications and IT Group. He has been serving as a Board Member at Koç Holding since January 2008. In February 2016, he was elected as Vice Chairman of Koç Holding. Koç is also the Chairman at various Koç Group companies. He also serves at URAK – National Competition Research Association as President, 1907 Fenerbahçe Association as Chairman, TÜSİAD – Turkish Industry and Business Association as Vice Chairman as well as Board Members of Endeavor Association and Foreign Economic Relations Board (DEİK) in order to contribute to the country's social and economic development. In addition, Koç is Member of the Global Advisory Council of Bank of America, Harvard University and CFR. Ali Y. Koç also serves as Chairman of Koç Financial Services.

Carlo VIVALDI

Vice Chairman of the Board of Directors

After graduating from the University of Ca' Foscari, Venice, Department of Business Administration, Carlo Vivaldi started his career in 1991 as Teller in Cassamarca, one of the four banks which merged into UniCredit in 1998. At that time he moved to Group's Planning and Control Division and then after a brief experience in contributing to the development of Group's internet strategy, in 2000 he moved under the newly established New Europe Division responsible for Planning and Control, contributing to the expansion of UniCredit in the region. At the end of 2002, he moved to Turkey and pursued the position of Chief Financial Officer and Executive Vice President at Koç Financial Services and Yapı Kredi in addition to memberships of the Board of Directors at some Group subsidiaries until September 2007. At that time he actively contributed to the largest merger in the Turkish banking history between Koçbank and the newly acquired Yapı Kredi. In October 2007, he was appointed as Member of the Management Board and Chief Financial Officer at UniCredit Bank Austria AG (covering Austria and the CEE countries of UniCredit) and started to serve in several other Supervisory Boards in CEE subsidiaries of UniCredit Group. In May 2009, Carlo Vivaldi was appointed as Member of the Board of Directors at Yapı Kredi and in January 2011, UniCredit representative for Turkey in the position of Executive Director and Deputy CEO in Yapı Kredi. During this time, he served as Executive Director and Deputy CEO of Koç Financial Services and Vice Chairman/Member in Yapı Kredi subsidiaries. Since February 2015, Carlo Vivaldi has been serving as the Head of CEE Division of UniCredit. Vivaldi also serves in the Boards of various UniCredit Group companies. In addition, Vivaldi is a Member of the UniCredit Group Executive Management Committee. Vivaldi is also the Vice Chairman of Koç Financial Services.

H. Faik AÇIKALIN

Chief Executive Officer (CEO)

After earning a BS degree in Business Administration from Middle East Technical University, Faik Açıkalın began his banking career in 1987 as a Management Trainee at Interbank. He subsequently worked in various positions including Internal Auditor, Relationship Manager, Branch Manager and Marketing Manager at Interbank, Marmarabank, Kentbank, Finansbank and Demirbank. In May 1998, he joined Dışbank (which was later renamed Fortis following its acquisition by the eponymous international finance group) as Executive Vice President. Later that year, he was appointed Chief Operating Officer (COO) responsible for the coordination and communication between the Board of Directors and business units. He also assumed the position as a Member of the Credit Committee. In June 1999, Açıkalın was appointed as Deputy CEO and member of the Board of Directors. In December 2000, he became CEO of Dışbank. Following the acquisition of the majority shares of Dışbank by Fortis in July 2005, he continued to serve as CEO of the bank when it was renamed Fortisbank and was appointed member of the Fortis Global Management Committee and Fortis Global Retail Management Team. In October 2007, he resigned from his duties at Fortisbank and became CEO at Turkey's largest newsprint media holding company, Doğan Media. In April 2009, Açıkalın was appointed as Executive Director of Yapı Kredi's Board of Directors and was also appointed as Chairman of the Executive Committee. Serving as Yapı Kredi's CEO since May 2009, in addition to his current role, in 2010 Açıkalın was also appointed as CEO of Koç Financial Services. Also as of August 2011, Açıkalın became the President of Koç Holding's Banking and Insurance Group. At the same time, Açıkalın serves as Chairman of Yapı Kredi Malta, Yapı Kredi Invest, Yapı Kredi Leasing, Yapı Kredi Factoring, Yapı Kredi Bank Nederland, Yapı Kredi Bank Azerbaijan, Yapı Kredi Bank Moscow, Yapı Kredi Koray Real Estate Investment Trust, Koç Finance, as Vice Chairman of Banque de Commerce et de Placements S.A. and Allianz Yaşam ve Emeklilik and as Director of the Banks Association of Turkey.

Niccolò UBERTALLI

Executive Director and Deputy CEO

After graduating from Politecnico di Torino (Turin, Italy) with a Bachelor's Degree in Material Engineering in 1996, Niccolò Ubertalli received his Master's in Business Administration from Owen Graduate School of Management at Vanderbilt University (Tennessee, USA) in 2000. During his Graduate program, Ubertalli also worked at Teksid Aluminum Foundry as Program Manager and Process Engineer. In 2000, Ubertalli moved to Milan (Italy) and worked at McKinsey as Senior Associate until 2002. Between 2002-2004, he worked at UniCredit Clarima as Director of Major Relations Divisions. Between 2004-2006, Ubertalli worked at MBNA (USA and UK), the largest independent credit card issuer in the world acquired by Bank of America, as First Vice President. Between 2006-2009, Ubertalli relocated to Bulgaria to work at UniCredit Consumer Financing as Chairman and Executive Director. In 2009, he moved back to Italy and continued his career at UniCredit SpA, as Chief of Staff for Group CEO between 2009-2011 and as Head of Consumer Finance between 2011-2012. In 2012, Ubertalli moved to Romania and assumed the position of Deputy CEO at UniCredit Tiriac Bank. During his time there between 2012 and February 2015, he was also a Member of Management Board of Pioneer Investments, member of the Management Board of UniCredit Tiriac, Member of Supervisory Board of UniCredit Consumer Finance Bulgaria, Member of Supervisory Board of UniCredit Consumer Finance Romania and Member of Supervisory Board of Ergo Asigurari de Vita S.A Romania. As of February 2015, Niccolò has been appointed as the Executive Director and Deputy CEO of

Yapı Kredi Bank, Turkey. Ubertalli also serves as Executive Director and Deputy CEO of Koç Financial Services and Vice Chairman in Yapı Kredi subsidiaries (Yapı Kredi Invest, Yapı Kredi Leasing, Yapı Kredi Factoring, Yapı Kredi Bank Nederland, Yapı Kredi Bank Azerbaijan, Yapı Kredi Bank Moscow, Yapı Kredi Bank Malta and Yapı Kredi Cultural Activities, Arts and Publishing). He is also a Member of Board of Directors of Yapı Kredi Koray Real Estate Investment Trust and Allianz Yaşam ve Emeklilik.

F. Füsün AKKAL BOZOK

Member of the Board of Directors

F. Füsün Akkal Bozok completed her academic studies with an MBA from Boğaziçi University in Faculty of Administrative Sciences and a Ph.D. from Istanbul University in Faculty of Administration. She began her career at Arthur Andersen Audit Company in 1980. Bozok joined Koç Group in 1983 as an Associate and Coordinator Assistant in the Audit and Financial Group Division. In 1992, she was appointed as the Audit and Financial Group Coordinator, a position which she held for 11 years. Between 2003 and 2006, she worked as the Finance Group Director. In September 2005, she became a Member of the Board of Directors of Yapı Kredi. In addition to being a Member of the Board of Directors of Koç Financial Services, Akkal is also an Assistant Professor at Sabancı University.

Ahmet F. ASHABOĞLU

Member of the Board of Directors

Ahmet F. Ashaboğlu graduated from Tufts University and earned a master's degree from Massachusetts Institute of Technology (MIT) in Mechanical Engineering. In 1994, he began his career as a Research Assistant at MIT, held various positions at UBS Warburg between 1996 and 1999 and worked as a Management Consultant at McKinsey & Company, New York, between 1999 and 2003. He joined Koç Holding as Finance Group Coordinator in 2003. He has been serving as the CFO at Koç Holding since 2006. Ashaboğlu has been a Member of the Board of Directors of Yapı Kredi since September 2005. Ashaboğlu is also a Member of Board of Directors of Koç Financial Services and Yapı Kredi Koray Real Estate Investment Trust and serves in the Board of Directors of some of Koç Group Companies.

Levent ÇAKIROĞLU

Member of the Board of Directors

Levent Çakiroğlu graduated from Ankara University Faculty of Political Sciences, Business Administration Department and received his master's degree from University of Illinois. He started his professional life in Ministry of Finance in 1988. Between 1997-1998, he taught as part time instructor at Bilkent University and served as Vice President of the Financial Crimes Investigation Board at the Ministry of Finance. Çakiroğlu, joined Koç Group in 1998 as Koç Holding Financial Group Coordinator. He was the General Manager of Koçtaş between 2002-2007, the CEO of Migros between 2007-2008, the CEO of Arçelik between 2008-2015 and the President of the Durable Goods Group of Koç Holding A.Ş. between 2010-2015. Çakiroğlu was appointed as the Deputy CEO of Koç Holding in February 2015 and he took over the CEO post on April 2015. He is also a member of the Board of Directors of Koç Financial Services and serves in the Board of Directors of some Koç Group Companies.

Mirko D. G. BIANCHI

Member of the Board of Directors

Mirko D. G. Bianchi earned an MSc in Chemical Process Engineering from Swiss Federal Institute of Technology (ETH). In 1991, he earned his MBA in Marketing & Finance from Fordham University (New York). Bianchi started his career at BCI Capital in New York as an Equity Analyst, followed by Vice President and Senior Analyst at Moody's Investors Service. He joined Deutsche Bank Securities as a Director at the Global Debt Capital Markets Department. Between 2000-2009, he worked at UBS Investment Bank (London) as Managing Director and Global Head of Ratings Advisory. In October 2009, Bianchi joined UniCredit as Head of Group Finance in the CFO department and Co-Head of the Group Treasury. Between June 2015 – September 2016, he was appointed as CFO for Austria & CEE of UniCredit Bank Austria and served as Member of the Management Board. In September 2016, Bianchi was appointed CFO of UniCredit. He also serves in the Board of Directors of some UniCredit Group Companies and is a member of the Board of Directors at Koç Financial Services.

Giovanna VILLA¹

Member of the Board of Directors (Independent)

Giovanna Villa earned her Bachelor's degree in Financial Administration from Bocconi in 1991 and obtained a Certified Public Accountant (CPA) certificate in 2000. Between 1991-1995, Villa worked as a Senior Auditor at Pricewaterhouse Coopers and between 1995-1997 as an Assistant in the administration department at Santavaleria (holding company for Max Meyer Group, Bertram Yatch and Sediver). In 1997, Villa provided accounting consultancy to SME companies in Milan and Monza area. Between 2000-2005, Villa taught administration and management courses at CIS, Lecco. Between 2009-2011, she worked as an Assistant to the Internal Auditor at Aler Azienda Lombarda Edilizia Residenziale. Since 2000, Villa has been a Member of the Auditor Statutory Committee for several companies such as Lenova, Ritrama Group, Sias Autodromo di Monza Circuit, Lubra, Malvestiti, Crescere Insieme, Crippa Campeggio, Italian Gasket, Siemens ve Siemens Holding. She also serves a member of the Board of Directors at Koç Financial Services.

Giuseppe SCOGNAMIGLIO

Member of the Board of Directors

Giuseppe Scognamiglio obtained a Law Degree from University of Naples in 1987 and started his career as a Junior Professor in International Law and Law of the European Community. In 1989, Scognamiglio entered diplomacy by starting to work for the Italian Ministry for Foreign Affairs. Between 1989-1992, he coordinated the Government Human Rights policies to the United Nations. Between 1992-1995, he was the Italian Consul in İzmir – Turkey, where he created the Italo-Turkish Chamber of Commerce and the Italian cultural Centre Goldoni, in Alsancak. Between 1996-1999, he was the Political and Press Counselor in Buenos Aires - Argentina. Lastly, between 1999-2001, he served as Counselor for Foreign Policy of the Minister for Industry and Foreign Trade and as the Chief of Staff of the Minister for Foreign Affairs. In the following two years, he was the Italian Delegate to the "Bureau International des Expositions". In July 2003, Scognamiglio joined UniCredit. Since 2010, he is a Member of the Management Board, Executive Vice President for Group Institutional & Regulatory Affairs and the Member of the

Steering Committee of ABI (Italian Banks Association). He is also the Chairman of the Editorial Company "EuropEye", which publishes and distributes, among others, the bimonthly magazine of international policy and economy "Eastwest", of which he was appointed as Editor in January 2016. In non-profit organizations, Scognamiglio is a Board Member of "L'AltraNapoli" Association and was previously a Board Member of "Save the Children Italy" until 2015. He also serves a member of the Board of Directors at Koç Financial Services.

Gianfranco BISAGNI²

Member of the Board of Directors

Gianfranco Bisagni holds a Degree in Business Administration from Royal Melbourne Institute of Technology. He started his career in the Italian UniCredit network, moved to the United States shortly thereafter. His first appointment was to the Chicago office and he was subsequently relocated to New York City, where he took over as Deputy Chief Manager for the UniCredit New York branch, responsible for all the Representative Offices in North and South America. He was later named Chief Manager of UniCredit's Hong Kong branch (2001) and Head of Corporate Banking Asia Pacific & Chief Manager Hong Kong branch (2008). From 2010, he served as Head of CIB & Private Banking at UniCredit Tiriak Bank Romania, where he was appointed a member of the Management Board. From 2011 to 2015, he acted as Head of CEE Corporate and Investment Banking and as Deputy Head of CEE Division at UniCredit. He is Co-Head of CIB since September 2016 after having been Deputy Head since April 2015. Bisagni also serves a member of the Board of Directors at Koç Financial Services.

Adil G. ÖZTOPRAK

Member of the Board of Directors (Independent)

After graduating from Ankara University, Faculty of Political Science, Finance and Economics Department, Adil G. Öztoprak served at the Ministry of Finance as Auditor from 1966 to 1975. In 1975, Öztoprak was appointed Assistant General Manager of the Budget and Fiscal Control Department. Since 1976, he has been a Financial Coordinator and Chief Executive Officer at many companies. Between 1993 and 2000, Öztoprak was Partner at Başaran Nas Yeminli Mali Müşavirlik (PricewaterhouseCoopers). Öztoprak, a Certified Public Accountant, served as a Statutory Auditor since 2000 at Yapı Kredi, Yapı Kredi Insurance, Yapı Kredi Pension, Yapı Kredi Leasing, Yapı Kredi Factoring and Yapı Kredi Invest. He was also a Member of the Board of Directors at Goodyear Lastikleri T.A.Ş. between March 2014 and July 2016. Currently, Öztoprak serves as an Independent Member of the Board of Directors for Yapı Kredi Koray Real Estate Investment Trust and he has been a Member of the Board of Directors of Yapı Kredi and Koç Financial Services since April 2013.

Wolfgang SCHILK²

Member of the Board of Directors (Independent³)

Wolfgang Schilk graduated from University of Wien Law School in 1992 and completed his postgraduate management trainee program at Creditanstalt- Bankverein (CA-BV). Between 1994 and 1996, he worked at CA-BV as the Restructuring and Workout Manager responsible for Corporate Banking. Between 1996 and 2004, Schilk worked as the Head of Credit Unit at Bank Austria Creditanstalt. In 2004, he became the Head of Regional Office responsible for Corporate Banking. In 2006, he became the Head of Regional Office responsible for Private and SME segments. Between 2007 and 2010, he was the Head of Risk Management responsible for Private and SME segments in Bank Austria. Between 2010 and 2016, Wolfgang Schilk served as the CRO of Yapı Kredi. In September 2016, he was appointed as UniCredit CRO for CEE region. Schilk also serves a member of the Board of Directors at Koç Financial Services.

A. Ümit TAFTALI

Member of the Board of Directors

A. Ümit Taftalı earned his B.S. in Finance from Ball State University-Indiana and his M.B.A. from University of South Carolina. He has also participated in senior executive programs at Harvard University. A. Ümit Taftalı is an investment banker and wealth manager with over 30 years of international experience and has worked in Atlanta, New York and London for Merrill Lynch & Company, Bankers Trust Company and Goldman Sachs International. He has been representing and advising Mrs. Suna (Koç) Kırar since 2001 and is a Member of the Executive Committee of Koç Holding A.Ş. Also a Member of the Board of Kare Portföy and Kırar Holding, Taftalı has been or is a member/board member of various philanthropic and professional organizations such as Suna-İnan Kırar Foundation, Educational Volunteers Foundation of Turkey (TESEV), Turkish Industrialists and Businessmen Association (TÜSİAD), Saint Joseph Educational Foundation, Educational Volunteers Foundation of Turkey (TEGV), Galatasaray Sport Club, American Finance Association (USA), Financial Management Association (USA), Museum of American Financial History (USA), Ball State University Foundation (USA), Turkish Bankers Association (UK), University of South Carolina Foundation (USA). Taftalı also serves a member of the Board of Directors at Koç Financial Services.

- (1) Based on Board resolution dated 18 April 2016, Giovanna Villa is provisionally elected as Independent Member of the Board of Directors in accordance with Article 363 of the Turkish Commercial Code to replace Benedetta Navarra who resigned on 14 April 2016, to be confirmed at the first forthcoming General Meeting of Shareholders
- (2) Based on Board resolution dated 13 October 2016, Gianfranco Bisagni and Wolfgang Schilk are provisionally elected as Members of the Board of Directors in accordance with Article 363 of the Turkish Commercial Code to replace Gianni F. G. Papa and Dr. Jürgen Kullnigg who resigned on 13 October 2016, to be confirmed at the first forthcoming General Meeting of Shareholders
- (3) Based on Capital Markets Board's Item 6(3)a of the Communiqué Serial II-17.1 on Corporate Governance, Wolfgang Schilk, Chairman of the Audit Committee is deemed as Independent Board Member

Notes:

The members of the Board of Directors each have a one-year term of duty. Appointments of members are set out annually at the Annual Shareholders' Meeting.

Ali Y. Koç, Ahmet F. Ashaboğlu, Levent Çakıroğlu and A. Ümit Taftalı, who are members of the Board of Directors, are also members of Board of Directors at other Koç Group companies due to their positions in Koç Holding.

Furthermore, Carlo Vivaldi, Mirko D. G. Bianchi, Giuseppe Scognamiglio, Gianfranco Bisagni and Wolfgang Schilk are also members of the Board of Directors in other UniCredit companies due to their positions in UniCredit Group.

Senior Management

H. Faik AÇIKALIN

Chief Executive Officer (CEO)

Please refer to page 41

Niccolò UBERTALLI

Executive Director and Deputy CEO

Please refer to page 41

Yakup DOĞAN

Assistant General Manager - Alternative Delivery Channels

After graduating from the Faculty of Business Administration at Çukurova University, Yakup Doğan started his career at İşbank as an Assistant Specialist in 1992. Between 1996 and 2001, he worked at Ottoman Bank in Senior Management positions responsible for the development of Retail Banking, Credit Cards and Alternative Delivery Channels. In 2001, Doğan joined Koçbank as Alternative Delivery Channels Manager. With the merger of Yapı Kredi and Koçbank in 2006, Doğan held the position of Alternative Delivery Channels Executive Vice President in Yapı Kredi. Doğan has been Assistant General Manager in charge of Alternative Delivery Channels at Yapı Kredi since May 2009.

Cahit ERDOĞAN

Assistant General Manager - Information Technologies and Operations Management

After graduating from Istanbul Technical University Faculty of Mechanical Engineering, Cahit Erdoğan earned his MBA degree from Rochester Institute of Technology. Erdoğan started his professional career at Xerox Corporation (Rochester, NY) as a Business Analyst. In 2000, Erdoğan joined Accenture Turkey office as a Management Consultant and was later promoted to Manager and Senior Manager. In February 2008, he was appointed as Turkey Country Lead for the Management Consulting Growth Platform of Accenture. Erdoğan joined Yapı Kredi in 2009 as Chief Information Officer (CIO). As of July 2013 he assumed the position of Assistant General Manager in charge of Information Technologies and Operations at the Bank. Mr. Erdoğan is a member of the Executive Committee of Yapı Kredi since July 2013 and also the chairman of the Board of Directors of Yapı Kredi Teknoloji A.Ş. since May 2015.

M. Murat ERMERT

Assistant General Manager - Corporate Communications

Having graduated from Marmara University's Business Administration department, Murat Ermert began his career at Leo Burnett Advertising Agency in 1987. He later worked at Yapı Kredi between 1989-1993 as Advertising Unit Manager. From 1994 on, he worked for Doğan Media Group as Media Marketing Manager. In 1996, he assumed the role of Advertising and Public Relations Coordinator at Demirbank. Ermert joined to Dışbank (later Fortis) as Assistant General Manager, Corporate Communications. After the acquisition of Dışbank by Fortis he also served at the Fortis Global Marketing and Communications Management (Brussels). Being a faculty member at both Anadolu University and Bahçeşehir University in the recent years, he is one of the founding members of Turkish Association of Corporate Communications Directors and a member of European Association of Communications Directors (EACD). Ermert has been Assistant General Manager in charge of Corporate Communications at Yapı Kredi since July 2008.

Nurgün EYÜBOĞLU

Assistant General Manager - Corporate and Commercial Credits

After graduating in 1991 from Boğaziçi University Faculty of Administrative Sciences with a Degree in Economics, Nurgün Eyüboğlu began her career in İktisat Bankası as Management Trainee in the same year. She joined Koçbank in 1993 and worked as Branch Manager until 2004. With the merger of Yapı Kredi and Koçbank in 2006, Eyüboğlu held the position of Head of Corporate and Multinational Companies in Yapı Kredi until 2009. In February 2009, she was appointed as General Manager of Yapı Kredi Leasing. Eyüboğlu has been Assistant General Manager in charge of Corporate and Commercial Credits since February 2013. Eyüboğlu is also a member of the Board of Directors of Yapı Kredi Faktoring and Yapı Kredi Leasing.

Massimo FRANCESE⁽¹⁾

Assistant General Manager - Financial Planning and Administration (CFO)

Massimo Francese, graduated in Economics from Università Cattolica in Milan, Italy, in 1991. He joined Credito Italiano in 1991 as Customer Relationship Manager then he experienced different positions in Organisation, Audit, Planning and Control functions. In 2005, he became Head of Group Planning at UniCredit. He continued his career at UniCredit Family Financing Bank between 2007 and 2010 as Chief Financial Officer. In November 2010, he moved to UniCredit S.p.A. as Head of Value Management & Planning for Consumer Finance business until 2012. In 2012, Mr. Francese assumed the position of CEO and Chairman of the Management Board in UniCredit Consumer Financing EAD in Sofia (Bulgaria) where he worked until the February 2016. He has been appointed as Chief Financial Officer and Member of the Executive Committee at Yapı Kredi Bank A.Ş. as of March 1st, 2016.

Mehmet Gökmen UÇAR

Assistant General Manager - Human Resources and Organisation

Mehmet Gökmen Uçar graduated from Boğaziçi University, Faculty of Economics and Administrative Sciences, Economics Department in 1998. Between 1998 and 2002, he worked in Başaran Nas Bağımsız Denetim ve S.M.M.M. A.Ş. (PwC) as an Independent Auditor and obtained the Certified Public Accountant qualification. He joined Koçbank in 2002 and worked at Budget Control and Planning as Budget Planning and MIS Supervisor until 2005. Between 2005 and 2007, he took several management responsibilities over strategy, budgeting and planning areas under UniCredit Group in Italy, Germany and Austria. He returned to Yapı Kredi in 2008 and worked as Capital Management, Cost Control and

Allocation Supervisor, Head of Financial Reporting and Vice President in charge of Financial Reporting and Accounting, respectively. In 2011, he was appointed as Financial Reporting and Accounting Executive Vice President. Between 2012 and 2015, he worked as Assistant General Manager responsible for Retail Credits and also he was a Member of the Board of Directors at KKB simultaneously. He has been Assistant General Manager responsible for Human Resources and Organization since January 2016. He is also Member of the Executive Committee at Yapı Kredi.

Mert ÖNCÜ

Assistant General Manager – Treasury and Financial Institutions

After graduating from Istanbul Technical University, Electronics and Telecommunication Engineering Department in 1992, Mert Öncü completed his MBA degree at DePaul University in 1994 where he was also a graduate assistant between 1993-1994. Öncü earned his doctoral degree from Marmara University in 2001. After a brief experience as Intern at the Chicago Mercantile Exchange in 1994, Öncü joined Koçbank the same year and worked at the Treasury department respectively as Senior Dealer, Section Head and Treasury TL/ FX Manager. Between 2003 and 2006, he served as the Money and FX Markets Manager. In 2006, he became the Head of Money and FX Markets at Yapı Kredi. Öncü has been Assistant General Manager in charge of Treasury and Financial Institutions and a Member of the Executive Committee since May 2011.

Mehmet Erkan ÖZDEMİR

Assistant General Manager - Compliance and Internal Control

After graduating from Middle East Technical University, Department of Economics in 1989, Mehmet Erkan Özdemir worked as a Sworn-in Bank Auditor on the Sworn-in Bank Audit Board of the Banking Regulation and Supervision Agency between April 1994 and August 2001. He joined Koç Holding in August 2002 as Audit Coordinator in the Koçbank Audit Group, responsible for the financial companies of the Group. He started serving as Statutory Auditor at Koçbank in August 2002 and later at Yapı Kredi in September 2005. Özdemir was assigned as Compliance Officer and Assistant General Manager in charge of the Compliance Office in April 2008. Özdemir has been serving as Assistant General Manager in charge of Compliance and Internal Control since October 2013.

Stefano PERAZZINI⁽²⁾

Assistant General Manager - Internal Audit

After graduating from the University of Turin in Economics, Stefano Perazzini began his career at San Paolo IMI Bank in 1987. Between 1989 and 1992, he worked at Honeywell Bull in the Planning and Control. Perazzini then became an Information Technology Auditor at Banca CRT Head Office followed by Internal Auditor at London and Paris branches of the bank. In September 1999, he was appointed as Internal Auditor at UniCredit and later became the Deputy Manager of the Internal Audit at Bank Pekao in Poland, a UniCredit Group company. In January 2003, he took on the responsibility of Assistant General Manager for Internal Audit at Koç Financial Services. Perazzini had been Assistant General Manager in charge of Internal Audit at Yapı Kredi from 2010 to 2016.

Cemal Aybars SANAL

Assistant General Manager – Legal Affairs

After graduating from Istanbul University Faculty of Law, Cemal Aybars Sanal began his career in 1986 at Sanal&Sanal Law Firm as Partner. Between 1992 and 1995, he worked at Shell Company of Turkey Limited as an Attorney, between 1995 and 1998 at White&Case Law Firm as an Attorney, between 1998 and 1999 at Shell Company of Turkey Limited as Chief Legal Counsel and a Member of the Board of Directors, between 1999 and 2006 at Boyner Holding as Chief Legal Counsel and Vice President. After working as a freelance attorney between 2006 and 2007, Sanal worked at ELIG Law Firm as Senior Consultant from 2007 to 2008. Sanal has been Assistant General Manager in charge of Legal Affairs at Yapı Kredi since July 2008.

Patrick Josef SCHMITT⁽³⁾

Assistant General Manager - Risk Management (CRO)

Mr. Patrick Schmitt, graduated from University of Cologne, Germany and completed a masters programme at Community of European Management Schools (CEMS) in 2001. Mr. Schmitt started his professional career at UniCredit Bank Germany as a Relationship Manager for MidCap Corporate Customers. In 2005, Mr. Schmitt took a position as Executive Assistant to the Chief Risk Officer at UniCredit Bank which he held until 2007. Between 2007 and 2014, Mr. Schmitt worked as Head of Credit Underwriting for Machinery, Metal, Construction and Automotive Industry at UniCredit Bank. Later in 2014, Mr. Schmitt was appointed as Chief Risk Officer at UniCredit Bulbank Bulgaria. Mr. Schmitt has been working as Assistant General Manager for Risk Management and as a member of the Executive Committee at Yapı Kredi since October 2016. Mr. Schmitt is also a member of the Board of Directors of domestic and foreign subsidiaries of Yapı Kredi.

Zeynep Nazan SOMER ÖZELGİN

Assistant General Manager - Retail Banking

After graduating from the Faculty of Business Administration at Boğaziçi University, Zeynep Nazan Somer Özelgin joined Arthur Andersen in 1988 as an Independent Auditor and obtained her Certified Public Accountant certificate. Between 1999 and 2000, she worked as Partner in charge of the finance sector. She joined Yapı Kredi in September 2000 as Assistant General Manager in charge of Individual Banking. Between 2003 and 2009, she served as Assistant General Manager in charge of Credit Cards and Consumer Lending. Somer Özelgin has been Assistant General Manager in charge of Retail Banking at Yapı Kredi and a Member of the Executive Committee since February 2009. In addition, she has been a Member of the Board of Directors of Yapı Kredi Bank Azerbaijan since September 2012 and a member of the Board of Directors of Tanı Pazarlama A.Ş. since March 2014. Furthermore, Somer Özelgin has been a Board Director of Visa Europe since May 2003 till June 2016 and a Board Director of 441 Turst Company Limited since June 2016. Throughout her career, Mrs. Somer Özelgin also assumed responsibilities as Board Member and Chairwoman of KKB (Turkish Credit Bureau) and BKM (Turkish Interbank Card Center).

Feza TAN

Assistant General Manager - Corporate and Commercial Banking

After graduating from the Department of Economics at Boğaziçi University in 1993, Feza Tan began her professional career at Yapı Kredi as a Management Trainee in Corporate and Commercial Credits and served in various positions in the same department between 1993 and 2006. In 2006, she was promoted as Head of Corporate and Commercial Credits Underwriting. In February 2009, Tan became Assistant General Manager in charge of Corporate and Commercial Credits. Tan has been Assistant General Manager in charge of Corporate and Commercial Banking since February 2013 and a Member of the Executive Committee since January 2013. Tan is also a Member of the Board of Directors of Yapı Kredi Factoring, Yapı Kredi Leasing, Yapı Kredi Bank Moscow, Yapı Kredi Bank Azerbaijan and Yapı Kredi Bank Malta.

Demir KARAASLAN

Assistant General Manager - Retail Credits

Mr Karaaslan graduated from Marmara University, Business Administration department in 1999. Between September 1999 and December 2004, he worked at PricewaterhouseCoopers (PwC) where he joined as an Assistant Auditor and promoted to Audit Manager. He continued his career at Koçbank between 2005 and 2006 as Head of Budget & Planning. In 2006, following the merger of Koçbank and Yapı Kredi Bank, he was appointed as Vice President responsible from Planning & Control. He has been the Head of Planning & Control since 2010 and promoted as Executive Vice President in 2011. Starting from January 2016, he was appointed as Assistant General Manager responsible from Retail Credits. Throughout his career, Mr Karaaslan also assumed the positions of Statutory Auditor and member of Board in several subsidiaries of Yapı Kredi Bank.

Mert YAZICIOĞLU

Assistant General Manager - Private Banking and Wealth Management

Mert Yazıcıoğlu graduated from Istanbul Technical University, Management Engineering program. After receiving his MA from Istanbul Technical University, Department of Business Administration, Mert Yazıcıoğlu began his career at S. Bolton and Sons in 1987. In 1989, Yazıcıoğlu joined Koçbank first as a Customer Relations Officer, became a Junior Dealer in 1990, and Dealer, Senior Dealer and Section Head respectively. He served as Unit Head of Treasury in 1996 and assumed the position of Assistant General Manager in charge of Treasury in 1999. Between February 2006 and May 2011, he served as Assistant General Manager responsible for Treasury at Yapı Kredi. He has been Assistant General Manager in charge of Private Banking and Wealth Management since May 2011 and a Member of the Executive Committee since February 2011.

- (1) Based on Board resolution dated 18 January 2016, Massimo Francese was appointed as Assistant General Manager in charge of Financial Planning and Administration as of 1 March 2016, replacing Marco Iannaccone
- (2) Giovanni Battista Avanzi has been appointed as Assistant General Manager in charge of Internal Audit at Yapı Kredi Bank A.Ş. as of January 1st, 2017, replacing Stefano Perazzini
- (3) Based on Board resolution dated 17 June 2016, Patrick Schmitt was appointed as Assistant General Manager in charge of Risk Management as of 1 September 2016, replacing Wolfgang Schilk

Board of Directors and Committees

Board of Directors

The Board of Directors convenes upon the request of the Chairman when necessitated by the Bank's business. The Board of Directors reviews and decides on the corporate agenda, as authorised by the Articles of Association of the Bank, laws and regulations. In 2016, the Board of Directors convened 11 times with the required majority and quorum satisfied.

Executive Committee

The Executive Committee is the decision making body of the Group, established to collectively decide upon priority topics, facilitate information sharing among senior management and support strong team spirit. The Committee holds regular bi-weekly meetings or according to the needs of the bank (at least once a month). All decisions are taken unanimously by the principal members. In 2016, the Executive Committee convened 20 times with the required majority and quorum satisfied. The Committee's responsibilities include:

- Defining Group strategies and the Bank's structural risk management
- Managing asset-liability guidelines including pricing and interest rates
- Evaluating existing products and approving new products
- Assessing credit, operational, market and liquidity risks
- Ensuring coherence of the Bank's commercial policies and principles with budget objectives
- Further improving customer satisfaction and marketing activities
- Internal and external communication plans
- Approving the Bank's annual project plan and major organisational changes
- Optimising market risk strategies within the guidelines set by the Board of Directors

Executive Committee Members

Chairman	H. Faik Açıkalin	Executive Director and Chief Executive Officer (CEO)
Vice Chairman	Niccolò Ubertalli	Executive Director and Deputy CEO
Member	Patrick Josef Schmitt ⁽¹⁾	Assistant General Manager - Risk Management (CRO)
Member	Massimo Francesc ⁽²⁾	Assistant General Manager - Financial Planning and Administration (CFO)
Member	Feza Tan	Assistant General Manager - Corporate and Commercial Banking
Member	Z. Nazan Somer Özelgin	Assistant General Manager - Retail Banking
Member	Mert Yazicioğlu	Assistant General Manager - Private Banking and Wealth Management
Member	M. Gökmen Uçar	Assistant General Manager - Human Resources and Organization
Member	A. Cahit Erdoğan	Assistant General Manager - Information Technologies and Operations
Member	Mert Öncü	Assistant General Manager - Treasury and Financial Institutions

Credit Committee

The Credit Committee is an advisory and deliberative body whose purpose is to provide guidelines for the Bank's lending activity in coherence with the credit policy, economic objectives and the Bank's overall risk profile. All decisions of the Committee are taken unanimously and can only be implemented after the approval of the Board of Directors if taken by majority. In 2016, the Credit Committee convened 51 times with the required majority and quorum satisfied. The Committee reviews loan applications and restructuring requests within its authorised delegated limit or advises the Board of Directors for those that are not. The Credit Committee also outlines parameters for credit scoring, lending and monitoring systems.

Credit Committee Principal Members⁽⁴⁾

Chairman	H. Faik Açıkalin	Executive Director and Chief Executive Officer (CEO)
Vice Chairman	Niccolò Ubertalli	Executive Director and Deputy CEO
Member	F. Füsün Akkal Bozok	Member of the Board of Directors
Member	Wolfgang Schilk ⁽³⁾	Member of the Board of Directors

Credit Committee Alternate Members⁽⁴⁾

Alternate Member	Carlo Vivaldi	Vice Chairman of the Board of Directors
Alternate Member	A. Ümit Taftalı	Member of the Board of Directors

Audit Committee

The Audit Committee administers the Bank in terms of compliance with local laws and internal regulations. The Committee convenes quarterly or more, according to the needs of the Bank. In 2016, the Audit Committee convened 4 times with the required majority and quorum satisfied. The Committee reports at least once every six months to the Board of Directors. The Committee's responsibilities include:

- Monitoring the performance of Internal Audit, Compliance and Internal Control as well as Risk Management departments
- Fulfilling the relevant tasks as determined by Banking and Capital Market regulations
- Approving and monitoring the Annual Audit Plan and the charter of the internal audit function

- Verifying adequacy of internal control systems
- Monitoring audit projects and evaluating significant findings
- Appointing, compensating and overseeing external auditors, rating, valuation and support service institutions
- Monitoring the financial reporting process
- Reviewing procurement policies and practices

Audit Committee Members⁽⁵⁾

Chairman	Wolfgang Schilk ⁽⁶⁾	Member of the Board of Directors
Member	Giovanna Villa ⁽⁷⁾	Independent Member of the Board of Directors
Member	Adil G. Öztoprak	Independent Member of the Board of Directors

Corporate Governance Committee

The Corporate Governance Committee is an advisory body that assists the Board of Directors on compliance to Corporate Governance Principles, investor relations activities and public disclosures. The Committee is responsible for identifying and providing guidance for any conflicts of interest that may arise. The Committee confirms that proper flow of information is ensured by the Koç Financial Services, Subsidiaries and Shareholder Relations Unit to shareholders and investors. All decisions of the Committee are taken unanimously and can only be implemented after the approval of the Board of Directors if taken by majority. In 2016, the Corporate Governance Committee convened 2 times with the required majority and quorum satisfied.

Corporate Governance Committee Members

Member	Mirko D. G. Bianchi ⁽⁸⁾	Member of the Board of Directors
Member	Adil G. Öztoprak ⁽⁸⁾	Member of the Board of Directors
Member	M. Erkan Özdemir	Assistant General Manager - Compliance and Internal Control
Member	Massimo Francese ⁽⁹⁾	Assistant General Manager - Financial Planning and Administration (CFO)

Remuneration Committee

The Remuneration Committee monitors and audits compliance of the Bank's compensation principles and remuneration practices with its structure, strategies, long-term targets and risk approach on behalf of the Board of Directors. The Committee convenes at least twice a year or according to the needs of the Bank. In 2016, Remuneration Committee convened 2 times with the required majority and quorum satisfied.

Remuneration Committee Members

Member	Carlo Vivaldi	Vice Chairman of the Board of Directors
Member	Levent Çakıroğlu	Member of the Board of Directors

- (1) Based on Board resolution dated 17 June 2016, Patrick Schmitt was appointed as Assistant General Manager in charge of Risk Management as of 1 September 2016, replacing Wolfgang Schilk
- (2) Based on Board resolution dated 18 January 2016, Massimo Francese was appointed as Assistant General Manager in charge of Financial Planning and Administration as of 1 March 2016, replacing Marco Iannaccone
- (3) Based on Board resolution dated 13 October 2016, Wolfgang Schilk was appointed as a Member as of the same date, replacing Dr. Jurgen Kullnigg
- (4) Based on Board resolution dated 18 April 2016, Principal Members of the Credit Committee were determined as 4 members. H. Faik Açıklan was appointed as Chairman, Niccolò Ubertalli as Vice Chairman, F. Füsün Akkal Bozok and Dr. Jurgen Kullnigg as Principal Members. With the same resolution, Carlo Vivaldi and A. Ümit Taftalı were appointed as Alternate Members
- (5) Based on Board resolution dated 18 April 2016, Members of the Audit Committee were determined as 3 members. Mirko D. G. Bianchi was appointed as Chairman, F. Füsün Akkal Bozok and Dr. Adil G. Öztoprak as Members
- (6) Based on Board resolution dated 13 October 2016, Wolfgang Schilk was appointed as Chairman as of the same date, replacing Mirko D. G. Bianchi
- (7) Based on Board resolution dated 29 June 2016, Giovanna Villa was appointed as a Member as of the same date, replacing F. Füsün Akkal Bozok
- (8) Based on Board resolution dated 18 April 2016, Mirko D. G. Bianchi and Adil G. Öztoprak were appointed as Members as of the same date, replacing Carlo Vivaldi and Levent Çakıroğlu, respectively
- (9) Based on Board resolution dated 18 January 2016, Massimo Francese was appointed as a Member as of the same date, replacing Marco Iannaccone

Report of the Board of Directors

Dear Shareholders,

For Yapı Kredi, one of the oldest and strongest institutions in the banking sector, 2016 was a successful year despite the uncertainties and fluctuations in the general business environment. As Turkey's fourth largest private bank in terms asset size, Yapı Kredi ensued its customer-centered, pioneering and innovation-oriented banking perspective in 2016.

This was the third year of Yapı Kredi's growth strategy launched with the aim of strengthening its position in the sector and capturing a level of long-term and sustainable profitability. Throughout the year, Yapı Kredi further increased the contribution to the financing of the Turkish economy.

In 2016, Yapı Kredi entered the "Harvest Phase" of its "Growth Oriented Investment Strategy" initiated at the end of 2013. The main element of this strategy is to use the Bank's distribution network efficiently while focusing strongly on digitization to ensure sustainable performance. The fruits of this approach are visible particularly in the accelerated customer acquisition over the past three years and in the increase in the number of transactions. Having acquired net 731 thousand new active customers in 2016, Yapı Kredi increased the number of its average monthly transactions by 17% compared to 2015.

While strengthening its sector positioning in 2016, Yapı Kredi also improved its financial performance by increasing its commercial efficiency. The bank grew its loans and deposits faster than private banks in 2016, thereby enhancing the support it provides to the economy. For Yapı Kredi, 2016 was a year where all digital channels were developed and enriched rapidly, with mobile banking taking the lead. As a pioneer of digital transformation in banking, Yapı Kredi completely renewed its mobile branch in 2016 and introduced ground-breaking "Eye-Scanning" technology. Additionally, Yapı Kredi reinforced its leading position in the sector with new features such as contactless cash withdrawal from ATMs via QR code and direct access to the Call Center.

Yapı Kredi achieved significant progress in 2016 in its sustainability efforts, an area of great importance for the Bank. Borsa Istanbul (BIST), in collaboration with the London-based Ethical Investment Research Service (EIRIS), designated Yapı Kredi as one of the corporations in the BIST Sustainability Index for the third consecutive year. Accordingly, Yapı Kredi became one of the 43 companies included in the index. This achievement is a direct result of the Bank's successful performance in environmental, social and corporate governance issues.

Thanks to the importance placed on corporate governance, Yapı Kredi's corporate governance rating in accordance with Capital Markets Board criteria was confirmed at 9.34 in 2016.

Yapı Kredi's successful performance and superior service quality was confirmed with close to fifty awards received in 2016 from many respected national and international organizations.

Dear Shareholders,

As we submit our 2016 annual report and financial statements for your review and approval, on behalf of the Board of Directors and myself, I would like to thank you, our esteemed shareholders, for your faith in Yapı Kredi.

On behalf of the Board of Directors,
Chairman of the Board
Ali Y. Koç

Human Resources Implementation

Candidate searches: Following the determination of needs in human resources, candidate searches are initiated through existing candidate pools, internet, press notices and internal announcements as well as head hunters. Following the publication of an internal announcement, a special candidate pool composed of existing employees is also prepared. Applications are assessed on the basis of criteria such as education, foreign language skills, technical competences and work experience, as indicated in the scope of the position. All applicants with the required characteristics are invited to join the recruitment process.

In addition, Yapı Kredi actively undertakes employer-branding activities in cooperation with university clubs to introduce the Bank to university students and learn about their expectations.

Main topics related to recruitment in the context of human resources applications are stated below.

Recruitment process: This stage consists of an examination, interview and job offer. At the examination stage, through tests based on job function, it is determined whether the candidate possesses the necessary abilities required for the position. These abilities include learning, performing rapid numerical calculations, adaptability, problem solving, identifying details in words and figures, visual, numeric and verbal memory assessments. An English test (in the form of a test or composition, depending upon the nature of the position) is administered for some positions and a personality inventory for others. The interview stage is aimed at determining whether candidates possess certain abilities (establishing communication, teamwork, etc.) required by the position to which they will be assigned and at observing them in role-playing throughout the process. Candidates are also asked competency-based and behavior-focused questions during the interview process to assess whether the qualities required by the job match their expectations.

At the end of the process, the suitable candidate is offered the position and if the offer is accepted, the candidate receives the required document list and an offer letter via e-mail. During the job offer, candidates are informed of employee rights at Yapı Kredi, the articles of the contract they will sign and other relevant subjects. In addition, all of their questions are addressed. Contracts are signed with candidates who accept the job offer and start working at Yapı Kredi.

For newly formed positions or positions that require expertise and technical know-how, candidates with sufficient work experience in the relevant field are preferred. The interview stage of hiring experienced staff is carried out by the Human Resources career and recruitment planning teams in cooperation with the relevant department. Yapı Kredi continues its human resources activities with an aim to choose suitable candidates compatible with the bank's vision, mission and strategic objectives. For candidates that live in other cities and abroad, the bank has an online interview process allowing candidate evaluation.

Senior management and employees receive fixed and performance-based income in accordance with the bank's Remuneration Policy. More detailed information is provided in Article 5.6 of the Corporate Governance Principles Compliance Report.

Support Services

- Koç Sistem Bilgi ve İletişim Hizmetleri A.Ş. provide around 115 million printing services per year for credit cards and customer account statements
- Physical security services were provided by Ekol Grup Güvenlik Koruma ve Eğitim Hizmetleri Ltd. Şti. (EKOL) as of 1 January 2016 with a total of 1,035 security personnel
- A total of 914 armed security personnel are located in the branches, 103 armed security personnel are situated in the Head Office and Regional buildings, 18 unarmed security personnel are positioned in the Bayramoğlu, Yeniköy Koru and Darıca buildings
- Alarm system monitoring, controlling and maintenance services for all technical and electronic security systems are provided by Elektromaks Elektronik ve Güvenlik Sistemleri San. Tic. Ltd. Şti.; fire alarm systems controlling and maintenance is provided by Protek Mühendislik Ltd. Şti.; card pass systems controlling and maintenance is provided by Senkron A.Ş.
- Support services for cash transportation, on-site and off-site ATM first-line maintenance services are provided by Bantaş Nakit ve Kıymetli Mal Taşıma ve Güvenlik Hizmetleri (Bantaş), Loomis Güvenlik Hizmetleri (Loomis), Desmer Güvenlik Hizmetleri Ticaret (Desmer), And Tepe Savunma ve Güvenlik Sistemleri (Tepe)
- These firms provide Yapı Kredi Bank with the following:
 - Bantaş - 33 Cash Centers, 1,006 personnel and 276 armored vehicles
 - Loomis - 12 Cash Centers, 240 personnel and 72 armored vehicles
 - Desmer - 2 Cash Centers, 14 personnel and 5 armored vehicles
 - Tepe - 1 Cash Center, 11 personnel and 4 armored vehicles
- Altus Bilişim Hizmetleri A.Ş. and NCR Bilişim Sistemleri Ltd. Şti. provide second-line maintenance services for on-site and off-site ATMs.

Corporate Governance Principles Compliance Report

SECTION I - Declaration of Compliance with Corporate Governance Principles

Yapı Kredi strives to comply with the Corporate Governance Principles published by the Capital Markets Board (CMB) and focuses on continuous development in this area while carrying out its operations.

The mandatory principles within the scope of the Communiqué on Corporate Governance numbered II-17.1 which is currently in effect have been fully complied with and the non-mandatory principles have been mostly complied with. Despite full compliance with the non-mandatory Corporate Governance Principles is targeted, such full compliance has not been achieved yet due to reasons such as the practical challenges with some of the principles, the ongoing discussions both in our country and on the international platform in relation to compliance with some of the principles and the fact that some principles do not completely overlap with the existing structure of the market and the Bank. The principles that have not yet been implemented are worked on and it is planned that their practice will start after the completion of the administrative, legal and technical infrastructure work in a way to contribute to the efficient management of the Bank. Below in the relevant chapters are the explanations for Yapı Kredi's extensive efforts conducted within the framework of the Corporate Governance Principles and the principles that have not yet been complied with and the conflicts of interest, if any, arising from these.

Efforts for compliance with the Capital Markets Law which covered the new regulations of the CMB on the Corporate Governance Principles and with the communiqués issued on the basis of this law were among the main efforts in the field of Corporate Governance in 2016. The Board of Directors and the Committees of the Board of Directors of the Bank were formed in line with the regulations in the Communiqué on Corporate Governance. The Committees of the Board of Directors that are formed, continue with their activities efficiently. A remuneration policy was set for the Board of Directors and the senior management and employees and was submitted to the information of the shareholders at the Annual Shareholders' Meeting. Annual Shareholders' Meeting Disclosure Document containing the Annual Shareholders' Meeting information such as the shareholding structure, total number of shares and voting rights, the biographies of the candidates standing for membership to the Board of Directors and the Remuneration Policy was submitted to the information of the investors 3 weeks before the Annual Shareholders' Meeting. Furthermore, the Bank's corporate website and annual report were reviewed and the revisions required for full compliance with the principles were made. Work required for compliance with the principles will be carried out in the upcoming period by taking into consideration both the developments in the legislation and practice.

In clause 3 of article 6 of the Communiqué on Corporate Governance in relation to exemptions, it is stated that the number of independent Board members may be determined by the banks themselves on the condition that this number is not less than three and that the Board members who are appointed as an audit committee member within the bank's organization for the Board of Directors shall be considered as independent Board members within the framework of this communiqué. The communiqué also states that the qualifications set forth in the Corporate Governance principle numbered 4.3.6 shall not be sought in audit committee members of banks and that the principles numbered 4.3.7 and 4.3.8 in relation to the election of these members shall not be applied. The same communiqué also provides that the qualifications set forth in the principle numbered 4.3.6 shall be required in any case in respect of the independent board members who will not be appointed in the audit committee, and for only one member in cases where all of the independent members of the board of directors are appointed in the audit committee and that the principles numbered 4.3.7 and 4.3.8 shall apply with regard to the election of this independent member or these independent members. In this framework, all of the Members of the Bank's Audit Committee were independent members in 2016, with Giovanna Villa and Adil Giray Öztoprak having the qualifications set forth in principles numbered 4.3.7 and 4.3.8.

Among the Corporate Governance Principles, following main principles which have not been fully complied and not mandatory in accordance to communiqué have been specified below detailed information on this respect is provided in the relevant chapters below. There is no conflict of interest arising from non-compliance with the said principles.

- In relation to principle numbered 1.5.2, minority rights are not vested by the Articles of Association in shareholders holding less than one twentieth of the capital and rights are vested within the framework of the general regulations in the legislation.
- In relation to principle numbered 4.3.9, no target rate and target time have been determined yet in relation to the rate of female members in the Board of Directors but the rate of female members in the Board of Directors of the Bank was 14% in 2016.
- In relation to principle numbered 4.4.7, no limits are introduced for the Members of the Board of Directors preventing them from assuming duties outside the company due to the fact that their sectoral and business experience makes a significant contribution to the Board of Directors.
- In relation to principle numbered 4.5.5, the appointment of the Members of the Board of Directors in committees is performed by taking into consideration their knowledge and experience and in line with the relevant legislation and some Members of the Board of Directors are appointed to more than one committee. However, those members who assume duties in more than one committee ensure communication and increase cooperation opportunities among committees that work in related matters.
- In relation to principle numbered 4.6.5, remunerations made to the Members of the Board of Directors and to the executives with administrative responsibilities are collectively and publicly disclosed in the footnotes of the financial statements in line with the general practice.

Yapı Kredi's corporate governance rating in the BIST Corporate Governance Index which the Bank joined back in 2008, started with 8.02 (over 10) was increased to 9.34 through the Corporate Governance Rating Report issued by SAHA Corporate Governance and Credit Rating Services Inc. and publicly disclosed by the Bank on December 28, 2016. The ratings in terms of main sections were set as 9.59 for Shareholders, 9.25 for Public Disclosure and Transparency, 9.35 for Stakeholders and 9.23 for the Board of Directors.

SECTION II - Shareholders

2.1. Investor Relations Unit

The functions at Yapı Kredi in relation to Investor Relations Unit are carried out in the following manner by Koç Financial Services (KFS) under Assistant General Manager for Compliance and Internal Control, the Subsidiaries and Shareholder Relations Unit and the Investor Relations Unit under Assistant General Manager for Financial Planning and Financial Affairs (CFO). During the year, all telephone and e-mail inquiries to both units were answered within the scope of the relevant legislation. Within the scope of relations with the Bank's shareholders, the Investor Relations Unit held more than 370 meetings for investors, more than 20 meetings for analysts and approximately 100 teleconferences, in addition to attending 18 conferences and in order to meet existing and potential investors and ensure that shareholders are better updated on recent developments. Quarterly financial results were presented and shared 4 times during the year via quarterly teleconferences and questions by investors and analysts were answered by senior management.

The 2016 Report on Investor Relations Activities was reviewed by the Corporate Governance Committee of the Bank on February 22, 2017 and was submitted to the Board of Directors of the Bank on the same date.

Functions of KFS, Subsidiaries and Shareholder Relations Unit are:

- To ensure that the correspondence on shares between the Shareholders and the partners and the information and documents that need to be kept in relation to shares within the scope of legislation are kept in a sound, safe and updated manner,
- To prepare the documents that need to be submitted to the shareholders for information and review in relation to the Annual Shareholders' Meeting and to take measures to ensure that the Annual Shareholders' Meeting is held in compliance with the relevant legislation, the Articles of Association and other regulations within the shareholding structure,
- To oversee and monitor the fulfilment of liabilities arising from the Capital Market legislation including all matters in relation to Corporate Governance and Public Disclosure.

Functions of the Investor Relations Unit are:

- To manage relations among national/international corporate investors/shareholders, banking analysts of intermediary agencies and partners, to inform them regularly and proactively, to answer their oral and written questions,
- To manage relations with the international credit rating agencies, to answer their oral and written requests for information,
- To manage all printed and web-based processes in relation to the issuance of the Bank's annual and interim reports and to coordinate the compilation of the contents in accordance with the legislation,
- To include the matters set forth in the Corporate Governance Principles in the Investor Relations section on the Bank's website and to keep information updated.

KFS, Subsidiaries and Shareholder Relations Unit

Head of the Unit	: Erdiñç TETİK
Title	: Director of KFS, Subsidiaries and Shareholder Relations Unit
Licences	: Capital Market Activities Level 3 License, Corporate Governance Rating and Derivative Instrument License
Telephone	: 0 212 339 64 31
E-mail	: erdinc.tetik@yapikredi.com.tr
Employees of the Unit	: Hasan SADİ* - Ercan YILMAZ – Resul BAŞAK

*Holds Capital Market Activities Level 3 License and Corporate Governance Rating License

Investor Relations Unit

Head of the Unit	: Gülsevin TUNÇAY YILMAZ
Title	: Corporate Strategy and Investor Relations Director
Telephone	: 0 212 339 73 23
E-mail	: gulsevin.yilmaz2@yapikredi.com.tr
Employees of the Unit	: Kerem BAYKAL* - Ece OKTAR GÜRBÜZ** - Arya ÖZÇAM - Eray ALPAY

* Holds Capital Market Activities Level 3 License, Corporate Governance Rating License and Derivatives Instrument License

** Holds Capital Market Activities Level 3 License, Corporate Governance Rating License and Credit Rating License

2.2. Exercise of Shareholders' Right to Obtain Information

No discrimination is made among shareholders in terms of the use of the right to obtain and review information and all information except for trade secrets are shared with the shareholders. Questions received by the Investor Relations Unit are answered both by telephone and in writing upon establishing contact with the most senior individual related to the matter, except for information that are deemed to be confidential and trade secret. As explained in Chapter 3.1 of this report, all information and explanations that could impact on the use of shareholding rights are included in the corporate website. Yapı Kredi continuously communicates with and informs shareholders through telephone, e-mail, internet, press releases as well as one-on-one and group meetings.

Although the right to request a private auditor is not regulated in the Articles of Association as an individual right, each and every shareholder can place a request at the Annual Shareholders' Meeting, as per article 438 of the Turkish Commercial Code and even if such request is not included on the agenda, that specific cases are clarified through private audit whenever this is required in order to be able to exercise the shareholding rights and if the right to obtain and review information was exercised beforehand. Shareholders did not place a request to this end in 2016. According to the Banking Law, Yapı Kredi is subject to supervision and audit from Banking Regulation and Supervision Agency (BRSA) as well as CMB regulations and the Bank's activities are periodically audited by the Independent Auditor elected in the Annual Shareholders' Meeting.

2.3. Annual Shareholders' Meetings

The most recent Annual Shareholders' Meeting was held on March 31, 2016 at the conference hall of the Bank's Head Office at Yapı Kredi Plaza D Blok Levent - İstanbul. Shareholders attended this meeting with a 92,10 % majority, while no stakeholder or media representative attended. In accordance with the applicable law and the Bank's Articles of Association, meeting invitation was announced via Turkish Trade Registry Gazette, Public Disclosure Platform (KAP), the e-company and Electronic General Meeting System of the Central Securities Depository Institution (MKK).

The Board of Directors and Audit Committee Reports, Financial Statements and Independent Audit Report, Dividend Distribution Proposal for the year 2015, the Annual Report containing the date and the agenda of the Annual Shareholders' Meeting as well as the Corporate Governance Principles Compliance Report attached thereto and the articles of Annual Shareholders' Meeting Agenda, and the detailed annotation containing the Compliance to Capital Markets Board regulations were made available for the examination of shareholders at the Bank's Head Office and branches, on its website www.yapikredi.com.tr as well as at KAP and the Electronic General Meeting System of the MKK within the legal period of 3 weeks prior to the Annual Shareholders' Meeting.

At the Annual Shareholders' Meeting; it is resolved that to make amendment the article 6 of the Articles of Association of the Bank (titled "Capital") related to extending Banks' Capital Ceiling Registration period which would expire at 2016 until 2020, and to make amendment to the article 14 of the Articles of Association (titled "Remunerations of the Members of Board of Directors, Executive members and the Committee Members"). Shareholders were informed of the donations and charities made in 2015 and a ceiling amount for the donations to be made in 2016 was determined by the General Assembly as TL 15,000,000. At the Annual Shareholders' Meeting, an opportunity was presented to the shareholders to speak and ask questions regarding all agenda items, there were not any raised a question which was supposed to be answered in written.

Minutes of the Annual Shareholders' Meeting can be accessed via the KAP, the Electronic General Meeting System and e-company portal of the MKK and on Yapı Kredi's website.

In 2016, there was not any proposal which was submitted by the shareholders to add an item to the agenda.

At the Board of Directors, there were no transactions for which an affirmative vote of the majority of the independent members of the Board of Directors was sought for making a decision and for which the decision was left to the General Assembly due to the fact that the said members cast a negative vote.

There were no cases in which the shareholders possessing management control, members of the board of directors, managers having administrative responsibilities and their spouses and relatives by blood and by marriage up to the second degree carried out a significant transaction that could cause conflict of interest with the company or its affiliates and/or carried out a transaction on behalf of themselves or others a business-like transaction that falls within the field of operations of the company or its affiliates or became an unlimited-liability partner of another company dealing with the same kind of business.

2.4. Voting and Minority Rights

Yapı Kredi has no privileged shares. There is no cross-shareholding between the Bank and its subsidiaries and thus no such votes were cast at the most recent Annual Shareholders' Meeting. Minority shares are not represented in management. Minority rights are not vested by the Articles of Association in shareholders holding less than one twentieth of the capital and rights are vested within the framework of the general regulations in the legislation.

2.5. Right to Dividend

As Yapı Kredi has no privileged shares, no privilege exists in dividend distribution. It is resolved at the annual general assembly dated 31.03.2016 that, after necessary legal reserves has been reserved from our bank profit of 2015, the rest of the amount be set aside as extraordinary reserve, dividend distribution has not been made.

The Dividend Distribution Policy of the Bank was approved at the Annual Shareholders' Meeting held on March 27, 2014. The Dividend Distribution Policy of the Bank available on the KAP, the Bank's website and the annual report provides that *"Principles regarding the Bank's dividend distribution are set out in detail in the Bank's Articles of Association. In this respect, shareholders taking into consideration the Bank's growth targets as well as its financing requirements and the opinion of the Banking Regulation and Supervision Agency (BRSA), are authorized to pass resolutions on whether the dividend distribution shall be in cash or in the form of capital increase, whereupon bonus shares will be issued to shareholders or if part of the distribution shall be in cash and part in the form of capital increase. At the Annual Shareholders' Meeting, in accordance with the Articles of Association, shareholders may make the decision to transfer a portion or all of the distributable profit to retained earnings or extraordinary reserves. It is envisaged that the Dividend Distribution Policy of the Bank will be set out in a way to ensure the realization of long-term growth plans. This policy is subject to revision by the Board of Directors whenever necessary, taking into consideration the domestic and international economic conditions and the projects and funds on the agenda."*

2.6. Transfer of Shares

There are no provisions in Yapı Kredi's Articles of Association that restrict transfer of shares and the provisions of the Banking Law which sets the transfer of shares are reserved.

SECTION III - Public Disclosure and Transparency

3.1. Corporate Website and Its Contents

In accordance to the Bank's Corporate Governance Principles, the Bank has two separate and regularly updated websites in Turkish (www.yapikredi.com.tr) and English (www.yapikredi.com.tr/en). Both websites provide detailed information about Yapı Kredi under the Investor Relations section.

The Investor Relations section in Turkish (www.yapikredi.com.tr/yatirimci-iliskileri) provides information regarding the Bank's history, vision and values, shareholding structure, share price, periodic financial tables and annual reports, credit ratings given by rating agencies, corporate governance reports, the Board of Directors, senior management, Articles of Association, trade registry information, disclosure policy, code of ethics, details on Annual Shareholders' Meetings, including minutes, agenda, list of attendees and sample power of attorneys, explanations for material events disclosure and the future expectations of the Bank as stated within the scope of article 10 of the Communiqué on Material Events Disclosure and all other relevant information. The Annual Shareholders' Meeting disclosure document containing discussion topics related to the agenda and relevant documents (annual report, financial statements, dividend distribution table, Dividend Distribution Policy and other documents regarding the agenda) are available on the website and presented at the Annual Shareholders' Meeting.

During the year, on the website of the Bank for investor relations in English, information on Yapı Kredi, the progress of shares and bonds, information on the Medium Term Note Program, investor relations calendar, investor relations presentations, investor bulletin and the list of analysts in addition to periodic updates and amendments on all matters were included.

3.2. Annual Report

The Bank's annual report is prepared according to BRSA Regulations regarding the Principles and Procedures Concerning the Preparation of the Annual Report by Banks. In addition, the annual report is prepared in a way to include the information set forth in the Capital Markets Board (CMB) legislation and the Corporate Governance Principles.

SECTION IV - Stakeholders

4.1. Informing Stakeholders

Yapı Kredi employees are informed about the Bank's activities via internal communication systems by the CEO and relevant senior management when necessary. In addition, Head Office and branch managers are regularly informed about various developments via management meetings, announcements and other communication channels. The Bank's Code of Ethics and compliance to this code are reported to the Corporate Governance Committee on a regular basis. Outside of Yapı Kredi's employees, stakeholders are notified regarding information pertaining to themselves and when deemed necessary via e-mail, telephone and other communication channels. Mechanisms were established for stakeholders to submit the transactions of the company that are contrary to the legislation and not ethically appropriate to the Bank's senior management.

4.2. Participation of Stakeholders in Management

Yapı Kredi is a joint stock company and is managed by internal executive functions. The decision making responsibilities of these functions are initially evaluated by the relevant management and then submitted for the approval of the related decision making bodies. Furthermore, there are channels available for stakeholders and specifically for the Bank's employees in order for them to support the management of the Bank without hindering the activities of the Bank. Internal customer satisfaction measurement is also conducted once a year in order to get the views and opinions of the Bank's employees.

4.3. Human Resources Policy

The Bank's human resources practices are based on its Employee Guidelines. These guidelines inform employees about human resource practices and set conditions pertaining to administrative services. Through the Employee Guidelines, the Bank aims to inform and provide consultancy to employees regarding all matters relevant to employee relations such as employee selection, placement and development based on employee knowledge, skills and talent, fair and proper compensation, performance enhancing training opportunities, provision of an appropriate work environment to maximize employee efficiency, information on working order, practices and rules, vacations, leave of absence, insurance benefits, administration etc. The Bank's Human Resources and Organization Management carries out its operations without discrimination of race, gender, nationality, age, religion, political view and physical disability and with respect towards privacy and civil rights. Job description as well as performance and bonus guidelines are announced to all employees of the Bank. In addition, the Bank has a human resources portal available to all employees with published detailed policies under main headings of career, new recruitment, salary and benefits as well as performance.

Furthermore, all Bank employees are able to share any discomfort and complaints with regard to these matters, orally or in writing, to the code of conduct within the Compliance and Internal Control and to the Ethics, Fight Against Corruption and Conflict of Interest section.

On the other hand, under the law on Trade Unions and Collective Labour Agreements (Law nr.6356), a Collective Bargaining Agreement is in place between the Bank and Union of Bank and Insurance Workers. The purpose of this agreement is identifying the benefits and responsibilities of the Bank and union members regarding contents and termination of members' labour contracts and other issues, ensuring that these are implemented correctly and demonstrating solutions in the event of possible conflicts. Through this agreement, both parties mutually guarantee to be on good terms, labor peace, wellbeing and labor safety. As a part of the Collective Bargaining Agreement, Workplace Union Representatives are designated by BASİSEN on behalf of the members of the union. These representatives are commissioned to listen to members, resolve their complaints, assure cooperation, labor peace and harmony between workers and the employer, monitor the rights and interests of the workers and assist the exercise of the working conditions subject to the labor laws and collective bargaining agreements.

Main topics related to recruitment in the context of human resources applications are stated below.

Candidate searches: Following determination of needs in human resources, candidate searches are initiated through existing candidate pools, internet, news releases, internal announcements as well as head hunters , a special candidate pool composed of existing applied employees is prepared after the internal announcement is disclosed. Applications are assessed on the basis of criteria such as education, foreign language skills and work experience, as indicated in the scope of the position. All applicants with the required characteristics are invited to join the recruitment process.

In addition, Yapı Kredi actively undertakes employer branding activities in cooperation with university clubs to introduce the Bank to university students and learn about their expectations.

Recruitment process: This stage consists of an examination, interview and job offer. At the examination stage, through tests based on job function, it is determined whether the candidate possesses the necessary abilities required for the position. These abilities include learning capabilities, performing rapid numerical calculations, adaptability, problem solving, identifying details in words and figures, visual, numeric and verbal memory assessments. For some positions, English exam (based on the position whether as test or as written) is applied personality inventory is also applied. The interview stage is aimed at determining whether candidates possess certain abilities (establishing communication, teamwork etc.) required by the position to which they will be assigned, also through role play. Candidates are also asked competency-based and behavior -focused questions during the interview process to assess whether the qualities required by the job match their expectations.

At the end of the process, the suitable candidate is offered the position and if the offer is accepted, the candidate receives the required document list and an offer letter via e-mail. During the job offer, candidates are informed of employee rights at Yapı Kredi, the articles of the contract they will sign and other relevant subjects. In addition, all of their questions are addressed. Contracts are signed with candidates who accept the job offer and start working at Yapı Kredi.

For newly formed positions or positions that require expertise and technical know-how, candidates with sufficient work experience in the relevant field are preferred. The interview stage of hiring experienced staff is carried out by the Human Resources recruitment teams in cooperation with the relevant department. Yapı Kredi continues its human resources activities with an aim to choose suitable candidates compatible with the Bank's vision, mission and strategic objectives. For candidates that live in other cities and abroad, the Bank has an online interview process allowing candidate evaluation.

4.4. Code of Ethics and Social Responsibility

Information on the Bank's code of ethics is publicly disclosed on the Bank's website. Furthermore, a policy for fighting against corruption and bribery is formulated and announced on the website.

Yapı Kredi believes in the significance of a sustainable future and strives to integrate its corporate citizenship understanding within all its operations. In this content, The Bank develops its own social responsibility projects in line with the needs and expectations of the society. Furthermore, Yapı Kredi supports the active engagement of its stakeholders and provides the societal activities undertaken by its main shareholders, Koç Holding and UniCredit. Since its foundation in 1944, Yapı Kredi has been supplementing the investments made in education, culture & arts, environment and sports through its innovative social responsibility projects seeking lasting solutions to social problems and collaborating with public institutions, Non-Governmental Organizations (NGOs) and universities in an effort to enable a wider audiences to benefit from these projects.

Culture and Arts Projects

- **Yapı Kredi Culture Art and Publishing:** Through Yapı Kredi Publishing, at 2016 Yapı Kredi Publishing continues to be an important player in the world of publishing thanks to the 4,749 books it has published so far, with an annual average number of 221 new books and 856 new editions. The share of children's books gradually increases within the range of publications. Students, teachers, librarians, editors and authors are brought together every year in about 150 school activity held throughout the year. On the other hand, Yapı Kredi Cultural Center reaches lots of followers through about 90 events and 5 exhibitions held during the year and thus maintains a reputable position in the cultural and artistic life of our country. Through its mission to support educational, cultural and artistic projects that will elevate the welfare level of the society, Yapı Kredi Culture Art Publishing take seriously publishing audio books which is a recently growing field of activity in Turkey. In his concept made its contribution for the blind people accessing books by 238 books as of the end of 2016.
- **Yapı Kredi Afife Theatre Awards:** It is the most prestigious and the long-lasting arts awards, Yapı Kredi Afife Theatre Awards has been organized each year since 1997 to commemorate Afife Jale, the first Turkish female artist to appear on stage, and to support the Turkish theatre. A grand jury, comprising of 33 members who are doyens of theatre and have dedicated their lives to the art of theatre transparently vote for plays they watch during the season and grant awards in 15 categories including 11 main and 4 special awards.
- **Çatalhöyük Excavations:** Çatalhöyük Excavations have been one of the most important projects supported by Yapı Kredi for a long period in the field of culture and arts. Located 10 kilometers southeast of Çumra district in Konya with an altitude of 21 meters, Çatalhöyük Hill houses 9,000-year-old secrets. Every year in August and September, a team of around 200 members from all over the world perform excavations at Çatalhöyük, one of the most important and impressive archaeological sites in the world. The 2016

excavation season marked a period in which new perspectives were adopted and significant finds were brought to light at Çatalhöyük, which is recorded in the UNESCO World Heritage List.

Projects for Disabled Citizens

- **Enabled Banking:** Initiated in 2008 as the first and most comprehensive Enabled Banking Program in Turkey, the project aims to provide disabled customers with convenient access to banking services. Yapı Kredi also launched the first enabled banking website in Turkey, www.engelsizbankacilik.com.tr, making the finance sector more accessible for disabled citizens. Additionally, the Bank provides dedicated call center and on-line chat services as well as Enabled ATMs for disabled customers. Working in cooperation with the Federation for the Hearing Impaired and GETEM (Assistive Technology and Education Laboratory for Individuals with Visual Disabilities), Yapı Kredi adds value to the lives of disabled citizens. Within the scope of this collaboration, 238 books were transferred onto digital media, converted into audio books and made available 7/24 to disabled citizens on the phone as of the end of 2016. The project 'Speaking is in our hands' was started through joint efforts with the Federation of the Hearing Impaired and 300 volunteers from branches were provided with sign language training. Enabled ATMs started service for the orthopedically impaired citizens in 2009 and for the visually impaired citizens in 2010. Yapı Kredi facilitates the lives of its orthopedically and visually impaired customers via 2,210 Enabled ATMs throughout Turkey. One of the projects started in 2014 within the scope of Enabled Banking Program allowed disabled citizens to work from home and participate in the labor force. As of 2016, a total of 6 disabled individuals have been employed by Yapı Kredi.
- **I Know No Barriers for My Country:** Yapı Kredi sustained its support to the project 'I Know No Barriers for My Country' led by Koç Holding. In this content 4,127 employees of Yapı ve Kredi have completed "I know No Barriers for My Country" e learning trainings of the end of 2016. Number of the schools in which the physical conditions were improved to ensure better access for disabled students has raised to 10 through the "Koç Growth for My Country Variable Fund".

Sustainability and Yapı Kredi

- **Sustainability Report:** Yapı Kredi prepared the 2015 Sustainability report in accordance with the principles of G4 Reporting Guidelines core option, by the Global Reporting Initiative (GRI).
- **BIST Sustainability Index:** In 2016, BIST-50 companies and additionally BIST-100 companies who volunteered were included in the assessment by the London-based Ethical Investment Research Service (EIRIS) within the framework of BIST Sustainability Index established by Borsa Istanbul. Yapı Kredi was included among the 43 companies on the BIST Sustainability Index as the result of the assessment thanks to its successful performance in environmental, social and corporate governance areas.
- **Carbon Disclosure Project:** Yapı Kredi, as a symbol of value to climate change has been joined to Carbon Disclosure Project (CDP) for the first time in 2016.
- **Gender Equality for My Country:** Yapı Kredi plays an active role in the project 'I Support Gender Equality for My Country' started in June 2015 under the leadership of Koç Holding. This project aims to raise awareness on the reasons and consequences of gender inequality. Within scope of the project, trainings has been provided by volunteered trainers to General Headquarters and Branch employees. Within the context of "Koç Growth for My Country Variable Fund" with ACEV the project named "Fathers Changing Society Changing" has been initiated. With the project initiated at March 2016 till at end of March 2017, aiming to provide gender equality training to 600 fathers at 9 different cities.

Educational Projects

- **I Read, I Play:** Yapı Kredi has been running the project 'I Read, I Play' since 2006 in cooperation with the Educational Volunteers of Turkey Foundation (TEGV) to provide primary education students not having access to contemporary education opportunities to engage in out-of-school education activities. The project has been delivered by more than 3,500 volunteer at all 48 project points comprising of 10 educational parks and 38 learning units. This project has reached more than 130 thousand children as of the end of 2016.

Environmental Projects

- **Recycling Project:** Yapı Kredi has been running a recycling project since 2008 to support sustainability of natural resources. In 2016, approximately 1 million kilograms of paper, more than 3 thousand kilograms of plastic, more than 900 kilograms of glass and approximately 200 kilograms of metals were collected for recycling process. Furthermore, Yapı Kredi prevented the emission of more than 36,214 tons of carbon dioxide, the cutting of over 16,823 trees and the wasting of 25,733 cubic meters of water, 50,829 kWh of energy and 15,1 tons of crude oil.
- **ISO 14064:** Yapı Kredi continues the ISO 14064 Greenhouse Gas Emissions Reporting certification process annually, which has been initiated in 2011. The certification process for 2015 was completed in 2016.
- **ISO 14001:** Yapı Kredi has been completed the certification process of ISO 14001 Environmental Management Systems for its headquarters buildings Yapı Kredi Plaza D Block and Banking Base in 2016.

Relations with the Academic Community

- **Anatolian Scholarship:** In 2016, Yapı Kredi sustained its support for the Anatolian Scholars Program established by Koç University in 2011 by increasing the number of scholars supported to 5.
- **Yapı Kredi Banking and Insurance Academic Program:** In 2015, Yapı Kredi undertook another first in the field of education and collaborated with MEF University to launch the Yapı Kredi Banking and Insurance Associate Degree Program. The two-year associate degree program aims to educate future bankers and provide graduates employment opportunities. Program is continuing with 100 students in the 2016-2017 academic year.

- **Yapı Kredi Vocational and Technical High School:** Established in Kocaeli, Yapı Kredi Vocational and Technical High School started its educational activities in 2008 and has been one of the most important efforts by Yapı Kredi in the field of education. The school produced its first graduates in 2012 and now delivers education to over 500 students in the departments of child development and education, graphics and photography, IT, catering and office management. Additionally, 20 students benefited from the merit-based scholarship in 2016.

In 2016, Yapı Kredi channeled TL 3,6 million towards culture and art events as well as corporate social responsibility activities. In addition, the Bank disbursed TL 11,1 million in aid and donations.

SECTION V - Board of Directors

5.1. Structure and Formation of the Board of Directors

The Bank is governed and represented by the Board of Directors. The number of Board members and the members themselves are determined at the Annual Shareholders' Meeting. The numbers and the qualifications of the independent members are determined in accordance with the BRSA and the CMB regulations. According to the Bank's Articles of Association, the Board of Directors must be composed of a minimum of 8 individuals. Members are elected by the General Assembly for a term of maximum 3 years and serve until the election of their successor.

Information on the Members of the Board of Directors who are elected and appointed due to position change at the Shareholders' Meeting on March 31, 2016 in order to serve until the Annual Shareholders' Meeting where the 2016 activities will be discussed is available in the following table (as of 31.12.2016) and their CVs are provided on the Bank's website and its annual report. At the Bank's Board of Directors, the executive director and the CEO and the members serving as deputy executive directors and deputy CEO function as executive members of the Board of Directors.

Name Surname	Position	The Most Recent Position outside the Corporation	Whether or Not Independent Member of Board of Directors	Committee Membership and Positions
Y. Ali Koç	Chairman	Vice Chairman of Board of Directors at Koç Holding A.Ş., Chairman of the Board of Directors at Koç Finansal Hizmetler A.Ş. and Chairman of the Board of Directors, Vice Chairman and Member Board of Directors at Koç Holding Group Companies	Not Independent	-
Carlo Vivaldi	Vice Chairman of The Board of Directors	Head of UniCredit Group Middle East and East Europe, UniCredit Group Executive Committee Member, Member of Board of Directors at some of the UniCredit Group Companies, Vice Chairman of Board of Directors at Koç Finansal Hizmetler A.Ş.	Not Independent	Alternate Member of Credit Committee, Remuneration Committee Member
H. Faik Açıkalın	Executive Director and Chief Executive Officer	Chief Executive Officer and Executive Director at Koç Finansal Hizmetler A.Ş., Vice Chairman and Chairman of Koç Holding A.Ş. Banking and Insurance Group, Chairman of Board of Directors at Yapı ve Kredi Bankası A.Ş. Financial Affiliates	Not Independent	Chairman of Credit Committee, Chairman of Executive Committee
Niccolò Ubertalli	Executive Director and Deputy CEO	Executive Director and Deputy CEO at Koç Finansal Hizmetler A.Ş., Vice Chairman and Board Member at Yapı ve Kredi Bankası A.Ş. Financial Affiliates	Not Independent	Vice Chairman of Credit Committee, Vice Chairman of Executive Committee
Levent Çakıroğlu	Member of Board of Directors	CEO at Koç Holding A.Ş., Member of Board of Director at Koç Finansal Hizmetler A.Ş. and Member of Board of Directors at Koç Group Companies	Not Independent	Member of Remuneration Committee
F. Füsün Akkal Bozok	Member of Board of Directors	Member of Board of Directors at Koç Finansal Hizmetler A.Ş., Lecturer at Sabancı University	Not Independent	Member of Credit Committee
Ahmet Fadil Ashaboğlu	Member of Board of Directors	CFO at Koç Holding A.Ş., Member of Board of Directors at Koç Group Companies, Member of Board of Directors at Koç Finansal Hizmetler A.Ş., Member of Board of Directors at Yapı Kredi Koray Gayrimenkul Yatırım Ortaklığı A.Ş.	Not Independent	-
Wolfgang Mag.Schilk ⁽¹⁾	Member of Board of Directors	Head of Middle East and East Europe Risk Management at UniCredit, Member of Board of Directors at Koç Finansal Hizmetler A.Ş.	Independent	Chairman of Audit Committee, Member of Credit Committee
Mirko Davide Georg Bianchi	Member of Board of Directors	CFO at UniCredit Group, Member of Board of Directors at some of UniCredit Group Companies, Member of Board of Directors at Koç Finansal Hizmetler A.Ş.	Not Independent	Member of Corporate Governance Committee,
Gianfranco Bisagni ⁽²⁾	Member of Board of Directors	Co-Chairman of UniCredit Corporate and Investment Banking Member of Board of Directors at Koç Finansal Hizmetler A.Ş.	Not Independent	-
Aykut Ümit Taftalı	Member of Board of Directors	Member of Steering Committee at Koç Holding, Member of Board of Directors at Koç Finansal Hizmetler A.Ş., Member of Board of Directors at Kare Holding, Member of Board of Directors at Kiraca Holding and Member of Board of Directors at Kiraca Holding Companies	Not Independent	Alternate Member of Credit Committee
Giuseppe Scognamiglio	Member of Board of Directors	Member of Board of Directors at Koç Finansal Hizmetler A.Ş., Member of Executive Committee at UniCredit, Executive Vice President for Group Institutional & Regulatory Affairs and the Member of the Steering Committee of ABI (Italian Banks Association).	Not Independent	-
Adil Giray Öztoprak	Member of Board of Directors	Member of Board of Directors at Koç Finansal Hizmetler A.Ş., Member of Board of Director (Independent) at Yapı Kredi Koray Gayrimenkul Yatırım Ortaklığı A.Ş.	Independent	Member of Audit Committee, Member of Corporate Governance Committee,
Giovanna Villa ⁽²⁾	Member of Board of Directors	Member of Board of Directors at Koç Finansal Hizmetler A.Ş., Member of the Audit Committee at some companies at abroad.	Independent	Member of Audit Committee

(1) By the resolution of Board of Directors dated 13 October 2016 Mr. Wolfgang Mag.Schilk and Mr. Gianfranco Bisagni have been appointed to displace Mr. Jürgen Dr.Kullnigg and Gianni Franco Giacomo Papa' who resigned Membership of Board of Directors as the resolution date.

(2) By the resolution of Board of Directors dated 18 April 2016 Mrs. Giovanna Villa has been appointed to displace Benedetta Navarra who resigned at 14 April 2016.

The posts of Chairman of the Board of Directors and the General Manager (CEO) are not occupied by the same individual. It is ensured that the Members of the Board of Directors allocate sufficient time for the work of the Bank and no limits are introduced for the Members of the Board preventing them from assuming a duty or duties outside the Bank.

Benedetta Navarra and Adil G. Öztoprak were nominated as candidates for Independent Members to the Board of Directors on 18.01.2016 as

a result of the examination of Candidacy Declarations and CVs by the Corporate Governance Committee and they were identified as candidates for Independent Members by the Board of Directors on the same date. It was decided in CMB's meeting held on 04.02.2016 that no negative opinions be submitted for Benedetta Navarra and Adil G. Öztoprak and they were elected as Independent Members at the Annual Shareholders' Meeting. Giovanna Villa whose resume and declaration of independent declaration were evaluated by Corporate Governance Committee, was nominated as candidate for Independent Member to the Board of Directors at 18.04.2016 to displace Benedetta Navarra who resigned at 14.04.2016. It was decided in CMB's meeting held on 12.05.2016 that no negative opinions be submitted for Giovanna Villa.

In clause 3 of article 6 of the Communiqué on Corporate Governance in relation to exemptions, it is stated that the number of independent Board members may be determined by the banks themselves on the condition that this number is not less than three and that the Board members who are appointed as an Audit Committee Member within the Bank's organization for the Board of Directors shall be considered as Independent Board Members within the framework of this communiqué. The same communiqué also states that the qualifications set forth in the Corporate Governance principle numbered 4.3.6 shall not be sought in Audit Committee Members of Banks and that the principles numbered 4.3.7 and 4.3.8 in relation to the election of these members shall not be applied. The communiqué also provides that the qualifications set forth in the principle numbered 4.3.6 shall be required in any case in respect of the independent board members who will not be appointed in the audit committee, and for only one member in cases where all of the independent members of the board of directors are appointed in the audit committee and that the principles numbered 4.3.7 and 4.3.8 shall apply with regard to the election of this independent member or these independent members. Within this framework, as of the end of 2016, Giovanna Villa and Adil Giray Öztoprak, having the qualifications set forth in the Principles numbered 4.3.7 and 4.3.8, have served as Independent Members of the Board of Directors with Wolfgang Schilk, Member of the Audit Committee.

During the 2016 operational period, no case that removed independence arose.

No target rate was determined in relation to the rate of female members in the Board of Directors as a tool for ensuring the representation of different opinions on the Board but the rate of female members in the Board of Directors was 14% in 2016.

5.2. Operating Principles of the Board of Directors

The Board of Directors convenes upon the invitation of the Chairman as the operations of the Bank necessitate and at least 10 times a year. In 2016, the Board of Directors convened 11 times. The Board of Directors meeting and decisions are subject to quorum of at least one more than half the total number of members. Members of the Board of Directors are not granted weighted voting rights. The average attendance rate of the members in the meetings of the Board of Directors in 2016 was 90%.

Meeting invitations are sent to all Members on behalf of the Chairman. Matters to be discussed and related documentation are collected and upon the Chairman's approval, the meeting agenda is sent to all Members. During the signing of the minutes by the attendees, Members who vote against an adopted resolution are required to state and undersign the reasons for their opposition thereof. Requests and views expressed at the Board of Directors' meetings are reflected in the minutes.

A 'Management Liability Insurance' is available for Members of the Board of Directors and the senior managers of the Bank.

5.3. Number, Structure and Independence of Committees Formed by the Board of Directors

The aim of the committees is to provide support during the decision making process, evaluate proposals to be submitted for approval to the Bank's related functions and make decisions in their own areas of responsibility in accordance with the authorities delegated by the Board of Directors. The committees are responsible for acting in compliance with the Banking Law and related regulations while carrying out their functions within the framework of the Corporate Governance Principles.

According to the Banking Law, members of committees excluding the Executive Committee must be members of the Board of Directors. The Board of Directors currently consists of 14 members. The Board of Directors and other committee members are allocated in accordance to the Bank's joint venture shareholding structure. As a result, there are Members of the Board of Directors who are part of more than one committee. Those members who assume duties in more than one committee ensure communication and increase cooperation opportunities among committees that work in related matters.

Executive Committee

The Executive Committee is the decision making body of the Group, established to collectively decide upon priority topics, facilitate information sharing among senior management and support strong team spirit. The Committee holds regular bi-weekly meetings or according to the needs of the bank (at least once a month). All decisions are taken unanimously by the principal members. In 2016, the Executive Committee convened 20 times with the required majority and quorum satisfied. The Committee's responsibilities include:

- Defining Group strategies and the Bank's structural risk management
- Managing asset-liability guidelines including pricing and interest rates
- Evaluating existing products and approving new products
- Assessing credit, operational, market and liquidity risks
- Ensuring coherence of the Bank's commercial policies and principles with budget objectives
- Further improving customer satisfaction and marketing activities
- Internal and external communication plans
- Approving the Bank's annual project plan and major organisational changes
- Optimising market risk strategies within the guidelines set by the Board of Directors

Executive Committee Members

Chairman	H. Faik Açıklan	Executive Director and Chief Executive Officer (CEO)
Vice Chairman	Niccolò Ubertalli	Executive Director and Deputy CEO
Member	Patrick Josef Schmitt ⁽¹⁾	Assistant General Manager - Risk Management (CRO)
Member	Massimo Francese ⁽²⁾	Assistant General Manager - Financial Planning and Administration (CFO)
Member	Feza Tan	Assistant General Manager - Corporate and Commercial Banking
Member	Z. Nazan Somer Özelgin	Assistant General Manager - Retail Banking
Member	Mert Yazıcıoğlu	Assistant General Manager - Private Banking and Wealth Management
Member	M. Gökmen Uçar	Assistant General Manager - Human Resources and Organization
Member	A. Cahit Erdoğan	Assistant General Manager - Information Technologies and Operations
Member	Mert Öncü	Assistant General Manager - Treasury and Financial Institutions

(1) Based on Board resolution dated 17 June 2016, Patrick Schmitt was appointed as Assistant General Manager in charge of Risk Management as of 1 September 2016, replacing Wolfgang Schilk

(2) Based on Board resolution dated 18 January 2016, Massimo Francese was appointed as Assistant General Manager in charge of Financial Planning and Administration as of 1 March 2016, replacing Marco Iannaccone

Credit Committee

The Credit Committee is an advisory and deliberative body whose purpose is to provide guidelines for the Bank's lending activity in coherence with the credit policy, economic objectives and the Bank's overall risk profile. All decisions of the Committee are taken unanimously and can only be implemented after the approval of the Board of Directors if taken by majority. In 2016, the Credit Committee convened 51 times with the required majority and quorum satisfied. The Committee reviews loan applications and restructuring requests within its authorised delegated limit or advises the Board of Directors for those that are not. The Credit Committee also outlines parameters for credit scoring, lending and monitoring systems.

Credit Committee Principal Members⁽⁴⁾

Chairman	H. Faik Açıklan	Executive Director and Chief Executive Officer (CEO)
Vice Chairman	Niccolò Ubertalli	Executive Director and Deputy CEO
Member	F. Füsün Akkal Bozok	Member of the Board of Directors
Member	Wolfgang Schilk ⁽³⁾	Member of the Board of Directors

Credit Committee Alternate Members⁽⁴⁾

Alternate Member	Carlo Vivaldi	Vice Chairman of the Board of Directors
Alternate Member	A. Ümit Taftalı	Member of the Board of Directors

(3) Based on Board resolution dated 13 October 2016, Wolfgang Schilk was appointed as a Member as of the same date, replacing Dr. Jürgen Kullnigg

(4) Based on Board resolution dated 18 April 2016, Principal Members of the Credit Committee were determined as 4 members. H. Faik Açıklan was appointed as Chairman, Niccolò Ubertalli as Vice Chairman, F. Füsün Akkal Bozok and Dr. Jürgen Kullnigg as Principal Members. With the same resolution, Carlo Vivaldi and A. Ümit Taftalı were appointed as Alternate Members

Audit Committee

The Audit Committee administers the Bank in terms of compliance with local laws and internal regulations. The Committee convenes quarterly or more, according to the needs of the Bank. In 2016, the Audit Committee convened 4 times with the required majority and quorum satisfied. The Committee reports at least once every six months to the Board of Directors. The Committee's responsibilities include:

- Monitoring the performance of Internal Audit, Compliance and Internal Control as well as Risk Management departments
- Fulfilling the relevant tasks as determined by Banking and Capital Market regulations
- Approving and monitoring the Annual Audit Plan and the charter of the internal audit function
- Verifying adequacy of internal control systems
- Monitoring audit projects and evaluating significant findings
- Appointing, compensating and overseeing external auditors, rating, valuation and support service institutions
- Monitoring the financial reporting process
- Reviewing procurement policies and practices

Audit Committee Members⁽⁵⁾

Chairman	Wolfgang Schilk ⁽⁶⁾	Member of the Board of Directors
Member	Giovanna Villa ⁽⁷⁾	Independent Member of the Board of Directors
Member	Adil G. Öztoprak	Independent Member of the Board of Directors

(5) Based on Board resolution dated 18 April 2016, Members of the Audit Committee were determined as 3 members. Mirko D. G. Bianchi was appointed as Chairman, F. Füsün Akkal Bozok and Dr. Adil G. Öztoprak as Members

(6) Based on Board resolution dated 13 October 2016, Wolfgang Schilk was appointed as Chairman as of the same date, replacing Mirko D. G. Bianchi

(7) Based on Board resolution dated 29 June 2016, Giovanna Villa was appointed as a Member as of the same date, replacing F. Füsün Akkal Bozok

Corporate Governance Committee

The Corporate Governance Committee is an advisory body that assists the Board of Directors on compliance to Corporate Governance Principles, investor relations activities and public disclosures. The Committee is responsible for identifying and providing guidance for any conflicts of interest that may arise. The Committee confirms that proper flow of information is ensured by the Koç Financial Services, Subsidiaries and Shareholder Relations Unit to shareholders and investors. All decisions of the Committee are taken unanimously and can only be implemented after the approval of the Board of Directors if taken by majority. In 2016, the Corporate Governance Committee convened 2 times with the required majority and quorum satisfied.

Corporate Governance Committee Members

Member	Mirko D. G. Bianchi ⁽⁸⁾	Member of the Board of Directors
Member	Adil G. Öztoprak ⁽⁸⁾	Member of the Board of Directors
Member	M. Erkan Özdemir	Assistant General Manager - Compliance and Internal Control
Member	Massimo Francese ⁽⁹⁾	Assistant General Manager - Financial Planning and Administration (CFO)

(8) Based on Board resolution dated 18 April 2016, Mirko D. G. Bianchi and Adil G. Öztoprak were appointed as Members as of the same date, replacing Carlo Vivaldi and Levent Çakıroğlu, respectively

(9) Based on Board resolution dated 18 January 2016, Massimo Francese was appointed as a Member as of the same date, replacing Marco Iannaccone

Remuneration Committee

The Remuneration Committee monitors and audits compliance of the Bank's compensation principles and remuneration practices with its structure, strategies, long-term targets and risk approach on behalf of the Board of Directors. The Committee convenes at least twice a year or according to the needs of the Bank. In 2016, Remuneration Committee convened 2 times with the required majority and quorum satisfied.

Remuneration Committee Members

Member	Carlo Vivaldi	Vice Chairman of the Board of Directors
Member	Levent Çakıroğlu	Member of the Board of Directors

5.4. Risk Management and Internal Control Mechanism

Effective Internal Control Systems were established to monitor and control risks at branches and all related subsidiaries to ensure Bank's compliance to local laws and internal regulations. The Internal Control System, under the Audit Committee organisational structure, consists of Internal Audit, Compliance and Internal Control as well as Risk Management departments. Through the Manager of Internal Systems and Audit Committee, these departments report to the Board of Directors as per the regulations.

5.5. Strategic Goals of the Company

Strategic objectives of the Bank are annually reviewed by the Board of Directors. The Bank's annual budget is approved by the Board of Directors. At each Board of Directors' meeting during the year, the Bank's overall performance is reviewed and compared with the monthly targets. On a quarterly basis, key performance indicators and growth of the Bank compared to the sector are analysed in detail by the Board of Directors.

5.6. Financial Benefits

As defined in our Financial Statements Chapter fifth footnote no: VII.b In 2016, TL 48.113 thousand (Group: TL 56.454 thousand) was paid to the senior management of the Bank. Senior management and other employees receive salaries and performance-based payments according to the principles in the Bank's Remuneration Policy. Performance-based payments are subject to achievement of the Bank's quantitative and qualitative targets as declared on the Remuneration Policy.

The remuneration policy for the Board of Directors and the senior management and employees was submitted to the review of the shareholders 3 weeks before the Annual Shareholders' Meeting held on March 31, 2016 through the Annual Shareholders' Meeting Disclosure Document and at the Bank's Head Office and branches, on the Bank's website at www.yapikredi.com.tr, at the KAP and the Electronic General Meeting System of the MKK and was approved at the Annual Shareholders' Meeting. The said policy as disclosed publicly through the Bank's website will be taken on the agenda of the Annual Shareholders' Meeting to be held on March 28, 2017 where the 2016 activities will be discussed and thus will be submitted to the opinion of the shareholders. Remunerations made to the Members of the Board of Directors and to senior managers are collectively and publicly disclosed in the footnotes of the financial statements in parallel with the general practice.

Members of the Board of Directors and senior management are allowed to utilise loans from the Bank within the guidelines specified on Article 50 of the Banking Law.

Transactions Carried Out with the Risk Group

Transactions with the risk group are carried out at arms-length and under market conditions in compliance with the Banking Law. In 2016, all related party transactions were undertaken within regulatory limits.

Necessary explanations regarding transactions made by Yapı Kredi with related parties can be found in Section 5 Note VIII of the publicly announced Consolidated Financial Report as of 31 December 2016.

Affiliated Company Report

According to Article 199 of the Turkish Commercial Code No.6102, which came into effect in July 2012, Yapı Kredi's Board of Directors are liable to prepare a report regarding relations with the controlling company and its affiliated companies and to indicate the conclusion part of mentioned report in its annual report. Necessary explanations regarding transactions made by Yapı Kredi with related parties can be found in Section 5 Note VIII of the publicly announced Consolidated Financial Report.

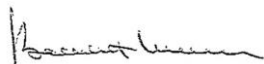
In the report prepared by Yapı Kredi's Board of Directors on 22 February 2017, it states; "It is concluded that in all transactions made by Yapı Kredi with the controlling company and the companies affiliated to the controlling company in 2016, according to situations and conditions known to us and prevailing at the time the related transaction was made or related measure were taken or refrained from being taken, an appropriate consideration for each transaction has been provided and there is no measure taken or refrained from being taken, which may cause the company to suffer losses and that in this context, there is no transaction or measure which may require balancing."

Independence Declarations

Below is the independence declaration dated January 18, 2016 of Benedetta Navarra, who has been appointed as Independent Board Member in the Annual General Assembly Meeting held in 2016.

I hereby declare that I am candidate to serve as an "independent member" at the Board of Directors of Yapı ve Kredi Bankası A.Ş. (Company) in accordance with the criteria set forth in the legislation, articles of association and Corporate Governance Communiqué of the Capital Markets Board, and in this framework;

- There is no employment relationship with respect to any executive position that covers important duties and responsibilities, no more than 5% of the capital or voting rights or preferential shares are held jointly or individually, or no significant commercial relationship has been established in the last five years between the Company, or partnerships over which the Company has management control or exercises substantial influence, or shareholders who hold the management control of, or who exercise significant influence on, the Company and the legal entities which hold the management control of such shareholders, and me, my spouse, my relatives by blood and marriage up to the second degree;
- I have not been a shareholder (5% and above), worked in an executive position that included important duties and responsibilities, or served as a member of the board of directors in any company from which the Company has purchased or to which the Company has sold services or products to a significant extent during such periods when such services or products were purchased or sold in the framework of agreements regarding company audit (including tax audit, legal audit, internal audit), rating and consulting, within the last five years;
- I have the professional education, knowledge and experience to carry out properly the duties that I shall undertake as an independent member of the board of directors;
- I shall not work on a full-time basis in any public entity and institution except as a lecturer after I am elected a member in accordance with the legislation;
- I possess strong ethical standards, professional reputation and experience to make positive contributions to the Company's activities, to preserve my impartiality in any conflict of interest between the company and its shareholders, and to decide independently taking into account the interests of the beneficiaries;
- I can spare time for the Company's affairs to such extent that I can follow up the operation of the Company activities and meet my obligations properly;
- I have not served as a board member at the Company's board of directors for more than six years in the last ten years;
- I have not been serving as an independent board member in more than three companies in which the Company or shareholders possessing the management control of the Company have the management control, and in total, in more than five companies that are traded on the stock exchange;
- I have not been registered and announced in the name of a legal entity that has been elected as a member of the board of directors.



Benedetta NAVARRA

Below is the independence declaration dated April 18, 2016 of Giovanna Villa, who has been appointed as Independent Board Member for the place vacated by Benedetta Navarra.

I hereby declare that I am candidate to serve as an "independent member" at the Board of Directors of Yapı ve Kredi Bankası A.Ş. (Company) in accordance with the criteria set forth in the legislation, articles of association and Corporate Governance Communiqué of the Capital Markets Board, and in this framework;

- There is no employment relationship with respect to any executive position that covers important duties and responsibilities, no more than 5% of the capital or voting rights or preferential shares are held jointly or individually, or no significant commercial relationship has been established in the last five years between the Company, or partnerships over which the Company has management control or exercises substantial influence, or shareholders who hold the management control of, or who exercise significant influence on, the Company and the legal entities which hold the management control of such shareholders, and me, my spouse, my relatives by blood and marriage up to the second degree;
- I have not been a shareholder (5% and above), worked in an executive position that included important duties and responsibilities, or served as a member of the board of directors in any company from which the Company has purchased or to which the Company has sold services or products to a significant extent during such periods when such services or products were purchased or sold in the framework of agreements regarding company audit (including tax audit, legal audit, internal audit), rating and consulting, within the last five years;
- I have the professional education, knowledge and experience to carry out properly the duties that I shall undertake as an independent member of the board of directors;
- I shall not work on a full-time basis in any public entity and institution except as a lecturer after I am elected a member in accordance with the legislation;
- I possess strong ethical standards, professional reputation and experience to make positive contributions to the Company's activities, to preserve my impartiality in any conflict of interest between the company and its shareholders, and to decide independently taking into account the interests of the beneficiaries;
- I can spare time for the Company's affairs to such extent that I can follow up the operation of the Company activities and meet my obligations properly;
- I have not served as a board member at the Company's board of directors for more than six years in the last ten years;
- I have not been serving as an independent board member in more than three companies in which the Company or shareholders possessing the management control of the Company have the management control, and in total, in more than five companies that are traded on the stock exchange;
- I have not been registered and announced in the name of a legal entity that has been elected as a member of the board of directors.



Giovanna VILLA

Below is the independence declaration dated January 18, 2016 of Adil Giray Öztoprak, who has been appointed as Independent Board Member in the Annual General Assembly Meeting held in 2016.

I hereby declare that I am candidate to serve as an "independent member" at the Board of Directors of Yapı ve Kredi Bankası A.Ş. (Company) in accordance with the criteria set forth in the legislation, articles of association and Corporate Governance Communiqué of the Capital Markets Board, and in this framework;

- There is no employment relationship with respect to any executive position that covers important duties and responsibilities, no more than 5% of the capital or voting rights or preferential shares are held jointly or individually, or no significant commercial relationship has been established in the last five years between the Company, or partnerships over which the Company has management control or exercises substantial influence, or shareholders who hold the management control of, or who exercise significant influence on, the Company and the legal entities which hold the management control of such shareholders, and me, my spouse, my relatives by blood and marriage up to the second degree;
- I have not been a shareholder (5% and above), worked in an executive position that included important duties and responsibilities, or served as a member of the board of directors in any company from which the Company has purchased or to which the Company has sold services or products to a significant extent during such periods when such services or products were purchased or sold in the framework of agreements regarding company audit (including tax audit, legal audit, internal audit), rating and consulting, within the last five years;
- I have the professional education, knowledge and experience to carry out properly the duties that I shall undertake as an independent member of the board of directors;
- I shall not work on a full-time basis in any public entity and institution except as a lecturer after I am elected a member in accordance with the legislation;
- I am considered to be a resident of Turkey in accordance with the Income Tax Code (ITC) dated 31/12/1960 and number 193;
- I possess strong ethical standards, professional reputation and experience to make positive contributions to the Company's activities, to preserve my impartiality in any conflict of interest between the company and its shareholders, and to decide independently taking into account the interests of the beneficiaries;
- I can spare time for the Company's affairs to such extent that I can follow up the operation of the Company activities and meet my obligations properly;
- I have not served as a board member at the Company's board of directors for more than six years in the last ten years;
- I have not been serving as an independent board member in more than three companies in which the Company or shareholders possessing the management control of the Company have the management control, and in total, in more than five companies that are traded on the stock exchange;
- I have not been registered and announced in the name of a legal entity that has been elected as a member of the board of directors.



Adil Giray ÖZTOPRAK

**DECLARATION OF RESPONSIBILITY ACCORDING
TO COMMUNIQUE ON PRINCIPLES REGARDING FINANCIAL REPORTING
IN CAPITAL MARKET NO. II-14.1 BULLET 9
ISSUED BY CAPITAL MARKETS BOARD OF TURKEY**

In accordance with rescript of The Capital Markets Board (no II-14.1 bullet no:9), Yapı Kredi's annual report, covering dates between 01/01/2016 – 31/12/2016,

We have reviewed the annual report
The annual report does not encompass any untruthful data
The annual report does not lack any important information
The annual report truthfully reflects the Bank's financial and operational performance

Regards,


H. Faik AÇIKALIN
Murahhas Aza ve Genel Müdür
Adil G. ÖZTOPRAK
Denetim Komitesi Üyesi
Massimo FRANCESE
Genel Müdür Yardımcısı

Part III

Financial Information and Risk Management

Audit Committee's Assessment on Internal Audit, Internal Control and Risk Management Systems

Internal Auditing

The Internal Auditing Department works with 162 individuals (146 Bank Internal Auditing and 16 Affiliates Internal Auditing personnel) in its responsibilities associated with Yapı Kredi's internal auditing activities and directly reports to the Board of Directors through the Auditing Committee.

Yapı Kredi's internal audit approach includes regular, process, investigation and follow-up audits. The risks detected during audits are submitted to senior management via audit reports. In addition, the effectiveness and adequacy of management procedures and business processes are evaluated from a risk perspective. In 2016, Internal Audit Team carried out all audits in line with the annual audit plan and even exceeded the plan in some areas. In total, 61 process audits were performed, of which 53 were Head Office process audits and 8 were Central Subsidiary process audits (exceeding the annual target by 7 audits). Additionally, 76 domestic and international subsidiary process audits (6 over the annual target) were performed. Moreover, 601 regular/spot branch audits, 65 follow-up branch audits, 75 Bank and 6 subsidiary investigations/inquiries were completed. Also, 36 support services and 2 consulting audits were completed.

The Annual Audit Certification Program, launched in 2010 in order to train auditors, continued in 2016 in collaboration with Boğaziçi University and the Turkish Institute of Internal Auditors (TIDE).

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

In 2016, the execution of the Management Assertion study requested by the Banking Regulation and Supervision Agency (BRSA) continued. In this context, banking processes and general IT controls were performed by Internal Auditing in addition to support services companies' on-site audits within the Management Assertion framework. Test results are reviewed by the Audit Committee and presented to the Board of Directors.

Internal Control

Internal Control activities in Yapı Kredi including subsidiaries are carried out by 109 (the Bank's total staff have been 83 as of the end of 2016) employees under the governance of the Audit Committee.

Control activities are performed in branches and/or at the Head Office at specified intervals within the scope of BRSA, international control standards and practices, and internal risk evaluations. Findings are reported to the related departments in a timely manner to ensure that necessary improvements are made and the process is followed until completion.

Periodic reports related to Internal Control activities, results and related actions are presented to the Audit Committee and senior management.

Comprehensive career training programs and certification programs are undertaken continuously in collaboration with various universities and the Turkish Institute of Internal Auditors (TIDE).

In 2016, on-site audits were performed in 578 branches including follow-up controls. At the same time, remote controls were performed at both the Head Office and branches. Additionally, internal control activities continued for 9 subsidiaries in 2016.

Risk Management

Yapı Kredi's risk management activities are carried out in line with international legislation by 104 employees under the Audit Committee's governance with an objective to measure, monitor, report and mitigate risks to which the Bank may be exposed. Risk Management is divided into three sub-departments: credit, operational and market risk.

In 2016, the Credit Policy Directive, which reflects the Bank's strategy in regards to asset quality, effective risk management and compliance with legal practices, was updated. Additionally:

- The Internal Ratings-based Approach (IRB) application process was initiated. Within this scope, model revisions and validations, rating system and process improvements and application write-ups were initiated
- Regular upgrade/enhancement projects for the rating/scoring systems continued. Validation activities were performed in parallel to modeling activities
- Data preparation for IFRS9 - LLP models (PD, EAD, LGD) was finalized and methodological studies were initiated
- Monitoring environment for ensuring the data quality of model inputs and outputs was established
- Regular underwriting and monitoring strategy upgrades were performed

Operational and Reputational Risk

Yapı Kredi's main objective in operational risk is to identify, measure and mitigate operational and reputational risks at the Bank and subsidiary level. Policies are reviewed on a yearly basis, updated if necessary, and submitted to the Board of Directors for approval. Operational and reputational risk also coordinates the Bank's compliance to the Basel-II advanced measurement approach. In this regard, the Bank's operational risk losses and key risk indicators are monitored. Furthermore, scenario analyses are performed and risk-based insurance management activities are undertaken to mitigate risk. On a yearly basis, risk assessment of support services and new product risk assessment is carried out and a risk map of information technologies is prepared. Activities in operational risk and business continuity are submitted to the Board of Directors on a quarterly basis via the Audit Committee.

Market Risk

Market risk management activities at Yapı Kredi focus on analyzing and managing the effects and risks on the Bank's balance sheet arising from volatility in prices, interest rates and currency in financial markets and measuring the effects of these fluctuations on the Bank's liquidity position. Market risk management activities also comprise preparation of market risk reports for regulatory authorities and implementation of advanced measurement techniques under the framework of Basel-II and Basel-III. Risk measurements, utilizing advanced techniques and daily limit-risk controls are performed and various scenario analysis and stress tests are applied within this scope. Results of all calculations and analyses are presented on a daily basis to senior management and the departments and on a monthly basis to the Board of Directors via the Audit Committee.

Risk Management Policies

Yapı Kredi's risk management policies entail the full commitment of all employees. In compliance with this directive, any breach of limit or policy is reported to management and the Executive Committee in a timely manner.

Credit Risk

The Credit Policy Directive, which reflects the general framework of the Bank's lending operations, is updated annually and becomes operational following approval by the Board of Directors. The Credit Policy Directive in effect is based on improving asset quality, supporting effective risk management and complying with legal practices. In addition, it includes management of all lending activities according to the Bank's common standards, limitations and principles.

The main purpose of the credit risk policy is to identify, measure and mitigate credit risk, react in a timely manner and take necessary actions with the help of efficient and well-functioning rating/scoring models, strategies and processes. The main strategies include:

- Effective implementation of the Credit Policy Directive to reinforce a common risk management approach
- Steering of the loan portfolio toward less risky sectors
- Avoiding excessive concentration in Group exposures while strictly obeying statutory limits
- Focusing on customers with better credit ratings
- Avoiding transactions bearing high credit and reputational risk
- Managing country risk by prudent application of established strategies, policies and practices
- Undertaking preventative actions against new defaults in consumer and SME loans
- Timely updates to senior management about all developments in the credit risk area to ensure effective credit risk management
- Redesign of limit management strategies in retail loans
- Ensuring sustainability in collections
- Managing credit process harmonization among legal entities
- Performing credit stress tests
- Participating in credit risk regulatory processes

Additionally, the Credit Risk Mitigation Guideline was approved by the Board of Directors as part of secured lending with clear roles and responsibilities in collateral management life cycle, ensuring the soundness, legal enforceability and realization of appraisable collateral in compliance with Basel II IRB requirements.

The General Lending Guideline was drawn up and approved by the Board of Directors. This guideline represents an extension to the Credit Policy with additional guidance and explanations in regard to the lending rules and principles for Corporate, Commercial, SME and Private Individual customers and products in the light of Basel II IRB requirements.

Operational and Reputational Risk

The operational risk policies drawn up and published in 2016 cover group-wide principles and standards regarding responsibilities of the operational risk unit and managerial structure, strategy, policy and investments for the control and management of operational and information technologies risk, and the frequency, content and recipients of operational and information risk reports. The Business Continuity Management Policy was formed to minimize risks that might endanger the continuity of the Bank's activities and ensure recovery of critical services/products in the desired time span in case of disruption. This Business Continuity Management Policy is regularly updated and approved by the Board of Directors.

Moreover, the Reputational Risk Management Policy that went into effect since 2013 to define the set of principles and procedures to control, measure and mitigate the Group's reputational risks was revised in February 2016 in the light of internal standards. The reputational risk

control system for establishing and sustaining effective reputational risk management, measuring, monitoring and reporting activities involved in defining, preventing reputational risks and restoring the bank's reputation as well as identifying sensitive sectors and risky areas in conformity with credit policies and international standards are the focal points of the policy.

Market Risk

Yapı Kredi, within the market risk management framework, monitors the limits defined by risk management policies, measures the effect of fluctuations in interest rates, foreign exchange rates and equity prices on the Bank's trading portfolio, and reports the results to senior management. Market risk management also sets risk appetite limits for the banking portfolio in addition to managing interest rate sensitivity on the balance sheet and monitoring the compliance of risk exposures within pre-defined limits. In addition to keeping the Bank's risk appetite under control, market risk management also involves setting up the strategies the Bank will pursue in the future in the face of possible conditions of stress and formulating action plans that facilitate establishing a risk perspective.

Derivative transactions are also examined in addition to market risk within the scope of counter-party credit risk since these types of transactions are subject to market risk and consequently to credit risk due to fluctuations of prices in financial markets that lead to reciprocal burdens on both parties to the transaction. These risks at the Bank are measured on the basis of each counter-party within the total risk appetite limits of the Bank, using the most updated computing methods accepted by international authorities, with the results being reported at various intervals.

In terms of liquidity risk management; in line with the YK Group Risk Appetite Framework, the liquidity situation is kept sustainable and robust through sound internal limits, long-term liquidity reports and periodic liquidity stress tests. In addition, there are regulatory liquidity analyses that are reported to BRSA periodically at both the solo and consolidated levels. All liquidity reports are also shared periodically with senior management.

Expectations, limits and risks exposed are defined in detail and in line with market risk policies in the budget process every year, revised in line with market risk policies. Market risk policies include the risk limits set forth according to the budget and the measurement methods utilized. Functions and authorization of related units and committees are also described in the policies. The Executive Committee plays an active role in the market risk management process.

2016 Financial Review

Based on Banking Regulation and Supervision Agency (BRSA) consolidated financial results dated 31 December 2016, Yapı Kredi recorded a net income of TL 2,933 million and a return on average tangible equity of 12.8% in 2016. In the same period, the total asset size increased by 15% annually to TL 271 billion. Throughout the year, Yapı Kredi further enhanced its contribution to the financing of the Turkish economy. Accordingly, total cash and non-cash loan volume increased by 17% to TL 245 billion and the Bank maintained its third position among private banks in Turkey.

In 2016, total cash loans reached TL 176.5 billion with 16% annual growth compared to private banks growth of 16%. Accordingly, Yapı Kredi's market share in total cash loans realized at 10.2%. In cash loans, solid growth was achieved in high value generating areas; commercial loans with an annual growth of 19% and in credit cards with an annual growth of 12%. Leadership in credit cards was also maintained. During the same period, total deposits grew by 21% compared to 16% in the private banks reaching TL 157.1 billion. The Bank's market share in total deposits reached 10.6% in the same period. Thus, in the last three years, Yapı Kredi gained a market share of 217 basis points in loans and 229 basis points in deposits among private banks. In parallel with Yapı Kredi's customer-oriented approach, share of loans in total assets increased to 65%, one of the highest levels in the sector, while share of securities in total assets realised at 12%, one of the lowest in the sector.

In terms of liquidity, the Bank's loans-to-deposit ratio including TL bonds decreased by 4 percentage points compared to 2015 to 110%, thanks to higher growth in deposits than loans. In 2016, Yapı Kredi also focused on funding diversification and raised an approximate total of TL 3.4 billion and USD 5.6 billion through syndications, securitizations, bond issuances and other financial instruments.

In terms of revenue generation, the Bank's core revenues increased by 12% year-on-year reaching TL 11,194 million, thanks to strong growth in net interest income. On the other hand, costs increased by 5% year-on-year thanks to disciplined cost approach. Cost-to-income ratio decreased by 5 percentage points to 44% as of the end of 2016 versus previous year-end. In the same period, cumulative net interest margin stood at 3.4% through decrease in deposit costs and effective loan pricing.

In 2016, the Bank's asset quality was impacted by the challenging operating environment and the NPL ratio realised as 4.8%. In terms of capital, despite the fluctuations in foreign exchange rates throughout the year, Yapı Kredi's capital adequacy ratio increased by 40 basis points reaching 14.2% thanks to increased profitability, tier-2 issuance executed within the year and efficient capital management.

In 2016, total administrative fines enforced on the Bank by the regulatory and supervisory authorities were TL 409 thousand. Additionally, as a result of the audit carried out by the Ministry of Customs and Trade within the context of Consumer Protection Law no. 6502, an administrative fine in the amount of TL 116,254,138 has been imposed on Yapı Kredi, reserving the Bank's right to litigate against the related decision. TL 87,190,603 of the relevant administrative fine, which is the amount calculated by benefiting from the discount within the frame of the provision of Article 17 of the Law on Misdemeanors No. 5326, was paid by our Bank on September 30, 2016. Litigation against the related decision has been filed in Istanbul 5th Administrative Court as of October 25, 2016.

Five Year Summary Financials

	2012	2013	2014	2015	2016
Total Assets	131,498	160,310	194,959	235,268	271,135
Cash + Non-Cash Loans	106,457	137,524	174,291	210,133	244,940
Loans	77,813	99,436	125,534	152,489	176,486
Deposits	71,143	88,482	107,631	130,025	157,088
Shareholders' Equity	16,040	18,286	20,214	23,086	26,121
Net Income/(Loss)	2,098	2,375 ⁽¹⁾	2,056	1,909	2,933
Capital Adequacy Ratio (Group)	15.2%	15.3%	14.4%	12.9%	13.2%
Capital Adequacy Ratio (Bank)	16.3%	16.0%	15.0%	13.8%	14.2%
Number of Branches (Group)	958	988	1,042	1,043	974
Number of Branches (Bank)	928	949	1,003	1,000	936
Number of Employees (Group)	15,661	16,682	18,534	19,345	19,419
Number of Employees (Bank)	14,733	15,683	17,457	18,262	18,366

(1) 2013 net income excludes TL 1,284 billion capital gain from the sale of Yapı Kredi Insurance.

Credit Ratings

Yapı Kredi's credit ratings which are given by international credit rating agencies Fitch, Moody's and Standard & Poor's are listed below. Ratings given by Fitch and Moody's represent investment grade.

Fitch	Rating	Outlook
Long Term Foreign Currency	BBB-	Stable
Long Term Local Currency	BBB-	Stable
Short Term Foreign Currency	F3	
Short Term Local Currency	F3	
Viability Rating	bb+	
Support Rating	2	
National Long Term	AAA(tur)	Stable
Senior Unsecured Debt	BBB-	
Standard & Poor's	Rating	Outlook
Long Term Foreign Currency	BB	Negative
Long Term Local Currency	BB	Negative
Short Term Foreign Currency	B	
Short Term Local Currency	B	
National Long Term	trAA-	
National Short Term	trA-1	
Senior Unsecured Debt	BB	
Moody's	Rating	Outlook
Long Term Foreign Currency Deposit	Ba2	Stable
Long Term Local Currency Deposit	Ba1	Stable
Short Term Foreign Currency Deposit	Not Prime	
Short Term Local Currency Deposit	Not Prime	
National Scale Rating	Aa1.tr	
Senior Unsecured Debt	Ba1	Stable

Note: Ratings are update as of February 22, 2017

(Convenience translation of the independent auditor's report originally issued in Turkish, See Note I. of Section three)

Independent auditor report

To the Board of Directors of Yapı ve Kredi Bankası A.Ş.

Report on the Unconsolidated Financial Statements

We have audited the accompanying unconsolidated balance sheet of Yapı ve Kredi Bankası A.Ş. ("the Bank") as at December 31, 2016 and the related unconsolidated income statement, unconsolidated statement of income and expense items accounted under shareholders' equity, unconsolidated statement of cash flows and unconsolidated statement of changes in shareholders' equity for the year then ended and a summary of significant accounting policies and other explanatory notes to the financial statements.

Responsibility of the Bank's Board of Directors for the Unconsolidated Financial statements

Bank management is responsible for the preparation and fair presentation of the unconsolidated financial statement in accordance with "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette no.26333 dated 1 November 2006 and other regulations on accounting records of Banks published by Banking Regulation and Supervision Agency (BRSA), circulars, interpretations published by BRSA and the provisions of Turkish Accounting Standards for the matters which are not regulated by these regulation; "BRSA Accounting and Reporting Legislation" and for such internal control as management determines is necessary to enable the preparation of the unconsolidated financial statement that is free from material misstatement, whether due to fraud or error.

Independent Auditor's Responsibility

Our responsibility is to express an opinion on the unconsolidated financial statements based on our audit. We conducted our audit in accordance with communique "Independent Audit of Banks" published by BRSA on the Official Gazette No.29314 dated April 2, 2015 and with the Independent Auditing Standards which is a part of Turkish Auditing Standards promulgated by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the unconsolidated financial statements are free of material misstatement.

An independent audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the unconsolidated financial statements. The procedures selected depend on the independent auditor's professional judgment, including the assessment of risks of material misstatement of the unconsolidated financial statements, whether due to fraud or error. In making those risk assessments, the independent auditor considers the internal control relevant to bank's preparation and fair presentation of the unconsolidated financial statements 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 bank's internal control. An independent audit also includes evaluating the appropriateness of accounting policies used by the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the unconsolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the accompanying unconsolidated financial statements presents fairly, in all material respects, the financial position of Yapı ve Kredi Bankası A.Ş. as at December 31, 2016 and the results of its operations and its cash flows for the year then ended in accordance with the prevailing accounting principles and standards set out as in accordance with BRSA Accounting and Reporting Legislation.

Reports on arising from other regulatory requirements:

In accordance with Article 402 paragraph 4 of the Turkish Commercial Code ("TCC") no 6102; no significant matter has come to our attention that causes us to believe that the Bank's bookkeeping activities for the period January 1 – December 31, 2016 are not in compliance with the code and provisions of the Bank's articles of association in relation to financial reporting.

In accordance with Article 402 paragraph 4 of the TCC; the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

Additional paragraph for convenience translation to English:

As explained in detail in Note I. of Section Three, accounting principles and standards set out by regulations in conformity with BRSA Accounting and Reporting Legislation, accounting principles generally accepted in countries in which the accompanying unconsolidated financial statements are to be distributed and International Financial Reporting Standards ("IFRS") have not been quantified in the accompanying unconsolidated financial statements. Accordingly, the accompanying unconsolidated financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited



February 2, 2017
Istanbul, Turkey

Convenience translation of publicly announced unconsolidated year end financial statements
and review report originally issued in Turkish, See Note I. of Section three

**THE UNCONSOLIDATED YEAR END FINANCIAL REPORT OF
YAPI VE KREDİ BANKASI A.Ş. AS OF DECEMBER 31, 2016**

Address : Yapı Kredi Plaza D-Blok
Levent, 34330, İstanbul
Telephone number : 0212 339 70 00
Fax number : 0212 339 60 00
Web Site : www.yapikredi.com.tr
E-Mail : financialreports@yapikredi.com.tr

The unconsolidated financial report for the year end which is prepared in accordance with the
"Communiqué Related to Publicly Announced Financial Statements of Banks and Explanations and
Notes Related to these Financial Statements" as regulated by the Banking Regulation and Supervision
Agency includes the following sections.

- GENERAL INFORMATION ABOUT THE BANK
- UNCONSOLIDATED FINANCIAL STATEMENTS OF THE BANK
- EXPLANATIONS ON ACCOUNTING POLICIES APPLIED IN THE RELATED PERIOD
- INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK
- EXPLANATIONS AND NOTES RELATED TO UNCONSOLIDATED FINANCIAL STATEMENTS
- OTHER EXPLANATIONS
- INDEPENDENT AUDITOR'S REPORT

The accompanying unconsolidated financial statements and notes to these financial statements which
are expressed, (unless otherwise stated) in **thousands of Turkish Lira**, have been presented based
on the accounting books of the Bank prepared in accordance with the Regulation on the Principles
and Procedures Regarding Banks' Accounting Applications and Safeguarding of Documents, Turkish
Accounting Standards, Turkish Financial Reporting Standards and related appendices and
interpretations of these, and have been independently audited.


Y. Ali KOÇ
Chairman of the
Board of Directors


H. Faik AÇIKALIN
Chief Executive Officer


Massimo FRANCESE
Chief Financial Officer


B. Seda İKİZLER
Financial Reporting and
Accounting Executive
Vice President


Wolfgang SCHILK
Chairman of Audit Committee


Adil G. ÖZTOPRAK
Member of Audit Committee

Contact information of the personnel in charge of the addressing of questions about this financial report:

Name-Surname / Title : Aysel Taktak / Regulatory Reporting Manager
Telephone Number : 0212 339 63 29
Fax Number : 0212 339 61 05

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Yapı ve Kredi Bankası A.Ş.

Notes to unconsolidated financial statements as of December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Section One

General Information

I. History of the Bank including its incorporation date, initial legal status and amendments to legal status, if any:

Yapı ve Kredi Bankası A.Ş. ("the Bank" or "Yapı Kredi"), was established and started operations on September 9, 1944 with the permission of the Council of Ministers No. 3/6710 as a private capital commercial bank authorised to perform all banking, economic, financial and commercial activities which are allowed by the laws of the Turkish Republic. The statute of the Bank has not changed since its incorporation.

II. Explanations about the Bank's capital structure, shareholders holding directly or indirectly, collectively or individually, the management and controlling power and changes in current year, if any and explanations on the controlling group of the Bank:

The Bank's publicly traded shares are traded on the Borsa İstanbul ("BIST") since 1987 and the representatives of these shares, Global Depository Receipts, are quoted at the London Stock Exchange. As of December 31, 2016, 18,20% of the shares of the Bank are publicly traded (December 31, 2015 - 18,20%). The remaining 81,80% is owned by Koç Finansal Hizmetler A.Ş. ("KFS"), a joint venture of UniCredit ("UCG") and Koç Group.

KFS was established on March 16, 2001 to combine Koç Group finance companies under one organization and it became the main shareholder of Koçbank in 2002. On October 22, 2002, Koç Group established a strategic partnership with UCG over KFS.

In 2005, the Bank's shares that were owned by Çukurova Group Companies and the Saving Deposits Insurance Fund ("SDIF") were purchased by Koçbank. In 2006, Koçbank purchased additional shares of the Bank from BIST and an investment fund and, during the same year, all rights, receivables, debts and liabilities of Koçbank were transferred to the Bank pursuant the merger of the two banks. As a result of the merger and the share transfer procedures in 2007 and of a capital increase by TL 920 million in 2008, KFS shares in the Bank increased to 81,80%.

Yapı ve Kredi Bankası A.Ş.

Notes to unconsolidated financial statements as of December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

General information (continued)

III. Explanations regarding the board of directors, members of the audit committee, Chief Executive Officer and executive vice presidents, and their areas of responsibility and shares if any:

As of December 31, 2016, the Bank's Board of Directors, Members of the Audit Committee, General Manager and Assistant General Managers are as follows:

Board of Directors Members:

Name	Responsibility
Ali Y. KOÇ	Chairman
Carlo VIVALDI	Vice Chairman
H. Faik AÇIKALIN	Chief Executive Officer
Niccolò UBERTALLI	Deputy General Manager
Adil Giray ÖZTOPRAK	Independent Member
Ahmet Fadıl ASHABOĞLU	Member
A. Ümit TAFTALI	Member
F. Füsün Akkal BOZOK	Member
Gianfranco BISAGNI	Member
Giovanna VILLA	Independent Member
Giuseppe SCOGNAMIGLIO	Member
Levent ÇAKIROĞLU	Member
Mirko D. G. BIANCHI	Member
Wolfgang SCHILK	Independent Member

Audit Committee Members:

Name	Responsibility
Wolfgang SCHILK	Chairman
Adil Giray ÖZTOPRAK	Member
Giovanna VILLA	Member

Yapı ve Kredi Bankası A.Ş.

Notes to unconsolidated financial statements as of December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

General information (continued)

General Manager and Deputy General Manager:

Name	Responsibility
H. Faik AÇIKALIN	Chief Executive Officer
Niccolò UBERTALLI	Deputy General Manager

Assistant General Managers:

Name	Responsibility
Akif Cahit ERDOĞAN	Information Technologies and Operation Management
Cemal Aybars SANAL	Legal Activities Management
Demir KARAASLAN	Retail Credits Management
Feza TAN	Corporate and Commercial Banking Management
Massimo FRANCESE	Financial Planning and Administration Management
Mehmet Erkan ÖZDEMİR	Compliance and Internal Control / Consumer Relations Coordination Officer
Mehmet Gökmen UÇAR	Human Resources and Organization Management
Mehmet Murat ERMERT	Corporate Communication Management
Mert ÖNCÜ	Treasury Management
Mert YAZICIOĞLU	Private Banking and Asset Management
Nurgün EYÜBOĞLU	Corporate and Commercial Credit Management
Patrick Josef SCHMITT	Risk Management
Stefano PERAZZINI ⁽¹⁾	Internal Audit / Chief Audit Executive
Yakup DOĞAN	Alternative Distribution Channels
Zeynep Nazan SOMER ÖZELGİN	Retail Banking Management

(1) Based on the Board resolution dated 21 December 2016, Giovanni Battista Avanzi was appointed as Assistant General Manager in charge of Internal Audit as of 2 January 2017, replacing Stefano Perazzini who took another position within the UniCredit Group.

IV. Information on the individual and corporate shareholders having control shares of the Bank:

Name/Commercial title	Share amounts (nominal)	Share percentage	Paid-in capital (nominal)	Unpaid portion
Koç Finansal Hizmetler A.Ş.	3.555.712.396,07	81,80%	3.555.712.396,07	-

Koç Finansal Hizmetler A.Ş. is a joint venture of Koç Group, UniCredit Group and Temel Ticaret ve Yatırım A.Ş.

Yapı ve Kredi Bankası A.Ş.

Notes to unconsolidated financial statements as of December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

General information (continued)

V. Summary information on the Bank's activities and service types:

The Bank's activities summarized from the section 3 of the articles of association are as follows.

The Bank's purpose and subject matter, in accordance with the Banking Law, regulations and existing laws, include;

- The execution of all banking activities,
- The execution of all economic and financial activities which are allowed by the regulation,
- The execution of the representation, attorney and agency activities related to the subjects written above,
- The purchase and sale of share certificates, bonds and all the capital market instruments, in accordance with Capital Market Law and regulations.

In case of necessity for performing activities which are useful and required but that are not specified in the articles of association, a Board of Directors' proposal is to be presented to the General Assembly. With the approval of the General Assembly the proposal becomes applicable, subject to the approvals required by law.

As of December 31, 2016, the Bank has 935 branches operating in Turkey and 1 branch in overseas (December 31, 2015 - 999 branches operating in Turkey, 1 branch in overseas). As of December 31, 2016, the Bank has 18.366 employees (December 31, 2015 – 18.262 employees).

The accompanying unconsolidated financial statements and notes to these financial statements are expressed in thousands of Turkish Lira (TL), unless otherwise stated.

VI. Differences between the Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards and short explanation about the entities subject to full consolidation or proportional consolidation and entities which are deducted from equity or entities which are not included in these three methods:

According to Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards, Banque de Commerce et de Placements SA, one of the associates of the Bank, and Yapı Kredi Koray Gayrimenkul Yatırım Ortaklığı, an entity under common control, are consolidated through "Equity Method" in the consolidated financial statements of the Group. Allianz Yaşam ve Emeklilik A.Ş., on which the Bank has indirect participation, is also consolidated through "Equity Method" in the consolidated financial statements of the Group. These entities are taken into account as a deduction item in shareholders' equity for the purpose of calculation of capital adequacy ratio.

Yapı Kredi Kültür Sanat Yayıncılık Tic. ve San. A.Ş., Yapı Kredi Teknoloji A.Ş. and Enternasyonal Turizm Yatırım A.Ş., which are subsidiaries of the Bank, are not consolidated into the Bank's consolidated financial statements in accordance with Communiqué on Preparation of Consolidated Financial Statements of Banks since these entities are not financial institutions.

All other subsidiaries are fully consolidated.

VII. The existing or potential, actual or legal obstacles on the immediate transfer of shareholder's equity between the Bank and its subsidiaries or reimbursement of liabilities:

None.

(Convenience translation of publicly announced unconsolidated financial statements originally issued in Turkish, See note I. of Section three)

Yapı ve Kredi Bankası A.Ş.

Unconsolidated financial statements as of December 31, 2016 and 2015

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Section two

Unconsolidated financial statements

I. Balance sheet (Statement of Financial Position)

Assets	Note (Section Five)	Current Period (31/12/2016)			Prior Period (31/12/2015)		
		TL	FC	Total	TL	FC	Total
I. Cash and balances with Central Bank	I-a	9,051,431	23,329,135	32,380,566	3,463,665	23,530,921	26,994,586
II. Financial assets at fair value through profit or (loss) (net)	I-b	2,652,903	365,380	3,018,283	1,537,120	232,190	1,769,310
2.1 Trading financial assets		2,652,903	365,380	3,018,283	1,537,120	232,190	1,769,310
2.1.1 Government debt securities		18,888	17,825	36,713	51,614	14,492	66,106
2.1.2 Share certificates		-	-	-	-	-	-
2.1.3 Derivative financial assets held for trading	I-c	2,634,015	347,555	2,981,570	1,485,506	217,698	1,703,204
2.1.4 Other marketable securities		-	-	-	-	-	-
2.2 Financial assets designated at fair value through profit/(loss)		-	-	-	-	-	-
2.2.1 Government debt securities		-	-	-	-	-	-
2.2.2 Share certificates		-	-	-	-	-	-
2.2.3 Loans		-	-	-	-	-	-
2.2.4 Other marketable securities		-	-	-	-	-	-
III. Banks	I-ç	33,331	1,415,361	1,448,692	25,591	1,311,553	1,337,144
IV. Money markets		-	-	-	155,270	130,845	286,115
4.1 Interbank money market placements		-	-	-	-	-	-
4.2 Receivables from BIST		-	-	-	155,270	130,845	286,115
4.3 Receivables from reverse repurchase agreements		-	-	-	-	-	-
V. Financial assets available-for-sale (net)	I-d,e	15,170,100	3,110,106	18,280,206	18,578,677	4,169,752	22,748,429
5.1 Share certificates		6,330	62,288	68,618	6,272	210,639	216,911
5.2 Government debt securities		14,431,742	1,602,330	16,034,072	17,759,935	2,620,248	20,380,183
5.3 Other marketable securities		732,028	1,445,488	2,177,516	812,470	1,338,865	2,151,335
VI. Loans and receivables	I-f	106,608,228	66,015,989	172,624,217	98,112,274	50,666,908	148,779,182
6.1 Loans and receivables		104,490,268	66,015,989	170,506,257	96,690,031	50,584,078	147,274,109
6.1.1 Loans to bank's risk group		1,608,906	811,272	2,420,178	1,579,808	88,851	1,668,659
6.1.2 Government debt securities		-	-	-	-	-	-
6.1.3 Other		102,881,362	65,204,717	168,086,079	95,110,223	50,495,227	145,605,450
6.2 Loans under follow-up		8,706,143	-	8,706,143	5,618,346	513,394	6,131,740
6.3 Specific provisions (-)		(6,588,183)	-	(6,588,183)	(4,196,103)	(430,564)	(4,626,667)
VII. Factoring receivables		-	-	-	-	-	-
VIII. Held-to-maturity investments (net)	I-g	4,804,988	5,859,583	10,664,551	1,920,297	4,469,335	6,389,632
8.1 Government debt securities		4,804,988	5,859,583	10,664,551	1,920,297	4,469,335	6,389,632
8.2 Other marketable securities		-	-	-	-	-	-
IX. Investments in associates (net)	I-ğ	4,503	437,143	441,646	4,503	338,140	342,643
9.1 Consolidated based on equity method		-	-	-	-	-	-
9.2 Unconsolidated		4,503	437,143	441,646	4,503	338,140	342,643
9.2.1 Investments in financial associates		-	437,143	437,143	-	338,140	338,140
9.2.2 Investments in non-financial associates		4,503	-	4,503	4,503	-	4,503
X. Subsidiaries (net)	I-h	2,476,582	1,756,442	4,233,024	2,233,990	1,387,746	3,621,736
10.1 Unconsolidated financial subsidiaries		2,469,282	1,756,442	4,225,724	2,226,690	1,387,746	3,614,436
10.2 Unconsolidated non-financial subsidiaries		7,300	-	7,300	7,300	-	7,300
XI. Joint ventures (net)	I-ı	18,114	-	18,114	20,851	-	20,851
11.1 Accounted based on equity method		-	-	-	-	-	-
11.2 Unconsolidated		18,114	-	18,114	20,851	-	20,851
11.2.1 Financial joint ventures		18,114	-	18,114	20,851	-	20,851
11.2.2 Non-financial joint ventures		-	-	-	-	-	-
XII. Lease receivables	I-ı	-	-	-	-	-	-
12.1 Financial lease receivables		-	-	-	-	-	-
12.2 Operating lease receivables		-	-	-	-	-	-
12.3 Other		-	-	-	-	-	-
12.4 Unearned income (-)		-	-	-	-	-	-
XIII. Derivative financial assets held for hedging	I-j	1,055,832	113,104	1,168,936	948,859	6,268	955,127
13.1 Fair value hedge		205,519	-	205,519	251,230	-	251,230
13.2 Cash flow hedge		850,313	113,104	963,417	697,629	6,268	703,897
13.3 Foreign net investment hedge		-	-	-	-	-	-
XIV. Property and equipment (net)	I-k	2,653,825	-	2,653,825	2,693,901	-	2,693,901
XV. Intangible assets (net)	I-l	1,523,961	-	1,523,961	1,489,434	-	1,489,434
15.1 Goodwill		979,493	-	979,493	979,493	-	979,493
15.2 Other		544,468	-	544,468	509,941	-	509,941
XVI. Investment property (net)	I-m	-	-	-	-	-	-
XVII. Tax asset		97,812	-	97,812	-	-	-
17.1 Current tax asset		97,812	-	97,812	-	-	-
17.2 Deferred tax asset	I-n	-	-	-	-	-	-
XVIII. Assets held for resale and related to discontinued operations (net)	I-o	159,974	-	159,974	151,010	-	151,010
18.1 Held for sale purposes		159,974	-	159,974	151,010	-	151,010
18.2 Related to discontinued operations		-	-	-	-	-	-
XIX. Other assets	I-ö	1,486,403	2,619,328	4,105,731	1,388,350	1,401,970	2,790,320
Total assets		147,797,967	105,021,571	252,819,538	132,723,792	87,645,628	220,369,420

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

Yapı ve Kredi Bankası A.Ş.

Unconsolidated financial statements as of December 31, 2016 and 2015

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

I. Balance sheet (Statement of Financial Position)

		Current Period (31/12/2016)			Prior Period (31/12/2015)		
	Note (Section Five)	TL	FC	Total	TL	FC	Total
I. Deposits	II-a	84.648.505	69.626.351	154.274.856	67.190.586	59.718.327	126.908.893
1.1 Deposits of the Bank's risk group		8.221.813	14.113.290	22.335.103	7.510.140	8.171.531	15.681.671
1.2 Other		76.426.692	55.513.061	131.939.753	59.680.426	51.546.796	111.227.222
II. Derivative financial liabilities held for trading	II-b	2.162.389	363.137	2.525.526	1.622.210	231.296	1.853.506
III. Funds borrowed	II-c	543.244	27.451.618	27.994.862	653.865	22.961.865	23.615.730
IV. Money markets		4.294.113	1.563.675	5.857.788	10.129.554	2.165.386	12.294.940
4.1 Funds from interbank money market		-	-	-	1.887.563	-	1.887.563
4.2 Funds from BIST		-	-	-	-	-	-
4.3 Funds provided under repurchase agreements		4.294.113	1.563.675	5.857.788	8.241.991	2.165.386	10.407.377
V. Marketable securities issued (net)	II-ç	1.719.641	7.525.077	9.244.718	2.769.469	6.798.094	9.567.563
5.1 Bills		1.399.791	86.665	1.486.456	2.106.572	451.395	2.558.057
5.2 Asset backed securities		-	-	-	-	-	-
5.3 Bonds		319.850	7.438.412	7.758.262	662.717	6.346.789	7.009.506
VI. Funds		-	-	-	-	-	-
6.1 Borrower funds		-	-	-	-	-	-
6.2 Other		-	-	-	-	-	-
VII. Miscellaneous payables		8.878.296	1.758.713	10.637.009	7.871.009	1.267.139	9.138.148
VIII. Other liabilities	II-d	1.575.848	314.654	1.890.502	1.787.460	890.731	2.678.191
IX. Factoring payables		-	-	-	-	-	-
X. Lease payables (net)	II-e	-	1.112	1.112	-	-	-
10.1 Financial lease payables		-	1.130	1.130	-	-	-
10.2 Operational lease payables		-	-	-	-	-	-
10.3 Other		-	-	-	-	-	-
10.4 Deferred lease expenses (-)		-	(18)	(18)	-	-	-
XI. Derivative financial liabilities held for hedging	II-f	66.263	22.525	88.788	38.814	108.660	147.474
11.1 Fair value hedge		49.949	-	49.949	3.427	-	3.427
11.2 Cash flow hedge		16.314	22.525	38.839	35.387	108.660	144.047
11.3 Foreign net investment hedge		-	-	-	-	-	-
XII. Provisions	II-g	3.252.175	1.311.400	4.563.575	2.866.013	985.521	3.851.534
12.1 General loan loss provision		1.833.501	1.208.819	3.042.320	1.658.831	913.159	2.571.990
12.2 Restructuring provisions		-	-	-	-	-	-
12.3 Reserve for employee rights		287.881	-	287.881	268.166	-	268.166
12.4 Insurance technical provisions (net)		-	-	-	-	-	-
12.5 Other provisions		1.130.793	102.581	1.233.374	939.016	72.362	1.011.378
XIII. Tax liability	II-ğ	554.362	-	554.362	594.239	-	594.239
13.1 Current tax liability		296.752	-	296.752	480.305	-	480.305
13.2 Deferred tax liability		257.610	-	257.610	113.934	-	113.934
XIV. Liabilities for property and equipment held for sale and related to discontinued operations (net)	II-h	-	-	-	-	-	-
14.1 Held for sale		-	-	-	-	-	-
14.2 Related to discontinued operations		-	-	-	-	-	-
XV. Subordinated loans	II-ı	-	9.067.893	9.067.893	-	6.635.191	6.635.191
XVI. Shareholders' equity	II-j	24.705.325	1.413.222	26.118.547	21.783.645	1.300.366	23.084.011
16.1 Paid-in capital		4.347.051	-	4.347.051	4.347.051	-	4.347.051
16.2 Capital reserves		3.666.340	1.413.222	5.079.562	3.674.694	1.300.366	4.975.060
16.2.1 Share premium		543.881	-	543.881	543.881	-	543.881
16.2.2 Share cancellation profits		-	-	-	-	-	-
16.2.3 Marketable securities valuation differences		394.466	1.315.943	1.710.409	225.727	1.335.232	1.560.959
16.2.4 Property and equipment revaluation differences		1.449.056	-	1.449.056	1.449.056	-	1.449.056
16.2.5 Intangible assets revaluation differences		-	-	-	-	-	-
16.2.6 Revaluation differences of investment property		-	-	-	-	-	-
16.2.7 Bonus shares from investments in associates, subsidiaries and joint ventures		15.165	-	15.165	15.107	-	15.107
16.2.8 Hedging funds (effective portion)		66.059	97.279	163.338	248.217	(34.866)	213.351
16.2.9 Value increase in assets held for sale and related to discontinued operations		-	-	-	-	-	-
16.2.10 Other capital reserves		1.197.713	-	1.197.713	1.192.706	-	1.192.706
16.3 Profit reserves		13.759.139	-	13.759.139	11.901.355	-	11.901.355
16.3.1 Legal reserves		844.539	-	844.539	751.512	-	751.512
16.3.2 Status reserves		-	-	-	-	-	-
16.3.3 Extraordinary reserves		12.913.149	-	12.913.149	11.148.251	-	11.148.251
16.3.4 Other profit reserves		1.451	-	1.451	1.592	-	1.592
16.4 Income or (loss)		2.932.795	-	2.932.795	1.860.545	-	1.860.545
16.4.1 Prior years' income or (loss)		-	-	-	-	-	-
16.4.2 Current year income or (loss)		2.932.795	-	2.932.795	1.860.545	-	1.860.545
Total liabilities		132.400.161	120.419.377	252.819.538	117.305.844	103.062.576	220.368.420

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

(Convenience translation of publicly announced unconsolidated financial statements originally issued in Turkish, See Note I. of Section three)

Yapı ve Kredi Bankası A.Ş.

Unconsolidated financial statements as of December 31, 2016 and 2015

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

I. Balance sheet (Statement of Financial Position)

II. Off-balance sheet commitments

		Current Period (31/12/2016)			Prior Period (31/12/2015)		
	Note (Section Five)	TL	FC	Total	TL	FC	Total
A	Off-balance sheet commitments (I+II)	158.620.046	239.642.521	398.262.567	158.883.297	208.585.077	367.468.374
I.	Guarantees and warranties	11-a.2.3	21.614.582	46.253.958	67.868.540	18.076.523	85.945.063
1.1	Letters of guarantee	21.614.582	46.253.958	67.868.540	18.076.523	38.964.548	57.041.071
1.1.1	Guarantees subject to state tender law	21.614.582	46.253.958	67.868.540	18.076.523	38.964.548	57.041.071
1.1.2	Guarantees given for foreign trade operations	471.441	930.593	1.402.034	522.480	1.134.888	1.657.368
1.1.3	Other letters of guarantee	2.597.219	30.138.999	32.736.218	2.329.832	25.797.251	28.127.083
1.2	Bank acceptances	18.500.031	-	18.500.031	15.179.282	-	15.179.282
1.2.1	Import letter of acceptance	-	195.766	195.766	-	173.524	173.524
1.2.2	Other bank acceptances	-	195.766	195.766	-	173.524	173.524
1.3	Letters of credit	11.407	8.749.767	8.761.174	11.483	7.636.526	7.648.009
1.3.1	Documentary letters of credit	11.407	8.749.767	8.761.174	11.483	7.636.526	7.648.009
1.3.2	Other letters of credit	-	-	-	-	-	-
1.4	Prefinancing given as guarantee	-	-	-	-	-	-
1.5	Endorsements	-	-	-	-	-	-
1.5.1	Endorsements to the Central Bank of the Republic of Turkey	-	-	-	-	-	-
1.5.2	Other endorsements	-	-	-	-	-	-
1.6	Securities issue purchase guarantees	-	-	-	-	-	-
1.7	Factoring guarantees	-	-	-	-	-	-
1.8	Other guarantees	34.484	1.960.487	1.994.971	33.446	1.430.529	1.463.975
1.9	Other warranties	-	4.278.346	4.278.346	-	2.791.832	2.791.832
II.	Commitments	III-a.1	53.181.915	25.549.089	78.731.004	26.213.733	104.944.737
2.1	Irrevocable commitments	53.181.915	13.663.919	66.845.834	59.611.290	19.308.750	78.920.040
2.1.1	Asset purchase and sale commitments	3.706.202	12.562.607	16.268.809	13.018.015	17.850.821	30.868.836
2.1.2	Deposit purchase and sales commitments	27.500	6.581	34.081	-	-	-
2.1.3	Share capital commitments to associates and subsidiaries	-	-	-	-	-	-
2.1.4	Loan granting commitments	8.008.276	869.605	8.877.881	7.816.459	1.268.554	9.085.013
2.1.5	Securities issue brokerage commitments	-	-	-	-	-	-
2.1.6	Commitments for reserve deposit requirements	-	-	-	-	-	-
2.1.7	Commitments for cheques	6.686.199	-	6.686.199	6.521.085	-	6.521.085
2.1.8	Tax and fund liabilities from export commitments	6.014	-	6.014	6.376	-	6.376
2.1.9	Commitments for credit card limits	29.878.711	-	29.878.711	28.304.464	-	28.304.464
2.1.10	Commitments for credit cards and banking services promotions	18.409	-	18.409	13.810	-	13.810
2.1.11	Receivables from short sale commitments of marketable securities	-	-	-	-	-	-
2.1.12	Payables for short sale commitments of marketable securities	-	-	-	-	-	-
2.1.13	Other irrevocable commitments	4.412.175	225.126	4.637.301	3.931.081	189.375	4.120.456
2.2	Revocable commitments	438.429	11.885.170	12.323.599	682.458	8.904.983	9.587.441
2.2.1	Revocable loan granting commitments	438.429	11.885.170	12.323.599	682.458	8.904.983	9.587.441
2.2.2	Other revocable commitments	-	-	-	-	-	-
III.	Derivative financial instruments	III-b,c	83.823.549	167.839.474	251.663.023	143.406.796	395.069.819
3.1	Derivative financial instruments for hedging purposes	29.149.741	22.976.994	52.126.735	27.698.936	30.810.144	58.509.080
3.1.1	Transactions for fair value hedge	422.791	1.688.923	2.112.714	571.966	823.018	1.395.004
3.1.2	Transactions for cash flow hedge	28.726.950	21.287.071	50.014.021	27.126.950	29.987.126	57.114.076
3.1.3	Transactions for foreign net investment hedge	-	-	-	-	-	-
3.2	Trading transactions	54.673.808	144.862.480	199.536.288	52.834.090	112.596.652	165.430.742
3.2.1	Forward foreign currency buy/sell transactions	5.836.870	9.168.354	15.005.224	3.482.444	6.095.245	9.577.689
3.2.1.1	Forward foreign currency transactions-buy	2.022.577	5.425.889	7.448.466	1.038.783	3.677.607	4.716.390
3.2.1.2	Forward foreign currency transactions-sell	3.814.293	3.742.465	7.556.758	2.443.661	2.417.638	4.861.299
3.2.2	Swap transactions related to foreign currency and interest rates	37.500.424	109.501.168	147.001.622	38.284.411	87.202.512	125.486.923
3.2.2.1	Foreign currency swap-buy	12.124.291	37.791.825	49.916.216	8.559.166	36.805.078	45.365.244
3.2.2.2	Foreign currency swap-sell	20.836.133	28.669.215	49.505.348	29.705.245	16.146.254	45.851.499
3.2.2.3	Interest rate swap-buy	2.270.000	21.520.029	23.790.029	-	17.125.090	17.125.090
3.2.2.4	Interest rate swap-sell	2.270.000	21.520.029	23.790.029	-	17.125.090	17.125.090
3.2.3	Foreign currency, interest rate and securities options	6.062.482	13.199.550	19.262.032	6.682.132	8.561.247	15.243.379
3.2.3.1	Foreign currency options-buy	2.134.509	6.547.706	8.682.215	1.973.220	4.682.492	6.655.712
3.2.3.2	Foreign currency options-sell	3.927.973	5.479.950	9.407.923	3.208.912	3.501.087	6.709.999
3.2.3.3	Interest rate options-buy	250.000	585.947	835.947	750.000	188.834	938.834
3.2.3.4	Interest rate options-sell	250.000	585.947	835.947	750.000	188.834	938.834
3.2.3.5	Securities options-buy	-	-	-	-	-	-
3.2.3.6	Securities options-sell	-	-	-	-	-	-
3.2.4	Foreign currency futures	-	-	-	-	-	-
3.2.4.1	Foreign currency futures-buy	-	-	-	-	-	-
3.2.4.2	Foreign currency futures-sell	-	-	-	-	-	-
3.2.5	Interest rate futures	-	-	-	-	-	-
3.2.5.1	Interest rate futures-buy	-	-	-	-	-	-
3.2.5.2	Interest rate futures-sell	-	-	-	-	-	-
3.2.6	Other	5.274.032	12.993.378	18.267.410	4.405.103	10.737.648	15.142.751
B.	Custody and pledges received (IV+V+VI)	510.532.152	259.877.200	770.409.352	242.862.083	65.545.734	308.407.817
IV.	Items held in custody	265.934.364	181.694.033	447.628.397	76.564.370	7.734.979	84.299.349
4.1	Customer fund and portfolio balances	-	-	-	-	-	-
4.2	Investment securities held in custody	245.510.328	180.952.854	426.463.182	57.175.411	6.775.452	63.950.863
4.3	Checks received for collection	15.835.668	118.906	15.954.574	15.576.521	145.317	15.721.838
4.4	Commercial notes received for collection	4.543.821	574.974	5.118.795	3.770.663	774.018	4.544.681
4.5	Other assets received for collection	-	40.085	40.085	-	34.137	34.137
4.6	Assets received for public offering	-	-	-	-	-	-
4.7	Other items under custody	44.547	7.214	51.761	41.775	6.055	47.830
4.8	Custodians	-	-	-	-	-	-
V.	Pledges received	240.607.924	77.358.701	317.966.625	162.367.478	57.056.576	219.424.054
5.1	Marketable securities	179.680	390	180.070	185.826	322	186.148
5.2	Guarantee notes	1.000.765	267.379	1.268.144	1.063.319	271.797	1.335.116
5.3	Commodity	25.813	-	25.813	21.095	-	21.095
5.4	Warrants	-	-	-	-	-	-
5.5	Properties	104.128.522	67.048.308	171.176.830	88.195.061	45.270.237	133.465.298
5.6	Other pledged items	135.273.144	10.038.359	145.311.503	72.902.177	11.509.026	84.411.203
5.7	Pledged items-depository	-	6.265	6.265	-	5.194	5.194
VI.	Accepted independent guarantees and warranties	3.989.864	824.466	4.814.330	4.030.235	754.179	4.784.414
Total off-balance sheet commitments (A+B)		669.152.198	499.519.721	1.168.671.919	401.845.380	274.130.811	675.976.191

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

(Convenience translation of publicly announced unconsolidated financial statements originally issued in Turkish, See Note I. of Section three)

Yapı ve Kredi Bankası A.Ş.

Unconsolidated financial statements as of December 31, 2016 and 2015

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

III. Income statement

Income and expense items	Note (Section Five)	Current Period (01/01/2016- 31/12/2016)	Prior Period (01/01/2015- 31/12/2015)
I. Interest income	IV-a	17.845.482	15.292.461
1.1 Interest on loans	IV-a-1	15.276.920	12.805.914
1.2 Interest received from reserve deposits		118.629	43.303
1.3 Interest received from banks	IV-a-2	48.725	31.724
1.4 Interest received from money market transactions		21.535	37.842
1.5 Interest received from marketable securities portfolio	IV-a-3	2.377.445	2.372.800
1.5.1 Trading financial assets		5.302	11.284
1.5.2 Financial assets at fair value through profit or (loss)		-	-
1.5.3 Available-for-sale financial assets		1.664.548	1.943.299
1.5.4 Held to maturity investments		707.595	418.217
1.6 Financial lease income		-	-
1.7 Other interest income		2.228	878
II. Interest expense	IV-b	(10.210.836)	(8.450.239)
2.1 Interest on deposits	IV-b-4	(7.905.466)	(6.248.179)
2.2 Interest on funds borrowed	IV-b-1	(998.811)	(866.440)
2.3 Interest expense on money market transactions		(692.397)	(683.261)
2.4 Interest on securities issued	IV-b-3	(603.276)	(639.864)
2.5 Other interest expenses		(10.886)	(12.495)
III. Net interest income (I + II)		7.634.646	6.842.222
IV. Net fees and commissions income		2.825.515	2.688.104
4.1 Fees and commissions received		3.590.255	3.408.772
4.1.1 Non-cash loans		469.598	402.960
4.1.2 Other	IV-i	3.120.657	3.005.812
4.2 Fees and commissions paid		(764.740)	(720.668)
4.2.1 Non-cash loans		(127)	(480)
4.2.2 Other		(764.613)	(720.188)
V. Dividend income	IV-c	80	2.971
VI. Trading gain/(loss) (net)	IV-ç	76.258	(787.924)
6.1 Trading gains/(losses) on securities		40.488	260.620
6.2 Derivative financial transactions gains/(losses)	IV-d	(9.172)	845.716
6.3 Foreign exchange gains/(losses)		44.942	(1.894.260)
VII. Other operating income	IV-e	551.799	607.889
VIII. Total operating income (III+IV+V+VI+VII)		11.088.298	9.353.262
IX. Provision for impairment of loans and other receivables (-)	IV-f	(2.843.576)	(2.521.496)
X. Other operating expenses (-)	IV-g	(5.076.509)	(4.810.418)
XI. Net operating income/(loss) (VIII-IX-X)		3.168.213	2.021.348
XII. Excess amount recorded as income after merger		-	-
XIII. Income/(loss) from investments accounted based on equity method		476.472	368.140
XIV. Income/(loss) on net monetary position		-	-
XV. Profit/loss before taxes from continuing operations (XI+XII+XIII+XIV)	IV-ğ	3.644.685	2.389.488
XVI. Tax provision for continuing operations (±)	IV-h	(711.890)	(528.943)
16.1 Current tax provision		(540.460)	(328.064)
16.2 Deferred tax provision		(171.430)	(200.879)
XVII. Net profit/loss from continuing operations (XV±XVI)		2.932.795	1.860.545
XVIII. Income from discontinued operations		-	-
18.1 Income from non-current assets held for resale		-	-
18.2 Profit from sales of associates, subsidiaries and joint ventures		-	-
18.3 Other income from discontinued operations		-	-
XIX. Expenses from discontinued operations (-)		-	-
19.1 Expenses for non-current assets held for resale		-	-
19.2 Loss from sales of associates, subsidiaries and joint ventures		-	-
19.3 Other expenses from discontinued operations		-	-
XX. Profit /losses before taxes from discontinued operations (XVIII-XIX)	IV-ğ	-	-
XXI. Tax provision for discontinued operations (±)	IV-h	-	-
21.1 Current tax provision		-	-
21.2 Deferred tax provision		-	-
XXII. Net profit/loss from discontinued operations (XX±XXI)		-	-
XXIII. Net profit/loss (XVII+XXII)	IV-i	2.932.795	1.860.545
Earnings/(loss) per share (full TL)		0,0067	0,0043

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(Convenience translation of publicly announced unconsolidated financial statements originally issued in Turkish, See Note I. of Section three)

Yapı ve Kredi Bankası A.Ş.

Unconsolidated financial statements as of December 31, 2016 and 2015

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

IV. Statement of income and expense items accounted under shareholders' equity

Income and expense items accounted under shareholders' equity		Current Period (31/12/2016)	Prior Period (31/12/2015)
I.	Transfers to marketable securities valuation differences from financial assets available for sale	(248.090)	(937.789)
II.	Property and equipment revaluation differences	-	1.505.048
III.	Intangible assets revaluation differences	-	-
IV.	Currency translation differences for foreign currency transactions	44.230	17.841
V.	Profit /loss on cash flow hedges (effective part of the fair value changes)	147.084	744.688
VI.	Profit/loss on foreign net investment hedges (effective part of the fair value changes)	(201.497)	(68.267)
VII.	Effects of changes in accounting policy and adjustment of errors	-	-
VIII.	Other income and expense items accounted under shareholders' equity according to TAS	332.260	151.260
IX.	Deferred tax on valuation differences	27.754	(7.014)
X.	Net profit or loss accounted directly under shareholders' equity (I+II+...+IX)	101.741	1.405.767
XI.	Current year profit/loss	2.932.795	1.860.545
11.1	Net change in fair value of marketable securities (recycled to profit-loss)	235.260	261.171
11.2	Part of cash flow hedge derivative financial instruments reclassified and presented on the income statement	(44.407)	(89.216)
11.3	Part of foreign net investment hedges reclassified and presented on the income statement	-	-
11.4	Other	2.741.942	1.688.590
XII.	Total income/loss accounted for the period (X+XI)	3.034.536	3.266.312

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Yapı ve Kredi Bankası A.Ş.

Unconsolidated statement of changes in shareholders' equity as of December 31, 2015

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

V. Statement of changes in shareholders' equity

Prior Period	Note (Section five)	Paid- in capital	Adjustment to share capital	Share premium	Share cancellation profits	Legal reserves	Status reserves	Extra ord. reserves	Other reserves	Current period net income/(loss)	Prior period income /(loss)	Marketable securities Value increase fund	Property and equipment and intangible assets revaluation fund	Bonus shares from investments	Hedging funds	Assets held for resale/ discontinued operations revaluation fund	Total shareholders' equity
December 31, 2015																	
I. Period opening balance		4.347.051	-	543.881	-	641.000	-	9.815.284	1.174.234	2.056.511	-	1.903.155	18.485	15.107	(297.009)	-	20.217.699
II. Changes in accounting policies according to TAS 8		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Effects of errors		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Effects of the changes in accounting policies		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III. New balance (I+II)		4.347.051	-	543.881	-	641.000	-	9.815.284	1.174.234	2.056.511	-	1.903.155	18.485	15.107	(297.009)	-	20.217.699
Changes in the period																	
IV. Increase/decrease due to merger		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V. Marketable securities valuation differences		-	-	-	-	-	-	-	-	-	-	(726.956)	-	-	-	-	(726.956)
VI. Hedging transactions (effective portion)		-	-	-	-	-	-	-	-	-	-	-	-	-	541.138	-	541.138
6.1 Cash flow hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	595.752	-	595.752
6.2 Foreign net investment hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	(54.614)	-	(54.614)
VII. Property and equipment revaluation differences		-	-	-	-	-	-	-	-	-	-	-	1.430.571	-	-	-	1.430.571
VIII. Intangible assets revaluation differences		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX. Bonus shares from investments in associates, subsidiaries and joint ventures		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X. Foreign exchange differences		-	-	-	-	-	-	-	-	-	-	45.050	-	-	(30.778)	-	14.272
XI. Changes due to the disposal of assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII. Changes due to the reclassification of assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII. Effect of the changes in equity of investment in associates		-	-	-	-	-	-	-	-	-	-	128.165	-	-	-	-	128.165
XIV. Capital increase		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.1 Cash increase		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.2 Internal resources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV. Share premium		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI. Share cancellation profits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVII. Paid in-capital inflation adjustment difference		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVIII. Other		-	-	-	-	-	-	-	18.577	(211.545)	-	211.545	-	-	-	-	18.577
XIX. Current year income or loss		-	-	-	-	-	-	-	-	1.860.545	-	-	-	-	-	-	1.860.545
XX. Profit distribution		-	-	-	-	110.512	-	1.332.967	1.487	(1.844.966)	-	-	-	-	-	-	(400.000)
20.1 Dividend paid		-	-	-	-	-	-	-	-	(400.000)	-	-	-	-	-	-	(400.000)
20.2 Transfers to reserves		-	-	-	-	110.512	-	1.332.967	1.487	(1.444.966)	-	-	-	-	-	-	-
20.3 Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Period end balance (III+IV+V+.....+ XVIII +XIX+XX)		4.347.051	-	543.881	-	751.512	-	11.148.251	1.194.298	1.860.545	-	1.560.959	1.449.056	15.107	213.351	-	23.084.011

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Yapı ve Kredi Bankası A.Ş.

Unconsolidated statement of changes in shareholders' equity as of December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

V. Statement of changes in shareholders' equity

Current Period												Property and equipment and intangible assets revaluation fund	Bonus shares from investments	Assets held for resale/ discontinued operations	Total shareholders' equity		
December 31, 2016	Note (Section five)	Paid-in capital	Adjustment to share capital	Share premium	Share cancellation profits	Legal reserves	Status reserves	Extra ord. reserves	Other reserves	Current period net income/(loss)	Prior period income/(loss)	Marketable securities value increase fund	revaluation fund	revaluation fund	Hedging funds	revaluation fund	
I.	Prior period end balance	4,347.051	-	543.881	-	751.512	-	11.148.251	1.194.298	1.860.545	-	1.560.959	1.449.056	15.107	213.351	-	23.084.011
	Changes in the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
II.	Increase/decrease due to the merger	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III.	Marketable securities valuation differences	-	-	-	-	-	-	-	-	-	-	(221.858)	-	-	-	-	(221.858)
IV.	Hedging transactions (effective portion)	-	-	-	-	-	-	-	-	-	-	-	-	-	(43.531)	-	(43.531)
4.1	Cash flow hedge	-	-	-	-	-	-	-	-	-	-	-	-	-	117.667	-	117.667
4.2	Foreign net investment hedge	-	-	-	-	-	-	-	-	-	-	-	-	-	(161.198)	-	(161.198)
V.	Property and equipment revaluation differences	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VI.	Intangible assets revaluation differences	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII.	Bonus shares from investments in associates, subsidiaries and joint ventures	-	-	-	-	-	-	-	-	-	-	-	-	58	-	-	58
VIII.	Foreign exchange differences	-	-	-	-	-	-	-	-	-	-	41.867	-	-	(6.482)	-	35.385
IX.	Changes due to the disposal of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X.	Changes due to the reclassification of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI.	Effect of the changes in equity of investment in associates	-	-	-	-	-	-	-	-	-	-	329.441	-	-	-	-	329.441
XII.	Capital increase	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.1	Cash increase	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.2	Internal resources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII.	Share premium	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV.	Share cancellation profits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV.	Paid in-capital inflation adjustment difference	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI.	Other	-	-	-	-	-	-	-	2.246	-	-	-	-	-	-	-	2.246
XVII.	Current year income or loss	-	-	-	-	-	-	-	-	2.932.795	-	-	-	-	-	-	2.932.795
XVIII.	Profit distribution	-	-	-	-	93.027	-	1.764.898	2.620	(1.860.545)	-	-	-	-	-	-	-
18.1	Dividend paid	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18.2	Transfers to reserves	-	-	-	-	93.027	-	1.764.898	2.620	(1.860.545)	-	-	-	-	-	-	-
18.3	Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Period end balance (I+II+III+...+XVI+XVII+XVIII)		4,347.051	-	543.881	-	844.539	-	12.913.149	1.199.164	2.932.795	-	1.710.409	1.449.056	15.165	163.338	-	26.118.547

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Yapı ve Kredi Bankası A.Ş.

Unconsolidated financial statements as of December 31, 2016 and 2015

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

VI. Statement of cash flows

	Notes (Section Five)	Current Period (31/12/2016)	Prior Period (31/12/2015)
A. Cash flows from banking operations			
1.1 Operating profit before changes in operating assets and liabilities		1.095.844	3.907.382
1.1.1 Interest received		16.587.274	15.183.618
1.1.2 Interest paid		(9.927.456)	(8.430.372)
1.1.3 Dividend received		98.440	114.201
1.1.4 Fees and commissions received		3.590.255	3.408.772
1.1.5 Other income		(383.282)	1.668.658
1.1.6 Collections from previously written-off loans and other receivables		1.046.425	1.243.318
1.1.7 Payments to personnel and service suppliers		(4.299.229)	(3.930.810)
1.1.8 Taxes paid		(922.274)	(453.666)
1.1.9 Other	VI-c	(4.694.309)	(4.896.337)
1.2 Changes in operating assets and liabilities		1.545.279	838.004
1.2.1 Net (increase)/decrease in trading securities		29.110	28.804
1.2.2 Net (increase)/decrease in fair value through profit/loss financial assets		-	-
1.2.3 Net (increase)/decrease in banks		440.423	(2.547.475)
1.2.4 Net (increase)/decrease in loans		(26.105.996)	(29.305.084)
1.2.5 Net (increase)/decrease in other assets		(1.345.131)	(747.717)
1.2.6 Net increase /(decrease) in bank deposits		2.835.348	2.205.681
1.2.7 Net increase /(decrease) in other deposits		24.279.605	19.536.869
1.2.8 Net increase /(decrease) in funds borrowed		(1.853.624)	11.420.375
1.2.9 Net increase /(decrease) in payables		-	-
1.2.10 Net increase /(decrease) in other liabilities	VI-c	3.265.544	246.551
I. Net cash flows from banking operations		2.641.123	4.745.386
B. Cash flows from investing activities			
II. Net cash flows from investing activities		2.559.829	(6.344.362)
2.1 Cash paid for acquisition of investments in associates, subsidiaries and joint ventures		-	(9.800)
2.2 Cash obtained from disposal of investments in associates, subsidiaries and joint ventures		-	-
2.3 Purchases of property and equipment		(374.498)	(478.403)
2.4 Disposals of property and equipment		94.448	80.622
2.5 Purchase of investments available-for-sale		(13.413.488)	(20.552.522)
2.6 Sale of investments available-for-sale		17.583.000	15.208.036
2.7 Purchase of investment securities		(1.329.699)	(592.353)
2.8 Sale of investment securities		66	58
2.9 Other		-	-
C. Cash flows from financing activities			
III. Net cash flows from financing activities		(552.683)	(359.522)
3.1 Cash obtained from funds borrowed and securities issued		8.178.136	7.341.567
3.2 Cash used for repayment of funds borrowed and securities issued		(8.728.897)	(7.300.117)
3.3 Issued capital instruments		-	-
3.4 Dividends paid		-	(400.000)
3.5 Payments for finance leases		(1.922)	(972)
3.6 Other		-	-
IV. Effect of change in foreign exchange rates on cash and cash equivalents	VI-c	989.614	1.077.239
V. Net increase in cash and cash equivalents (I+II+III+IV)		5.637.883	(881.259)
VI. Cash and cash equivalents at beginning of the period	VI-a	8.319.936	9.201.195
VII. Cash and cash equivalents at end of the period	VI-a	13.957.819	8.319.936

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

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VII. Profit appropriation statement ⁽¹⁾

	Current Period (31/12/2016)	Prior Period (31/12/2015)
I. Distribution of current year income		
1.1 Current year income	3.644.685	2.389.488
1.2 Taxes and duties payable (-)	(711.890)	(528.943)
1.2.1 Corporate tax (income tax)	(540.460)	(328.064)
1.2.2 Income withholding tax	-	-
1.2.3 Other taxes and duties	(171.430)	(200.879)
A. Net income for the year (1.1-1.2)	2.932.795	1.860.545
1.3 Prior year losses (-)	-	-
1.4 First legal reserves (-)	-	93.027
1.5 Other statutory reserves (-)	-	-
B. Net income available for distribution [(a)-(1.3+1.4+1.5)]	2.932.795	1.767.518
1.6 First dividend to shareholders (-)	-	-
1.6.1 To owners of ordinary shares	-	-
1.6.2 To owners of privileged shares	-	-
1.6.3 To owners of preferred shares	-	-
1.6.4 To profit sharing bonds	-	-
1.6.5 To holders of profit and loss sharing certificates	-	-
1.7 Dividends to personnel (-)	-	-
1.8 Dividends to board of directors (-)	-	-
1.9 Second dividend to shareholders (-)	-	-
1.9.1 To owners of ordinary shares	-	-
1.9.2 To owners of privileged shares	-	-
1.9.3 To owners of preferred shares	-	-
1.9.4 To profit sharing bonds	-	-
1.9.5 To holders of profit and loss sharing certificates	-	-
1.10 Second legal reserves (-)	-	-
1.11 Statutory reserves (-)	-	-
1.12 Extraordinary reserves	-	1.764.898
1.13 Other reserves	-	-
1.14 Special funds	-	2.620
II. Distribution of reserves		
2.1 Appropriated reserves	-	-
2.2 Second legal reserves (-)	-	-
2.3 Dividends to shareholders (-)	-	-
2.3.1 To owners of ordinary shares	-	-
2.3.2 To owners of privileged shares	-	-
2.3.3 To owners of preferred shares	-	-
2.3.4 To profit sharing bonds	-	-
2.3.5 To holders of profit and loss sharing certificates	-	-
2.4 Dividends to personnel (-)	-	-
2.5 Dividends to board of directors (-)	-	-
III. Earnings per share		
3.1 To owners of ordinary shares	0,0067	0,0043
3.2 To owners of ordinary shares (%)	-	-
3.3 To owners of privileged shares	-	-
3.4 To owners of privileged shares (%)	-	-
IV. Dividend per share		
4.1 To owners of ordinary shares	-	-
4.2 To owners of ordinary shares (%)	-	-
4.3 To owners of privileged shares	-	-
4.4 To owners of privileged shares (%)	-	-

(1) Authorized body for profit appropriation of the current period is General Assembly. As of the preparation date of these financial statements, yearly ordinary meeting of the General Assembly has not been held yet. Since the profit appropriation proposal for the year 2016 has not been prepared by the Board of Directors, only net profit related to the year 2015, which is base for the profit appropriation calculation, has been disclosed. The aforementioned amount also includes 75% of gains on sales of property and equipment, and share certificates amounting to TL 146.050 which are not going to be distributed and are going to be held in reserves according to the article 5/1-e of Corporate Tax Law No. 5520.

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Section Three

Accounting policies

I. Explanations on basis of presentation:

The Bank maintains its books of accounts in Turkish Lira in accordance with the Banking Act No. 5411 ("Banking Act"), which is effective from November 1, 2005, the Turkish Commercial Code ("TCC"), and Turkish Tax Legislation.

The unconsolidated financial statements are prepared in accordance with the "Regulation on the Principles and Procedures Regarding Banks' Accounting Applications and Safeguarding of Documents" published in the Official Gazette No. 26333 dated November 1, 2006 by the Banking Regulation and Supervision Agency ("BRSA") which refers to "Turkish Accounting Standards" ("TAS") and "Turkish Financial Reporting Standards" ("TFRS") issued by the Public Oversight Accounting and Auditing Standards Authority ("POA") and other decrees, notes and explanations related to the accounting and financial reporting principles (all "Turkish Accounting Standards" or "TAS") published by the BRSA. The format and the details of the publicly announced financial statements and related disclosures to these statements have been prepared in accordance with the "Communiqué Related to Publicly Announced Financial Statements of Banks and Explanations and Notes Related to these Financial Statements" and changes and notes to this communiqué published in the Official Gazette No. 28337 dated June 28, 2012.

The accompanying unconsolidated financial statements are prepared in accordance with the historical cost basis (restated for the changes in the general purchasing power of TL until December 31, 2004), except for financial assets and liabilities at fair value through profit or loss, financial assets available for sale, investments in associates and subsidiaries measured at fair value, trading derivative financial liabilities, hedging derivative financial assets/liabilities and art objects and paintings in tangible assets. Besides, the carrying values of assets carried at amortised cost but subject to fair value hedge are adjusted to reflect the fair value changes related to the hedged risks.

The preparation of unconsolidated financial statements in conformity with TAS requires the use of certain accounting estimates by the Bank management to exercise its judgment on the assets and liabilities on the balance sheet and contingent assets and liabilities as of the balance sheet date. These estimates are being reviewed regularly and, when necessary, suitable corrections are made and the effects of these corrections are explained in the related notes and reflected to the income statement.

The preparation and fair presentation of the financial statement and used principles of valuation in accordance with "Accounting and Reporting Legislation" published in the regulation, communiqué, interpretations and circular published by BRSA and If any specific regulation has been made by BRSA, it has been determined and applied according to the principles of TAS.

The effects of TFRS 9, "Financial Instruments" which has not been implemented yet, are under evaluation by the Bank. The standard which the Bank did not early adopt will primarily have an effect on the classification and measurement of the Bank's financial assets. The Bank is currently assessing the impact of adopting TFRS 9. However, as the impact of adoption depends on the assets held by the Bank at the date of adoption itself, it is not practical or possible to quantify the effect at this stage. As of the date of these financial statements, the other TAS/TFRS standards announced but not yet effective are not expected to have significant impact on the Bank's accounting policies, financial position and performance.

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Accounting policies (continued)

II. Explanations on strategy of using financial instruments and foreign currency transactions:

The general strategy of the Bank in using financial instruments is to sustain an optimal balance between the yield of the instruments and their risks. The most important funding source of the Bank is deposits. The Bank is also sustaining a lengthened liability structure by using long-term foreign and local currency borrowings from domestic and international investors and financial institutions. Funds obtained from deposits and other sources are invested in quality financial assets in order to keep currency, interest rate and liquidity risks within the limits determined by the asset-liability strategy. The currency, interest and liquidity risks of on-balance sheet and off-balance sheet assets and liabilities are managed accordingly within the risk limits accepted by the Bank and the related legal limits. Derivative instruments are mainly utilized for liquidity needs and for mitigating currency and interest rate risks. The position of the Bank as a result of foreign currency activities is being held at minimum levels and the currency risk exposure is followed within the determined levels by the Board of Directors, by considering the limits specified by the Banking Act.

Foreign currency denominated monetary assets and liabilities are translated with the exchange rates prevailing at the balance sheet date. Gains and losses arising from such valuations are recognized in the income statement under the account of "Foreign exchange gains or losses", except for valuation differences arising from foreign currency participations, subsidiaries and foreign currency non-performing loans. Since the foreign currency investments and subsidiaries are considered as non-monetary items, they are translated with the exchange rates at the date when the fair values are remeasured and are accounted under shareholders equity. Foreign currency non-performing loans are translated with the exchange rates at the date of transfer to TL non-performing loans accounts.

The Bank hedges foreign currency exposure arising from carrying its foreign subsidiaries at equity method, with financial liabilities in foreign currency and applies net investment hedge accounting. The effective portions of the change in fair value in financial liabilities in foreign currency are recorded under "Hedging funds" in equity.

Bank, upon initial recognition, classifies its financial liabilities as fair value of financial liabilities value through profit / loss in order to eliminate the recognition inconsistency.

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Accounting policies (continued)

III. Explanations on investments in associates, subsidiaries and joint ventures:

Associates, subsidiaries and joint ventures are being carried at equity method in unconsolidated financial statements of the Bank started from June 30, 2015. Any valuation differences arising from prior years, before January 1, 2015, are booked as "marketable securities valuation differences" under the equity. In the following periods, any valuation differences arising from the current period income and other comprehensive income are booked in profit and loss statement and "marketable securities valuation differences" under the equity, respectively. This accounting policy change is performed through an early adaption before the effective date of January 1, 2016 in accordance with the change of "Standard on Stand-alone Financial Statement (TAS 27)" numbered 29321 on April 9, 2015 and confirmation by BRSA's letter numbered 10686 on July 14, 2015.

IV. Explanations on forward and option contracts and derivative instruments:

The Bank's derivative transactions mostly include money and interest rate swaps, forward foreign exchange purchase and sale transactions and options.

Derivative instruments are measured at fair value on initial recognition and subsequently remeasured at their fair values. As a result, the fair value of derivatives is reflected as net liability or net asset on a contract by contract basis. The accounting method applied to the income or loss arising from derivative instruments depends on whether the derivative is being used for hedging purposes or not and depends on the type of item being hedged.

At the transaction date, the Bank documents the relationship between hedging instruments and hedged items, together with the risk management policies and the strategies on hedging transactions. Besides, the Bank regularly documents the effectiveness of the hedging instruments in offsetting the changes in the fair value of the hedged items.

Changes in the fair value of derivative instruments subject to fair value hedges are recognized under profit or loss accounts together with the variation in the fair value of hedged items. The changes of fair value of derivative transactions for fair value hedge are classified in "Derivative Financial Transactions Gains/Losses" account. In the balance sheet, changes in the fair value of hedged assets and liabilities, during the period in which the hedge is effective, are shown with the related assets and liabilities. The ineffective portion of the mentioned hedging transaction is reflected to the income statement. If the underlying hedge does not conform to the hedge accounting requirements, according to the adjustments made to the carrying value (amortized cost) of the hedged item, for which the risk is hedged by a portfolio hedge, are amortized with the straight line method within the time to maturity and recognized under the profit and loss accounts. Fair value adjustments are recognized directly in the income statement in an event of repayment and/or unwinding and/or derecognition of the hedged item.

The Bank hedges its cash flow risk arising from foreign currency and Turkish Lira floating interest rate liabilities by using interest rate swaps. The effective portion of the fair value changes of the hedging instruments are recorded in "Hedging funds" under shareholders' equity. These funds are transferred to profit or loss from equity when the cash flows of the hedged items (interest expense) impact the income statement.

In case the cash flow hedge accounting is discontinued due to the expiry, realization for sale of the hedging instrument, or due to the results of the effectiveness test the amounts accounted under shareholders' equity are transferred to the profit and loss accounts as these cash flows of the hedged item are realized.

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Accounting policies (continued)

Some of the trading purpose derivative transactions, even though they provide effective economic hedges under the Bank's risk management policy, do not qualify for hedge accounting under the specific rules in "Turkish Accounting Standard for Financial Instruments: Recognition and Measurement ("TAS 39")" and are therefore treated as "financial instruments at fair value through profit or loss".

"Financial instruments at fair value through profit or loss" are measured at fair value. If the fair value of derivative financial instruments is positive, it is disclosed under the main account "financial assets at fair value through profit or loss" in "derivative financial assets held for trading" and if the fair value difference is negative, it is disclosed under "derivative financial liabilities held for trading". Fair value changes are recorded under "Derivative Financial Transactions Gains/(Losses)" in the income statement.

The fair values of the derivative financial instruments are calculated using quoted market prices or by using discounted cash flow models.

Parameters used for the valuation of the option portfolio are determined by market risk management and the confirmation of the accuracy of fair value calculations are monitored periodically by market risk management.

Liabilities and receivables arising from the derivative instruments are followed in the off-balance sheet accounts as their contractual values. Embedded derivatives are separated from the host contract and accounted as derivative instruments according to TAS 39 in case (i) the related embedded derivative's economic features and risks are not closely related to the host contract, (ii) another instrument that has the same contract conditions with the embedded derivative satisfies the definition of a derivative instrument and (iii) the hybrid instrument is not carried at fair value through profit or loss.

Credit derivatives are capital market tools designed to transfer credit risk from one party to another.

As of December 31, 2016, the Bank's credit derivatives portfolio included in the off-balance sheet accounts is composed of credit linked notes (embedded derivatives are separated from host contract in line with TAS 39 and recorded as credit default swaps), total return swaps and credit default swaps.

Credit linked notes are bonds that have repayments depending on a credit event or the credit risk evaluation of a reference asset or asset pool. Depending on whether the reference assets are included in the balance sheet of the issuer or the owner of the assets, these transactions can be accounted by the party assuming the credit risk as insurance or as an embedded derivative. As per the Bank's management evaluation, the embedded derivatives included in the credit linked notes are separated from the host contracts in accordance with TAS 39 and recorded and evaluated as credit default swaps. The bond itself (host contract) is valued in accordance with the valuation principles of the category it is classified.

Credit default swaps are contracts, in which the seller commits to pay the contract value to the buyer in case of certain credit risk events in return for the premium paid by the buyer for the contract. Credit default swaps are valued daily by the valuation model of the Bank and then accounted over their fair values; while credit linked notes are valued and accounted monthly.

Total return swaps are contracts, in which the seller commits to pay the contract value for all cash flows of the reference assets of the seller and the changes of the market values of these reference assets to the buyer during the contract maturity and bear all the decreases in the market value of the these reference assets. The Bank uses the total return swaps to generate long term funding.

Market risks of these products are monitored using the Bank's internal modelling system for the Value-at-Risk and basis points sensitivity analysis; the liquidity risks are monitored using the short term liquidity report on daily and the long term liquidity report on monthly basis

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Accounting policies (continued)

According to the regulations of BRSA, currency exchange transactions, which are realized at value date in the initial phase of currency swaps, are recorded and followed as irrevocable commitments in off-balance sheet accounts until the value date.

A Credit Valuation Adjustment (CVA) is applied to the Bank's over-the-counter derivative exposures to take into account the counterparty's risk of default when measuring the fair value of the derivative. CVA is the mark-to-market cost of protection required to hedge credit risk from counterparties in the Bank's over-the-counter derivatives portfolio. The Bank calculates CVA based on collective provisioning methodology calculated in accordance with Turkish Accounting Standards, TAS 39, comprising the product of Exposure, Probability of Default (PD) and Loss Given Default (LGD). CVA is calculated based on the exposure of each counterparty.

V. Explanations on interest income and expense:

Interest income and expenses are recognized in the income statement on an accrual basis by using the effective interest method periodically. The Bank ceases accruing interest income on non-performing loans and any interest income accruals from such receivables are reversed and no income is accounted until collection is made according to the related regulation.

VI. Explanations on fee and commission income and expenses:

Fees and commissions received as a result of the service agreements or arising from negotiating or participating in the negotiation of a transaction on behalf of a third party are recognized either in the period when the transaction is realized or deferred based on the type of the underlying transaction. Other commission income and fees from various banking services are recorded as income at the time of realization.

VII. Explanations on financial assets:

The Bank classifies and accounts its financial assets as "fair value through profit or loss", "available-for-sale", "loans and receivables" or "held-to-maturity". The appropriate classification of financial assets of the Bank is determined at the time of purchase by the Bank management, taking into consideration the purpose of holding the investment. Regular purchases and sales of financial assets are recorded based on settlement date. Settlement date of a financial asset is the date that the asset is received or delivered by the Bank. Settlement date accounting requires; (a) accounting for the financial asset when the asset is received and (b) accounting of disposal of the financial asset and recording the related profit and loss when the asset is delivered. The fair value changes of an asset to be acquired between the trade date and settlement date is accounted in accordance with the basis of valuation of assets.

a. Financial assets at fair value through profit or loss:

Financial assets, which are classified as "Financial assets at fair value through profit or loss", are trading financial assets and are either acquired for generating profit from short-term fluctuations in the price or dealer's margin, or are financial assets included in a portfolio in which a pattern of short-term profit making exists independent from the acquisition purpose.

Trading financial assets are initially recognized at fair value and are subsequently re-measured at their fair value. However, if fair values cannot be obtained from active market transactions, it is assumed that the fair value cannot be measured reliably and fair values are calculated by alternative models. All gains and losses arising from these valuations are recognized in the income statement. Interest earned while holding financial assets is reported as interest income and dividends received are included separately in dividend income.

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Accounting policies (continued)

Derivative financial instruments are treated as trading financial assets unless they are designated as hedge instruments. The principles regarding the accounting of derivative financial instruments are explained in detail in Note IV of this section.

b. Held-to-maturity financial assets:

Held-to-maturity financial assets are non-derivative financial assets other than loans and receivables, with fixed maturities and fixed or determinable payments where management has the intent and ability to hold the financial assets to maturity and that are not initially classified as financial assets at fair value through profit/loss or available for sale. Held-to-maturity financial assets are initially recognized at total of acquisition and transaction cost. Held-to-maturity securities are carried at "Amortized cost" using the "Effective interest method" after their initial recognition. Interest income related with held-to-maturity securities is recorded in "Interest income" and impairment arising from a decrease in cost or revalued amounts is recorded in "Provision for impairment of loans and other receivables" accounts.

There are no financial assets that were previously classified as held-to-maturity but cannot be subject to this classification for two years due to breach of classification principles. In accordance with TAS 39, sales or reclassification to available for sale portfolio of insignificant amount of financial assets, sale or reclassification to available for sale portfolio of financial assets which are close to maturity less than three months, or sale or reclassification to available for sale portfolio of assets as a result of significant increase in the risk weights of held-to-maturity investments used for regulatory risk-based capital purposes will not result in tainting.

c. Loans and receivables:

Loans and receivables are financial assets raised through lending without having the intention to trade in the short term. Loans and receivables are non derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted on active market. Loans and receivables are recognized initially at cost including transaction costs (which reflect fair values) and subsequently carried at the amortized cost using the "effective interest method". The expenses incurred for the assets received as collateral are not considered as transaction costs and are recognized in the expense accounts.

Retail, commercial and corporate loans included in cash loans are accounted for with their original maturities in accounts which are mentioned in the Uniform Chart of Accounts ('UCA'). Foreign currency indexed loans are initially measured at local currency accounts with the foreign exchange rate prevailing at date of the initial recognition and re-valued with the relevant foreign currency rates prevailing at the date of the financial statements. Increase or decrease in the value of the principal amount of the loan due to changes in foreign exchange rates is accounted in the related income and expense accounts. Repayment amounts are translated with the foreign exchange rates prevailing at the repayment dates and the valuation differences is accounted for in foreign exchange gain/loss accounts.

The Bank provides general and specific provisions based on the assessments and estimates of the management, by considering the "Communiqué Related to Principles and Procedures on Determining the Qualifications of Banks' Loans and Other Receivables and the Provision for These Loans and Other Receivables" ("Provisioning Regulation") published in the Official Gazette No. 26333 dated November 1, 2006. In this context, the management estimates are determined, on the basis of the prudence principle and Bank credit risk policies, considering the general structure of the loan portfolio, the financial conditions of the customers, non-financial information and the economic conjuncture.

Provision expenses are deducted from the net income of the year. If there is a subsequent collection from a receivable that was already provisioned in previous years, the recovery amount is classified under "other operating income". Uncollectible receivables are written-off after all the legal procedures are finalized.

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Accounting policies (continued)

ç. Available-for-sale financial assets:

Available-for-sale financial assets are defined as financial assets other than the ones classified as "Loans and receivables", "Held-to-maturity assets" or "Financial assets at fair value through profit or loss".

Available-for-sale financial assets are subsequently re-measured at fair value. When fair values based on market prices cannot be obtained reliably, the available-for-sale financial assets are carried at fair values determined by using alternative models. Available for sale equity securities which are not quoted on a market and the fair values of which cannot be determined reliably, are carried at cost less any impairment. "Unrealized gains and losses" arising from changes in the fair value of financial assets classified as available-for-sale are recognized in the shareholders' equity as "Marketable securities valuation differences", until the related assets are impaired or disposed. When these financial assets are disposed or impaired, the related fair value differences accumulated in the shareholders' equity are transferred to the income statement. Interest and dividends received from available for sale assets are recorded in interest income and dividend income as appropriate.

Interest income on available for sale financial assets are calculated by effective interest rate method and are accounted for in interest income account. At the time of sale of an available for sale financial assets before the maturity, the difference between the profit, which is the difference between the cost and sales price of the financial assets, and the interest income accrual are accounted under UCA.

VIII. Explanations on impairment of financial assets:

The existence of objective evidence whether a financial asset or group of financial assets is impaired, is assessed at each balance sheet date. If such evidence exists, impairment provision is provided based on the financial assets classification.

Impairment for held to maturity financial assets carried at amortized cost is calculated as the difference between the expected future cash flows discounted at the effective interest rate method and the carrying value. The impairment amount transferred from shareholders' equity to profit or loss for available for sale securities is calculated as the difference between the purchase cost (after deduction of principal repayments and redemption) and the fair value less any impairment that was previously recorded in profit or loss. This amount is recorded in expense accounts in accordance with the UCA.

The principles for the accounting of provisions for loans and receivables are explained in Note VII. of this section.

IX. Explanations on offsetting financial assets:

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Bank has a legally enforceable right to offset the recognized amounts and to collect/pay related financial assets and liabilities on a net basis, or there is an intention to realize the asset and settle the liability simultaneously.

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Accounting policies (continued)

X. Explanations on sales and repurchase agreements and securities lending transactions:

Securities subject to repurchase agreements ("Repos") are classified as "at fair value through profit or loss", "Available-for-sale" and "Held-to-maturity" according to the investment purposes of the Bank and measured according to the portfolio to which they belong. Funds obtained from repurchase agreements are accounted under "Funds provided under repurchase agreements" in liabilities and the difference between the sale and repurchase price is accrued over the life of the repurchase agreements using the "Effective interest method". Interest expense on repo transactions are recorded under "Interest expense on money market transactions" in the income statement.

Funds given against securities purchased under agreements to resell ("Reverse repo") are accounted under "Receivables from reverse repurchase agreements" on the balance sheet. The difference between the purchase and determined resell price is accrued over the life of repurchase agreements using the effective interest method.

The Bank has no securities lending transactions.

XI. Information on assets held for resale and related to discontinued operations and explanations on liabilities related with these assets:

According to the TFRS 5, a tangible asset (or a group of assets to be disposed) classified as "Asset held for resale" is measured at lower of carrying value and fair value less costs to sell. An asset (or a group of assets to be disposed) is regarded as "Asset held for resale" only when the sale is highly probable and the asset (or a group of assets to be disposed) is available for immediate sale in its present condition. For a highly probable sale, there must be a valid plan prepared by the management for the sale of asset including identification of possible buyers and completion of sale process. Furthermore, the asset should be actively in the market at a price consistent with its fair value.

Additionally, assets that were acquired due to non-performing receivables are accounted in the financial statements in accordance with the "Communiqué Regarding the Principles and Procedures for the Disposals of Immovables and Commodities Acquired due to Receivables and for Trading of Precious Metal" published in the Official Gazette dated November 1, 2006, No. 26333 and classified as assets held for resale.

A discontinued operation is a part of the Bank's business classified as sold or held for sale. The operating results of the discontinued operations are disclosed separately in the income statement.

XII. Explanations on goodwill and other intangible assets:

a. Goodwill:

The excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities or contingent liabilities of the acquired subsidiary at the date of acquisition of the control is recorded as goodwill and represents a payment made by the acquirer in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognized. The acquirer also recognizes assets that are capable of being individually identified and separately recognized, intangible assets (e.g. credit card brand value, deposit base and customer portfolio) and contingent liabilities at fair value, irrespective of whether the asset had been recognized by the acquiree before the business combination, if it can be distinguished from the goodwill and if the asset's fair value can be measured reliably.

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Accounting policies (continued)

In line with "Turkish Financial Reporting Standard for Business Combinations" ("TFRS 3"), the goodwill is not subject to amortization but is tested annually or more frequently for impairment and carried at cost less accumulated impairment losses, if any, in line with "Turkish Accounting Standard for Impairment on Assets" ("TAS 36").

b. Other intangible assets:

Other intangible assets are measured at cost on initial recognition and any directly attributable costs of setting the asset to work for its intended use are included in the initial measurement. Subsequently, intangible assets are carried at historical costs after the deduction of accumulated amortization and the provision for impairment.

The Bank evaluates the possibility of existence of impairment of intangible assets at the end of each reporting period. If there is an evidence of impairment, the Bank estimates a recoverable amount in accordance with the Turkish Accounting Standard (TAS 36) "Impairment of Assets". The recoverable amount is the higher of net sales price or the value in use. When the book value of another intangible asset exceeds the recoverable amount, the related asset is considered to be impaired. If there is no evidence of impairment, there is no need to estimate the recoverable amount.

Intangibles are amortized over their estimated useful lives using the straight-line method. The useful life of the asset is determined by assessing the expected useful life of the asset, technical, technological and other kinds of obsolescence and all required maintenance expenses necessary to utilize the economic benefit from the asset. The rates used are presented below:

Credit card brand value, deposit base and customer portfolio	10%
Other intangible assets	20%

XIII. Explanations on property and equipment:

Property and equipment is measured at its cost when initially recognized and any directly attributable costs of setting the asset in working order for its intended use are included in the initial measurement in accordance with the Turkish Accounting Standard (TAS 16) "Tangible Assets". Subsequently, properties and equipment, except art objects, paintings and buildings are carried at cost less accumulated depreciation and provision for impairment.

The Bank adopted a fair value accounting method for its buildings as of March 31, 2015 in tangible assets in accordance with TAS 16.

Depreciation is calculated over the cost of property and equipment using the straight-line method. The rates used are stated below:

Buildings	2-4%
Movables, movables acquired under financial leasing	20%

The depreciation charge for items remaining in property and equipment for less than a full accounting period at the balance sheet date is calculated in proportion to the period the item remained in property and equipment.

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Accounting policies (continued)

In accordance with the Turkish Accounting Standard 36 (TAS 36) "Impairment of Assets", where the carrying amount of an asset is greater than its estimated "recoverable amount", it is written down to its "recoverable amount" and the provision for impairment is charged to the income statement.

Gains and losses on the disposal of property and equipment are determined by deducting the net book value of the property and equipment from its sales proceeds.

Expenditures for the repair and maintenance of property and equipment are recognized as expense. The capital expenditures made in order to increase the capacity of the tangible asset or to increase its future benefits are capitalized on the cost of the tangible asset. The capital expenditures include the cost components which are used either to increase the useful life or the capacity of the asset or the quality of the product or to decrease the costs.

XIV. Explanations on leasing transactions:

The Bank performs financial and operational leasing in the capacity of the lessee.

Financial lease

The Bank includes the lower of the market value of the fixed asset subject to financial leasing in the beginning of the financial leasing period or present value of the lease payments in property and equipment and records the liabilities arising from financial leasing in liabilities. Financing costs arising due to leasing are spread through the lease period forming a fixed interest rate. In addition, fixed assets that are obtained by the way of financial leasing are subject to depreciation based on their useful lives. If a decrease in the value of fixed assets that are subject to financial leasing is noticed, impairment provision is recognized. The liabilities arising from financial leasing contracts are accounted under "Financial lease payables". Expenses arising from interest and exchange rate changes related to financial leasing liabilities are charged to the income statement. Lease payments are deducted from financial leasing payables. The Bank does not perform financial leasing operations as "Lessor".

Operational lease

Leases, in which the majority of risk and return of property belongs to lessor, are classified as operational lease. Payments that are made under operational leases, are accounted in income statements on a straight line basis during the lease period.

XV. Explanations on provisions, contingent liabilities:

Provisions and contingent liabilities, except for the specific and general provisions recognized for loans and other receivables, are accounted in accordance with the "Turkish Accounting Standard for Provisions, Contingent Liabilities and Contingent Assets" ("TAS 37").

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions for contingent liabilities arisen from past events are recognized in the period of occurrence in accordance with the "Matching principle". A provision is recognized when it is probable that the contingent event will occur and a reliable estimate can be made. When a reliable estimate of the amount of obligation cannot be made or it is not probable that an outflow of resources will be required to settle the obligation, it is considered that a "contingent" liability exists and it is disclosed in the related notes to the financial statements.

Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the entity. Contingent assets are not recognized in financial statements since this may result in the recognition of income that may never be realized.

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Accounting policies (continued)

Contingent assets are disclosed where an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements of the period in which the change occurs.

XVI. Explanations on obligations related to employee rights:

a. Employee termination benefits

Obligations related to employee termination and vacation rights are accounted for in accordance with "Turkish Accounting Standard for Employee Rights" ("TAS 19") and are classified under "Reserve for employee rights" account in the balance sheet.

Under the Turkish Labour Law, the Bank is required to pay a specific amount to the employees who have retired or whose employment is terminated other than for the reasons specified in the Turkish Labour Law. The reserve for employment termination benefits represents the present value of the estimated total liability for the future probable obligation of the Bank determined by using certain actuarial assumptions. Actuarial gains and losses generated after January 1, 2013, are accounted for under equity in accordance with the revised TAS 19 standard.

b. Pension rights

The Bank's personnel are members of the Yapı ve Kredi Bankası Anonim Şirketi Mensupları Yardım ve Emekli Sandığı Vakfı ("the Fund") which was established in accordance with the 20th temporary article of the Social Security Law No.506. The technical financial statements of the Fund are audited in accordance with the Article 38 of the Insurance Supervision Law and the "Regulation Regarding the Actuaries" by a registered independent actuary.

Temporary article 23 paragraph 1 of the Banking Act published in the Official Gazette No. 25983 dated November 1, 2005 stated that foundations like the Fund are to be transferred to the Social Security Institution ("SSI") within three years beginning from the publication date of the article.

The article of the Law related to the transfer was cancelled (pursuant to the application by the President on November 2, 2005) by the decision of Constitutional Court (decision no: E.2005/39, K. 2007/33 dated March 22, 2007) published in the Official Gazette No. 26479 dated March 31, 2007, and the effect of the law article was suspended from the date of the publication of the decision.

The reasoning of the Constitutional Court regarding the abrogation of the corresponding article was published in the Official Gazette dated December 15, 2007, No 26372. With the publication of the reasoning of the decision, the Grand National Assembly of Turkey ("GNAT") started to work on new legal arrangements regarding the transfer of the fund members to SSI and the related articles of the "Law Regarding the Changes in Social Insurance and General Health Insurance Law and Other Related Laws and Regulations" No 5754 ("the New Law") regulating the transfer of the funds were approved by the GNAT on April 17, 2008. The New Law was published in the Official Gazette No. 26870 dated May 8, 2008. With the new law, the banks' pension funds will be transferred to SSI within three years from the date of publication of the decree and this period can be extended for a maximum of two years with the decision of the Council of Ministers. The transfer period was extended for another two years with the decision of the Council of Ministers No. 2011/1559 published in the Official Gazette dated April 9, 2011. According to the "Amendment of Social Insurance and General Health Insurance Law No. 6283" published in the Official Gazette dated March 8, 2012, Council of Ministers was authorized to increase the two-year extension period mentioned above to four years.

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Accounting policies (continued)

According to the decision of The Council of Ministers dated February 24, 2014, the transfer date is set as May 2015. The Council of Ministers was authorized to determine the transfer date of pension funds in accordance with the last amendment in the first paragraph of the 20th provisional article of Law No.5510 implemented by the Law No. 6645 on Amendment of the Occupational Health and Safety Law and Other Laws and Decree Laws published in the Official Gazette dated 23 April 2015 and numbered 29335.

A commission (whose members are the representatives of the SSI, the Ministry of Finance, Turkish Treasury, State Planning Organization, BRSA, Saving Deposit Insurance Fund ("SDIF"), one member representing the Fund and one member representing the Fund members) is in charge of the calculation of the value of the payment that would need to be made to SSI to settle the obligation using a technical interest rate of 9,8% by law taking into consideration income and expenses by insurance branches of the funds and the excess of salaries and income paid by the funds over the salaries and income to be paid in accordance with the SSI arrangements which should not be less than SSI arrangements, related to the members of the Fund as of the date of the transfer including the members who have left the scheme.

In accordance with the New Law, after the transfer to SSI, any social rights and payments to Fund members and their beneficiaries which are not provided although they are included in the Fund Title Deed will continue to be provided by the Fund and the employers of the Fund members.

The Bank accounts for a provision for the technical deficit based on the report prepared by a registered actuary in accordance with the rates determined by the New Law.

c. Short term benefits of employee:

Within the scope of TAS 19, the Bank measures the expected costs of accumulated paid leaves as expected payments it will make due to unused leave rights as at the end of the reporting date.

XVII. Explanations on taxation:

a. Current tax:

The Corporate Tax rate is 20% in accordance with the article number 32 of the New Corporate Tax Law no.5520 which is published in the official Gazette dated June 21, 2006 and numbered 26205. This tax rate is applied to accounting income modified for certain exemptions and deductions, and additions for certain non-tax deductible expenses and allowances for tax purposes. No further tax is payable unless the profit is distributed.

Dividends paid to non-resident corporations, which have a place of business in Turkey or to resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as profit distribution and no withholding tax incurs in such a case.

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

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Accounting policies (continued)

A 75% portion of the capital gains derived from the sale of equity investments and immovable properties held for at least two years is tax exempt, if such gains are added to paid-in capital or held in a special account under shareholder's equity for five years.

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

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Tax returns are required to be filled and delivered to the related tax office until the evening of the 25th of the fourth month following the balance sheet date and the accrued tax is paid until the end of the same month. Tax returns are open for 5 years from the beginning of the year following the balance sheet date and during this period the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

b. Deferred tax:

The Bank calculates and accounts for deferred income taxes for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements in accordance with "Turkish Accounting Standard for Income Taxes" ("TAS 12") and in accordance with BRSA's explanations and circulars and the tax legislation, the Bank calculates deferred tax on deductible temporary differences except for general loan loss provisions, to the extent that future taxable income is estimated to be available. In the deferred tax calculation, the enacted tax rate, in accordance with the tax legislation, is used as of the balance sheet date.

Deferred tax liabilities are recognized for all resulting temporary differences whereas deferred tax assets resulting from temporary differences are recognized to the extent that future taxable profit will be available against which the deferred tax asset can be utilized.

The calculated deferred tax asset and deferred tax liability are presented as net in these financial statements.

Tax effects of the transactions that are directly accounted under equity are also reflected to equity.

Additionally, in accordance with the related legislation of BRSA, deferred tax effect, if income, is not eligible for dividend distribution and share capital increase.

c. Transfer pricing:

The article no.13 of the Corporate Tax Law No.5520 describes the issue of transfer pricing under the title of "disguised profit distribution" by way of transfer pricing (previously included as "Disguised profit" in the Corporate Tax Law No.5422). "The General Communiqué on Disguised Profit Distribution by Way of Transfer Pricing" published at November 18, 2007/26704, explains the application related issues on this topic effective from January 1, 2007, also taking into account the regulations in Article 41 of the Income Tax Law.

"Arm's length principle", which is the basis for the transfer pricing rule, is the pricing system to be followed for purchase or sale activities between related parties for any product or service transactions as if the transaction is realized with any other third party. According to this communiqué, if the taxpayers conduct transactions like purchase and sale of goods or services with the related parties where the prices are not determined according to the arm's length principle, then it will be concluded that there is a disguised profit distribution by way of transfer pricing. Such disguised profit distributions will not be deducted from the corporate tax base for tax purposes.

As discussed in the relevant section of this communiqué, the taxpayers are required to fill out the "Transfer Pricing, Controlled Foreign Entities and Thin Capitalization" form for the purchase and sale of goods or services conducted with their related parties in a taxation period, attach these forms to their corporate tax returns and submit to the tax offices.

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Accounting policies (continued)

XVIII. Explanations on borrowings:

The financial liabilities classified at fair value through profit/loss, trading and derivative financial liabilities are valued with their fair values and the other financial liabilities are carried at "amortised cost" including costs of transactions using the "effective interest method".

Bank, classified its part of the financial debts as fair value through profit / loss on financial liabilities. Difference between fair value of the debt and amortised cost of the debt together with the interest expense paid on financial instrument is presented as trading gain and losses in the accompanying financial statements.

The Bank utilises various hedging techniques to minimise the currency, interest rate and liquidity risks of its financial liabilities. No convertible bonds have been issued by the Bank.

Also, the Bank obtains funds by issuing bonds and bills.

XIX. Explanations on issuance of share certificates:

When shares are issued above their nominal value, the excess over the nominal value is accounted under shareholders' equity as "Share premium".

No dividend payments were announced after the balance sheet date.

XX. Explanations on avalized drafts and letter of acceptances:

Avalized drafts and acceptances are included in the "Off-balance sheet commitments".

XXI. Explanations on government grants:

In accordance with the related articles of the "Law Regarding the Supporting of Research and Development Activities" numbered 5746, until balance sheet date, the Bank received government grant from TÜBİTAK amounting to TL 1.451 (December 31, 2015 - TL 1.592).

XXII. Profit reserves and profit distribution:

Retained earnings as per the statutory financial statements other than legal reserves are available for distribution, subject to the legal reserve requirement referred to below. Legal reserves consist of first and second reserves as foreseen in the TCC. The TCC specifies that the first legal reserve is appropriated at the rate of 5% until the total reserve is equal to 20% of paid-in capital and that the second legal reserve is appropriated at the rate of 10% of distributions in excess of 5% of paid-in capital; however holding companies are not subject to this application. According to the Turkish Commercial Code, legal reserves can only be used to compensate for accumulated losses and cannot be used for other purposes unless they exceed 50% of paid-in capital.

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Accounting policies (continued)

XXIII. Earnings per share:

Earnings per share disclosed in the income statement are calculated by dividing net profit/(loss) for the year to the weighted average number of shares outstanding during the period concerned.

	Current Period	Prior Period
Net Income/(loss) from continuing operations to be appropriated to ordinary shareholders	2.932.795	1.860.545
Weighted average number of issued ordinary shares(thousand)	434.705.128	434.705.128
Earnings per share from continued operations (full TL)	0,0067	0,0043

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings. These bonus shares are treated as issued shares in earnings per share computations. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year is adjusted in respect of bonus shares issued without a corresponding change in resources by giving them a retroactive effect. In case bonus shares are distributed after the balance sheet date but before the preparation of the financial statements, earnings per share is calculated considering the new number of shares.

No bonus shares were issued during 2016 (2015 - None).

XXIV. Related parties:

For the purpose of these financial statements, shareholders having control shares of the Bank, key management personnel and board members together with their families and companies controlled by/affiliated with them, associated companies and joint ventures and the Fund providing post employment benefits are considered and referred to as related parties in accordance with "Turkish Accounting Standard for Related Parties" ("TAS 24"). The transactions with related parties are disclosed in detail in Note VII of Section Five.

XXV. Explanations on operating segments:

Information about operating segments which are determined inline with "Turkish Financial Reporting Standard about Operating Segments" ("TFRS 8") together with organizational and internal reporting structure of the Bank, are disclosed in Note XII of Section Four.

XXVI. Explanations on other matters:

None.

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Section Four

Information related to financial position of the Bank

I. Explanations on equity:

The calculation of the own funds and the capital adequacy standart ratio are performed in accordance with the communiqués such as "Regulation Regarding the Measurement and Evaluation of Banks' Capital Adequacy Ratio", "Regulation Credit Risk Mitigation Techniques", "Regulation on calculation of Risk-Weighted Amounts of Securitizations" and "Regulation Regarding Banks' Shareholders' Equity".

The capital adequacy ratio of the Bank is 14,21% (December 31, 2015 – 13,81%).

a. Information on equity:

	Amounts subject to treatment	
	Current Period	before 1/1/2014 ⁽¹⁾
COMMON EQUITY TIER 1 CAPITAL		
Paid-up Capital	4.347.051	
Share issue premiums	543.881	
Retained earnings	13.759.139	
Accumulated other comprehensive income and other disclosed reserves which defined in the Turkish Accounting Standards	5.185.457	
Profit	2.932.795	
Net profit of the period	2.932.795	
Profit of the previous years	-	
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and cannot be recognised within profit for the period	15.165	
Common Equity Tier 1 capital before regulatory adjustments	26.783.488	
Common Equity Tier 1 capital: regulatory adjustments		
Prudential valuation adjustments	18.141	
The sum of the net loss for the current period and the previous years which could not be absorbed by the retained earnings and losses recognised in equity in accordance with TAS	664.940	
Improvement costs for operating leasing	109.050	
Goodwill (net of related tax liability)	587.696	979.493
Other intangibles other than mortgage-servicing rights (net of related tax liability)	306.021	510.035
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
Cash-flow hedge reserve	379.150	
Shortfall of provisions to expected losses	-	
Securitisations gain on sale	-	
Gains and losses due to changes in own credit risk on fair valued liabilities	-	
Defined-benefit pension fund net assets	-	
Investments in own shares	-	
Credits extended contrary to the fourth paragraph of Articles 56 of the Banking Law	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank owns more than 10% of the issued share capital (amount above 10% threshold)	-	
Mortgage servicing rights (amount above 10% threshold)	-	
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
Amount exceeding the 15% threshold (-) of the common equity Tier 1 in accordance with the second paragraph of the provisional article 2 in the regulation regarding the Banks' Shareholders' Equity	-	
The amount above threshold for the investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank owns more than 10% of the issued share capital	455.257	
The amount above threshold for mortgage servicing rights	-	
The amount above threshold for deferred tax assets arising from temporary differences	-	
National specific regulatory adjustments which shall be determined by the BRSA	-	
Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
Total regulatory adjustments to Common equity Tier 1	2.520.255	
Common Equity Tier 1 capital (CET1)	24.263.233	

Information related to financial position of the Bank (continued)

Amounts subject

(Convenience translation of publicly announced unconsolidated financial statements originally issued in Turkish, See Note I. of Section three)

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		to treatment Current Period before 1/1/2014 ⁽¹⁾
ADDITIONAL TIER 1 CAPITAL		
Preferred shares that are not included in Common Equity Tier 1 capital and related shares issue premiums	-	
Eligible capital instruments and relevant share issue premiums that are approved by the BRSA	-	
Eligible capital instruments and relevant share issue premiums that are approved by the BRSA (For the purposes of the Provisional Article 4 of the Regulation on Banks' Own Funds)	-	
Additional Tier 1 capital before regulatory adjustments	-	
Additional Tier 1 capital: regulatory adjustments		
Investments in own Additional Tier 1 instruments	-	
Reciprocal cross-holdings in Additional Tier 1 instruments	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
National specific regulatory adjustments which shall be determined by the BRSA	-	
Regulatory Adjustments which will be deducted from Tier 1 capital during the transition period	-	
Goodwill and other intangible assets and related deferred tax liabilities which will not deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	595.811	-
Net deferred tax asset/liability which is not deducted from Common Equity Tier 1 capital for the purposes of the sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
Total regulatory adjustments to Additional Tier 1 capital	-	
Total Additional Tier 1 capital	-	
Total Tier 1 capital (Tier 1 capital = Common Equity Tier 1 capital + Additional Tier 1 capital)	23.667.422	
TIER 2 CAPITAL		
Eligible capital instruments and relevant share issue premiums that are approved by the Agency	5.472.356	
Eligible capital instruments and relevant share issue premiums that are approved by the Agency (For the purposes of the Provisional Article 4 of the Regulation on Banks' Own Funds)	1.066.560	
Provisions (Article 8 of the Regulation on the Equity of Banks)	2.689.286	
Tier 2 capital before regulatory adjustments	9.228.202	
Tier 2 capital: regulatory adjustments		
Direct and indirect investments of the Bank on its own Tier 2 Capital (-)	-	
Investments of the Bank to banks that invest on the Bank's Tier 2 and components of equity issued by financial institutions with the conditions declared in Article 8	109.452	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold) (-)	-	
Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) (-)	-	
National specific regulatory adjustments which shall be determined by the BRSA	-	
Total regulatory adjustments to Tier 2 capital	109.452	
Total Tier 2 capital	9.118.750	
Total Capital (The sum of Tier 1 capital and Tier 2 capital)	32.567.023	
The Sum of Tier 1 Capital and Tier 2 Capital (Total Capital)		
Credits extended contrary to the provisions of Articles 50 and 51 of the Banking Law	13.431	
Portion of the sum of the banks' real estate net book values, which is in excess of fifty per cent of their own funds and net book values of those of merchandise and real estate which have to be acquired due to their receivables and disposed of pursuant to Article 57 of the Banking Law, which cannot be disposed of despite the lapse of a period of five years since the date of such acquisition	11.868	
National specific regulatory adjustments which shall be determined by the BRSA	193.850	
Regulatory Adjustments which will be deducted from Total Capital during the transition period		
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold) which will not deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	
Significant investments in the Additional Tier 1 capital and Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold) which will not deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold), mortgage servicing rights (amount above 10% threshold), deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability which will not deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	

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OWN FUNDS	Current Period
Total Capital (The sum of Tier 1 capital and Tier 2 capital)	32.567.023
Total Risk Weighted Assets	229.213.155
CAPITAL ADEQUACY RATIOS	
Common Equity Tier 1 Capital Adequacy Ratio (%)	10,59
Tier 1 Capital Adequacy Ratio (%)	10,33
Capital Adequacy Ratio (%)	14,21
BUFFERS	
Institution specific buffer requirement of the Bank	5,508
Capital conservation buffer requirement (%)	0,625
Bank's specific countercyclical buffer requirement (%)	0,008
The ratio of Additional Common Equity Tier 1 capital which will be calculated by the first paragraph of the Article 4 of Regulation on Capital Conservation and Countercyclical Capital buffers to Risk Weighted Assets (%)	4,588
Amounts below the thresholds for deduction (before risk weighting)	
Non-significant investments in the capital of other financials	-
Significant investments in the common stock of financials	-
Mortgage servicing rights (net of related tax liability)	-
Deferred tax assets arising from temporary differences (net of related tax liability)	1.126.265
Applicable caps on the inclusion of provisions in Tier 2 capital	
General provisions for standard based receivables (before tenthousandtwentyfive limitation)	3.042.320
Up to 1.25% of total risk-weighted amount of general provisions for receivables where the standard approach used	2.689.286
Excess amount of total provision amount to credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-
Excess amount of total provision amount to 0,6% of risk weighted receivables of credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)	
Current cap on Additional Tier 1 capital instruments which subject to phase out arrangements in the Provisional Article 4 of the Regulation on Banks' Own Funds	-
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) which subject to Provisional Article 4 of the Regulation on Banks' Own Funds	-
Current cap on Tier 2 capital instruments which subject to phase out arrangements in the Provisional Article 4 of the Regulation on Banks' Own Funds	-
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) which subject to Provisional Article 4 of the Regulation on Banks' Own Funds	-

(1) The specified amounts are the figures calculated for the items subject to the phasing.

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Information related to financial position of the Bank (continued)

	Prior Period
Common Equity Tier 1 Capital	
Paid-in Capital to be Entitled for Compensation after All Creditors	4.347.051
Share premium	543.881
Share Cancellation Profits	-
Legal reserves	11.901.355
Other Comprehensive Income according to TAS	4.468.833
Profit	1.860.545
Net current period profit	1.860.545
Prior period profit	-
Provisions for Possible Losses	-
Bonus Shares from Associates, Subsidiaries and Joint-Ventures not Accounted in Current Period's Profit	15.107
Common Equity Tier 1 capital before regulatory adjustments	23.136.772
Common Equity Tier 1 capital: regulatory adjustments	
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS (-)	320.726
Leasehold Improvements on Operational Leases (-)	134.499
Goodwill and Intangible assets and related deferred tax liabilities (-)	583.999
Net Deferred tax assets / liabilities (-)	-
Shares Obtained against Article 56, Paragraph 4 of the Banking Law (-)	-
Investments in own common equity (-)	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank does not own 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
Mortgage servicing rights (amount above 10% threshold) (-)	-
Excess Amount arising from Deferred Tax Assets from Temporary Differences (-)	-
Amount exceeding the 15% threshold (-)	-
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank own more than 10% of the issued share capital (amount above 10% threshold) (-)	-
Mortgage servicing rights (amount above 10% threshold) (-)	-
Deferred tax assets arising from temporary differences (-)	-
Other items to be defined by the regulator (-)	-
Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions (-)	358.991
Total regulatory adjustments to Common equity Tier 1	1.398.215
Common Equity Tier 1 capital	21.738.557
Additional Tier 1 capital instruments	
Privileged stocks which are not included in common equity and share premiums	-
Directly issued qualifying Additional Tier 1 instruments (approved by the regulators) plus related stock surplus (Issued or Obtained after 1.1.2014)	-
Directly issued qualifying Additional Tier 1 instruments (approved by the regulators) plus related stock surplus (Issued or Obtained after 1.1.2014)	-
Additional Tier 1 capital before regulatory adjustments	-
Additional Tier 1 capital: regulatory adjustments	
Direct and Indirect Investments of the Bank on its own Additional Core Capital (-)	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank does not own 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank owns more than 10% of the Issued Share Capital (-)	-
Other items to be defined by the regulator (-)	-
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions (-)	-
Total regulatory adjustments to Additional Tier 1 capital	-
Additional Tier 1 capital	-

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Information related to financial position of the Bank (continued)

	Prior Period
Regulatory adjustments to Common Equity	
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	875.998
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-
Tier 1 capital	20.862.559
Tier 2 capital	
Directly issued qualifying Tier 2 instruments (that are approved by the regulator) plus related stock surplus (Issued or Obtained after 1.1.2014)	-
Directly issued qualifying Tier 2 instruments (that are approved by the regulator) plus related stock surplus (Issued or Obtained before 1.1.2014)	5.224.563
Pledged sources on behalf of the Bank for the use of committed share capital increase by shareholders	-
Generic Provisions	2.358.769
Tier 2 capital before regulatory adjustments	7.583.332
Tier 2 capital: regulatory adjustments	
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank does not own 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Core Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-)	-
Other items to be defined by the regulator (-)	-
Total regulatory adjustments to Tier 2 capital	-
Tier 2 capital	7.583.332
Total capital	28.445.891
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	6.445
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-)	11.345
Loans to Banks, Financial Institutions (domestic/foreign) or Qualified Shareholders in the form of Subordinated Debts or Debt Instruments Purchased from Such Parties and Qualified as Subordinated Debts (-)	149.667
Deductions as per the Article 20, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-
Other items to be defined by the regulator (-)	280.437
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank does not own 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank owns 10% or more of the Issued Share Capital, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation (-)	-
Shareholders' equity	27.997.997
Amounts below the thresholds for deduction	922.860
Remaining Total of Net Long Positions of the Investments in Own Fund Items of Unconsolidated Banks and Financial Institutions where the Bank owns 10% or less of the Issued Share Capital	-
Remaining total of net long positions of the investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank owns more than 10% or less of the Tier I Capital	-
Remaining mortgage servicing rights	-
Net deferred tax assets arising from temporary differences	922.860

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Information related to financial position of the Bank (continued)

b. Details on Subordinated Liabilities⁽¹⁾:

	1	2	3	4
Issuer	UNICREDIT SPA	UNICREDIT SPA	Yapı ve Kredi Bankası A.Ş.	Yapı ve Kredi Bankası A.Ş.
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	-	-	XS0861979440/ US984848AB73	XS1376681067
Governing law(s) of the instrument	BRSA / Austria Law	BRSA / Austria Law	BRSA / CMB / LONDON STOCK EXCHANGE / English Law	English Law /Turkish Law
Regulatory treatment				
Transitional Basel III rules	No	No	Yes	No
Eligible at stand-alone / consolidated	Stand-alone -Consolidated	Stand-alone -Consolidated	Stand-alone -Consolidated	Stand-alone -Consolidated
Instrument type (types to be specified by each jurisdiction)	Loan	Loan	Bond	Bond
Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	2.059	1.654	1.067	1.760
Par value of instrument	2.059	1.654	3.519	1.760
Accounting classification	Liability – Subordinated Loans- amortised cost	Liability – Subordinated Loans- amortised cost	Liability – Subordinated Loans- amortised cost	Liability – Subordinated Loans- amortised cost
Original date of issuance	January 9, 2013	December 18, 2013	December 6, 2012	March 8, 2016
Perpetual or dated	Dated	Dated	Dated	Dated
Original maturity date	10 years	10 years	10 years	10 years
Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes
Optional call date, contingent call dates and redemption amount	After 5th year	After 5th year	-	After 5th year
Subsequent call dates, if applicable	After 5th year	After 5th year	-	-
Coupons / dividends				
Fixed or floating dividend/coupon	Fixed	Fixed	Fixed	Fixed
Coupon rate and any related index	5,7%	6,55%	5,5%	8,63% (5 Year MidSwap+740 basis points, 8,5% coupon)
Existence of a dividend stopper	No interest accrue after the date of value decrease for the decreased amount	No interest accrue after the date of value decrease for the decreased amount	-	No interest accrue after the date of value decrease for the decreased amount
Fully discretionary, partially discretionary or mandatory	-	-	-	Mandatory
Existence of step up or other incentive to redeem	-	-	-	-
Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Cumulative
Convertible or non-convertible				
If convertible, conversion trigger (s)	-	-	-	-
If convertible, fully or partially	-	-	-	-
If convertible, conversion rate	-	-	-	-
If convertible, mandatory or optional conversion	-	-	-	-
If convertible, specify instrument type convertible into	-	-	-	-
If convertible, specify issuer of instrument it converts into	-	-	-	-
Write-down feature				
If write-down, write-down trigger(s)	-	-	-	In case of default
If write-down, full or partial	-	-	-	Partial
If write-down, permanent or temporary	-	-	-	Permanent
If temporary write-down, description of write-up mechanism	-	-	-	-
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	After the senior creditors, before the TIER 1 subdebt, same with TIER 2	After the senior creditors, before the TIER 1 subdebt, same with TIER 2	After the senior creditors, before the TIER 1 subdebt, same with TIER 2	After the senior creditors, before the TIER 1 subdebt, same with TIER 2
In compliance with article number 7 and 8 of "Own fund regulation"	No	No	Yes	No
Details of incompliance with article number 7 and 8 of "Own fund regulation"	-	-	8-2-ğ	-

(1) The Bank has repaid its subordinated loan at June 30, 2016 that was extended by Citibank, N.A., London Branch in the amount of 200 million Euro on June 25, 2007.

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Information related to financial position of the Bank (continued)

c. Approaches for assessment of adequacy of internal capital requirements for current and future activities

There are differences between the figures in the own funds and their corresponding amounts in the balance sheet. Within this context; in the calculation of own funds, general provision up to %1,25 credit risk is taken into consideration as Tier II Capital, the losses that are related to cash flow hedge transactions are not considered in the own funds and the prudential valuation adjustments calculated in accordance with the (i) item of the first paragraph in the ninth article of the "Regulation Regarding Banks' Shareholders' Equity" are considered in the own funds. In addition, the subordinated liabilities are considered after the adjustments made in accordance with the ninth paragraph of the eighth article and in the provisional fourth article of the "Regulation Regarding Banks' Shareholders' Equity".

ç. Exposures subject to countercyclical capital buffer:

The exposures subject to countercyclical capital buffer table prepared in accordance with the communiqué "Regulation on Capital Conservation and Countercyclical Capital buffers of Banks" published in the Official Gazette no. 28812 dated 5 November 2013 is presented below:

Country	RWAs of Banking Book for Private Sector Lending	RWAs of Trading Book	Total
Turkey	173.880.640	-	173.880.640
Malta	635.734	-	635.734
Italy	488.719	-	488.719
Russia	335.393	-	335.393
USA	315.266	-	315.266
Germany	204.628	-	204.628
Azerbaijan	195.511	-	195.511
France	193.240	-	193.240
Netherlands	191.698	-	191.698
Kazakhstan	114.717	-	114.717
Other	731.314	-	731.314
Total	177.286.860	-	177.286.860

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Information related to financial position of the Bank (continued)

II. Explanations on credit risk:

- a. Credit risk is the loss or the risk of the Bank in case counterparty cannot fulfill its obligations stated in agreements where the Bank is at a side. The Bank identifies loan limits for each customer considering statutory regulations, the internal scoring system, financial analysis reports and geographical and industry concentration and considering credit policies determined by Board of the Directors each year. The limits defined by the Bank's Board of Directors for each correspondent bank are followed-up daily by Treasury Management for the transactions related with placements with domestic and correspondent banks or treasury operations such as forward buy and sell transactions. Moreover, daily positions and limit controls of each dealer at Treasury department who is authorized for transactions in the market are performed by the system. During the loan granting process, liquid collaterals are preferred to the greatest extent possible. While granting of long term project finance loans, long term projections of the companies are analyzed both by financial analysis specialists and head office. Also the pricing of these commitments are decided by coordination with Treasury Management.

The Bank also monitors limitations on single borrower and group of borrowers in accordance with the regulations.

Loans and other receivables are monitored in terms of the credit worthiness of borrowers in accordance with the relevant legislation. In addition, the account status documents for new loans is controlled, and updated where if necessary.

Different rating systems are used for Small and Medium Sized Entities (SME), Corporate and Commercial customers during the underwriting process of the Bank. The Bank uses scorecard system for its retail and credit card customers for the underwriting and limit management processes. The scorecard system was internally developed, and being updated and approved regularly.

Credit granting authorization levels are also determined in accordance with the rating of Corporate, Commercial and SME customers. By using this methodology; it is aimed to establish risk based optimization of credit processes through assigning the lower rated customer to higher authority levels whereas assigning higher rated customer to lower authority levels.

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Information related to financial position of the Bank (continued)

Probability of default of a customer is calculated through this internally developed rating system. The rating concentration of Corporate and Commercial customers of the Parent Bank is as follows:

	Current Period	Prior Period
Above average (1-4)	45,2%	47,5%
Average (5+ -6)	44,3%	44,0%
Below average (7+ -9)	10,6%	8,6%

The Bank takes the following criteria into consideration for the accounting of impaired and past due loans:

The loan is overdue more than 90 days.

The borrower is not able to pay at least one of the loans he received from the Bank (cross default)

Having a negative intelligence and bad-record for the borrower in the market.

Deterioration of the creditworthiness of the borrower

The Bank sets aside specific and general provisions with respect to "value adjustments" procedures in accordance with the Provisioning Regulation.

Total amount of exposures after offsetting transactions but before applying credit risk mitigations and the average exposure amounts that are classified in different risk groups and types, are disclosed below for the relevant period:

Risk classifications:	Current period risk amount ⁽¹⁾	Average risk amount
Conditional and unconditional receivables from central governments or central banks	61.657.035	58.856.607
Conditional and unconditional receivables from regional or local governments	167	167
Conditional and unconditional receivables from administrative units and non-commercial enterprises	532.833	44.643
Conditional and unconditional receivables from multilateral development banks	15.356	23.395
Conditional and unconditional receivables from banks and brokerage houses	17.689.067	17.289.080
Conditional and unconditional receivables from corporates	120.960.102	104.364.153
Conditional and unconditional retail receivables	76.125.736	69.428.137
Conditional and unconditional receivables secured by mortgages	15.398.665	16.527.410
Past due receivables	2.052.682	1.667.083
Receivables defined as high risk category by the Regulator	206.858	2.804.628
Investment in equities	4.306.146	3.363.301
Other receivables	9.629.325	9.391.243
Total	308.573.972	283.759.847

(1) Includes credit risk amounts of total exposure before applying credit risk mitigations.

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Information related to financial position of the Bank (continued)

- b. The Bank has control limits over the positions of forwards, options and similar agreements. These positions are measured and managed by following their market values and by taking potential risk into considerations throughout their maturities, in accordance with Counterparty Credit Risk management. Limits are also calculated and dynamically managed by taking these potential risks into considerations. Daily market value calculations, limit controls, collateral assessments are performed and reported to the relevant departments within the Bank.

The Bank may use its rights, as stated in the derivative agreements based on which the Bank realizes derivative transactions, in order to eliminate the credit risks that may arise due to being exposed to severe credit risk levels arising from fluctuations in the market.

- c. In line with the Provisioning Regulation, if the cash risk of a customer is classified as nonperforming, the non-cash risk is also classified as nonperforming under the same group where the cash risks were already followed and specific provision is reserved.

Restructured loans are also classified and followed up according to the regulation on provisions considering the Bank's credit risk policies. Accordingly, the financial position and commercial operations of related customers are monitored, their principal and interest payments are followed up with the restructured repayment schedule and the necessary precautions are taken.

- ç. Banking activities in foreign countries and credit transactions are subject to periodical follow-up in terms of the economic conditions of the related country and the evaluation of the creditworthiness of the customers and financial institutions. No material risks have been observed in scope of these operations.

- d. 1. The proportion of the Bank's top 100 and 200 cash loan balances in total cash loans is 27% and 35%.
2. The proportion of the Bank's top 100 and 200 non-cash loan balances in total non-cash loans is 48% and 61%.
3. The proportion of the Bank's cash and non-cash loan balances with the first 100 and 200 customers comprises of 26% and 35% of total cash loans and non-cash loans.

- e. The Bank provided a general loan loss provision amounting to TL 3.042.320 (December 31, 2015 - TL 2.571.990).

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Information related to financial position of the Bank (continued)

f. Risk profile according to the geographical concentration:

	Risk Classifications ⁽¹⁾⁽²⁾												
	1	2	3	4	5	6	7	8	9	10	11	12	Total
Current Period													
Domestic	61.657.035	167	532.833	-	5.733.165	116.998.941	76.105.849	15.397.160	2.019.664	206.855	7.770	9.174.068	287.833.507
EU countries	-	-	-	8.438	9.558.979	1.318.076	8.511	642	3.976	2	-	-	10.898.624
OECD countries ⁽³⁾	-	-	-	-	228.710	651.368	1.572	100	-	-	-	-	881.750
Off-shore banking regions	-	-	-	-	1.073.277	142.838	5.280	-	8.399	-	-	-	1.229.794
USA, Canada	-	-	-	6.918	867.735	1.124.708	1.749	138	-	-	60.849	-	2.062.097
Other countries	-	-	-	-	227.201	724.171	2.775	625	20.643	1	-	-	975.416
Investment and associates, subsidiaries and joint ventures	-	-	-	-	-	-	-	-	-	-	4.237.527	455.257	4.692.784
Undistributed Assets / Liabilities ⁽⁴⁾	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	61.657.035	167	532.833	15.356	17.689.067	120.960.102	76.125.736	15.398.665	2.052.682	206.858	4.306.146	9.629.325	308.573.972
	Risk Classifications ⁽¹⁾⁽²⁾												
	1	2	3	4	5	6	7	8	9	10	11	12	Total
Prior Period													
Domestic	58.252.320	159	204	-	8.683.972	88.743.300	49.134.725	25.142.756	1.381.372	15.789.379	-	6.439.711	253.567.898
EU countries	-	-	-	7.309	7.627.861	1.154.091	5.044	2.357	98	818	-	12.934	8.810.512
OECD countries ⁽³⁾	-	-	-	-	145.113	775.066	405	1.129	-	82	-	-	921.795
Off-shore banking regions	-	-	-	-	229.648	176.012	3.011	-	8.399	8	-	-	417.078
USA, Canada	-	-	-	23.490	1.229.097	501.660	2.244	87	29	127	-	-	1.756.734
Other countries	-	-	-	-	277.741	951.067	2.680	1.125	20.602	171	-	-	1.253.386
Investment and associates, subsidiaries and joint ventures	-	-	-	-	-	-	-	-	-	-	-	3.626.239	3.626.239
Undistributed Assets / Liabilities ⁽⁴⁾	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	58.252.320	159	204	30.799	18.193.432	92.301.196	49.148.109	25.147.454	1.410.500	15.790.585	-	10.078.884	270.353.642

(1) Risk classifications in the "Regulation on Measurement and Evaluation of Capital Adequacy of Banks" will be used.

(2) Includes credit risk amounts of total exposure before applying credit risk mitigations.

(3) OECD Countries other than EU countries, USA and Canada.

(4) Assets and liabilities are not allocated on a consistent basis

- 1-Conditional and unconditional receivables from central governments or central banks
- 2-Conditional and unconditional receivables from regional or local governments
- 3-Conditional and unconditional receivables from administrative units and non-commercial enterprises
- 4-Conditional and unconditional receivables from multilateral development banks
- 5-Conditional and unconditional receivables from banks and brokerage houses
- 6-Conditional and unconditional receivables from corporates
- 7-Conditional and unconditional retail receivables
- 8-Conditional and unconditional receivables secured by mortgages
- 9-Past due receivables
- 10-Receivables defined as high risk category by the Regulator
- 11-Investment in equities
- 12-Other receivables

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g. Risk profile according to sectors and counterparties:

	Risk Classifications ^{(1) (2)}												TL	FC	Total
	1	2	3	4	5	6	7	8	9	10	11	12			
Agricultural	-	-	532.671	-	-	3.611.178	3.488.856	504.516	187.169	10.772	-	-	5.840.192	2.494.970	8.335.162
Farming and raising livestock	-	-	532.671	-	-	2.803.361	2.616.915	334.972	151.006	7.626	-	-	4.456.709	1.989.842	6.446.551
Forestry	-	-	-	-	-	726.266	849.112	167.457	35.700	3.028	-	-	1.338.044	443.519	1.781.563
Fishing	-	-	-	-	-	81.551	22.829	2.087	463	118	-	-	45.439	61.609	107.048
Manufacturing	-	30	42	-	-	65.643.434	14.997.206	4.359.316	749.112	58.898	2.492	-	35.153.712	50.656.818	85.810.530
Mining	-	-	14	-	-	2.317.847	400.014	139.488	33.627	1.717	-	-	1.321.016	1.571.691	2.892.707
Production	-	11	23	-	-	35.606.791	14.279.568	4.113.824	675.288	50.558	2.492	-	30.323.272	24.405.283	54.728.555
Electric, gas and water	-	19	5	-	-	27.718.796	317.624	106.004	40.197	6.623	-	-	3.509.424	24.679.844	28.189.268
Construction	-	2	2	-	-	20.246.345	5.767.342	3.221.344	251.130	55.655	-	18.114	13.050.486	16.509.448	29.559.934
Services	61.657.035	75	63	15.356	17.234.092	30.622.046	8.868.764	2.944.099	451.738	31.725	4.302.215	5.256.198	65.080.885	66.302.521	131.383.406
Wholesale and retail trade	-	1	-	-	-	4.522.828	3.846.031	831.443	238.833	17.173	-	-	7.649.034	1.807.275	9.456.309
Hotel, food and beverage services	-	-	-	-	-	5.820.790	957.774	1.223.554	47.762	2.507	-	-	2.143.793	5.908.594	8.052.387
Transportation and telecommunication	-	-	1	-	-	6.846.676	1.647.922	281.743	77.627	5.389	5.000	-	2.964.846	5.899.512	8.864.358
Financial institutions	61.657.035	-	-	15.356	17.234.086	1.427.322	213.766	104.156	21.566	345	3.677.049	5.256.198	44.251.518	45.355.361	89.606.879
Real estate and renting services	-	-	-	-	-	218.311	24.599	5.414	895	44	-	-	126.151	123.112	249.263
Self-employment services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Education services	-	-	-	-	-	107.243	110.510	37.476	4.722	227	-	-	230.800	29.378	260.178
Health and social services	-	74	62	-	6	11.678.876	2.068.162	460.313	60.333	6.040	620.166	-	7.714.743	7.179.289	14.894.032
Other	-	60	55	-	454.975	837.099	43.003.568	4.369.390	413.533	49.808	1.439	4.355.013	52.956.013	528.927	53.484.940
Total	61.657.035	167	532.833	15.356	17.689.067	120.960.102	76.125.736	15.398.665	2.052.682	206.858	4.306.146	9.629.325	172.081.288	136.492.684	308.573.972

(1) Risk classifications in the "Regulation on Measurement and Evaluation of Capital Adequacy of Banks" will be used.

(2) Includes credit risk amounts of total exposure before applying credit risk mitigations.

1-Conditional and unconditional receivables from central governments or central banks

2-Conditional and unconditional receivables from regional or local governments

3-Conditional and unconditional receivables from administrative units and non-commercial enterprises

4-Conditional and unconditional receivables from multilateral development banks

5-Conditional and unconditional receivables from banks and brokerage houses

6-Conditional and unconditional receivables from corporates

7-Conditional and unconditional retail receivables

8-Conditional and unconditional receivables secured by mortgages

9-Past due receivables

10-Receivables defined as high risk category by the Regulator

11- Investment in equities

12-Other receivables

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Information related to financial position of the Bank (continued)

ğ. Risk profile according to remaining maturities:

Risk classifications ⁽¹⁾	1 month	1-3 month	3-6 month	6-12 month	1 year and over	Total
Conditional and unconditional receivables from central governments or central banks	21.909.117	232.486	7.647	1.450.446	38.040.101	61.639.797
Conditional and unconditional receivables from regional or local governments	-	167	-	-	-	167
Conditional and unconditional receivables from administrative units and non-commercial enterprises	-	181	-	-	532.652	532.833
Conditional and unconditional receivables from multilateral development banks	105	7.658	7.361	176	56	15.356
Conditional and unconditional receivables from banks and brokerage houses	1.368.479	2.947.760	1.526.286	1.835.575	8.713.619	16.391.719
Conditional and unconditional receivables from corporates	11.935.862	6.193.494	10.741.457	14.828.516	76.206.118	119.905.447
Conditional and unconditional retail receivables	23.032.451	8.013.716	4.472.081	7.456.537	31.919.985	74.894.770
Conditional and unconditional receivables secured by mortgages	328.846	627.171	909.866	1.475.730	12.057.052	15.398.665
Past due receivables	-	-	-	-	-	-
Receivables defined as high risk category by the Regulator	31.024	77.816	2.730	7.494	87.794	206.858
Investments in equities	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
General Total	58.605.884	18.100.449	17.667.428	27.054.474	167.557.377	288.985.612

(1) Includes credit risk amounts of total exposure before applying credit risk mitigations.

h. Risk balances according to risk weights:

Total exposure amount before and after applying risk mitigation techniques and total amounts deducted from the capital which are calculated in accordance with the Appendix-1 of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" are presented below:

Risk Weights	0%	20%	35%	50%	75%	100%	150%	Total	Deductions from the shareholders' equity
1 Total exposure before credit risk mitigation	35.396.637	3.937.589	7.200.051	53.301.910	76.125.735	131.780.766	831.284	308.573.972	2.382.436
2 Total exposure after credit risk mitigation	31.493.739	3.307.505	7.200.051	52.760.927	75.916.574	127.523.556	746.646	298.948.998	2.382.436

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Information related to financial position of the Bank (continued)

i. Information according to sectors and counterparties:

For loans which are classified as impaired loans due to delay of collection of principal or interest by 90 days and above and/or negative risk assessments of creditworthiness of the debtor; "Specific Provision" is set aside in the accompanying financial statements as of 31 December 2016.

For loans which are classified as past due but not impaired loans due to delay of collection of principal or interest up to 90 days; "General Provision" is set aside in the accompanying financial statements as of 31 December 2016.

Sectors / Counterparties	Loans		General Provisions	Specific Provisions
	Impaired Loans	Past due		
Agricultural	119.040	399.825	7.734	68.876
Farming and raising livestock	91.318	377.203	7.308	51.120
Forestry	19.526	14.678	276	12.416
Fishing	8.196	7.944	150	5.340
Manufacturing	2.038.966	1.685.970	29.037	1.312.088
Mining	42.281	181.577	2.854	23.049
Production	1.826.706	1.244.430	21.525	1.139.584
Electric, gas and water	169.979	259.963	4.658	149.455
Construction	983.973	975.726	15.145	548.741
Services	1.235.922	859.766	15.283	774.153
Wholesale and retail trade	887.886	647.047	11.630	512.248
Hotel, food and beverage services	41.171	74.132	1.437	15.411
Transportation and telecommunication	47.706	23.464	394	34.725
Financial institutions	6.386	43.756	675	1.914
Real estate and renting services	199.478	2.339	28	176.065
Self-employment services	-	-	-	-
Education services	15.264	14.753	268	8.314
Health and social services	38.031	54.275	851	25.476
Other	5.203.408	2.830.144	195.904	4.034.842
Total	9.581.309	6.751.431	263.103	6.738.700

i. Information about value adjustments and changes in the loan impairment:

The Bank provides specific provisions for loans which are overdue for 90 days or more by taking into account the collaterals received from customers in accordance with the Provisioning Regulation.

The Bank provides general loan loss provision for loans classified as first and second group loan portfolio. This provision is calculated in accordance with the Provisioning Regulation.

	Provision amounts set			Other adjustments ⁽¹⁾	Close out balance
	Opening balance	aside during the period	Reversal of provisions		
1 Specific provisions	4.626.667	2.093.568	(132.022)	(30)	6.588.183
2 General provisions	2.571.990	483.531	(13.201)	-	3.042.320

(1) The figure represents write-off's and also includes NPL sales amounts.

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Information related to financial position of the Bank (continued)

III. Explanations on Risk Management:

Notes and explanations in this section have been prepared in accordance with the Communiqué on Disclosures about Risk Management to be Announced to Public by Banks that have been published in Official Gazette no. 29511 on 23 October 2015 and became effective as of 31 March 2016. Due to usage of standard approach for the calculation of capital adequacy ratio by the Bank, tables, which have to be prepared within the scope of Internal Rating-Based (IRB) approach, have not been presented.

1. General Information on Risk Management and Risk Weighted Amount

a. Risk Management Approach of The Bank

Risk management strategy of the Bank ensures using the capital at an optimum level and provide sustainable growth in this framework through measurement of risks in accordance with international standards and local regulations and taking risk-return balance into consideration in the framework of sustainable growth. Risk management approach of the Bank is based on strong risk management techniques of ISEDES (Evaluation Process of Internal Capital Adequacy) and prospective planning and capital evaluation depending upon risk profile.

A prospective capital planning approach is adopted for the Bank to carry out its operations if certain losses are incurred as a result of unexpected events or deteriorations in markets. The best international practices are utilized for the determination, measurement, analysis and control of risks. The process regarding identification of risks and determination of appropriate measurement method has a dynamic structure in which the risk management is improved through inspiring from advanced international practices and analyses updated in line with its business evolution. A risk appetite framework integrated to budget process, has been developed in order to carry out related activities at an optimum level while reaching predefined budget target of the Bank and therefore an appropriated risk positions are ensured to be taken.

Risk appetite, as an integral part of the main pillar and a crucial instrument of the Bank Management, is implemented in order to ensure the execution of Bank's activities in an ideal manner through taking appropriate risk positions at an acceptable level of risk. Risk appetite, is integrated to management and budget processes of the Bank with performance indicators which are sensitive to risk.

Risk appetite indicators, targets, limits and critical thresholds are determined by the Executive Committee with the joint recommendation of Financial Planning and Financial Affairs Management and Risk Management. Possible changes which may occur in economic conditions are taken into consideration during the determination of aforementioned limits and thresholds.

Determined risk appetite indicators consists of capital adequacy, risk, financing and liquidity ratios of the Bank and senior management ensures the Bank to carry out its activities in the range of such targets and critical thresholds. Senior management should take emergency precautions if the critical thresholds are exceeded. Monitoring and periodical reporting to senior management is performed by the related units in order to implement risk appetite framework.

The Bank implements internal policies and procedures that are audited and approved at least once a year by the Board of Directors in order to manage market risks arising from on-balance sheet and off-balance sheet liabilities. Based on the principles mentioned in Regulatory Authority's directives and best practice guidelines, internal policies determine responsibilities and practitioners for identification, measurement, monitoring and reporting of the risks in line with the risk appetite and needs of the Bank; lay the groundwork for granting limits in the Bank; and guide the actions to be taken in case of risk appetite is exceeded.

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Information related to financial position of the Bank (continued)

The Credit Policy Directive, which reflects the general framework of Bank's credit allocation activities, is updated annually and implemented with the approval of the Board of Directors. Credit Policy Directive is based on improving asset quality, supporting effective risk management and compliance with legal practices. In addition, it includes management of all lending activities according to the Bank's common standards, limitations and principles.

The main purpose of the credit risk management is to identify, measure and mitigate credit risk, react in a timely manner and take necessary actions with the help of efficient and well-functioning rating/scoring models, strategies and processes. The main strategies include topics like effective implementation of the Credit Policy Directive to reinforce the sustainability of common risk management approach, steering of the loan portfolio toward less risky sectors, avoidance of excessive concentration in Group exposures while strictly obeying statutory limits, focus on customers with better credit ratings, avoidance of transactions bearing high credit and reputational risk, managing country risk in line with established strategy, policy and rules, timely updates to senior management about all developments in credit risk area to ensure effective credit risk management, performing credit stress tests and participating in credit risk regulatory processes.

ISEDES report is prepared by Credit Risk Management in accordance with the related guide of BRSA and submitted to the approval of Board of Directors. The report mainly includes Bank's approach for the review of risks and capital in order to preserve capital adequacy of the Bank with respect to its current and future activities and information on management structure and applied approaches.

Risk Management reports to Board of Directors in organisation structure via Audit Committee. Risk Management organisation is divided into "Market Risk Management", "Credit Risk Management" and "Credit Risk Control and Operational Risk Management" units.

In the process of market risk management, related business and risk units perform their activities within the scope of the principles determined by internal policies such as the Financial Markets Rulebook, Liquidity Policy, Derivatives Policy, Treasury Credit Line Policy and Fair Value Control Policy.

Value at Risk, Basis Point Value (interest rate sensitivity), and Credit Basis Point Value (credit spread sensitivity) are risk metrics calculated via internal models and used in measurement of market risks. Risk measures are monitored at product, portfolio and account (banking / trade) basis. Performance of internal models is measured by backtesting of the model's outputs.

With the liquidity coverage ratio introduced by Basel III, short term liquidity and structured liquidity methods, which are internally monitored in the Bank, are utilized in liquidity risk management.

Measurements performed via internal models in the context of market risk management are reported to the Bank's Top Management, Treasury, Financial Reporting and Credit Monitoring Units (for the Counterparty Credit Risk process) on a daily basis and to the Board of Directors and Executive Committee on a monthly basis.

Stress tests, provide a prospective point of view during risk management , budget and capital planning processes through reviewing the impact of events or changes in markets, which have a low possibility to occur under normal conditions but may result in losses to Bank in case they occur. The Bank performs stress tests to measure impacts of temporary or continuous deteriorations in market risk factors on income statement and to make capital plans. Scenarios, having basis, medium and high stress levels, aim to measure impacts of adverse conditions across the country on the economic value of the Bank through risk factors. Other important risk elements such as Fixed Assets held by the Bank and financial investment risks faced through its subsidiaries, as well as price movements, are reviewed during stress test processes as well.

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Information related to financial position of the Bank (continued)

Stress test studies are made with the active participation of senior management and impact of the stress test to the general risk profile of the Bank is reported. Senior management participates in establishing of stress test's scenario, analyzing of its results, through determination of the scope and approach of the scenario, guidance of required directions and review of results and recommendation of action plans. Stress scenarios, up-to-date estimations and crisis scenarios are prepared by Analytical Modelling and Macroeconomic Research Department under the supervision of Chief Economist.

The Bank reduces market risk exposure within scope of its commercial activities through derivative instruments and makes an effort to control impacts of the risks on capital through hedge accounting implementation. It holds foreign exchange positions to manage residual positions as a result of banking activities through performing a conservative approach to exchange risk and manages its end of day positions at a minimum level..

For the mitigation of risks, Operational risk management carries out the activities of restructuring of processes, pre-assessments and controls of products, use of external sources and management of insurance activities for determination of appropriate exemptions and limitations. It performs studies throughout the Bank in order to analyze related losses and processes to determine risk mitigating actions and decrease future operational risks. Precautions are determined and applied with respect to loss incidents, key operational risk indicators, scenarios, projects and new product analysis.

Business continuity management policy aims at reducing the risks to a minimum level and ensuring the continuity of critical product and services in an acceptable period. The policy is regularly updated and approved by the Board of Directors.

b. Overview of Risk Weighted Assets

	Risk Weighted Assets		Minimum Capital Requirements
	Current Period	Prior Period	Current Period
1 Credit risk (excluding counterparty credit risk) (CCR)	211.778.102	187.594.498	16.942.248
2 Of which standardised approach (SA)	211.778.102	187.594.498	16.942.248
3 Of which internal rating-based (IRB) approach	-	-	-
4 Counterparty credit risk	3.364.835	2.475.585	269.187
5 Of which standardised approach for counterparty credit risk (SA-CCR)	3.364.835	2.475.585	269.187
6 Of which internal model method (IMM)	-	-	-
7 Equity positions in banking book under market-based approach	-	-	-
8 Equity investments in funds – look-through approach	-	-	-
9 Equity investments in funds – mandate-based approach	-	-	-
10 Equity investments in funds – fall-back approach	-	-	-
11 Settlement risk	-	-	-
12 Securitisation exposures in banking book	-	-	-
13 Of which IRB ratings-based approach (RBA)	-	-	-
14 Of which IRB Supervisory Formula Approach (SFA)	-	-	-
15 Of which SA/simplified supervisory formula approach (SSFA)	-	-	-
16 Market risk	960.279	998.270	76.822
17 Of which standardised approach (SA)	960.279	998.270	76.822
18 Of which internal model approaches (IMM)	-	-	-
19 Operational risk	13.109.939	11.675.375	1.048.795
20 Of which Basic Indicator Approach	13.109.939	11.675.375	1.048.795
21 Of which Standardised Approach	-	-	-
22 Of which Advanced Measurement Approach	-	-	-
23 Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
24 Floor adjustment	-	-	-
25 TOTAL (1+4+7+8+9+10+11+12+16+19+23+24)	229.213.155	202.743.728	18.337.052

(Convenience translation of publicly announced unconsolidated financial statements originally issued in Turkish, See Note I. of Section three)

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Information related to financial position of the Bank (continued)

2. Linkages between financial statements and risk amounts

a. Differences and matching between asset and liabilities' carrying values in financial statements and risk amounts in capital adequacy calculation

	Carrying values in financial statements prepared as per TAS	Carrying values of items in accordance with TAS				Not subject to capital requirements or subject to deduction from capital
		Subject to credit risk	Subject to counterparty credit risk	Subject to the Securitisation framework	Subject to market risk	
Current Period						
Assets						
Cash and balances with the Central Bank	32.380.566	32.380.566	-	-	-	-
Trading Financial Assets	3.018.283	-	2.981.570	-	2.041.983	-
Financial Assets at Fair Value Through Profit or Loss	-	-	-	-	-	-
Banks	1.448.692	1.448.692	-	-	-	-
Money Market Placements	-	-	-	-	-	-
Financial Assets Available-for-Sale (net)	18.280.206	18.128.456	3.651.723	-	42.298	109.452
Loans and Receivables	172.624.217	172.416.936	-	-	-	207.281
Factoring Receivables	-	-	-	-	-	-
Held-to-maturity investments (net)	10.664.551	10.664.551	2.471.316	-	-	-
Investment in Associates (net)	441.646	4.503	-	-	-	437.143
Investment in Subsidiaries (net)	4.233.024	4.233.024	-	-	-	-
Investment in Joint ventures (net)	18.114	-	-	-	-	18.114
Lease Receivables	-	-	-	-	-	-
Derivative Financial Assets Held For Hedging	1.168.936	-	1.168.936	-	-	-
Property And Equipment (Net)	2.653.825	2.544.775	-	-	-	109.050
Intangible Assets (Net)	1.523.961	34.433	-	-	-	1.489.528
Investment Property (Net)	-	-	-	-	-	-
Tax Asset	97.812	97.812	-	-	-	-
Assets Held For Resale And Related To Discontinued Operations (Net)	159.974	148.106	-	-	-	11.868
Other Assets	4.105.731	4.105.731	-	-	-	-
TOTAL ASSETS	252.819.538	246.207.585	10.273.545	-	2.084.281	2.382.436
Liabilities						
Deposits	154.274.856	-	-	-	-	154.274.856
Derivative Financial Liabilities Held for Trading	2.525.526	-	2.525.526	-	1.989.436	-
Funds Borrowed	27.994.862	-	-	-	-	27.994.862
Money Markets	5.857.788	-	5.857.788	-	-	-
Marketable Securities Issued	9.244.718	-	-	-	-	9.244.718
Funds	-	-	-	-	-	-
Miscellaneous Payables	10.637.009	-	-	-	-	10.637.009
Other Liabilities	1.890.502	-	-	-	-	1.890.502
Factoring Payables	-	-	-	-	-	-
Lease Payables	1.112	-	-	-	-	1.112
Derivative Financial Liabilities Held For Hedging	88.788	-	88.788	-	-	-
Provisions	4.563.575	-	-	-	-	4.563.575
Tax Liability	554.362	-	-	-	-	554.362
Liabilities For Property And Equipment Held For Sale And Related To Discontinued Operations (net)	-	-	-	-	-	-
Subordinated Loans	9.067.893	-	-	-	-	9.067.893
Shareholder's Equity	26.118.547	-	-	-	-	26.118.547
TOTAL LIABILITIES	252.819.538	-	8.472.102	-	1.989.436	244.347.436

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Information related to financial position of the Bank (continued)

b. Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		Total	Subject To Credit Risk	Subject to the Securitisation	Subject To Counterparty Credit Risk	Subject To Market Risk
	Current Period					
1	Asset carrying value amount under scope of regulatory consolidation	258.565.411	246.207.585	-	10.273.545	2.084.281
2	Liabilities carrying value amount under regulatory scope of consolidation	6.482.666	-	-	8.472.102	(1.989.436)
3	Total net amount under regulatory scope of consolidation	265.048.077	246.207.585	-	18.745.647	94.845
4	Off-Balance Sheet Amounts	130.181.718	47.065.736	-	-	-
5	Differences in valuations		-	-	-	-
6	Differences due to different netting rules, other than those already included in row 2		-	-	-	-
7	Differences due to consideration of provisions		-	-	-	-
8	Differences Resulted from the BRSA's Applications		-	-	-	865.434
9	Differences due to risk reduction		(858.684)	-	(12.211.286)	-
	Risk Amounts		292.414.637	-	6.534.361	960.279

c. Explanations of differences between accounting and regulatory exposure amounts

There is no difference between amounts reported in the financial statements and valued in accordance with TAS and amounts valued in accordance with TAS in scope of legal consolidation.

Bank's financial instruments subject to fair value measurement are valued using Mark-to-Market or Mark-to-Model approach based on their product types. Implementation of valuation methodologies is carried out in accordance with the "Fair Value Measurement" policies in line with the prudent valuation principles set out in the annex of the Directive on Measurement and Assessment of Banks' Capital Adequacy. The Bank uses market prices for bonds and futures contracts traded in organized markets, while it often uses platforms generating Mark-to-Model value for derivative transactions traded in OTC markets. Mark-to-Market or Mark-to-Model valuations are made on a daily basis so that changes in the market can be reflected in the Bank's financials with the same frequency.

The Independent Price Control process (IPV) is designed to draw the errors or deviations that may occur in the valuations to the minimum level, to calculate the correct profit / loss and risk, through verification, comparison and approval of market prices and model inputs regularly with independent and different sources. The purpose of the IPV is to ensure that the data used for bank valuations are generated on a daily basis from a highly representative, adequately liquid and accurate instruments. All these processes have a clear, integrated and complementary approach that is in line with the objectives of the Bank.

Prices quoted in active markets for securities and derivative transactions are used to record the fair value of an instrument, but quoted prices are generally not available in active markets. Appropriate valuation techniques are used for financial instruments that are not traded in the market but the estimated fair value is adjusted through valuation techniques of the market participant's estimation of similar asset or liability price. Such adjustments are categorized close out cost, market liquidity, model risk and credit valuation adjustments.

Close out Cost adjustment reflects the amount which would be incurred to arrive at an appropriate ask/liquidation price (financial instruments which are assets at valuation date) or bid/unwind price (financial instruments which are liabilities at valuation date) for financial instruments valued at mid-market prices

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Information related to financial position of the Bank (continued)

Market liquidity adjustment is calculated to reflect the amount which would be incurred to close out the position when liquidity is not sufficient. When there is not any tradeable price on liquid two way market, a liquidity discount is applied for pricing.

Model risk; reflects the risk stemming from deficiencies in model. Complexity of the model, being market standard and capability to incorporate all known risk factors determine the necessity/applicability of model risk adjustments.

Credit Value Adjustment (CVA), is defined as market value of counterparty credit risk (CCR), which arises from the possibility of a counterparty's default and considered in regulatory capital adequacy calculations for all CCR exposures.

3. Explanations on Credit Ris

a. General information on credit risk

i. General qualitative information on credit risk

Credit risk is the loss or the risk of the Bank in case counterparty cannot fulfill its obligations stated in agreements where the Bank is at a side. The Bank identifies loan limits for each customer considering statutory regulations, the internal scoring system, financial analysis reports and geographical and industry concentration and considering credit policies determined by Board of the Directors each year. The limits defined by the Bank's Board of Directors for each correspondent bank are followed-up daily by Treasury Management for the transactions related with placements with domestic and correspondent banks or treasury operations such as forward buy and sell transactions. Moreover, daily positions and limit controls of each dealer at Treasury department who is authorized for transactions in the market are performed by the system. During the loan granting process, liquid collaterals are preferred to the greatest extent possible. While granting of long term project finance loans, long term projections of the companies are analyzed both by financial analysis specialists and head office. Also the pricing of these commitments are decided by coordination with Treasury Management.

The Bank also monitors limitations on single borrower and group of borrowers in accordance with the regulations. Loans and other receivables are monitored in terms of the credit worthiness of borrowers in accordance with the relevant legislation. In addition, the account status documents for new loans is controlled, and updated where if necessary.

Different rating systems are used for SME, Corporate and Commercial customers during the underwriting process of the Bank. A separate rating model is used for the customers which operate in construction industry.

The Bank uses scorecard system for its retail and credit card customers for the underwriting and limit management processes. The scorecard system was internally developed, and being updated and approved regularly.

Credit granting authorization levels are also determined in accordance with the rating of the customer in SME segment. By using this methodology; it is aimed to establish risk based optimization of credit processes through assigning the lower rated customer to higher authority levels whereas assigning higher rated customer to lower authority levels.

Credit Policy is prepared to be well-structured in line with the BRSA loan management guidebook and aligned with the UniCredit Group rules to the maximum possible extent.

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Information related to financial position of the Bank (continued)

Credit policy is revised at least once a year, approved by Board of Directors, announced within the bank and implemented in accordance with the appropriate procedures in banks. During the review of credit policies, economic conjuncture, the bank's capital adequacy ratio and amendments in related regulation are taken into consideration. Key elements such as target markets, portfolio structure and concentration, large exposures, credit limit applications, approval authorities are determined in the credit policies. In the policies, key messages are provided based on principles of prudence, continuity about the customer's credit worthiness, specific sectors, segments and products for growth in accordance with the defined credit strategies.

Credit Risk Management Section is established to manage the credit risk of the Bank by determining, measuring, monitoring, evaluating and reporting the risks. In order to improve the asset quality of the Bank, the main roles and responsibilities of the section are composed of performing periodical analyses on credit portfolio trend, calculating credit risk cost based on segments and executing compliance activities between risk management practices with Basel II requirements.

Credit Risk Management is consisting 4 sub units.

Commercial Credit Risk Management is responsible for monitoring the design, development and implementation of probability of default (PD), exposure at default (EAD), loss given default (LGD) models which are in the scope of IRB communique (issued by BRSA – using internal rating based approach for credit risk calculations) and providing the design, development and implementation of all models to be developed under the scope of standards that have been specified for corporate customer segments.

Retail Credit Risk Management is responsible for the development of the models and strategies that ensures efficient management of the credits for Banks growth targets and implementation of such strategies and models in rating and decision support systems.

Risk Validation Department, performs the risk validation taking into consideration the statistical tests, Bank's internal procedures and competition analyses in the market. Validation processes consist of 3 main steps; data validation, model validation, strategy and process validation.

Basel II Program Management and Credit Risk Control Unit Section is responsible for active participation to the model development process and providing opinion as the last authority monitoring the performance of the rating systems and preparation of regular analysis based on the results, maintenance of proper running of the rating systems, leadership of the activities performed to close the gaps, information to BRSA and related parties in the Bank about the changes on the rating systems, maintenance of the implementation of the models in the Bank's processes in line with BRSA requirements, management of the IRB transition period and submission of necessary documents and monitoring the related projects.

Risk Reporting Control and Operational Risk Management is responsible for preparation of credit risk budgeting and credit risk reporting activities of the Bank, calculation of loan loss provisions on SBU basis; identification of the Credit Policy according to risk appetite of the Bank, implementation of the policy throughout the Banks and its subsidiaries, support to all units in the Bank for the related topics. The units establishes a common risk culture on group basis and performs process analyses of credit and risk management functions in subsidiaries to ensure standard risk management practices and establishes action plans for the standardization of all gaps within the group. It ensures taking action for the correction and improvement data quality through performing tests related to credit and collaterals. The unit prepares reports for assessment of credit risk and for the preparation of various and comprehensive concentrations and forecasts on asset quality trends for the Bank, performs necessary calculations to measure the risk profile of the bank and ensures that the country risk is identified. Prepare comprehensive concentration reports for the assessment of Top Management.

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The unit is also responsible for definition of the Operational/IT/Reputational risk policies, for the purpose of measurement, evaluation and management of the operational risk/ IT and reputational risks, implementation of monitoring and measurement systems, identification, reporting and monitoring the key risk indicators, and performance of scenario analyses. The unit also carries out the activities regarding Basel II compliance, operational risk weighted assets (RWA); and risk based insurance activities, implementation and monitoring IT Risk Map and Action Plans, coordination of risk management program for the risk evaluation of the support services.

Regular supervision and controls are performed to ensure that credit process is carried out in compliance with bank credit policies and procedures, loans are extended in accordance with principles and procedures determined by the Board of Directors and loans are reported properly with the information of maturity, quantity and qualification to top management.

Activities carried out by units within scope of internal systems are employed as a tool to define weak points regarding the credit risk management process, policy and procedures and to determine the transactions that are not compliant with limits, policy and procedures.

Issues that are observed during the examinations is being regularly reported to top management and Audit Committee considering importance level.

Summary of the activities of units within the scope of internal systems are effectively utilized by the management and actions are taken in order to prevent repetition of weaknesses and conflicts regarding credit management.

ISEDES report is prepared by Credit Risk Management in accordance with the related guide of BRSA and submitted to the approval of the Board of Directors. The report mainly includes the Bank's approach for the review of risks and capital in order to preserve capital adequacy of the Bank with respect to its current and future activities and information on management structure and applied approaches.

ii. Credit quality of assets

	Gross carrying values of as per TAS		Allowances/ impairments	Net values
	Defaulted exposures	Non-defaulted exposures		
Current Period				
1 Loans	8.706.143	170.506.257	9.429.844	169.782.556
2 Debt Securities	-	28.912.852	-	28.912.852
3 Off-balance sheet exposures	875.166	133.400.779	351.176	133.924.769
4 Total	9.581.309	332.819.888	9.781.020	332.620.177

iii. Changes in stock of defaulted loans and debt securities

	Current Period
1 Defaulted loans and debt securities at the end of the previous reporting period	6.729.217
2 Loans and debt securities that have defaulted since the last reporting period	3.898.547
3 Returned to non-defaulted status	(70.073)
4 Amounts written off	(30)
5 Other changes	(976.352)
6 Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)	9.581.309

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iv. Additional disclosure related to the credit quality of assets

According to the BRSA Regulation "Regulation on the procedures and principles for the determination of qualification of loans and other receivables by Banks and provision to be set aside" in the cases:

- i. for which recovery of principal and interest or both delays for more than ninety days from their terms or due dates provided that this is no more than one hundred eighty days or;
- ii. which have limited means for total recovery because debtors' equity or guarantees extended by them are found inadequate to cover payment of debts on respective terms and are likely to lead to losses in case any such problems observed are not solved or;
- iii. for which debtors have suffered deterioration in their creditworthiness and credits have suffered weakness consequently or;
- iv. for which it is believed that recovery by banks of principal or interest or both would delay for more than ninety days from their terms or due dates due to reasons such as problems encountered by debtors over operating capital financing or additional liquidity creation,

Loans and receivables are identified as "non-performing loans" and classified under default accounts. Specific provisions are calculated for these loans by coverage ratios which aside by policy after collateral deduction. There is no difference between "impaired loans" and "loans subject to provisioning" in the Bank. All loans with 90 days overdue are subject to specific provisioning.

In accordance with the regulation; in the event that failure to meet payment obligations towards banks stems from temporary liquidity difficulties related to the loans and other receivables as part of the principles of classification, loans and other receivables including any overdue interest may be restructured or subject to a new redemption plan for the purpose of providing debtors with liquidity capability and ensuring recovery of receivables by bank.

Exposures provisioned against by major regions⁽¹⁾ :

Current Period	Total
Domestic	231.572.560
USA,Canada	2.106.698
European Union (EU) Countries	3.835.388
OECD Countries	1.388.092
Off-Shore Banking Regions	2.330
Other Countries	1.587.689
Total	240.492.757

(1) Breakdown of cash, non-cash and non-performing loans with respect to geographical regions are provided.

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Exposures provisioned against by major sectors ⁽¹⁾:

	Current Period
Agricultural	2.804.189
Farming and raising livestock	2.454.923
Forestry	221.146
Fishing	128.120
Manufacturing	93.484.708
Mining and Quarrying	2.486.524
Production	62.072.071
Electricity, Gas, Water	28.926.113
Construction	34.411.523
Services	48.176.743
Wholesale and retail trade	14.527.267
Hotel, food and beverage services	7.654.878
Transportation and telecommunication	8.793.827
Financial institutions	8.042.272
Real estate and leasing services	1.901.985
Self-employment services	-
Education services	279.790
Health and social services	6.976.724
Other	61.615.594
Total	240.492.757

(1) Breakdown of cash loans, non-cash loans and non-performing loans by sectors.

Receivables according to remaining maturities:

Receivables according to remaining maturities are explained Note VII of Section 4.

Exposures provisioned against by major sectors:

Information on the amount of receivables and provisions provided for on the sector basis are disclosed in Note II of Section 4.

Exposures provisioned against by major regions:

The distribution of the specific provisions is predominantly domestic and a provision amounting to TL 6.545.731 has been set aside for the risk at an amount of TL 8.630.634.

Aging analysis for overdue receivables ⁽¹⁾:

	Current Period
31-60 day overdue	4.601.305
61-90 day overdue	1.283.000
Total	5.884.305

(1) Overdue receivables represent overdue of cash loans.

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Breakdown of restructured receivables based on whether or not provisions are allocated:

General provision is allocated for the loans restructured from standard loans and loans under Follow-up and other receivables, specific provision is allocated for the loans restructured from non-performing loans.

	Current Period
Loans restructured from Standard Loans and Other Receivables	3.318.056
Loans restructured from Loans and other receivables under close monitoring	2.355.527
Loans restructured from Loans under legal follow-up	391.266
Total	6.064.849

b. Credit risk mitigation

i. Qualitative disclosure on credit risk mitigation techniques

The Bank employs on-balance sheet netting and/or general netting agreements for specific capital market transactions for credit risk mitigation, with the condition of meeting the requirements of having implemented corresponding system supported methods and processes and clear documentation of the required documents.

Yapı Kredi Bank may use assets (e.g. loans) and liabilities (e.g. deposits) as an on balance sheet netting instrument considering them as cash collateral.

The capital requirements may be determined on the base of net exposure of assets and liabilities, if the following conditions are met:

- The agreement should provide the Bank the authorization to monitor the receivable of the payee over a single value after netting all payables and receivables even though there is no such indicator for the counterparty showing bankruptcy or financial difficulty in accordance with the regulations of governments.
- The Bank is provided the authority of netting and monitoring the risk over a single value even the counterparty is not in bankruptcy case of a bankruptcy of one counterparty, the other counterparty should have the authority to terminate all contracts under the agreement
- The agreement should provide the facility to monitor the receivable of the payee over a single value after netting all payables and receivables in case of the termination of all contracts

For calculation of the fully-adjusted amount in determining the capital requirements, the supervisory volatility adjustments approach or own estimates volatility adjustments approach or internal models approach may be used.

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In the policies and procedures regarding the assessment and management of the collaterals as part of collateralized lending, Credit risk mitigation techniques aims at:

- Determination of general and specific requirements for the improvement and optimization of collateral systems, processes, strategies and procedures;
- Valuation of collateral taking into consideration the local regulations and procedures;
- Provision of the soundness, legal enforceability and maintainence of ratable collateral based on a legal framework;
- Determination of the level of the collateral haircut taking the local conditions and the process of risk management into consideration;
- Regular monitoring of the collateral value;
- Differentiation between counterparty (economic) and country (political) risk aspects,
- Mitigation of concentration risks, correlation risks and residual risks through recognition of collateral;
- Improvement in the quality of strategic business and overall Bank management
- Clear definition of Roles and Responsibilities

Determination of acceptable collaterals and collateral related conditions (list of collateral) / (non-parametric condition list)

The credit policies establish an operational connection between Bank's activities and its risk capacity and covers the main business areas in accordance with target portfolio structure, risk targets regarding expected and unexpected loss in line with risk capacity and limits relating to risk concentration. Limits are ensured to be compliant with restrictions determined by related regulation and regulatory authorities. Bank uses an integrated approach in concentration risk management, in which all risk concentrations are identified, monitored and evaluated. Therefore, besides the loans to individuals and companies, also the concentrations of market, sector, country and segment are being taken into consideration. Bank pays utmost attention to any concentration of the credit and market risks on a specific counterparty or risk classification in accordance with policies and internal procedures.

ii. Credit risk mitigation techniques – overview

	Exposures unsecured: carrying amount as per TAS	Exposures secured by collateral	Collateralized amount of exposures secured by collateral	Exposures secured by financial guarantees	Collateralized amount of exposures secured by financial guarantees	Exposures secured by credit derivatives	Collateralized amount of exposures secured by credit derivatives
Current Period							
Loans	142.354.683	27.427.873	17.403.119	3.056.693	1.877.921	-	-
Debt securities	28.912.852	-	-	-	-	-	-
TOTAL	171.267.535	27.427.873	17.403.119	3.056.693	1.877.921	-	-
Of which defaulted	1.495.778	622.182	91.397	855	288	-	-

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c. Credit risk under standardised approach

i. Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk

An international rating firm, Fitch Ratings' external risk ratings are used to determine the risk weights of the risk categories as per the Article 6 of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks". The international risk ratings are used for the exposures to central governments/central banks and for asset classes for which the counterparty resides in foreign countries.

Exposures to central governments and central banks which are not rated by Fitch Ratings are included in the calculation of capital adequacy as unrated. Receivables from residents in Turkey are classified as unrated. Risk weights of accounts which are not included in the trading accounts are classified by issuer's credit rating.

Fitch Ratings' risk ratings as per the credit quality grades and the risk weights according to exposure categories are presented below:

Credit Quality Grade	Fitch Ratings	Claims on sovereigns and Central Banks	Claims on administrative bodies and other non-commercial undertakings	Claims on banks and intermediary institutions		Claims on corporates
				Remaining maturity of claims under 3 months	Remaining maturity of claims over 3 months	
1	AAA AA+ AA AA-	0%	20%	20%	20%	20%
2	A+ A A-	20%	50%	20%	50%	50%
3	BBB+ BBB BBB-	50%	100%	20%	50%	100%
4	BB+ BB BB-	100%	100%	50%	100%	100%
5	B+ B B-	100%	100%	50%	100%	150%
6	CCC+ CCC CCC- CC C D	150%	150%	150%	150%	150%

(Convenience translation of publicly announced unconsolidated financial statements originally issued in Turkish, See Note I. of Section three)

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ii. Standardised approach – Credit risk exposure and credit risk mitigation (CRM) effects

Current Period		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
Asset classes		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Exposures to central governments or central banks	57.910.970	1.209.711	59.616.684	179.162	15.558.631	26,02%
2	Exposures to regional governments or local authorities	-	835	-	167	84	50,30%
3	Exposures to public sector entities	12	843	12	169	37	20,40%
4	Exposures to multilateral development banks	6.956	9.699	6.956	8.399	-	-
5	Exposures to institutions	9.167.236	4.732.298	9.331.575	2.399.715	5.878.024	50,11%
6	Exposures to corporates	85.512.056	76.314.185	82.892.059	32.631.086	115.523.146	100,00%
7	Retail exposures	64.941.592	46.293.829	64.834.492	11.060.630	56.921.341	75,00%
8	Exposures secured by residential property	7.006.484	394.981	7.006.484	193.567	2.520.018	35,00%
9	Exposures secured by commercial real estate	7.743.934	719.839	7.743.934	454.681	4.099.307	50,00%
10	Past-due loans	2.052.681	-	2.051.044	-	2.035.955	99,26%
11	Higher-risk categories by the Agency Board	65.299	505.498	65.296	138.160	232.557	114,30%
12	Investments in equities	4.306.146	-	4.306.146	-	4.306.146	100,00%
13	Other receivables	7.494.219	-	7.494.219	-	4.702.856	62,75%
TOTAL⁽¹⁾		246.207.585	130.181.718	245.348.901	47.065.736	211.778.102	72,42%

(1) Counterparty credit risk is not included in the table.

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iii. Standardised approach – exposures by asset classes and risk weights

Current Period												
	0%	10%	20%	35%	50%	75%	100%	150%	200%	250%	1250%	Total credit risk exposure amount (after CCF and CRM)
Asset classes/ Risk weight												
1 Exposures to central governments or central banks	28.678.582	-	-	-	31.117.264	-	-	-	-	-	-	59.795.846
2 Exposures to regional governments or local authorities	-	-	-	-	167	-	-	-	-	-	-	167
3 Exposures to public sector entities	-	-	181	-	-	-	-	-	-	-	-	181
4 Exposures to multilateral development banks	15.355	-	-	-	-	-	-	-	-	-	-	15.355
5 Exposures to institutions	-	-	1.518.248	-	9.277.337	-	935.705	-	-	-	-	11.731.290
6 Exposures to corporates	-	-	-	-	-	-	115.523.145	-	-	-	-	115.523.145
7 Retail exposures	-	-	-	-	-	75.895.122	-	-	-	-	-	75.895.122
8 Exposures secured by residential property	-	-	-	7.200.051	-	-	-	-	-	-	-	7.200.051
9 Exposures secured by commercial real estate	-	-	-	-	8.198.615	-	-	-	-	-	-	8.198.615
10 Past-due loans	-	-	-	-	670.664	-	739.895	640.485	-	-	-	2.051.044
11 Higher-risk categories by the Agency Board	-	-	-	-	47.958	-	49.338	106.160	-	-	-	203.456
12 Investments in equities	-	-	-	-	-	-	4.306.146	-	-	-	-	4.306.146
13 Other receivables	2.706.402	-	106.201	-	-	-	4.681.616	-	-	-	-	7.494.219
TOTAL	31.400.339	-	1.624.630	7.200.051	49.312.005	75.895.122	126.235.845	746.645	-	-	-	292.414.637

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4. Explanation on Counterparty credit risk

a. Qualitative evaluation for Counterparty Credit Risk

Counterparty Credit Risk (CCR) is organized under Market Risk Management and is functioning within the scope of "Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks". These functions include counterparty credit risk calculations within general risk appetite and control process of risk management policies for CCR.

Credit limits under CCR are defined within the scope of internal model method, specified in "Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks. -Appendix 2", considering various stress scenarios.

General policies for collaterals and provisions under credit risk management are also valid for CCR. Exposure and collateral values are calculated on a daily basis. According to CCR Policies, Bank does not carry wrong way risk.

In case of a downgrade in credit note, the amount of additional collateral the Bank has to provide is calculated periodically under several stress scenarios.

b. Assessment of Counterparty Credit Risk according to the models of measurement

	Revaluation Cost	Potential credit risk exposure	EEPE ⁽¹⁾	Alpha used for computing regulatory EAD	Exposure after credit risk mitigation	Risk Weighted Amounts
Current Period						
1 Standart Approach-CCR	3.960.759	2.025.678		1,40	6.143.660	2.997.826
2 Internal Model Approach			-	-	-	-
3 Simplified Standardised Approach for Credit Risk Mitigation				-	-	-
4 Comprehensive Method for Credit Risk Mitigation					390.701	112.613
5 Value at Risk for Repo Transactions, Securities or Commodity lending or borrowing transactions				-	-	-
6 Total						3.110.439

(1) Effective expected positive exposure

c. Credit valuation adjustment (CVA) capital charge

Current Period		Exposure (After credit risk mitigation methods)	Risk Weighted Amounts
Total portfolio value with comprehensive approach CVA capital adequacy		-	-
1 (i) Value at risk component (including 3*multiplier)		-	-
2 (ii) Stressed Value at Risk (including 3*multiplier)		-	-
3 All portfolios subject to Standardised CVA capital obligation		6.143.660	254.396
4 Total amount of CVA capital adequacy		6.143.660	254.396

(Convenience translation of publicly announced unconsolidated financial statements originally issued in Turkish, See Note I. of Section three)

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ç) Standardised approach – CCR exposures by regulatory portfolio and risk weights

Current Period									
Risk Weights/Risk Classes	0%	10%	20%	50%	75%	100%	150%	Other	Total credit risk ⁽¹⁾
1 Central governments and central banks receivables	93.402	-	-	-	-	-	-	-	93.402
2 Local governments and municipalities receivables	-	-	-	-	-	-	-	-	-
3 Administrative and non commercial receivables	-	-	66.057	-	-	-	-	-	66.057
4 Multilateral Development Bank receivables	-	-	-	-	-	-	-	-	-
5 Banks and Intermediary Institutions receivables	-	-	1.616.818	3.448.921	-	175.960	-	-	5.241.699
6 Corporate receivables	-	-	-	-	-	1.111.751	-	-	1.111.751
7 Retail receivables	-	-	-	-	21.452	-	-	-	21.452
8 Mortgage receivables	-	-	-	-	-	-	-	-	-
9 Past-due loans	-	-	-	-	-	-	-	-	-
10 Higher-risk categories by the Agency Board	-	-	-	-	-	-	-	-	-
11 Investments in equities	-	-	-	-	-	-	-	-	-
12 Other receivables	-	-	-	-	-	-	-	-	-
Total	93.402	-	1.682.875	3.448.921	21.452	1.287.711	-	-	6.534.361

(1) Total credit risk: Value of Capital Adequacy Calculations after Counterparty Credit Risk methods are applied

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d. Composition of collateral for CCR exposure

Current Period	Collaterals for Derivatives Transactions				Collaterals or Other Transactions	
	Collaterals Taken		Collaterals Given		Collaterals Taken	Collaterals Given
	Segregated	Unsegregated	Segregated	Unsegregated		
1 Cash - Local Currency	-	-	-	-	4.275.290	-
2 Cash - Foreign Currency	-	-	-	-	1.028.667	-
3 Total	-	-	-	-	5.303.957	-

e. Credit derivatives exposures

Current Period	Protection Bought	Protection Sold
Nominal		
Single-name credit default swaps	35.192	-
Index credit default swaps	-	-
Total return swaps	-	4.033.003
Credit Options	-	-
Other Credit Derivatives	-	-
Total Nominal	35.192	4.033.003
Rediscount Amount	(15)	(97.052)
Positive Rediscount Amount	354	-
Negative Rediscount Amount	(369)	(97.052)

f. Exposures to central counterparties

None.

5. Securitisations

None.

6. Explanations on Market Risk

a. Qualitative disclosure on market risk

Market Risk Management department monitors the interest rate, exchange rate, stock, commodity and credit spread risks arising from the main financial activities of the Bank on a daily basis and measures the probability of loss that may arise from the related risks by using internal model. Risks measured are regularly reported to the business units, their compliance with the Bank's risk appetite is monitored and impacts on capital requirement are analyzed. By taking into account the distinction between banking and trading portfolios, analyses and measurements enable Market Risk Management to determine specific limits on sub-portfolio / product levels.

Market risks that the Bank is exposed to are assessed and managed by a triple structure consisting of Treasury, Financial Planning and Market Risk Management Units. The Board of Directors, the Executive Committee and the Audit Committee have primary responsibility for management of such risks. Both Top management and the sub-units are responsible for managing the risks taking into account constraints and targets such as Bank's interest rate sensitivity, liquidity constraints, funding sources, budget targets, medium and long-term capital planning and profitability of the products in operation.

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Models, strategies and processes that are accurate and integrated in accordance with risks the Bank is or may be exposed to have been established. Automated reporting and validation activities are carried out for effective analysis, monitoring and control mechanisms. Risk management infrastructure integrated with day-to-day activities enabling monitor and measurement independently from executive activities; and supports business and decision-making processes has been established. Policies, processes, targets, roles / responsibilities, and regular trainings are the main elements of the Bank's dissemination of risk culture and awareness. Systems and structures compatible with international best practices and in line with the risk appetite are available for risk management.

The Bank implements internal policies and procedures that are reviewed and approved at least once a year by the Board of Directors in order to manage market risks arising from on and off-balance sheet liabilities. Based on the principles mentioned in Regulatory Authority's directives and best practice guidelines, internal policies determine responsibilities and practitioners for identification, measurement, monitoring and reporting of the risks in line with the risk appetite and needs of the Bank; lay the groundwork for granting limits in the Bank; and guide the actions to be taken in case of risk appetite is exceeded.

Market Risk Management organization consists of 4 sub-units; Market Risk Analysis, Asset-Liability Management and Affiliates Coordination, Counterparty Credit Risk and Risk Methodologies and Market Data Analysis units.

Market Risk Analysis unit; carry out the activities such as measuring and setting limits for risks arising from banking and trading books using advanced internal methods (Value at Risk, Base Point Value Sensitivity etc.), complying policies and procedures with new regulations and best practices, product-based risk / return analysis, developing risk measurement and valuation techniques and applying stress tests.

Asset Liability Management and Subsidiaries Coordination unit; enables the Bank to measure the liquidity risk, manage the structural interest rate exposure, manage the protection procedures and the protection accounting processes used to reduce the risk of re-pricing. Follows the concentration of the Bank's funding side. Also paves the way for implementation of Bank-side risk applications and risk culture in the Bank's subsidiaries, plays an active role in risk appetite determination and coordination processes.

Counterparty Credit Risk Management Unit calculates the exposures of over the counter (OTC) derivative transactions via internal model method and manages the inclusion of these exposures into the monitoring and the credit underwriting processes.

The Risk Methodologies and Market Data Analysis unit provides unbiased management of all market data related to treasury products under the risk management framework. The unit is responsible for the verification of fair values, and transfer of related data sources to the banking system.

In the course of market risk management, related business and risk units perform their activities within the scope of the principles determined by internal policies such as the Financial Markets Rulebook, Liquidity Policy, Derivatives Policy, Treasury Credit Line Policy and Fair Value Control Policies.

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b. Market risk under standardised approach

Current Period	Risk Weighted Asset
Outright products	
Interest rate risk (general and specific)	823.338
Equity risk (general and specific)	-
Foreign exchange risk	124.488
Commodity risk	-
Options	
Simplified approach	-
Delta-plus method	12.453
Scenario approach	-
Securitisation	-
Total	960.279

7. Explanations on Operational Risk:

The Bank calculates the amount subject to operational risk based on "Basic Indicator Method" by using 2015, 2014 and 2013 year-end gross income balances of the Bank, in accordance with Section 3 of the "Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio", published in the Official Gazette No. 28337 dated June 28, 2012, namely "The Calculation of the Amount Subject to Operational Risk". As of December 31, 2016, the total amount subject to operational risk is TL 13.109.939 (December 31, 2015 - TL 11.675.376) and the amount of the related capital requirement is TL 1.048.795 (December 31, 2015 - TL 934.030).

	2 Prior Period Value	1 Prior Period	Current Period value	Total / Total number of years for which gross	Rate (%)	Total
Gross Income	5.050.255	7.298.425	8.627.222	6.991.967	%15,00	1.048.795
Amount subject to operational risk (Total*12,5)						13.109.939

8. Banking book interest rate risk

Interest rate risk means that the financial structure of the Bank is adversely affected by negative movements in interest rates. Changes in interest rates affect the Bank's earnings by changing the level of net interest incomes, other interest sensitive incomes and operating expenses. The change in interest rates also affects the underlying values of the Bank's assets for active, passive and off-balance sheet items by changing the economic values of future cash flows (and in some cases, the cash flows themselves).

Interest rate risk has three main reasons:

- **Revaluation Risk:** It is caused by the inconsistency in revaluation of active and passive items.
- **Yield Curve Risk:** It results from the variation of the curve and shape of the yield curve.
- **Basis Risk:** It's due to the low correlation of the earned and paid interest yields of different financial instruments with peer revaluation structure.

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The customer's prepayment risk (option risk) is indirectly taken into account in managing and following the interest rate risk by following a specific risk protection rate.

Within the scope of the interest rate risk arising from banking accounts, the core deposit analysis for demand deposits is carried out according to the maximum maturity structure of the same regulation. In core deposit analysis, it is possible to distribute demand deposits up to 3 times using behavioral models updated once a year.

Interest rate risk is monitored daily through internal reports and reports made to the Executive Board on a monthly basis.

In accordance with the "Regulation on Measurement and Evaluation of the Interest Rate on Banking Accounts by Standard Shock Method", the economic value differences arising from fluctuations in interest rates are stated in the table below as of December 31, 2016, based on the significant currencies of the Bank.

Currency	Applied shock (+/- x basis points)	Gains/Losses	Gains/SE- Losses/SE
TRY	(+)500 bps	(2.513.657)	%(7,72)
TRY	(-)400 bps	2.503.767	%7,69
EUR	(+)200 bps	(232.786)	%(0,71)
EUR	(-)200 bps	232.057	%0,71
USD	(+)200 bps	(134.829)	%(0,41)
USD	(-)200 bps	286.728	%0,88
Total (For negative shocks)		3.022.552	%9,28
Total (For positive shocks)		(2.881.272)	%(8,85)

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IV. Explanations on currency risk:

The difference between the Bank's foreign currency denominated and foreign currency indexed on- and off-balance sheet assets and liabilities is defined as the "Net Foreign Currency Position" and it is the basis of currency risk. Cross currency risk is also taken into consideration for the currency risk calculations and measurements.

The Bank keeps the amount of currency risk exposure within the related legal limits and follows the exchange position on a daily/regular basis. In addition, although the internal exchange position limit is lower when compared to the related legal limit, there has not been any limit exceeding during the period. As an instrument of currency risk management, derivatives such as swap and forwards are used to reduce risk whenever needed. In order to guard against extreme volatility during the year stress tests are applied. Value at risk method is used for the measurement of foreign exchange risk.

The details of hedging of the foreign currency debt instruments and net foreign currency investment risk with derivative instruments are disclosed in section four Note XIV.

The Bank's publicly announced foreign exchange bid rates as of the date of the financial statements and for the last five work days prior to that date are as follows:

(Exchange rates presented as full TL)

	USD	EUR
Balance sheet evaluation rate	3,51920	3,70990
First day current bid rate	3,53180	3,69390
Second day current bid rate	3,53290	3,69010
Third day current bid rate	3,51350	3,67110
Fourth day current bid rate	3,50410	3,66390
Fifth day current bid rate	3,50770	3,66470
Arithmetic average of the last 31 days:	3,49023	3,67756
Balance sheet evaluation rate as of prior period:	2,90760	3,17760

(Convenience translation of publicly announced unconsolidated financial statements originally issued in Turkish, See Note I. of Section three)

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	EUR	USD	OTHER FC ⁽⁴⁾	Total
Current Period				
Assets				
Cash (cash in vault, effectives, cash in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	6.483.178	11.951.014	4.894.943	23.329.135
Banks	776.690	553.699	84.972	1.415.361
Financial assets at fair value through profit or loss	109.024	256.288	68	365.380
Money market placements	-	-	-	-
Available-for-sale financial assets	690.364	2.419.740	2	3.110.106
Loans ⁽¹⁾	29.682.965	41.167.866	898.921	71.749.752
Investments in associates, subsidiaries and joint ventures	1.426.667	329.775	437.143	2.193.585
Held-to-maturity investments	190.933	5.668.648	2	5.859.583
Hedging derivative financial assets	24.511	88.593	-	113.104
Tangible assets	-	-	-	-
Intangible assets	-	-	-	-
Other assets ⁽²⁾	1.272.978	1.024.464	203.016	2.500.458
Total assets	40.657.310	63.460.087	6.519.067	110.636.464
Liabilities				
Bank deposits	346.716	955.404	72.079	1.374.199
Foreign currency deposits	24.413.724	41.686.892	2.151.536	68.252.152
Funds from money market	-	1.563.675	-	1.563.675
Funds borrowed from other financial institutions	13.285.556	13.994.583	171.479	27.451.618
Marketable securities issued	85.601	7.135.166	304.310	7.525.077
Miscellaneous payables	1.410.708	338.015	9.990	1.758.713
Hedging derivative financial liabilities	18.832	3.692	1	22.525
Other liabilities ⁽³⁾	157.861	9.685.335	6.181	9.849.377
Total liabilities	39.718.998	75.362.762	2.715.576	117.797.336
Net on-balance sheet position	938.312	(11.902.675)	3.803.491	(7.160.872)
Net off-balance sheet position ⁽⁵⁾	(832.134)	12.068.488	(3.518.499)	7.717.855
Financial derivative assets	13.395.951	37.803.271	1.745.288	52.944.510
Financial derivative liabilities	14.228.085	25.734.783	5.263.787	45.226.655
Net Position	106.178	165.813	284.992	556.983
Non-cash loans	18.440.614	24.361.198	3.452.146	46.253.958
Prior Period				
Total assets	25.566.779	61.851.474	5.299.420	92.717.673
Total liabilities	30.680.402	68.055.378	2.113.271	100.849.051
Net on-balance sheet position	(5.113.623)	(6.203.904)	3.186.149	(8.131.378)
Net off-balance sheet position	5.228.155	6.228.183	(2.563.464)	8.892.874
Financial derivative assets	9.863.354	35.123.592	1.940.333	46.927.279
Financial derivative liabilities	4.635.199	28.895.409	4.503.797	38.034.405
Net Position	114.532	24.279	622.685	761.496
Non-cash loans	14.864.479	22.210.236	1.889.833	38.964.548

- (1) Includes FX indexed loans amounting to TL 5.733.763 (December 31, 2015 – TL 5.163.077) which have been disclosed as TL in the financial statements.
(2) Does not include foreign currency prepaid expenses amounting to TL 118.870 (December 31, 2015 - TL 91.032).
(3) Does not include foreign currency denominated general provisions for foreign currencies, hedged funds and marketable securities valuation differences under equity.
(4) Other FC column includes also gold balance.
(5) Forward transactions classified as commitments are also included.

Currency risk sensitivity analysis:

The table below represents the sensitivity of the Bank to 15% change of currency exchange rates (USD and EUR).

15% change is the assumption of parity change that may be faced according to the Bank's stress test scenarios.

	Current Period	Prior Period
Change in currency exchange rates	Profit/loss effect ⁽¹⁾	Profit/loss effect ⁽¹⁾
(+) 15%	(55.076)	(58.451)
(-) 15%	55.076	58.451

- (1) Excluding tax effect.

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V. Explanations on interest rate risk:

The monitoring of interest rate sensitive assets and liabilities, including sensitivity analysis regarding the effect of interest rate fluctuations on the financial statements, is performed by the risk management department for all interest sensitive instruments over carrying values. The results are presented monthly to the Asset and Liability Management function of the Executive Committee. By using sensitivity and scenario analyses, the possible effects by interest rate volatility are analyzed. In these analyses possible losses are calculated for the change in fair value of interest sensitive products by applying shock tests to interest rates.

Sensitivity analyses are also calculated daily within Market Risk reporting on the basis of maturity and foreign exchange types and reported to Senior Management by checking them against the determined limits.

The Bank utilizes TL/foreign currency and TL/TL interest rate swap transactions in order to limit the interest and foreign currency risk arising from short-term deposit and long-term consumer loans within the TL balance sheet. Furthermore, in order to reduce the repricing mismatch in the foreign currency balance sheet, foreign currency/foreign currency interest rate swaps are utilized.

a. Interest rate sensitivity of assets, liabilities and off-balance sheet items based on repricing dates:

Current Period	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and over	Non interest bearing	Total
Assets							
Cash (cash in vault, effectives, cash in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	18.675.878	-	-	-	-	13.704.688	32.380.566
Banks	19.714	128.674	25.859	-	-	1.274.445	1.448.692
Financial assets at fair value through profit/loss	1.071.266	812.302	417.210	428.581	288.924	-	3.018.283
Money market placements	-	-	-	-	-	-	-
Available-for-sale financial assets	2.391.170	4.113.076	5.781.364	3.434.254	2.395.084	165.258	18.280.206
Loans	27.707.389	31.050.486	53.350.202	38.322.482	20.075.698	2.117.960	172.624.217
Held-to-maturity investments	-	868.075	1.408.356	1.029.134	7.358.986	-	10.664.551
Other assets	366.743	900.005	-	-	-	13.136.275	14.403.023
Total assets	50.232.160	37.872.618	60.982.991	43.214.451	30.118.692	30.398.626	252.819.538
Liabilities							
Bank deposits	5.919.171	149.871	39.489	-	-	913.799	7.022.330
Other deposits	88.898.651	25.652.977	7.606.486	32.122	-	25.062.290	147.252.526
Funds from money market	4.377.375	170.828	1.309.585	-	-	-	5.857.788
Miscellaneous payables	-	-	-	-	-	10.637.009	10.637.009
Marketable securities issued	444.124	2.996.378	367.845	5.399.026	37.345	-	9.244.718
Funds borrowed from other financial institutions	5.671.496	14.364.610	6.878.955	348.815	730.986	-	27.994.862
Other liabilities ⁽¹⁾	582.033	338.147	585.782	905.012	9.272.345	33.126.986	44.810.305
Total liabilities	105.892.850	43.672.811	16.788.142	6.684.975	10.040.676	69.740.084	252.819.538
Balance sheet long position	-	-	44.194.849	36.529.476	20.078.016	-	100.802.341
Balance sheet short position	(55.660.690)	(5.800.193)	-	-	-	(39.341.458)	(100.802.341)
Off-balance sheet long position	10.007.647	17.277.542	-	-	-	-	27.285.189
Off-balance sheet short position	-	-	(2.369.717)	(16.390.916)	(8.159.895)	-	(26.920.528)
Total position	(45.653.043)	11.477.349	41.825.132	20.138.560	11.918.121	(39.341.458)	364.661

(1) Shareholders' equity is presented in the "Non interest bearing"

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Prior Period	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and over	Non interest bearing	Total
Assets							
Cash (cash in vault, effectives, cash in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	17.087.214	-	-	-	-	9.907.372	26.994.586
Banks	39.293	179.869	-	-	-	1.117.982	1.337.144
Financial assets at fair value through profit/loss	634.200	239.515	607.024	238.771	49.800	-	1.769.310
Money market placements	284.104	2.011	-	-	-	-	286.115
Available-for-sale financial assets	2.064.819	5.605.019	7.556.053	3.750.799	3.536.749	234.990	22.748.429
Loans	23.974.257	17.239.690	48.502.619	38.244.452	19.313.091	1.505.073	148.779.182
Held-to-maturity investments	-	369.566	1.014.843	699.311	4.305.912	-	6.389.632
Other assets	183.963	516.860	254.304	-	-	11.109.895	12.065.022
Total assets	44.267.850	24.152.530	57.934.843	42.933.333	27.205.552	23.875.312	220.369.420
Liabilities							
Bank deposits	3.486.432	77.009	-	-	-	624.333	4.187.774
Other deposits	65.707.743	32.538.703	5.493.316	18.542	-	18.962.815	122.721.119
Funds from money market	11.902.440	146.864	245.636	-	-	-	12.294.940
Miscellaneous payables	-	-	-	-	-	9.138.148	9.138.148
Marketable securities issued	376.588	1.317.448	1.644.434	6.197.101	31.992	-	9.567.563
Funds borrowed from other financial institutions	5.346.894	13.071.656	4.125.625	251.267	820.288	-	23.615.730
Other liabilities ⁽¹⁾	728.141	578.846	1.051.347	191.719	6.086.118	30.207.975	38.844.146
Total liabilities	87.548.238	47.730.526	12.560.358	6.658.629	6.938.398	58.933.271	220.369.420
Balance sheet long position	-	-	45.374.485	36.274.704	20.267.154	-	101.916.343
Balance sheet short position	(43.280.388)	(23.577.996)	-	-	-	(35.057.959)	(101.916.343)
Off-balance sheet long position	6.149.452	18.331.052	-	-	-	-	24.480.504
Off-balance sheet short position	-	-	(6.619.770)	(14.181.457)	(4.332.133)	-	(25.133.360)
Total position	(37.130.936)	(5.246.944)	38.754.715	22.093.247	15.935.021	(35.057.959)	(652.856)

(1) Shareholders' equity is presented in the "Non interest bearing"

b. Average interest rates for monetary financial instruments:

The following average interest rates are calculated by weighting the rates with their principal amounts outstanding as of the balance sheet date.

Current Period	EUR	USD	Yen	TL
	%	%	%	%
Assets⁽¹⁾				
Cash (cash in vault, effectives, cash in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	-	0,49	-	3,31
Banks	0,58	-	-	10,42
Financial assets at fair value through profit/loss	3,06	3,69	-	9,92
Money market placements	-	-	-	-
Available-for-sale financial assets	4,30	5,46	-	9,57
Loans	4,20	5,95	4,97	13,18
Held-to-maturity investments	5,20	5,43	-	9,46
Liabilities⁽¹⁾				
Bank deposits	0,89	1,56	-	11,12
Other deposits	1,52	2,91	1,41	10,74
Funds from money market	-	1,13	-	7,82
Miscellaneous payables	-	-	-	-
Marketable securities issued	2,74	5,25	0,35	9,06
Funds borrowed from other financial institutions	0,86	2,34	3,16	6,54

(Convenience translation of publicly announced unconsolidated financial statements originally issued in Turkish, See Note I. of Section three)

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Prior Period	EUR	USD	Yen	TL
	%	%	%	%
Assets⁽¹⁾				
Cash (cash in vault, effectives, cash in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	-	0,21	-	2,09
Banks	-	0,90	-	12,69
Financial assets at fair value through profit/loss	2,07	3,92	-	9,01
Money market placements	-	0,90	-	13,21
Available-for-sale financial assets	4,40	5,81	-	10,00
Loans	4,09	5,30	4,80	14,49
Held-to-maturity investments	5,20	5,43	-	10,62
Liabilities⁽¹⁾				
Bank deposits	1,40	1,17	-	11,07
Other deposits	1,43	2,20	1,72	12,73
Funds from money market	-	1,01	-	9,45
Miscellaneous payables	-	-	-	-
Marketable securities issued	1,80	5,02	0,81	10,87
Funds borrowed from other financial institutions	1,03	3,02	2,99	7,08

(1) Does not include demand/non-interest transactions.

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VI. Explanation on share certificates position risk from banking book:

None.

VII. Explanations on liquidity risk:

Liquidity risk is defined as risk of unexpected loss to be occurred or bank to have difficulties in raising funds while meeting maturing liabilities. Liquidity management is daily monitored before the Bank under Treasury Management, Risk Management and Capital Management. The liquidity policy of the Bank is approved by the Bank's Board of Directors. Treasury Management is responsible for carrying out transactions which are appropriate to Bank's policy, monitoring of liquidity position and submitting necessary reports to executives. Capital management contributes to determine strategies and operating actions for the management of the liquidity position in addition to prepare funding plan and contingency plan of the Bank in cooperation with Treasury Management. Liquidity risk is evaluated with liquidity gap analysis, liquidity stress tests and supplementary precautions/measurements. Liquidity Gap analysis are performed for two different periods as short-term and long-term. Going concern scenario and structural positions are reported monthly. This reporting constitutes the basis of monitoring and management of liquidity position.

The Bank functions as a central funding institution in its relations with its subsidiaries. Intra-group liquidity management and funding strategies are limited with related legal boundaries.

The Bank issues an annual funding plan in order to sustain funding in a consistent and balanced way. Funding plan have to be updated at least annually and approved by the Executive Committee since it is complied with budgeting process and risk appetite frameworks. The primary purpose of the funding plan is to provide a reliable balance between assets and liabilities.

Both short-term liquidity and long-term (structural) liquidity measurement and reporting for all types of currencies are periodically made in the Bank and its subsidiaries. There are limits which are predetermined and approved by the Board of Directors on the basis of all currencies for each period.

The Bank mainly uses derivative transactions as managing liquidity risk and monitors cash inflow and outflow periods in the framework of funding plan balancing the distribution among currencies.

The Bank aims to reduce the risks to the lowest level if required via measuring possible risks in liquidity with stress tests. Stress tests make it possible for the Bank to reinterpret analysis of its liquidity position according to scenarios depending on possible cases and tail risks except for crisis situations. The Bank applies weekly liquidity stress tests consisting of different scenarios and maturity segments (maximum 60 days).

"Liquidity Contingency Plan" is applied if the Bank needs more liquidity than its daily liquidity need because of possible financial events in future. Duties and responsibilities are defined in detail in the aforementioned plan.

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Information related to financial position of the Bank (continued)

Current Period	Unweighted Amounts ⁽¹⁾		Weighted Amounts ⁽¹⁾	
	TL+FC	FC	TL+FC	FC
High Quality Liquid Assets				
High Quality Liquid Assets			35.129.581	21.498.931
Cash Outflows				
Retail and Small Business Customers Deposits	68.672.303	25.233.255	5.972.464	2.523.295
Stable deposits	17.895.319	616	894.766	31
Less stable deposits	50.776.984	25.232.639	5.077.698	2.523.264
Unsecured Funding other than Retail and Small Business Customers Deposits	60.213.570	29.033.655	33.439.165	14.736.867
Operational deposits	-	-	-	-
Non-Operational deposits	49.565.700	26.073.260	24.884.593	11.776.472
Other Unsecured funding	10.647.870	2.960.395	8.554.572	2.960.395
Secured funding			-	-
Other Cash Outflows	13.792.956	12.441.581	13.792.956	12.441.581
Liquidity needs related to derivatives and market valuation changes on derivatives transactions	13.792.956	12.441.581	13.792.956	12.441.581
Debts related to the structured financial products	-	-	-	-
Commitment related to debts to financial markets and other off balance sheet liabilities	-	-	-	-
Commitments that are unconditionally revocable at any time by the Bank and other contractual commitments	57.284.824	36.261.253	2.864.241	1.813.063
Other irrevocable or conditionally revocable commitments	57.738.358	9.613.934	4.148.299	614.209
Total Cash Outflows			60.217.125	32.129.015
Cash Inflows				
Secured Lending Transactions	-	-	-	-
Unsecured Lending Transactions	17.685.500	5.527.070	11.254.271	4.394.788
Other contractual cash inflows	12.706.944	9.919.938	12.706.944	9.919.938
Total Cash Inflows	30.392.444	15.447.008	23.961.215	14.314.726
Capped Amounts				
Total High Quality Liquid Assets			35.129.581	21.498.931
Total Net Cash Outflows			36.255.910	17.814.289
Liquidity Coverage Ratio (%)			96,89	120,68

(1) In current period unconsolidated Liquidity Coverage Ratio table, the arithmetic average of the last three months weekly unconsolidated Liquidity Coverage Ratio's are used.

The dates and values of minimum and maximum foreign currency and total liquidity coverage ratios calculated weekly related to the last three months are explained in the table below.

Current Period	Minimum FC (%)	Minimum TL+FC (%)	Maximum FC (%)	Maximum TL+FC (%)
Week	November 11, 2016	October 07, 2016	October 28, 2016	November 18, 2016
Ratio(%)	96,77	87,98	145,26	107,51

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	Unweighted Amounts ⁽¹⁾		Weighted Amounts ⁽¹⁾	
Previous Period	TL+FC	FC	TL+FC	FC
High Quality Liquid Assets				
High Quality Liquid Assets			31.029.798	21.446.919
Cash Outflows				
Retail and Small Business Customers Deposits	58.729.791	23.417.750	4.908.236	2.067.922
Stable deposits	19.294.865	5.477.050	964.743	273.852
Less stable deposits	39.434.926	17.940.700	3.943.493	1.794.070
Unsecured Funding other than Retail and Small Business Customers Deposits	56.257.239	29.187.502	31.130.778	15.775.218
Operational deposits	-	-	-	-
Non-Operational deposits	45.595.836	25.536.719	22.343.534	12.124.435
Other Unsecured funding	10.661.403	3.650.783	8.787.244	3.650.783
Secured funding			11.393	11.393
Other Cash Outflows	23.170.220	16.444.257	23.170.220	16.444.257
Liquidity needs related to derivatives and market valuation changes on derivatives transactions	23.170.220	16.444.257	23.170.220	16.444.257
Debts related to the structured financial products	-	-	-	-
Commitment related to debts to financial markets and other off balance sheet liabilities	-	-	-	-
Commitments that are unconditionally revocable at any time by the Bank and other contractual commitments	49.986.703	31.880.243	2.499.335	1.594.012
Other irrevocable or conditionally revocable commitments	58.252.236	11.376.371	4.307.989	762.527
Total Cash Outflows			66.027.951	36.655.329
Cash Inflows				
Secured Lending Transactions	-	-	-	-
Unsecured Lending Transactions	14.334.673	3.916.498	8.393.926	2.718.646
Other Contractual Cash Inflows	23.763.085	21.214.583	22.591.026	18.308.062
Total Cash Inflows	38.097.758	25.131.081	30.984.952	21.026.708
Capped Amounts				
Total High Quality Liquid Assets			31.029.798	21.446.919
Total Net Cash Outflows			35.042.999	15.628.621
Liquidity Coverage Ratio (%)			88,55	137,23

(1) In current period unconsolidated Liquidity Coverage Ratio table, the arithmetic average of the last three months weekly unconsolidated Liquidity Coverage Ratio's are used.

The dates and values of minimum and maximum foreign currency and total liquidity coverage ratios calculated weekly related to the last three months are explained in the table below.

	Minimum FC (%)	Minimum TL+FC (%)	Maximum FC (%)	Maximum TL+FC (%)
Week	27 November 2015	4 December 2015	23 October 2015	31 December 2015
Ratio(%)	116,83	82,13	170,42	99,16

Funding sources of the Bank mainly consist of deposits which constitute 61% of total liabilities of the Bank (31 December 2015 – 58%) and also include repo, secured loans, syndication, securitization, bond/security issuance and other instruments including subordinated debts.

Cash, effective money, cheques, Central Bank of the Republic of Turkey ("CBRT") reserves and debt instruments issued by Treasury of the Republic of Turkey are treated as high quality liquid assets.

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Information related to financial position of the Bank (continued)

Cash outflows from derivative transactions in liquidity coverage ratio calculation are based on inclusion of net cash flows with maturity of 30 days in the calculation. Additionally, transactions having a margin possibility are included in liquidity coverage ratio calculation by taking the largest amount according to absolute value of net margin flows realized in the last 24 months in respect of 30 days period or for liability into consideration as cash outflow.

Secured funding consists of repo and secured loan transactions. A large part of securities which are subjects of aforementioned guaranteed funding transactions consist of Sovereign Bonds issued by Treasury of the Republic of Turkey and transactions are carried out both in CBRT market and interbank market.

The Bank manages all the transactions made before its foreign branches and partnership in the framework of central bank, markets and related legislation of the country in which the institutions are located. Legal lending limits and high limit transactions are closely monitored in this framework.

All cash inflow and outflow items related to liquidity profile of the Bank are included in liquidity coverage ratio tables above.

Breakdown of assets and liabilities according to their remaining maturities:

	Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and over	Unclassified (1),(2)	Total
Current Period								
Assets								
Cash (cash in vault, effectives, cash in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	10.453.403	21.927.163	-	-	-	-	-	32.380.566
Banks	1.274.445	19.714	128.674	25.859	-	-	-	1.448.692
Financial assets at fair value through profit or loss	-	551.409	405.059	828.289	886.341	347.185	-	3.018.283
Money market placements	-	-	-	-	-	-	-	-
Available-for-sale financial assets	96.640	1.578	124.342	701.416	7.703.663	9.583.949	68.618	18.280.206
Loans	-	25.667.375	21.239.641	39.042.805	45.149.533	39.406.903	2.117.960	172.624.217
Held-to-maturity investments	-	-	-	1.018.685	1.076.362	8.569.504	-	10.664.551
Other assets ⁽¹⁾	1.759.509	218	97.812	191.300	796.457	180.961	11.376.766	14.403.023
Total assets	13.583.997	48.167.457	21.995.528	41.808.354	55.612.356	58.088.502	13.563.344	252.819.538
Liabilities								
Bank deposits	913.799	5.919.171	149.871	39.489	-	-	-	7.022.330
Other deposits	25.062.290	88.898.651	25.652.977	7.606.486	32.122	-	-	147.252.526
Funds borrowed from other financial institutions	-	612.743	1.192.579	16.026.394	4.850.555	5.312.591	-	27.994.862
Funds from money market	-	4.377.375	170.828	1.309.585	-	-	-	5.857.788
Marketable securities issued	-	444.124	2.996.378	367.845	5.399.026	37.345	-	9.244.718
Miscellaneous payables	892.084	9.466.586	45.471	-	-	-	232.868	10.637.009
Other liabilities ⁽²⁾	1.890.502	492.611	570.596	634.865	1.568.327	9.495.712	30.157.692	44.810.305
Total liabilities	28.758.675	110.211.261	30.778.700	25.984.664	11.850.030	14.845.648	30.390.560	252.819.538
Net liquidity gap	(15.174.678)	(62.043.804)	(8.783.172)	15.823.690	43.762.326	43.242.854	(16.827.216)	-
Net Off-Balance Sheet Position	-	(58.407)	153.940	297.139	279.255	(307.266)	-	364.661
Derivative Financial Assets	-	33.364.178	15.344.691	19.342.430	38.274.123	19.688.420	-	126.013.842
Derivative Financial Liabilities	-	33.422.585	15.190.751	19.045.291	37.994.868	19.995.686	-	125.649.181
Non-Cash Loans	-	2.385.544	8.127.694	19.427.721	11.874.230	4.247.343	21.806.008	67.868.540
Prior Period								
Total assets	4.639.410	48.558.963	15.461.200	41.034.565	52.166.121	47.239.366	11.269.795	220.369.420
Total liabilities	23.038.947	91.194.187	35.526.307	20.193.245	11.421.072	12.563.119	26.432.543	220.369.420
Liquidity gap	(18.399.537)	(42.635.224)	(20.065.107)	20.841.320	40.745.049	34.676.247	(15.162.748)	-
Net Off-Balance Sheet Position	-	739.345	(465.072)	(87.465)	21.532	(33.832)	-	174.508
Derivative Financial Assets	-	29.891.739	15.264.344	27.365.426	27.937.406	11.598.250	-	112.057.165
Derivative Financial Liabilities	-	29.152.394	15.729.416	27.452.891	27.915.874	11.632.082	-	111.882.657
Non-Cash Loans	-	18.685.139	3.089.306	8.170.733	5.710.284	2.650.947	18.734.662	57.041.071

- (1) Assets that are necessary for continuance of banking activities and that cannot be liquidated in the short-term, such as fixed and intangible assets, investments in associates, subsidiaries, assets held for sale, stationary stocks, prepaid expenses and loans under follow-up, are classified in this column.
- (2) Shareholders' equity is presented under the "Other liabilities" item in the "Unclassified" column.

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Information related to financial position of the Bank (continued)

Breakdown of financial liabilities according to their remaining contractual maturities:

The maturity distribution of values at contracted maturity date of non-derivative financial liabilities is presented below. Maturity segments also include the interests of related assets and liabilities.

Current Period ⁽¹⁾	Demand and up to 1 month	1-3 months	3-12 months	1-5 years	Above 5 years	Total
Liabilities						
Deposits	121.536.245	26.117.757	7.863.579	34.602	-	155.552.183
Funds borrowed from other financial institutions	631.366	1.285.005	16.431.264	6.447.772	7.768.313	32.563.720
Funds from money market	4.385.112	171.503	1.322.744	-	-	5.879.359
Subordinated loans	-	131.831	416.029	2.163.955	10.147.038	12.858.853
Marketable securities issued (net)	480.283	3.058.210	601.550	5.879.283	47.547	10.066.873
Total	127.033.006	30.764.306	26.635.166	14.525.612	17.962.898	216.920.988

Prior Period ⁽¹⁾	Demand and up to 1 month	1-3 months	3-12 months	1-5 years	Above 5 years	Total
Liabilities						
Deposits	89.214.713	33.085.144	5.639.522	19.731	-	127.959.110
Funds borrowed from other financial institutions	843.701	1.132.909	12.299.177	4.563.126	8.357.649	27.196.562
Funds from money market	11.919.351	147.140	257.316	-	-	12.323.807
Subordinated loans	-	47.942	300.656	1.936.583	6.697.667	8.982.848
Marketable securities issued	462.872	934.814	2.175.849	6.961.577	42.319	10.577.431
Total	102.440.637	35.347.949	20.672.520	13.481.017	15.097.635	187.039.758

(1) Maturities of non-cash loans are described in Note 3(iv) of Section V.

VIII. Explanations on leverage ratio:

The main reasons for decrease in leverage ratio for the current period are the increase in total risks of on-balance sheet assets and off-balance sheet exposures.

	Current Period ⁽¹⁾	Prior Period ⁽¹⁾
On-Balance sheet exposures		
On-Balance sheet assets (Excluding derivative financial instruments and credit derivatives, including collaterals)	239.511.702	216.297.937
(Asset amounts deducted in determining Tier 1 capital)	(2.548.041)	(2.244.358)
Total on-Balance sheet exposures	236.963.661	214.053.579
Derivative financial instruments and credit derivatives		
Replacement cost of derivative financial instruments and credit derivatives	1.142.150	901.494
Potential credit risk of derivative financial instruments and credit derivatives	2.600.580	2.393.778
Total derivative financial instruments and credit derivatives exposure	3.742.730	3.295.272
Securities financing transaction exposure		
Total risk of gross securities financing transactions (excluding on-balance sheet exposure)	535.578	1.822.510
Agent transaction exposures	-	-
Total securities financing transaction exposures	535.578	1.822.510
Off-balance sheet items		
Off-balance sheet exposure at gross notional amount	148.310.644	151.800.162
(Adjustments for conversion to credit equivalent amounts)	(10.254.102)	(2.270.232)
Total risk of off-balance sheet items	138.056.542	149.529.930
Capital and total exposure		
Tier 1 capital	23.511.821	20.753.147
Total exposures	379.298.511	368.701.291
Leverage ratio		
Leverage ratio (%)	6,21	5,63

(1) The arithmetic average of the last three months in the related periods.

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Information related to financial position of the Bank (continued)

IX. Explanations on the presentation of financial assets and liabilities at fair values:

The following table summarizes the carrying values and fair values of some financial assets and liabilities of the Bank. The carrying value represents the acquisition costs and accumulated interest accruals of corresponding financial assets or liabilities.

	Carrying value		Fair value	
	Current Period	Prior Period	Current Period	Prior Period
Financial assets	203.017.666	179.540.502	208.624.519	181.888.848
Due from money market	-	286.115	-	286.115
Banks	1.448.692	1.337.144	1.448.408	1.337.148
Available-for-sale financial assets	18.280.206	22.748.429	18.280.206	22.748.429
Held-to-maturity investments	10.664.551	6.389.632	10.049.769	6.318.281
Loans	172.624.217	148.779.182	178.846.136	151.198.875
Financial liabilities	211.219.338	175.865.525	210.939.257	176.328.130
Bank deposits	7.022.330	4.187.774	7.025.488	4.188.079
Other deposits	147.252.526	122.721.119	147.338.175	122.800.605
Funds borrowed from other financial institutions	27.994.862	23.615.730	27.467.314	23.615.140
Subordinated loans	9.067.893	6.635.191	9.170.193	6.726.059
Marketable securities issued	9.244.718	9.567.563	9.301.078	9.860.099
Miscellaneous payables	10.637.009	9.138.148	10.637.009	9.138.148

The fair values of deposits, banks, securities issued and funds borrowed from other financial institutions are determined by calculating the discounted cash flows using the current market interest rates.

The fair value of held-to-maturity assets is determined based on market prices or when this price is not available, based on market prices quoted for other securities subject to the same redemption qualifications in terms of interest, maturity and other similar conditions.

The expected fair value of loans and receivables is determined by calculating the discounted cash flows using the current market interest rates for the loans with fixed interest rates. For the loans with floating interest rates (such as overdrafts and credit card receivables), it is assumed that the carrying value approaches to the fair value.

TFRS 13, "Fair Value Measurement", requires classification of line items at fair value presented at the financial statements according to the defined levels. These levels depend on the observability of data used for fair value calculations. Classification for fair value is generated as followed below:

Level 1: Assets or liabilities with prices recorded (unadjusted) in active markets

Level 2: Assets or liabilities that are excluded in the Level 1 of recorded prices directly observable by prices or indirectly observable derived through prices observable from similar assets or liabilities

Level 3: Assets and liabilities where no observable market data can be used for valuation

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Information related to financial position of the Bank (continued)

According to these classification principles stated, the Bank's classification of financial assets and liabilities carried at their fair value are as follows:

Current Period	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or (loss)	36.713	2.981.570	-	3.018.283
Government debt securities	36.713	-	-	36.713
Share certificates	-	-	-	-
Trading derivative financial assets	-	2.981.570	-	2.981.570
Other marketable securities	-	-	-	-
Available-for-sale financial assets	16.130.712	2.141.724	-	18.272.436
Government debt securities	16.034.072	-	-	16.034.072
Other marketable securities ⁽¹⁾	96.640	2.141.724	-	2.238.364
Hedging derivative financial assets	-	1.168.936	-	1.168.936
Total assets	16.167.425	6.292.230	-	22.459.655
Trading derivative financial liabilities	-	2.525.526	-	2.525.526
Hedging derivative financial liabilities	-	88.788	-	88.788
Information on borrowings	-	4.111.709	-	4.111.709
Total liabilities	-	6.726.023	-	6.726.023
Prior Period	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or (loss)	66.106	1.703.204	-	1.769.310
Government debt securities	66.106	-	-	66.106
Share certificates	-	-	-	-
Trading derivative financial assets	-	1.703.204	-	1.703.204
Other marketable securities	-	-	-	-
Available-for-sale financial assets	20.398.262	2.342.662	-	22.740.924
Government debt securities	20.380.183	-	-	20.380.183
Other marketable securities ⁽¹⁾	18.079	2.342.662	-	2.360.741
Hedging derivative financial assets	-	955.127	-	955.127
Total assets	20.464.368	5.000.993	-	25.465.361
Trading derivative financial liabilities	-	1.853.506	-	1.853.506
Hedging derivative financial liabilities	-	147.474	-	147.474
Information on borrowings ⁽²⁾	-	3.394.985	-	3.394.985
Total liabilities	-	5.395.965	-	5.395.965

(1) Non-listed share certificates amounting of TL 7.770 are accounted in accordance with TAS 39, at acquisition costs, are not included. (December 31, 2015 – TL 7.505)

(2) Includes some financial liabilities classified at fair value through profit/loss in order to eliminate the accounting mismatch at the initial recognition in accordance with TAS 39 paragraph 9.

The Bank classify its buildings carried at their fair value within property and equipment under level 3.

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Information related to financial position of the Bank (continued)

X. Explanations on hedge accounting:

The Bank applies the following hedge accounting models as of December 31, 2016:

- Fair Value Hedge ("FVH")
- Cash Flow Hedge ("CFH")

Cross currency interest rate swaps are used as hedging instrument in FVH and interest rate swaps are used as hedging instrument in CFH.

Contractual amounts and the fair values as at December 31, 2016 of these hedging instruments are presented in the table below:

	Notional ⁽¹⁾	Current Period		Notional ⁽¹⁾	Prior Period	
		Asset	Liability		Asset	Liability
Hedging instrument						
Interest rate swap/ Cross currency interest rate swap (CFH)	24.782.222	963.417	38.839	28.436.221	703.897	144.047
Cross currency interest rate swap	962.773	205.519	49.949	567.175	251.230	3.427
Total	25.744.995	1.168.936	88.788	29.003.396	955.127	147.474

(1) Only the "sell" legs of the related derivatives are presented with the addition of the "buy" legs of these derivatives amounting to TL 26.381.740 (December 31, 2015 – TL 29.505.684) the total notional of derivative financial assets amounting to TL 52.126.735 (December 31, 2015 – TL 58.509.080) is accounted for in off-balance sheet under "Hedging Derivative Financial Instruments" line item.

The fair valuation methodology of the derivatives presented in the above table is disclosed in the accounting principles section of these financial statements in Section III. Part IV.

Fair value hedge accounting:

Starting from March 1, 2009 and July 28, 2015 for marketable securities, the Bank has hedged the possible fair value effects of changes in market interest rates on part of its fixed interest TL mortgage and car loan portfolios and marketable securities and fair value effects of changes in foreign exchange rates on part of its foreign currency denominated funding and marketable securities by using cross-currency interest rate swaps. The Bank selected to apply macro FVH accounting for such relationship in accordance with TAS 39.

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Information related to financial position of the Bank (continued)

The impact of application of FVH accounting is summarized below:

Current Period						
Type of hedging instrument	Hedged item (asset and liability)	Nature of hedged risks	Fair value difference / adjustment of the hedged item ⁽¹⁾	Net fair value of the hedging instrument ⁽²⁾		Net gain/(loss) recognised in the income statement (Derivative financial transactions gains/losses) ⁽³⁾
				Asset	Liability	
Cross currency interest rate swaps	Fixed interest TL mortgage and car loan portfolios and foreign currency funds	Fixed interest and changes in foreign exchange rate risk	(8.587)	205.519	49.949	14.710

(1) The amount refers to the fair value of the hedged item calculated for the TL fixed interest mortgage and car loans in accordance with hedge accounting effectiveness tests. The foreign exchange rate changes of foreign currency funding and cross-currency swaps are reflected to the income statement in foreign exchange gains / losses line item.

(2) The amounts include the foreign exchange differences and net straight line interest accruals of the related derivatives.

(3) The ineffective portion of the mentioned hedging transaction is TL 2.528.

Prior Period						
Type of hedging instrument	Hedged item (asset and liability)	Nature of hedged risks	Fair value difference / adjustment of the hedged item ⁽¹⁾	Net fair value of the hedging instrument ⁽²⁾		Net gain/(loss) recognised in the income statement (Derivative financial transactions gains/losses) ⁽³⁾
				Asset	Liability	
Cross currency interest rate swaps	Fixed interest TL mortgage and car loan portfolios and foreign currency funds	Fixed interest and changes in foreign exchange rate risk	(23.297)	251.230	3.427	(14.775)

(1) The amount refers to the fair value of the hedged item calculated for the TL fixed interest mortgage and car loans in accordance with hedge accounting effectiveness tests. The foreign exchange rate changes of foreign currency funding and cross-currency swaps are reflected to the income statement in foreign exchange gains / losses line item.

(2) The amounts include the foreign exchange differences and net straight line interest accruals of the related derivatives.

(3) The ineffective portion of the mentioned hedging transaction is TL 2.286.

At the inception date, the Bank documents the relationship between the hedging instruments and hedged items required by the FVH accounting application in accordance with TAS 39 and its own risk management policies and principles. Every individual relationship is approved and documented in accordance with the same methodology. In accordance with TAS 39, the effectiveness tests of the relationships are performed in accordance with the Bank's risk management policies. In the effectiveness tests, the fair values of the hedged item are calculated using the same assumptions used in calculation of fair values of the derivatives.

The effectiveness tests are performed prospectively and retrospectively on a monthly basis. At the inception date the effectiveness tests are performed prospectively. If the underlying hedge does not conform to the FVH accounting requirements (out of the 80%-125% effectiveness range) or if the management voluntarily decides to discontinue the hedging relation, the adjustments made to the carrying value (amortized cost) of the hedged item are amortized with the straight line method and recognized in the profit and loss accounts. In addition if the hedging instrument is sold or closed before its maturity, the amount of the fair value adjustments of the hedged items are amortized to profit and loss accounts with the straight line method.

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Information related to financial position of the Bank (continued)

Cash flow hedge accounting:

The Bank started to apply macro cash flow hedge accounting from January 1, 2010 onwards in order to hedge its cash flow risk from floating interest rate liabilities. The hedging instruments are USD, EUR and TL interest rate swaps with floating receive, fixed pay legs, and the hedged item is the cash outflows due to financing of interests of repricing USD, EUR and TL deposits, borrowings and repos.

The impact of application of CFH accounting is summarized below:

Current Period						
Type of hedging instrument	Hedged item (asset and liability)	Nature of hedged risks	Net fair value of the hedging instrument		Net gain/(loss) recognized in hedging funds ⁽¹⁾	Net gain/(loss) reclassified to equity ⁽²⁾⁽³⁾
			Asset	Liability		
Interest rate swaps/ Cross currency interest rate swap (CFH)	Customer deposits, borrowings and repos	Cash flow risk due to the changes in the interest rates	963.417	38.839	379.149	111.184

(1) Includes deferred tax impact.

(2) Includes tax and foreign exchange differences.

(3) The ineffective portion of the mentioned hedging transaction is TL 5.290

Prior Period						
Type of hedging instrument	Hedged item (asset and liability)	Nature of hedged risks	Net fair value of the hedging instrument		Net gain/(loss) recognized in hedging funds ⁽¹⁾	Net gain/(loss) reclassified to equity ⁽²⁾⁽³⁾
			Asset	Liability		
Interest rate swaps/ Cross currency interest rate swap (CFH)	Customer deposits, borrowings and repos	Cash flow risk due to the changes in the interest rates	703.897	144.047	267.965	564.974

(1) Includes deferred tax impact.

(2) Includes tax and foreign exchange differences.

(3) The ineffective portion of the mentioned hedging transaction is TL 6.355.

At the inception date, the Bank documents the relationship between the hedging instruments and hedged items required by the CFH accounting application in accordance with TAS 39 and its own risk management policies and principles. Every individual relationship is approved and documented in the same way. In accordance with TAS 39, the effectiveness tests of the relationships are performed in accordance with the Bank's risk management policies.

The effectiveness tests are performed on a monthly basis. If the underlying hedge does not conform to the CFH accounting requirements (out of the 80%-125% effectiveness range) or if the management voluntarily decides to discontinue the hedging relation or the hedging instrument is sold or closed before its maturity, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective shall remain separately in equity until the forecast transaction occurs or is no longer expected to occur. When the hedged forecasted transactions are no longer expected to occur, the net cumulative gain or loss is reclassified from other comprehensive income to profit and loss.

Net Investment Hedge:

The Bank hedges part of the currency translation risk of net investments in foreign operations through foreign currency borrowings. The Bank's EURO denominated borrowing is designated as a hedge of the net investment in the Bank's certain EURO denominated subsidiaries. The total amount of the borrowing designated as a hedge of the net investment at December 31, 2016 is EUR 386 million (December 31, 2015 - EUR 348 million.)

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Information related to financial position of the Bank (continued)

XI. Explanations on the activities carried out on behalf of others and fiduciary transactions:

The Bank carries out trading, custody, management and consulting services on behalf of customers and on their account. The Bank has no fiduciary transactions.

XII. Explanations on operating segments:

The Bank carries out its banking operations through three main business units:

- (1) Retail Banking
- (2) Corporate and Commercial Banking
- (3) Private Banking and Wealth Management.

The Bank's Retail Banking activities include card payment systems, SME banking and individual banking. Retail Banking products and services offered to customers include card payment systems, consumer loans (including general purpose loans, auto loans, mortgages), commercial installment loans, SME loans, time and demand deposits, gold banking, investment accounts, life and non-life insurance products and payroll services. Card payment systems cover the management of products, services, campaigns for member merchants as well as the sales and activities for a variety of customer types. Crystal, Play, Adios and Taksitçi are the other card brands providing services for the different segments within the World brand, shopping and marketing platform of the Bank. The Bank also offers debit card and a prepaid card named World Hediye Card.

Corporate and Commercial Banking segment is organized into three subgroups: Corporate Banking for large-scale companies, Commercial Banking for medium-sized enterprises and Multinational Companies Banking for multinational companies. Corporate and Commercial Banking, has a product range of working capital finance, trade finance, project finance, domestic and international non-cash loans such as letters of credit and letters of guarantee, cash management and internet banking.

Through its Private Banking and Wealth Management activities, the Bank serves high net worth customers and delivers investment products to this customer segment. Among the products and services offered to Private Banking customers are time deposit products, capital guaranteed funds, mutual funds, Type A Type B funds, derivative products such as forwards, futures and options in domestic futures exchange (VOB) and international markets, personal loans, foreign exchange, gold and equity trading, pension plans, insurance products and 7/24 safe deposit boxes and e-banking services. Also, personal art advisory, inheritance advisory, real estate advisory, tax advisory and philanthropic advisory are offered within the Private Banking and Wealth Management activities.

The Bank's widespread branch network and alternative distribution channels including ATMs, telephone banking, internet banking and mobile banking are utilized to serve customers in all segments.

(Convenience translation of publicly announced unconsolidated financial statements originally issued in Turkish, See note I. of Section three)

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Information related to financial position of the Bank (continued)

The below table is prepared in accordance with the Management Information System (MIS) data of the Bank.

Major balance sheet and income statement items based on operating segments:

Current Period	Retail banking	Corporate and commercial banking	Private banking and wealth management	Treasury, asset-liability management and other	Total operations of the Bank
Operating revenue	4.352.372	2.806.216	236.421	3.693.209	11.088.218
Operating expenses	(4.331.137)	(1.020.631)	(102.516)	(2.465.801)	(7.920.085)
Net operating income / (expense)	21.235	1.785.585	133.905	1.227.408	3.168.133
Dividend income ⁽¹⁾	-	-	-	80	80
Income/(loss) from investments accounted based on equity method	-	-	-	476.472	476.472
Profit before tax	21.235	1.785.585	133.905	1.703.960	3.644.685
Tax provision expense ⁽¹⁾	-	-	-	(711.890)	(711.890)
Net period income	21.235	1.785.585	133.905	992.070	2.932.795
Net profit	21.235	1.785.585	133.905	992.070	2.932.795
Segment asset	71.341.470	88.591.658	156.652	88.036.974	248.126.754
Investments in associates, subsidiaries and joint ventures	-	-	-	4.692.784	4.692.784
Total assets	71.341.470	88.591.658	156.652	92.729.758	252.819.538
Segment liabilities	61.218.411	55.827.497	32.536.775	77.118.308	226.700.991
Shareholders' equity	-	-	-	26.118.547	26.118.547
Total liabilities	61.218.411	55.827.497	32.536.775	103.236.855	252.819.538
Prior Period	Retail banking	Corporate and commercial banking	Private banking and wealth management	Treasury, asset-liability management and other	Total operations of the Bank
Operating revenue	4.085.978	2.371.581	213.250	2.679.482	9.350.291
Operating expenses	(3.628.714)	(798.972)	(94.552)	(2.809.676)	(7.331.914)
Net operating income / (expense)	457.264	1.572.609	118.698	(130.194)	2.018.377
Dividend income ⁽¹⁾	-	-	-	2.971	2.971
Income/(loss) from investments accounted based on equity method	-	-	-	368.140	368.140
Profit before tax	457.264	1.572.609	118.698	240.917	2.389.488
Tax provision expense ⁽¹⁾	-	-	-	(528.943)	(528.943)
Net period income	457.264	1.572.609	118.698	(288.026)	1.860.545
Net profit	457.264	1.572.609	118.698	(288.026)	1.860.545
Segment asset	69.090.016	70.054.161	169.838	77.070.175	216.384.190
Investments in associates, subsidiaries and joint ventures	-	-	-	3.985.230	3.985.230
Total assets	69.090.016	70.054.161	169.838	81.055.405	220.369.420
Segment liabilities	51.068.598	49.253.094	28.125.979	68.837.738	197.285.409
Shareholders' equity	-	-	-	23.084.011	23.084.011
Total liabilities	51.068.598	49.253.094	28.125.979	91.921.749	220.369.420

(1) Dividend income and tax provision have not been distributed based on operating segments and presented under "Treasury, Asset-Liability Management and Other".

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Notes to unconsolidated financial statements at December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Section Five

Explanations and notes related to unconsolidated financial statements

I. Explanations and notes related to assets

a. Information related to cash and the account of the Central Bank of the Republic of Turkey (the "CBRT"):

1. Information on cash and the account of the CBRT:

	Current Period		Prior Period	
	TL	FC	TL	FC
Cash	1.451.282	1.202.894	1.437.730	511.118
The CBRT ⁽¹⁾	7.600.149	22.123.910	2.025.935	23.019.557
	-	2.33		
Other		1	-	246
Total	9.051.431	23.329.135	3.463.665	23.530.921

(1) The balance of gold amounting to TL 4.784.973 is accounted for under the Central Bank foreign currency account (December 31, 2015 – TL 3.677.328).

2. Information on the account of the CBRT:

	Current Period		Prior Period	
	TL	FC	TL	FC
Demand unrestricted amount ⁽¹⁾	7.600.149	196.747	2.025.935	2.735.055
Time unrestricted amount	-	-	-	-
Time restricted amount	-	2.107.234	-	-
Reserve requirement ⁽²⁾	-	19.819.929	-	20.284.502
Total	7.600.149	22.123.910	2.025.935	23.019.557

(1) The TL reserve requirement has been classified in "Central Bank Demand Unrestricted Account" based on the correspondence with BRSA letter as of January 3, 2008.

(2) The Bank keeps TL, USD, EUR and Gold reserve deposits for its TL and FX liabilities at Central Bank accounts in accordance with the legislation of the Central Bank numbered 2005/1, "Decree on Reserve Deposits".

b. Information on financial assets at fair value through profit and loss:

The Bank does not have financial assets at fair value through profit and loss subject to repo transactions and does not have financial assets at fair value through profit and loss given as collateral/blocked amount (December 31, 2015 - None).

c. Positive differences related to trading derivative financial assets:

	Current Period		Prior Period	
	TL	FC	TL	FC
Forward transactions	378.431	-	173.071	-
Swap transactions ⁽¹⁾	2.167.698	313.748	1.205.895	209.040
Futures transactions	-	-	-	-
Options	87.886	33.807	106.540	8.658
Other				
Total	2.634.015	347.555	1.485.506	217.698

(1) Includes Credit Default Swaps

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Notes to unconsolidated financial statements at December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to unconsolidated financial statements (continued)

ç. Information on banks:

1. Information on banks:

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks				
Domestic	32.531	6.717	10.789	368
Foreign ⁽¹⁾	800	1.408.644	14.802	1.311.185
Head quarters and branches abroad	-	-	-	-
Total	33.331	1.415.361	25.591	1.311.553

(1) The balance of foreign currency account in foreign banks includes the balance of gold amounting to TL 14.668 (December 31, 2015 – TL 17.423).

2. Information on foreign banks account:

	Unrestricted amount		Restricted amount	
	Current Period	Prior Period	Current Period	Prior Period
EU countries	769.741	191.583	42.509	89.007
USA, Canada	461.364	893.833	77.422	72.690
OECD countries ⁽¹⁾	26.240	21.781	-	18.173
Off-shore banking regions	305	383	-	-
Other	31.863	38.537	-	-
Total	1.289.513	1.146.117	119.931	179.870

(1) Includes OECD countries except EU countries, USA and Canada.

d. Information on available-for-sale financial assets which are subject to repurchase agreements and given as collateral / blocked:

Carrying values of available-for-sale financial assets which are subject to repurchase agreements and given as collateral / blocked

Available-for-sale financial assets given as collateral/blocked amounts to TL 1.561.834 (December 31, 2015 - TL 4.167.373) and available-for-sale financial assets subject to repo transactions amounts to TL 3.651.723 (December 31, 2015 – TL 8.389.163).

e. Information on available-for-sale financial assets:

	Current Period	Prior Period
Debt securities	18.313.621	22.871.392
Quoted on stock exchange	17.498.849	21.740.703
Not quoted ⁽¹⁾	814.772	1.130.689
Share certificates	113.936	262.225
Quoted on stock exchange	-	-
Not quoted ⁽²⁾	113.936	262.225
Impairment provision (-) ⁽³⁾	(243.991)	(403.267)
Other ⁽⁴⁾	96.640	18.079
Total	18.280.206	22.748.429

(1) Includes credit linked notes amounting to TL 475.930. (December 31, 2015 - TL 476.119).

(2) After the completion of the acquisition of Visa Europe by Visa Inc., 18.871 Series C Visa Inc. preferred shares have been allocated to the Bank.

(3) The figure includes the negative differences between the cost and the market price of the securities and the impairment provisions, if any.

(4) Other available-for-sale financial assets include mutual funds.

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Notes to unconsolidated financial statements at December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to unconsolidated financial statements (continued)

f. Explanations on loans:

- Information on all types of loans or advance balances given to shareholders and employees of the Bank:

	Current Period		Prior Period	
	Cash	Non-cash	Cash	Non-cash
Direct loans granted to shareholders	-	-	-	-
Corporate shareholders	-	-	-	-
Real person shareholders	-	-	-	-
Indirect loans granted to shareholders	105.720	1.158.561	6.593	954.585
Loans granted to employees	148.674	103	136.551	2
Total	254.394	1.158.664	143.144	954.587

- Information on the first and second group loans and other receivables and loans and other receivables that have been restructured or rescheduled:

	Standard loans and other receivables			Loans and other receivables under close monitoring		
	Loans and other receivables (Total)	of which, terms & conditions are changed		Loans and other receivables (Total)	of which, terms & conditions are changed	
		Payment plan extensions	Other		Payment plan extensions	Other
Cash Loans						
Non-specialized loans	164.621.952	3.318.056	-	5.884.305	2.355.527	123.451
Loans given to enterprises	88.053.992	825.962	-	1.509.038	800.574	84.205
Export loans	5.957.240	98.750	-	89.845	68.147	-
Import loans	-	-	-	-	-	-
Loans given to financial sector	2.732.140	-	-	-	-	-
Consumer loans	29.862.689	1.284.739	-	1.134.330	241.179	26.956
Credit cards	21.729.623	779.198	-	464.702	216.201	12.289
Other ⁽¹⁾	16.286.268	329.407	-	2.686.390	1.029.426	1
Specialized loans	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
Total	164.621.952	3.318.056	-	5.884.305	2.355.527	123.451

(1) Fair value differences of the hedged item amounting to TL (21.890) are classified in other loans as explained in Note X., Section IV.

Number of modifications made to extend payment plan ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾	Loans and other receivables under close monitoring	
	Standard loans and other receivables	
Extended by 1 or 2 times	2.796.574	1.850.369
Extended by 3,4 or 5 times	466.129	421.621
Extended by more than 5 times	55.353	83.537
Total	3.318.056	2.355.527

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Notes to unconsolidated financial statements at December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to unconsolidated financial statements (continued)

Extended period of time ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾	Standard loans and other receivables	Loans and other receivables under close monitoring
0 - 6 Months	262.456	252.975
6 - 12 Months	230.231	200.002
1 - 2 Years	759.034	391.635
2 - 5 Years	1.314.542	661.139
5 Years and over	751.793	849.776
Total	3.318.056	2.355.527

- (1) There is no loan which is subject to the temporary article 5 subsection 2 of the amendment of Provisioning Regulation dated on April 9, 2011.
- (2) There are 61 loans restructured in accordance with temporary article 6 subsection 2 of the amendment of Provisioning Regulation dated December 30, 2011 with maturities until 0-6 months, 6-12 months and 1-2 years, 2-5 years, 5 years and over. 23 of them were restructured three times, 17 of them were twice and 22 of them were restructured once.
- (3) There is no loan which is subject to the temporary article 7 of the amendment of Provisioning Regulation dated on September 21, 2012.
- (4) There are 576 loans restructured in accordance with temporary article 10 subsection of the amendment of Provisioning Regulation dated August 5, 2016 with maturities until 0-6 months, 6-12 months and 1-2 years, 2-5 years, 5 years and over. 400 of them were restructured once or twice, 129 of them were restructured three, four or five times, 45 of them were structured more than five times.
- (5) There is no loan which is subject to the temporary article 12 of the amendment of Provisioning Regulation dated on December 14, 2016.

3. Loans according to their maturity structure:

	Standard loans and other receivables		Loans and other receivables under close monitoring	
	Loans and other receivables	Agreement conditions modified	Loans and other receivables	Agreement conditions modified
Short-term loans and other receivables	53.278.347	921.023	1.016.704	368.920
Non-specialised loans	53.278.347	921.023	1.016.704	368.920
Specialised loans	-	-	-	-
Other receivables	-	-	-	-
Medium and long-term loans and other receivables	108.025.549	2.397.033	2.388.623	2.110.058
Non-specialised loans	108.025.549	2.397.033	2.388.623	2.110.058
Specialised loans	-	-	-	-
Other receivables	-	-	-	-

4.(i) Information on loans by types and specific provisions:

Current Period	Corporate, commercial and other loans	Consumer loans	Credit cards	Total
Standard loans	113.029.640	29.862.689	21.729.623	164.621.952
Watch list	4.285.273	1.134.330	464.702	5.884.305
Loans under legal follow-up	4.933.782	2.132.778	1.639.583	8.706.143
Specific provisions (-)	(3.424.045)	(1.777.377)	(1.386.761)	(6.588.183)
Total	118.824.650	31.352.420	22.447.147	172.624.217

Prior Period	Corporate, commercial and other loans	Consumer loans	Credit cards	Total
Standard loans	95.219.032	28.019.982	19.271.667	142.510.681
Watch list	2.992.546	1.165.552	605.330	4.763.428
Loans under legal follow-up	3.573.151	1.505.486	1.053.103	6.131.740
Specific provisions (-)	(2.647.676)	(1.161.743)	(817.248)	(4.626.667)
Total	99.137.053	29.529.277	20.112.852	148.779.182

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Notes to unconsolidated financial statements at December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to unconsolidated financial statements (continued)

(ii) Fair value of collaterals:

Current Period	Corporate, commercial and other loans	Consumer loans	Credit cards	Total
Watch list	8.180.491	959.735	-	9.140.226
Loans under legal follow-up ⁽¹⁾	1.095.951	52.271	-	1.148.222
Total	9.276.442	1.012.006	-	10.288.448

Prior Period	Corporate, commercial and other loans	Consumer loans	Credit cards	Total
Watch list	4.744.363	3.185.972	-	7.930.335
Loans under legal follow-up ⁽¹⁾	616.001	63.284	-	679.285
Total	5.360.364	3.249.256	-	8.609.620

(1) Fair values of collaterals received for non-performing loans are calculated by using hair-cuts over their nominal values in accordance with the "Regulation of Procedures for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be set aside".

5. Information on consumer loans, individual credit cards, personnel loans and personnel credit cards:

	Short- term	Medium and long-term	Total
Consumer loans-TL	294.430	29.367.681	29.662.111
Real estate loans	6.907	12.525.704	12.532.611
Automotive loans	10.542	348.603	359.145
Consumer loans	276.981	16.493.374	16.770.355
Consumer loans-FC indexed	-	36.673	36.673
Real estate loans	-	36.050	36.050
Automotive loans	-	-	-
Consumer loans	-	623	623
Individual credit cards-TL	14.939.409	901.084	15.840.493
With installments	8.046.443	889.423	8.935.866
Without installments	6.892.966	11.661	6.904.627
Individual credit cards-FC	6.129	-	6.129
With installments	6	-	6
Without installments	6.123	-	6.123
Personnel loans-TL	5.875	61.065	66.940
Real estate loans	-	1.836	1.836
Automotive loans	-	127	127
Consumer loans	5.875	59.102	64.977
Personnel loans-FC indexed	-	-	-
Real estate loans	-	-	-
Automotive loans	-	-	-
Consumer loans	-	-	-
Personnel credit cards-TL	79.455	425	79.880
With installments	37.819	425	38.244
Without installments	41.636	-	41.636
Personnel credit cards-FC	210	-	210
With installments	-	-	-
Without installments	210	-	210
Credit deposit account-TL (real person)⁽¹⁾	1.231.295	-	1.231.295
Total	16.556.803	30.366.928	46.923.731

(1) TL 1.644 of the credit deposit account belongs to the loans used by personnel.

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Notes to unconsolidated financial statements at December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to unconsolidated financial statements (continued)

6. Information on commercial installment loans and corporate credit cards:

	Short-term	Medium and long-term	Total
Commercial installments loans-TL	999.006	8.574.235	9.573.241
Business loans	962	814.402	815.364
Automotive loans	55.338	1.459.996	1.515.334
Consumer loans	942.706	6.299.837	7.242.543
Commercial installments loans-FC indexed	9.998	226.175	236.173
Business loans	-	19.030	19.030
Automotive loans	16	65.260	65.276
Consumer loans	9.982	141.885	151.867
Corporate credit cards-TL	6.266.960	501	6.267.461
With installment	4.109.171	47	4.109.218
Without installment	2.157.789	454	2.158.243
Corporate credit cards-FC	152	-	152
With installment	-	-	-
Without installment	152	-	152
Credit deposit account-TL (legal person)	1.055.185	-	1.055.185
Total	8.331.301	8.800.911	17.132.212

7. Loans according to types of borrowers:

	Current Period	Prior Period
Public	1.759.966	1.713.483
Private	168.746.291	145.560.626
Total	170.506.257	147.274.109

8. Distribution of domestic and foreign loans: Distribution has been disclosed based on the location where the customers operate.

	Current Period	Prior Period
Domestic loans	168.909.282	145.976.200
Foreign loans	1.596.975	1.297.909
Total	170.506.257	147.274.109

9. Loans granted to associates and subsidiaries:

	Current Period	Prior Period
Direct loans granted to associates and subsidiaries	35.428	36.629
Indirect loans granted to associates and subsidiaries	-	-
Total	35.428	36.629

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Notes to unconsolidated financial statements at December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to unconsolidated financial statements (continued)

10. Specific provisions provided against loans:

	Current Period	Prior Period
Loans and other receivables with limited collectibility	167.826	124.053
Loans and other receivables with doubtful collectibility	715.400	517.271
Uncollectible loans and other receivables	5.704.957	3.985.343
Total	6.588.183	4.626.667

Current Period	Corporate, commercial and other loans	Consumer loans	Credit cards	Total
January 1	2.647.676	1.161.743	817.248	4.626.667
Allowance for impairment	928.110	835.611	704.848	2.468.569
Amount recovered during the period	(151.711)	(219.977)	(135.335)	(507.023)
Loans written off during the period as uncollectible ⁽¹⁾	(30)	-	-	(30)
December 31	3.424.045	1.777.377	1.386.761	6.588.183

Prior Period	Corporate, commercial and other loans	Consumer loans	Credit cards	Total
January 1	1.943.823	755.004	379.099	3.077.926
Allowance for impairment	1.132.029	659.017	595.744	2.386.790
Amount recovered during the period	(394.389)	(252.278)	(157.595)	(804.262)
Loans written off during the period as uncollectible ⁽¹⁾	(33.787)	-	-	(33.787)
December 31	2.647.676	1.161.743	817.248	4.626.667

(1) Also includes the effects of the sales of non-performing loan portfolios.

11. Information on non-performing loans (net):

(i). Information on non-performing loans restructured or rescheduled, and other receivables:

	III. Group Loans and other receivables with limited collectibility	IV. Group Loans and other receivables with doubtful collectibility	V. Group Uncollectible loans and other receivables
Current Period			
(Gross amounts before specific reserves)	20.912	87.059	283.295
Restructured loans and other receivables	20.912	87.059	283.295
Rescheduled loans and other receivables	-	-	-
Prior Period			
(Gross amounts before specific reserves)	51.140	85.755	127.959
Restructured loans and other receivables	51.140	85.755	127.959
Rescheduled loans and other receivables	-	-	-

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Notes to unconsolidated financial statements at December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to unconsolidated financial statements (continued)

(ii). Information on the movement of total non-performing loans:

	III. Group	IV. Group	V. Group
	Loans and other receivables with limited collectibility	Loans and other receivables with doubtful collectibility	Uncollectible loans and other receivables
Prior Period	691.268	1.300.630	4.139.842
Additions (+)	3.405.141	81.557	134.160
Transfers from other categories of non-performing loans (+)	-	2.834.212	2.173.643
Transfer to other categories of non-performing loans (-)	(2.834.212)	(2.173.643)	-
Collections (-)	(252.371)	(239.565)	(554.489)
Write-offs(-)	-	-	(30)
Corporate and commercial loans	-	-	-
Consumer loans	-	-	-
Credit cards	-	-	-
Other	-	-	(30)
Current Period	1.009.826	1.803.191	5.893.126
Specific provision (-)	(167.826)	(715.400)	(5.704.957)
Net balance on balance sheet	842.000	1.087.791	188.169

(iii). Information on non-performing loans granted as foreign currency loans:

	III. Group	IV. Group	V. Group
	Loans and other receivables with limited collectibility	Loans and other receivables with doubtful collectibility	Uncollectible loans and other receivables
Current Period⁽¹⁾			
Period end balance	-	-	-
Specific provision (-)	-	-	-
Net balance on-balance sheet	-	-	-
Prior Period			
Period end balance	113	5.266	508.015
Specific provision (-)	(23)	(3.817)	(426.724)
Net balance on-balance sheet	90	1.449	81.291

(1) Foreign currency non-performing loans are translated with the exchange rates at the date of transfer to TL non-performing loans accounts.

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Notes to unconsolidated financial statements at December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to unconsolidated financial statements (continued)

(iv). Information on the gross and net amounts of the non-performing loans according to types of borrowers:

	III. Group	IV. Group	V. Group
	Loans and other receivables with limited collectibility	Loans and other receivables with doubtful collectibility	Uncollectible loans and other receivables
Current Period (net)	842.000	1.087.791	188.169
Loans granted to real persons and corporate entities (gross)	1.009.826	1.803.191	5.784.563
Specific provision amount (-)	(167.826)	(715.400)	(5.596.394)
Loans granted to real persons and corporate entities (net)	842.000	1.087.791	188.169
Banks (gross)	-	-	24.575
Specific provision amount (-)	-	-	(24.575)
Banks (net)	-	-	-
Other loans and receivables (gross)	-	-	83.988
Specific provision amount (-)	-	-	(83.988)
Other loans and receivables (net) ⁽¹⁾	-	-	-
Prior Period (net)	567.215	783.359	154.499
Loans granted to real persons and corporate entities (gross)	691.268	1.300.630	4.031.279
Specific provision amount (-)	(124.053)	(517.271)	(3.876.780)
Loans granted to real persons and corporate entities (net)	567.215	783.359	154.499
Banks (gross)	-	-	24.575
Specific provision amount (-)	-	-	(24.575)
Banks (net)	-	-	-
Other loans and receivables (gross)	-	-	83.988
Specific provision amount (-)	-	-	(83.988)
Other loans and receivables (net) ⁽¹⁾	-	-	-

(1) The figure represents the total loans and receivables of Agrosan Kimya Sanayi Ticaret A.Ş., Tümteks Tekstil Sanayi Ticaret A.Ş and balances from Boyasan Tekstil Sanayi ve Ticaret A.Ş., in accordance with the Article 6 Paragraph 9 of regulation for provisions taken into account classification of loans and receivables.

12. Explanation on liquidation policy for uncollectible loans and receivables;

Uncollectible loans and receivables, which are classified in accordance with the Provisioning Regulation, are collected through legal follow-up, voluntary payments and liquidation of collaterals.

13. Explanation on "Write-off" policies:

The Bank's general policy for write-offs of loans and receivables under follow-up is to write off such loans and receivables that are proven to be uncollectible in legal follow-up process.

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Notes to unconsolidated financial statements at December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to unconsolidated financial statements (continued)

g. Information on held-to-maturity investments:

1. Characteristics and carrying values of held-to-maturity investments subject to repurchase agreements given as collateral / blocked:

Held-to-maturity investments given as collateral / blocked amounts to TL 2.779.442 (December 31, 2015 - 1.727.689). The amount of held-to-maturity investments subject to repurchase agreements amounting to TL 2.471.316 (December 31, 2015 - TL 2.736.461).

2. Information on government debt securities held-to-maturity:

	Current Period	Prior Period
Government bond	10.664.551	6.389.632
Treasury bill	-	-
Other debt securities	-	-
Total	10.664.551	6.389.632

3. Information on investment securities held-to-maturity:

	Current Period	Prior Period
Debt securities	10.963.132	6.583.900
Quoted on stock exchange	10.963.132	6.583.900
Not quoted	-	-
Impairment provision (-) ⁽¹⁾	(298.581)	(194.268)
Total	10.664.551	6.389.632

- (1) Includes amortisation of the premiums paid during the purchase of the securities throughout the maturity of the securities and the impairment provisions, if any.

4. Movement of held-to-maturity investments within the period:

	Current Period	Prior Period
Beginning balance	6.389.632	5.019.049
Foreign currency differences on monetary assets ⁽¹⁾	1.088.859	850.016
Purchases during the year	1.329.699	592.353
Transfers ⁽³⁾	1.960.740	-
Disposals through sales and redemptions	(66)	(58)
Impairment provision (-) ⁽²⁾	(104.313)	(71.728)
Period end balance	10.664.551	6.389.632

- (1) Also includes the changes in the interest income accruals.

- (2) Includes amortisation of the premiums paid during the purchase of the securities throughout the maturity of the securities and the impairment provisions, if any.

- (3) As of July 18, 2016, the Bank classified some of its government debt securities from available-for-sale to held-to-maturity portfolio with a nominal amount of TL 1.970.607. The fair value of the aforementioned securities on July 18, 2016 is TL 2.008.079 and has 8 year maturity in average.

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Notes to unconsolidated financial statements at December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to unconsolidated financial statements (continued)

ğ. Information on investments in associates (net):

1. Information on unconsolidated investments in associates:

No	Description	Address (City/ Country)	Bank's share holding percentage if different voting percentage (%)	Bank's risk group share holding percentage(%)
1.	Banque de Commerce et de Placements S.A.	Geneva/Switzerland	30,67	30,67
2.	Kredi Kayıt Bürosu ⁽¹⁾	Istanbul/Turkey	18,18	18,18
3.	Bankalararası Kart Merkezi A.Ş.	Istanbul/Turkey	9,98	9,98

2. Main financial figures of the investments in associates in the order of the above table:

No	Total assets	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit/loss	Prior period profit/loss	Fair value
1	16.013.192	1.548.742	7.678	152.141	24.530	86.975	68.320	-
2	185.448	129.647	135.578	2.817	89	16.643	26.782	-
3	80.262	39.897	50.021	1.068	-	10.403	3.869	-

(1) Financial statement information disclosed above shows September 30, 2016 results.

3. Movement of unconsolidated investments in associates:

	Current Period	Prior Period
Balance at the beginning of the period	342.643	264.875
Movements during the period	99.003	77.768
Purchases	-	-
Free shares obtained profit from current year's share	-	-
Profit from current year's income	47.787	21.001
Sales	-	-
Revaluation (decrease) / increase ⁽¹⁾	58.861	61.566
Impairment provision ⁽²⁾	(7.645)	(4.799)
Balance at the end of the period	441.646	342.643
Capital commitments	-	-
Shareholding percentage at the end of the period (%)	-	-

(1) Includes the differences in the other comprehensive income related with the equity method accounting.

(2) Includes dividend income received in the current period.

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(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to unconsolidated financial statements (continued)

4. Information on sectors and the carrying amounts of unconsolidated financial investments in associates:

	Current Period	Prior Period
Banks	437.143	338.140
Insurance companies	-	-
Factoring companies	-	-
Leasing companies	-	-
Finance companies	-	-
Other financial investments	-	-
Total financial investments	437.143	338.140

5. The Bank has no investments in associates quoted on a stock exchange.

h. Information on shareholders' equity of the significant subsidiaries (net):

There is no deficit of regulatory limits on capital structure of the subsidiaries which are included in the consolidated capital adequacy ratio calculation in accordance with the capital adequacy ratio limits.

1. Information on equity of the subsidiaries:

	Yapı Kredi Yatırım Menkul Değerler A.Ş.	Yapı Kredi Faktoring A.Ş.	Yapı Kredi Finansal Kiralama A.O.	Yapı Kredi Portföy Yönetimi A.Ş.	Yapı Kredi Nederland N.V.
Core Capital					
Paid-in capital	98.918	60.714	389.928	5.707	112.442
Inflation adjustment to share capital	-	-	-	-	-
Share premium	-	-	-	-	-
Property and equipment revaluation differences	13.697	-	-	-	-
Marketable Securities Valuation Differences	13.648	-	-	-	(2.794)
Other capital reserves	93.686	(6)	(217.064)	-	-
Legal reserves	68.107	8.034	79.305	18.164	-
Extraordinary reserves	198.933	10.458	771.384	-	481.813
Other reserves	-	-	-	-	516.739
Profit/loss	(7.526)	135.752	700.578	30.115	91.180
Current period net profit	62.420	37.769	225.810	30.115	91.180
Prior period profit	(69.946)	97.983	474.768	-	-
Leasehold improvements (-)	-	-	426	192	74
Intangible assets (-)	19.945	1.598	3.762	532	145
Total core capital	459.518	213.354	1.719.943	53.262	1.199.161
Supplementary capital		10.127	42.264		208
Capital	459.518	223.481	1.762.207	53.262	1.199.369
Deductions from the capital	-	-	-	-	-
Total shareholders' equity	459.518	223.481	1.762.207	53.262	1.199.369

The above information is based on the consolidated financial statements of the Bank as of December 31, 2016.

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Notes to unconsolidated financial statements at December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to unconsolidated financial statements (continued)

Paid-in capital is a capital which have been disclosed as Turkish Lira in the articles of incorporation and registered in trade register.

Inflation adjustment to share capital is the adjustment difference arising from inflation accounting.

Extraordinary Reserves are the reserves which represent the remaining net income of the previous periods after providing the legal reserves in accordance with the General Assembly of the Bank.

Legal reserves are the income reserves that are provided according to the first paragraph and the third subparagraph of the second paragraph of the article no 466 and no 467 of the Turkish Commercial Code No. 6762 allocated as capital reserves separated from annual profit according to the laws of foundation.

2. Information on subsidiaries:

No	Description	Address (City/ Country)	Bank's share holding percentage if different voting percentage (%)	Bank's risk group share holding percentage (%)
1	Yapı Kredi Holding BV.	Amsterdam/Holland	100,00	100,00
2	Yapı Kredi Yatırım Menkul Değerler A.Ş.	Istanbul/Turkey	99,98	100,00
3	Yapı Kredi Faktoring A.Ş.	Istanbul/Turkey	99,95	100,00
4	Yapı Kredi Moscow	Moscow/Russia	99,84	100,00
5	Yapı Kredi Finansal Kiralama A.O.	Istanbul/Turkey	99,99	99,99
6	Yapı Kredi Portföy Yönetimi A.Ş.	Istanbul/Turkey	12,65	99,99
7	Yapı Kredi Nederland	Amsterdam/Holland	67,24	100,00
8	Yapı Kredi Azerbaycan	Baku/Azerbaijan	99,80	100,00
9	Enternasyonal Turizm Yatırım A.Ş.	Istanbul/Turkey	99,96	99,99
10	Yapı Kredi Kültür Sanat Yayıncılık Tic.ve San.A.Ş.	Istanbul/Turkey	99,99	100,00
11	Yapı Kredi Teknoloji A.Ş.	Istanbul/Turkey	100,00	100,00

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Notes to unconsolidated financial statements at December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to unconsolidated financial statements (continued)

3. Main financial figures of the subsidiaries in order of the above table: ⁽¹⁾

No	Total assets	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit / loss	Prior period profit /loss	Market value	Required equity
1	229.188	228.936	-	-	-	77	326	-	-
2	4.694.056	483.967	42.195	291.953	7.541	62.420	59.558	-	-
3	3.065.904	214.952	2.338	178.023	-	37.769	9.867	-	-
4	448.603	199.922	17.944	32.166	1.551	13.352	14.115	-	-
5	9.259.232	1.724.131	4.683	519.133	-	225.810	196.527	-	-
6	64.334	53.966	1.152	5.430	-	30.115	27.850	-	-
7	7.322.200	1.199.381	735	342.890	13.297	91.180	61.198	-	-
8	922.809	130.427	30.196	56.465	47	(6.845)	395	-	-
9	38.717	25.879	4.936	2.120	-	1.548	(620)	-	-
10	27.164	21.974	1.289	57	-	3.168	2.428	-	-
11	7.872	6.272	1.245	253	-	1.550	(682)	-	-

(1) Consolidated financial statements are used for the financial information above.

Financial statement information disclosed above shows December 31, 2016 results.

4. Movement schedule of subsidiaries:

	Current Period	Prior Period
Balance at the beginning of the period	3.614.436	3.309.478
Movements in period	611.288	304.958
Purchases	-	-
Free shares obtained profit from current years share	-	-
Dividends from current year income	431.423	345.342
Sales	-	-
Transfers	-	-
Liquidation	-	-
Transfers	-	-
Revaluation increase/decrease ⁽¹⁾	270.579	66.047
Impairment provision ⁽²⁾	(90.714)	(106.431)
Balance at the end of the period	4.225.724	3.614.436
Capital commitments	-	-
Shareholding percentage at the end of the period (%)	-	-

(1) Includes the differences in the other comprehensive income related with the equity method accounting.

(2) Includes dividend income received in the current period.

Yapı ve Kredi Bankası A.Ş.

Notes to unconsolidated financial statements at December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to unconsolidated financial statements (continued)

5. Sectoral information on financial subsidiaries and the related carrying amounts:

Financial subsidiaries	Current Period	Prior Period
Banks	1.136.275	886.070
Insurance companies	-	-
Factoring companies	214.850	195.856
Leasing companies	1.724.028	1.498.228
Finance companies	-	-
Other financial subsidiaries	1.150.571	1.034.282
Total financial subsidiaries	4.225.724	3.614.436

6. Subsidiaries quoted on stock exchange:

None (December 31, 2015 - None).

I. Information on joint ventures (net):

Joint ventures in unconsolidated financial statements are accounted and monitored at equity method according to "TAS 27".

Joint ventures	Bank's share	Group's share	Total asset	Shareholders' equity	Current assets	Non-current assets	Long term debt	Income	Expense
Yapı Kredi - Koray Gayrimenkul Yatırım Ortaklığı A.Ş.	30,45	30,45	107.248	64.025	50.478	56.770	8.422	54.011	(60.269)
Total			107.248	64.025	50.478	56.770	8.422	54.011	(60.269)

i. Information on lease receivables (net):

None (December 31, 2015 - None).

Yapı ve Kredi Bankası A.Ş.

Notes to unconsolidated financial statements at December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to unconsolidated financial statements (continued)

j. Information on hedging derivative financial assets:

	Current Period		Prior Period	
	TL	FC	TL	FC
Fair value hedge ⁽¹⁾	205.519	-	251.230	-
Cash flow hedge ⁽¹⁾	850.313	113.104	697.629	6.268
Foreign net investment hedge	-	-	-	-
Total	1.055.832	113.104	948.859	6.268

(1) Explained in the note X. of Section IV.

k. Information on tangible assets:

	Immovable	Leased fixed assets	Vehicles	Other tangible fixed assets	Total
Prior Period					
Cost	2.971.839	343.469	2.959	1.100.559	4.418.826
Accumulated depreciation (-)	(869.284)	(320.401)	(1.979)	(533.261)	(1.724.925)
Net book value	2.102.555	23.068	980	567.298	2.693.901
Current Period					
Net book value at beginning of the period	2.102.555	23.068	980	567.298	2.693.901
Additions	87.088	1.727	150	122.479	211.444
Disposals (-), net	(20.848)	(3)	(18)	(7.610)	(28.479)
Reversal of impairment	-	-	-	-	-
Impairment (-)	-	-	-	-	-
Depreciation (-)	(47.671)	(16.302)	(340)	(158.728)	(223.041)
Net book value at end of the period	2.121.124	8.490	772	523.439	2.653.825
Cost at the end of the period	3.033.665	327.047	2.808	1.132.690	4.496.210
Accumulated depreciation at the period end (-)	(912.541)	(318.557)	(2.036)	(609.251)	(1.842.385)
Current Period	2.121.124	8.490	772	523.439	2.653.825

As of December 31, 2016, the Bank had total provision for impairment amounting to TL 224.378 (December 31, 2015 – TL 224.378) for the property and equipment.

l. Information on intangible assets:

	Current Period	Prior Period
Balance at the beginning of the period	1.489.434	1.428.368
Additions during the period	163.054	181.156
Unused and disposed items (-)	(10.965)	(955)
Impairment reversal	-	-
Amortization expenses (-)	(117.562)	(119.135)
Balance at the end of the period	1.523.961	1.489.434

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Notes to unconsolidated financial statements at December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to unconsolidated financial statements (continued)

m. Information on investment property:

None (December 31, 2015 - None).

n. Information on deferred tax asset:

	Current Period		Prior Period	
	Tax base	Deferred tax	Tax base	Deferred tax
Temporary differences	855.887	171.177	842.415	168.483
Derivative financial liabilities	2.653.207	530.642	2.039.027	407.806
Securities portfolio valuation differences	567.845	113.569	378.951	99.176
Subsidiaries, investment in associates and share certificates	122.117	24.423	122.117	24.423
Other	607.895	121.580	432.315	86.463
Total deferred tax asset	4.806.951	961.391	3.814.825	786.351
Derivative financial assets	(4.204.942)	(840.988)	(2.789.227)	(557.846)
Valuation difference of securities portfolio	(1.128.580)	(225.716)	(953.797)	(190.759)
Property, equipment and intangibles, net	(1.804.801)	(117.897)	(1.846.215)	(124.319)
Other	(172.003)	(34.400)	(136.798)	(27.361)
Total deferred tax liability	(7.310.326)	(1.219.001)	(5.726.037)	(900.285)
Deferred tax asset / (liability), net	(2.503.375)	(257.610)	(1.911.212)	(113.934)

Deferred tax income amounting to TL 171.430 was recognized in profit and loss statement, whereas deferred tax expense amounting to TL 27.754 was recognized directly in equity accounts for the period ended December 31, 2016.

o. Movement schedule of assets held for resale and related to discontinued operations:

	Current Period	Prior Period
Net book value at the beginning of the period	151.010	150.499
Additions	94.334	71.047
Disposals (-), net	(81.148)	(65.547)
Impairment provision reversal	1.908	560
Impairment provision (-)	(416)	(400)
Depreciation (-)	(5.714)	(5.149)
Net book value at the end of the period	159.974	151.010
Cost at the end of the period	175.904	166.100
Accumulated depreciation at the end of the period (-)	(15.930)	(15.090)
Net book value at the end of the period	159.974	151.010

As of December 31, 2016, the Bank booked impairment provision on assets held for resale with an amount of TL 6.346 (December 31, 2015 - TL 7.838).

ö. Information on other assets:

As of December 31, 2016, other assets do not exceed 10% of the total assets.

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Notes to unconsolidated financial statements at December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to unconsolidated financial statements (continued)

II. Explanations and notes related to liabilities

a. Information on deposits:

1. Information on maturity structure of deposits/collected funds:

1 (i). Current Period:

	Demand	Up to 1 month	1-3 months	3-6 months	6 months- 1 year	1 year and over	Cumulative savings account	Total
Saving deposits	6.142.512	1.380.464	31.602.118	1.555.528	209.726	173.928	485	41.064.761
Foreign currency deposits	11.345.286	10.425.602	37.127.707	3.526.707	3.820.829	1.105.632	-	67.351.763
Residents in Turkey	11.249.275	10.419.832	36.842.069	3.501.381	3.795.131	1.073.789	-	66.881.477
Residents abroad	96.011	5.770	285.638	25.326	25.698	31.843	-	470.286
Public sector deposits	230.784	35	3.797	16	180	59	-	234.871
Commercial deposits	6.751.831	5.442.392	17.310.801	2.765.952	1.300.569	333.090	-	33.904.635
Other institutions deposits	103.771	81.880	2.400.983	785.374	423.524	575	-	3.796.107
Precious metals vault	488.106	43.940	309.337	19.931	31.543	7.532	-	900.389
Bank deposits	913.799	5.258.426	522.279	269.059	19.278	39.489	-	7.022.330
The CBRT	-	-	-	-	-	-	-	-
Domestic banks	1.935	5.253.349	392.639	123.494	19.278	4.170	-	5.794.865
Foreign banks	481.728	5.077	129.640	145.565	-	35.319	-	797.329
Participation banks	430.136	-	-	-	-	-	-	430.136
Other	-	-	-	-	-	-	-	-
Total	25.976.089	22.632.739	89.277.022	8.922.567	5.805.649	1.660.305	485	154.274.856

1 (ii). Prior Period:

	Demand	Up to 1 month	1-3 months	3-6 months	6 months- 1 year	1 year and over	Cumulative savings account	Total
Saving deposits	4.219.126	1.337.095	26.867.767	806.306	126.278	183.663	-	33.540.235
Foreign currency deposits	8.671.966	8.871.297	30.611.654	4.674.673	4.545.321	896.742	-	58.271.653
Residents in Turkey	8.506.638	8.856.667	29.930.970	2.994.446	636.691	530.164	-	51.455.576
Residents abroad	165.328	14.630	680.684	1.680.227	3.908.630	366.578	-	6.816.077
Public sector deposits	833.607	70	72.690	71	660	77	-	907.175
Commercial deposits	4.816.994	4.534.416	15.097.208	727.103	139.531	638.371	-	25.953.623
Other institutions deposits	91.538	62.089	2.592.019	320.813	402.005	1.190	-	3.469.654
Precious metals vault	329.584	5.828	59.963	26.188	33.296	123.920	-	578.779
Bank deposits	624.333	2.918.728	458.136	145.629	40.948	-	-	4.187.774
The CBRT	-	-	-	-	-	-	-	-
Domestic banks	1.802	2.886.159	365.081	-	-	-	-	3.253.042
Foreign banks	298.030	32.569	93.055	145.629	40.948	-	-	610.231
Participation banks	324.501	-	-	-	-	-	-	324.501
Other	-	-	-	-	-	-	-	-
Total	19.587.148	17.729.523	75.759.437	6.700.783	5.288.039	1.843.963	-	126.908.893

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Notes to unconsolidated financial statements at December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to unconsolidated financial statements (continued)

2. Information on saving deposits insurance:

(i). Information on saving deposits under the guarantee of the saving deposits insurance fund and exceeding the limit of deposit insurance fund:

Saving deposits	Under the guarantee of deposit insurance		Exceeding limit of the deposit insurance	
	Current Period	Prior Period	Current Period	Prior Period
Saving deposits	21.112.778	17.014.520	19.951.541	16.525.715
Foreign currency saving deposits	5.305.173	5.043.911	19.265.517	16.142.805
Other deposits in the form of saving deposits	329.328	241.329	480.438	277.182
Foreign branches' deposits under foreign authorities' insurance	-	-	-	-
Off-shore banking regions' deposits under foreign authorities' insurance	-	-	-	-

(ii). Saving deposits which are not under the guarantee of saving deposit insurance fund of real persons:

	Current Period	Prior Period
Foreign branches' deposits and other accounts	6.581	5.495
Saving deposits and other accounts of controlling shareholders and deposits of their mother, father, spouse, children in care	-	-
Saving deposits and other accounts of president and members of board of directors, CEO and vice presidents and deposits of their mother, father, spouse, children in care	202.768	130.003
Saving deposits and other accounts in scope of the property holdings derived from crime defined in article 282 of Turkish criminal law no:5237 dated 26.09.2004	-	-
Saving deposits in deposit bank which is established in Turkey in order to engage in off-shore banking activities solely	-	-

b. Information on trading derivative financial liabilities:

	Current Period		Prior Period	
	TL	FC	TL	FC
Forward transactions	196.563	-	96.278	-
Swap transactions	1.885.972	317.519	1.421.153	217.921
Futures transactions	-	-	-	-
Options	79.854	45.618	104.779	13.375
Other	-	-	-	-
Total	2.162.389	363.137	1.622.210	231.296

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Notes to unconsolidated financial statements at December 31, 2016

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Explanations and notes related to unconsolidated financial statements (continued)

c. Information on borrowings:

1. Information on borrowings:

	Current Period		Prior Period	
	TL	FC	TL	FC
The Central Bank of the Republic of Turkey borrowings	-	418.480	-	-
From domestic banks and institutions	161.477	192.559	196.688	199.378
From foreign banks, institutions and funds	381.767	26.840.579	457.177	22.762.487
Total	543.244	27.451.618	653.865	22.961.865

2. Information on maturity structure of borrowings:

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-term	33.472	4.006.953	248.614	3.700.924
Medium and long-term	509.772	23.444.665	405.251	19.260.941
Total	543.244	27.451.618	653.865	22.961.865

3. Information on securitization borrowings:

The Bank obtains borrowings via its structured entity, Diversified Payment Rights Finance Company, with securitization transactions which is founded on its future money transfers within its funding programme.

	Current Period		Prior Period	
	TL	FC	TL	FC
From foreign banks	-	-	-	-
From foreign institutions ⁽¹⁾	-	6.564.507	-	6.083.274
From foreign funds	-	-	-	-
Total	-	6.564.507	-	6.083.274

(1) The Bank classified some of its financial liabilities as the financial liabilities classified at fair value through profit/loss in order to eliminate the accounting mismatch at the initial recognition in accordance with TAS 39 paragraph 9. As of December 31, 2016, the total amount of financial liabilities classified as fair value through profit/loss is TL 4.111.709 (December 31, 2015 - TL 3.394.985) with an accrued interest expense of TL 97.254 (December 31, 2015 - TL 82.505 income) and with a fair value difference of TL 19.783 recognized in the income statement as an income (December 31, 2015 - TL 96.945 income). On the other hand, the nominal amounts of the total return swaps which are closely related with these financial liabilities as of December 31, 2016 are TL 4.033.003 (December 31, 2015: TL 3.332.109) for buy legs and TL 4.033.003 (December 31, 2015: TL 3.332.109) for sell legs with a fair value differences amounting to TL 97.052 liability (December 31, 2015 - TL 82.870 liability). The mentioned total return swaps have 10 year maturity in average.

ç. Information on marketable securities issued:

	Current Period		Prior Period	
	TL	FC	TL	FC
Bills	1.399.791	86.665	2.106.752	451.305
Bonds	319.850	7.438.412	662.717	6.346.789
<i>Collateralized securities</i>	<i>288.650</i>	<i>-</i>	<i>288.650</i>	<i>-</i>
Total	1.719.641	7.525.077	2.769.469	6.798.094

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Notes to unconsolidated financial statements at December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to unconsolidated financial statements (continued)

d. Information on other liabilities:

As of December 31, 2016, other liabilities do not exceed 10% of the total balance sheet commitments.

e. Information on lease payables:

1. Information on financial leasing agreements:

	Current Period		Prior Period	
	Gross	Net	Gross	Net
Less than 1 year	-	-	-	-
Between 1 – 4 years	1.130	1.112	-	-
More than 4 years	-	-	-	-
Total	1.130	1.112	-	-

2. Information on operational leasing agreements:

The Bank enters into operational leasing agreements annually for some of its branches and ATMs. The leases are prepaid and accounted as prepaid expenses under "Other Assets".

f. Information on hedging derivative financial liabilities:

	Current Period		Prior Period	
	TL	FC	TL	FC
Fair value hedge ⁽¹⁾	49.949	-	3.427	-
Cash flow hedge ⁽¹⁾	16.314	22.525	35.387	108.660
Foreign net investment hedge	-	-	-	-
Total	66.263	22.525	38.814	108.660

(1) Explained in Note X. of Section IV.

g. Information on provisions:

1. Information on general provisions:

	Current Period	Prior Period
Provisions for first group loans and receivables	2.417.912	2.043.593
<i>of which, Provision for Loans and Receivables with Extended Maturity</i>	<i>184.180</i>	<i>85.758</i>
Provisions for second group loans and receivables	259.609	206.370
<i>of which, Provision for Loans and Receivables with Extended Maturity</i>	<i>92.159</i>	<i>57.504</i>
Provisions for non cash loans	107.365	89.189
Others	257.434	232.838
Total	3.042.320	2.571.990

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Explanations and notes related to unconsolidated financial statements (continued)

2. Information on reserve for employee rights:

In accordance with Turkish Labour Law, the reserve for employment termination benefits is calculated as the present value of the probable future obligation in case of the retirement of employees. TAS 19 necessitates actuarial valuation methods to calculate the liabilities of enterprises.

The following actuarial assumptions were used in the calculation of total liabilities:

	Current Period	Prior Period
Discount rate (%)	4,50	4,60
Possibility of being eligible for retirement (%)	93,63	93,89

The principal actuarial assumption is that the maximum liability will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. As the annual ceiling is revised semi-annually, the ceiling of full TL 4.426,16 effective from January 1, 2017 (January 1, 2016: full TL 4.092,53) has been taken into consideration in calculating the reserve for employment termination benefits.

Movement of employment termination benefits liability in the balance sheet:

	Current Period	Prior Period
Prior period ending balance	120.717	123.200
Changes during the period	49.897	47.684
Recognized in equity	(2.683)	(22.478)
Paid during the period	(40.431)	(27.689)
Balance at the end of the period	127.500	120.717

In addition, the Bank has accounted for unused vacation rights provision amounting to TL 160.381 as of December 31, 2016 (December 31, 2015 - TL 147.449).

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Explanations and notes related to unconsolidated financial statements (continued)

3. Information on provisions related with the foreign currency difference of foreign currency indexed loans:

As of December 31, 2016, the provision related to the foreign currency difference of foreign currency indexed loans amounts to TL 708 (December 31, 2015 - TL 30.295). Provisions related to the foreign currency difference of foreign currency indexed loans are netted from the loan amount in the financial statements.

4. Other provisions:

- (i) Information on other provisions:

	Current Period	Prior Period
Pension fund provision	568.006	574.249
Provisions on unindemnified non cash loans	150.517	105.932
Provision on lawsuits	50.628	42.615
Provisions on credit cards and promotion campaigns related to banking services	43.314	38.244
Other	320.909	250.338
Total	1.133.374	1.011.378

- (ii) General reserves for possible losses:

	Current Period	Prior Period
General reserves for possible losses	100.000	-
Total	100.000	-

5. Pension fund provision:

The Bank provided provision amounting to TL 568.006 (December 31, 2015 – TL 574.249) for the technical deficit based on the report prepared by an independent actuary company in accordance with the technical interest rate of 9,8% determined by the New Law and CSO 1980 mortality table.

	Current Period	Prior Period
Income statement (Other operations charge/benefit)	6.243	80.652

The amounts recognized in the balance sheet are determined as follows:

	Current Period	Prior Period
Present value of funded obligations	1.964.448	1.757.364
- Pension benefits transferable to SSI	1.882.467	1.889.880
- Post employment medical benefits transferable to SSI	81.981	(132.516)
Fair value of plan assets	(1.396.442)	(1.183.115)
Provision for the actuarial deficit of the pension fund	568.006	574.249

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Notes to unconsolidated financial statements at December 31, 2016

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Explanations and notes related to unconsolidated financial statements (continued)

The principal actuarial assumptions used were as follows:

	Current Period	Prior Period
Discount rate		
- Pension benefits transferable to SSI	9,80%	9,80%
- Post employment medical benefits transferable to SSI	9,80%	9,80%

Mortality rate: Average life expectation is defined according to CSO 1980 mortality table.

Plan assets are comprised as follows:

	Current Period		Prior Period	
	Amount	%	Amount	%
Government bonds and treasury bills	831.034	60	728.589	62
Premises and equipment	233.858	17	168.951	14
Bank placements	223.150	16	223.142	19
Other	108.400	7	62.433	5
Total	1.396.442	100	1.183.115	100

ğ. Information on taxes payable:

(i) Information on taxes payable:

	Current Period	Prior Period
Corporate Tax Payable	-	185.879
Taxation of Marketable Securities	108.253	111.321
Property Tax	2.840	2.795
Banking Insurance Transaction Tax ("BITT")	107.238	105.614
Foreign Exchange Transaction Tax	-	-
Value Added Tax Payable	9.788	12.831
Other	34.245	31.588
Total	262.364	450.028

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Explanations and notes related to unconsolidated financial statements (continued)

(ii) Information on premium payables:

	Current Period	Prior Period
Social security premiums – employee	-	-
Social security premiums – employer	-	-
Bank pension fund premiums – employee	15.310	13.473
Bank pension fund premiums – employer	15.798	13.921
Pension fund deposit and provisions – employee	-	-
Pension fund deposit and provisions – employer	-	-
Unemployment insurance – employee	1.093	961
Unemployment insurance – employer	2.187	1.922
Other	-	-
Total	34.388	30.277

(iii) Information on deferred tax liability:

Deferred tax liability, amounting to TL 257.610 represents net of deferred tax assets and deferred tax liabilities, as of December 31, 2016 (December 31, 2015 – TL 113.934).

h. Information on subordinated loans⁽¹⁾:

	Current Period		Prior Period	
	TL	FC	TL	FC
From domestic banks	-	-	-	-
From other domestic institutions	-	-	-	-
From foreign banks	-	9.067.893	-	6.635.191
From other foreign institutions	-	-	-	-
Total	-	9.067.893	-	6.635.191

(1) Subordinated loans are explained in detail in Note "Details on Subordinated Liabilities" of section four.

i. Information on shareholders' equity:

1. Presentation of paid-in capital:

	Current Period	Prior Period
Common stock	4.347.051	4.347.051
Preferred stock	-	-

2. Paid-in capital amount, explanation as to whether the registered share capital system is applied and if so, amount of registered share capital ceiling:

The Bank's paid-in-capital is amounting to TL 4.347.051 and in accordance with the decision taken in the Ordinary General Assembly at April 7, 2008, the Bank has switched to the registered capital system and the registered share capital ceiling is TL 10.000.000.

3. Information on the share capital increases during the period and the sources:

None (December 31, 2015 - None).

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Notes to unconsolidated financial statements at December 31, 2016

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Explanations and notes related to unconsolidated financial statements (continued)

4. Information on transfers from capital reserves to capital during the current period: None.
5. Information on capital commitments, until the end of the fiscal year and the subsequent interim period: None.
6. Information on prior period's indicators on the Bank's income, profitability and liquidity, and possible effects of these future assumptions on the Bank's equity due to uncertainties of these indicators:

The interest, liquidity, and foreign exchange risk related to on-balance sheet and off-balance sheet assets and liabilities are managed by the Bank within several risk and legal limits.
7. Privileges on the corporate stock: None.
8. Information on value increase fund of marketable securities:

	Current Period		Prior Period	
	TL	FC	TL	FC
From investments in associates, subsidiaries, and joint ventures	785.286	1.371.226	785.325	1.041.745
Valuation difference ⁽¹⁾	785.286	1.371.226	785.325	1.041.745
Foreign currency difference	-	-	-	-
Available for sale securities	(390.820)	(55.283)	(559.598)	293.487
Valuation differences ⁽²⁾	(390.820)	(55.283)	(559.598)	293.487
Foreign currency differences	-	-	-	-
Total	394.466	1.315.943	225.727	1.335.232

(1) Includes differences between historical cost basis and equity method of associates, subsidiaries and joint ventures.

(2) Includes tax effect related to foreign currency valuation differences.

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Explanations and notes related to unconsolidated financial statements (continued)

III. Explanations and notes related to off-balance sheet accounts

a. Information on off balance sheet commitments:

1. The amount and type of irrevocable commitments:

	Current Period	Prior Period
Commitments on credit card limits	29.878.711	28.304.464
Loan granting commitments	8.877.881	9.085.013
Commitments for cheques	6.686.199	6.521.085
Other irrevocable commitments	20.964.614	35.009.478
Total	66.407.405	78.920.040

2. Type and amount of probable losses and obligations arising from off-balance sheet items:

Obligations arising from off-balance sheet are disclosed in "Off-balance sheet commitments". The Bank set aside general provision for its non-cash loans amounting to TL 107.365 (December 31, 2015 - TL 89.189) and specific provision amounting to TL 875.166 (December 31, 2015 - TL 597.477) for non-cash loans which are not indemnified yet amounting to TL 150.517 (December 31, 2015 - 105.932).

(i). Non-cash loans including guarantees, bank acceptance loans, collaterals that are accepted as financial guarantees and other letter of credits:

	Current Period	Prior Period
Bank acceptance loans	195.766	173.524
Letter of credits	8.761.174	7.648.009
Other guarantees and collaterals	6.273.317	4.255.807
Total	15.230.257	12.077.340

(ii). Guarantees, suretyships and other similar transactions:

	Current Period	Prior Period
Temporary letter of guarantees	3.060.589	1.926.929
Definite letter of guarantees	33.450.239	31.742.225
Advance letter of guarantees	8.265.692	5.535.124
Letter of guarantees given to customs	2.100.488	2.016.647
Other letter of guarantees	5.761.275	3.742.806
Total	52.638.283	44.963.731

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Explanations and notes related to unconsolidated financial statements (continued)

3. Information on non-cash loans:

(i). Total amount of non-cash loans:

	Current Period	Prior Period
Non-cash loans given against cash loans	5.433.904	3.455.099
With original maturity of 1 year or less than 1 year	812.327	430.142
With original maturity of more than 1 year	4.621.577	3.024.957
Other non-cash loans	62.434.636	53.585.972
Total	67.868.540	57.041.071

(ii). Information on sectoral concentration of non-cash loans:

	Current Period				Prior Period			
	TL	(%)	FC	(%)	TL	(%)	FC	(%)
Agricultural	268.785	1,24	264.445	0,57	201.097	1,11	300.661	0,77
Farming and raising livestock	226.348	1,05	190.047	0,41	145.432	0,80	248.322	0,64
Forestry	38.494	0,18	47.330	0,10	39.083	0,22	32.771	0,08
Fishing	3.943	0,02	27.068	0,06	16.582	0,09	19.568	0,05
Manufacturing	8.769.875	40,57	24.240.184	52,41	7.163.316	39,63	18.676.101	47,93
Mining	413.574	1,91	669.589	1,45	722.796	4,00	1.456.113	3,74
Production	5.953.750	27,55	19.107.577	41,31	5.379.717	29,76	14.069.653	36,11
Electric, gas and water	2.402.551	11,12	4.463.018	9,65	1.060.803	5,87	3.150.335	8,09
Construction	6.569.893	30,40	9.996.845	21,61	4.554.374	25,19	7.831.375	20,10
Services	5.704.088	26,39	11.728.309	25,36	4.243.253	23,47	9.621.981	24,69
Wholesale and retail trade	2.231.326	10,32	2.939.313	6,35	1.902.714	10,53	2.850.058	7,31
Hotel, food and beverage services	176.337	0,82	707.443	1,53	181.879	1,01	407.687	1,05
Transportation and telecommunication	551.457	2,55	3.475.197	7,51	377.454	2,09	3.044.644	7,81
Financial institutions	1.964.705	9,09	2.472.615	5,35	1.000.426	5,53	1.613.144	4,14
Real estate and leasing services	270.474	1,25	271.591	0,59	262.802	1,45	154.780	0,40
Self-employment services	-	-	-	-	-	-	-	-
Education services	40.232	0,19	21.676	0,05	31.839	0,18	63.497	0,16
Health and social services	469.557	2,17	1.840.474	3,98	486.139	2,69	1.488.171	3,82
Other	301.941	1,40	24.175	0,05	1.914.483	10,59	2.534.430	6,50
Total	21.614.582	100,00	46.253.958	100,00	18.076.523	100,00	38.964.548	100,00

(iii). Information on non-cash loans classified in Group I. and Group II:

Current Period	Group I		Group II	
	TL	FC	TL	FC
Non-cash loans				
Letters of guarantee	20.992.683	30.788.738	576.008	280.854
Bank acceptances	-	195.766	-	-
Letters of credit	11.407	8.742.541	-	7.226
Endorsements	-	-	-	-
Underwriting commitments	-	-	-	-
Factoring guarantees	-	-	-	-
Other commitments and contingencies	34.484	6.235.795	-	3.038
Total	21.038.574	45.962.840	576.008	291.118

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Explanations and notes related to unconsolidated financial statements (continued)

Prior Period	Group I		Group II	
	TL	FC	TL	FC
Non-cash loans				
Letters of guarantee	17.753.621	26.858.209	277.973	73.928
Bank acceptances	-	173.524	-	-
Letters of credit	11.483	7.632.586	-	3.940
Endorsements	-	-	-	-
Underwriting commitments	-	-	-	-
Factoring guarantees	-	-	-	-
Other commitments and contingencies	33.446	4.221.266	-	1.095
Total	17.798.550	38.885.585	277.973	78.963

(iv). Maturity distribution of non cash loans:

Current Period ⁽¹⁾	Indefinite	Up to 1 year	1-5 years	Above 5 years	Total
Letter of credit	-	6.225.950	2.529.003	6.221	8.761.174
Letter of guarantee	21.464.214	9.319.266	18.152.038	3.702.765	52.638.283
Bank acceptances	-	168.491	24.902	2.373	195.766
Other	341.794	551.945	2.178.223	3.201.355	6.273.317
Total	21.806.008	16.265.652	22.884.166	6.912.714	67.868.540

Prior Period ⁽¹⁾	Indefinite	Up to 1 year	1-5 years	Above 5 years	Total
Letter of credit	-	5.356.755	2.284.257	6.997	7.648.009
Letter of guarantee	18.438.104	7.094.068	16.600.745	2.830.814	44.963.731
Bank acceptances	-	147.671	24.795	1.058	173.524
Other	296.558	420.689	1.519.946	2.018.614	4.255.807
Total	18.734.662	13.019.183	20.429.743	4.857.483	57.041.071

(1) The distribution is based on the original maturities.

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Explanations and notes related to unconsolidated financial statements (continued)

b. (i) Information on derivative financial instruments:

	Current Period	Prior Period
Types of trading transactions		
Foreign currency related derivative transactions (I)	132.016.926	114.160.143
FC trading forward transactions	15.005.224	9.577.689
Trading swap transactions	99.421.564	91.216.743
Futures transactions	-	-
Trading option transactions	17.590.138	13.365.711
Interest related derivative transactions (II)	49.251.952	36.127.848
Forward interest rate agreements	-	-
Interest rate swaps	47.580.058	34.250.180
Interest rate options	1.671.894	1.877.668
Interest rate futures	-	-
Other trading derivative transactions (III)	18.267.410	15.142.751
A. Total trading derivative transactions (I+II+III)	199.536.288	165.430.742
Types of hedging derivative transactions	-	-
Transactions for fair value hedge	2.112.714	1.395.004
Cash flow hedges	50.014.021	57.114.076
Transactions for foreign net investment hedge	-	-
B. Total hedging related derivatives	52.126.735	58.509.080
Total derivative transactions (A+B)	251.663.023	223.939.822

c. Information on credit derivatives and risk exposures:

Derivative portfolio includes credit default swaps for TL 453.384 (31 December 2015 – TL 794.684) for the period ended 31 December 2016. Credit default swaps linked to credit link notes are for the purposes protection seller and included in this figure.

Derivative portfolio includes total return swaps for TL 8.066.006 (31 December 2015 – TL 6.664.219) for the period ended 31 December 2016.

ç. Information on contingent liabilities and assets:

The Bank has recorded a provision of TL 50.628 (December 31, 2015 - TL 42.615) for litigation and has accounted for it in the accompanying financial statements under the "Other Provisions" account. Except for the claims where provisions are recorded, management considers as remote the probability of a negative result in ongoing litigations and therefore does not foresee cash outflow for such claims.

d. Information on services in the name and account of others:

The Bank's activities such as intermediation and custody to serve the investment needs of customers are followed up under off balance sheet accounts.

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Explanations and notes related to unconsolidated financial statements (continued)

IV. Explanations and notes related to income statement:

a. Information on interest income:

1. Information on interest income on loans:

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-term loans ⁽¹⁾	5.191.009	170.134	4.883.570	178.363
Medium/long-term loans ⁽¹⁾	6.988.968	2.841.969	5.535.883	2.130.564
Interest on loans under follow-up	84.704	136	77.480	54
Premiums received from resource utilization support fund	-	-	-	-
Total	12.264.681	3.012.239	10.496.933	2.308.981

(1) Includes fees and commissions received for cash loans.

2. Information on interest income on banks:

	Current Period		Prior Period	
	TL	FC	TL	FC
From the CBRT	-	138	-	-
From domestic banks	29.876	350	20.851	218
From foreign banks	1.942	16.419	2.880	7.775
Headquarters and branches abroad	-	-	-	-
Total	31.818	16.907	23.731	7.993

3. Information on interest income on marketable securities:

	Current Period		Prior Period	
	TL	FC	TL	FC
From trading financial assets	4.162	1.140	10.042	1.242
From financial assets at fair value through profit or loss	-	-	-	-
From available-for-sale financial assets	1.486.587	177.961	1.739.184	204.115
From held-to-maturity investments	394.611	312.984	181.146	237.071
Total	1.885.360	492.085	1.930.372	442.428

4. Information on interest income received from associates and subsidiaries:

	Current Period	Prior Period
Interest received from associates and subsidiaries	50.321	24.822

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Explanations and notes related to unconsolidated financial statements (continued)

b. Information on interest expense:

1. Information on interest expense on borrowings:

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks	51.712	788.404	62.959	695.894
The CBRT	-	59	-	-
Domestic banks	11.699	4.117	13.523	4.386
Foreign banks	40.013	784.228	49.436	691.508
Headquarters and branches abroad	-	-	-	-
Other institutions	-	158.695	-	107.587
Total ⁽¹⁾	51.712	947.099	62.959	803.481

(1) Includes fees and commissions related to borrowings.

2. Information on interest expense to associates and subsidiaries:

	Current Period	Prior Period
Interest paid to associates and subsidiaries	204.721	59.804

3. Information on interest expense to marketable securities issued:

	Current Period		Prior Period	
	TL	FC	TL	FC
Interest expense to marketable securities issued	228.023	375.253	282.558	357.306
Total	228.023	375.253	282.558	357.306

4. Maturity structure of the interest expense on deposits:

Account name	Demand deposit	Time deposit					Accumulating deposit	Total	Prior Period
		Up to 1 month	Up to 3 months	Up to 6 months	Up to 1 year	More than 1 year			
TL									
Bank deposits	200	127.077	3.617	154.446	169	147	11	131.221	95.473
Saving deposits	1	124.708	3.203.891	154.446	16.419	16.865	-	3.516.330	2.784.245
Public sector deposits	-	362	5.813	104	-	5	-	6.311	7.242
Commercial deposits	30	354.625	1.825.138	351.949	71.760	49.610	-	2.653.112	1.922.854
Other deposits	-	11.734	458.666	51.943	41.020	46	-	563.409	575.580
Deposits with 7 days notification	-	-	-	-	-	-	-	-	-
Total	231	618.506	5.497.125	558.442	129.395	66.673	11	6.870.383	5.385.394
FC									
Foreign currency deposits	64	193.376	724.310	51.045	38.504	16.765	-	1.024.064	855.160
Bank deposits	16	5.350	2.541	566	140	127	-	8.740	5.657
Deposits with 7 days notification	-	-	-	-	-	-	-	-	-
Precious metal vault	-	507	1.452	94	1	71	-	2.279	1.968
Total	80	199.233	728.303	51.705	38.799	16.963	-	1.035.083	862.785
Grand total	311	817.739	6.225.428	610.147	168.194	83.636	11	7.905.466	6.248.179

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Explanations and notes related to unconsolidated financial statements (continued)

c. Information on dividend income:

	Current Period	Prior Period
Trading financial assets	-	-
Available-for-sale financial assets	-	-
Subsidiaries and associates	1	1
Other	79	2.970
Total	80	2.971

ç. Information on trading gain/loss (net):

	Current Period	Prior Period
Gain	28.960.897	44.640.189
Gain from capital market transactions	145.664	324.520
Derivative financial transaction gains	10.221.730	15.636.501
Foreign exchange gains	18.593.503	28.679.168
Loss (-)	(28.884.639)	(45.428.113)
Loss from capital market transactions	(105.176)	(63.900)
Derivative financial transaction losses	(10.230.902)	(14.790.785)
Foreign exchange loss	(18.548.561)	(30.573.428)
Net gain/loss	76.258	(787.924)

d. Information on gain/loss from derivative financial transactions:

The amount of net income/loss from derivative financial transactions related to exchange rate changes is TL 28.014 income (December 31, 2015 – TL 1.946.690 income).

e. Information on other operating income:

Other operating income mainly results from the collections and reversals from specific/generic provisions recorded in prior years and gain from the sale of Visa Europe to Visa Inc. amounting to TL 235.165.

Yapı ve Kredi Bankası A.Ş.

Notes to unconsolidated financial statements at December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to unconsolidated financial statements (continued)

f. Provision for impairment of loans and other receivables:

	Current Period	Prior Period
Specific provisions for loans and other receivables	2.093.568	1.663.210
III. Group loans and receivables	72.261	52.621
IV. Group loans and receivables	244.218	55.226
V. Group loans and receivables	1.777.089	1.555.363
General provision expenses	483.531	688.723
Provision expense for possible risks	100.000	-
Marketable securities impairment expenses ⁽¹⁾	49.402	80.104
Financial assets at fair value through profit or loss	898	1.225
Available-for-sale financial assets	48.504	78.879
Impairment of investments in associates, subsidiaries and held-to-maturity securities	70.098	38.955
Investments in associates	-	-
Subsidiaries	-	-
Joint ventures	-	-
Held-to-maturity investments ⁽¹⁾	70.098	38.955
Other	46.977	50.504
Total	2.843.576	2.521.496

(1) Includes amortisation of the premiums paid during the purchase of the securities throughout the maturity of the securities and the impairment provisions, if any.

g. Information related to other operating expenses:

	Current Period	Prior Period
Personnel expenses	2.184.654	2.012.424
Reserve for employee termination benefits	9.467	19.994
Provision expense for pension fund	-	-
Impairment expenses of property and equipment	-	1.492
Depreciation expenses of property and equipment	223.041	204.672
Impairment expenses of intangible assets	-	-
Goodwill impairment expenses	-	-
Amortisation expenses of intangible assets	117.562	119.135
Impairment expenses of equity participations for which equity method applied	-	-
Impairment expenses of assets held for resale	416	400
Depreciation expenses of assets held for resale	5.714	5.149
Impairment expenses of fixed assets held for sale and assets related to discontinued operations	-	-
Other operating expenses	1.773.508	1.578.929
Operational lease expenses	297.387	277.808
Repair and maintenance expenses	95.533	91.366
Advertising expenses	111.898	125.083
Other expense	1.268.690	1.084.672
Loss on sales of assets	19	117
Other	762.128	868.106
Total	5.076.509	4.810.418

Yapı ve Kredi Bankası A.Ş.

Notes to unconsolidated financial statements at December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to unconsolidated financial statements (continued)

ğ. Information on profit/loss before taxes from continuing operations and discontinued operations:

The profit before tax includes TL 7.634.646 (31 December 2015 – 6.842.222) of net interest income, TL 2.825.515 (31 December 2015 – TL 2.688.104) of net fees and commissions and TL 5.076.509 (31 December 2015 – TL 4.810.418) of other operations.

As of December 31, 2016, the Bank has no (December 31, 2015 – None) profit before tax from discontinued operations.

h. Provision for taxes on income from continuing operations and discontinued operations:

As of December 31, 2016, the Bank has TL 540.460 (December 31, 2015 – TL 328.064) tax expense from continued operations, from discontinued operations none and deferred tax income from continued operations amounting to TL 171.430 (December 31, 2015 – TL 200.879 deferred tax expense).

Total provision for taxes on income for the current period and the previous period:

	Current Period	Prior Period
Profit before tax	3.644.685	2.389.488
Tax calculated at rate of 20%	728.937	477.898
Nondeductible expenses, discounts and other, net	(17.047)	51.045
Total	711.890	528.943

i. Information on net income/loss for the period:

1. The characteristics, dimension and recurrence of income or expense items arising from ordinary banking transactions do not require any additional explanation to understand the Bank's current period performance.
2. Information on any change in the accounting estimates concerning the current period or future periods: None.

i. Other items in income statement:

"Other fees and commissions received" in income statement mainly includes commissions and fees from credit cards and banking transactions.

Yapı ve Kredi Bankası A.Ş.

Notes to unconsolidated financial statements at December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to unconsolidated financial statements (continued)

V. Explanations and notes related to statement of changes in shareholders' equity

a. Information on dividends:

Authorised body for profit appropriation of the current period is General Assembly. As of the preparation date of these financial statements, annual ordinary meeting of the General Assembly has not been held yet.

b. Information on increase/decrease amounts resulting from merger:

None.

c. Information on available for sale financial assets:

"Unrealised gain/loss" arising from changes in the fair value of securities classified as available-for-sale are not recognized in current year income statement but recognized in the "Marketable securities valuation differences" account under equity, until the financial assets are derecognised, sold, disposed or impaired.

ç. Hedging transactions:

The Bank has begun to apply cash flow hedge accounting in order to hedge the risk of cash flow of its liabilities from January 1, 2010. In the scope of this application, the derivative financial instruments are specified as floating rate and fixed rate interest payment USD, EUR and TL interest rate swaps, hedging liabilities as the USD, EUR and TL customer deposits, repos, cash outflows due to re-pricing of loans because of the expected interest rate financing. In this context, fair value change of the effective portion of derivative financial instruments accounted in equity hedge funds, taking into account tax effects. Such amount as of December 31, 2016 is TL 379.150 profit (December 31, 2015 – 267.965 profit).

The Bank's Euro denominated borrowing is designated as a hedge of the net investment in the Bank's certain EUR denominated subsidiaries. The total amount of the borrowing designated as a hedge of the net investment at December 31, 2016 is EUR 386 million. The foreign exchange loss of TL 215.812 net of tax, on translation of the borrowing to Turkish Lira at the statement of financial position date is recognized in "hedging reserves" in equity.

d. Information on share issue premium:

Explained in details in Note XIX of Section Three.

VI. Explanations and notes related to statement of cash flows

a. Information on cash and cash equivalents:

1. Components of cash and cash equivalents and the accounting policy applied in their determination:

Cash and foreign currency balances together with demand deposits at banks including the unrestricted amounts of CBRT are defined as "Cash"; money market placements and time deposits in banks with original maturities of less than three months are defined as "Cash Equivalents".

2. Effect of a change in the accounting policies: None.

Yapı ve Kredi Bankası A.Ş.

Notes to unconsolidated financial statements at December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to unconsolidated financial statements (continued)

3. Reconciliation of cash and cash equivalent items with balance sheet and cash flow statements:

(i). Cash and cash equivalents at the beginning of period:

	Current Period	Prior Period
Cash	7.820.237	7.377.737
Cash and effectives	1.949.094	2.214.524
Demand deposits in banks	5.871.143	5.163.213
Cash equivalents	499.699	1.823.458
Interbank money market	284.692	1.567.000
Time deposits in banks	215.007	256.458
Total cash and cash equivalents	8.319.936	9.201.195

(ii). Cash and cash equivalents at the end of the period:

	Current Period	Prior Period
Cash	11.713.170	7.820.237
Cash and effectives	2.656.507	1.949.094
Demand deposits in banks	9.056.663	5.871.143
Cash equivalents	2.244.649	499.699
Money market	-	284.692
Time deposits in banks	2.244.649	215.007
Total cash and cash equivalents	13.957.819	8.319.936

b. Information on cash and cash equivalents those are not available for use due to legal limitations and other reasons:

Reserves amounting to TL 27.599.587 (December 31, 2015 – TL 25.015.080) in CBRT represent the reserve requirements of the Bank.

c. Explanations on other items in the statement of cash flows and the effects of the change in foreign exchange rates on cash and cash equivalents:

Decrease in "Other Account" amounting to TL 4.694.309 as of December 31, 2016 (December 31, 2015 – TL 4.896.337 decrease), which is classified under "Operating profit before changes in operating assets and liabilities", includes mainly fee and commissions given, other operating expenses excluding personnel expenses, and foreign exchange gains/losses.

Increase in "Net increase/decrease in other liabilities" amounting to TL 3.265.544 as of December 31, 2016 (December 31, 2015 – TL 246.551 increase), mainly consist of changes in other debts and other liabilities.

The effects of the change in foreign exchange rates on cash and cash equivalents are calculated as an increase approximately of TL 989.614 as of December 31, 2016 (December 31, 2015 – TL 1.077.239 increase).

Yapı ve Kredi Bankası A.Ş.

Notes to unconsolidated financial statements at December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to unconsolidated financial statements (continued)

VII. Explanations and notes related to the Bank's risk group

a. The volume of transactions relating to the Bank's risk group, outstanding loan and deposit transactions and profit and loss of the period:

1. Current Period:

Bank's risk group ^{(1), (2)}	Associates, subsidiaries and joint ventures		Direct and indirect shareholders of the Bank		Other real and legal persons that have been included in the risk group	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
Loans and other receivables						
Balance at the beginning of the period	36.629	270.763	6.593	954.585	1.654.575	2.393.852
Balance at the end of the period	35.428	168.459	367.000	1.158.561	2.317.430	2.502.492
Interest and commission income received	50.321	1.277	4.981	7.546	198.730	10.217

(1) Defined in subsection 2 of the 49th article of the Banking Act No.5411.

(2) The information in table above includes loans and due from banks as well as marketable securities.

Prior Period:

Bank's risk group ^{(1), (2)}	Associates, subsidiaries and joint ventures		Direct and indirect shareholders of the Bank		Other real and legal persons that have been included in the risk group	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
Loans and other receivables						
Balance at the beginning of the period	99.878	422.846	47.802	536.763	1.288.096	2.092.659
Balance at the end of the period	36.629	270.763	6.593	954.585	1.654.575	2.393.852
Interest and commission income received	24.822	1.436	13.052	6.027	181.764	8.859

(1) Defined in subsection 2 of the 49th article of the Banking Act No.5411.

(2) The information in table above includes marketable securities and due from banks as well as loans.

2. Information on deposits of the Bank's risk group:

Bank's risk group ^{(1), (2)}	Associates, subsidiaries and joint ventures		Direct and indirect shareholders of the Bank		Other real and legal persons that have been included in the risk group	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
Deposit						
Beginning of the period	2.500.000	2.229.278	15.911.762	10.228.006	10.366.561	10.038.882
End of the period	4.074.057	2.500.000	19.715.780	15.911.762	13.596.912	10.366.561
Interest expense on deposits	204.721	59.804	1.021.951	814.288	545.287	372.491

(1) Defined in subsection 2 of the 49th article of the Banking Act No. 5411.

(2) The information in table above includes borrowings, marketable securities issued and repo transactions as well as deposits.

Yapı ve Kredi Bankası A.Ş.

Notes to unconsolidated financial statements at December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to unconsolidated financial statements (continued)

3. Information on forward and option agreements and other derivative instruments with the Bank's risk group:

Bank's risk group ⁽¹⁾⁽²⁾	Associates, subsidiaries and joint ventures		Direct and indirect shareholders of the Bank		Other real and legal persons that have been included in the risk group	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
Transactions at fair value through profit or loss⁽²⁾						
Beginning of the period ⁽³⁾	4.510.236	872.477	1.455.484	428.403	146.778	718.079
End of the period ⁽³⁾	3.305.854	4.510.236	8.532.884	1.455.484	802.512	146.778
Total profit / (loss)	(48.025)	4.685	(9.004)	(53.226)	(270)	(896)
Transactions for hedging purposes⁽²⁾						
Beginning of the period ⁽³⁾	-	-	-	-	-	-
End of the period ⁽³⁾	-	-	-	-	-	-
Total profit / (loss)	-	-	-	-	-	-

(1) Defined in subsection 2 of the 49th article of the Banking Act No. 5411.

(2) The Bank's derivative instruments are classified as "at Fair Value Through Profit or Loss" or "for Hedging Purposes" according to TAS 39.

(3) The balances at the beginning and end of the periods are disclosed as the total of buy and sell amounts of derivative financial instruments.

b. Information regarding benefits provided to the Bank's top management:

Salaries and benefits paid to the Bank's top management amount to TL 48.113 as of December 31, 2016 (December 31, 2015 – TL 39.699).

VIII. Explanations and notes related to the domestic, foreign, off-shore branches or associates and foreign representatives of the Bank:

	Number	Number of Employees	Country of incorporation	Total asset	Statutory share capital
Domestic Branch	935	18.364			
Foreign Rep. Office	-	-	-		
Foreign Branch	1	2	Bahrain	15.264.658	-
Off-Shore Banking Region Branch			-	-	-

Explanations and notes related to unconsolidated financial statements (continued)

IX. Explanations and notes related to subsequent events:

None

Section Six

Other Explanations and Notes

I. Other explanations on the Bank's operations

None.

Section Seven

Explanations on independent audit report

I. Explanations on independent auditor's report

The unconsolidated financial statements for the period ended December 31, 2016 have been audited by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A member firm of Ernst & Young Global Limited). The independent auditor's report dated, February 2, 2017 is presented preceding the unconsolidated financial statements.

II. Explanations and notes prepared by independent auditor

None.

(Convenience translation of the independent auditor's report originally issued in Turkish, See Note I. of Section three)

Independent auditor report

To the Board of Directors of Yapı ve Kredi Bankası A.Ş.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Yapı ve Kredi Bankası A.Ş. ("the Bank") and its consolidated subsidiaries (together will be referred as "the Group") as at December 31, 2016, and the related consolidated income statement, consolidated statement of income and expense items accounted under shareholders' equity, consolidated statement of cash flows and consolidated statement of changes in shareholders' equity for the year then ended and a summary of significant accounting policies and other explanatory notes to the financial statements.

Responsibility of the Bank's Board of Directors for the Consolidated Financial Statements

Bank management is responsible for the preparation and fair presentation of the consolidated financial statement in accordance with "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette no.26333 dated 1 November 2006 and other regulations on accounting records of Banks published by Banking Regulation and Supervision Agency (BRSA), circulars, interpretations published by BRSA and the provisions of Turkish Accounting Standards for the matters which are not regulated by these regulation; "BRSA Accounting and Reporting Legislation" and for such internal control as management determines is necessary to enable the preparation of the financial statement that is free from material misstatement, whether due to fraud or error.

Independent Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with communiqué "Independent Audit of Banks" published by BRSA on the Official Gazette No.29314 dated April 2, 2015 and with the Independent Auditing Standards which is a part of Turkish Auditing Standards promulgated by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

An independent audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the independent auditor's professional judgment, including the assessment of risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the independent auditor considers the internal control relevant to bank's preparation and fair presentation of the consolidated financial statements 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 bank's internal control. An independent audit also includes evaluating the appropriateness of accounting policies used by the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the accompanying consolidated financial statements presents fairly, in all material respects, the financial position of Yapı ve Kredi Bankası A.Ş. and its subsidiaries as at December 31, 2016 and the results of its operations and its cash flows for the year then ended in accordance with the prevailing accounting principles and standards set out as in accordance with BRSA Accounting and Reporting Legislation.

Reports on arising from other regulatory requirements:

In accordance with Article 402 paragraph 4 of the Turkish Commercial Code ("TCC") no 6102; no significant matter has come to our attention that causes us to believe that the Bank's bookkeeping activities for the period January 1 – December 31, 2016 are not in compliance with the code and provisions of the Bank's articles of association in relation to financial reporting.

In accordance with Article 402 paragraph 4 of the TCC; the Board of Directors submitted to us the necessary explanations and provided required documents within the context of audit.

Additional paragraph for convenience translation to English:

As explained in detail in Note I. of Section Three, accounting principles and standards set out by regulations in conformity with BRSA Accounting and Reporting Legislation, accounting principles generally accepted in countries in which the accompanying consolidated financial statements are to be distributed and International Financial Reporting Standards ("IFRS") have not been quantified in the accompanying consolidated financial statements. Accordingly, the accompanying consolidated financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited



February 2, 2017
Istanbul, Turkey

Convenience translation of publicly announced consolidated interim financial statements and review report originally issued in Turkish, See Note I. of Section three

THE CONSOLIDATED INTERIM FINANCIAL REPORT OF
YAPI VE KREDİ BANKASI A.Ş. AS OF DECEMBER 31, 2016

Address : Yapı Kredi Plaza D-Blok
Levent, 34330, İstanbul
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E-Mail : financialreports@yapikredi.com.tr

The consolidated financial report for the year end which is prepared in accordance with the "Communiqué Related to Publicly Announced Financial Statements of Banks and Explanations and Notes Related to these Financial Statements" as regulated by the Banking Regulation and Supervision Agency includes the following sections.

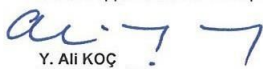


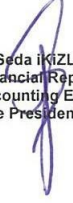

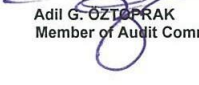
- GENERAL INFORMATION ABOUT THE PARENT BANK
- CONSOLIDATED FINANCIAL STATEMENTS OF THE PARENT BANK
- EXPLANATIONS ON ACCOUNTING POLICIES APPLIED IN THE RELATED PERIOD
- INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE GROUP
- EXPLANATIONS AND NOTES RELATED TO CONSOLIDATED FINANCIAL STATEMENTS
- OTHER EXPLANATIONS
- INDEPENDENT AUDITOR'S REPORT

Investments in subsidiaries, associates and joint ventures, whose financial statements have been consolidated in these year end consolidated financial statements are as follows.

Subsidiaries	Associates	Joint Ventures
1. Yapı Kredi Finansal Kiralama A.O.	1. Banque de Commerce et de Placements S.A.	1. Yapı Kredi Koray Gayrimenkul Yatırım Ortaklığı A.Ş.
2. Yapı Kredi Faktoring A.Ş.	2. Allianz Yaşam ve Emeklilik A.Ş.	
3. Yapı Kredi Yatırım Menkul Değerler A.Ş.		
4. Yapı Kredi Portföy Yönetimi A.Ş.		
5. Yapı Kredi Holding B.V.		
6. Yapı Kredi Bank Nederland N.V.		
7. Yapı Kredi Bank Moscow		
8. Stichting Custody Services YKB		
9. Yapı Kredi Bank Azerbaijan CJSC		
10. Yapı Kredi Invest LLC		
11. Yapı Kredi Bank Malta Ltd.		

Although Yapı Kredi Diversified Payment Rights Finance Company (the Structured Entity) is not a subsidiary of the Bank, it has been included in the consolidation since the Bank has 100% control.

The accompanying consolidated financial statements and notes to these financial statements which are expressed, (unless otherwise stated) in **thousands of Turkish Lira**, have been presented based on the accounting books of the Bank prepared in accordance with the Regulation on the Principles and Procedures Regarding Banks' Accounting Applications and Safeguarding of Documents, Turkish Accounting Standards, Turkish Financial Reporting Standards and related appendices and interpretations of these, and have been independently audited.

 Y. Ali KOÇ Chairman of the Board of Directors	 H. Faik AÇIKALIN Chief Executive Officer	 Massimo FRANCESE Chief Financial Officer	 B. Seda KIZLER Financial Reporting and Accounting Executive Vice President
	 Wolfgang SCHILK Chairman of Audit Committee	 Adil G. ÖZTÜRK Member of Audit Committee	

Contact information of the personnel in charge of the addressing of questions about this financial report:

Name-Surname / Title : Aytuğ SADI / Head of Consolidation
Telephone Number : 0212 339 74 73
Fax Number : 0212 339 61 05

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Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Section One

General Information

I. History of the Parent Bank including its incorporation date, initial legal status and amendments to legal status, if any:

Yapı ve Kredi Bankası A.Ş. ("the Bank", "Yapı Kredi" or "the Parent Bank"), was established and started operations on September 9, 1944 with the permission of the Council of Ministers No. 3/6710 as a private capital commercial bank authorised to perform all banking, economic, financial and commercial activities which are allowed by the laws of the Turkish Republic. The statute of the Bank has not changed since its incorporation.

II. Explanation about the Parent Bank's capital structure, shareholders holding directly or indirectly, collectively or individually, the management and controlling power and changes in current year, if any and explanations on the controlling Group of the Bank:

The Parent Bank's publicly traded shares are traded on the Borsa Istanbul ("BIST") since 1987 and the representatives of these shares, Global Depository Receipts, are quoted at the London Stock Exchange. As of December 31, 2016, 18,20% of the shares of the Bank are publicly traded (December 31, 2015, - 18,20%). The remaining 81,80% is owned by Koç Finansal Hizmetler A.Ş. ("KFS"), a joint venture of UniCredit ("UCG") and Koç Group.

KFS was established on March 16, 2001 to combine Koç Group finance companies under one organisation and it became the main shareholder of Koçbank in 2002. On October 22, 2002, Koç Group established a strategic partnership with UCG over KFS.

In 2005, the Bank's shares that were owned by Çukurova Group Companies and the Saving Deposits Insurance Fund ("SDIF") were purchased by Koçbank. In 2006, Koçbank purchased additional shares of the Bank from BIST and an investment fund and, during the same year, all rights, receivables, debts and liabilities of Koçbank were transferred to the Bank pursuant the merger of the two banks.

In 2006 and 2007, with the acquisition of Yapı Kredi and its subsidiaries, KFS Group launched structural reorganisation and the following subsidiaries is still under the control of group were legally merged:

Merging entities		Merger date	Merged entity
Yapı Kredi	Koçbank	October 2, 2006	Yapı Kredi
Yapı Kredi Finansal Kiralama A.O. ("Yapı Kredi Leasing")	Koç Leasing	December 25, 2006	Yapı Kredi Leasing
Yapı Kredi Faktoring A.Ş. ("Yapı Kredi Faktoring")	Koç Faktoring	December 29, 2006	Yapı Kredi Faktoring
Yapı Kredi Portföy Yönetimi A.Ş. ("Yapı Kredi Portföy")	Koç Portföy	December 29, 2006	Yapı Kredi Portföy
Yapı Kredi Yatırım Menkul Değerler A.Ş. ("Yapı Kredi Menkul")	Koç Yatırım	January 12, 2007	Yapı Kredi Menkul
Yapı Kredi Bank Nederland N.V. ("Yapı Kredi NV")	Koçbank Nederland N.V.	July 2, 2007	Yapı Kredi NV

After the merger and the share transfer procedures in 2007 and of a capital increase by TL 920 million in 2008, KFS owns 81,80% of the shares of the Bank.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

General information (continued)

III. Explanations regarding the board of directors, members of the audit committee, Chief Executive Officer and executive vice presidents, and their areas of responsibility and shares if any:

As of December 31, 2016, the Parent Bank's Board of Directors, Members of the Audit Committee, General Manager and Assistant General Managers are as follows:

Board of Directors Members:

Name	Responsibility
Y. Ali KOÇ	Chairman
Carlo VIVALDI	Vice Chairman
H. Faik AÇIKALIN	Chief Executive Officer
Niccolò UBERTALLI	Deputy General Manager
Adil Giray ÖZTOPRAK	Independent Member
Ahmet Fadıl ASHABOĞLU	Member
A. Ümit TAFTALI	Member
F. Füsün Akkal BOZOK	Member
Gianfranco BISAGNI	Member
Giovanna VILLA	Independent Member
Giuseppe SCOGNAMIGLIO	Member
Levent ÇAKIROĞLU	Member
Mirko D. G. BIANCHI	Member
Wolfgang SCHILK	Independent Member

Audit Committee Members:

Name	Responsibility
Wolfgang SCHILK	Chairman
Adil Giray ÖZTOPRAK	Member
Giovanna VILLA	Member

General Manager and Deputy General Manager:

Name	Responsibility
H. Faik AÇIKALIN	Chief Executive Officer
Niccolò UBERTALLI	Deputy General Manager

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

General information (continued)

Assistant General Managers:

Name	Responsibility
Akif Cahit ERDOĞAN	Information Technologies and Operation Management
Cemal Aybars SANAL	Legal Activities Management
Demir KARAASLAN	Retail Credits Management
Feza TAN	Corporate and Commercial Banking Management
Massimo FRANCESE	Financial Planning and Administration Management
Mehmet Erkan ÖZDEMİR	Compliance and Internal Control / Consumer Relations Coordination Officer
Mehmet Gökmen UÇAR	Human Resources and Organization Management
Mehmet Murat ERMERT	Corporate Communication Management
Mert ÖNCÜ	Treasury Management
Mert YAZICIOĞLU	Private Banking and Asset Management
Nurgün EYÜBOĞLU	Corporate and Commercial Credit Management
Patrick Josef SCHMITT	Risk Management
Stefano PERAZZINI ⁽¹⁾	Internal Audit / Chief Audit Executive
Yakup DOĞAN	Alternative Distribution Channels
Zeynep Nazan SOMER ÖZELGİN	Retail Banking Management

(1) Based on the Board resolution dated 21 December 2016, Giovanni Battista Avanzi was appointed as Assistant General Manager in charge of Internal Audit as of 2 January 2017, replacing Stefano Perazzini who took another position within the UniCredit Group.

IV. Information on the individual and corporate shareholders having control shares of the Parent Bank:

Name/Commercial title	Share amounts (nominal)	Share percentage	Paid-in capital (nominal)	Unpaid portion
Koç Finansal Hizmetler A.Ş.	3.555.712.396,07	%81,80	3.555.712.396,07	-

Koç Finansal Hizmetler A.Ş. is a joint venture of Koç Group, UniCredit Group and Temel Ticaret ve Yatırım A.Ş.

V. Summary information on the Parent Bank's activities and service types:

The Parent Bank's activities summarized in the article 3 of the articles of association are as follows:

The Parent Bank's purpose and subject matter in accordance with the Banking Law, regulations and existing laws include:

- The execution of all banking activities,
- The execution of all economic and financial activities which are allowed by the regulation,
- The execution of the representation, attorney and agency activities related to the subjects written above,
- The purchase and sale of share certificates, bonds and all the capital market instruments, in accordance with Capital Market Law and regulations.

In case of necessity for performing activities which are useful and required but that are not specified in the articles of association, a Board of Directors' proposal is to be presented to the General Assembly. With the approval of the General Assembly the proposal becomes applicable, subject to the approvals required by law.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

General information (continued)

As of December 31, 2016, the Parent Bank has 935 branches operating in Turkey and 1 branch in overseas (December 31, 2015 - 999 branches operating in Turkey, 1 branch in overseas).

As of December 31, 2016, the Parent Bank has 18.366 employees (December 31, 2015 – 18.262 employees). The Parent Bank together with its consolidated subsidiaries is referred to as the "Group" in these consolidated financial statements. As of December 31, 2016 the Group has 19.419 employees (December 31, 2015 – 19.345 employees).

The accompanying consolidated financial statements and notes to these financial statements are expressed in thousands of Turkish Lira (TL), unless otherwise stated.

VI. Differences between the communiqué on preparation of consolidated financial statements of Banks and Turkish Accounting Standards and short explanation about the entities subject to full consolidation or proportional consolidation and entities which are deducted from equity or entities which are not included in these three methods:

According to communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Accounting Standards, Banque de Commerce et de Placements SA, one of the associates of the Bank, and Yapı Kredi Koray Gayrimenkul Yatırım Ortaklığı, an entity under common control, are consolidated through "Equity Method" in the accompanying consolidated financial statements of the Group. Allianz Yaşam ve Emeklilik A.Ş., on which the Bank has indirect participation, is also consolidated through "Equity Method" in the consolidated financial statements of the Group. These entities are taken into account as a deduction item in shareholders' equity for the purpose of calculation of capital adequacy ratio.

Yapı Kredi Kültür Sanat Yayıncılık Tic. ve San. A.Ş., and Enternasyonal Turizm Yatırım A.Ş., which are subsidiaries of the Bank, are not consolidated into the Bank's consolidated financial statements in accordance with Communiqué of Preparation of Consolidated Financial Statements since these entities are not financial institutions.

All other subsidiaries are fully consolidated.

VII. The existing or potential, actual or legal obstacles on the immediate transfer of shareholder's equity between the Bank and its subsidiaries or reimbursement of liabilities:

None.

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

Yapı ve Kredi Bankası A.Ş.

Consolidated financial statements as of December 31, 2016 and 2015

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Section two

Consolidated financial statements

I. Consolidated balance sheet (Statement of Financial Position)

Assets	Note (Section Five)	Current Period (31/12/2016)			Prior Period (31/12/2015)		
		TL	FC	Total	TL	FC	Total
I. Cash and balances with Central Bank	I-a	9.051.439	24.031.856	33.083.295	3.463.676	23.925.271	27.388.947
II. Financial assets at fair value through profit or (loss) (net)	I-b	2.629.996	410.834	3.040.830	1.530.788	235.505	1.766.293
2.1 Trading financial assets		2.629.996	410.834	3.040.830	1.530.788	235.505	1.766.293
2.1.1 Government debt securities		18.888	17.825	36.713	51.614	14.492	66.106
2.1.2 Share certificates		6.635	-	6.635	8.040	-	8.040
2.1.3 Derivative financial assets held for trading	I-c	2.604.473	393.009	2.997.482	1.471.134	221.013	1.692.147
2.1.4 Other marketable securities		-	-	-	-	-	-
2.2 Financial assets designated at fair value through profit / (loss)		-	-	-	-	-	-
2.2.1 Government debt securities		-	-	-	-	-	-
2.2.2 Share certificates		-	-	-	-	-	-
2.2.3 Loans		-	-	-	-	-	-
2.2.4 Other marketable securities		-	-	-	-	-	-
III. Banks	I-ç	43.137	3.405.829	3.448.966	34.426	3.077.079	3.111.505
IV. Money markets		252	-	252	155.281	130.845	286.126
4.1 Interbank money market placements		-	-	-	-	-	-
4.2 Receivables from Istanbul Stock Exchange Money Market		-	-	-	155.270	130.845	286.115
4.3 Receivables from reverse repurchase agreements		252	-	252	11	-	11
V. Financial assets available-for-sale (net)	I-d,e	15.239.585	3.146.524	18.386.109	18.641.714	4.198.490	22.840.204
5.1 Share certificates		44.258	62.485	106.743	44.200	210.818	255.018
5.2 Government debt securities		14.431.742	1.620.631	16.052.373	17.759.935	2.635.202	20.395.137
5.3 Other marketable securities		763.585	1.463.408	2.226.993	837.579	1.352.470	2.190.049
VI. Loans and receivables	I-f	107.994.217	70.670.205	178.664.422	99.153.273	54.864.716	154.017.989
6.1 Loans and receivables		105.876.257	70.609.580	176.485.837	97.731.030	54.758.065	152.489.095
6.1.1 Loans to bank's risk group		1.608.647	993.427	2.602.074	1.539.567	248.413	1.787.980
6.1.2 Government debt securities		-	-	-	-	-	-
6.1.3 Other		104.267.610	69.616.153	173.883.763	96.191.463	54.509.652	150.701.115
6.2 Loans under follow-up		8.706.143	143.024	8.849.167	5.618.346	574.961	6.193.307
6.3 Specific provisions (-)		(6.588.183)	(82.399)	(6.670.582)	(4.196.103)	(468.310)	(4.664.413)
VII. Factoring receivables		1.240.811	1.653.468	2.894.279	1,226.141	1,032.983	2,259.124
VIII. Held-to-maturity investments (net)	I-g	4.831.667	6.757.223	11.588.890	1.960.446	5.148.363	7.108.809
8.1 Government debt securities		4.831.667	5.957.387	10.789.054	1.960.446	4.658.180	6.618.626
8.2 Other marketable securities		-	799.836	799.836	-	490.183	490.183
IX. Investments in associates (net)	I-ğ	231.974	437.143	669.117	211.588	338.140	549.728
9.1 Consolidated based on equity method		227.471	437.143	664.614	207.085	338.140	545.225
9.2 Unconsolidated		4.503	-	4.503	4.503	-	4.503
9.2.1 Investments in financial associates		-	-	-	-	-	-
9.2.2 Investments in non-financial associates		4.503	-	4.503	4.503	-	4.503
X. Subsidiaries (net)	I-h	7.300	-	7.300	7.300	-	7.300
10.1 Unconsolidated financial subsidiaries		-	-	-	-	-	-
10.2 Unconsolidated non-financial subsidiaries		7.300	-	7.300	7.300	-	7.300
XI. Joint ventures (net)	I-ı	18.114	-	18.114	20.851	-	20.851
11.1 Accounted based on equity method		18.114	-	18.114	20.851	-	20.851
11.2 Unconsolidated		-	-	-	-	-	-
11.2.1 Financial joint ventures		-	-	-	-	-	-
11.2.2 Non-financial joint ventures		-	-	-	-	-	-
XII. Lease receivables	I-ı	1.720.318	6.584.168	8.304.486	1.614.761	5.247.500	6.862.261
12.1 Financial lease receivables		2.229.318	7.604.773	9.834.091	2.037.181	6.100.328	8.137.509
12.2 Operating lease receivables		-	-	-	-	-	-
12.3 Other		-	-	-	-	-	-
12.4 Unearned income (-)		(509.000)	(1.020.605)	(1.529.605)	(422.420)	(852.828)	(1.275.248)
XIII. Derivative financial assets held for hedging	I-j	1.096.608	113.104	1.209.712	954.773	6.268	961.041
13.1 Fair value hedge		246.295	-	246.295	257.144	-	257.144
13.2 Cash flow hedge		850.313	113.104	963.417	697.629	6.268	703.897
13.3 Foreign net investment hedge		-	-	-	-	-	-
XIV. Property and equipment (net)	I-k	2.678.356	34.691	2.713.047	2.733.389	34.095	2.767.484
XV. Intangible assets (net)	I-l	1.549.798	17.066	1.566.864	1.495.645	12.783	1.508.428
15.1 Goodwill		979.493	-	979.493	979.493	-	979.493
15.2 Other		570.305	17.066	587.371	516.152	12.783	528.935
XVI. Investment property (net)	I-m	-	-	-	-	-	-
XVII. Tax asset		178.240	1.151	179.391	64.613	13.528	78.141
17.1 Current tax asset		97.812	1.151	98.963	2.763	8.660	11.423
17.2 Deferred tax asset	I-n	80.428	-	80.428	61.850	4.868	66.718
XVIII. Assets held for resale and related to discontinued operations (net)	I-o	161.854	4.329	166.183	153.159	763	153.922
18.1 Held for sale purposes		161.854	4.329	166.183	153.159	763	153.922
18.2 Related to discontinued operations		-	-	-	-	-	-
XIX. Other assets	I-ö	2.104.336	3.088.997	5.193.333	1.821.607	1.758.172	3.579.779
Total assets		150.778.002	120.356.588	271.134.590	135.243.431	100.024.501	235.267.932

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

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

Yapı ve Kredi Bankası A.Ş.

Consolidated financial statements as of December 31, 2016 and 2015

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

I. Consolidated balance sheet (Statement of Financial Position)

		Current Period (31/12/2016)			Prior Period (31/12/2015)		
Liabilities	Note (Section Five)	TL	FC	Total	TL	FC	Total
I. Deposits	II-a	84.238.259	72.849.936	157.088.195	67.161.726	62.863.339	130.025.065
1.1 Deposits of the Bank's risk group		7.602.155	12.201.241	19.803.396	7.064.701	7.279.374	14.344.075
1.2 Other		76.636.104	60.648.695	137.284.799	60.097.025	55.583.965	115.680.990
II. Derivative financial liabilities held for trading	II-b	2.188.935	389.744	2.578.679	1.624.462	297.946	1.922.408
III. Funds borrowed	II-c	1.367.430	29.141.344	30.508.774	1.272.041	23.588.938	24.860.979
IV. Money markets		7.225.341	1.979.688	9.205.029	12.098.151	2.165.386	14.263.537
4.1 Funds from interbank money market		-	-	-	1.887.563	-	1.887.563
4.2 Funds from Istanbul stock exchange money market		2.931.228	-	2.931.228	1.960.438	-	1.960.438
4.3 Funds provided under repurchase agreements		4.294.113	1.979.688	6.273.801	8.250.150	2.165.386	10.415.536
V. Marketable securities issued (net)	II-ç	3.990.883	14.089.584	18.080.467	4.200.363	12.972.530	17.172.893
5.1 Bills		1.399.791	86.665	1.486.456	2.106.752	451.305	2.558.057
5.2 Asset backed securities		-	6.564.507	6.564.507	-	6.083.274	6.083.274
5.3 Bonds		2.591.092	7.438.412	10.029.504	2.093.611	6.437.951	8.531.562
VI. Funds		-	-	-	-	-	-
6.1 Borrower funds		-	-	-	-	-	-
6.2 Other		-	-	-	-	-	-
VII. Miscellaneous payables		9.152.217	2.010.570	11.162.787	8.055.012	1.739.669	9.794.681
VIII. Other liabilities	II-d	1.590.918	365.486	1.956.404	1.818.088	937.971	2.756.059
IX. Factoring payables		-	-	-	-	-	-
X. Lease payables	II-e	-	-	-	-	-	-
10.1 Financial lease payables		-	-	-	-	-	-
10.2 Operational lease payables		-	-	-	-	-	-
10.3 Other		-	-	-	-	-	-
10.4 Deferred lease expenses (-)		-	-	-	-	-	-
XI. Derivative financial liabilities held for hedging	II-f	66.263	23.033	89.296	39.313	108.965	148.278
11.1 Fair value hedge		49.949	508	50.457	3.926	305	4.231
11.2 Cash flow hedge		16.314	22.525	38.839	35.387	108.660	144.047
11.3 Foreign net investment hedge		-	-	-	-	-	-
XII. Provisions	II-g	3.359.679	1.334.393	4.694.072	2.961.036	1.021.950	3.982.986
12.1 General loan loss provision		1.884.546	1.225.025	3.109.571	1.702.877	924.394	2.627.271
12.2 Restructuring provisions		-	-	-	-	-	-
12.3 Reserve for employee rights		298.496	2.825	301.321	279.020	21.493	300.513
12.4 Insurance technical provisions (net)		-	-	-	-	-	-
12.5 Other provisions		1.176.637	106.543	1.283.180	979.139	76.063	1.055.202
XIII. Tax liability	II-ğ	566.362	15.479	581.841	614.290	5.163	619.453
13.1 Current tax liability		308.752	4.838	313.590	500.356	-	500.356
13.2 Deferred tax liability		257.610	10.641	268.251	113.934	5.163	119.097
XIV. Liabilities for property and equipment held for sale and related to discontinued operations (net)		-	-	-	-	-	-
14.1 Held for sale		-	-	-	-	-	-
14.2 Related to discontinued operations		-	-	-	-	-	-
XV. Subordinated loans	II-h	-	9.067.893	9.067.893	-	6.635.191	6.635.191
XVI. Shareholders' equity	II-ı	26.103.038	18.115	26.121.153	22.857.536	228.866	23.086.402
16.1 Paid-in capital		4.347.051	-	4.347.051	4.347.051	-	4.347.051
16.2 Capital reserves		2.643.512	18.115	2.661.627	2.648.597	228.866	2.877.463
16.2.1 Share premium		543.881	-	543.881	543.881	-	543.881
16.2.2 Share cancellation profits		-	-	-	-	-	-
16.2.3 Marketable securities valuation differences		(377.643)	(86.111)	(463.754)	(546.402)	261.490	(284.912)
16.2.4 Property and equipment revaluation differences		1.462.750	6.947	1.469.697	1.462.750	4.978	1.467.728
16.2.5 Intangible assets revaluation differences		-	-	-	-	-	-
16.2.6 Revaluation differences of investment property		-	-	-	-	-	-
16.2.7 Bonus shares from investments in associates, subsidiaries and joint ventures		4.561	-	4.561	4.503	-	4.503
16.2.8 Hedging funds (effective portion)		(191.241)	97.279	(93.962)	(9.083)	(34.866)	(43.949)
16.2.9 Value increase in assets held for sale and related to discontinued operations		-	-	-	-	-	-
16.2.10 Other capital reserves		1.201.204	-	1.201.204	1.192.948	(2.736)	1.190.212
16.3 Profit reserves		14.539.224	-	14.539.224	12.357.721	-	12.357.721
16.3.1 Legal reserves		844.539	-	844.539	751.512	-	751.512
16.3.2 Status reserves		-	-	-	-	-	-
16.3.3 Extraordinary reserves		12.913.149	-	12.913.149	11.148.251	-	11.148.251
16.3.4 Other profit reserves		781.536	-	781.536	457.958	-	457.958
16.4 Income or (loss)		4.572.749	-	4.572.749	3.503.693	-	3.503.693
16.4.1 Prior years' income or (loss)		1.639.954	-	1.639.954	1.595.010	-	1.595.010
16.4.2 Current year income or (loss)		2.932.795	-	2.932.795	1.908.683	-	1.908.683
16.5 Minority interest	II-ı	502	-	502	474	-	474
Total liabilities		139.849.325	131.285.265	271.134.590	122.702.018	112.565.914	235.267.932

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

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

Yapı ve Kredi Bankası A.Ş. Consolidated financial statements as of December 31, 2016 and 2015 (Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

II. Consolidated off-balance sheet commitments

		Current Period (31/12/2016)			Prior Period (31/12/2015)		
	Note (Section Five)	TL	FC	Total	TL	FC	Total
A. Off-balance sheet commitments (I-II+III)		161.396.771	244.133.727	405.530.498	158.377.335	210.923.096	369.300.431
I. Guarantees and warranties	III-a-2,3	21.614.582	46.839.902	68.454.484	18.076.523	39.567.673	57.644.196
1.1 Letters of guarantee		21.568.691	31.223.540	52.792.231	18.031.594	27.139.408	45.171.002
1.1.1 Guarantees subject to state tender law		471.441	930.593	1.402.034	522.480	1.134.886	1.657.366
1.1.2 Guarantees given for foreign trade operations		2.597.219	30.138.999	32.736.218	2.329.832	25.797.251	28.127.083
1.1.3 Other letters of guarantee		18.500.031	153.948	18.653.979	15.179.282	207.271	15.386.553
1.2 Bank acceptances		-	195.766	195.766	-	173.524	173.524
1.2.1 Import letter of acceptance		-	195.766	195.766	-	173.524	173.524
1.2.2 Other bank acceptances		-	-	-	-	-	-
1.3 Letters of credit		11.407	9.181.763	9.193.170	11.483	8.032.380	8.043.863
1.3.1 Documentary letters of credit		11.407	9.181.763	9.193.170	11.483	8.032.016	8.043.499
1.3.2 Other letters of credit		-	-	-	-	364	364
1.4 Prefinancing given as guarantee		-	-	-	-	-	-
1.5 Endorsements		-	-	-	-	-	-
1.5.1 Endorsements to the Central Bank of the Republic of Turkey		-	-	-	-	-	-
1.5.2 Other endorsements		-	-	-	-	-	-
1.6 Securities issue purchase guarantees		-	-	-	-	-	-
1.7 Factoring guarantees		-	-	-	-	-	-
1.8 Other guarantees		34.484	1.960.487	1.994.971	33.446	1.430.529	1.463.975
1.9 Other warranties		-	4.278.346	4.278.346	-	2.791.832	2.791.832
II. Commitments	III-a-1	53.191.915	25.742.342	78.934.257	60.273.748	26.425.811	86.699.559
2.1 Irrevocable commitments		52.743.486	13.663.919	66.407.405	59.611.290	19.308.750	78.920.040
2.1.1 Asset purchase and sale commitments		3.706.202	12.562.607	16.268.809	13.018.015	17.850.021	30.868.836
2.1.2 Deposit purchase and sales commitments		27.500	6.581	34.081	-	-	-
2.1.3 Share capital commitments to associates and subsidiaries		-	-	-	-	-	-
2.1.4 Loan granting commitments		8.008.276	869.605	8.877.881	7.816.459	1.268.554	9.085.013
2.1.5 Securities issue brokerage commitments		-	-	-	-	-	-
2.1.6 Commitments for reserve deposit requirements		-	-	-	-	-	-
2.1.7 Commitments for cheques		6.686.199	-	6.686.199	6.521.085	-	6.521.085
2.1.8 Tax and fund liabilities from export commitments		6.014	-	6.014	6.376	-	6.376
2.1.9 Commitments for credit card limits		29.878.711	-	29.878.711	28.304.464	-	28.304.464
2.1.10 Commitments for short sale commitments of marketable securities		18.409	-	18.409	13.810	-	13.810
2.1.11 Receivables from short sale commitments of marketable securities		-	-	-	-	-	-
2.1.12 Payables for short sale commitments of marketable securities		-	-	-	-	-	-
2.1.13 Other irrevocable commitments		4.412.175	225.126	4.637.301	3.931.081	189.375	4.120.456
2.2 Revocable commitments		438.429	12.078.423	12.516.852	662.458	7.117.061	7.779.519
2.2.1 Revocable loan granting commitments		438.429	12.018.342	12.456.771	662.458	7.053.496	7.715.954
2.2.2 Other revocable commitments		-	60.081	60.081	-	63.565	63.565
III. Derivative financial instruments	III-b-c	86.600.274	171.551.483	258.151.757	80.027.064	144.929.612	224.956.676
3.1 Derivative financial instruments for hedging purposes		29.395.251	23.277.181	52.672.432	27.798.633	30.927.804	58.726.437
3.1.1 Transactions for fair value hedge		668.301	1.990.110	2.658.411	671.683	940.678	1.612.361
3.1.2 Transactions for cash flow hedge		28.726.950	21.287.071	50.014.021	27.126.950	29.987.126	57.114.076
3.1.3 Transactions for foreign net investment hedge		-	-	-	-	-	-
3.2 Trading transactions		57.205.023	148.274.302	205.479.325	52.228.431	114.001.808	166.230.239
3.2.1 Forward foreign currency buy/sell transactions		5.832.158	9.341.391	15.273.549	3.521.186	6.155.716	9.676.902
3.2.1.1 Forward foreign currency transactions-buy		2.094.166	5.487.983	7.582.149	1.061.769	3.704.251	4.766.020
3.2.1.2 Forward foreign currency transactions-sell		3.837.992	3.853.408	7.691.400	2.459.417	2.451.465	4.910.882
3.2.2 Swap transactions related to foreign currency and interest rates		39.336.351	112.739.983	152.076.334	37.584.382	88.517.703	126.102.085
3.2.2.1 Foreign currency swap-buy		14.973.712	37.775.189	52.748.901	9.161.210	36.482.766	45.643.976
3.2.2.2 Foreign currency swap-sell		20.422.639	31.924.736	52.347.375	28.423.172	17.784.757	46.207.929
3.2.2.3 Interest rate swap-buy		2.270.000	21.520.029	23.790.029	-	17.125.090	17.125.090
3.2.2.4 Interest rate swap-sell		2.270.000	21.520.029	23.790.029	-	17.125.090	17.125.090
3.2.3 Foreign currency, interest rate and securities options		6.062.482	13.199.550	19.262.032	6.717.760	8.590.741	15.308.501
3.2.3.1 Foreign currency options-buy		2.134.509	6.547.706	8.682.215	1.991.034	4.697.239	6.688.273
3.2.3.2 Foreign currency options-sell		3.427.973	5.479.950	8.907.923	3.226.726	3.515.834	6.742.560
3.2.3.3 Interest rate options-buy		250.000	585.947	835.947	750.000	188.834	938.834
3.2.3.4 Interest rate options-sell		250.000	585.947	835.947	750.000	188.834	938.834
3.2.3.5 Securities options-buy		-	-	-	-	-	-
3.2.3.6 Securities options-sell		-	-	-	-	-	-
3.2.4 Foreign currency futures		-	-	-	-	-	-
3.2.4.1 Foreign currency futures-buy		-	-	-	-	-	-
3.2.4.2 Foreign currency futures-sell		-	-	-	-	-	-
3.2.5 Interest rate futures		-	-	-	-	-	-
3.2.5.1 Interest rate futures-buy		-	-	-	-	-	-
3.2.5.2 Interest rate futures-sell		-	-	-	-	-	-
3.2.6 Other		5.274.032	12.993.378	18.267.410	4.405.103	10.737.648	15.142.751
B. Custody and pledges received (IV+V+VI)		515.979.417	262.734.842	778.714.259	248.463.871	68.289.180	316.753.051
IV. Items held in custody		271.381.629	182.248.974	453.630.603	82.066.158	8.101.914	90.168.072
4.1 Customer fund and portfolio balances		-	-	-	-	-	-
4.2 Investment securities held in custody		250.948.565	181.437.884	432.386.449	62.659.805	7.113.567	69.773.372
4.3 Checks received for collection		15.840.681	148.728	15.989.409	15.587.969	150.107	15.738.076
4.4 Commercial notes received for collection		4.547.836	615.063	5.162.899	3.776.609	798.048	4,574.657
4.5 Other assets received for collection		-	40.085	40.085	-	34.137	34.137
4.6 Assets received for public offering		-	-	-	-	-	-
4.7 Other items under custody		44.547	7.214	51.761	41.775	6.055	47.830
4.8 Custodians		-	-	-	-	-	-
V. Pledges received		240.607.924	78.233.779	318.841.703	162.367.478	57.987.609	220.355.087
5.1 Marketable securities		179.680	390	180.070	185.826	322	186.148
5.2 Guarantee notes		1.000.765	285.982	1,286.747	1,063.319	300.003	1,363.322
5.3 Commodity		25.813	56.719	82.532	21.095	12.078	33.173
5.4 Warrants		-	-	-	-	-	-
5.5 Properties		104,128.522	67,662.780	171,791.302	88,195.061	45,988.762	134,183.823
5.6 Other pledged items		135,273.144	10,221.643	145,494.787	72,902.177	11,681.250	84,583.427
5.7 Pledged items-depository		-	6.265	6.265	-	5.194	5.194
VI. Accepted independent guarantees and warranties		3.989.864	2.252.089	6.241.953	4.030.235	2.199.657	6.229.892
Total off-balance sheet commitments (A+B)		677.376.188	506.868.569	1.184.244.757	406.841.206	279.212.276	686.053.482

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

Yapı ve Kredi Bankası A.Ş.

Consolidated financial statements as of December 31, 2016 and 2015

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

III. Consolidated income statement

Income and expense items		Note (Section Five)	Current Period 01/01- (31/12/2016)	Restated Prior Period 01/01- (31/12/2015)
I.	Interest income	IV-a	19.109.871	16.300.345
1.1	Interest on loans	IV-a-1	15.684.097	13.132.800
1.2	Interest received from reserve deposits		118.632	43.309
1.3	Interest received from banks	IV-a-2	174.287	84.579
1.4	Interest received from money market transactions		21.539	37.877
1.5	Interest received from marketable securities portfolio	IV-a-3	2.400.058	2.392.122
1.5.1	Trading financial assets		5.302	11.284
1.5.2	Financial assets at fair value through profit or (loss)		-	-
1.5.3	Available-for-sale financial assets		1.671.117	1.947.172
1.5.4	Held to maturity investments		723.639	433.666
1.6	Financial lease income		517.228	438.643
1.7	Other interest income		194.030	171.015
II.	Interest expense	IV-b	(10.889.187)	(9.122.142)
2.1	Interest on deposits	IV-b-4	(7.867.050)	(6.335.649)
2.2	Interest on funds borrowed	IV-b-1	(1.066.754)	(999.913)
2.3	Interest expense on money market transactions		(956.350)	(946.451)
2.4	Interest on securities issued	IV-b-3	(968.296)	(825.583)
2.5	Other interest expenses		(30.737)	(14.546)
III.	Net interest income (I + II)		8.220.684	7.178.203
IV.	Net fees and commissions income		2.972.884	2.840.960
4.1	Fees and commissions received		3.732.653	3.546.591
4.1.1	Non-cash loans		476.738	409.874
4.1.2	Other	IV-j	3.255.915	3.136.717
4.2	Fees and commissions paid		(759.769)	(705.631)
4.2.1	Non-cash loans		(11.597)	(8.707)
4.2.2	Other		(748.172)	(696.924)
V.	Dividend income	IV-c	6.173	5.908
VI.	Trading gain/(loss) (net)	IV-ç	187.323	(439.135)
6.1	Trading gains/(losses) on securities		17.548	264.590
6.2	Derivative financial transactions gains/(losses)	IV-d	(55.683)	816.658
6.3	Foreign exchange gains/(losses)		225.458	(1.520.383)
VII.	Other operating income	IV-e	550.841	626.730
VIII.	Total operating income / loss (III+IV+V+VI+VII)		11.937.905	10.212.666
IX.	Provision for impairment of loans and other receivables (-)	IV-f	(2.955.042)	(2.649.238)
X.	Other operating expenses (-)	IV-g	(5.315.318)	(5.077.318)
XI.	Net operating income/(loss) (VIII-IX-X)		3.667.545	2.486.110
XII.	Excess amount recorded as income after merger		-	-
XIII.	Income/(loss) from investments accounted based on equity method		85.361	50.806
XIV.	Income/(loss) on net monetary position		-	-
XV.	Profit/(loss) before taxes from continuing operations (XI+XII+XIII+XIV)	IV-ğ	3.752.906	2.536.916
XVI.	Tax provision for continuing operations (±)	IV-h	(820.046)	(628.188)
16.1	Current tax provision		(658.037)	(413.941)
16.2	Deferred tax provision		(162.009)	(214.247)
XVII.	Net profit/loss from continuing operations (XV±XVI)		2.932.860	1.908.728
XVIII.	Income from discontinued operations		-	-
18.1	Income from non-current assets held for resale		-	-
18.2	Profit from sales of associates, subsidiaries and joint ventures		-	-
18.3	Other income from discontinued operations		-	-
XIX.	Expenses from discontinued operations (-)		-	-
19.1	Expenses for non-current assets held for resale		-	-
19.2	Loss from sales of associates, subsidiaries and joint ventures		-	-
19.3	Other expenses from discontinued operations		-	-
XX.	Profit /losses before taxes from discontinued operations (XVIII-XIX)	IV-ğ	-	-
XXI.	Tax provision for discontinued operations (±)	IV-h	-	-
21.1	Current tax provision		-	-
21.2	Deferred tax provision		-	-
XXII.	Net profit/loss from discontinued operations (XX±XXI)		-	-
XXIII.	Net profit/loss (XVII+XXII)	IV-ı	2.932.860	1.908.728
23.1	Group's profit/loss		2.932.795	1.908.683
23.2	Minority interest profit/losses (-)	IV-ı	65	45
Earnings/(loss) per share (in TL full)			0,0067	0,0044

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

Yapı ve Kredi Bankası A.Ş.

Consolidated financial statements as of December 31, 2016 and 2015

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

IV. Consolidated statement of income and expense items accounted under shareholders' equity

Income and expense items accounted under shareholders' equity		Current Period (31/12/2016)	Prior Period (31/12/2015)
I.	Transfers to marketable securities valuation differences from financial assets available for sale	(247.255)	(930.590)
II.	Property and equipment revaluation differences	-	1.525.692
III.	Intangible assets revaluation differences	-	-
IV.	Currency translation differences for foreign currency transactions	373.826	122.784
V.	Profit/loss on cash flow hedges (effective part of the fair value changes)	147.084	744.688
VI.	Profit/loss on foreign net investment hedges(effective part of the fair value changes)	(201.497)	(120.327)
VII.	Effects of changes in accounting policy and adjustment of errors	-	-
VIII.	Other income and expense items accounted under shareholders' equity according to TAS	2.257	20.459
IX.	Deferred tax on valuation differences	27.513	1.304
X.	Net profit or loss accounted directly under shareholders' equity (I+II+...+IX)	101.928	1.364.010
XI.	Current year profit/loss	2.932.860	1.908.728
11.1	Net change in fair value of marketable securities (recycled to profit-loss)	236.391	260.308
11.2	Part of cash flow hedge derivative financial instruments reclassified and presented on the income statement	(44.407)	(89.216)
11.3	Part of foreign net investment hedges reclassified and presented on the income statement	-	-
11.4	Other	2.740.876	1.737.636
XII.	Total income/loss accounted for the period (X+XI)	3.034.788	3.272.738

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

Yapı ve Kredi Bankası A.Ş.

Consolidated statement of changes in shareholders' equity as of December 31, 2015

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

V. Consolidated statement of changes in shareholders' equity

Prior Period		Note (Section Five)	Paid-in capital	Adjustment to share capital	Share premium	Share cancellation profits	Legal reserves ⁽¹⁾	Status reserves	Extraordinary reserves ⁽¹⁾	Other reserves	Current period net income/ (loss)	Prior period net income/ (loss) ⁽¹⁾	Marketable securities valuation difference	Property and equipment and intangible assets revaluation fund	Bonus shares from investments	Hedging funds	Asset held for resale/ discontinued operations revaluation fund	Total equity except minority interest	Minority Interest	Total shareholders' equity
December 31, 2015																				
I.	Period opening balance		4.347.051	-	543.881	-	641.000	-	9.815.284	1.524.256	2.056.015	1.383.961	391.468	18.485	4.503	(512.661)	-	20.213.243	462	20.213.705
II.	Changes in accounting policies according to TAS 8		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1	Effects of errors		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2	Effects of the changes in accounting policies		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III.	New balance (I+II)		4.347.051	-	543.881	-	641.000	-	9.815.284	1.524.256	2.056.015	1.383.961	391.468	18.485	4.503	(512.661)	-	20.213.243	462	20.213.705
	Changes in the period		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IV.	Increase/decrease due to the merger		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V.	Marketable securities valuation differences		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(720.756)	-	(720.756)
VI.	Hedging transactions funds (effective portion)		-	-	-	-	-	-	-	-	-	-	-	-	-	499.490	-	499.490	-	499.490
6.1	Cash flow hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	595.752	-	595.752	-	595.752
6.2	Foreign net investment hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	(96.262)	-	(96.262)	-	(96.262)
VII.	Property and equipment revaluation differences		-	-	-	-	-	-	-	-	-	-	-	1.449.243	-	-	-	1.449.243	8	1.449.251
VIII.	Intangible assets revaluation differences		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX.	Bonus shares from investments in associates, subsidiaries and joint ventures		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X.	Foreign exchange differences		-	-	-	-	-	-	-	105.786	-	-	-	44.376	-	(30.778)	-	119.384	-	119.384
XI.	Changes due to the disposal of assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII.	Changes due to the reclassification of assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII.	Effect of the changes in equity of investment in associates		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV.	Capital increase		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.1	Cash increase		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.2	Internal resources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV.	Share premium		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI.	Share cancellation profits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVII.	Paid in-capital inflation adjustment difference		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVIII.	Other		-	-	-	-	-	-	-	16.641	-	-	-	-	-	-	-	16.641	-	16.641
XIX.	Current year income or loss		-	-	-	-	-	-	-	-	1.908.683	-	-	-	-	-	-	1.908.683	45	1.908.728
XX.	Profit distribution		-	-	-	-	110.512	-	1.332.967	1.487	(2.056.015)	211.049	-	-	-	-	-	(400.000)	(41)	(400.041)
20.1	Dividend paid		-	-	-	-	-	-	-	-	-	(400.000)	-	-	-	-	-	(400.000)	(41)	(400.041)
20.2	Transfers to reserves		-	-	-	-	110.512	-	1.332.967	1.487	(2.056.015)	611.049	-	-	-	-	-	-	-	-
20.3	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XXI.	Transactions with minority		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Period end balance (III+IV+V+.....+VIII+XIX+XX+ XXI)			4.347.051	-	543.881	-	751.512	-	11.148.251	1.648.170	1.908.683	1.595.010	(284.912)	1.467.728	4.503	(43.949)	-	23.085.928	474	23.086.402

(1) Total legal reserves and extraordinary reserves of the consolidated entities except Parent Bank's legal reserves and extraordinary reserves have been presented under prior period net income/ (loss).

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

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

Yapı ve Kredi Bankası A.Ş.

Consolidated statement of changes in shareholders' equity as of December 31, 2016

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

V. Consolidated statement of changes in shareholders' equity

Current Period		Note (Section Five)	Paid-in capital	Adjustment to share capital	Share premium	Share cancellation profits	Legal reserves ⁽¹⁾	Status reserves	Extraordinary reserves ⁽¹⁾	Other reserves	Current period net income/ (loss)	Prior period net income/ (loss) ⁽¹⁾	Marketable securities valuation difference	Property and equipment and intangible assets revaluation fund	Bonus shares from investments	Hedging funds	Asset held for resale/ discontinued operations revaluation fund	Total equity except minority interest	Minority Interest	Total shareholders' equity
December 31, 2016																				
I.	Prior period-end balance		4.347.051	-	543.881	-	751.512	-	11.148.251	1.648.170	1.908.683	1.595.010	(284.912)	1.467.728	4.503	(43.949)	-	23.085.928	474	23.086.402
	Changes in the period		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
II.	Increase/decrease due to the merger		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III.	Marketable securities valuation differences		-	-	-	-	-	-	-	-	-	-	(220.989)	-	-	-	-	(220.989)	-	(220.989)
IV.	Hedging transactions funds (effective portion)		-	-	-	-	-	-	-	-	-	-	-	-	-	(43.531)	-	(43.531)	-	(43.531)
4.1	Cash flow hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	117.667	-	117.667	-	117.667
4.2	Foreign net investment hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	(161.198)	-	(161.198)	-	(161.198)
V.	Property and equipment revaluation differences		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VI.	Intangible assets revaluation differences		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII.	Bonus shares from investments in associates, subsidiaries and joint ventures		-	-	-	-	-	-	-	-	-	-	-	-	58	-	-	58	-	58
VIII.	Foreign exchange differences		-	-	-	-	-	-	-	326.932	-	-	42.147	1.969	-	(6.482)	-	364.566	-	364.566
IX.	Changes due to the disposal of assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X.	Changes due to the reclassification of assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI.	Effect of the changes in equity of investment in associates		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII.	Capital increase		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.1	Cash increase		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.2	Internal resources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII.	Share premium		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV.	Share cancellation profits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV.	Paid in-capital inflation adjustment difference		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI.	Other		-	-	-	-	-	-	-	5.018	-	(3.194)	-	-	-	-	-	1.824	-	1.824
XVII.	Current year income or loss		-	-	-	-	-	-	-	-	2.932.795	-	-	-	-	-	-	2.932.795	65	2.932.860
XVIII.	Profit distribution		-	-	-	-	93.027	-	1.764.898	2.620	(1.908.683)	48.138	-	-	-	-	-	-	(37)	(37)
18.1	Dividend paid		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18.2	Transfers to reserves		-	-	-	-	93.027	-	1.764.898	2.620	(1.908.683)	48.138	-	-	-	-	-	-	(37)	(37)
18.3	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIX.	Transactions with minority		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Period end balance ((I+II+III+.....+XVII+XVIII+XIX))			4.347.051	-	543.881	-	844.539	-	12.913.149	1.982.740	2.932.795	1.639.954	(463.754)	1.469.697	4.561	(93.962)	-	26.120.651	502	26.121.153

(1) Total legal reserves and extraordinary reserves of the consolidated entities except Parent Bank's legal reserves and extraordinary reserves have been presented under prior period net income/ (loss).

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

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

Yapı ve Kredi Bankası A.Ş.

Profit appropriation statements as of December 31, 2016 and 2015

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

VI. Consolidated statement of cash flows

	Note (Section Five)	Current Period (31/12/2016)	Prior Period (31/12/2015)
A. Cash flows from banking operations			
1.1 Operating profit before changes in operating assets and liabilities		1.221.892	3.385.641
1.1.1 Interest received		17.727.998	16.158.858
1.1.2 Interest paid		(10.633.451)	(9.100.081)
1.1.3 Dividend received		6.173	5.908
1.1.4 Fees and commissions received		3.732.653	3.546.591
1.1.5 Other income		(444.011)	1.711.994
1.1.6 Collections from previously written-off loans and other receivables		1.061.802	1.265.370
1.1.7 Payments to personnel and service suppliers		(4.386.305)	(4.672.655)
1.1.8 Taxes paid		(1.017.605)	(601.092)
1.1.9 Other	VI-c	(4.825.362)	(4.929.252)
1.2 Changes in operating assets and liabilities		(600.134)	189.588
1.2.1 Net (increase)/decrease in trading securities		30.515	24.884
1.2.2 Net (increase)/decrease in fair value through profit/loss financial assets		-	-
1.2.3 Net (increase)/decrease in banks		130.418	(3.055.324)
1.2.4 Net (increase)/decrease in loans		(28.715.594)	(30.809.612)
1.2.5 Net (increase)/decrease in other assets		(1.713.355)	(957.333)
1.2.6 Net increase /(decrease) in bank deposits		3.051.996	2.568.253
1.2.7 Net increase /(decrease) in other deposits		23.801.981	19.768.912
1.2.8 Net increase /(decrease) in funds borrowed		(2.804)	11.660.949
1.2.9 Net increase /(decrease) in payables		-	-
1.2.10 Net increase /(decrease) in other liabilities	VI-c	2.816.709	988.859
I. Net cash flows from banking operations		621.758	3.575.229
B. Cash flows from investing activities			
II. Net cash flows from investing activities		2.444.468	(6.459.411)
2.1 Cash paid for acquisition of investments in associates subsidiaries and joint ventures		-	(5.000)
2.2 Cash obtained from disposal of investments in associates subsidiaries and joint ventures		-	-
2.3 Purchases of property and equipment		(395.261)	(499.805)
2.4 Disposals of property and equipment		94.580	80.733
2.5 Purchase of investments available-for-sale		(14.336.340)	(21.010.767)
2.6 Sale of investments available-for-sale		18.501.225	15.667.773
2.7 Purchase of investment securities		(1.703.125)	(913.249)
2.8 Sale of investment securities		283.389	220.904
2.9 Other		-	-
C. Cash flows from financing activities			
III. Net cash flows from financing activities		1.453.047	723.981
3.1 Cash obtained from funds borrowed and securities issued		10.594.690	8.972.835
3.2 Cash used for repayment of funds borrowed and securities issued		(9.141.606)	(7.848.813)
3.3 Issued capital instruments		-	-
3.4 Dividends paid		(37)	(400.041)
3.5 Payments for finance leases		-	-
3.6 Other		-	-
IV. Effect of change in foreign exchange rates on cash and cash equivalents	VI-c	1.357.079	1.216.165
V. Net increase / (decrease) in cash and cash equivalents (I+II+III+IV)		5.876.352	(944.036)
VI. Cash and cash equivalents at beginning of the period	VI-a	10.082.660	11.026.696
VII. Cash and cash equivalents at end of the period	VI-a	15.959.012	10.082.660

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

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

VII. Profit appropriation statement ^{(1),(2)}

	Current Period (31/12/2016)	Prior Period (31/12/2015)
I. Distribution of current year income		
1.1 Current year income	3.644.685	2.389.488
1.2 Taxes and duties payable (-)	(711.890)	(528.943)
1.2.1 Corporate tax (income tax)	(540.460)	(328.064)
1.2.2 Income withholding tax	-	-
1.2.3 Other taxes and duties	(171.430)	(200.879)
	-	-
A. Net income for the year (1.1-1.2)	2.932.795	1.860.545
1.3 Prior year losses (-)	-	-
1.4 First legal reserves (-)	-	93.027
1.5 Other statutory reserves (-)	-	-
B. Net income available for distribution [(A)+(1.3+1.4+1.5)]	2.932.795	1.767.518
1.6 First dividend to shareholders (-)	-	-
1.6.1 To owners of ordinary shares	-	-
1.6.2 To owners of privileged shares	-	-
1.6.3 To owners of preferred shares	-	-
1.6.4 To profit sharing bonds	-	-
1.6.5 To holders of profit and loss sharing certificates	-	-
1.7 Dividends to personnel (-)	-	-
1.8 Dividends to board of directors (-)	-	-
1.9 Second dividend to shareholders (-)	-	-
1.9.1 To owners of ordinary shares	-	-
1.9.2 To owners of privileged shares	-	-
1.9.3 To owners of preferred shares	-	-
1.9.4 To profit sharing bonds	-	-
1.9.5 To holders of profit and loss sharing certificates	-	-
1.10 Second legal reserves (-)	-	-
1.11 Statutory reserves (-)	-	-
1.12 Extraordinary reserves	-	1.764.898
1.13 Other reserves	-	-
1.14 Special funds	-	2.620
II. Distribution of reserves	-	-
2.1 Appropriated reserves	-	-
2.2 Second legal reserves (-)	-	-
2.3 Dividends to shareholders (-)	-	-
2.3.1 To owners of ordinary shares	-	-
2.3.2 To owners of privileged shares	-	-
2.3.3 To owners of preferred shares	-	-
2.3.4 To profit sharing bonds	-	-
2.3.5 To holders of profit and loss sharing certificates	-	-
2.4 Dividends to personnel (-)	-	-
2.5 Dividends to board of directors (-)	-	-
III. Earnings per share		
3.1 To owners of ordinary shares	0,0067	0,0043
3.2 To owners of ordinary shares (%)	-	-
3.3 To owners of privileged shares	-	-
3.4 To owners of privileged shares (%)	-	-
IV. Dividend per share		
4.1 To owners of ordinary shares	-	-
4.2 To owners of ordinary shares (%)	-	-
4.3 To owners of privileged shares	-	-
4.4 To owners of privileged shares (%)	-	-

(1) Profit Appropriation Statement has been prepared according to unconsolidated financial statements of the Parent Bank.

(2) Authorized body for profit appropriation of the current period is General Assembly. As of the preparation date of these financial statements, yearly ordinary meeting of the General Assembly has not been held yet. Since the profit appropriation proposal for the year 2016 has not been prepared by the Board of Directors, only net profit related to the year 2015, which is base for the profit appropriation calculation, has been disclosed. The aforementioned amount also includes 75% of gains on sales of property and equipment, and share certificates amounting to TL 146.050 which are not going to be distributed and are going to be held in reserves according to the article 5/1-e of Corporate Tax Law No. 5520.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Section Three

Accounting policies

I. Explanations on basis of presentation:

The Parent Bank maintains its books of accounts in Turkish Lira in accordance with the Banking Act No. 5411 ("Banking Act"), which is effective from November 1, 2005, the Turkish Commercial Code ("TCC") and Turkish Tax Legislation.

The consolidated financial statements are prepared in accordance with the "Regulation on the Principles and Procedures Regarding Banks' Accounting Applications and Safeguarding of Documents" published in the Official Gazette No. 26333 dated November 1, 2006 by the Banking Regulation and Supervision Agency ("BRSA") which refers to "Turkish Accounting Standards" ("TAS") and "Turkish Financial Reporting Standards" ("TFRS") issued by the Public Oversight Accounting and Auditing Standards Authority ("POA") and other decrees, notes and explanations related to the accounting and financial reporting principles (all "Turkish Accounting Standards" or "TAS") published by the BRSA. The format and the details of the publicly announced financial statements and related disclosures to these statements have been prepared in accordance with the "Communiqué Related to Publicly Announced Financial Statements of Banks and Explanations and Notes Related to these Financial Statements" and changes and notes to this communiqué published in the Official Gazette No. 28337 dated June 28, 2012.

The financial statements of subsidiaries operating abroad have been prepared in accordance with legislations and regulations of the country in which they are operating, however in order to provide fair presentation according to TAS, necessary adjustments and reclassifications are reflected to those financial statements.

The accompanying consolidated financial statements are prepared in accordance with the historical cost basis (restated for the changes in the general purchasing power of TL until December 31, 2004), except for financial assets and liabilities at fair value through profit or loss, financial assets available for sale, trading derivative financial liabilities, hedging derivative financial assets/liabilities, art objects, paintings and buildings in tangible assets. Besides, the carrying values of assets carried at amortised cost but subject to fair value hedge are adjusted to reflect the fair value changes related to the hedged risks.

The preparation of consolidated financial statements in conformity with TAS requires the use of certain accounting estimates by the Group management to exercise its judgment on the assets and liabilities on the balance sheet and contingent assets and liabilities as of the balance sheet date. These estimates are being reviewed regularly and, when necessary, suitable corrections are made and the effects of these corrections are explained in the related notes and reflected to the income statement.

The accounting policies and valuation principles applied in the preparation of financial statements are defined and applied in accordance with TAS and are consistent with the accounting policies applied for the year ended December 31, 2015, except for changes on accounting policies from historical cost basis to revaluation basis for buildings in tangible assets.

The preparation and fair presentation of the financial statement and used principles of valuation in accordance with "Accounting and Reporting Legislation" published in the regulation, communiqué, interpretations and circular published by BRSA and If any specific regulation has been made by BRSA, it has been determined and applied according to the principles of TAS.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Accounting policies (continued)

The effects of TFRS 9, "Financial Instruments" (2011 version, classification and measurement) which has not been implemented yet, are under evaluation by the Group. The standard which the Group did not early adopt will primarily have an effect on the classification and measurement of the Group's financial assets. The Group is currently assessing the impact of adopting TFRS 9. However, as the impact of adoption depends on the assets held by the Group at the date of adoption itself, it is not practical or possible to quantify the effect at this stage. As of the date of these financial statements, the other TAS/TFRS standards announced but not yet effective are not expected to have significant impact on the Group's accounting policies, financial position and performance.

Additional paragraph for convenience translation into English:

The differences between accounting principles, as described in the preceding paragraphs and accounting principles generally accepted in countries in which the accompanying consolidated financial statements are to be distributed and International Financial Reporting Standards ("IFRS") have not been quantified in the accompanying consolidated financial statements. Accordingly, the accompanying consolidated financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

II. Explanations on strategy of using financial instruments and foreign currency transactions:

The general strategy of the Group in using financial instruments is to sustain an optimal balance between the yield of the instruments and their risks. The most important funding source of the Group is deposits. The Group can also sustain a lengthened liability structure by using long-term foreign currency borrowings from foreign financial institutions. Funds obtained from deposits and other sources are invested in quality financial assets in order to keep currency, interest rate and liquidity risks within the limits determined by the asset-liability strategy. The currency, interest and liquidity risks of on-balance sheet and off-balance sheet assets and liabilities are managed accordingly within the risk limits accepted by the Group and the related legal limits. Derivative instruments are mainly utilised for liquidity needs and for mitigating currency and interest rate risks. The position of the Group as a result of foreign currency activities is being held at minimum levels and the currency risk exposure is followed within the determined levels by the Board of Directors by considering the limits specified by the Banking Act.

Foreign currency denominated monetary assets and liabilities are translated with the Parent Bank exchange rates prevailing at the balance sheet date gains and losses arising from such valuations are recognised in the income statement under the account of "Foreign exchange gains or losses", except for valuation differences arising from foreign currency participations, subsidiaries and foreign currency non-performing loans. Foreign currency non-performing loans are translated with the exchange rates at the date of transfer to non-performing loans accounts.

The Group hedges part of the currency translation risk of net investments in foreign operations through currency borrowings. The effective portion of the foreign exchange difference of these financial liabilities is recognised in "Hedging funds" in equity.

The Group, classifies its financial liabilities as the financial liabilities classified at fair value through profit/loss in order to eliminate the accounting mismatch at the initial recognition.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Accounting policies (continued)

III. Information on consolidation principles:

a. Consolidation principles applied:

The consolidated financial statements have been prepared in accordance with the procedures listed in the "Communiqué related to the Regulation on the Preparation of the Consolidated Financial Statements of Banks" published in the Official Gazette No. 26340 dated November 8, 2006 and the "Turkish Accounting Standard for Consolidated Financial Statements" ("TFRS 10").

1. Consolidation principles of subsidiaries:

Subsidiaries are the entities controlled directly or indirectly by the Parent Bank.

Control is defined as the power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the Parent Bank's returns.

Subsidiaries are consolidated with full consolidation method by considering the results of their activities and the size of their assets and shareholders' equity. Financial statements of the related subsidiaries are included in the consolidated financial statements from the date control is transferred to the Group and they are taken out of consolidation scope when control no longer exists. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In accordance with the full consolidation method, balance sheet, income statement and off balance sheet items of the subsidiaries have been consolidated line by line with the balance sheet, income statement and off balance sheet of the Parent Bank. The book value of the investments of the Group in each subsidiary has been netted off with the portion of each subsidiary's capital that belongs to the Group. Unrealized gains and losses and balances resulting from the transactions among the entities included in consolidation have been eliminated. In the consolidated balance sheet and income statement, minority interest has been presented separately from the shares of the Group shareholders.

The subsidiaries included in consolidation, their title, their place of incorporation, their main activities and their effective shareholding rates are as follows:

Title	Incorporation (City/ Country)	Main activities	Effective	Direct and
			rates (%) December 31, 2016	indirect rates (%) December 31, 2016
Yapı Kredi Leasing	Istanbul/Turkey	Leasing	99,99	99,99
Yapı Kredi Faktoring	Istanbul/Turkey	Factoring	99,96	99,96
Yapı Kredi Menkul	Istanbul/Turkey	Investment Management	99,98	99,98
Yapı Kredi Portföy	Istanbul/Turkey	Portfolio Management	99,95	99,97
Yapı Kredi Holding B.V.	Amsterdam/Netherlands	Financial Holding	100,00	100,00
Yapı Kredi Bank N.V.	Amsterdam/Netherlands	Banking	100,00	100,00
Yapı Kredi Bank Moscow	Moscow/Russia	Banking	100,00	100,00
Yapı Kredi Azerbaijan	Baku /Azerbaijan	Banking	100,00	100,00
Stichting Custody Services YKB	Amsterdam/Netherlands	Custody services	100,00	100,00
Yapı Kredi Invest LLC	Baku/Azerbaijan	Portfolio Management	100,00	100,00
Yapı Kredi Malta	St.Julian/Malta	Banking	100,00	100,00
Yapı Kredi Diversified Payment Rights Finance Company ⁽¹⁾	George Town/ Cayman Islands	Special Purpose Company	-	-

(1) It is a special purpose entity established for securitization transactions and is included in the consolidation although it is not a subsidiary of the Parent Bank.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Accounting policies (continued)

2. Consolidation principles of associates:

The associates are entities in which the Parent Bank participates in their capital and has significant influence on them, although the Parent Bank has no capital or management control, is established in domestic and abroad. The related associates are consolidated with equity method.

Significant influence refers to the participation power on the constitution of the financial and management policies of the participated associate.

Equity method is an accounting method which foresees the increase or decrease of the book value of capital share in an associate from the changes in the participated associate's shareholders' equity during the period attributable to the portion of the investor and the deduction of the dividend received from the associate from the revised value of the associate amount.

The associates included in consolidation, their title, their place of incorporation, their main activities and their effective shareholding rates are as follows:

Title	(City/ Country)	Main activities	Effective rates % December 31, 2016	Direct and indirect rates % December 31, 2016
Banque de Commerce et de Placements S.A.	Geneva/Switzerland	Banking	30,67	30,67
Allianz Yaşam ve Emeklilik A.Ş.	Istanbul/Turkey	Insurance	20,00	20,00

3. Consolidation principles of joint ventures:

The joint venture is an entity in which the Parent Bank participates in its capital and has joint control and whose main operation is real estate investment trust ("REIT") and operates according to special legislation with permission and license and is established in Turkey. The related joint venture is consolidated with equity method in accordance with materiality principle.

Equity method is an accounting method which foresees the increase or decrease of the book value of capital share in a joint venture from the changes in the participated joint venture's shareholders' equity during the period attributable to the portion of the investor and the deduction of the dividend received from the associate from the revised value of the associate amount.

The joint venture included in consolidation, its title, its place of incorporation, main activities and effective shareholding rates are as follows:

Title	(City/ Country)	Main activities	Effective rates % December 31, 2016	Direct and indirect rates % December 31, 2016
Yapı Kredi Koray Gayrimenkul Yatırım Ortaklığı A.Ş.	Istanbul/Turkey	REIT	30,45	30,45

4. Transactions with minority shareholders:

The Group applies a policy of treating transactions with minority interests as transactions within the Group. The difference between the acquisition cost and net asset acquired is recognised under equity. Disposals from minority interests are also considered as equity transactions and result in changes in the equity of the Group.

Accounting policies (continued)

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

b. Presentation of unconsolidated subsidiaries, associates and joint ventures in consolidated financial statements:

Turkish Lira denominated investments in unconsolidated associates, subsidiaries and joint ventures are accounted at cost value, less any impairment, in accordance with "Turkish Accounting Standards for Individual Financial Statements" ("TAS 27") in the consolidated financial statements.

Foreign currency denominated investments in unconsolidated associates, subsidiaries and joint ventures are accounted at their original foreign currency costs translated into Turkish Lira using the exchange rates prevailing at the transaction date less impairment, if any.

When the cost of associates, subsidiaries and joint ventures is higher than the net realizable value, the carrying amount is reduced to the net realizable or fair value considering whether the value decrease is temporary or permanent and the ratio of the value decrease.

IV. Explanations on forward and options contracts and derivative instruments:

The Group's derivative transactions mostly include foreign currency money and interest rate swaps, forward foreign exchange purchase and sale transactions and options.

Derivative instruments are measured at fair value on initial recognition and subsequently re-measured at their fair values. As a result, the fair value of derivatives is reflected as net liability or net asset on a contract by contract basis. The accounting method of the income or loss arising from derivative instruments depends on whether the derivative is being used for hedging purposes or not and depends on the type of item being hedged.

At the transaction date, the Group documents the relationship between hedging instruments and hedged items, together with the risk management policies and the strategies on hedging transactions. Besides, the Group regularly documents the effectiveness of the hedging instruments in offsetting the changes in the fair value of the hedged items.

Changes in the fair value of derivative instruments subject to fair value hedges are recognized under profit or loss accounts together with the variation in the fair value of hedged items. The changes of fair value of derivative transactions for fair value hedge are classified in "Derivative Financial Transactions Gains/Losses" account. In the balance sheet, changes in the fair value of hedged assets and liabilities, during the period in which the hedge is effective, are shown with the related assets and liabilities. The ineffective portion of the mentioned hedging transactions is reflected to the income statement. If the underlying hedge does not conform to the hedge accounting requirements, according to the adjustments made to the carrying value (amortised cost) of the hedged item, for which the risk is hedged by a portfolio hedge, are amortized with the straight line method within the time to maturity and recognized under the profit and loss accounts. Fair value adjustments are recognized directly in the income statement in an event of repayment and/or unwinding and/or the recognition of the hedged item.

The Parent Bank hedges its cash flow risk arising from foreign currency and Turkish Lira floating interest rate liabilities by using interest rate swaps. The effective portion of the fair value changes of the hedging instruments are recorded in "Hedging funds" under shareholders' equity. These funds are transferred to profit or loss from equity when the cash flows of the hedged items (interest expense) impact the income statement.

In case the cash flow hedge accounting is discontinued due to the expiry, realization for sale of the hedging instrument, or due to the results of the effectiveness test the amounts accounted under shareholders' equity are transferred to the profit and loss accounts as these cash flows of the hedged item are realized (considering the original maturity of the hedging instrument).

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Accounting policies (continued)

Some of the trading purpose derivative transactions, even though they provide effective economic hedges under the Group's risk management policy, do not qualify for hedge accounting under the specific rules in "Turkish Accounting Standard for Financial Instruments: Recognition and Measurement" ("TAS 39") and are therefore treated as "financial instruments at fair value through profit or loss".

"Financial instruments at fair value through profit or loss" are measured at fair value. If the fair value of derivative financial instruments is positive, it is disclosed under the main account "financial assets at fair value through profit or loss" in "derivative financial assets held for trading" and if the fair value difference is negative, it is disclosed under "derivative financial liabilities held for trading". Fair value changes are recorded under "Derivative Financial Transactions Gains/ (Losses)" in the income statement.

The fair values of the derivative financial instruments are calculated using quoted market prices or by using discounted cash flow models.

Parameters used for the valuation of the option portfolio of the Parent Bank are determined by market risk management and the confirmation of the accuracy of fair value calculations are monitored periodically by market risk management.

Liabilities and receivables arising from the derivative instruments are followed in the off-balance sheet accounts as their contractual values. Embedded derivatives are separated from the host contract and accounted as derivative instruments according to TAS 39; in case, (i) the related embedded derivative's economic features and risks are not closely related to the host contract, (ii) another instrument that has the same contract conditions with the embedded derivative satisfies the definition of a derivative instrument and (iii) the hybrid instrument is not carried at fair value through profit or loss.

Credit derivatives are capital market tools designed to transfer credit risk from one party to another.

As of December 31, 2016, the Parent Bank's credit derivatives portfolio included in the off-balance sheet accounts is composed of credit linked notes (embedded derivatives are separated from host contract in line with TAS 39 and recorded as credit default swaps), total return swaps and credit default swaps.

Credit linked notes are bonds that have repayments depending on a credit event or the credit risk evaluation of a reference asset or asset pool. Depending on whether the reference assets are included in the balance sheet of the issuer or the owner of the assets, these transactions can be accounted by the party assuming the credit risk as insurance or as an embedded derivative. As per the Bank's management evaluation, the embedded derivatives included in the credit linked notes are separated from the host contracts in accordance with TAS 39 and recorded and evaluated as credit default swaps. The bond itself (host contract) is valued in accordance with the valuation principles of the category it is classified. Credit default swaps are contracts, in which the seller commits to pay the contract value to the buyer in case of certain credit risk events in return for the premium paid by the buyer for the contract.

Credit default swaps are contracts, in which the seller commits to pay the contract value to the buyer in case of certain credit risk events in return for the premium paid by the buyer for the contract. Credit default swaps are valued daily by the valuation model of the Parent Bank and then accounted over their fair values; while credit linked notes are valued and accounted monthly.

Total return swaps are contracts, in which the seller commits to pay the contract value for all cash flows of the reference assets of the seller and the changes of the market values of these reference assets to the buyer during the contract maturity and bear all the decreases in the market value of these reference assets. The Parent Bank uses the total return swaps to generate long term funding.

Market risks of these products are monitored using the Parent Bank's internal modeling system for the Value-at-Risk and basis points sensitivity analysis; the liquidity risks are monitored using the short term liquidity report on daily and the long term liquidity report on monthly basis.

According to the regulations of BRSA, those currency exchange transactions realized at value date in the initial phase of currency swaps are recorded and followed as irrevocable commitments in off-balance sheet accounts until the value date.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Accounting policies (continued)

A Credit Valuation Adjustment ("CVA") is applied to the Bank's over-the-counter derivative exposures to take into account the counterparty's risk of default when measuring the fair value of the derivative. CVA is the mark-to-market cost of protection required to hedge credit risk from counterparties in the Bank's over-the-counter derivatives portfolio. The Bank calculates CVA based on collective provisioning methodology calculated in accordance with international financial reporting standards, TAS 39, comprising the product of Exposure, Probability of Default (PD) and Loss Given Default (LGD). CVA is calculated based on the exposure of each counter party.

V. Explanations on interest income and expense:

Interest income and expenses are recognised in the income statement on an accrual basis by using the effective interest method periodically. The Group ceases accruing interest income on non-performing loans and, any interest income accruals from such receivables are reversed and no income is accounted until collection is made according to the related regulation.

VI. Explanations on fee and commission income and expenses:

Fees and commissions received as a result of the service agreements or arising from negotiating or participating in the negotiation of a transaction on behalf of a third party are recognized either in the period when the transaction is realized or deferred based on the type of the underlying transaction. Other commission income and fees from various banking services are recorded as income at the time of realization.

VII. Explanations on financial assets:

The Group classifies and accounts its financial assets as "Fair value through profit or loss", "Available-for-sale", "Loans and receivables" or "Held-to-maturity". The appropriate classification of financial assets of the Bank is determined at the time of purchase by the Group management, taking into consideration the purpose of holding the investment. Regular purchases and sales of financial assets are recorded based on settlement date. Settlement date of a financial asset is the date that the asset is received or delivered by the Group. Settlement date accounting requires; (a) accounting for the financial asset when the asset is received and (b) accounting of disposal of the financial asset and recording the related profit and loss when the asset is delivered. The fair value changes of an asset to be acquired between the trade date and settlement date is accounted in accordance with the basis of valuation of assets.

a. Financial assets at fair value through profit or loss:

Financial assets, which are classified as "Financial assets at fair value through profit or loss", are trading financial assets and are either acquired for generating profit from short-term fluctuations in the price or dealer's margin, or are the financial assets included in a portfolio in which a pattern of short-term profit making exists independent from the acquisition purpose.

Trading financial assets are initially recognized at fair value and are subsequently re-measured at their fair value. However, if fair values cannot be obtained from active market transactions, it is assumed that the fair value cannot be measured reliably and fair values are calculated by alternative models. All gains and losses arising from these valuations are recognized in the income statement. Interest earned while holding financial assets is reported as interest income and dividends received are included separately in dividend income.

Derivative financial instruments are treated as trading financial assets unless they are designated as hedge instruments. The principles regarding the accounting of derivative financial instruments are explained in detail in Note IV. of this section.

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Notes to consolidated financial statements December 31, 2016 (continued)

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Accounting policies (continued)

b. Held-to-maturity financial assets:

Held-to-maturity financial assets are non-derivative financial assets other than loans and receivables, with fixed maturities and fixed or determinable payments where management has the intent and ability to hold the financial assets to maturity and that are not initially classified as financial assets at fair value through profit/loss or available for sale. Held-to-maturity financial assets are initially recognized at total of acquisition and transaction cost. Held-to-maturity securities are carried at "Amortized cost" using the "Effective interest method" after their initial recognition. Interest income related with held-to-maturity securities is recorded in "Interest income" and impairment arising from a decrease in cost or revalued amounts is recorded in "Provision for impairment of loans and other receivables" accounts.

There are no financial assets that were previously classified as held-to-maturity but cannot be subject to this classification for two years due to breach of classification principles. In accordance with TAS 39, sales or reclassification to available for sale portfolio of insignificant amount of financial assets, sale or reclassification to available for sale portfolio of financial assets which are close to maturity less than three months, or sale or reclassification to available for sale portfolio of assets as a result of significant increase in the risk weights of held-to-maturity investments used for regulatory risk-based capital purposes will not result in tainting.

c. Loans and receivables:

Loans and receivables are financial assets raised through lending without having the intention to trade in the short term. Loans and receivables are non derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted on active market. Loans and receivables are recognized initially at cost including transaction costs (which reflect fair values) and subsequently carried at the amortized cost using the "effective interest method". The expenses incurred for the assets received as collateral are not considered as transaction costs and are recognized in the expense accounts.

Retail, commercial and corporate loans included in cash loans are accounted for with their original maturities in accounts which are mentioned in the Uniform Chart of Accounts ('UCA'). Foreign currency indexed loans are initially measured at local currency accounts with the foreign exchange rate prevailing at date of the initial recognition and re-valued with the relevant foreign currency rates prevailing at the date of the financial statements. Increase or decrease in the value of the principal amount of the loan due to changes in foreign exchange rates is accounted in the related income and expense accounts. Repayment amounts are translated with the foreign exchange rates prevailing at the repayment dates and the valuation differences is accounted for in foreign exchange gain/loss accounts.

The Parent Bank provides general and specific provisions based on the assessments and estimates of the management, by considering the "Communiqué Related to Principles and Procedures on Determining the Qualifications of Banks' Loans and Other Receivables and the Provision for These Loans and Other Receivables" ("Provisioning Regulation") published in the Official Gazette No. 26333 dated November 1, 2006. In this context, the management estimates are determined, on the basis of the prudence principle and the Parent Bank credit risk policies, considering the general structure of the loan portfolio, the financial conditions of the customers, non-financial information and the economic conjuncture.

Provision expenses are deducted from the net income of the year. If there is a subsequent collection from a receivable that was already provisioned in previous years, the recovery amount is classified under "Other operating income". Uncollectible receivables are written-off after all the legal procedures are finalized.

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Notes to consolidated financial statements December 31, 2016 (continued)

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Accounting policies (continued)

d. Available-for-sale financial assets:

Available-for-sale financial assets are defined as financial assets other than the ones classified as "Loans and receivables", "Held-to-maturity assets" or "Financial assets at fair value through profit or loss".

Available-for-sale financial assets are subsequently re-measured at fair value. When fair values based on market prices can not be obtained reliably, the available-for-sale financial assets are carried at fair values determined by using alternative models. Available for sale equity securities which are not quoted on a market and the fair values of which can not be determined reliably, are carried at cost less any impairment. "Unrealized gains and losses" arising from changes in the fair value of financial assets classified as available-for-sale are recognized in the shareholders' equity as "Marketable securities valuation differences", until the related assets are impaired or disposed. When these financial assets are disposed or impaired, the related fair value differences accumulated in the shareholders' equity are transferred to the income statement. Interest and dividends received from available for sale assets are recorded in interest income and dividend income as appropriate.

Interest income on available for sale financial assets are calculated by effective interest rate method and are accounted for in interest income account. At the time of sale of an available for sale financial assets before the maturity, the difference between the profit, which is the difference between the cost and sales price of the financial assets, and the interest income accrual are accounted under "Trading gains/(losses) on securities" according to the UCA.

VIII. Explanations on impairment of financial assets:

The existence of objective evidence whether a financial asset or group of financial assets is impaired, is assessed at each balance sheet date. If such evidence exists, impairment provision is provided based on the financial assets classification.

Impairment for held to maturity financial assets carried at amortized cost is calculated as the difference between the expected future cash flows discounted at the effective interest rate method and the carrying value. The impairment amount transferred from shareholders' equity to profit or loss for available for sale securities is calculated as the difference between the purchase cost (after deduction of principal repayments and redemption) and the fair value less any impairment that was previously recorded in profit or loss. This amount is recorded in expense accounts in accordance with the UCA.

The principles for the accounting of provisions for loans and receivables are explained in Note VII. of this section.

IX. Explanations on offsetting financial assets:

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Group has a legally enforceable right to offset the recognised amounts and there is an intention to collect/pay related financial assets and liabilities on a net basis, or to realise the asset and settle the liability simultaneously.

X. Explanations on sales and repurchase agreements and securities lending transactions:

Securities subject to repurchase agreements ("Repos") are classified as "At fair value through profit or loss", "Available-for-sale" and "Held-to-maturity" according to the investment purposes of the Group and measured according to the portfolio to which they belong. Funds obtained from repurchase agreements are accounted under "Funds provided under repurchase agreements" in liabilities and the difference between the sale and repurchase price is accrued over the life of the repurchase agreements using the

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Notes to consolidated financial statements December 31, 2016 (continued)

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Accounting policies (continued)

"Effective interest method". Interest expense on repo transactions are recorded under "Interest expense on money market transactions" in the income statement.

Funds given against securities purchased under agreements to resell ("reverse repo") are accounted under "Receivables from reverse repurchase agreements" on the balance sheet. The difference between the purchase and determined resell price is accrued over the life of repurchase agreements using the effective interest method.

The Group has no securities lending transactions.

XI. Information on assets held for resale and related to discontinued operations and explanations on liabilities related with these assets:

According to the TFRS 5, a tangible asset (or a group of assets to be disposed) classified as "Asset held for resale" is measured at lower of carrying value and fair value less costs to sell. An asset (or a group of assets to be disposed) is regarded as "Asset held for resale" only when the sale is highly probable and the asset (or a group of assets to be disposed) is available for immediate sale in its present condition. For a highly probable sale, there must be a valid plan prepared by the management for the sale of asset including identification of possible buyers and completion of sale process. Furthermore, the asset should be actively in the market at a price consistent with its fair value.

Additionally, assets that were acquired due to non-performing receivables are accounted in the financial statements in accordance with the "Communiqué Regarding the Principles and Procedures for the Disposals of Immovables and Commodities Acquired due to Receivables and for Trading of Precious Metal" published in the Official Gazette dated November 1, 2006, No. 26333 and classified as assets held for resale.

A discontinued operation is a part of the Group's business classified as sold or held for sale. The operating results of the discontinued operations are disclosed separately in the income statement.

XII. Explanations on goodwill and other intangible assets:

a. Goodwill:

The excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities or contingent liabilities of the acquired subsidiary at the date of acquisition of the control is recorded as goodwill and represents a payment made by the acquirer in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognised. The acquirer also recognises assets that are capable of being individually identified and separately recognised, intangible assets (e.g. credit card brand value, deposit base and customer portfolio) and contingent liabilities at fair value, irrespective of whether the asset had been recognised by the acquiree before the business combination, if it can be distinguished from the goodwill and if the asset's fair value can be measured reliably.

In line with "Turkish Financial Reporting Standard for Business Combinations" ("TFRS 3"), the goodwill is not subject to amortisation but is tested annually or more frequently for impairment and carried at cost less accumulated impairment losses, if any, in line with "Turkish Accounting Standard for Impairment on Assets" ("TAS 36").

b. Other intangible assets:

Intangible assets are measured at cost on initial recognition and any directly attributable costs of setting the asset to work for its intended use are included in the initial measurement. Subsequently, intangible assets are carried at historical costs after the deduction of accumulated amortisation and the provision for impairment.

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Notes to consolidated financial statements December 31, 2016 (continued)

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Accounting policies (continued)

The Group evaluates the possibility of existence of impairment of intangible assets at the end of each reporting period. If there is an evidence of impairment, the Group estimates a recoverable amount in accordance with the Turkish Accounting Standard (TAS 36) "Impairment of Assets". The recoverable amount is the higher of net sales price or the value in use. When the book value of another intangible asset exceeds the recoverable amount, the related asset is considered to be impaired. If there is no evidence of impairment, there is no need to estimate the recoverable amount.

Intangibles are amortised over their estimated useful lives using the straight-line method. The useful life of the asset is determined by assessing the expected useful life of the asset, technical, technological and other kinds of obsolescence and all required maintenance expenses necessary to utilise the economic benefit from the asset. The rates used are presented below:

Credit card brand value, deposit base and customer portfolio	10%
Other intangible assets	20%

XIII. Explanations on property and equipment:

Property and equipment is measured at its cost when initially recognized and any directly attributable costs of setting the asset in working order for its intended use are included in the initial measurement in accordance with the Turkish Accounting Standard (TAS 16) "Tangible Assets". Subsequently, properties and equipments, except art objects, paintings and buildings, are carried at cost less accumulated depreciation and provision for impairment.

The Group adopted fair value accounting method for its buildings since March 31, 2015 in tangible assets in accordance with TAS 16.

Depreciation is calculated over the cost of property and equipment using the straight-line method. The rates used are stated below:

Buildings	2-4%
Movables, movables acquired under financial leasing	20%

The depreciation charge for items remaining in property and equipment for less than a full accounting period at the balance sheet date is calculated in proportion to the period the item remained in property and equipment.

In accordance with the Turkish Accounting Standard (TAS 36) "Impairment of Assets", where the carrying amount of an asset is greater than its estimated "recoverable amount", it is written down to its "recoverable amount" and the provision for impairment is charged to the income statement.

Gains and losses on the disposal of property and equipment are determined by deducting the net book value of the property and equipment from its sales proceeds.

Expenditures for the repair and maintenance of property and equipment are recognised as expense. The capital expenditures made in order to increase the capacity of the tangible asset or to increase its future benefits are capitalised on the cost of the tangible asset. The capital expenditures include the cost components which are used either to increase the useful life or the capacity of the asset or the quality of the product or to decrease the costs.

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Notes to consolidated financial statements December 31, 2016 (continued)

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Accounting policies (continued)

XIV. Explanations on leasing transactions:

The Group performs financial and operational leasing in the capacity of the lessee and lessor.

a. Accounting of leasing operations according to lessee:

Financial lease

The Group includes the lower of the market value of the fixed asset subject to financial leasing in the beginning of the financial leasing period or present value of the lease payments in property and equipment and records the liabilities arising from financial leasing in liabilities. Financing costs arising due to leasing are spread through the lease period forming a fixed interest rate. In addition, fixed assets that are obtained by the way of financial leasing are subject to depreciation based on their useful lives. If a decrease in the value of fixed assets that are subject to financial leasing is noticed, impairment provision is recognised. The liabilities arising from financial leasing contracts are accounted under "financial lease payables". Expenses arising from interest and exchange rate changes related to financial leasing liabilities are charged to the income statement. Lease payments are deducted from financial leasing payables.

Operational lease

Leases, in which the majority of risk and return of property belongs to lessor, are classified as operational lease. Payments that are made under operational leases are accounted in income statements on a straight line basis during the lease period.

b. Accounting of leasing operations according to lessor:

Assets that are subject to financial leasing are reflected as a receivable equal to the net leasing amount in the consolidated financial statements. Interest income is earned to form a fixed periodical interest rate on net investment amount of the related leased asset by the lessor and the portion relating to subsequent periods is followed in the unearned interest income account.

Allowances for impairment of lease receivables

The lease receivables provision for the impairment of investments in direct finance leases is established based on a credit review of the receivables portfolio. The Group has set this provision in accordance with the Communiqué of BRSA named "The Procedures Regarding the Provisions to Be Provided for the Loans of Leasing, Factoring and Consumer Finance Companies" ("Provisions Communiqué") which was published in the Official Gazette dated December 24, 2013, numbered 28861. According to the Communiqué, specific provisions are set in following proportions: minimum 20% for collateralized lease receivables for which related collections are delayed between 150 and 240 days, minimum 50% for collateralized lease receivables for which related collections are delayed between 240 days and 1 year and 100% for collateralized lease receivables for which related collections are delayed more than 1 year.

In accordance with the related Communiqué of Provision, the Group also recognizes specific provision even if the overdue days are less than the days stated above or receivables are not over due at all, by taking into account all the existing data regarding the creditor and based on the principals of reliability and prudence.

In the Communiqué of Provisions, it is stated that although it is not mandatory, a general provision which is not related to a specific transaction can be recognised for the losses arising from the principal or interest of lease receivables that are not overdue or overdue less than 150 days but the amount of

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Notes to consolidated financial statements December 31, 2016 (continued)

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Accounting policies (continued)

loss is not certain. In accordance with the Communiqué of Provisions, the Group sets a general provision for the lease receivables that have not been considered as doubtful yet.

Finance lease receivables and accounts receivables that cannot be recovered are written off and charged against the allowance for the impairment of lease and accounts receivables. Such receivables are written off after all the necessary legal proceedings have been completed and the amount of loss is finally determined. Recoveries of amounts previously provided for are treated as a reduction from the provision for the impairment of the lease receivable and are recognized as income.

XV. Explanations on provisions and contingent assets and liabilities:

Provisions and contingent liabilities, except for the specific and general provisions recognised for loans and other receivables, are accounted in accordance with the "Turkish Accounting Standard for Provisions, Contingent Liabilities and Contingent Assets" ("TAS 37").

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions for contingent liabilities arisen from past events are recognised in the period of occurrence in accordance with the "Matching principle". A provision is recognised when it is probable that the contingent event will occur and a reliable estimate can be made. When a reliable estimate of the amount of obligation cannot be made, or it is not probable that an outflow of resources will be required to settle the obligation, it is considered that a "contingent" liability exists and it is disclosed in the related notes to the financial statements.

Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the entity. Contingent assets are not recognized in financial statements since this may result in the recognition of income that may never be realized. Contingent assets are disclosed where an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements of the period in which the change occurs.

XVI. Explanations on obligations related to employee rights:

a. Employee termination benefits

Obligations related to employee termination and vacation rights are accounted for in accordance with "Turkish Accounting Standard for Employee Rights" ("TAS 19") and are classified under "Reserve for employee rights" account in the balance sheet.

Under the Turkish Labour Law, the Group is required to pay a specific amount to the employees who have retired or whose employment is terminated other than for the reasons specified in the Turkish Labour Law. The reserve for employment termination benefits represents the present value of the estimated total liability for the future probable obligation of the Group determined by using certain actuarial assumptions. Actuarial gains and losses generated after January 1, 2013, are accounted for under equity in accordance with the revised TAS 19 standard.

b. Pension rights

The Parent Bank's personnel are members of the Yapı ve Kredi Bankası Anonim Şirketi Mensupları Yardım ve Emekli Sandığı Vakfı ("the Fund") which was established in accordance with the 20th temporary article of the Social Security Law No. 506. The technical financial statements of the Fund are audited in accordance with the Article 38 of the Insurance Supervision Law and the "Regulation Regarding the Actuaries" by a registered independent actuary.

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Accounting policies (continued)

Temporary article 23th paragraph 1 of the Banking Act published in the Official Gazette No 25983 dated November 1, 2005 stated that foundations like the Fund are to be transferred to the Social Security Institution ("SSI") within three years beginning from the publication date of the article.

The article of the Law related to the transfer was cancelled (pursuant to the application by the President on November 2, 2005) by the decision of Constitutional Court (decision no: E.2005/39, K. 2007/33 dated March 22, 2007) published in the Official Gazette No. 26479 dated March 31, 2007, and the effect of the law article was suspended from the date of the publication of the decision.

The reasoning of the Constitutional Court regarding the abrogation of the corresponding article was published in the Official Gazette dated December 15, 2007, No 26372. With the publication of the reasoning of the decision, the Grand National Assembly of Turkey ("GNAT") started to work on new legal arrangements regarding the transfer of the fund members to SSI and the related articles of the "Law Regarding the Changes in Social Insurance and General Health Insurance Law and Other Related Laws and Regulations" No 5754 ("the New Law") regulating the transfer of the funds were approved by the GNAT on April 17, 2008. The New Law was published in the Official Gazette No. 26870 dated May 8, 2008. With the new law, the banks' pension funds will be transferred to SSI within three years from the date of publication of the decree and this period can be extended for a maximum of two years with the decision of the Council of Ministers. The transfer period was extended for another two years with the decision of the Council of Ministers No. 2011/1559 published in the Official Gazette dated April 9, 2011. According to the "Amendment of Social Insurance and General Health Insurance Law No. 6283" published in the Official Gazette dated March 8, 2012, Council of Ministers was authorized to increase the two-year extension period mentioned above to four years. According to the decision of The Council of Ministers dated February 24, 2014, the transfer date is set as May 2015. The Council of Ministers was authorized to determine the transfer date of pension funds in accordance with the last amendment in the first paragraph of the 20th provisional article of Law No.5510 implemented by the Law No. 6645 on Amendment of the Occupational Health and Safety Law and Other Laws and Decree Laws published in the Official Gazette dated April 23, 2015 and numbered 29335.

A commission (whose members are the representatives of the SSI, the Ministry of Finance, Turkish Treasury, State Planning Organization, BRSA, Saving Deposit Insurance Fund ("SDIF"), one member representing the Fund and one member representing the Fund members) is in charge of the calculation of the value of the payment that would need to be made to SSI to settle the obligation using a technical interest rate of 9,8% by law taking into consideration income and expenses by insurance branches of the funds and the excess of salaries and income paid by the funds over the salaries and income to be paid in accordance with the SSI arrangements which should not be less than SSI arrangements, related to the members of the Fund as of the date of the transfer including the members who have left the scheme.

In accordance with the New Law, after the transfer to SSI, any social rights and payments to Fund members and their beneficiaries which are not provided although they are included in the Fund Title Deed will continue to be provided by the Fund and the employers of the Fund members.

The Parent Bank accounts for a provision for the technical deficit based on the report prepared by a registered actuary in accordance with the rates determined by the New Law.

c. Defined contribution plans:

The Bank is required to pay certain contributions to the Social Security Institution on behalf of their employees. Other than these payments, the Group does not have any further obligation in this respect. Such premiums are charged to personnel expenses when incurred.

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Accounting policies (continued)

d. Short term benefits of employee:

Within the scope of TAS 19, the Group measures the expected costs of accumulated paid leaves as expected payments it will make due to unused leave rights as at the end of the reporting date.

XVII. Explanations on taxation:

a. Current tax:

The Corporate Tax rate is 20% in accordance with the article number 32 of the New Corporate Tax Law no.5520 which is published in the official Gazette dated June 21, 2006 and numbered 26205. This tax rate is applied to accounting income modified for certain exemptions and deductions, and additions for certain non-tax deductible expenses and allowances for tax purposes. No further tax is payable unless the profit is distributed.

Turkish tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provisions for taxes, as reflected in these consolidated financial statements, have been calculated on a separate-entity basis.

Dividends paid to non-resident corporations, which have a place of business in Turkey or to resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as profit distribution and no withholding tax incurs in such a case.

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

A 75% portion of the capital gains derived from the sale of equity investments and immovable properties held for at least two years is tax exempt, if such gains are added to paid-in capital or held in a special account under shareholder's equity for five years.

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

Under the Turkish Corporate Tax Law, effective from April 24, 2003, investment allowances had provided a deduction from the corporate tax base of 40% of the purchase price of purchases of the brand new fixed assets having economic useful life and exceeding TL 10 and directly related with the production of goods and services and investment allowance that arose prior to April 24, 2003 had been taxed at 19,8% (withholding tax) unless they had been converted to new type at companies' will. Effective from January 1, 2006, Turkish government had ceased to offer investment incentives for capital investments and companies having unused qualifying capital investment amounts as of June 30, 2006 would be able to deduct such amounts from corporate income for the following years.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Tax returns are required to be filled and delivered to the related tax office until the evening of the 25th of the fourth month following the balance sheet date and the accrued tax is paid until the end of the same month. Tax returns are open for 5 years from the beginning of the year following the balance sheet date and during this period the tax authorities have the right to audit tax returns,

Accounting policies (continued)

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and the related accounting records on which they are based, and may issue re-assessments based on their findings.

Tax rates that are used in tax calculations before the exemptions by foreign subsidiaries by taking current tax regulations in their countries into consideration as of December 31, 2016 are as follows:

Netherlands	25,00%
Russia	20,00%
Azerbaijan	20,00%
Malta	35,00%

b. Deferred tax:

The Group calculates and accounts for deferred income taxes for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements in accordance with "Turkish Accounting Standard for Income Taxes" ("TAS 12") and in accordance with BRSA's explanations and circulars and the tax legislation, the Group calculates deferred tax on deductible temporary differences except for general loan loss provisions, to the extent that future taxable income is estimated to be available. In the deferred tax calculation, the enacted tax rate, in accordance with the tax legislation, is used as of the balance sheet date.

Deferred tax liabilities are recognized for all resulting temporary differences whereas deferred tax assets resulting from temporary differences are recognized to the extent that future taxable profit will be available against which the deferred tax asset can be utilised.

Deferred tax assets and liabilities of subsidiaries subject to consolidation have been netted of in their standalone financial statements in accordance with TAS 12. The calculated deferred tax asset and deferred tax liability are presented as net in these financial statements.

Tax effects of the transactions that are directly accounted under equity are also reflected to equity.

Additionally, in accordance with the related legislation of BRSA, deferred tax effect, if income, is not eligible for dividend distribution and share capital increase.

c. Transfer pricing:

The article no.13 of the Corporate Tax Law No.5520 describes the issue of transfer pricing under the title of "Disguised profit distribution" by way of transfer pricing (previously included as "Disguised profit" in the Corporate Tax Law No.5422). "The General Communiqué on Disguised Profit Distribution by Way of Transfer Pricing" published at November 18, 2007/26704, explains the application related issues on this topic effective from January 1, 2007, also taking into account the regulations in Article 41 of the Income Tax Law.

"Arm's length principle", which is the basis for the transfer pricing rule, is the pricing system to be followed for purchase or sale activities between related parties for any product or service transactions as if the transaction is realized with any other third party. According to this communiqué, if the taxpayers conduct transactions like purchase and sale of goods or services with the related parties where the prices are not determined according to the arm's length principle, then it will be concluded that there is a disguised profit distribution by way of transfer pricing. Such disguised profit distributions will not be deducted from the corporate tax base for tax purposes.

Accounting policies (continued)

As discussed in the relevant section of this communiqué, the taxpayers are required to fill out the "Transfer Pricing, Controlled Foreign Entities and Thin Capitalization" form for the purchase and

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sale of goods or services conducted with their related parties in a taxation period, attach these forms to their corporate tax returns and submit to the tax offices.

XVIII. Explanations on borrowings:

The financial liabilities classified at fair value through profit/loss, trading and derivative financial liabilities are valued with their fair values and the other financial liabilities are carried at "amortised cost" including costs of transactions using the "effective interest method".

The Group, classified its part of the financial debts as fair value through profit / loss on financial liabilities in order to eliminate the accounting mismatch at the initial recognition. The interest expenses paid and the differences between the amortised cost and the acquisition cost of the related debt instruments during the time held in the portfolio are accounted in the interest expense; the differences between the fair value and amortised cost of the related debt instruments are presented as trading gain and losses in the accompanying profit and loss statement.

The Group utilises various hedging techniques to minimise the currency, interest rate and liquidity risks of its financial liabilities. No convertible bonds have been issued.

Also, the Group obtains funds by issuing bonds and bills.

XIX. Explanations on issuance of share certificates:

When shares are issued above their nominal value, the excess over the nominal value is accounted under shareholders' equity as "Share premium".

No dividend payments of the Parent Bank were announced after the balance sheet date.

XX. Explanations on avalized drafts and letter of acceptances:

Avalized drafts and acceptances are included in the "off-balance sheet commitments".

XXI. Explanations on government grants:

In accordance with the related articles of the "Law Regarding the Supporting of Research and Development Activities" numbered 5746, until balance sheet date, the Group received government grant from TÜBİTAK amounting to TL 1.451 (December 31, 2015 - TL 1.592).

XXII. Profit reserves and profit distribution:

Retained earnings as per the statutory financial statements other than legal reserves are available for distribution, subject to the legal reserve requirement referred to below. Legal reserves consist of first and second reserves as foreseen in the TCC. The TCC specifies that the first legal reserve is appropriated at the rate of 5% until the total reserve is equal to 20% of paid-in capital and that the second legal reserve is appropriated at the rate of 10% of distributions in excess of 5% of paid-in capital; however holding companies are not subject to this application. According to the Turkish Commercial Code, legal reserves can only be used to compensate for accumulated losses and cannot be used for other purposes unless they exceed 50% of paid-in capital.

XXIII. Earnings per share:

Earnings per share disclosed in the income statement are calculated by dividing net profit/loss for the year to the weighted average number of shares outstanding during the period concerned.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Accounting policies (continued)

	Current Period	Prior Period
Net Income/(loss) to be appropriated to ordinary shareholders	2.932.795	1.908.683
Weighted average number of issued ordinary shares(thousand)	434.705.128	434.705.128
Earnings per share (full TL)	0,0067	0,0044

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings. These bonus shares are treated as issued shares in earnings per share computations. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year is adjusted in respect of bonus shares issued without a corresponding change in resources by giving them a retroactive effect. In case bonus shares are distributed after the balance sheet date but before the preparation of the financial statements, earnings per share is calculated considering the new number of shares.

No bonus shares were issued during 2016 (2015 – None).

XXIV. Related parties:

For the purpose of these financial statements, shareholders having control shares of the Bank, key management personnel and board members together with their families and companies controlled by/affiliated with them, associated companies and joint ventures and the Fund providing post employment benefits are considered and referred to as related parties in accordance with "Turkish Accounting Standard for Related Parties" ("TAS 24"). The transactions with related parties are disclosed in detail in Note VIII. of Section Five.

XXV. Explanations on operating segments:

Information about operating segments which are determined in line with "Turkish Financial Reporting Standard about Operating Segments" ("TFRS 8") together with organizational and internal reporting structure of the Bank, are disclosed in Note XIII of Section Four.

XXVI. Explanations on other matters:

None.

XXVII. Legal mergers under common control:

As in TFRS 3 or in another standard in TFRS there is an absence of treatment that specifically applies to business combinations involving entities under common control, by examining the practices included in the generally accepted global accounting standards the Group decided to apply an accounting policy in parallel with the "pooling of interests" method in view of its judgement that the economic substance of the relevant transaction will be most reliably and accurately reflected in this manner. In the accounting of business combinations which occur under common control, assets and liabilities, subject to business combinations, are accounted for in the consolidated financial statements at their carrying values. Income statements are consolidated as of the beginning of the financial year in which the business combinations occurred. Financial statements belonging to previous periods also are adjusted in the same way in order to ensure the comparability. As a result of those transactions, any goodwill or negative goodwill is not calculated. The difference between the investment amount and the share in capital in the acquired company is directly accounted under equity as "the effect of legal mergers under common control".

POA has issued a policy decision in July, 2013 regarding "Accounting for business combinations Subject to Joint Control Group" which is effective for annual periods beginning on December 31, 2012.

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Accounting policies (continued)

Based on this decision, i) rights in business combinations under common control combinations should be accounted for by the method of pooling of interest, ii) due to that goodwill should be included in the financial statements, iii) while pooling of interest method is applied, at the beginning of the reporting period where the common control occurs, corrections should be made in the financial statements as if the combination has been completed and this common control should be represented comparatively. The accounting policy applied by the group is consistent with the decision of principle.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Section four

Information related to financial position of the Group

I. Explanations on consolidated own funds:

The calculation of the own funds and the capital adequacy standart ratio are performed in accordance with the communiques such as "Regulation Regarding the Measurement and Evaluation of Banks' Capital Adequacy Ratio", "Regulation Credit Risk Mitigation Techniques", "Regulation on calculation of Risk-Weighted Amounts of Securitizations" and "Regulation Regarding Banks' Shareholders' Equity".

The consolidated capital adequacy ratio of the Group is 13,18% (December 31, 2015 – 12,91%) and the Parent Bank is 14,21% (December 31, 2015 – 13,81%).

a. Information on consolidated own funds:

	Current Period	Amounts subject to treatment before 1/1/2014 ⁽¹⁾
COMMON EQUITY TIER 1 CAPITAL		
Paid-up Capital	4.347.051	
Share issue premiums	543.881	
Retained earnings	14.539.224	
Accumulated other comprehensive income and other disclosed reserves which defined in the Turkish Accounting Standards	3.053.077	
Profit	4.572.749	
Net profit of the period	2.932.795	
Profit of the previous years	1.639.954	
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and cannot be recognised within profit for the period	4.561	
Minority interest	502	
Common Equity Tier 1 capital before regulatory adjustments	27.061.045	
Common Equity Tier 1 capital: regulatory adjustments		
Prudential valuation adjustments	19.189	
The sum of the net loss for the current period and the previous years which could not be absorbed by the retained earnings and losses recognised in equity in accordance with TAS	939.892	
Improvement costs for operating leasing	119.336	
Goodwill (net of related tax liability)	587.696	979.493
Other intangibles other than mortgage-servicing rights (net of related tax liability)	331.709	552.848
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
Cash-flow hedge reserve	379.150	
Shortfall of provisions to expected losses	-	
Securitisation gain on sale	-	
Gains and losses due to changes in own credit risk on fair valued liabilities	-	
Defined-benefit pension fund net assets	-	
Investments in own shares	-	
Credits extended contrary to the fourth paragraph of Articles 56 of the Banking Law	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank owns more than 10% of the issued share capital (amount above 10% threshold)	-	
Mortgage servicing rights (amount above 10% threshold)	-	
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
Amount exceeding the 15% threshold (as set out in the paragraph 2 of the Provisional Article 2 of the Regulation on Banks' Own Funds)	-	
The amount above threshold for the investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank owns more than 10% of the issued share capital	682.728	
The amount above threshold for mortgage servicing rights	-	
The amount above threshold for deferred tax assets arising from temporary differences	-	
National specific regulatory adjustments which shall be determined by the BRSA	-	
Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
Total regulatory adjustments to Common equity Tier 1	3.059.700	
Common Equity Tier 1 capital (CET1)	24.001.345	

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

	Current Period	Amounts subject to treatment before 1/1/2014 ⁽¹⁾
ADDITIONAL TIER I CAPITAL		
Preferred shares that are not included in Common Equity Tier 1 capital and related shares issue premiums	-	-
Eligible capital instruments and relevant share issue premiums that are approved by the BRSA	-	-
Eligible capital instruments and relevant share issue premiums that are approved by the BRSA (For the purposes of the Provisional Article 4 of the Regulation on Banks' Own Funds)	-	-
Shares of Third Parties in Additional Tier I Capital	-	-
Shares of Third Parties in Additional Tier I Capital (Covered by Temporary Article 3)	-	-
Additional Tier 1 capital before regulatory adjustments	-	-
Additional Tier 1 capital: regulatory adjustments	-	-
Investments in own Additional Tier 1 instruments	-	-
Reciprocal cross-holdings in Additional Tier 1 instruments	-	-
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-
Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-
National specific regulatory adjustments which shall be determined by the BRSA	-	-
Regulatory Adjustments which will be deducted from Tier 1 capital during the transition period		
Goodwill and other intangible assets and related deferred tax liabilities which will not be deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	612.936	-
Net deferred tax asset/liability which is not deducted from Common Equity Tier 1 capital for the purposes of the sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	-
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	-
Total regulatory adjustments to Additional Tier 1 capital	-	-
Total Additional Tier 1 capital	-	-
Total Tier 1 capital (Tier 1 capital = Common Equity Tier 1 capital + Additional Tier 1 capital)	23.388.409	
TIER 2 CAPITAL		
Eligible capital instruments and relevant share issue premiums that are approved by the Agency	5.472.356	
Eligible capital instruments and relevant share issue premiums that are approved by the Agency (For the purposes of the Provisional Article 4 of the Regulation on Banks' Own Funds)	1.066.560	
Shares of Third Parties in Additional Tier I Capital	-	
Shares of Third Parties in Additional Tier I Capital (Covered by Temporary Article 3)	-	
Provisions (Article 8 of the Regulation on the Equity of Banks)	2.886.021	
Tier 2 capital before regulatory adjustments	9.424.937	
Tier 2 capital: regulatory adjustments		
Direct and indirect investments of the Bank on its own Tier 2 Capital (-)	-	
Investments of the Bank to banks that invest on the Bank's Tier 2 and components of equity issued by financial institutions with the conditions declared in Article 8	109.452	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold) (-)	-	
Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) (-)	-	
National specific regulatory adjustments which shall be determined by the BRSA	-	
Total regulatory adjustments to Tier 2 capital	109.452	
Total Tier 2 capital	9.315.485	
Total Capital (The sum of Tier 1 capital and Tier 2 capital)	32.484.365	
The Sum of Tier 1 Capital and Tier 2 Capital (Total Capital)		
Credits extended contrary to the provisions of Articles 50 and 51 of the Banking Law	13.811	
Portion of the sum of the banks' real estate net book values, which is in excess of fifty per cent of their own funds and net book values of those of merchandise and real estate which have to be acquired due to their receivables and disposed of pursuant to Article 57 of the Banking Law, which cannot be disposed of despite the lapse of a period of five years since the date of such acquisition	11.868	
National specific regulatory adjustments which shall be determined by the BRSA	193.850	
Regulatory Adjustments which will be deducted from Total Capital during the transition period		
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold) which will not be deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	
Significant investments in the Additional Tier 1 capital and Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold) which will not be deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold), mortgage servicing rights (amount above 10% threshold), deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability) which will not be deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

OWN FUNDS	Current Period
Total Capital (The sum of Tier 1 capital and Tier 2 capital)	32.484.365
Total Risk Weighted Assets	246.436.668
CAPITAL ADEQUACY RATIOS	
Consolidated Common Equity Tier 1 Capital Adequacy Ratio (%)	9,74
Consolidated Tier 1 Capital Adequacy Ratio (%)	9,49
Consolidated Capital Adequacy Ratio (%)	13,18
BUFFERS	
Institution specific buffer requirement of the Bank	5,512
Capital conservation buffer requirement (%)	0,625
Bank's specific countercyclical buffer requirement (%)	0,012
The ratio of Additional Common Equity Tier 1 capital which will be calculated by the first paragraph of the Article 4 of Regulation on Capital Conservation and Countercyclical Capital buffers to Risk Weighted Assets (%)	3,739
Amounts below the thresholds for deduction (before risk weighting)	
Non-significant investments in the capital of other financials	-
Significant investments in the common stock of financials	-
Mortgage servicing rights (net of related tax liability)	-
Deferred tax assets arising from temporary differences (net of related tax liability)	1.218.309
Applicable caps on the inclusion of provisions in Tier 2 capital	
General provisions for standard based receivables (before tenthousandtwentyfive limitation)	3.109.571
Up to 1.25% of total risk-weighted amount of general provisions for receivables where the standard approach used	2.886.021
Excess amount of total provision amount to credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-
Excess amount of total provision amount to 0,6% of risk weighted receivables of credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)	
Current cap on Additional Tier 1 capital instruments which subject to phase out arrangements in the Provisional Article 4 of the Regulation on Banks' Own Funds	-
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) which subject to Provisional Article 4 of the Regulation on Banks' Own Funds	-
Current cap on Tier 2 capital instruments which subject to phase out arrangements in the Provisional Article 4 of the Regulation on Banks' Own Funds	-
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) which subject to Provisional Article 4 of the Regulation on Banks' Own Funds	-

(1) The specified amounts are the figures calculated for the items subject to the phasing.

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

	Prior Period
Common Equity Tier 1 Capital	
Paid-in Capital to be Entitled for Compensation after All Creditors	4.347.051
Share Premium	543.881
Share Cancellation Profits	-
Legal Reserves	12.357.721
Other Comprehensive Income according to TAS	2.657.940
Profit	3.503.693
Net Current Period Profit	1.908.683
Prior Period Profit	1.595.010
Provisions for Possible Losses	-
Bonus Shares from Associates, Subsidiaries and Joint-Ventures not Accounted in Current Period's Profit	4.503
Minority shares	474
Common Equity Tier 1 capital before regulatory adjustments	23.415.263
Common Equity Tier 1 capital: regulatory adjustments	
Current and prior periods' losses not covered by reserves, and losses accounted under equity according to TAS (-)	596.826
Leasehold improvements on operational leases (-)	147.518
Goodwill and intangible assets and related deferred tax liabilities (-)	591.560
Net deferred tax assets / liabilities (-)	-
Shares Obtained against Article 56, Paragraph 4 of the Banking Law (-)	-
Investments in own common equity (-)	-
Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank does not own 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
Mortgage servicing rights (amount above 10% threshold) (-)	-
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability) (-)	-
Amount Exceeding the 15% Threshold of Tier I Capital as per the Article 2, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-
The Portion of Net Long Position of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank owns 10% or more of the Issued Share Capital not deducted from Tier I Capital (-)	-
Mortgage servicing rights (amount above 10% threshold) (-)	-
Excess Amount arising from Deferred Tax Assets from Temporary Differences (-)	-
Other items to be defined by the regulator (-)	-
Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions (-)	566.076
Total regulatory adjustments to Common equity Tier 1	1.901.980
Common Equity Tier 1 capital	21.513.283

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

	Prior Period
Additional Tier 1 capital: instruments	
Privileged stocks which are not included in common equity and share premiums	-
Directly issued qualifying Additional Tier 1 instruments (approved by the regulators) plus related stock surplus (Issued or Obtained after 1.1.2014)	-
Directly issued qualifying Additional Tier 1 instruments (approved by the regulators) plus related stock surplus (Issued or Obtained after 1.1.2014)	-
Minority shares	-
Additional Tier 1 capital before regulatory adjustments	-
Additional Tier 1 capital: regulatory adjustments	-
Direct and Indirect Investments of the Bank on its own Additional Core Capital (-)	-
Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank does not own 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Consolidated Banks and Financial Institutions where the Bank owns more than 10% of the Issued Share Capital (-)	-
Other items to be Defined by the regulator (-)	-
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions (-)	-
Total regulatory adjustments to Additional Tier 1 capital	-
Additional Tier 1 capital	-
Regulatory adjustments to Common Equity	
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	887.339
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-
Tier 1 capital	20.625.944
Tier 2 capital	
Directly issued qualifying Tier 2 instruments (that are approved by the regulator) plus related stock surplus (Issued or Obtained after 1.1.2014)	-
Directly issued qualifying Tier 2 instruments (that are approved by the regulator) plus related stock surplus (Issued or Obtained before 1.1.2014)	5.213.047
Pledged sources on behalf of the Bank for the use of committed share capital increase by shareholders	-
Generic Provisions	2.511.452
Minority shares	-
Tier 2 capital before regulatory adjustments	7.724.499
Tier 2 capital: regulatory adjustments	
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-
Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank does not own 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Core Capital and Tier II Capital of Consolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-)	-
Other items to be Defined by the regulator (-)	-
Total regulatory adjustments to Tier 2 capital	-
Tier 2 capital	7.724.499

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

	Prior Period
Total capital	28.350.443
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	6.808
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-)	11.345
Loans to Banks, Financial Institutions (domestic/foreign) or Qualified Shareholders in the form of Subordinated Debts or Debt Instruments Purchased from Such Parties and Qualified as Subordinated Debts (-)	149.667
Deductions as per the Article 20, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-
Other items to be Defined by the regulator (-)	280.437
The Portion of Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank does not own 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-
The Portion of Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-
The Portion of Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-
Shareholders's equity	27.902.186
Amounts below the thresholds for deduction	1.003.593
Remaining Total of Net Long Positions of the Investments in Own Fund Items of Consolidated Banks and Financial Institutions where the Bank owns 10% or less of the Issued Share Capital	-
Remaining total of net long positions of the investments in Tier I capital of Consolidated banks and Financial Institutions where the Bank owns more than 10% Or Less of the Tier I Capital	-
Remaining mortgage servicing rights	-
Net deferred tax assets arising from temporary differences	1.003.593

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

b. Information on debt instruments included in the calculation of equity⁽¹⁾::

	1	2	3	4
Issuer	UNICREDIT SPA	UNICREDIT SPA	Yapı ve Kredi Bankası A.Ş.	Yapı ve Kredi Bankası A.Ş.
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	-	-	XS0861979440/ US984848AB73	XS1376681067
Governing law(s) of the instrument	BRSA / Austria Law	BRSA / Austria Law	BRSA / CMB / LONDON STOCK EXCHANGE / English Law	English Law / Turkish Law
Regulatory treatment				
Transitional Basel III rules	No	No	Yes	No
Eligible at stand-alone / consolidated	Stand alone -Consolidated	Stand alone -Consolidated	Stand alone -Consolidated	Stand alone -Consolidated
Instrument type (types to be specified by each jurisdiction)	Loan	Loan	Bond	Bond
Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	2.059	1.654	1.067	1.760
Par value of instrument (Currency in million)	2.059	1.654	3.519	1.760
Accounting classification				
Original date of issuance	January 9, 2013	December 18, 2013	December 6, 2012	March 1, 2016
Perpetual or dated	Dated	Dated	Dated	Dated
Original maturity date	10 years	10 years	10 years	10 years
Issuer call subject to prior BRSA approval	Yes	Yes	Yes	Yes
Optional call date, contingent call dates and redemption amount	After 5th year	After 5th year	-	After 5th year
Subsequent call dates, if applicable	After 5th year	After 5th year	-	-
Coupons / dividends				
Fixed or floating dividend/coupon	Fixed	Fixed	Fixed	Fixed
Coupon rate and any related index	5.7%	6.55%	5.5%	6.63% (5 Year MidSwap+740 basis points, 8.5% coupon)
Existence of a dividend stopper	No interest accrue after the date of value decrease for the decreased amount	No interest accrue after the date of value decrease for the decreased amount	-	No interest accrue after the date of value decrease for the decreased amount
Fully discretionary, partially discretionary or mandatory	-	-	-	Mandatory
Existence of step up or other incentive to redeem	-	-	-	-
Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Cumulative
Convertible or non-convertible				
If convertible, conversion trigger (s)	-	-	-	-
If convertible, fully or partially	-	-	-	-
If convertible, conversion rate	-	-	-	-
If convertible, mandatory or optional conversion	-	-	-	-
If convertible, specify instrument type convertible into	-	-	-	-
If convertible, specify issuer of instrument it converts into	-	-	-	-
Write-down feature				
If write-down, write-down trigger(s)	-	-	-	In case of default
If write-down, full or partial	-	-	-	Partial
If write-down, permanent or temporary	-	-	-	Permanent
If temporary write-down, description of write-up mechanism	-	-	-	-
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	After the senior creditors, before the TIER 1 sub debt, same with TIER 2	After the senior creditors, before the TIER 1 sub debt, same with TIER 2	After the senior creditors, before the TIER 1 sub debt, same with TIER 2	After the senior creditors, before the TIER 1 sub debt, same with TIER 2
Noncompliance with article number 7 and 8 of "Own fund regulation"	No	No	Yes	No
Details of noncompliances with article number 7 and 8 of "Own fund regulation"	-	-	8-2-g	-

(1) The Bank has repaid its subordinated loan at June 30, 2016 that was extended by Citibank, N.A., London Branch in the amount of 200 million Euro on June 25, 2007.

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Notes to consolidated financial statements December 31, 2016 (continued)

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Information related to financial position of the Group (continued)

c. There are differences between the figures in the consolidated own funds and their corresponding amounts in the balance sheet. Within this context; in the calculation of own funds, general provision up to %1,25 credit risk is taken into consideration as Tier II Capital, the losses that are related to cash flow hedge transactions are not considered in the own funds and the prudential valuation adjustments calculated in accordance with the (i) item of the first paragraph in the ninth article of the "Regulation Regarding Banks' Shareholders' Equity" are considered in the own funds. In addition, the subordinated liabilities are considered after the adjustments made in accordance with the ninth paragraph of the eighth article and in the provisional fourth article of the "Regulation Regarding Banks' Shareholders' Equity".

d. Exposures subject to countercyclical capital buffer:

The exposures subject to countercyclical capital buffer table prepared in accordance with the communiqué "Regulation on Capital Conservation and Countercyclical Capital buffers of Banks" published in the Official Gazette no. 28812 dated 5 November 2013 is presented below:

Exposures subject to countercyclical capital buffer:

Country	RWAs of Banking Book for Private Sector Lending	RWAs of Trading Book	Total
Turkey	186.579.351	-	186.579.351
Netherlands	1.017.711	-	1.017.711
Malta	964.412	-	964.412
USA	683.405	-	683.405
Russia	604.402	-	604.402
Azerbaijan	521.316	-	521.316
Italy	497.329	-	497.329
Switzerland	433.952	-	433.952
United Arab Emirates	322.354	-	322.354
Germany	286.739	-	286.739
Other	1.781.867	-	1.781.867
Total	193.692.839	-	193.692.839

II. Explanations on consolidated credit risk:

- a. Credit risk is the loss or the risk of the Parent Bank in case a counterparty can not fulfill its obligations stated in agreements where the Bank is at a side. The Parent Bank identifies loan limits for each customer considering statutory regulations, the internal scoring system, financial analysis reports and geographical and industry concentration and considering credit policies determined by Board of the Directors each year. The limits defined by the Board of Directors for each correspondent bank are followed-up daily by Treasury Management for the transactions related with placements with domestic and correspondent banks or treasury operations such as forward buy and sell transactions. Moreover, daily positions and limit controls of each Treasury Management employee who is authorised for transactions in the market are controlled by the system. During the loan granting process, liquid collaterals are preferred to the greatest extent possible. While granting of long term project finance loans, long term projections of the companies are analyzed both by financial analysis specialists and head office. Also the pricing of these commitments are decided by coordination with Treasury Management.

The Parent Bank also monitors limitations on single borrower and group of borrowers in accordance with the regulations.

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

Loans and other receivables are monitored in terms of the credit worthiness of borrowers in accordance with the relevant legislation. In addition, the account status documents for new loans is controlled, and updated where if necessary.

Different rating systems are used for Small and Medium Sized Entities (SME) and Corporate/Commercial customers during the underwriting process of the Parent Bank. A separate rating model is used for the customers which operate in construction industry. The Bank uses scorecard system for its retail and credit card customers for the underwriting and limit management processes. The scorecard system was internally developed, and being updated and approved regularly.

Credit granting authorization levels are also determined in accordance with the rating of the customer in SME segment. By using this methodology; it is aimed to establish risk based optimization of credit processes through assigning the lower rated customer to higher authority levels whereas assigning higher rated customer to lower authority levels.

Probability of default of a customer is calculated through this internally developed rating system. The rating concentration of Corporate/Commercial customers is as follows:

	Current Period	Prior Period
Above average (1-4)	45,2%	47,5%
Average (5+ -6)	44,3%	44,0%
Below average (7+ -9)	10,6%	8,6%

The Parent Bank takes the following criteria into consideration for the accounting of impaired and past due loans:

The loan is overdue more than 90 days.

The borrower is not able to pay at least one of the loans he received from the Bank (cross default)

Having a negative intelligence and bad-record for the borrower in the market.

Deterioration of the creditworthiness of the borrower.

The Parent Bank sets aside specific and general provisions with respect to "value adjustments" procedures in accordance with the Provisioning Regulation.

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

Total amount of exposures after offsetting transactions but before applying credit risk mitigations and the average exposure amounts that are classified in different risk groups and types, are disclosed below for the relevant period:

Risk classifications:	Current Period Risk Amount⁽¹⁾	Average Risk Amount
Conditional and unconditional receivables from central governments or central banks	62.360.507	59.082.584
Conditional and unconditional receivables from regional or local governments	234	302
Conditional and unconditional receivables from administrative units and non-commercial enterprises	545.458	68.513
Conditional and unconditional receivables from multilateral development banks	42.695	114.409
Conditional and unconditional receivables from international organizations	-	33.119
Conditional and unconditional receivables from banks and brokerage houses	21.063.597	20.233.771
Conditional and unconditional receivables from corporates	138.125.255	119.119.817
Conditional and unconditional retail receivables	77.666.186	70.411.819
Conditional and unconditional receivables secured by mortgages	15.398.666	16.330.360
Past due receivables	2.190.734	1.748.649
Receivables defined as high risk category by the Regulator	206.858	2.804.544
Investments similar to collective investment funds	112.641	547.164
Other receivables	10.054.719	8.909.994
Total	327.767.550	299.405.045

(2) Includes credit risk amounts of total exposure before applying credit risk mitigations.

- b.** The Parent Bank has control limits over the positions of forwards, options and similar agreements. These positions are measured and managed by following their market values and by taking potential risk into considerations throughout their maturities, in accordance with Counterparty Credit Risk management. Limits are also calculated and dynamically managed by taking these potential risks into considerations. Daily market value calculations, limit controls, collateral assessments are performed and reported to the relevant departments within the Bank.

The Group may use its rights, as stated in the derivative agreements based on which the Bank realizes derivative transactions, in order to eliminate the credit risks that may arise due to being exposed to severe credit risk levels arising from fluctuations in the market.

- c.** In line with the Provisioning Regulation, if the cash risk of a customer is classified as nonperforming, the non-cash risk is also classified as nonperforming under the same group where the cash risks were already followed and specific provision is reserved.

Restructured loans are also classified and followed up according to the regulation on provisions considering the Bank's credit risk policies. Accordingly, the financial position and commercial operations of related customers are monitored, their principal and interest payments are followed up with the restructured repayment schedule and the necessary precautions are taken.

- d.** The Group's banking activities in foreign countries and credit transactions are subject to periodical follow-up in terms of the economic conditions of the related country and the evaluation of the creditworthiness of the customers and financial institutions. No material risks have been observed in scope of these operations.

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

- e. 1. The proportion of the Parent Bank's top 100 and 200 cash loan balances in total cash loans is 27% and 35%.
2. The proportion of the Parent Bank's top 100 and 200 non-cash loan balances in total non-cash loans is 48% and 61%.
3. The proportion of the Parent Bank's cash and non-cash loan balances with the first 100 and 200 customers comprises of 26% and 35% of total cash loans and non-cash loans.
- f. The Group provided a general loan loss provision amounting to TL 3.109.571 (December 31, 2015 - TL 2.627.271).
- g. Risk profile according to the geographical concentration:

	Risk Classifications ⁽¹⁾⁽²⁾													Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	
Current Period														
Domestic	61.683.736	167	532.833	-	-	7.673.052	130.109.131	77.494.558	15.397.161	2.095.589	206.855	39.870	9.369.493	304.602.445
EU countries	482.151	67	-	35.777	-	10.797.441	3.222.716	9.306	642	3.977	2	-	2.197	14.554.276
OECD countries ⁽³⁾	-	-	-	-	-	287.625	1.041.137	1.572	100	-	-	-	-	1.330.434
Off-shore banking regions	-	-	-	-	-	900.262	150.019	5.280	-	8.689	-	-	-	1.064.250
USA, Canada	-	-	-	6.918	-	925.094	1.469.903	38.700	138	193	-	60.849	76	2.501.871
Other countries	194.620	-	12.625	-	-	480.123	2.132.349	116.770	625	82.286	1	119	225	3.019.743
Investment and associates, subsidiaries and joint ventures	-	-	-	-	-	-	-	-	-	-	-	11.803	682.728	694.531
Undistributed Assets / Liabilities ⁽⁴⁾	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	62.360.507	234	545.458	42.695	-	21.063.597	138.125.255	77.666.186	15.398.666	2.190.734	206.858	112.641	10.054.719	327.767.550
	Risk Classifications ⁽¹⁾⁽²⁾													Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	
Prior Period														
Domestic	58.292.487	159	205	-	-	10.020.459	100.087.426	49.928.886	25.142.756	1.469.877	15.789.379	-	6.948.575	267.680.209
EU countries	242.187	-	31.827	46.795	65.203	8.328.619	2.432.348	5.054	2.357	99	818	-	12.934	11.168.241
OECD countries ⁽³⁾	-	-	-	-	-	185.332	1.269.070	405	1.129	-	82	-	-	1.456.018
Off-shore banking regions	-	-	-	-	-	87.782	178.429	3.011	-	8.399	8	-	-	277.629
USA, Canada	-	-	-	80.697	-	1.283.785	788.615	6.474	87	29	127	-	-	2.159.814
Other countries	112.734	-	13.503	-	-	432.947	2.418.276	149.721	1.125	44.362	171	-	-	3.172.839
Investment and associates, subsidiaries and joint ventures	-	-	-	-	-	-	-	-	-	-	-	-	11.803	11.803
Undistributed Assets / Liabilities ⁽⁴⁾	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	58.647.408	159	45.535	127.492	65.203	20.338.924	107.174.164	50.093.551	25.147.454	1.522.766	15.790.585	-	6.973.312	285.926.553

(1) Risk classifications in the "Regulation on Measurement and Evaluation of Capital Adequacy of Banks" will be used.

(2) Includes credit risk amounts of total exposure before credit risk mitigation.

(3) OECD Countries other than EU countries, USA and Canada.

(4) Assets and liabilities are not allocated on a consistent basis.

1-Conditional and unconditional receivables from central governments or central banks

2-Conditional and unconditional receivables from regional or local governments

3-Conditional and unconditional receivables from administrative units and non-commercial enterprises

4-Conditional and unconditional receivables from multilateral development banks

5-Conditional and unconditional receivables from international organizations

6-Conditional and unconditional receivables from banks and brokerage houses

7-Conditional and unconditional receivables from corporates

8-Conditional and unconditional retail receivables

9-Conditional and unconditional receivables secured by mortgages

10-Past due receivables

11-Receivables defined as high risk category by the Regulator

12-Share certificate investment

13-Other receivables

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Bank (continued)

ğ. Risk profile according to sectors and counterparties:

	Risk Classifications ^{(1),(2)}												TL	FC	Total
	1	2	3	4	5	6	7	8	9	10	11	12			
Agricultural	-	-	532.671	-	-	3.902.368	3.541.883	504.516	208.312	10.772	-	-	5.916.290	2.784.232	8.700.522
Farming and raising livestock	-	-	532.671	-	-	2.887.803	2.639.264	334.972	171.762	7.626	-	-	4.493.711	2.080.387	6.574.098
Forestry	-	-	-	-	-	870.719	878.904	167.457	36.087	3.028	-	-	1.376.244	579.951	1.956.195
Fishing	-	-	-	-	-	143.846	23.715	2.087	463	118	-	-	46.335	123.894	170.229
Manufacturing	-	30	12.667	-	-	73.253.166	15.590.822	4.359.316	796.459	58.898	2.492	-	37.050.961	57.022.889	94.073.850
Mining	-	-	14	-	-	2.739.495	443.966	139.488	37.490	1.717	-	-	1.666.456	1.695.714	3.362.170
Production	-	11	3.737	-	-	41.538.680	14.813.010	4.113.824	716.116	50.558	2.492	-	31.705.414	29.533.014	61.238.428
Electric, gas and water	-	19	8.916	-	-	28.974.991	333.846	106.004	42.853	6.623	-	-	3.679.091	25.794.161	29.473.252
Construction	-	2	2	-	-	21.647.631	6.070.669	3.221.344	271.880	55.655	-	18.114	13.498.983	17.786.314	31.285.297
Services	62.360.507	142	63	42.695	19.329.603	35.947.266	9.114.149	2.944.099	474.486	31.725	76.490	5.483.997	62.666.493	73.138.729	135.805.222
Wholesale and retail trade	-	1	-	-	-	5.363.728	3.908.921	831.443	251.306	17.173	-	-	7.883.303	2.489.269	10.372.572
Hotel, food and beverage services	-	-	-	-	-	6.156.798	973.141	1.223.554	47.921	2.507	-	-	2.171.624	6.232.297	8.403.921
Transportation and telecommunication	-	-	1	-	-	7.752.028	1.714.796	281.743	80.841	5.389	5.000	-	3.023.561	6.816.237	9.839.798
Financial institutions	62.360.507	67	-	42.695	19.328.882	2.965.456	214.816	104.156	21.566	345	71.490	5.256.520	41.763.702	48.602.798	90.366.500
Real estate and renting services	-	-	-	-	-	223.378	24.797	5.414	895	44	-	-	126.349	128.179	254.528
Employment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Education services	-	-	-	-	-	165.474	114.645	37.476	7.054	227	-	-	282.546	42.330	324.876
Health and social services	-	74	62	-	721	13.320.404	2.163.033	460.313	64.903	6.040	-	227.477	7.415.408	8.827.619	16.243.027
Other	-	60	55	-	1.733.994	3.374.824	43.348.663	4.369.391	439.597	49.808	33.659	4.552.608	55.960.636	1.942.023	57.902.659
Total	62.360.507	234	545.458	42.695	21.063.597	138.125.255	77.666.186	15.398.666	2.190.734	206.858	112.641	10.054.719	175.093.363	152.674.187	327.767.550

(1) Risk classifications in the "Regulation on Measurement and Evaluation of Capital Adequacy of Banks" will be used.

(2) Includes credit risk amounts of total exposure before credit risk mitigation.

1-Conditional and unconditional receivables from central governments or central banks
2-Conditional and unconditional receivables from regional or local governments
3-Conditional and unconditional receivables from administrative units and non-commercial enterprises
4-Conditional and unconditional receivables from multilateral development banks
5-Conditional and unconditional receivables from banks and brokerage houses
6-Conditional and unconditional receivables from corporates
7-Conditional and unconditional retail receivables
8-Conditional and unconditional receivables secured by mortgages
9-Past due receivables
10-Receivables defined as high risk category by the Regulator
11-Share certificate investment
12-Other receivables

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

h. Risk profile according to remaining maturities:

Risk classifications ⁽¹⁾	1 month	1-3 month	3-6 month	6-12 month	1 year and over	Total
Conditional and unconditional receivables from central governments or central banks	21.991.366	259.184	63.250	1.450.446	38.579.023	62.343.269
Conditional and unconditional receivables from regional or local governments	-	167	-	-	67	234
Conditional and unconditional receivables from administrative units and non-commercial enterprises	-	181	-	12.625	532.652	545.458
Conditional and unconditional receivables from multilateral development banks	105	7.658	7.361	176	27.395	42.695
Conditional and unconditional receivables from banks and brokerage houses	1.583.663	4.346.592	1.679.020	2.298.545	9.858.429	19.766.249
Conditional and unconditional receivables from corporates	14.459.707	8.990.045	11.549.133	15.715.551	86.356.163	137.070.599
Conditional and unconditional retail receivables	23.156.249	8.323.026	4.593.128	7.578.234	32.784.583	76.435.220
Conditional and unconditional receivables secured by mortgages	328.846	627.171	909.866	1.475.730	12.057.053	15.398.666
Past due receivables	-	-	-	-	-	-
Receivables defined as high risk category by the Regulator	31.025	77.816	2.730	7.494	87.794	206.859
Investments similar to collective investment funds	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
General Total	61.550.961	22.631.840	18.804.488	28.538.801	180.283.159	311.809.249

(1) Includes credit risk amounts of total exposure before applying credit risk mitigations.

i. Risk balances according to risk weights:

Total exposure amount before and after applying risk mitigation techniques and total amounts deducted from the capital which are calculated in accordance with the Appendix-1 of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" are presented below:

Risk Weights	0%	20%	35%	50%	75%	100%	150%	Total	Deductions from the shareholders' equity
1 Total exposure before credit risk mitigation	36.144.836	4.255.728	7.200.051	56.299.473	77.666.186	145.328.628	872.648	327.767.550	2.663.386
2 Total exposure after credit risk mitigation	31.671.364	3.625.644	7.200.051	55.410.731	77.456.931	140.660.513	785.325	316.810.559	2.663.386

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

j. Information according to sectors and counterparties:

For loans which are classified as impaired loans due to delay of collection of principal or interest by 90 days and above and/or negative risk assessments of creditworthiness of the debtor; "Specific Provision" is set aside in the accompanying financial statements as of December 31, 2016.

For loans which are classified as past due but not impaired loans due to delay of collection of principal or interest up to 90 days; "General Provision" is set aside in the accompanying financial statements as of December 31, 2016.

Sectors / Counterparties	Loans			
	Impaired Loans	Past due	General Provisions	Specific Provisions
Agricultural	119.040	399.825	7.734	68.876
Farming and raising livestock	91.318	377.203	7.308	51.120
Forestry	19.526	14.678	276	12.416
Fishing	8.196	7.944	150	5.340
Manufacturing	2.044.279	1.697.662	29.037	1.316.484
Mining	42.281	181.577	2.854	23.049
Production	1.830.834	1.256.122	21.525	1.142.931
Electric, gas and water	171.164	259.963	4.658	150.504
Construction	983.973	975.726	15.145	548.741
Services	1.313.102	920.179	17.219	811.916
Wholesale and retail trade	958.094	707.460	13.214	544.053
Hotel, food and beverage services	41.171	74.132	1.437	15.411
Transportation and telecommunication	47.706	23.464	394	34.725
Financial institutions	6.386	43.756	675	1.914
Real estate and renting services	206.450	2.339	380	182.023
Self-employment services	-	-	-	-
Education services	15.264	14.753	268	8.314
Health and social services	38.031	54.275	851	25.476
Other	5.263.939	2.875.357	195.904	4.075.082
Total	9.724.333	6.868.749	265.039	6.821.099

k. Information about value adjustments and changes in the loan impairment:

The Group provides specific provisions for loans which are overdue for 90 days or more by taking into account the collaterals received from customers in accordance with the Provisioning Regulation.

The Group provides general loan loss provision for loans classified as first and second group loan portfolio. This provision is calculated in accordance with the Provisioning Regulation.

	Opening balance	Provision amounts set aside during the period	Reversal of provisions	Other adjustments ⁽¹⁾	Close out balance
1 Specific provisions	4.664.413	2.187.865	(187.634)	5.938	6.670.582
2 General provisions	2.627.271	494.714	(13.201)	787	3.109.571

⁽¹⁾ The figure represents the written off loans, foreign exchange differences and also includes non performing loan sales.

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

III. Explanations on the strategies and policies of the risk management system:

Notes and explanations in this section have been prepared in accordance with the Communiqué On Disclosures About Risk Management To Be Announced To Public By Banks that have been published in Official Gazette no. 29511 on October 23, 2015 and became effective as of March 31, 2016. The standardised approach is used for calculating the capital adequacy of the Bank, therefore, footnotes and explanations related to the internal rating based approach have not been disclosed.

2. Explanations on risk management and risk weighted assets

a) Risk management approach of the Bank

Risk management strategy of the Bank ensures using the capital at an optimum level and provide sustainable growth in this framework through measurement of risks in accordance with international standards and local regulations and taking risk-return balance into consideration in the framework of sustainable growth. Risk management approach of the Bank is based on strong risk management techniques of İSEDES (Evaluation Process of Internal Capital Adequacy) and prospective planning and capital evaluation depending upon risk profile.

A prospective capital planning approach is adopted for the Bank to carry out its operations if certain losses are incurred as a result of unexpected events or deteriorations in markets. The best international practices are utilized for the determination, measurement, analysis and control of risks. The process regarding identification of risks and determination of appropriate measurement method has a dynamic structure in which the risk management is improved through inspiring from advanced international practices and analyses updated in line with its business evolution. A risk appetite framework integrated to budget process, has been developed in order to carry out related activities at an optimum level while reaching predefined budget target of the Bank and therefore an appropriated risk positions are ensured to be taken.

Risk appetite, as an integral part of the main pillar and a crucial instrument of the Bank Management, is implemented in order to ensure the execution of Bank's activities in an ideal manner through taking appropriate risk positions at an acceptable level of risk. Risk appetite, is integrated to management and budget processes of the Bank with performance indicators which are sensitive to risk.

Risk appetite indicators, targets, limits and critical thresholds are determined by the Executive Committee with the joint recommendation of Financial Planning and Financial Affairs Management and Risk Management. Possible changes which may occur in economic conditions are taken into consideration during the determination of aforementioned limits and thresholds.

Determined risk appetite indicators consists of capital adequacy, risk, financing and liquidity ratios of the Bank and senior management ensures the Bank to carry out its activities in the range of such targets and critical thresholds. Senior management should take emergency precautions if the critical thresholds are exceeded. Monitoring and periodical reporting to senior management is performed by the related units in order to implement risk appetite framework.

The Group implements internal policies and procedures that are audited and approved at least once a year by the Board of Directors in order to manage market risks arising from on-balance sheet and off-balance sheet liabilities. Based on the principles mentioned in Regulatory Authority's directives and best practice guidelines, internal policies determine responsibilities and practitioners for identification, measurement, monitoring and reporting of the risks in line with the risk appetite and needs of the Bank; lay the groundwork for granting limits in the Bank; and guide the actions to be taken in case of risk appetite is exceeded.

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Information related to financial position of the Group (continued)

The Credit Policy Directive , which reflects the general framework of the Parent Bank's credit allocation activities, is updated annually and implemented with the approval of the Board of Directors. Credit Policy Directive is based on improving asset quality, supporting effective risk management and compliance with legal practices. In addition, it includes management of all lending activities according to the Bank's common standards, limitations and principles.

The main purpose of the credit risk management is to identify, measure and mitigate credit risk, react in a timely manner and take necessary actions with the help of efficient and well-functioning rating/scoring models, strategies and processes. The main strategies include topics like effective implementation of the Credit Policy Directive to reinforce the sustainability of common risk management approach, steering of the loan portfolio toward less risky sectors, avoidance of excessive concentration in Group exposures while strictly obeying statutory limits, focus on customers with better credit ratings, avoidance of transactions bearing high credit and reputational risk, managing country risk in line with established strategy, policy and rules, timely updates to senior management about all developments in credit risk area to ensure effective credit risk management, performing credit stress tests and participating in credit risk regulatory processes.

ISEDES report is prepared by Credit Risk Management in accordance with the related guide of BRSA and submitted to the approval of Board of Directors. The report mainly includes Bank's approach for the review of risks and capital in order to preserve capital adequacy of the Parent Bank with respect to its current and future activities and information on management structure and applied approaches.

Risk Management reports to Board of Directors in organisation structure via Audit Committee. Risk Management organisation is divided into "Market Risk Management", "Credit Risk Management" and "Credit Risk Control and Operational Risk Management" units.

In the process of market risk management, related business and risk units perform their activities within the scope of the principles determined by internal policies such as the Financial Markets Rulebook, Liquidity Policy, Derivatives Policy, Treasury Credit Line Policy and Fair Value Control Policy.

Value at Risk, Basis Point Value (interest rate sensitivity), and Credit Basis Point Value (credit spread sensitivity) are risk metrics calculated via internal models and used in measurement of market risks. Risk measures are monitored at product, portfolio and account (banking / trade) basis. Performance of internal models is measured by backtesting of the model's outputs.

With the liquidity coverage ratio introduced by Basel III, short term liquidity and structured liquidity methods, which are internally monitored in the Parent Bank, are utilized in liquidity risk management. Measurements performed via internal models in the context of market risk management are reported to the Bank's Top Management, Treasury, Financial Reporting and Credit Monitoring Units (for the Counterparty Credit Risk process) on a daily basis and to the Board of Directors and Executive Committee on a monthly basis.

Stress tests, provide a prospective point of view during risk management , budget and capital planning processes through reviewing the impact of events or changes in markets, which have a low possibility to occur under normal conditions but may result in losses to Bank in case they occur. The Bank performs stress tests to measure impacts of temporary or continuous deteriorations in market risk factors on income statement and to make capital plans. Scenarios, having basis, medium and high stress levels, aim to measure impacts of adverse conditions across the country on the economic value of the Bank through risk factors. Other important risk elements such as Fixed Assets held by the Bank

and financial investment risks faced through its subsidiaries, as well as price movements, are reviewed during stress test processes as well.

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

Stress test studies are made with the active participation of senior management and impact of the stress test to the general risk profile of the Bank is reported. Senior management participates in establishing of stress test's scenario, analyzing of its results, through determination of the scope and approach of the scenario, guidance of required directions and review of results and recommendation of action plans. Stress scenarios, up-to-date estimations and crisis scenarios are prepared by Analytical Modelling and Macroeconomic Research Department under the supervision of Chief Economist.

The Parent Bank reduces market risk exposure within scope of its commercial activities through derivative instruments and makes an effort to control impacts of the risks on capital through hedge accounting implementation. It holds foreign exchange positions to manage residual positions as a result of banking activities through performing a conservative approach to exchange risk and manages its end of day positions at a minimum level.

For the mitigation of risks, Operational risk management carries out the activities of restructuring of processes, pre-assessments and controls of products, use of external sources and management of insurance activities for determination of appropriate exemptions and limitations. It performs studies throughout the Bank in order to analyze related losses and processes to determine risk mitigating actions and decrease future operational risks. Precautions are determined and applied with respect to loss incidents, key operational risk indicators, scenarios, projects and new product analysis.

Business continuity management policy aims at reducing the risks to a minimum level and ensuring the continuity of critical product and services in an acceptable period. The policy is regularly updated and approved by the Board of Directors.

c. Overview of Risk Weighted Assets

	Risk Weighted Assets		Minimum Capital Requirements
	Current Period	Prior Period	Current Period
1 Credit risk (excluding counterparty credit risk) (CCR)	227.412.008	199.311.971	18.192.961
2 Of which standardised approach (SA)	227.412.008	199.311.971	18.192.961
3 Of which internal rating-based (IRB) approach	-	-	-
4 Counterparty credit risk	3.469.703	2.929.494	277.576
5 Of which standardised approach for counterparty credit risk (SA-CCR)	3.469.703	2.929.494	277.576
6 Of which internal model method (IMM)	-	-	-
7 Equity positions in banking book under market-based approach	-	-	-
8 Equity investments in funds – look-through approach	-	-	-
9 Equity investments in funds – mandate-based approach	-	-	-
10 Equity investments in funds – fall-back approach	-	-	-
11 Settlement risk	-	-	-
12 Securitisation exposures in banking book	-	-	-
13 Of which IRB ratings-based approach (RBA)	-	-	-
14 Of which IRB Supervisory Formula Approach (SFA)	-	-	-
15 Of which SA/simplified supervisory formula approach (SSFA)	-	-	-
16 Market risk	1.216.950	984.115	97.356
17 Of which standardised approach (SA)	1.216.950	984.115	97.356
18 Of which internal model approaches (IMM)	-	-	-
19 Operational risk	14.338.007	12.833.313	1.147.041
20 Of which Basic Indicator Approach	14.338.007	12.833.313	1.147.041
21 Of which Standardised Approach	-	-	-
22 Of which Advanced Measurement Approach	-	-	-
23 Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
24 Floor adjustment	-	-	-
25 TOTAL (1+4+7+8+9+10+11+12+16+19+23+24)	246.436.668	216.058.893	19.714.934

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

2. Linkages between financial statements and risk amounts

a. Differences and matching between asset and liabilities' carrying values in financial statements and risk amounts in capital adequacy calculation

	Carrying values in financial statements prepared as per TAS ⁽¹⁾	Carrying values in consolidated Financial statements prepared as per TAS but in compliance with the communiqué "Preparation of Consolidated Financial	Carrying values of items in accordance with TAS			
			Subject to credit risk	Subject to counterparty credit risk	Subject to the Securitisation framework	Not subject to capital requirements or subject to deduction from capital
Assets						
Cash and balances with the Central Bank	33.083.295	33.083.295	33.083.295	-	-	-
Trading Financial Assets	3.030.138	3.040.830	6.635	2.997.482	-	2.057.895
Financial Assets at Fair Value Through Profit or Loss	-	-	-	-	-	-
Banks	3.448.966	3.448.966	3.448.966	-	-	-
Money Market Placements	252	252	252	-	-	-
Financial Assets Available-for-Sale (net)	18.217.306	18.386.109	18.234.359	3.651.723	-	42.298
Loans and Receivables	177.833.362	178.664.422	178.456.761	-	-	109.452
Factoring Receivables	2.884.152	2.894.279	2.894.279	-	-	207.661
Held-to-maturity investments (net)	11.588.890	11.588.890	11.588.890	2.990.209	-	-
Investment in Associates (net)	664.667	669.117	4.503	-	-	664.614
Investment in Subsidiaries (net)	-	7.300	7.300	-	-	-
Investment in Joint ventures (net)	18.114	18.114	-	-	-	18.114
Lease Receivables	8.263.337	8.304.486	8.304.486	-	-	-
Derivative Financial Assets Held For Hedging	1.209.712	1.209.712	-	1.209.712	-	-
Property And Equipment (Net)	1.267.706	2.713.047	2.593.711	-	-	119.336
Intangible Assets (Net)	1.610.950	1.566.864	34.523	-	-	1.532.341
Investment Property (Net)	-	-	-	-	-	-
Tax Asset	94.246	179.391	179.391	-	-	-
Assets Held For Resale And Related To Discontinued Operations (Net)	166.183	166.183	154.315	-	-	11.868
Other Assets	5.151.657	5.193.333	5.193.333	-	-	-
TOTAL ASSETS	268.532.933	271.134.590	264.184.999	10.849.126	-	2.100.193
Liabilities						
Deposits	163.361.872	157.088.195	-	-	-	157.088.195
Derivative Financial Liabilities Held for Trading	2.578.679	2.578.679	-	2.578.679	-	-
Funds Borrowed	30.507.672	30.508.774	-	-	-	30.508.774
Money Markets	2.931.228	9.205.029	-	6.273.801	-	2.931.228
Marketable Securities Issued	17.907.451	18.080.467	-	-	-	18.080.467
Funds	-	-	-	-	-	-
Miscellaneous Payables	13.662.703	11.162.787	-	-	-	11.162.787
Other Liabilities	-	1.956.404	-	-	-	1.956.404
Factoring Payables	-	-	-	-	-	-
Lease Payables	-	-	-	-	-	-
Derivative Financial Liabilities Held For Hedging	89.296	89.296	-	89.296	-	-
Provisions	1.464.965	4.694.072	-	-	-	4.694.072
Tax Liability	41.684	581.841	-	-	-	581.841
Liabilities For Property And Equipment Held For Sale And Related To Discontinued Operations (net)	-	-	-	-	-	-
Subordinated Loans	9.067.893	9.067.893	-	-	-	9.067.893
Shareholder's Equity	26.919.490	26.121.153	-	-	-	26.121.153
TOTAL LIABILITIES	268.532.933	271.134.590	-	8.941.776	-	262.192.814

⁽¹⁾ A amounts valuated in accordance with TAS (IFRS financial statements) reported in financial statements have not been subject to independent audit.

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

b. Main sources of differences between regulatory exposure amounts and carrying values in financial statements

	Total	Subject To Credit Risk	Subject to the Securitisation	Subject To Counterparty Credit Risk	Subject To Market Risk
1 Asset carrying value amount under scope of regulatory Consolidation	277.134.318	264.184.999	-	10.849.126	2.100.193
2 Liabilities carrying value amount under regulatory scope of consolidation	6.899.187	-	-	8.941.776	(2.042.589)
3 Total net amount under regulatory scope of consolidation	284.033.505	264.184.999	-	19.790.902	57.604
4 Off-Balance Sheet Amounts	134.275.945	47.361.169	-	-	-
5 Differences in valuations	-	-	-	-	-
6 Differences due to different netting rules, other than those already included in row 2	-	-	-	-	-
7 Differences due to consideration of provisions	-	-	-	-	-
8 Differences resulted from the BRSA'a applications	-	-	-	-	1.159.346
9 Carrying value of liabilities that are subjected to CCR as per TAS	-	-	-	-	-
10 Differences due to risk reduction	-	(1.502.215)	-	(13.024.296)	-
11 Other	-	-	-	-	-
12 Risk Amounts		310.043.953	-	6.766.606	1.216.950

c. Disclosures regarding differences between exposures valued in accordance with TAS and risk exposures

Main difference between amounts reported in financial statements and valued in accordance with TAS and amounts valued in accordance with TAS in scope of TAS in the framework of legal consolidation is that non-financial subsidiaries are not included in consolidation in scope of legal consolidation.

Bank's financial instruments subject to fair value measurement are valued using Mark-to-Market or Mark-to-Model approach based on their product types. Implementation of valuation methodologies is carried out in accordance with the "Fair Value Measurement" policies in line with the prudent valuation principles set out in the annex of the Directive on Measurement and Assessment of Banks' Capital Adequacy. The Bank uses market prices for bonds and futures contracts traded in organized markets, while it often uses platforms generating Mark-to-Model value for derivative transactions traded in OTC markets. Mark-to-Market or Mark-to-Model valuations are made on a daily basis so that changes in the market can be reflected in the Bank's financials with the same frequency.

The Independent Price Control process (IPV) is designed to draw the errors or deviations that may occur in the valuations to the minimum level, to calculate the correct profit / loss and risk, through verification, comparison and approval of market prices and model inputs regularly with independent and different sources. The purpose of the IPV is to ensure that the data used for bank valuations are generated on a daily basis from a highly representative, adequately liquid and accurate instruments. All these processes have a clear, integrated and complementary approach that is in line with the objectives of the Bank.

Prices quoted in active markets for securities and derivative transactions are used to record the fair value of an instrument, but quoted prices are generally not available in active markets. Appropriate valuation techniques are used for financial instruments that are not traded in the market but the estimated fair value is adjusted through valuation techniques of the market participant's estimation of

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Notes to consolidated financial statements December 31, 2016 (continued)

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Information related to financial position of the Group (continued)

similar asset or liability price. Such adjustments are categorized close out cost, market liquidity, model risk and credit valuation adjustments.

Close out Cost adjustment reflects the amount which would be incurred to arrive at an appropriate ask/liquidation price (financial instruments which are assets at valuation date) or bid/unwind price (financial instruments which are liabilities at valuation date) for financial instruments valued at mid-market prices.

Market liquidity adjustment is calculated to reflect the amount which would be incurred to close out the position when liquidity is not sufficient. When there is not any tradeable price on liquid two way market, a liquidity discount is applied for pricing.

Model risk; reflects the risk stemming from deficiencies in model. Complexity of the model, being market standard and capability to incorporate all known risk factors determine the necessity/applicability of model risk adjustments.

Credit Value Adjustment (CVA), is defined as market value of counterparty credit risk (CCR), which arises from the possibility of a counterparty's default and considered in regulatory capital adequacy calculations for all CCR exposures.

3. Explanations on credit risk

a. General information regarding credit risk

i. General qualitative information regarding credit risk

Credit risk states risk and losses resulting from a situation in which the Bank cannot fulfil its liability through not complying with the contract requirements of the opposite party. The Bank determines a separate credit limit for each of the customers through taking legal legislation into account and internal rating system, financial analysis reports, sectoral concentration and credit policies, which are approved annually by the Board of Directors of the Bank, into consideration for limit allocations. Limits, allocated by the Board of Directors of the Bank for each opposite bank are daily tracked by Treasury Management in treasury transactions such as forward exchanges with correspondent banks and domestic banks and it is also systemically controlled whether the positions taken daily by the officers of Treasury Management, who are authorized to make transactions on the market, are in the range of determined limits or not. Liquid collaterals are prioritized in credit allocations within the framework of sector opportunities. Long term projections of companies are centrally analyzed for long term credit allocations and credits provided for project financing and pricing of interest risk is made for the commitments in question in coordination with treasury management.

The Group monitors debtors of its credit and other receivables with respect to their credit worthiness in accordance with related legislation. It also audits financial tables for credits and updates, when necessary. The Group monitors risk limitations based on debtor and group of debtor basis in accordance with related legal regulations.

Separate internal rating systems are used for small and medium sized enterprises (SMEs) and corporate and commercial customers at the Bank. The rating system used for SME customers gives an opportunity to determine credit approval authorization levels. By this means, firms, having lower rating grades are directed to upper authorization levels while firms, having higher rating grades, are directed to lower authorization levels and risk based optimization is aimed in credit processes.

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Information related to financial position of the Group (continued)

The Parent Bank uses score card to evaluate new applications for individual credits and credit card customers and management of application and limit management of current customers. Score card system is developed internally and updated and approved periodically.

Credit Policy is prepared to be well-structured in line with the BRSA loan management guidebook and aligned with the Unicredit Group rules to the maximum possible extent.

Credit Policy is revised at least once a year, approved by Board of Directors, announced within the bank and implemented in accordance with the appropriate procedures in banks. During the review of credit policies, economic conjuncture, the bank's capital adequacy ratio and amendments in related regulation are taken into consideration. Key elements such as target markets, portfolio structure and concentration, large exposures, credit limit applications, approval authorities are determined in the credit policies. In the policies, key messages are provided based on principles of prudence, continuity about the customers's worthiness, specific sectors, segments and products for growth in accordance with the defined credit strategies.

Credit Risk Management Section is established to manage the credit risk of the Bank by determining, measuring, monitoring, evaluating and reporting the risks. In order to improve the asset quality of the Bank, the main roles and responsibilities of the section are composed of performing periodical analyses on credit portfolio trend, calculating credit risk cost based on segments and executing compliance activities between risk management practices with Basel II requirements.

Credit Risk Management is consisting 4 sub units. Commercial Credit Risk Management is responsible for monitoring the design, development and implementation of probability of default (PD), exposure at default (EAD), loss given default (LGD) models which are in the scope of IRB communique (issued by BRSA – using internal rating based approach for credit risk calculations) and providing the design, development and implementation of all models to be developed under the scope of standards that have been specified for corporate customer segments. Retail Credit Risk Management is responsible for the development of the models and strategies that ensures efficient management of the credits for Banks growth targets and implementation of such strategies and models in rating and decision support systems. Risk Validation Department, performs the risk validation taking into consideration the statistical tests, Bank's internal procedures and competition analyses in the market. Validation processes consist of 3 main steps; data validation, model validation, strategy and process validation.

Basel II Program Management and Credit Risk Control Unit Section is responsible for active participation to the model development process and providing opinion as the last authority monitoring the performance of the rating systems and preparation of regular analysis based on the results, maintainance of proper running of the rating systems, leadership of the activities performed to close the gaps, information to BRSA and related parties in the Bank about the changes on the rating systems, maintainance of the implementation of the models in the Bank's processes in line with BRSA requirements, management of the IRB transition period and submission of necessary documents and monitoring the related projects .

Risk Reporting Control and Operational Risk Management is responsible for preparation of credit risk budgeting and credit risk reporting activities of the Bank, calculation of loan loss provisions on SBU basis; identification of the Credit Policy according to risk appetite of the Bank, implementation of the policy throughout the Banks and its subsidiaries, support to all units in the bank for the related topics. The units establishes a common risk culture on group basis and performs process analyses of credit and risk management functions in subsidiaries to ensure standard risk management practices and establishes action plans for the standardiaization of all gaps within the group. It ensures taking

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(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

action for the correction and improvement data quality through performing tests related to credit and collaterals. The unit prepares reports for assessment of credit risk and for the preparation of various and comprehensive concentrations and forecasts on asset quality trends for the Bank, performs necessary calculations to measure the risk profile of the bank and ensures that the country risk is identified. Prepare comprehensive concentration reports for the assessment of Top Management.

The unit is also responsible for definition of the Operational/IT/Reputational risk policies, for the purpose of measurement, evaluation and management of the operational risk/ IT and reputational risks, implementation of monitoring and measurement systems, identification, reporting and monitoring the key risk indicators, and performance of scenario analyses. The unit also carries out the activities regarding Basel II compliance, operational risk weighted assets (RWA); and risk based insurance activities, implementation and monitoring IT Risk Map and Action Plans, coordination of risk management program for the risk evaluation of the support services.

Regular supervision and controls are performed to ensure that credit process is carried out in compliance with bank credit policies and procedures, loans are extended in accordance with principles and procedures determined by Board of Directors and loans are reported properly with the information of maturity, quantity and qualification to top management

Activities carried out by units within scope of internal systems are employed as a tool to define weak points regarding the credit risk management process, policy and procedures and to determine the transactions that are not compliant with limits, policy and procedures.

Issues that are observed during the examinations is being regularly reported to top management and Audit committee considering importance level.

Summary of the activities of units within the scope of internal systems are effectively utilized by the management and actions are taken in order to prevent repetition of weaknesses and conflicts regarding credit management.

ISEDES report is prepared by Credit Risk Management in accordance with the related guide of BRSA and submitted to the approval of Board of Directors. The report mainly includes Bank's approach for the review of risks and capital in order to preserve capital adequacy of the Bank with respect to its current and future activities and information on management structure and applied approaches.

ii. Credit quality of assets

Cari Dönem	Gross carrying values of as per TAS		Allowances/ impairments	Net values
	Defaulted exposures	Non-defaulted exposures		
1 Loans	9.326.242	187.618.421	9.990.089	186.954.574
2 Debt Securities	-	29.904.969	-	29.904.969
3 Off-balance sheet exposures	875.166	133.986.723	351.475	134.510.414
4 Total	10.201.408	351.510.113	10.341.564	351.369.957

iii. Changes in stock of defaulted loans and debt securities

	Cari Dönem
1 Defaulted loans and debt securities at end of the previous reporting period	7.200.623
2 Loans and debt securities that have defaulted since the last reporting period	4.063.841
3 Returned to non-defaulted status	(70.073)
4 Amounts written off	(703)
5 Other changes	(992.280)
6 Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)	10.201.408

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Notes to consolidated financial statements December 31, 2016 (continued)

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Information related to financial position of the Group (continued)

iv. Additional disclosure related to the credit quality of assets

According to the BRSA Regulation "Regulation on the procedures and principles for the determination of qualification of loans and other receivables by Banks and provision to be set aside" in the cases:

- v. for which recovery of principal and interest or both delays for more than ninety days from their terms or due dates provided that this is no more than one hundred eighty days or;
- vi. which have limited means for total recovery because debtors' equity or guarantees extended by them are found inadequate to cover payment of debts on respective terms and are likely to lead to losses in case any such problems observed are not solved or;
- vii. for which debtors have suffered deterioration in their creditworthiness and credits have suffered weakness consequently or;
- viii. for which it is believed that recovery by banks of principal or interest or both would delay for more than ninety days from their terms or due dates due to reasons such as problems encountered by debtors over operating capital financing or additional liquidity creation,

Loans and receivables are identified as 'non-performing loans' and classified under default accounts. Specific provisions are calculated for these loans by coverage ratios which aside by policy after collateral deduction. There is no difference between "impaired loans" and "loans subject to provisioning" in the bank. All loans with 90 days overdue are subject to specific provisioning.

In accordance with the regulation; in the event that failure to meet payment obligations towards banks stems from temporary liquidity difficulties related to the loans and other receivables as part of the principles of classification, loans and other receivables including any overdue interest may be restructured or subject to a new redemption plan for the purpose of providing debtors with liquidity capability and ensuring recovery of receivables by bank.

Exposures provisioned against by major regions:

Current Period	Total
Domestic	238.885.408
USA,Canada	3.561.419
European Union (EU) Countries	9.735.535
OECD Countries	1.863.598
Off-Shore Banking Regions	176.304
Other Countries	4.095.407
Total	258.317.671

- (1) Breakdown of cash, non-cash and non-performing loans with respect to geographical regions are provided.

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

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Information related to financial position of the Group (continued)

Exposures provisioned against by major sectors (1):

	Current Period
Agricultural	2.961.486
Farming and raising livestock	2.593.974
Forestry	235.491
Fishing	132.021
Manufacturing	99.784.949
Mining and Quarrying	4.133.518
Production	66.388.153
Electricity, Gas, Water	29.263.278
Construction	36.290.281
Services	53.094.507
Wholesale and retail trade	15.198.907
Hotel, food and beverage services	8.151.034
Transportation and telecommunication	10.024.117
Financial institutions	8.199.103
Real estate and leasing services	3.084.283
Self-employment services	1.065.417
Education services	284.806
Health and social services	7.086.840
Other	66.186.448
Total	258.317.671

(1) Breakdown of cash loans, non cash loans and non performing loans by sector is as in the above table.

Receivables according to remaining maturities:

Receivables according to remaining maturities is explained Note VII of Section 4.

Exposures provisioned against by major sectors:

Information on the amount of receivables and provisions provided for on the sector basis are disclosed in Note II of Section 4.

Exposures provisioned against by major regions:

The distribution of the specific provisions is predominantly domestic and a provision amounting to TL 6.545.731 has been set aside for the risk at an amount of TL 8.630.634.

Aging analysis for overdue receivables(1):

	Current Period
31-60 days overdue	5.172.237
61-90 days overdue	1.283.000
Total	6.455.237

(1) Overdue receivables represent over due of cash loans.

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Notes to consolidated financial statements December 31, 2016 (continued)

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Information related to financial position of the Group (continued)

Breakdown of restructured receivables based on whether or not provisions are allocated:

General provision is allocated for the loans restructured from standard loans and loans under Follow-up and other receivables, specific provision is allocated for the loans restructured from non-performing loans.

	Current Period
Loans restructured from Standard Loans and Other	3.318.283
Loans restructured from Loans and other receivables under	2.439.787
Loans restructured from Loans under legal follow-up	528.332
Total	6.286.402

b. Credit risk mitigation

i. Qualitative disclosure on credit risk mitigation techniques

The Bank employs on-balance sheet netting and/or general netting agreements for specific capital market transactions for credit risk mitigation, with the condition of meeting the requirements of having implemented corresponding system supported methods and processes and clear documentation of the required documents.

The Bank may use assets (e.g. loans) and liabilities (e.g. deposits) as an on balance sheet netting instrument considering them as cash collateral.

The capital requirements may be determined on the base of net exposure of assets and liabilities, if the following conditions are met:

- The agreement should provide the Bank the authorization to monitor the receivable of the payee over a single value after netting all payables and receivables even though there is no such indicator for the counterparty showing bankruptcy or financial difficulty in accordance with the regulations of governments.
- The Bank is provided the authority of netting and monitoring the risk over a single value even the counterparty is not in bankruptcy case of a bankruptcy of one counterparty, the other counterparty should have the authority to terminate all contracts under the agreement
- The agreement should provide the facility to monitor the receivable of the payee over a single value after netting all payables and receivables in case of the termination of all contracts

For calculation of the fully-adjusted amount in determining the capital requirements, the supervisory volatility adjustments approach or own estimates volatility adjustments approach or internal models approach may be used.

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Information related to financial position of the Group (continued)

In the policies and procedures regarding the assessment and management of the collaterals as part of collateralized lending, Credit risk mitigation techniques aims at:

- Determination of general and specific requirements for the improvement and optimization of collateral systems, processes, strategies and procedures;
- Valuation of collateral taking into consideration the local regulations and procedures;
- Provision of the soundness, legal enforceability and maintainence of ratable collateral based on a legal framework;
- Determination of the level of the collateral haircut taking the local conditions and the process of risk management into consideration;
- Regular monitoring of the collateral value;
- Differentiation between counterparty (economic) and country (political) risk aspects,
- Mitigation of concentration risks, correlation risks and residual risks through recognition of collateral;
- Improvement in the quality of strategic business and overall Bank management
- Clear definition of Roles and Responsibilities
- Determination of acceptable collaterals and collateral related conditions (list of collateral) / (non-parametric condition list)

The credit policies establish an operational connection between Bank's activities and its risk capacity and covers the main business areas in accordance with target portfolio structure, risk targets regarding expected and unexpected loss in line with risk capacity and limits relating to risk concentration. Limits are ensured to be compliant with restrictions determined by related regulation and regulatory authorities. Bank uses an integrated approach in concentration risk management, in which all risk concentrations are identified, monitored and evaluated. Therefore, besides the loans to individuals and companies, also the concentrations of market, sector, country and segment are being taken into consideration. Bank pays utmost attention to any concentration of the credit and market risks on a specific counterparty or risk classification in accordance with policies and internal procedures.

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

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Information related to financial position of the Group (continued)

ii. Credit risk mitigation techniques – overview

Current Period	Exposures unsecured: carrying amount as per TAS	Exposures secured by collateral	Collateralized amount of exposures secured by collateral	Exposures secured by financial guarantees	Collateralized amount of exposures secured by financial guarantees	Exposures secured by credit derivatives	Collateralized amount of exposures secured by credit derivatives
Loans	159.526.701	27.427.873	17.403.119	3.056.693	1.877.921	-	-
Debt securities	29.904.969	-	-	-	-	-	-
TOTAL	189.431.670	27.427.873	17.403.119	3.056.693	1.877.921	-	-
Of which defaulted	1.625.436	622.182	91.397	855	288	-	-

c. Credit risk under standardised approach

i. Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk

An international rating firm, Fitch Ratings' external risk ratings are used to determine the risk weights of the risk categories as per the Article 6 of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks". The international risk ratings are used for the exposures to central governments/central banks and for asset classes for which the counterparty resides in foreign countries.

Exposures to central governments and central banks which are not rated by Fitch Ratings are included in the calculation of capital adequacy as unrated. Receivables from residents in Turkey are classified as unrated. Risk weights of accounts which are not included in the trading accounts are classified by issuer's credit rating.

Fitch Ratings' risk ratings as per the credit quality grades and the risk weights according to exposure categories are presented below:

Credit Quality Grade	Fitch Ratings	Claims on sovereigns and Central Banks	Claims on administrative bodies and other non- commercial undertakings	Claims on banks and intermediary institutions		Claims on corporates
				Remaining maturity of claims under 3 months	Remaining maturity of claims over 3 months	
1	AAA AA+ AA AA-	0%	20%	20%	20%	20%
2	A+ A A-	20%	50%	20%	50%	50%
3	BBB+ BBB BBB-	50%	100%	20%	50%	100%
4	BB+ BB BB-	100%	100%	50%	100%	100%
5	B+ B B-	100%	100%	50%	100%	150%
6	CCC+ CCC CCC- CC C D	150%	150%	150%	150%	150%

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

ii. Standardised approach – Credit risk exposure and credit risk mitigation (CRM) effects

Current Period		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
Asset classes		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Exposures to central governments or central banks	58.614.442	1.209.711	60.320.156	179.162	15.699.911	%25,95
2	Exposures to regional governments or local authorities	-	835	-	167	83	%49,70
3	Exposures to public sector entities	12.637	843	12.637	169	2.562	%20,01
4	Exposures to multilateral development banks	34.295	9.699	34.295	8.399	-	-
5	Exposures to institutions	11.991.618	4.676.769	12.155.767	2.370.188	7.263.065	%50,00
6	Exposures to corporates	102.370.823	76.973.898	99.334.633	32.942.689	132.277.439	%100,00
7	Retail exposures	66.469.387	46.373.320	66.361.492	11.073.987	58.076.609	%75,00
8	Exposures secured by residential property	7.006.484	394.981	7.006.484	193.567	2.520.018	%35,00
9	Exposures secured by commercial real estate	7.743.934	719.839	7.743.934	454.681	4.099.307	%50,00
10	Past-due loans	2.366.460	-	2.186.414	-	2.166.239	%99,08
11	Higher-risk categories by the Agency Board	113.243	634.531	65.296	138.160	232.557	%114,30
12	Investments in equities	112.641	-	112.641	-	112.641	%100,00
13	Other assets	7.349.035	-	7.349.035	-	4.961.577	%67,51
TOTAL⁽¹⁾		264.184.999	130.994.426	262.682.784	47.361.169	227.412.008	%73,35

(1) Counterparty credit risk is not included in the table.

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Current Period												
	%0	%10	%20	%35	%50	%75	%100	%150	%200	%250	%1250	Total credit risk exposure amount (after CCF and CRM)
Asset classes/ Risk weight												
1 Exposures to central governments or central banks	29.232.770	-	7.638	-	31.121.054	-	137.856	-	-	-	-	60.499.318
2 Exposures to regional governments or local authorities	-	-	-	-	167	-	-	-	-	-	-	167
3 Exposures to public sector entities	-	-	12.806	-	-	-	-	-	-	-	-	12.806
4 Exposures to multilateral development banks	42.694	-	-	-	-	-	-	-	-	-	-	42.694
5 Exposures to institutions	-	-	1.778.179	-	11.680.694	-	1.067.082	-	-	-	-	14.525.955
6 Exposures to corporates	-	-	-	-	-	-	132.277.087	235	-	-	-	132.277.322
7 Retail exposures	-	-	-	-	-	77.435.479	-	-	-	-	-	77.435.479
8 Exposures secured by residential property	-	-	-	7.200.051	-	-	-	-	-	-	-	7.200.051
9 Exposures secured by commercial real estate	-	-	-	-	8.198.615	-	-	-	-	-	-	8.198.615
10 Past-due loans	-	-	-	-	719.279	-	788.205	678.930	-	-	-	2.186.414
11 Higher-risk categories by the Agency Board	-	-	-	-	47.958	-	49.338	106.160	-	-	-	203.456
12 Investments in equities	-	-	-	-	-	-	112.641	-	-	-	-	112.641
13 Other assets	2.302.499	-	106.201	-	-	-	4.940.335	-	-	-	-	7.349.035
TOTAL	31.577.963	-	1.904.824	7.200.051	51.767.767	77.435.479	139.372.544	785.325	-	-	-	310.043.953

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

4. Explanation on counterparty credit risk

a. Qualitative evaluation for Counterparty Credit Risk

Counterparty Credit Risk (CCR) is organized under Market Risk Management and is functioning within the scope of "Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks". These functions include counterparty credit risk calculations within general risk appetite and control process of risk management policies for CCR.

Credit limits under CCR are defined within the scope of internal model method, specified in "Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks. -Appendix 2", considering various stress scenarios.

General policies for collaterals and provisions under credit risk management are also valid for CCR. Exposure and collateral values are calculated on a daily basis. According to CCR Policies, Bank does not carry wrong way risk

In case of a downgrade in credit note, the amount of additional collateral the Bank has to provide is calculated periodically under several stress scenarios.

b. Assessment of Counterparty Credit Risk according to the models of measurement

	Revaluation Cost	Potential credit risk exposure	EEPE ⁽¹⁾	Alpha used for computing regulatory EAD	Exposure after credit risk mitigation	Risk Weighted Amounts
Current Period						
1 Standart Approach-CCR	4.007.844	2.038.466		1,40	6.203.294	3.016.388
2 Internal Model Approach			-	-	-	-
3 Simplified Standardised Approach for Credit Risk Mitigation				-	-	-
4 Comprehensive Method for Credit Risk Mitigation					563.312	198.919
5 Value at Risk for Repo Transactions, Securities or Commodity lending or borrowing transactions				-	-	-
6 Total						3.215.307

(1) Effective expected positive exposure

c. Credit valuation adjustment (CVA) capital charge

Current Period	Exposure (After credit risk mitigation methods)	Risk Weighted Amounts
Total portfolio value with comprehensive approach CVA capital adequacy	-	-
1 (i) Value at risk component (3*multiplier included)	-	-
2 (ii) Stressed Value at Risk (3*multiplier included)	-	-
3 Total portfolio value with simplified approach CVA capital adequacy	6.203.294	254.396
4 Total amount of CVA capital adequacy	6.203.294	254.396

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

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(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

ç. Standardised approach – CCR exposures by regulatory portfolio and risk weights

Current Period										Total credit risk ⁽¹⁾
Risk Weights/Risk Classes	%0	%10	%20	%50	%75	%100	%150	Other		
1 Central governments and central banks receivables	93.402	-	-	-	-	-	-	-	-	93.402
2 Local governments and municipalities receivables	-	-	-	67	-	-	-	-	-	67
3 Administrative and non commercial receivables	-	-	66.057	-	-	-	-	-	-	66.057
4 Multilateral Development Bank receivables	-	-	-	-	-	-	-	-	-	-
5 Banks and Intermediary Institutions receivables	-	-	1.654.763	3.642.896	-	175.960	-	-	-	5.473.619
6 Corporate receivables	-	-	-	-	-	1.112.009	-	-	-	1.112.009
7 Retail receivables	-	-	-	-	21.452	-	-	-	-	21.452
8 Mortgage receivables	-	-	-	-	-	-	-	-	-	-
9 Non performing receivables	-	-	-	-	-	-	-	-	-	-
10 High risk defined receivables	-	-	-	-	-	-	-	-	-	-
11 Investments in equities	-	-	-	-	-	-	-	-	-	-
12 Other receivables	-	-	-	-	-	-	-	-	-	-
Total	93.402	-	1.720.820	3.642.963	21.452	1.287.969	-	-	-	6.766.606

(1) Total credit risk: Value of Capital Adequacy Calculations after Counterparty Credit Risk methods are applied.

d. Composition of collateral for CCR exposure

Collaterals for Derivatives					Collaterals or Other Transactions	
Current Period		Collaterals Taken		Collaterals Given		
		Segregated	Unsegregated	Segregated	Unsegregated	
1 Cash-Local Currency	-	-	-	-	-	4.275.290
2 Cash - Foreign Currency	-	-	-	-	-	1.275.541
3 Total	-	-	-	-	-	5.550.831

e. Credit derivatives exposures

Current Period	Protection Bought	Protection Sold
Nominal		
Single-name credit default swaps	35.192	-
Index credit default swaps	-	-
Total return swaps	-	4.033.003
Credit Options	-	-
Other Credit Derivatives	-	-
Total Nominal	35.192	4.033.003
Rediscount Amount	(15)	(97.052)
Positive Rediscount Amount	354	-
Negative Rediscount Amount	(369)	(97.052)

f. Exposures to central counterparties

None.

5. Securitisations

None.

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

6. Explanations on consolidated market risk

a. Qualitative disclosure on market risk

Market Risk Management department monitors the interest rate, exchange rate, stock, commodity and credit spread risks arising from the main financial activities of the Bank on a daily basis and measures the probability of loss that may arise from the related risks by using internal model. Risks measured are regularly reported to the business units, their compliance with Bank's risk appetite is monitored and impacts on capital requirement are analyzed. By taking into account the distinction between banking and trading portfolios, analyses and measurements enable Market Risk Management to determine specific limits on sub-portfolio / product levels.

Market risks that the Bank is exposed to are assessed and managed by a triple structure consisting of Treasury, Financial Planning and Market Risk Management Units. The Board of Directors, the Executive Committee and the Audit Committee have primary responsibility for management of such risks. Both Top management and the sub-units are responsible for managing the risks taking into account constraints and targets such as Bank's interest rate sensitivity, liquidity constraints, funding sources, budget targets, medium and long-term capital planning and profitability of the products in operation.

Models, strategies and processes that are accurate and integrated in accordance with risks the Bank is or may be exposed to have been established. Automated reporting and validation activities are carried out for effective analysis, monitoring and control mechanisms. Risk management infrastructure integrated with day-to-day activities enabling monitor and measurement independently from executive activities; and supports business and decision-making processes has been established. Policies, processes, targets, roles / responsibilities, and regular trainings are the main elements of the Bank's dissemination of risk culture and awareness. Systems and structures compatible with international best practices and in line with the risk appetite are available for risk management.

The Bank implements internal policies and procedures that are reviewed and approved at least once a year by the Board of Directors in order to manage market risks arising from on and off-balance sheet liabilities. Based on the principles mentioned in Regulatory Authority's directives and best practice guidelines, internal policies determine responsibilities and practitioners for identification, measurement, monitoring and reporting of the risks in line with the risk appetite and needs of the Bank; lay the groundwork for granting limits in the Bank; and guide the actions to be taken in case of risk appetite is exceeded.

Market Risk Management organization consists of 4 sub-units; Market Risk Analysis, Asset-Liability Management and Affiliates Coordination, Counterparty Credit Risk and Risk Methodologies and Market Data Analysis units.

Market Risk Analysis unit; carry out the activities such as measuring and setting limits for risks arising from banking and trading books using advanced internal methods (Value at Risk, Base Point Value Sensitivity etc.), complying policies and procedures with new regulations and best practices, product-based risk / return analysis, developing risk measurement and valuation techniques and applying stress tests.

Asset Liability Management and Subsidiaries Coordination unit; enables the Bank to measure the liquidity risk, manage the structural interest rate exposure, manage the protection procedures and the protection accounting processes used to reduce the risk of re-pricing. Follows the concentration of the bank's funding side. Also paves the way for implementation of Bank-side risk applications and risk culture in the Bank's subsidiaries, plays an active role in risk appetite determination and coordination processes.

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

Counterparty Credit Risk Management Unit calculates the exposures of over the counter (OTC) derivative transactions via internal model method and manages the inclusion of these exposures into the monitoring and the credit underwriting processes.

The Risk Methodologies and Market Data Analysis unit provides unbiased management of all market data related to treasury products under the risk management framework. The unit is responsible for the verification of fair values, and transfer of related data sources to the banking system.

In the course of market risk management, related business and risk units perform their activities within the scope of the principles determined by internal policies such as the Financial Markets Rulebook, Liquidity Policy, Derivatives Policy, Treasury Credit Line Policy and Fair Value Control Policies.

b. Market risk under standardised approach

Current Period	Risk Weighted Asset
Outright products	
Interest rate risk (general and specific)	772.399
Equity risk (general and specific)	42.738
Foreign exchange risk	389.338
Commodity risk	-
Options	-
Simplified approach	-
Delta-plus method	12.475
Scenario approach	-
Securitisation	-
Total	1.216.950

7. Explanations on Operational Risk

The Bank calculates the amount subject to operational risk based on "Basic Indicator Method" by using 2015, 2014 and 2013 year-end gross income balances of the Bank, in accordance with Section 3 of the "Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio", published in the Official Gazette No. 28337 dated June 28, 2012, namely "The Calculation of the Amount Subject to Operational Risk". As of December 31, 2016, the total amount subject to operational risk is TL 13.109.939 (December 31, 2015 - TL 11.675.376) and the amount of the related capital requirement is TL 1.048.795 (December 31, 2015 - TL 934.030).

	2 Prior Period	1 Prior Period	Current Period	Total / Total number of years for	Rate	
	Value	Value	value	which gross income is positive	(%)	Total
Gross Income	5.496.635	7.988.285	9.455.891	7.646.937	15,00%	1.147.041
Amount subject to operational risk (Total*12,5)						14.338.007

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

8. Interest rate risk arising from banking accounts:

Interest rate risk means that the financial structure of the Bank is adversely affected by negative movements in interest rates. Changes in interest rates affect the Bank's earnings by changing the level of net interest incomes, other interest sensitive incomes and operating expenses. The change in interest rates also affects the underlying values of the Bank's assets for active, passive and off-balance sheet items by changing the economic values of future cash flows (and in some cases, the cash flows themselves).

Interest rate risk has three main reasons:

- **Revaluation Risk:** It is caused by the inconsistency in revaluation of active and passive items.
- **Yield Curve Risk:** It results from the variation of the curve and shape of the yield curve.
- **Basis Risk:** It's due to the low correlation of the earned and paid interest yields of different financial instruments with peer revaluation structure.

The customer's prepayment risk (option risk) is indirectly taken into account in managing and following the interest rate risk by following a specific risk protection rate.

Within the scope of the interest rate risk arising from banking accounts, the core deposit analysis for demand deposits is carried out according to the maximum maturity structure of the same regulation. In core deposit analysis, it is possible to distribute demand deposits up to 3 times using behavioral models updated once a year.

Interest rate risk is monitored daily through internal reports and reports made to the Executive Board on a monthly basis.

In accordance with the "Regulation on Measurement and Evaluation of the Interest Rate on Banking Accounts by Standard Shock Method", the economic value differences arising from fluctuations in interest rates are stated in the table below as of December 31, 2016, based on the significant currencies of the Bank.

Currency	Applied shock (+/- x basis points)	Gains/Losses	Gains/SE- Losses/SE
TRY	(+)500 bps	(2.513.657)	%(7,72)
TRY	(-)400 bps	2.503.767	%7,69
EUR	(+)200 bps	(232.786)	%(0,71)
EUR	(-)200 bps	232.057	%0,71
USD	(+)200 bps	(134.829)	%(0,41)
USD	(-)200 bps	286.728	%0,88
Total (For negative shocks)		3.022.552	%9,28
Total (For positive shocks)		(2.881.272)	%(8,85)

IV. Explanations on consolidated currency risk:

The difference between the Group's foreign currency denominated and foreign currency indexed on- and off-balance sheet assets and liabilities is defined as the "Net Foreign Currency Position" and it is the basis of currency risk. Cross currency risk is also taken into consideration for the currency risk calculations and measurements.

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

The Group keeps the amount of currency risk exposure within the related legal limits and follows the exchange position on a daily/regular basis. In addition, although the internal exchange position limit is lower when compared to the related legal limit, there has not been any limit exceeding during the period. As an instrument of currency risk management, derivatives such as swap and forwards are used to reduce risk whenever needed. In order to guard against extreme volatility during the year stress tests are applied. Value at risk method is used for the measurement of foreign exchange risk.

The details of hedging of the foreign currency debt instruments and net foreign currency investment risk with derivative instruments are disclosed in section four Note X.

The Parent Bank's publicly announced foreign exchange bid rates as of the date of the financial statements and for the last five days prior to that date are as follows:

(Exchange rates presented as full TL)

	USD	EUR
Balance sheet evaluation rate	TL 3,51920	TL 3,70990
1.Current bid rate on the first date	TL 3,53180	TL 3,69390
2.Current bid rate on the second date	TL 3,53290	TL 3,69010
3.Current bid rate on the third date	TL 3,51350	TL 3,67110
4.Current bid rate on the fourth date	TL 3,50410	TL 3,66390
5.Current bid rate on the fifth date	TL 3,50770	TL 3,66470
Arithmetic average of the last 31 days:	TL 3,49023	TL 3,67756
Balance sheet evaluation rate as of		
Prior Period:	TL 2,90760	TL 3,17760

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Notes to consolidated financial statements December 31, 2016 (continued)

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Information related to financial position of the Group (continued)

Information on currency risk of the Group:

	EUR	USD	Other FC ⁽⁴⁾	Total
Current period				
Assets				
Cash (cash in vault, effectives, cash in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	6.964.891	12.058.587	5.008.378	24.031.856
Banks	2.339.578	962.258	103.993	3.405.829
Financial assets at fair value through profit or loss	116.621	294.151	62	410.834
Money market placements	-	-	-	-
Available-for-sale financial assets	700.325	2.424.882	21.317	3.146.524
Loans ⁽¹⁾	32.030.525	43.075.738	1.297.705	76.403.968
Investments in associates, subsidiaries and joint ventures	-	-	437.143	437.143
Held-to-maturity investments	868.012	5.889.209	2	6.757.223
Hedging derivative financial assets	24.511	88.593	-	113.104
Tangible assets	2.363	-	32.328	34.691
Intangible assets ⁽⁶⁾	-	-	-	-
Other assets ⁽²⁾	7.064.177	3.775.773	367.623	11.207.573
Total assets	50.111.003	68.569.191	7.268.551	125.948.745
Liabilities				
Bank deposits	1.146.107	1.307.770	60.406	2.514.283
Foreign currency deposits	24.214.215	43.731.650	2.389.788	70.335.653
Funds from money market	242.776	1.736.912	-	1.979.688
Funds borrowed from other financial institutions	18.958.930	9.810.136	372.278	29.141.344
Marketable securities issued	487.387	13.297.887	304.310	14.089.584
Miscellaneous payables	1.579.425	416.396	14.749	2.010.570
Hedging derivative financial liabilities	18.832	4.200	1	23.033
Other liabilities ⁽³⁾	193.253	9.724.788	27.104	9.945.145
Total liabilities	46.840.925	80.029.739	3.168.636	130.039.300
Net on balance sheet position	3.270.078	(11.460.548)	4.099.915	(4.090.555)
Net off balance sheet position⁽⁵⁾	(3.142.494)	11.314.635	(3.490.796)	4.681.345
Financial derivative assets	13.835.834	37.672.799	1.773.627	53.282.260
Financial derivative liabilities	16.978.328	26.358.164	5.264.423	48.600.915
Net position	127.584	(145.913)	609.119	590.790
Non-cash loans	18.594.521	24.690.691	3.554.690	46.839.902
Prior Period				
Total assets	32.470.485	66.706.485	5.900.844	105.077.814
Total liabilities	36.653.072	72.256.600	2.481.489	111.391.161
Net on-balance sheet position	(4.182.587)	(5.550.115)	3.419.355	(6.313.347)
Net off-balance sheet position	4.306.950	5.272.930	(2.551.242)	7.028.638
Financial derivative assets	9.401.060	35.397.322	1.958.188	46.756.570
Financial derivative liabilities	5.094.110	30.124.392	4.509.430	39.727.932
Net position	124.363	(277.185)	868.113	715.291
Non-cash loans	14.948.763	22.669.213	1.949.697	39.567.673

- (1) Includes FX indexed loans amounting to TL 5.733.763 (December 31, 2015 - TL - 5.163.077) which have been disclosed as TL in the financial statements.
- (2) Does not include foreign currency prepaid expenses amounting to TL 124.540 (December 31, 2015 - TL 96.981).
- (3) Does not include foreign currency denominated general provisions for foreign currencies, hedged funds and marketable securities valuation differences under equity.
- (4) Other FC column also includes gold balance.
- (5) Forward transactions classified as commitments are also included.
- (6) In accordance with the principles of the "Regulation on the calculation and implementation of foreign currency net general position/equity standard ratio by banks on consolidated and non-consolidated basis" foreign currency intangible assets amounted TL 17.066 is not considered in the calculation.

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Information related to financial position of the Group (continued)

Currency risk sensitivity analysis ⁽¹⁾:

The table below represents the sensitivity of the Parent Bank to 15% change of currency exchange rates (USD and EUR).

15% change is the assumption of parity change that may be faced in a possible fluctuation used in the Bank's stress test scenarios.

	Current Period	Prior Period
Change in currency exchange rates ⁽¹⁾	Profit/loss effect ⁽²⁾	Profit/loss effect ⁽²⁾
(+) %15	(55.076)	(58.451)
(-) %15	55.076	58.451

(1) Disclosed above is that of the Parent Bank.

(2) Excluding tax effect.

V. Explanations on consolidated interest rate risk:

The monitoring of interest rate sensitive assets and liabilities of the Parent Bank, including sensitivity analyses regarding the effect of interest rate fluctuations on the financial statements, is performed by the risk management department for all interest sensitive instruments over carrying values. The results are presented monthly to the Asset and Liability Management function of the Executive Committee. By using sensitivity and scenario analyses, the possible effects by interest rate volatility are analyzed. In these analyses possible losses are calculated for the change in fair value of interest sensitive products by applying shock tests to interest rates.

Sensitivity analyses are also calculated daily within Market Risk reporting on the basis of maturity and foreign exchange types and reported to Senior Management by checking them against the determined limits.

The Group utilizes TL/foreign currency and TL/TL interest rate swap transactions in order to limit the interest and foreign currency risk arising from short-term deposit and long-term consumer loans within the TL balance sheet.

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

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Information related to financial position of the Group (continued)

a. Interest rate sensitivity of assets, liabilities and off-balance sheet items based on repricing dates:

Current Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Non interest bearing	Total
Assets							
Cash (cash in vault, effectives, cash in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	18.716.507	-	55.603	-	-	14.311.185	33.083.295
Banks	1.288.116	621.003	202.417	1.083	-	1.336.347	3.448.966
Financial assets at fair value through profit/loss	1.084.075	799.785	431.598	429.746	288.991	6.635	3.040.830
Money market placements	252	-	-	-	-	-	252
Available-for-sale financial assets	2.391.170	4.113.076	5.798.470	3.475.043	2.404.967	203.383	18.386.109
Loans	28.880.789	31.619.615	54.549.782	40.263.114	21.172.537	2.178.585	178.664.422
Held-to-maturity investments	11.601	868.075	1.505.914	1.645.515	7.557.785	-	11.588.890
Other assets	3.196.759	1.871.657	2.091.349	5.027.780	766.035	9.968.246	22.921.826
Total assets	55.569.269	39.893.211	64.635.133	50.842.281	32.190.315	28.004.381	271.134.590
Liabilities							
Bank deposits	6.263.450	598.498	696.516	-	-	613.650	8.172.114
Other deposits	87.315.238	25.054.236	8.862.812	981.506	133.683	26.568.606	148.916.081
Funds from money market	6.699.947	915.685	1.502.348	87.049	-	-	9.205.029
Miscellaneous payables	-	-	-	-	-	11.162.787	11.162.787
Marketable securities issued	598.290	10.802.731	1.112.075	5.530.026	37.345	-	18.080.467
Funds borrowed from other financial institutions	7.530.570	10.149.293	10.240.290	1.853.121	735.500	-	30.508.774
Other liabilities ⁽¹⁾	604.694	348.832	597.932	905.572	9.272.345	33.359.963	45.089.338
Total liabilities	109.012.189	47.869.275	23.011.973	9.357.274	10.178.873	71.705.006	271.134.590
Balance sheet long position	-	-	41.623.160	41.485.007	22.011.442	-	105.119.609
Balance sheet short position	(53.442.920)	(7.976.064)	-	-	-	(43.700.625)	(105.119.609)
Off-balance sheet long position	9.992.141	17.275.624	-	-	-	-	27.267.765
Off-balance sheet short position	-	-	(2.350.770)	(16.392.589)	(8.159.895)	-	(26.903.254)
Total position	(43.450.779)	9.299.560	39.272.390	25.092.418	13.851.547	(43.700.625)	364.511

⁽¹⁾ Shareholders' equity is presented in the "Non interest bearing"

Prior Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Non interest bearing	Total
Assets							
Cash (cash in vault, effectives, cash in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	17.087.214	-	58.152	-	-	10.243.581	27.388.947
Banks	928.892	782.638	170.961	-	-	1.229.014	3.111.505
Financial assets at fair value through profit/loss	639.390	221.550	608.555	238.771	49.987	8.040	1.766.293
Money market placements	284.115	2.011	-	-	-	-	286.126
Available-for-sale financial assets	2.064.819	5.606.359	7.561.054	3.788.649	3.546.226	273.097	22.840.204
Loans	24.799.040	18.136.911	49.801.041	39.551.011	20.201.092	1.528.894	154.017.989
Held-to-maturity investments	-	396.679	1.221.604	1.143.899	4.346.627	-	7.108.809
Other assets	1.908.390	1.229.534	1.759.260	4.402.110	564.058	8.884.707	18.748.059
Total assets	47.711.860	26.375.682	61.180.627	49.124.440	28.707.990	22.167.333	235.267.932
Liabilities							
Bank deposits	3.678.714	382.544	672.053	33.072	-	349.936	5.116.319
Other deposits	64.571.208	33.002.949	6.398.343	685.677	288.583	19.961.986	124.908.746
Funds from money market	13.702.748	315.153	245.636	-	-	-	14.263.537
Miscellaneous payables	-	-	-	-	-	9.794.681	9.794.681
Marketable securities issued	435.023	8.129.023	2.325.254	6.251.601	31.992	-	17.172.893
Funds borrowed from other financial institutions	6.792.512	9.134.800	7.339.844	768.127	825.696	-	24.860.979
Other liabilities ⁽¹⁾	763.758	583.539	1.104.543	193.425	6.086.423	30.419.089	39.150.777
Total liabilities	89.943.963	51.548.008	18.085.673	7.931.902	7.232.694	60.525.692	235.267.932
Balance sheet long position	-	-	43.094.954	41.192.538	21.475.296	-	105.762.788
Balance sheet short position	(42.232.103)	(25.172.326)	-	-	-	(38.358.359)	(105.762.788)
Off-balance sheet long position	6.138.880	18.321.753	-	-	-	-	24.460.633
Off-balance sheet short position	-	-	(6.677.496)	(14.181.466)	(4.332.133)	-	(25.191.095)
Total position	(36.093.223)	(6.850.573)	36.417.458	27.011.072	17.143.163	(38.358.359)	(730.462)

⁽¹⁾ Shareholders' equity is presented in the "Non interest bearing"

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

b. Average interest rates for monetary financial instruments:

The following average interest rates of the Group are calculated by weighting the rates with their principal amounts outstanding as of the balance sheet date.

Current Period	EUR	USD	Yen	TL
	%	%	%	%
Assets⁽¹⁾				
Cash (cash in vault, effectives, cash in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	-	0,49	-	3,31
Banks	1,36	0,45	-	11,14
Financial assets at fair value through profit/loss	3,06	3,69	-	9,92
Money market placements	-	-	-	11,00
Available-for-sale financial assets	4,31	5,46	-	9,59
Loans	4,16	5,90	4,97	13,17
Held-to-maturity investments	2,97	5,40	-	9,46
Liabilities⁽¹⁾				
Bank deposits	0,85	1,65	-	11,12
Other deposits	1,55	2,87	1,41	10,74
Funds from money market	0,21	1,18	-	8,50
Miscellaneous payables	-	-	-	-
Marketable securities issued	2,14	4,45	0,35	8,00
Funds borrowed from other financial institutions	1,24	2,38	3,16	6,57

(1) Does not include demand/non-interest transactions.

Prior Period	EUR	USD	Yen	TL
	%	%	%	%
Assets⁽¹⁾				
Cash (cash in vault, effectives, cash in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	-	0,21	-	2,09
Banks	1,53	1,88	-	13,54
Financial assets at fair value through profit/loss	2,06	3,92	-	8,72
Money market placements	-	0,90	-	13,21
Available-for-sale financial assets	4,41	5,81	-	9,96
Loans	4,06	5,34	4,80	14,48
Held-to-maturity investments	3,40	5,39	-	10,61
Liabilities⁽¹⁾				
Bank deposits	1,17	1,13	-	11,07
Other deposits	1,51	2,21	1,72	12,73
Funds from money market	-	1,01	-	7,91
Miscellaneous payables	-	-	-	-
Marketable securities issued	1,78	3,72	0,81	11,07
Funds borrowed from other financial institutions	1,01	2,95	2,99	7,14

(1) Does not include demand/non-interest transactions.

VI. Explanation on share certificates position risk from banking book:

1. Comparison of the carrying, fair and market values of equity shares:

Group has no unconsolidated subsidiaries and joint venture quoted in Borsa Istanbul as of December 31, 2016.

2. Information on realised gains/losses, revaluation surpluses and unrealised gains/losses on equity securities and results included in core and supplementary capitals:

None.

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

VII. Explanations on consolidated liquidity risk and consolidated liquidity coverage ratio:

Liquidity risk is defined as risk of unexpected loss to be occurred or Group to have difficulties in raising funds while meeting maturing liabilities. Liquidity management is daily monitored before Bank under Treasury Management, Risk Management and Capital Management. The liquidity policy of the Group is approved by the Bank's Board of Directors. Treasury Management is responsible for carrying out transactions which are appropriate to Bank's policy, monitoring of liquidity position and submitting necessary reports to executives. Capital management contributes to determine strategies and operating actions for the management of the liquidity position in addition to prepare funding plan and contingency plan of the Bank in cooperation with Treasury Management. Liquidity risk is evaluated with liquidity gap analysis, liquidity stress tests and supplementary precautions/measurements. Liquidity Gap analysis are performed for two different periods as short-term and long-term. Going concern scenario and structural positions are reported monthly. This reporting constitutes the basis of monitoring and management of liquidity position.

The Parent Bank functions as a central funding institution in its relations with its subsidiaries. Intra-group liquidity management and funding strategies are limited with related legal boundaries.

The Parent Bank issues an annual funding plan in order to sustain funding in a consistent and balanced way. Funding plan have to be updated at least annually and approved by the Executive Committee since it is complied with budgeting process and risk appetite frameworks. The primary purpose of the funding plan is to provide a reliable balance between assets and liabilities.

Both short-term liquidity and long-term (structural) liquidity measurement and reporting for all types of currencies are periodically made in Bank and its subsidiaries. There are limits which are predetermined and approved by the Board of Directors on the basis of all currencies for each period.

The Parent Bank mainly uses derivative transactions as managing liquidity risk and monitors cash inflow and outflow periods in the framework of funding plan balancing the distribution among currencies.

The Parent Bank aims to reduce the risks to the lowest level if required via measuring possible risks in liquidity with stress tests. Stress tests make it possible for the Bank to reinterpret analysis of its liquidity position according to scenarios depending on possible cases and tail risks except for crisis situations. The bank applies weekly liquidity stress tests consisting of different scenarios and maturity segments (maximum 60 days).

"Liquidity Contingency Plan" is applied if the Parent Bank needs more liquidity than its daily liquidity need because of possible financial events in future. Duties and responsibilities are defined in detail in the aforementioned plan.

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

CURRENT PERIOD	Unweighted Amounts ⁽¹⁾		Weighted Amounts ⁽¹⁾	
	TL+FC	FC	TL+FC	FC
HIGH QUALITY LIQUID ASSETS				
High Quality Liquid Assets			37.422.117	20.923.220
CASH OUTFLOWS				
Retail and Small Business Customers Deposits	69.078.398	25.675.920	6.010.001	2.567.559
Stable deposits	17.956.777	674	897.839	34
Less stable deposits	51.121.621	25.675.246	5.112.162	2.567.525
Unsecured Funding other than Retail and Small Business Customers Deposits	68.566.219	31.903.268	40.520.630	17.233.336
Operational deposits	-	-	-	-
Non-Operational Deposits	55.217.263	26.946.414	29.254.331	12.276.482
Other Unsecured Funding	13.348.956	4.956.854	11.266.299	4.956.854
Secured funding	-	-	-	-
Other Cash Outflows	10.764.663	9.704.586	10.764.265	9.704.188
Liquidity needs related to derivatives and market valuation changes on derivatives transactions	10.764.095	9.704.018	10.764.095	9.704.018
Debts related to the structured financial products	-	-	-	-
Commitment related to debts to financial markets and other off balance sheet liabilities	568	568	170	170
Commitments that are unconditionally revocable at any time by the Bank and other contractual commitments	58.439.430	37.172.450	2.921.972	1.858.623
Other irrevocable or conditionally revocable commitments	58.288.542	9.963.887	4.197.779	653.655
TOTAL CASH OUTFLOWS			64.414.647	32.017.361
CASH INFLOWS				
Secured Lending Transactions	-	-	-	-
Unsecured Lending Transactions	25.406.848	8.283.971	17.043.616	6.327.234
Other contractual cash inflows	9.585.283	7.961.171	9.585.283	7.961.171
TOTAL CASH INFLOWS	34.992.131	16.245.142	26.628.899	14.288.405
Capped Amounts				
TOTAL HIGH QUALITY LIQUID ASSETS			37.422.117	20.923.220
TOTAL NET CASH OUTFLOWS			37.785.748	17.728.956
Liquidity Coverage Ratio (%)			99,04	118,02

⁽¹⁾ The arithmetic average of the last 3 months' month-end consolidated Liquidity Coverage Ratios are used

The dates and values of minimum and maximum foreign currency and total liquidity coverage ratios calculated weekly related to the last three months of the Parent Bank are explained in the table below.

Current period	Minimum FC (%)	Minimum TOTAL(%)	Maximum FC (%)	Maximum TOTAL(%)
Week	Nov 11, 2016	Oct 7, 2016	Oct 28, 2016	Nov 18, 2016
Ratio (%)	96,77	87,98	145,26	107,51

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

PREVIOUS PERIOD	Unweighted Amounts ⁽¹⁾		Weighted Amounts ⁽¹⁾	
	TL+FC	FC	TL+FC	FC
HIGH QUALITY LIQUID ASSETS				
High Quality Liquid Assets			30.592.256	21.096.422
CASH OUTFLOWS				
Retail and Small Business Customers Deposits	61.274.185	25.773.923	5.149.032	2.303.333
Stable deposits	19.567.731	5.481.180	978.387	274.059
Less stable deposits	41.706.454	20.292.743	4.170.645	2.029.274
Unsecured Funding other than Retail and Small Business Customers				
Deposits	61.696.884	29.923.382	36.240.363	16.330.403
Operational deposits	-	-	-	-
Non-Operational Deposits	48.478.785	25.496.624	24.885.088	11.903.658
Other Unsecured Funding	13.218.099	4.426.758	11.355.275	4.426.745
Secured funding			20.529	20.529
Other Cash Outflows	16.322.074	9.027.288	16.320.394	9.025.608
Liquidity needs related to derivatives and market valuation				
changes on derivatives transactions	16.319.674	9.024.888	16.319.674	9.024.888
Debts related to the structured financial products	-	-	-	-
Commitment related to debts to financial markets and other off				
balance sheet liabilities	2.400	2.400	720	720
Commitments that are unconditionally revocable at any time by the Bank				
and other contractual commitments	50.132.649	32.035.021	2.506.632	1.601.751
Other irrevocable or conditionally revocable commitments	57.598.448	10.980.889	4.236.097	716.157
TOTAL CASH OUTFLOWS			64.473.047	29.997.781
CASH INFLOWS				
Secured Lending Transactions	-	-	-	-
Unsecured Lending Transactions	20.438.444	7.658.842	13.521.423	6.170.588
Other contractual cash inflows	17.043.992	13.455.403	15.741.643	10.434.732
TOTAL CASH INFLOWS	37.482.436	21.114.245	29.263.066	16.605.320
Capped Amounts				
TOTAL HIGH QUALITY LIQUID ASSETS			30.592.256	21.096.422
TOTAL NET CASH OUTFLOWS			35.209.981	13.392.461
Liquidity Coverage Ratio (%)			86,89	157,52

⁽¹⁾The arithmetic average of the last 3 months' month-end consolidated Liquidity Coverage Ratios are used

The dates and values of minimum and maximum foreign currency and total liquidity coverage ratios of the prior period calculated weekly related to the last three months of the Parent Bank for prior period are explained in the table below.

Prior period	Minimum FC (%)	Minimum TOTAL(%)	Maximum FC (%)	Maximum TOTAL(%)
Week	Nov 27, 2015	Dec 4, 2015	Oct 23, 2015	Dec 31, 2015
Ratio (%)	116,83	82,13	170,42	99,16

Funding sources of the Bank mainly consist of deposits which constitute 58% of total liabilities of the bank (December 31, 2015 – 55%) and also include repo, secured loans, syndication, securitization, bond/security issuance and other instruments including subordinated debts.

Cash, effective money, cheques, Central Bank of the Republic of Turkey ("CBRT") reserves and debt instruments issued by Treasury of the Republic of Turkey are treated as high quality liquid assets.

Cash outflows from derivative transactions in liquidity coverage ratio calculation are based on inclusion of net cash flows with maturity of 30 days in the calculation. Additionally, transactions having a margin possibility are included in liquidity coverage ratio calculation by taking the largest amount according to absolute value of net margin flows realized in the last 24 months in respect of 30 days period or for liability into consideration as cash outflow.

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

Secured funding consists of repo and secured loan transactions. A large part of securities which are subjects of aforementioned guaranteed funding transactions consist of Sovereign Bonds issued by Treasury of the Republic of Turkey and transactions are carried out both in CBRT market and interbank market.

The Bank manages all the transactions made before its foreign branches and partnership in the framework of central bank, markets and related legislation of the country in which the institutions are located. Legal lending limits and high limit transactions are closely monitored in this framework.

All cash inflow and outflow items related to liquidity profile of the Bank are included in liquidity coverage ratio tables above.

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

Breakdown of assets and liabilities according to their remaining maturities:

	Demand	Up to 1 Month	1-3 months	3-12 months	1-5 years	5 years and over	Unclassified ⁽¹⁾⁽²⁾	Total
Current Period								
Assets								
Cash (cash in vault, effectives, cash in transit, cheques purchased) and Balances with the Central Bank of the Republic of Turkey	11.059.900	21.967.792	-	55.603	-	-	-	33.083.295
Banks	1.336.347	1.288.116	324.041	499.387	1.075	-	-	3.448.966
Financial assets at fair value through profit or loss	-	554.056	402.704	842.677	887.506	347.252	6.635	3.040.830
Money market placements	-	252	-	-	-	-	-	252
Available-for-sale financial assets	96.640	1.578	124.342	718.519	7.745.531	9.592.756	106.743	18.386.109
Loans	-	26.834.639	21.792.217	40.082.186	47.069.950	40.706.845	2.178.585	178.664.422
Held-to-maturity Investments	-	11.601	-	1.116.243	1.692.743	8.768.303	-	11.588.890
Other assets ⁽¹⁾	2.341.239	2.198.211	1.286.479	2.386.388	5.991.751	1.074.603	7.643.155	22.921.826
Total assets	14.834.126	52.856.245	23.929.783	45.701.003	63.388.556	60.489.759	9.935.118	271.134.590
Liabilities								
Bank deposits	613.650	6.263.450	598.498	696.516	-	-	-	8.172.114
Other deposits	26.568.606	87.315.238	25.054.236	8.862.812	981.506	133.683	-	148.916.081
Funds borrowed from other financial institutions	-	1.548.498	2.694.096	19.245.859	6.275.556	744.765	-	30.508.774
Funds from money market	-	6.699.947	915.685	1.502.348	87.049	-	-	9.205.029
Marketable securities issued	-	598.290	4.238.224	1.112.075	6.952.758	5.179.120	-	18.080.467
Miscellaneous payables	1.160.731	9.471.654	167.339	121.803	38	-	241.222	11.162.787
Other liabilities ⁽²⁾	1.898.009	553.955	624.673	656.847	1.572.225	9.568.228	30.215.401	45.089.338
Total liabilities	30.240.996	112.451.032	34.292.751	32.198.260	15.869.132	15.625.796	30.456.623	271.134.590
Liquidity gap	(15.406.870)	(59.594.787)	(10.362.968)	13.502.743	47.519.424	44.863.963	(20.521.505)	-
Net Off-Balance Sheet Position								
Derivative Financial Assets	-	(64.060)	143.170	315.222	307.331	(307.266)	-	394.397
Derivative Financial Liabilities	-	34.979.429	16.618.726	19.487.152	38.499.350	19.688.420	-	129.273.077
Non-Cash Loans	-	2.484.004	8.277.071	19.733.514	11.905.355	4.248.532	21.806.008	68.454.484
Prior Period								
Total assets	5.842.245	51.623.125	17.584.555	44.461.789	58.497.782	49.126.978	8.131.458	235.267.932
Total liabilities	23.926.320	92.826.699	38.623.070	24.869.206	14.848.860	13.691.309	26.482.468	235.267.932
Liquidity gap	(18.084.075)	(41.203.574)	(21.038.515)	19.592.583	43.648.922	35.435.669	(18.351.010)	-
Net Off-Balance Sheet Position								
Derivative Financial Assets	-	766.932	(471.172)	(120.615)	25.911	(34.020)	-	167.036
Derivative Financial Liabilities	-	29.597.702	15.304.298	28.029.816	28.025.521	11.604.519	-	112.561.856
Non-Cash Loans	-	18.800.986	3.219.079	8.483.380	5.807.118	2.598.971	18.734.662	57.644.196

- (1) Assets that are necessary for continuance of banking activities and that cannot be liquidated in the short-term, such as fixed and intangible assets, investments in associates, subsidiaries, assets held for sale stationary stocks, prepaid expenses and loans under follow-up, are classified in this column.

- (2) Shareholders' equity is presented under the "Other liabilities" item in the "Unclassified" column.

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

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Notes to consolidated financial statements December 31, 2016 (continued)

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Information related to financial position of the Group (continued)

Breakdown of financial liabilities according to their remaining contractual maturities:

The maturity distribution of values at contracted maturity date of non-derivative financial liabilities is presented below. Maturity segments also include the interests of related assets and liabilities.

Current Period ⁽¹⁾	Demand and up to 1 month	1-3 months	3-12 months	1-5 years	Above 5 years	Total
Liabilities						
Deposits	121.503.298	25.967.821	9.778.772	986.930	133.707	158.370.528
Funds borrowed from other financial Institutions	1.582.766	2.812.256	20.122.521	7.814.443	2.654.499	34.986.485
Funds from money market	6.718.374	922.314	1.515.507	87.049	-	9.243.244
Subordinated loans	-	131.831	416.029	2.163.955	10.147.038	12.858.853
Marketable securities issued	634.449	4.311.511	1.345.780	7.433.015	5.300.698	19.025.453
Total	130.438.887	34.145.733	33.178.609	18.485.392	18.235.942	234.484.563

(1) Maturities of non-cash loans are described in Note 3 (iv) of Section V.

Prior Period ⁽¹⁾	Demand and up to 1 month	1-3 months	3-12 months	1-5 years	Above 5 years	Total
Liabilities						
Deposits	88.996.260	33.859.767	7.241.042	754.978	349.975	131.202.022
Funds borrowed from other financial Institutions	1.567.281	2.240.927	14.317.262	6.150.021	4.178.948	28.454.439
Funds from money market	13.719.659	315.429	257.316	-	-	14.292.404
Subordinated loans	-	47.942	300.656	1.936.583	6.697.677	8.982.858
Marketable securities issued	521.307	1.663.115	3.129.545	8.535.659	4.338.997	18.188.623
Total	104.804.507	38.127.180	25.245.821	17.377.241	15.565.597	201.120.346

(1) Maturities of non-cash loans are described in Note 3 (iv) of Section V.

VIII. Explanations on consolidated leverage ratio:

The main reasons for the increase in leverage ratio in the current period are especially the decrease in the risk amounts of the derivative financial instruments and the off-balance sheet items together with the increase in the Tier 1 capital. The summary information for the comparison of total assets in consolidated financials prepared in accordance with TAS and total exposures:

	Current Period ⁽²⁾	Prior Period ⁽²⁾
1 Total assets in the consolidated financial statements prepared in accordance with TAS ^{(1),(2)}	258.250.351	231.901.550
2 Differences between the total assets in the consolidated financial statements prepared in accordance with TAS and the total assets in the consolidated financial statements prepared in accordance with Communiqué on Preparation of Consolidated Financial Statements of the Banks	2.357.502	2.276.833
3 Differences between the balances of derivative financial instruments and the credit derivatives in the consolidated financial statements prepared in accordance with the Communiqué on Preparation of Consolidated Financial Statements of the Banks and their risk exposures	2.628.564	2.467.817
4 Differences between the balances of securities financing transactions in the consolidated financial statements prepared in accordance with the Communiqué on Preparation of Consolidated Financial Statements of the Banks and their risk exposures	(7.113.205)	(9.898.917)
5 Differences between off-balance sheet items in the consolidated financial statements prepared in accordance with the Communiqué on Preparation of Consolidated Financial Statements of the Banks and their risk exposures	(10.420.733)	(2.512.027)
6 Other differences in the consolidated financial statements prepared in accordance with the Communiqué on Preparation of Consolidated Financial Statements of the Banks and their risk exposures	1.994.243	3.911.486
7 Total Risks	6.988.960	383.723.240

(1) The consolidated financial statements prepared in accordance with the sixth paragraph of the Article 5 in the Communiqué on Preparation of Consolidated Financial Statements of the Banks.

(2) The arithmetic average of the last 3 months in the related periods.

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

	Current Period ⁽¹⁾	Prior Period ⁽¹⁾
On-Balance sheet exposures		
On-Balance sheet assets (Excluding derivative financial instruments and credit derivatives, including collaterals)	257.109.769	231.035.701
(Asset amounts deducted in determining Tier 1 capital)	(3.123.919)	(2.594.171)
Total on-Balance sheet exposures	253.985.850	228.441.530
Derivative financial instruments and credit derivatives		
Replacement cost of derivative financial instruments and credit derivatives	1.114.120	826.025
Potential credit risk of derivative financial instruments and credit derivatives	2.628.564	2.467.817
Total derivative financial instruments and credit derivatives exposure	3.742.684	3.293.842
Securities financing transaction exposure		
Total risk of gross securities financing transactions (excluding on-balance sheet exposure)	535.578	1.822.510
Agent transaction exposures	-	-
Total securities financing transaction exposures	535.578	1.822.510
Off-balance sheet items		
Off-balance sheet exposure at gross notional amount	149.145.581	152.677.385
(Adjustments for conversion to credit equivalent amounts)	(10.420.733)	(2.512.027)
Total risk of off-balance sheet items	138.724.848	150.165.358
Capital and total exposure		
Tier 1 capital	23.372.447	20.682.544
Total exposures	396.988.960	383.723.240
15 Leverage ratio (%)	5,89%	5,39%

(1) The arithmetic average of the last 3 months in the related periods.

IX. Explanations on the presentation of financial assets and liabilities at fair values:

The following table summarises the carrying values and fair values of some financial assets and liabilities of the Group. The carrying value represents the acquisition costs and accumulated interest accruals of corresponding financial assets or liabilities.

	Carrying value		Fair value	
	Current Period	Prior Period	Current period	Prior period
Financial assets	212.088.639	187.364.633	218.383.722	190.171.567
Due from money market	252	286.126	252	286.126
Banks	3.448.966	3.111.505	3.450.260	3.113.324
Available-for-sale financial assets	18.386.109	22.840.204	18.386.109	22.840.204
Held-to-maturity investments	11.588.890	7.108.809	10.981.828	7.038.312
Loans	178.664.422	154.017.989	185.565.273	156.893.601
Financial liabilities	225.908.116	188.488.809	225.863.146	189.242.810
Bank deposits	8.172.114	5.116.319	8.186.147	5.121.899
Other deposits	148.916.081	124.908.746	149.132.775	125.145.431
Funds borrowed from other financial institutions	30.508.774	24.860.979	30.074.417	24.989.311
Subordinated loans	9.067.893	6.635.191	9.170.193	6.726.059
Marketable securities issued	18.080.467	17.172.893	18.136.827	17.465.429
Miscellaneous payables	11.162.787	9.794.681	11.162.787	9.794.681

The fair values of deposits, banks, securities issued and funds borrowed from other financial institutions are determined by calculating the discounted cash flows using the current market interest rates.

The fair value of held-to-maturity assets is determined based on market prices or when this price is not available, based on market prices quoted for other securities subject to the same redemption qualifications in terms of interest, maturity and other similar conditions.

Information related to financial position of the Group (continued)

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

The expected fair value of loans and receivables is determined by calculating the discounted cash flows using the current market interest rates for the loans with fixed interest rates. For the loans with floating interest rates (such as overdrafts and credit card receivables), it is assumed that the carrying value approaches to the fair value.

IFRS 13, "Fair Value Measurement", requires classification of line items at fair value presented at the financial statements according to the defined levels. These levels depend on the observability of data used for fair value calculations. Classification for fair value is generated as followed below:

Level 1: Assets or liabilities with prices recorded (unadjusted) in active markets

Level 2: Assets or liabilities that are excluded in the Level 1 of recorded prices directly observable by prices or indirectly observable derived through prices observable from similar assets or liabilities

Level 3: Assets and liabilities where no observable market data can be used for valuation

According to these classification principles stated, the Group's classification of financial assets and liabilities carried at their fair value are as follows:

Current Period	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or (loss)	43.348	2.997.482	-	3.040.830
Government debt securities	36.713	-	-	36.713
Share certificates	6.635	-	-	6.635
Trading derivative financial assets	-	2.997.482	-	2.997.482
Other marketable securities	-	-	-	-
Available-for-sale financial assets	16.166.933	2.211.406	-	18.378.339
Government debt securities	16.052.373	-	-	16.052.373
Other marketable securities ⁽¹⁾	114.560	2.211.406	-	2.325.966
Hedging derivative financial assets	-	1.209.712	-	1.209.712
Total assets	16.210.281	6.418.600	-	22.628.881
Trading derivative financial liabilities	-	2.578.679	-	2.578.679
Marketable securities issued ⁽²⁾	-	4.111.709	-	4.111.709
Hedging derivative financial liabilities	-	89.296	-	89.296
Total liabilities	-	6.779.684	-	6.779.684

(1) As of December 31, 2016, non-listed share certificates accounted at cost in accordance with TAS 39 amounting to TL 7.770 is not included.

(2) Includes some financial liabilities classified at fair value through profit/loss in order to eliminate the accounting mismatch at the initial recognition in accordance with TAS 39 paragraph 9.

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

Prior Period	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or (loss)	74.146	1.692.147	-	1.766.293
Government debt securities	66.106	-	-	66.106
Share certificates	8.040	-	-	8.040
Trading derivative financial assets	-	1.692.147	-	1.692.147
Other marketable securities	-	-	-	-
Available-for-sale financial assets	20.426.821	2.405.868	-	22.832.689
Government debt securities	20.395.137	-	-	20.395.137
Other marketable securities ⁽¹⁾	31.684	2.405.868	-	2.437.552
Hedging derivative financial assets	-	961.041	-	961.041
Total assets	20.500.967	5.059.056	-	25.560.023
Trading derivative financial liabilities	-	1.922.408	-	1.922.408
Marketable securities issued ⁽²⁾	-	3.394.985	-	3.394.985
Hedging derivative financial liabilities	-	148.278	-	148.278
Total liabilities	-	5.465.671	-	5.465.671

(1) As of December 31, 2015, non-listed share certificates accounted at cost in accordance with TAS 39 amounting to TL 7.515 is not included.

(2) Includes some financial liabilities classified at fair value through profit/loss in order to eliminate the accounting mismatch at the initial recognition in accordance with TAS 39 paragraph 9.

The Group classifies its buildings carried at their fair value within property and equipment under level 3.

X. Explanations on hedge accounting:

The Group applies the following hedge accounting models as of December 31, 2016:

- Fair value Hedge ("FVH")
- Cash Flow Hedge ("CFH")

Cross currency interest rate swaps are used as hedging instrument in FVH. Interest rate swaps and cross currency swaps are used as hedging instrument in CFH. Contractual amounts and the fair values as at December 31, 2016 of these hedging instruments are presented in the table below:

	Current Period			Prior Period		
	Notional ⁽¹⁾	Asset	Liability	Notional ⁽¹⁾	Asset	Liability
Hedging instrument						
Interest rate swap / cross currency swap (CFH)	24.782.722	963.417	38.839	28.436.221	703.897	144.047
Cross currency interest rate swap (FVH)	1.208.283	246.295	50.457	666.872	257.144	4.231
Total	25.991.005	1.209.712	89.296	29.103.093	961.041	148.278

(1) Only the "sell" legs of the related derivatives are presented with the addition of the "buy" legs of these derivatives amounting to TL 26.681.427 (December 31, 2015 - TL 29.623.344) the total notional of derivative financial assets amounting to TL 52.672.432 (December 31, 2015 - TL 58.726.437) is accounted for in off-balance sheet under "Hedging Derivative Financial Instruments" line item.

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

The fair valuation methodology of the derivatives presented in the above table is disclosed in detail in the accounting principles section of these financial statements in Section III. Part IV.

Fair value hedge accounting:

Starting from March 1, 2009 and July 28, 2015 for marketable securities, the Bank has hedged the possible fair value effects of changes in market interest rates on part of its fixed interest TL mortgage and car loan portfolios and marketable securities and fair value effects of changes in foreign exchange rates on part of its foreign currency denominated funding and marketable securities by using cross-currency interest rate swaps. The Bank selected to apply macro FVH accounting for such relationship in accordance with TAS 39.

The impact of application of FVH accounting is summarized below;

Current Period						
Type of hedging instrument	Hedged item (asset and liability)	Nature of hedged risks	Fair value difference / adjustment of the hedged item ⁽¹⁾	Net fair value of the ⁽²⁾		Net gain/(loss) recognised in the income statement ⁽³⁾
				Asset	Liability	
Cross currency interest rate swaps	Fixed interest TL mortgage and car loan portfolios and foreign currency funds, foreign currency securities	Fixed interest and changes in foreign exchange rate risk	(8.587)	205.519	49.949	14.710

- (1) The amount refers to the fair value of the hedged item calculated for the TL fixed interest mortgage and car loans in accordance with hedge accounting effectiveness tests. The foreign exchange rate changes of foreign currency fundings and cross-currency swaps are reflected to the income statement in foreign exchange gains / losses line item.
- (2) The amounts include the foreign exchange differences and net straight line interest accruals of the related derivatives.
- (3) The ineffective portion of the mentioned hedging transaction is TL 2.528.

Prior Period						
Type of hedging instrument	Hedged item (asset and liability)	Nature of hedged risks	Fair value difference / adjustment of the hedged item ⁽¹⁾	Net fair value of the ⁽²⁾		Net gain/(loss) recognised in the income statement ⁽³⁾
				Asset	Liability	
Cross currency interest rate swaps	Fixed interest TL mortgage and car loan portfolios and foreign currency funds, foreign currency securities	Fixed interest and changes in foreign exchange rate risk	(23.297)	251.230	3.427	(14.775)

- (1) The amount refers to the fair value of the hedged item calculated for the TL fixed interest mortgage and car loans in accordance with hedge accounting effectiveness tests. The foreign exchange rate changes of foreign currency fundings and cross-currency swaps are reflected to the income statement in foreign exchange gains / losses line item.
- (2) The amounts include the foreign exchange differences and net straight line interest accruals of the related derivatives.
- (3) The ineffective portion of the mentioned hedging transaction is TL 2.286.

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the group (continued)

At the inception date, the Parent Bank documents the relationship between the hedging instruments and hedged items required by the FVH accounting application in accordance with TAS 39 and its own risk management policies and principles. Every individual relationship is approved and documented in the same methodology. In accordance with TAS 39, the effectiveness tests of the relationships are performed in accordance with the Bank's risk management policies. In the effectiveness tests, the fair values of the hedged item are calculated using the same assumptions used in calculation of fair values of the derivatives.

The effectiveness tests are performed prospectively and retrospectively on a monthly basis. At the inception date the effectiveness tests are performed prospectively. If the underlying hedge does not conform to the FVH accounting requirements (out of the 80% - 125% effectiveness range) or if the management voluntarily decides to discontinue the hedging relation, the adjustments made to the carrying value (amortized cost) of the hedged item are amortized with the straight line method and recognized in the profit and loss accounts within the remaining maturity. In addition if the hedging instrument is sold or closed before its maturity, the amount of the fair value adjustments of the hedged items are amortized to profit and loss accounts with the straight line method within the remaining maturity.

Cash flow hedge accounting:

The Parent Bank started to apply macro cash flow hedge accounting from January 1, 2010 onwards in order to hedge its cash flow risk from floating interest rate liabilities. The hedging instruments are USD, EUR and TL interest rate swaps and cross currency swaps with floating receive, fixed pay legs, and the hedged item is the cash outflows due to financing of interests of repricing USD, EUR and TL deposits, borrowings and repos .

The impact of application of CFH accounting is summarized below:

Current Period						
Type of hedging instrument	Hedged item (asset and liability)	Nature of hedged risks	Net fair value of the hedging instrument		Net gain/(loss) recognized in hedging funds ⁽¹⁾	Net gain/(loss) reclassified to equity ⁽²⁾⁽³⁾
			Asset	Liability		
Interest rate swaps/ Cross currency interest rate swaps	Customer deposits, borrowings and repos	Cash flow risk due to the changes in the interest rates	963.417	38.839	379.149	111.184

(1) Includes deferred tax impact.

(2) Includes tax and foreign exchange differences.

(3) The ineffective portion of the mentioned hedging transaction is TL 5.290.

Prior Period						
Type of hedging instrument	Hedged item (asset and liability)	Nature of hedged risks	Net fair value of the hedging instrument		Net gain/(loss) recognized in hedging funds ⁽¹⁾	Net gain/(loss) reclassified to equity ⁽²⁾⁽³⁾
			Asset	Liability		
Interest rate swaps/ Cross currency interest rate swaps	Customer deposits, borrowings and repos	Cash flow risk due to the changes in the interest rates	703.897	144.047	267.965	564.974

(1) Includes deferred tax impact.

(2) Includes tax and foreign exchange differences.

(3) The ineffective portion of the mentioned hedging transaction is TL 6.355.

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the group (continued)

At the inception date, the Parent Bank documents the relationship between the hedging instruments and hedged items required by the CFH accounting application in accordance with TAS 39 and its own risk management policies and principles. Every individual relationship is approved and documented in the same way. In accordance with TAS 39, the effectiveness tests of the relationships are performed in accordance with the Bank's risk management policies.

The effectiveness tests are performed on a monthly basis. If the underlying hedge does not conform to the CFH accounting requirements (out of the 80%-125% effectiveness range) or if the management voluntarily decides to discontinue the hedging relation or the hedging instrument is sold or closed before its maturity, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective shall remain separately in equity until the forecast transaction occurs or is no longer expected to occur. When the hedged forecasted transactions are no longer expected to occur, the net cumulative gain or loss is reclassified from other comprehensive income to profit and loss.

Net Investment Hedge

The Group hedges part of the currency translation risk of net investments in foreign operations through foreign currency borrowings. The Group's EUR denominated borrowing is designated as a hedge of the net investment in the Group's certain EUR denominated subsidiaries. The total amount of the borrowing designated as a hedge of the net investment at December 31, 2016 is EUR 386 million (December 31, 2015 - EUR 348 million).

XI. Explanations on the activities carried out on behalf of others and fiduciary transactions:

The Group carries out trading, custody, management and consulting services on behalf of customers and on their account. The Group has no fiduciary transactions.

XII. Explanations on consolidated operating segments:

The Group carries out its banking operations through three main business units:

- (1) Retail Banking
- (2) Corporate and Commercial Banking
- (3) Private Banking and Wealth Management.

The Parent Bank's Retail Banking activities include card payment systems, SME (small medium size enterprises) banking and individual banking. Retail Banking products and services offered to customers include card payment systems, consumer loans (including general purpose loans, auto loans, mortgages), commercial installment loans, SME loans, time and demand deposits, gold banking, investment accounts, life and non-life insurance products and payroll services. Card payment systems cover the management of products, services, campaigns for member merchants as well as the sales and activities for a variety of customer types. Crystal, Play, Adios and Taksitçi are the other card brands providing services for the different segments within the World brand, shopping and marketing platform of the Bank. The Bank also offers debit card and a prepaid card named World Hediye Card.

Corporate and Commercial Banking segment is organized into three subgroups: Corporate Banking for large-scale companies, Commercial Banking for medium-sized enterprises and Multinational Companies Banking for multinational companies. Corporate and Commercial Banking, has a product range of working capital finance, trade finance, project finance, domestic and international non-cash loans such as letters of credit and letters of guarantee, cash management and internet banking.

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

Through its Private Banking and Wealth Management activities, the Bank serves high net worth customers and delivers investment products to this customer segment. Among the products and services offered to Private Banking customers are time deposit products, capital guaranteed funds, mutual funds, Type A Type B funds, derivative products such as forwards, futures and options in domestic futures exchange (VOB) and international markets, personal loans, foreign exchange, gold and equity trading, pension plans, insurance products and 7/24 safe deposit boxes and e-banking services. Also, personal art advisory, inheritance advisory, real estate advisory, tax advisory and philanthropic advisory are offered within the Private Banking and Wealth Management activities.

The Group's widespread branch network and alternative distribution channels including ATMs, telephone banking, internet banking and mobile banking are utilized to serve customers in all segments. Foreign operations include the Group's banking transactions in the Netherlands, Azerbaijan, Russia and Malta. Treasury, Asset – Liability Management and other operations, mainly consist of treasury management's results, operations of supporting business units and other unallocated transactions.

The below table is prepared in accordance with the Management Information System (MIS) data of the Bank.

Major balance sheet and income statement items based on operating segments:

Current Period	Retail banking	Corporate and commercial banking	Private banking and wealth management	Other foreign operations	Other domestic operations	Treasury, Asset-Liability Management and Other	Consolidation adjustments ⁽¹⁾	Total operations of the Group
Operating revenue continuing	4.352.372	2.806.216	236.421	258.880	591.474	3.693.209	(6.840)	11.931.732
Operating expenses continuing	(4.331.137)	(1.020.631)	(102.516)	(123.775)	(233.340)	(2.465.801)	6.840	(8.270.360)
Net operating income continuing	21.235	1.785.585	133.905	135.105	358.134	1.227.408	-	3.661.372
Dividend income ⁽²⁾	-	-	-	-	-	6.173	-	6.173
Income/Loss from Investments accounted based on equity method	-	-	-	-	-	85.361	-	85.361
Profit before tax	21.235	1.785.585	133.905	135.105	358.134	1.318.942	-	3.752.906
Tax expense ⁽²⁾	-	-	-	-	-	(820.046)	-	(820.046)
Net period income from continuing operations	21.235	1.785.585	133.905	135.105	358.134	498.896	-	2.932.860
Minority interest (-)	-	-	-	-	-	(65)	-	(65)
Group income/loss	21.235	1.785.585	133.905	135.105	358.134	498.831	-	2.932.795
Segment assets	71.341.470	88.591.658	156.652	9.257.004	16.852.514	88.036.974	(3.796.213)	270.440.059
Investments in associates, subsidiaries and joint ventures	-	-	-	-	-	694.531	-	694.531
Total assets	71.341.470	88.591.658	156.652	9.257.004	16.852.514	88.731.505	(3.796.213)	271.134.590
Segment liabilities	61.218.411	55.827.497	32.536.775	7.499.987	14.606.510	77.118.308	(3.794.051)	245.013.437
Shareholders' equity	-	-	-	-	-	26.121.153	-	26.121.153
Total liabilities	61.218.411	55.827.497	32.536.775	7.499.987	14.606.510	103.239.461	(3.794.051)	271.134.590

(1) Consolidation adjustments include transactions with subsidiaries and investments consolidated in these financial statements.

(2) Dividend income and tax provision expenses have not been distributed based on operating segments and have been presented under "Treasury, Asset-Liability Management and Other".

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

Prior Period	Retail banking	Corporate and commercial banking	Private banking and wealth management	Other foreign operations	Other domestic operations	Treasury, Asset-Liability Management and Other	Consolidation adjustments ⁽¹⁾	Total operations of the Group
Operating revenue continuing	4.085.978	2.371.581	213.250	272.453	540.672	2.679.482	43.342	10.206.758
Operating expenses continuing	(3.628.714)	(798.972)	(94.552)	(172.660)	(230.697)	(2.809.676)	8.715	(7.726.556)
Net operating income continuing	457.264	1.572.609	118.698	99.793	309.975	(130.194)	52.057	2.480.202
Dividend income ⁽²⁾	-	-	-	-	-	5.908	-	5.908
Income/Loss from Investments accounted based on equity method	-	-	-	-	-	50.806	-	50.806
Profit before tax	457.264	1.572.609	118.698	99.793	309.975	(73.480)	52.057	2.536.916
Tax expense ⁽²⁾	-	-	-	-	-	(628.188)	-	(628.188)
Net period income from continuing operations	457.264	1.572.609	118.698	99.793	309.975	(701.668)	52.057	1.908.728
Minority interest (-)	-	-	-	-	-	(45)	-	(45)
Group income/loss	457.264	1.572.609	118.698	99.793	309.975	(701.713)	52.057	1.908.683
Segment assets	69.090.016	70.054.161	169.838	7.557.491	13.109.386	77.070.175	(2.361.014)	234.690.053
Investments in associates, subsidiaries and joint ventures	-	-	-	-	-	577.879	-	577.879
Total assets	69.090.016	70.054.161	169.838	7.557.491	13.109.386	77.648.054	(2.361.014)	235.267.932
Segment liabilities	51.068.598	49.253.094	28.125.979	6.169.289	11.085.675	68.837.738	(2.358.843)	212.181.530
Shareholders' equity	-	-	-	-	-	23.086.402	-	23.086.402
Total liabilities	51.068.598	49.253.094	28.125.979	6.169.289	11.085.675	91.924.140	(2.358.843)	235.267.932

(1) Consolidation adjustments include transactions with subsidiaries and investments consolidated in these financial statements.

(2) Dividend income and tax provision expenses have not been distributed based on operating segments and have been presented under "Treasury, Asset-Liability Management and Other".

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Section five

Explanations and notes related to consolidated financial statements

I. Explanations and notes related to consolidated assets:

a. Information related to cash and the account of the Central Bank:

1. Information on cash and the account of the Central Bank of the Republic of Turkey ("the CBRT"):

	Current Period		Prior Period	
	TL	FC	TL	FC
Cash	1.451.290	1.247.992	1.437.741	567.110
The CBRT ⁽¹⁾	7.600.149	22.123.910	2.025.935	23.019.557
Other	-	659.954	-	338.604
Total	9.051.439	24.031.856	3.463.676	23.925.271

- (1) The balance of gold amounting to TL 4.784.973 is accounted for under the Central Bank foreign currency account (December 31, 2015 – TL 3.677.328).

2. Information on the account of the CBRT:

	Current Period		Prior Period	
	TL	FC	TL	FC
Demand unrestricted amount ⁽¹⁾	7.600.149	196.747	2.025.935	2.735.055
Time restricted amount	-	-	-	-
Time unrestricted amount	-	2.107.234	-	-
Reserve requirement ⁽²⁾	-	19.819.929	-	20.284.502
Total	7.600.149	22.123.910	2.025.935	23.019.557

- (1) The TL reserve requirement has been classified in "Central Bank Demand Unrestricted Account" based on the correspondence with BRSA letter as of January 3, 2008.

- (2) The Bank keeps TL, USD, EUR and Gold reserve deposits for its TL and FX liabilities at Central Bank accounts in accordance with the legislation of the Central Bank numbered 2005/1, "Decree on Reserve Deposits".

b. Information on financial assets at fair value through profit and loss:

The Group does not have financial assets at fair value through profit and loss subject to repo transactions (December 31, 2015 - None) and there is no financial assets at fair value through profit and loss given as collateral/blocked (December 31, 2015 - None).

c. Positive differences related to trading derivative financial assets:

	Current Period		Prior Period	
	TL	FC	TL	FC
Forward transactions	341.551	52	154.716	200
Swap transactions ⁽¹⁾	2.175.021	359.084	1.209.471	211.898
Futures transactions	-	-	-	-
Options	87.886	33.873	106.947	8.915
Other	15	-	-	-
Total	2.604.473	393.009	1.471.134	221.013

- (1) Includes Credit Default Swaps

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

ç. Information on banks:

1. Information on banks:

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks				
Domestic	42.324	1.721.272	19.613	1.383.588
Foreign ⁽¹⁾	813	1.684.557	14.813	1.693.491
Headquarters and branches abroad	-	-	-	-
Total	43.137	3.405.829	34.426	3.077.079

(1) The balance of foreign currency account in foreign banks includes the balance of gold amounting to TL 21.364 (December 31, 2015 - 116.632 TL).

2. Information on foreign banks account:

	Unrestricted amount		Restricted amount	
	Current Period	Prior Period	Current Period	Prior Period
EU countries	892.103	420.678	42.509	89.007
USA, Canada	513.937	949.461	77.422	72.690
OECD countries ⁽¹⁾	48.566	38.346	-	18.173
Off-shore banking regions	305	383	-	-
Other	110.528	119.536	-	30
Total	1.565.439	1.528.404	119.931	179.900

(1) OECD countries except EU countries, USA and Canada.

d. Information on available-for-sale financial assets which are subject to repurchase agreements and given as collateral / blocked:

Carrying values of available-for-sale financial assets which are subject to repurchase agreements and given as collateral / blocked:

Available-for-sale financial assets given as collateral/blocked amount to TL 1.567.715 (December 31, 2015 - TL 4.172.519) and available-for-sale financial assets subject to repo transactions amounts to TL 3.651.723 (December 31, 2015 - TL 8.389.163).

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

e. Information on available-for-sale financial assets:

	Current Period	Prior Period
Debt securities	18.381.399	22.925.060
Quoted on stock exchange	17.566.627	21.794.371
Not quoted ⁽¹⁾	814.772	1.130.689
Share certificates	152.061	300.332
Quoted on stock exchange	119	112
Not quoted ⁽²⁾	151.942	300.220
Impairment provision (-) ⁽³⁾	(243.991)	(403.267)
Other ⁽⁴⁾	96.640	18.079
Total	18.386.109	22.840.204

(5) Includes credit linked notes amounting to TL 475.930 (December 31, 2015 - TL 476.119).

(6) After the completion of the acquisition of Visa Europe by Visa Inc., 18.871 Series C Visa Inc. preferred shares have been allocated to the Bank.

(7) The figure includes the negative differences between the cost and the amortised cost of the securities and the impairment provisions, if any.

(8) Other available-for-sale financial assets include mutual funds.

f. Explanations on loans:

1. Information on all types of loans or advance balances given to shareholders and employees of the Group:

	Current Period		Prior Period	
	Cash	Non-cash	Cash	Non-cash
Direct loans granted to shareholders	-	-	-	-
Corporate shareholders	-	-	-	-
Real person shareholders	-	-	-	-
Indirect loans granted to shareholders	105.720	1.158.561	6.593	954.585
Loans granted to employees	150.384	620	138.434	492
Total	256.104	1.159.181	145.027	955.077

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

2. Information on the first and second group loans and other receivables and loans and other receivables that have been restructured or rescheduled:

Cash Loans	Standard loans and other receivables			Loans and other receivables under close monitoring		
	Loans and other receivables (Total)	of which, terms & conditions are changed		Loans and other receivables (Total)	of which, terms & conditions are changed	
		Payment plan extensions	Other		Payment plan extensions	Other
Non-specialized loans	170.484.214	3.318.283	-	6.001.623	2.439.787	123.451
Loans given to enterprises	88.451.393	825.962	-	1.509.038	800.574	84.205
Export loans	5.957.240	98.750	-	89.845	68.147	-
Import loans	-	-	-	-	-	-
Loans given to financial sector	4.093.778	-	-	-	-	-
Consumer loans	29.912.146	1.284.739	-	1.165.790	266.054	26.956
Credit cards	21.780.057	779.198	-	466.554	216.201	12.289
Other	20.289.600	329.634	-	2.770.396	1.088.811	1
Specialized lending	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
Total	170.484.214	3.318.283	-	6.001.623	2.439.787	123.451

(1) Fair value differences of the hedged items amounting to TL 21.890 expense are classified in other loans as explained in Note XII, Section IV.

	Standard loans and other receivables	Loans and other receivables under close monitoring
Number of modifications made to extend payment plan^{(1),(2),(3),(4)}		
Extended by 1 or 2 times	2.796.801	1.934.629
Extended by 3,4 or 5 times	466.129	421.621
Extended by more than 5 times	55.353	83.537
Total	3.318.283	2.439.787

	Standard loans and other receivables	Loans and other receivables under close monitoring
Number of modifications made to extend payment plan^{(1),(2),(3),(4)}		
0 - 6 Months	262.456	266.696
6 - 12 Months	230.458	230.178
1 - 2 Years	759.034	406.269
2 - 5 Years	1.314.542	686.869
5 Years and over	751.793	849.775
Total	3.318.283	2.439.787

(1) There is no loan which is subject to the temporary article 5 subsection 2 of the amendment of Provisioning Regulation dated on April 09, 2011

(2) There are 87 loans restructured in accordance with temporary article 6 subsection 2 of the amendment of Provisioning Regulation dated December 30, 2011 with maturities Until 0-6 months, 6-12 months and 1-2 years, 2-5 years, 5 years and over. 72 of them were restructured once or twice, 12 of them were restructured three, four or five times, 3 of them were structured more than five times.

(3) There is no loan which is subject to the temporary article 7 of the amendment of Provisioning Regulation dated on September 21, 2012.

(4) There are 546 loans restructured in accordance with temporary article 10 subsection of the amendment of Provisioning Regulation dated August 5, 2016 with maturities Until 0-6 months, 6-12 months and 1-2 years, 2-5 years, 5 years and over. 366 of them were restructured once or twice, 134 of them were restructured three, four or five times, 46 of them were structured more than five times.

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

3. Loans according to their maturity structure:

	Standard loans and other receivables	Agreement conditions modified	Loans and other receivables under close monitoring	Agreement conditions modified
	Loans and other receivables		Loans and other receivables	
Short-term loans and other receivables	55.999.980	921.250	1.044.618	412.817
Non-specialised loans	55.999.980	921.250	1.044.618	412.817
Specialised loans	-	-	-	-
Other receivables	-	-	-	-
Medium and long-term loans and other receivables	111.165.951	2.397.033	2.393.767	2.150.421
Non-specialised loans	111.165.951	2.397.033	2.393.767	2.150.421
Specialised loans	-	-	-	-
Other receivables	-	-	-	-

4.

(i) Information on loans by types and specific provisions:

Current Period	Corporate, commercial and other loans	Consumer loans	Credit cards	Financial Leasing	Factoring	Total
Standard loans	118.792.011	29.912.146	21.780.057	7.966.725	2.709.393	181.160.332
Watch list	4.369.279	1.165.790	466.554	279.550	174.064	6.455.237
Loans under legal follow-up	5.018.769	2.181.464	1.648.934	335.655	141.420	9.326.242
Specific provisions (-)	(3.472.056)	(1.805.842)	(1.392.684)	(277.444)	(130.598)	(7.078.624)
Total	124.708.003	31.453.558	22.502.861	8.304.486	2.894.279	189.863.187

Prior Period	Corporate, commercial and other loans	Consumer loans	Credit cards	Financial Leasing	Factoring	Total
Standard loans	100.194.821	28.127.331	19.312.167	6.644.822	2.143.844	156.422.985
Watch list	3.048.392	1.198.035	608.349	180.017	89.924	5.124.717
Loans under legal follow-up	3.605.834	1.527.753	1.059.720	279.521	130.318	6.603.146
Specific provisions (-)	(2.668.475)	(1.174.379)	(821.559)	(242.099)	(104.962)	(5.011.474)
Total	104.180.572	29.678.740	20.158.677	6.862.261	2.259.124	163.139.374

(ii) Fair value of collaterals:

Current Period	Corporate, commercial and other loans	Consumer loans	Credit cards	Financial Leasing	Factoring	Total
Watch List	8.309.903	998.699	-	279.550	-	9.588.152
Loans under legal follow-up ⁽¹⁾	1.173.649	100.758	-	335.655	-	1.610.062
Total	9.483.552	1.099.457	-	615.205	-	11.198.214

Prior Period	Corporate, commercial and other loans	Consumer loans	Credit cards	Financial Leasing	Factoring	Total
Watch List	4.795.752	3.214.142	-	69.011	-	8.078.905
Loans under legal follow-up ⁽¹⁾	643.319	80.044	-	40.153	-	763.516
Total	5.439.071	3.294.186	-	109.164	-	8.842.421

(1) Fair values of collaterals received for non-performing loans are calculated by using hair-cuts over their nominal values in accordance with the "Regulation of Procedures for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be set aside".

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

5. Information on consumer loans, individual credit cards, personnel loans and personnel credit cards:

	Short- term	Medium and long-term	Total
Consumer loans-TL	294.430	29.367.681	29.662.111
Real estate loans	6.907	12.525.704	12.532.611
Automotive loans	10.542	348.603	359.145
Consumer loans	276.981	16.493.374	16.770.355
Other	-	-	-
Consumer loans-FC indexed	-	36.673	36.673
Real estate loans	-	36.050	36.050
Automotive loans	-	-	-
Consumer loans	-	623	623
Other	-	-	-
Consumer loans-FC	26.951	52.729	79.680
Real estate loans	553	15.025	15.578
Automotive loans	1.226	723	1.949
Consumer loans	11.633	16.464	28.097
Other	13.539	20.517	34.056
Individual credit cards-TL	14.939.409	901.084	15.840.493
With installments	8.046.443	889.423	8.935.866
Without installments	6.892.966	11.661	6.904.627
Individual credit cards-FC	20.137	37.762	57.899
With installments	14.014	37.762	51.776
Without installments	6.123	-	6.123
Personnel loans-TL	5.875	61.065	66.940
Real estate loans	-	1.836	1.836
Automotive loans	-	127	127
Consumer loans	5.875	59.102	64.977
Other	-	-	-
Personnel loans-FC indexed	-	-	-
Real estate loans	-	-	-
Automotive loans	-	-	-
Consumer loans	-	-	-
Other	-	-	-
Personnel loans-FC	347	846	1.193
Real estate loans	-	-	-
Automotive loans	-	-	-
Consumer loans	139	586	725
Other	208	260	468
Personnel credit cards-TL	79.455	425	79.880
With installments	37.819	425	38.244
Without installments	41.636	-	41.636
Personnel credit cards-FC	611	115	726
With installments	401	115	516
Without installments	210	-	210
Credit deposit account-TL (real person)⁽¹⁾	1.231.295	-	1.231.295
Credit deposit account-FC (real person)	44	-	44
Total	16.598.554	30.458.380	47.056.934

(1) TL 1.645 of the credit deposit account belongs to the loans used by personnel.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

6. Information on commercial installment loans and corporate credit cards:

	Current Period		Total
	Short- term	Medium and long-term	
Commercial installments loans-TL	999.006	8.574.235	9.573.241
Business loans	962	814.402	815.364
Automotive loans	55.338	1.459.996	1.515.334
Consumer loans	942.706	6.299.837	7.242.543
Other	-	-	-
Commercial installments loans-FC indexed	9.998	226.175	236.173
Business loans	-	19.030	19.030
Automotive loans	16	65.260	65.276
Consumer loans	9.982	141.885	151.867
Other	-	-	-
Commercial installments loans-FC	-	-	-
Business loans	-	-	-
Automotive loans	-	-	-
Consumer loans	-	-	-
Other	-	-	-
Corporate credit cards-TL	6.266.960	501	6.267.461
With installment	4.109.171	47	4.109.218
Without installment	2.157.789	454	2.158.243
Corporate credit cards-FC	152	-	152
With installment	-	-	-
Without installment	152	-	152
Credit deposit account-TL (legal person)	1.055.185	-	1.055.185
Credit deposit account-FC (legal person)	-	-	-
Total	8.331.301	8.800.911	17.132.212

7. Loans according to types of borrowers:

	Current Period	Prior Period
Public	1.759.966	1.713.483
Private	174.725.871	150.775.612
Total	176.485.837	152.489.095

8. Distribution of domestic and foreign loans: Distribution has been disclosed based on the location where the customers operate.

	Current Period	Prior Period
Domestic loans	172.498.400	149.261.801
Foreign loans	3.987.437	3.227.294
Total	176.485.837	152.489.095

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

9. Loans granted to associates and subsidiaries:

	Current Period	Prior Period
Direct loans granted to associates and subsidiaries	21.974	33.816
Indirect loans granted to associates and subsidiaries	-	-
Total	21.974	33.816

10. Specific provisions provided against loans:

	Current Period	Prior Period
Loans and other receivables with limited collectability	167.995	124.531
Loans and other receivables with doubtful collectability	722.883	519.512
Uncollectible loans and other receivables	5.779.704	4.020.370
Total	6.670.582	4.664.413

Current Period	Corporate, commercial and other loans	Consumer loans	Credit cards	Total
January 1	2.668.475	1.174.379	821.559	4.664.413
Allowance for impairment	1.206.971	890.323	729.235	2.826.529
Amount recovered during the period	(408.573)	(259.335)	(158.390)	(826.298)
Loans written off during the period as uncollectible ⁽¹⁾	(125)	(574)	(4)	(703)
Exchange difference	5.308	1.049	284	6.641
December 31	3.472.056	1.805.842	1.392.684	6.670.582

Prior Period	Corporate, commercial and other loans	Consumer loans	Credit cards	Total
January 1	1.961.533	762.778	381.970	3.106.281
Allowance for impairment	1.145.261	668.114	598.949	2.412.324
Amount recovered during the period	(399.791)	(254.220)	(158.289)	(812.300)
Loans written off during the period as uncollectible ⁽¹⁾	(37.633)	(46)	(11)	(37.690)
Exchange difference	(895)	(2.247)	(1.060)	(4.202)
December 31	2.668.475	1.174.379	821.559	4.664.413

(1) Also includes the effects of the sales of non-performing loan portfolios.

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

11. Information on non-performing loans (net):

(i).Information on non-performing loans restructured or rescheduled by the Group, and other receivables:

	III. Group Loans and other receivables with limited collectability	IV. Group Loans and other receivables with doubtful collectability	V. Group Uncollectible loans and other receivables
Current Period			
(Gross amounts before specific reserves)	21.222	101.075	406.035
Restructured loans and other receivables	21.222	101.075	406.035
Rescheduled loans and other receivables	-	-	-
Prior Period			
(Gross amounts before specific reserves)	51.746	88.265	146.882
Restructured loans and other receivables	51.746	88.265	146.882
Rescheduled loans and other receivables	-	-	-

(ii).Information on the movement of total non-performing loans:

	III. Group Loans and other receivables with limited collectability	IV. Group Loans and other receivables with doubtful collectability	V. Group Uncollectible loans and other receivables
Prior Period	694.782	1.310.280	4.188.245
Additions (+)	3.431.445	141.660	145.811
Transfers from other categories of non-performing loans (+)	-	2.851.441	2.238.822
Transfer to other categories of non-performing loans (-)	(2.851.441)	(2.238.822)	-
Collections (-)	(253.993)	(243.522)	(564.287)
FX valuation differences	(999)	(399)	847
Write-offs (-)	-	-	(703)
Corporate and commercial loans	-	-	(95)
Consumer loans	-	-	(574)
Credit cards	-	-	(4)
Other	-	-	(30)
Current Period	1.019.794	1.820.638	6.008.735
Specific provision (-)	(167.995)	(722.883)	(5.779.704)
Net balance on balance sheet	851.799	1.097.755	229.031

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

(iii).Information on non-performing loans granted as foreign currency loans

	III. Group Loans and other receivables with limited collectability	IV. Group Loans and other receivables with doubtful collectability	V. Group Uncollectible loans and other receivables
Current Period⁽¹⁾			
Period end balance	310	14.016	128.698
Specific provision (-)	(169)	(7.483)	(74.747)
Net balance on-balance sheet	141	6.533	53.951
Prior Period			
Period end balance	1.130	10.614	563.217
Specific provision (-)	(501)	(6.058)	(461.751)
Net balance on-balance sheet	629	4.556	101.466

(1) Foreign currency non-performing loans are translated with the exchange rates at the date of transfer to TL non performing loans accounts.

(iv).Information on the gross and net amounts of the non-performing loans according to types of borrowers:

	III. Group Loans and other receivables with limited collectability	IV. Group Loans and other receivables with doubtful collectability	V. Group Uncollectible loans and other receivables
Current Period (net)	851.799	1.097.755	229.031
Loans granted to real persons and corporate entities (gross)	1.019.794	1.820.638	5.900.172
Specific provision amount (-)	(167.995)	(722.883)	(5.671.141)
Loans granted to real persons and corporate entities (net)	851.799	1.097.755	229.031
Banks (gross)	-	-	24.575
Specific provision amount (-)	-	-	(24.575)
Banks (net)	-	-	-
Other loans and receivables (gross)	-	-	83.988
Specific provision amount (-)	-	-	(83.988)
Other loans and receivables (Net) ⁽¹⁾	-	-	-
Prior Period (net)	570.251	790.768	167.875
Loans granted to real persons and corporate entities (gross)	694.782	1.310.280	4.079.682
Specific provision amount (-)	(124.531)	(519.512)	(3.911.807)
Loans granted to real persons and corporate entities (Net)	570.251	790.768	167.875
Banks (gross)	-	-	24.575
Specific provision amount (-)	-	-	(24.575)
Banks (net)	-	-	-
Other loans and receivables (gross)	-	-	83.988
Specific provision amount (-)	-	-	(83.988)
Other loans and receivables (Net) ⁽¹⁾	-	-	-

(1) The figure represents the total loans and receivables of Agrosan Kimya Sanayi Ticaret A.Ş., Tümteks Tekstil Sanayi Ticaret A.Ş and balances from Boyasan Tekstil Sanayi ve Ticaret A.Ş. in accordance with the Article 6 Paragraph 9 of regulation for provisions taken into account classification of loans and receivables.

Explanations and notes related to consolidated financial statements (continued)

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

12. Explanation on liquidation policy for uncollectible loans and receivables;

Uncollectible loans and receivables, which are classified in accordance with the Provisioning Regulation, are collected through legal follow-up, voluntary payments and liquidation of collaterals.

13. Explanation on "Write-off" policies:

The Bank's general policy for write-offs of loans and receivables under follow-up is to write off such loans and receivables that are proven to be uncollectible in legal follow-up process.

g. Information on held-to-maturity investments:

1. Characteristics and carrying values of held-to-maturity investments subject to repurchase agreements given as collateral / blocked:

Held-to-maturity investments given as collateral/blocked amounts to TL 2.779.442 (December 31, 2015 - TL 1.758.825). Held-to-maturity investments subject to repurchase agreements amount to TL 2.990.209 (December 31, 2015 - TL 3.147.388).

2. Information on government debt securities held-to-maturity:

	Current Period	Prior Period
Government bond	10.789.054	6.618.626
Treasury bill	-	-
Other debt securities	799.836	490.183
Total	11.588.890	7.108.809

3. Information on investment securities held-to-maturity:

	Current Period	Prior Period
Debt securities	11.887.471	7.303.077
Quoted on stock exchange	11.887.471	7.303.077
Not quoted	-	-
Impairment provision (-) ⁽¹⁾	(298.581)	(194.268)
Total	11.588.890	7.108.809

(1) Includes amortisation of the premiums paid during the purchase of the securities throughout the maturity of the securities and the impairment provisions, if any.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

4. Movement of held-to-maturity investments within the period:

	Current Period	Prior Period
Beginning balance	7.108.809	5.556.369
Foreign currency differences on monetary assets ⁽¹⁾	1.203.918	931.823
Purchases during year	1.703.125	913.249
Transfers ⁽³⁾	1.960.740	-
Disposals through sales and redemptions	(283.389)	(220.904)
Impairment provision (-) ⁽²⁾	(104.313)	(71.728)
Period end balance	11.588.890	7.108.809

(1) Also includes the changes in the interest income accruals.

(2) Includes amortisation of the premiums paid during the purchase of the securities throughout the maturity of the securities and the impairment provisions, if any.

(3) On July 18, 2016, the Bank classified some of its government debt securities from available-for-sale to held-to-maturity portfolio with a nominal amount of TL 1.970.607. The fair value of the aforementioned securities as of July 18, 2016 is TL 2.008.079 and has 8 years maturity in average.

ğ. Information on investments in associates (net):

1. General information on unconsolidated investments in associates:

No	Description	Address (City/ Country)	The Parent Bank's shareholding percentage - if different voting percentage (%)	Bank's risk group shareholding percentage (%)
1	Kredi Kayıt Bürosu ⁽¹⁾	Istanbul/Turkey	18,18	18,18
2	Bankalararası Kart Merkezi A.Ş. ⁽¹⁾	Istanbul/Turkey	9,98	9,98

No	Total assets	Shareholders' equity	Total fixed assets	Interest Income	Income from marketable securities portfolio	Current period profit / loss	Prior period profit / loss	Market Value
1	185.448	129.647	135.578	2.817	89	16.643	26.782	-
2	80.262	39.897	50.021	1.068	-	10.403	3.869	-

(1) Financial statement information disclosed above shows September 30, 2016 results.

2. Consolidated investments in associates:

(i). Information on consolidated investments in associates:

No	Description	Address (City/ Country)	The Parent Bank's shareholding percentage - if different voting percentage (%)	Other Shareholders' shareholding percentage (%) ⁽¹⁾
1	Banque de Commerce et de Placements S.A.	Geneva/ Switzerland	30,67	-
2	Allianz Yaşam ve Emeklilik A.Ş.	Istanbul/Turkey	-	20,00

(1) Other shareholders represent the consolidated Group companies.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

- (ii). Main financial figures of the consolidated investments in associates in order of the above table:

No	Total assets	Shareholders' equity	Total fixed assets	Interest Income	Income from marketable securities portfolio	Current period profit / loss	Prior period profit / loss	Market Value
1	16.013.192	1.548.742	7.678	152.141	24.530	86.975	68.320	-
2	1.328.619	413.095	26.268	138.273	-	202.268	140.075	-

- (iii). Movement of consolidated investments in associates:

	Current Period	Prior Period
Balance at the beginning of the period	545.225	456.584
Movements during the period	119.389	88.641
Purchases	-	-
Free shares obtained profit from current years share	-	-
Dividends from current year income	88.099	49.009
Sales	-	-
Revaluation (decrease) / increase ⁽²⁾	58.861	61.566
Impairment provision ⁽¹⁾	(27.571)	(21.934)
Balance at the end of the period	664.614	545.225
Capital commitments	-	-
Shareholding percentage at the end of the period (%)	-	-

(1) Includes dividend income received in the current period.

(2) Includes the differences in the other comprehensive income related with the equity method accounting.

- (iv). Information on sectors and the carrying amounts of consolidated investments in associates:

	Current Period	Prior Period
Banks	437.143	338.140
Insurance companies	227.471	207.085
Total financial investments	664.614	545.225

- (v). Investments in associates quoted on stock exchange: None.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

h. Information on shareholders' equity of the significant subsidiaries (net):

There is no deficit of regulatory limits on capital structure of the subsidiaries which are included in the consolidated capital adequacy ratio calculation in accordance with the capital adequacy ratio limits.

1. Information on shareholders' equity of the significant subsidiaries:

	Yapı Kredi Yatırım Menkul Değerler A.Ş.	Yapı Kredi Faktoring A.Ş.	Yapı Kredi Finansal Kiralama A.Ö.	Yapı Kredi Portföy Yönetimi A.Ş.	Yapı Kredi Nederland N.V.
Core Capital					
Paid-in capital	98.918	60.714	389.928	5.707	112.442
Inflation adjustment to share capital	-	-	-	-	-
Share premium	-	-	-	-	-
Property and equipment revaluation differences	13.697	-	-	-	-
Marketable Securities Valuation Differences	13.648	-	-	-	(2.794)
Other capital reserves	93.686	(6)	(217.064)	-	-
Legal reserves	68.107	8.034	79.305	18.164	-
Extraordinary reserves	198.933	10.458	771.384	-	481.813
Other reserves	-	-	-	-	516.739
Profit/loss	(7.526)	135.752	700.578	30.115	91.180
Current period net profit	62.420	37.769	225.810	30.115	91.180
Prior years' income or (loss)	(69.946)	97.983	474.768	-	-
Leasehold improvements (-)	-	-	426	192	74
Intangible assets (-)	19.945	1.598	3.762	532	145
Total core capital	459.518	213.354	1.719.943	53.262	1.199.161
Supplementary capital	-	10.127	42.264	-	208
Capital	459.518	223.481	1.762.207	53.262	1.199.369
Deductions from the capital	-	-	-	-	-
Total shareholders' equity	459.518	223.481	1.762.207	53.262	1.199.369

The above information is based on the information extracted from the individual financial statements of subsidiaries, used for consolidated financial statements of the Bank as of December 31, 2016.

There is no internal capital adequacy assessment process (ICAAP) for the subsidiaries.

Paid-in capital is a capital which have been disclosed as Turkish Lira in the articles of incorporation and registered in trade register.

Inflation adjustment to share capital is the adjustment difference arising from inflation accounting.

Extraordinary Reserves are the reserves which represent the remaining net income of the previous periods after providing the legal reserves in accordance with the General Assembly of the Bank.

Legal reserves are the income reserves that are provided according to the first paragraph and the third subparagraph of the second paragraph of the article no 466 and no 467 of the Turkish Commercial Code No. 6762 allocated as capital reserves separated from annual profit according to the laws of foundation.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

2. Unconsolidated subsidiaries

(i). Information on unconsolidated subsidiaries

Since the subsidiaries below are not financial subsidiaries, the related subsidiaries are unconsolidated and are carried at restated cost.

Description	Address (City/ Country)	The Parent Bank's shareholding percentage - if different voting percentage (%)	Bank's risk group shareholding percentage (%)
1 Yapı Kredi-Kültür Sanat Yayıncılık Tic. ve San. A.Ş.	Istanbul/Turkey	99,99	100,00
2 Enternasyonal Turizm Yatırım A.Ş.	Istanbul/Turkey	99,96	99,99
3 Yapı Kredi Teknoloji A.Ş.	Istanbul/Turkey	100,00	100,00

(ii). Main financial figures of the subsidiaries in order of the above table:

	Total assets	Shareholders' equity	Total fixed assets	Interest Income	Income from marketable securities portfolio	Current period profit / loss	Prior period profit / loss	Market Value
1	27.164	21.974	1.289	57	-	3.168	2.428	-
2	38.717	25.879	4.936	2.120	-	1.548	(620)	-
3	7.872	6.272	1.245	253	-	1.550	(682)	-

The above financial information is extracted from the financial statements of companies included in the preparation of consolidated financial statements are used as of December 31, 2016.

3. Consolidated subsidiaries:

(i). Information on consolidated subsidiaries:

Description	Address (City/ Country)	The Parent Bank's shareholding percentage - if different voting percentage (%)	Bank's risk group shareholding percentage (%)
1 Yapı Kredi Holding B.V.	Amsterdam/Netherlands	100,00	100,00
2 Yapı Kredi Menkul	Istanbul/Turkey	99,98	100,00
3 Yapı Kredi Faktoring	Istanbul/Turkey	99,95	100,00
4 Yapı Kredi Moscow	Moscow/Russia	99,84	100,00
5 Yapı Kredi Leasing	Istanbul/Turkey	99,99	99,99
6 Yapı Kredi Portföy	Istanbul/Turkey	12,65	99,99
7 Yapı Kredi NV ⁽¹⁾	Amsterdam/Netherlands	67,24	100,00
8 Yapı Kredi Azerbaijan ⁽²⁾	Baku/Azerbaijan	99,80	100,00
9 Yapı Kredi Malta	St.Julian/Malta	-	100,00

Although Yapı Kredi Diversified Payment Rights Finance Company ("Structured Entity") which is established for securitisation transactions of Yapı Kredi is not a subsidiary, it is included in the consolidation because it is a structured entity established for securitisation transactions.

(1) Includes the balances for Sticking Custody Services YKB.

(2) Includes the balances for Yapı Kredi Invest LLC.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

(ii). Main financial figures of the consolidated subsidiaries in the order of the below table⁽¹⁾:

	Total assets	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit / loss	Prior period profit / loss	Market value ⁽²⁾	Required equity
1	229.188	228.936	-	-	-	77	326	-	-
2	4.694.056	483.967	42.195	291.953	7.541	62.420	59.558	-	-
3	3.065.904	214.952	2.338	178.023	-	37.769	9.867	-	-
4	448.603	199.922	17.944	32.166	1.551	13.352	14.115	-	-
5	9.259.232	1.724.131	4.683	519.133	-	225.810	196.527	-	-
6	64.334	53.966	1.152	5.430	-	30.115	27.850	-	-
7	7.322.200	1.199.381	735	342.890	13.297	91.180	61.198	-	-
8	922.809	130.427	30.196	56.465	47	(6.845)	395	-	-
9	554.656	218.802	2.883	13.413	177	320	(3.417)	-	-

(1) The above financial information is extracted from the financial statements of companies included in the preparation of consolidated financial statements are used as of December 31, 2016.

(iii). Movement schedule of consolidated subsidiaries:

	Current Period	Prior Period
Balance at the beginning of the period	3.614.436	3.309.478
Movements during the period	611.288	304.958
Purchases ⁽¹⁾	-	-
Free shares obtained profit from current years share	-	-
Dividends from current year income	431.423	345.342
Sales	-	-
Transfers	-	-
Revaluation (decrease) / increase ⁽¹⁾	270.579	66.047
Impairment provision ⁽²⁾	(90.714)	(106.431)
Balance at the end of the period	4.225.724	3.614.436
Capital commitments	-	-
Shareholding percentage at the end of the period (%)	-	-

(1) Includes the differences in the other comprehensive income related with the equity method accounting.

(2) Includes dividend income received in the current period.

(iv). Sectoral information on financial subsidiaries and the related carrying amounts:

Financial Subsidiaries	Current Period	Prior Period
Banks	1.136.275	886.070
Insurance companies	-	-
Factoring companies	214.850	195.856
Leasing companies	1.724.028	1.498.228
Finance companies	-	-
Other financial subsidiaries	1.150.571	1.034.282
Total financial subsidiaries	4.225.724	3.614.436

(v). Subsidiaries quoted on stock exchange:

None (December 31, 2015 - None)

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

i. Information on joint ventures (net):

1. Unconsolidated joint ventures: None.
 2. Consolidated joint ventures:
- (i). Information on consolidated Joint Ventures:

Joint ventures	Bank's share	Group's share	Total assets	Shareholders' equity	Current assets	Non-current assets	Long term debt	Income	Expense
Yapı Kredi Koray Gayrimenkul Yatırım Ortaklığı A.Ş.	30,45	30,45	107.248	64.025	50.478	56.770	8.422	54.011	(60.269)
Total			107.248	64.025	50.478	56.770	8.422	54.011	(60.269)

i. Information on lease receivables (net):

- 1) Breakdown according to maturities:

	Current Period		Prior Period	
	Gross	Net	Gross	Net
Less than 1 year	2.932.321	2.402.637	2.339.085	1.917.198
Between 1- 4 years	5.196.033	4.378.313	4.262.288	3.557.981
More than 4 years	1.705.737	1.523.536	1.536.136	1.387.082
Total	9.834.091	8.304.486	8.137.509	6.862.261

- 2) Information for net investments in finance leases:

	Current Period		Prior Period	
	TL	FC	TL	FC
Gross lease receivables	2.229.318	7.604.773	2.037.181	6.100.328
Unearned financial income from leases (-)	(509.000)	(1.020.605)	(422.420)	(852.828)
Amount of cancelled leases (-)	-	-	-	-
Total	1.720.318	6.584.168	1.614.761	5.247.500

j. Information on hedging derivative financial assets:

	Current Period		Prior Period	
	TL	FC	TL	FC
Fair value hedge ⁽¹⁾	246.295	-	257.144	-
Cash flow hedge ⁽¹⁾	850.313	113.104	697.629	6.268
Foreign net investment hedge	-	-	-	-
Total	1.096.608	113.104	954.773	6.268

(1) Explained in the note X of Section IV.

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

k. Information on tangible assets:

	Immovable	Leased fixed assets	Vehicles	Other tangible fixed assets	Total
Prior Period					
Cost	3.011.229	367.789	3.420	1.165.529	4.547.967
Accumulated depreciation (-)	(876.677)	(331.656)	(2.310)	(569.840)	(1.780.483)
Net book value	2.134.552	36.133	1.110	595.689	2.767.484
Current Period					
Net book value at beginning of the period	2.134.552	36.133	1.110	595.689	2.767.484
Additions ⁽¹⁾	87.088	1.848	192	126.433	215.561
Disposals (-), net	(20.848)	(1.613)	(18)	(7.946)	(30.425)
Reversal of impairment, net	-	-	-	(14.121)	(14.121)
Impairment (-)	-	505	-	211	716
Depreciation (-)	-	-	-	-	-
Transfers	(48.772)	(18.964)	(384)	(164.882)	(233.002)
Foreign exchange differences, net	5.353	678	44	759	6.834
Net book value at end of the period	2.157.373	18.587	944	536.143	2.713.047
Cost at the end of the period	3.081.285	351.285	3.420	1.193.245	4.629.235
Accumulated depreciation at the period end (-)	(923.912)	(332.698)	(2.476)	(657.102)	(1.916.188)
December 31, 2015	2.157.373	18.587	944	536.143	2.713.047

As of December 31, 2016, the Parent Bank had total provision for impairment amounting to TL 224.378 (December 31, 2015 – TL 224.378) for the property and equipment.

l. Information on intangible assets:

	Current Period	Prior Period
Balance at the beginning of the period	1.508.428	1.457.366
Additions during the period	179.700	187.093
Unused and disposed items (-)	(11.018)	(955)
Sales of a subsidiary	14.121	(1.230)
Impairment reversal	-	-
Amortization expenses (-)	(124.572)	(128.678)
Foreign exchange valuation differences	205	(5.168)
Balance at the end of the period	1.566.864	1.508.428

m. Information on investment property:

None (December 31, 2015 - None).

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

n. Information on deferred tax asset:

	Current Period		Prior Period	
	Tax base	Deferred Tax	Tax base	Deferred Tax
Reserves for employee benefit	869.327	173.673	874.762	175.788
Derivative financial liabilities	2.711.672	544.831	2.108.733	414.520
Securities portfolio valuation differences	567.845	113.569	378.951	99.176
Subsidiaries, investment in associates and share certificates	122.117	24.423	122.117	24.423
Other	985.185	196.977	766.946	153.153
Total deferred tax asset	5.256.146	1.053.473	4.251.509	867.060
Derivative financial assets	(4.266.432)	(844.032)	(2.784.083)	(561.588)
Valuation difference of securities portfolio	(1.129.363)	(225.991)	(953.965)	(190.819)
Property, equipment and intangibles, net	(1.823.817)	(121.656)	(1.860.362)	(127.130)
Other	(258.901)	(49.617)	(210.312)	(39.902)
Total deferred tax liability	(7.478.513)	(1.241.296)	(5.808.722)	(919.439)
Deferred tax asset, net⁽¹⁾	(2.222.367)	(187.823)	(1.557.213)	(52.379)

(1) Includes TL 80.428 deferred tax assets as of December 31, 2016.

Deferred tax expense amounting to TL 162.009 was recognized in profit and loss statement, whereas deferred tax income amounting to TL 27.516 was recognized directly in equity accounts for the period ended December 31, 2016.

o. Movement schedule of assets held for resale and related to discontinued operations:

	Current Period	Prior Period
Net book value at the beginning of the period	153.922	155.485
Additions	98.410	71.898
Transfers	(81.544)	(68.679)
Disposals (-), net	1.908	560
Impairment provision reversal	(416)	(400)
Impairment provision (-)	(5.714)	(5.149)
Depreciation (-)	(383)	207
Translation differences	-	-
Net book value at the end of the period	166.183	153.922
Cost at the end of the period	182.137	169.035
Accumulated depreciation at the end of the period (-)	(15.954)	(15.113)
Net book value at the end of the period	166.183	153.922

As of December 31, 2016, the Group booked impairment provision on assets held for resale with an amount of TL 6.346 (December 31, 2015 - TL 7.838).

ö. Information on other assets:

As of December 31, 2016, other assets do not exceed 10% of the total assets.

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

II. Explanations and notes related to consolidated liabilities:

a. Information on deposits:

1. Information on maturity structure of deposits/collected funds:

(i). Current Period:

	Demand	With 7 days notifications	Up to 1 month	1-3 Months	3-6 Months	6 Months - 1 Year	1 Year and over	Cumulative Deposit	Total
Saving deposits	6.145.162	2.534	1.392.165	31.602.890	1.555.624	209.889	174.943	485	41.083.692
Foreign currency deposits	12.804.821	36.207	9.292.694	36.447.490	3.899.045	4.665.206	2.289.801	-	69.435.264
Residents in Turkey	11.421.891	18.796	9.186.288	35.929.631	3.589.035	4.035.721	1.220.512	-	65.401.874
Residents abroad	1.382.930	17.411	106.406	517.859	310.010	629.485	1.069.289	-	4.033.390
Public sector deposits	230.784	-	35	3.797	16	180	59	-	234.871
Commercial deposits	6.795.962	-	4.835.125	17.433.057	2.765.952	1.302.572	333.090	-	33.465.758
Other institutions deposits	103.771	-	81.880	2.400.983	785.374	423.524	575	-	3.796.107
Precious metals vault	488.106	-	43.940	309.337	19.931	31.543	7.532	-	900.389
Bank deposits	613.650	42.914	5.559.697	971.004	275.121	670.239	39.489	-	8.172.114
The CBRT	-	-	-	-	-	-	-	-	-
Domestic banks	1.931	-	5.329.588	392.639	117.925	19.278	4.170	-	5.865.531
Foreign banks	181.583	42.914	230.109	578.365	157.196	650.961	35.319	-	1.876.447
Participation banks	430.136	-	-	-	-	-	-	-	430.136
Other	-	-	-	-	-	-	-	-	-
Total	27.182.256	81.655	21.205.536	89.168.558	9.301.063	7.303.153	2.845.489	485	157.088.195

(ii). Prior Period:

	Demand	With 7 days notifications	Up to 1 month	1-3 Months	3-6 Months	6 Months - 1 Year	1 Year and over	Cumulative Deposit	Total
Saving deposits	4.219.828	292	1.342.831	26.878.250	806.474	127.203	187.905	-	33.562.783
Foreign currency deposits	9.680.582	16.477	7.748.761	30.615.266	4.731.711	4.755.724	2.938.619	-	60.487.140
Residents in Turkey	8.654.417	8.900	7.710.165	29.872.663	3.009.199	707.224	1.177.571	-	51.140.139
Residents abroad	1.026.165	7.577	38.596	742.603	1.722.512	4.048.500	1.761.048	-	9.347.001
Public sector deposits	833.607	-	70	72.690	71	660	77	-	907.175
Commercial deposits	4.806.847	-	4.143.763	15.441.255	732.772	139.680	638.898	-	25.903.215
Other institutions deposits	91.538	-	62.089	2.592.019	320.813	402.005	1.190	-	3.469.654
Precious metals vault	329.584	-	5.828	59.963	26.188	33.296	123.920	-	578.779
Bank deposits	349.936	8.215	3.102.799	739.430	202.185	662.035	51.719	-	5.116.319
The CBRT	-	-	-	-	-	-	-	-	-
Domestic banks	1.854	-	2.886.157	365.081	-	-	-	-	3.253.092
Foreign banks	23.581	8.215	216.642	374.349	202.185	662.035	51.719	-	1.538.726
Participation banks	324.501	-	-	-	-	-	-	-	324.501
Other	-	-	-	-	-	-	-	-	-
Total	20.311.922	24.984	16.406.141	76.398.873	6.820.214	6.120.603	3.942.328	-	130.025.065

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

2. Information on saving deposits insurance:

(i). Information on saving deposits under the guarantee of the saving deposits insurance fund and exceeding the limit of deposit insurance fund:

Saving deposits ⁽¹⁾	Under the guarantee of deposit insurance		Exceeding the limit of the insurance deposit	
	Current period	Prior period	Current period	Prior period
Saving deposits	21.149.862	17.037.310	20.005.450	16.965.778
Foreign currency savings deposit	7.420.214	6.632.647	21.307.662	17.764.322
Other deposits in the form of savings deposits	329.328	241.329	480.438	277.182
Foreign branches' deposits under foreign authorities' insurance	-	-	-	-
Off-shore banking regions' deposits under foreign authorities' insurance	-	-	-	-

⁽¹⁾ The balances from foreign subsidiaries, calculated in accordance with their own regulation, are included.

(ii). Saving deposits which are not under the guarantee of saving deposit insurance fund of real persons:

	Current Period	Prior Period
Foreign branches' deposits and other accounts	6.581	5.495
Saving deposits and other accounts of controlling shareholders and deposits of their mother, father, spouse, children in care	-	-
Saving deposits and other accounts of president and members of board of directors, CEO and vice presidents and deposits of their mother, father, spouse, children in care	202.939	132.362
Saving deposits and other accounts in scope of the property holdings derived from crime defined in article 282 of Turkish criminal law no:5237 dated 26.09.2004	-	-
Saving deposits in deposit bank which is established in Turkey in order to engage in off-shore banking activities solely	-	-

b. Information on trading derivative financial liabilities:

	Current Period		Prior Period	
	TL	FC	TL	FC
Forward transactions	194.823	-	97.011	156
Swap transactions ⁽¹⁾	1.914.258	343.058	1.422.269	284.342
Futures transactions	-	-	-	-
Options	79.854	45.617	105.182	13.448
Other	-	1.069	-	-
Total	2.188.935	389.744	1.624.462	297.946

(1) Includes Credit Default Swaps

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

c. Information on borrowings:

1. Information on borrowings:

	Current Period		Prior Period	
	TL	FC	TL	FC
The Central Bank of the Republic of Turkey borrowings	-	418.480	-	-
From domestic banks and institutions	985.663	1.387.972	730.154	1.247.208
From foreign banks, institutions and funds	381.767	27.334.892	541.887	22.341.730
Total	1.367.430	29.141.344	1.272.041	23.588.938

2. Information on maturity structure of borrowings:

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-term	732.279	2.896.348	772.974	1.204.093
Medium and long-term	635.151	26.244.996	499.067	22.384.845
Total	1.367.430	29.141.344	1.272.041	23.588.938

ç. Information on marketable securities issued

	Current Period		Prior Period	
	TL	FC	TL	FC
Bills	1.399.791	86.665	2.106.752	451.305
Asset backed securities ^{(1), (2)}	-	6.564.507	-	6.083.274
Bonds	2.591.092	7.438.412	2.093.611	6.437.951
<i>Collateralized securities</i>	<i>288.650</i>	<i>-</i>	<i>288.650</i>	<i>-</i>
Total	3.990.883	14.089.584	4.200.363	12.972.530

(1) The Parent Bank classified some of its financial liabilities as the financial liabilities classified at fair value through profit/loss in order to eliminate the accounting mismatch at the initial recognition in accordance with TAS 39 paragraph 9. As of December 31, 2016, the total amount of financial liabilities classified as fair value through profit/loss is TL 4.111.709 (December 31, 2015 - TL 3.394.985) with an accrued interest income of TL 97.254 (December 31, 2015 - TL 82.505) and with a fair value difference of TL 19.783 recognized in the income statement as an expense (December 31, 2015 - TL 96.946 expense). On the other hand, the nominal amounts of the total return swaps which are closely related with these financial liabilities as of December 31, 2016 are TL 4.033.003 (December 31, 2015: TL 3.332.109) for buy legs and TL 4.033.003 (December 31, 2015: TL 3.332.109) for sell legs with a fair value differences amounting to TL 97.052 (December 31, 2015: 82.870 TL). The mentioned total return swaps have 10 year maturity in average.

(2) The Group obtains borrowings via its structured entity, Diversified Payment Rights Finance Company, with securitization transactions which is founded on its future money transfers within its funding programme.

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

d. Information on other liabilities:

As of December 31, 2016, other liabilities do not exceed 10% of the total balance sheet commitments.

e. Information on lease payables:

1. Information on financial leasing agreements:

None (December 31, 2015 - None).

2. Information on operational leasing agreements:

The Parent Bank enters into operational leasing agreements annually for some of its branches and ATMs. The leases are prepaid and accounted as prepaid expenses under "Other Assets".

f. Information on hedging derivative financial liabilities:

	Current Period		Prior Period	
	TL	FC	TL	FC
Fair value hedge ⁽¹⁾	49.949	508	3.926	305
Cash flow hedge ⁽¹⁾	16.314	22.525	35.387	108.660
Foreign net investment hedge	-	-	-	-
Total	66.263	23.033	39.313	108.965

(1) Explained in Note X. of Section IV.

g. Information on provisions:

1. Information on general provisions:

	Current Period	Prior Period
I. Provisions for first group loans and receivables	2.475.808	2.091.893
<i>of which, Provision for Loans and Receivables with Extended Maturity</i>	184.180	85.758
II. Provisions for second group loans and receivables	268.623	213.075
<i>of which, Provision for Loans and Receivables with Extended Maturity</i>	92.159	57.504
Provisions for non-cash loans	107.664	89.448
Other	257.476	232.855
Total	3.109.571	2.627.271

2. Information on reserve for employee rights:

In accordance with Turkish Labour Law, the reserve for employment termination benefits is calculated as the present value of the probable future obligation in case of the retirement of employees. TAS 19 necessitates actuarial valuation methods to calculate the liabilities of enterprises.

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

The following actuarial assumptions were used in the calculation of total liabilities:

	Current Period	Prior Period
Discount rate (%)	4,50	4,60
Possibility of being eligible for retirement (%)	93,63	93,89

The principal actuarial assumption is that the maximum liability will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. As the annual ceiling is revised semi-annually, the ceiling of full TL 4.426,16 effective from January 1, 2017 (January 1, 2016 - full TL 4.092,53) has been taken into consideration in calculating the reserve for employment termination benefits.

Movement of employment termination benefits liability in the balance sheet:

	Current Period	Prior Period
Prior period ending balance	141.388	141.134
Changes during the period	30.757	49.143
Recognized in equity	(2.683)	(20.478)
Paid during the period	(40.431)	(28.238)
Foreign currency differences	479	(173)
Balance at the end of the period	129.510	141.388

In addition, the Group has accounted for unused vacation rights provision amounting to TL 171.811 as of December 31, 2016 (December 31, 2015 - TL 159.125).

3. Information on provisions related with the foreign currency difference of foreign currency indexed loans:

As of December 31, 2016, the provision related to the foreign currency difference of foreign currency indexed loans amounts to TL 708 (December 31, 2015 - TL 30.295). Provisions related to the foreign currency difference of foreign currency indexed loans are netted from the loan amount in the financial statements.

4. Other provisions:

(i) Information on other provisions:

	Current Period	Prior Period
Pension fund provision	568.006	574.249
Provisions on unindemnified non cash loans	150.517	105.932
Provision on lawsuits	75.955	64.875
Provisions on credit cards and promotion campaigns related to banking services	43.588	38.678
Other	345.114	271.468
Total	1.183.180	1.055.202

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

(ii) General reserves for possible losses:

	Current Period	Prior Period
General reserves for possible losses	100.000	-
Total	100.000	-

5. Pension fund provision:

The Parent Bank provided provision amounting to TL 568.006 (December 31, 2015 – TL 574.249) for the technical deficit based on the report prepared by a registered actuary in accordance with the technical interest rate of 9,8% determined by the New Law and CSO 1980 mortality table.

	Current Period	Prior Period
Income statement (charge)/benefit	6.243	80.652

The amounts recognized in the balance sheet are determined as follows:

	Current Period	Prior Period
Present value of funded obligations	1.964.448	1.757.364
- Pension benefits transferable to SSI	1.882.467	1.889.880
- Post employment medical benefits transferable to SSI	81.981	(132.516)
Fair value of plan assets	(1.396.442)	(1.183.115)
Provision for the actuarial deficit of the pension fund	568.006	574.249

The principal actuarial assumptions used were as follows:

	Current Period	Prior Period
Discount rate		
- Pension benefits transferable to SSI	%9,80	%9,80
- Post employment medical benefits transferable to SSI	%9,80	%9,80

Mortality rate: Average life expectation is defined according to CSO 1980 mortality table.

Plan assets are comprised as follows:

	Current Period		Prior Period	
	Amount	%	Amount	%
Government bonds and treasury bills	831.034	60	728.589	62
Premises and equipment	233.858	17	168.951	14
Bank placements	223.150	16	223.142	19
Other	108.400	7	62.433	5
Total	1.396.442	100	1.183.115	100

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

ğ. Information on taxes payable:

(i) Information on taxes payable:

	Current Period	Prior Period
Corporate Tax Payable	10.585	195.493
Taxation of Marketable Securities	108.253	111.321
Property Tax	2.872	2.795
Banking Insurance Transaction Tax ("BITT")	108.913	107.141
Foreign Exchange Transaction Tax	-	-
Value Added Tax Payable	10.414	13.240
Other	37.975	39.413
Total	279.012	469.403

(ii) Information on premium payables:

	Current Period	Prior Period
Social security premiums - employee	88	312
Social security premiums - employer	102	364
Bank pension fund premiums - employee	15.310	13.473
Bank pension fund premiums - employer	15.798	13.921
Pension fund deposit and provisions - employee	-	-
Pension fund deposit and provisions - employer	-	-
Unemployment insurance - employee	1.093	961
Unemployment insurance - employer	2.187	1.922
Other	-	-
Total	34.578	30.953

(iii) Information on deferred tax liability:

There is a deferred tax liability amounting to TL 268.251 as of December 31, 2016 reflected in the consolidated financial statements after the deferred tax assets and liabilities of each entity in consolidation has been netted off in their standalone financial statements as per TAS 12 (December 31, 2015 – TL 119.097).

h. Information on subordinated loans⁽¹⁾:

	Current Period		Prior Period	
	TL	FC	TL	FC
From domestic banks	-	-	-	-
From other domestic institutions	-	-	-	-
From foreign banks	-	9.067.893	-	6.635.191
From other foreign institutions	-	-	-	-
Total	-	9.067.893	-	6.635.191

(1) Subordinated loans are explained in detail in Note "Details on Subordinated Liabilities" of Section Four.

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

I. Information on shareholders' equity:

1. Presentation of paid-in capital

	Current Period	Prior Period
Common stock	4.347.051	4.347.051
Preferred stock	-	-

2. Paid-in capital amount, explanation as to whether the registered share capital system is applied and if so, amount of registered share capital ceiling:

The Parent Bank's paid-in-capital is amounting to TL 4.347.051 and in accordance with the decision taken in the Ordinary General Assembly at April 7, 2008, the Parent Bank has switched to the registered capital system and the registered share capital ceiling is TL 10.000.000.

3. Information on the share capital increases during the period and the sources:

None (December 31, 2015 - None).

4. Information on transfers from capital reserves to capital during the current period: None.

5. Information on capital commitments, until the end of the fiscal year and the subsequent interim period: None.

6. Information on prior period's indicators on the Group's income, profitability and liquidity, and possible effects of these future assumptions on the Bank's equity due to uncertainties of these indicators:

The interest, liquidity, and foreign exchange risk related to on-balance sheet and off-balance sheet assets and liabilities are managed by the Parent Bank within several risk and legal limits.

7. Privileges on the corporate stock: None.

8. Information on value increase fund of marketable securities:

	Current Period		Prior Period	
	TL	FC	TL	FC
From investments in associates, subsidiaries, and joint ventures	-	-	-	-
Valuation difference	-	-	-	-
Foreign currency difference	-	-	-	-
Available for sale securities⁽¹⁾	(377.643)	(86.111)	(546.402)	261.490
Valuation differences	(377.643)	(86.111)	(546.402)	261.490
Foreign currency differences	-	-	-	-
Total	(377.643)	(86.111)	(546.402)	261.490

(1) Includes tax effect of foreign currency valuation differences.

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

i. Information on minority interest:

	Current Period	Prior Period
Period opening balance	474	462
Current period income/(loss)	65	45
Dividends paid	(37)	(41)
Translation differences	-	8
Period ending balance	502	474

III. Explanations and notes related to consolidated off-balance sheet accounts

a. Information on off balance sheet commitments:

1. The amount and type of irrevocable commitments:

	Current Period	Prior Period
Commitments on credit card limits	29.878.711	28.304.464
Loan granting commitments	8.877.881	9.085.013
Commitments for cheques	6.686.199	6.521.085
Other irrevocable commitments	20.964.614	35.009.478
Total	66.407.405	78.920.040

2. Type and amount of probable losses and obligations arising from off-balance sheet items:

Obligations arising from off-balance sheet are disclosed in "Off-balance sheet commitments". The Group set aside general provision for its non-cash loans amounting to TL 107.664 (December 31, 2015 - TL 89.448) and specific provision amounting to TL 875.166 (December 31, 2015 - TL 597.477) for non-cash loans which are not indemnified yet amounting to TL 150.517 (December 31, 2015 - TL 105.932).

(i). Non-cash loans including guarantees, bank acceptance loans, collaterals that are accepted as financial guarantees and other letter of credits:

	Current Period	Prior Period
Bank acceptance loans	195.766	173.524
Letter of credits	9.193.170	8.043.863
Other guarantees and collaterals	6.273.317	4.255.807
Total	15.662.253	12.473.194

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

(ii). Guarantees, suretyships and other similar transactions:

	Current Period	Prior Period
Temporary letter of guarantees	3.060.589	1.926.929
Definite letter of guarantees	33.508.036	31.839.457
Advance letter of guarantees	8.291.959	5.556.443
Letter of guarantees given to customs	2.100.488	2.016.807
Other letter of guarantees	5.831.159	3.831.366
Total	52.792.231	45.171.002

3. Information on non-cash loans

(i). Total amount of non-cash loans:

	Current Period	Prior Period
Non-cash loans given against cash loans	5.483.022	3.496.922
With original maturity of 1 year or less than 1 year	855.258	465.353
With original maturity of more than 1 year	4.627.764	3.031.569
Other non-cash loans	62.971.462	54.147.274
Total	68.454.484	57.644.196

(ii) Information on sectoral concentration of non-cash loans:

	Current Period				Prior Period			
	TL	(%)	FC	(%)	TL	(%)	FC	(%)
Agricultural	268.785	1,24	264.445	0,56	201.097	1,11	300.661	0,76
Farming and raising livestock	226.348	1,04	190.047	0,41	145.432	0,80	248.322	0,63
Forestry	38.494	0,18	47.330	0,10	39.083	0,22	32.771	0,08
Fishing	3.943	0,02	27.068	0,06	16.582	0,09	19.568	0,05
Manufacturing	8.769.875	40,57	24.592.178	52,50	7.163.316	39,63	18.881.195	47,72
Mining	413.574	1,91	673.019	1,44	722.796	4,00	1.458.233	3,69
Production	5.953.750	27,54	19.436.022	41,49	5.379.717	29,76	14.272.627	36,07
Electric, gas and water	2.402.551	11,12	4.483.137	9,57	1.060.803	5,87	3.150.335	7,96
Construction	6.569.893	30,40	9.996.845	21,24	4.554.374	25,19	7.832.024	19,79
Services	5.704.088	26,39	11.961.363	25,54	4.243.253	23,48	10.018.001	25,32
Wholesale and retail trade	2.231.326	10,32	3.091.503	6,60	1.902.714	10,53	3.164.517	8,00
Hotel, food and beverage services	176.337	0,82	707.443	1,51	181.879	1,01	407.687	1,03
Transportation and telecommunication	551.457	2,55	3.475.197	7,42	377.454	2,09	3.044.644	7,69
Financial institutions	1.964.705	9,09	2.516.743	5,37	1.000.426	5,53	1.660.349	4,20
Real estate and renting services	270.474	1,25	308.212	0,66	262.802	1,45	189.037	0,48
Employment	-	0,00	-	0,00	-	-	-	-
Education services	40.232	0,19	21.676	0,05	31.839	0,18	63.497	0,16
Health and social services	469.557	2,17	1.840.589	3,93	486.139	2,69	1.488.270	3,76
Other	301.941	1,40	25.071	0,05	1.914.483	10,59	2.535.792	6,41
Total	21.614.582	100,00	46.839.902	100,00	18.076.523	100,00	39.567.673	100,00

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

(iii) Information on non-cash loans classified in Group I. and Group II:

Current Period	Group I		Group II	
	TL	FC	TL	FC
Non-cash loans				
Letters of guarantee	20.992.683	30.942.686	576.008	280.854
Bank acceptances	-	195.766	-	-
Letters of credit	11.407	9.174.537	-	7.226
Endorsements	-	-	-	-
Underwriting commitments	-	-	-	-
Factoring guarantees	-	-	-	-
Other commitments and contingencies	34.484	6.235.795	-	3.038
Total	21.038.574	46.548.784	576.008	291.118
Prior Period	Group I		Group II	
	TL	FC	TL	FC
Non-cash loans				
Letters of guarantee	17.753.621	27.065.480	277.973	73.928
Bank acceptances	-	173.524	-	-
Letters of credit	11.483	8.028.440	-	3.940
Endorsements	-	-	-	-
Underwriting commitments	-	-	-	-
Factoring guarantees	-	-	-	-
Other commitments and contingencies	33.446	4.221.266	-	1.095
Total	17.798.550	39.488.710	277.973	78.963

(iv) Maturity distribution of non cash loans:

Current Period ⁽¹⁾	Indefinite	Up to 1 year	1-5 years	Above 5 years	Total
Letter of credit	-	6.654.515	2.532.433	6.222	9.193.170
Letter of guarantee	21.464.214	9.410.155	18.179.733	3.738.129	52.792.231
Bank acceptances	-	168.491	24.902	2.373	195.766
Other	341.794	551.945	2.178.223	3.201.355	6.273.317
Total	21.806.008	16.785.106	22.915.291	6.948.079	68.454.484
Prior Period ⁽¹⁾	Indefinite	Up to 1 year	1-5 years	Above 5 years	Total
Letter of credit	-	5.752.609	2.284.257	6.997	8.043.863
Letter of guarantee	18.438.104	7.203.878	16.697.579	2.831.440	45.171.002
Bank acceptances	-	147.671	24.795	1.058	173.524
Other	296.558	420.689	1.519.946	2.018.614	4.255.807
Total	18.734.662	13.524.847	20.526.577	4.858.109	57.644.196

(1) The distribution is based on the original maturities.

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

b. Information on derivative financial instruments:

	Current Period	Prior Period
Types of trading transactions		
Foreign currency related derivative transactions (I)	137.959.963	114.959.640
FC trading forward transactions	15.273.549	9.676.902
Trading swap transactions	105.096.276	91.851.905
Futures transactions	-	-
Trading option transactions	17.590.138	13.430.833
Interest related derivative transactions (II)	49.251.952	36.127.848
Forward interest rate agreements	-	-
Interest rate swaps	47.580.058	34.250.180
Interest rate options	1.671.894	1.877.668
Interest rate futures	-	-
Other trading derivative transactions (III)	18.267.410	15.142.751
A. Total trading derivative transactions (I+II+III)	205.479.325	166.230.239
Types of hedging derivative transactions		
Transactions for fair value hedge	2.658.411	1.612.361
Cash flow hedges	50.014.021	57.114.076
Transactions for foreign net investment hedge	-	-
B. Total hedging related derivatives	52.672.432	58.726.437
Total derivative transactions (A+B)	258.151.757	224.956.676

c. Information on credit derivatives and risk exposures:

Derivative portfolio of the Group includes credit default swaps for TL 453.384 for the period ended December 31, 2016. Credit default swaps linked to credit link notes are for the purposes protection seller and included in this figure (December 31, 2015 – TL 794.684).

Derivative portfolio includes total return swaps for TL 8.066.006 (31 December 2015 – TL 6.664.219) for the period ended 31 December 2016.

ç. Information on contingent liabilities and assets:

The Group has recorded a provision of TL 75.955 (December 31, 2015 – TL 64.875) for litigations against the Group and has accounted for it in accompanying consolidated financial statements under the "Other provisions" account. Except for the claims where provisions are recorded, management considers as remote the probability of a negative result in ongoing litigations and therefore does not foresee any cash outflows for such claim.

d. Information on services in the name and account of others:

The Group's activities such as intermediation and custody to serve the investment needs of customers are followed up under off balance sheet accounts.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

IV. Explanations and notes related to consolidated income statement:

a. Information on interest income:

1. Information on interest income on loans:

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-term loans ⁽¹⁾	5.190.478	393.501	4.882.403	320.268
Medium/long-term loans ⁽¹⁾	6.988.914	3.026.361	5.535.883	2.316.712
Interest on loans under follow-up	84.707	136	77.480	54
Premiums received from resource utilisation support fund	-	-	-	-
Total	12.264.099	3.419.998	10.495.766	2.637.034

(1) Includes fees and commissions received for cash loans.

2. Information on interest income on banks:

	Current Period		Prior Period	
	TL	FC	TL	FC
From the CBRT	-	138	-	-
From domestic banks	141.846	1.470	61.896	3.427
From foreign banks	1.912	28.921	2.880	16.376
Headquarters and branches abroad	-	-	-	-
Total	143.758	30.529	64.776	19.803

3. Information on interest income on marketable securities:

	Current Period		Prior Period	
	TL	FC	TL	FC
From trading financial assets	4.162	1.140	10.042	1.242
From financial assets at fair value through profit or loss	-	-	-	-
From available-for-sale financial assets	1.491.281	179.836	1.740.814	206.358
From held-to-maturity investments	397.459	326.180	184.747	248.919
Total	1.892.902	507.156	1.935.603	456.519

4. Information on interest income received from associates and subsidiaries:

	Current Period	Prior Period
Interests received from associates and subsidiaries	870	2.381

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

b. Information on interest expense:

1. Information on interest expense on borrowings:

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks	85.214	822.618	151.164	740.890
The CBRT	-	59	-	-
Domestic banks	40.176	31.341	82.262	33.728
Foreign banks	45.038	791.218	68.902	707.162
Headquarters and branches abroad	-	-	-	-
Other institutions	-	158.922	134	107.725
Total⁽¹⁾	85.214	981.540	151.298	848.615

(1) Includes fees and commissions related to borrowings.

2. Information on interest expense to associates and subsidiaries:

	Current Period	Prior Period
Interests paid to associates and subsidiaries	3.139	2.426

3. Information on interest expense to marketable securities issued:

	Current Period		Prior Period	
	TL	FC	TL	FC
Interest expense to marketable securities issued	430.076	538.220	348.860	476.723
Total	430.076	538.220	348.860	476.723

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Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

4. Maturity structure of the interest expense on deposits:

Account name	Demand deposit	Up to 1 month	Up to 3 months	Up to 6 months	Up to 1 year	More than 1 year	Cumulative deposit	Total	Prior Period
TL									
Bank deposit	200	127.077	3.617	-	169	147	11	131.221	95.473
Saving deposit	1	125.088	3.203.911	154.449	16.422	16.892	-	3.516.763	2.784.972
Public sector deposit	-	362	5.813	104	27	5	-	6.311	7.242
Commercial deposit	30	187.992	1.828.556	351.949	71.813	49.610	-	2.489.950	1.888.469
Other deposit	-	11.734	458.666	51.943	41.020	46	-	563.409	575.580
Deposit with 7 days notification	-	-	-	-	-	-	-	-	-
Total	231	452.253	5.500.563	558.445	129.451	66.700	11	6.707.654	5.351.736
FC									
Foreign currency deposit	1.100	201.497	734.413	61.620	61.552	50.008	-	1.110.190	946.702
Bank deposit	9	13.887	14.576	730	17.602	123	-	46.927	35.243
Deposit with 7 days notification	-	-	-	-	-	-	-	-	-
Precious metal vault	-	507	1.452	94	155	71	-	2.279	1.968
Total	1.109	215.891	750.441	62.444	79.309	50.202	-	1.159.396	983.913
Grand total	1.340	668.144	6.251.004	620.889	208.760	116.902	11	7.867.050	6.335.649

c. Information on dividend income:

	Current Period	Prior Period
Trading financial assets	-	-
Financial assets at fair value through profit or loss	-	-
Available-for-sale financial assets	37	32
Subsidiaries and associates	6.136	5.876
Total	6.173	5.908

ç. Information on trading gain/loss (net):

	Current Period	Prior Period
Gain	30.213.163	46.365.051
Gain from capital market transactions	147.000	328.490
Derivative financial transaction gains	10.458.432	15.970.929
Foreign exchange gains	19.607.731	30.065.632
Loss(-)	(30.025.840)	(46.804.186)
Loss from capital market transactions	(129.452)	(63.900)
Derivative financial transaction losses	(10.514.115)	(15.154.271)
Foreign exchange loss	(19.382.273)	(31.586.015)
Net gain/loss	187.323	(439.135)

d. Information on gain/loss from derivative financial transactions:

The amount of net income from derivative financial transactions related to exchange rate changes is TL 72.243 (December 31, 2015 - TL 1.668.074 loss).

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

e. Information on other operating income:

Other operating income mainly results from the collections and reversals from specific/generic provisions recorded in prior years and gain from the sale of Visa Europe to Visa Inc. amounting to TL 235.165.

f. Provision for impairment of loans and other receivables:

	Current Period	Prior Period
Specific provisions for loans and other receivables	2.187.865	1.755.646
III. Group loans and receivables	72.354	56.967
IV. Group loans and receivables	250.310	85.177
V. Group loans and receivables	1.865.201	1.613.502
General provision expenses	494.714	719.398
Provision expense for possible risks	100.000	-
Marketable securities impairment expenses ⁽¹⁾	49.402	80.104
Financial assets at fair value through profit or loss	898	1.225
Available-for-sale financial assets	48.504	78.879
Impairment of investments in associates, subsidiaries and held-to-maturity securities	70.098	38.955
Investments in associates	-	-
Subsidiaries	-	-
Joint ventures	-	-
Held-to-maturity investments ⁽¹⁾	70.098	38.955
Other	52.963	55.135
Total	2.955.042	2.649.238

(1) Includes amortisation of the premiums paid and amortised cost during the purchase of the securities throughout the maturity of the securities and the impairment provisions, if any.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

g. Information related to other operating expenses:

	Current Period	Prior Period
Personnel expenses	2.322.510	2.175.370
Reserve for employee termination benefits	9.413	20.793
Provision expense for pension fund	-	-
Impairment expenses of property and equipment	-	1.492
Depreciation expenses of property and equipment	233.002	218.092
Impairment expenses of intangible assets	-	-
Goodwill impairment expenses	-	-
Amortisation expenses of intangible assets	124.572	128.678
Impairment expenses of equity participations for which equity method is applied	-	-
Impairment expenses of assets held for resale	416	400
Depreciation expenses of assets held for resale	5.714	5.149
Impairment expenses of fixed assets held for sale and assets related to discontinued operations	-	-
Other operating expenses	1.823.002	1.626.536
Operational lease expenses	297.637	277.995
Repair and maintenance expenses	103.256	100.503
Advertising expenses	114.068	129.418
Other expense	1.308.041	1.118.620
Loss on sales of assets	19	117
Other	796.670	900.691
Total	5.315.318	5.077.318

ğ. Explanations on income/loss from continuing operations and discontinued operations before tax:

Income before tax includes net interest income amounting to TL 8.220.684 (December 31, 2015 - TL 7.178.203), net fee and commission income amounting to TL 2.972.884 (December 31, 2015 - TL 2.840.960) and total other operating expense amounting TL 5.315.318 (December 31, 2015 - TL 5.077.318).

As of December 31, 2016, the Group has no profit before taxes from discontinued operations (December 31, 2015 – None).

h. Provision for taxes on income from continuing operations and discontinued operations:

As of December 31, 2016, the Group has current tax expense amounting to TL 658.037 (December 31, 2015 - TL 413.941) and deferred tax expense amounting to TL 162.009 (December 31, 2015 - TL 214.247 deferred tax income).

As at December 31, 2016 the Group has no current and deferred tax income / (expense) related to discontinued operations (December 31, 2015 – None).

	Current Period	Prior Period
Profit before tax	3.752.906	2.536.916
Tax calculated at rate of 20%	750.581	507.383
Nondeductible expenses, discounts and other, net	69.465	120.805
Total	820.046	628.188

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

i. Information on net income/loss for the period:

1. The characteristics, dimension and recurrence of income or expense items arising from ordinary banking transactions do not require any additional explanation to understand the Group's current period performance.
2. Information on any change in the accounting estimates concerning the current period or future periods: None

i. Income/loss of minority interest:

	Current Period	Prior Period
Income/(loss) of minority interest	65	45

j. Other items in income statement:

"Other fees and commissions received" in income statement mainly includes commissions and fees from credit cards and banking transactions.

V. Explanations and notes related to consolidated statement of changes in shareholders' equity

a. Information on dividends:

Authorised body for profit appropriation of the current period is General Assembly. As of the preparation date of these financial statements, annual ordinary meeting of the General Assembly has not been held yet.

b. Information on increase/decrease amounts resulting from merger:

None.

c. Information on available for sale financial assets:

"Unrealised gain/loss" arising from changes in the fair value of securities classified as available-for-sale are not recognized in current year income statement but recognized in the "Marketable securities valuation differences" account under equity, until the financial assets are derecognised, sold, disposed or impaired.

ç. Hedging transactions:

The Parent Bank has begun to apply cash flow hedge accounting in order to hedge the risk of cash flow of its liabilities from January 1, 2010. In the scope of this application, the derivative financial instruments are specified as floating rate and fixed rate interest payment USD, EUR and TL interest rate swaps, hedging liabilities as the USD, EUR and TL customer deposits, repos, cash outflows due to re-pricing of loans because of the expected interest rate financing. In this context, fair value change of the effective portion of derivative financial instruments accounted in equity hedge funds, taking into account tax effects. Such amount as of December 31, 2016 is TL 379.150 profit (December 31, 2015 – 267.965 profit).

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

The Group hedges part of the currency translation risk of net investments in foreign operations through foreign currency borrowings. The Group's Euro denominated borrowing is designated as a hedge of the net investment in the Group's certain EUR denominated subsidiaries. The total amount of the borrowing designated as a hedge of the net investment at December 31, 2016 is EUR 386 million. The foreign exchange loss of TL 215.812 net of tax, on translation of the borrowing to Turkish Lira at the statement of financial position date is recognized in "hedging reserves" in equity.

e. Information on share issue premium:

Explained in details in Note XIX of Section Three.

VI. Explanations and notes related to consolidated statement of cash flows

a. Information on cash and cash equivalent:

1. Components of cash and cash equivalents and the accounting policy applied in their determination:

Cash and foreign currency balances together with demand deposits at banks including the unrestricted amounts of CBRT are defined as "Cash"; money market placements and time deposits in banks with original maturities of less than three months are defined as "Cash Equivalents".

2. Effect of a change in the accounting policies: None.
3. Reconciliation of cash and cash equivalent items with balance sheet and cash flow statements:
- 3 (i). Cash and cash equivalents at the beginning of period:

	Current Period	Prior Period
Cash	8.260.909	7.840.395
Cash and effectives	2.004.851	2.281.092
Demand deposits in banks	6.256.058	5.559.303
Cash equivalents	1.821.751	3.186.301
Interbank money market	284.706	1.567.096
Deposits in bank	1.537.045	1.619.205
Total cash and cash equivalents	10.082.660	11.026.696

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

3 (ii). Cash and cash equivalents at the end of the period:

	Current Period	Prior Period
Cash	12.245.083	8.260.909
Cash and effectives	2.699.282	2.004.851
Demand deposits in banks	9.545.801	6.256.058
Cash equivalents	3.713.929	1.821.751
Interbank money market	252	284.706
Deposits in bank	3.713.677	1.537.045
Total cash and cash equivalents	15.959.012	10.082.660

b. Information on cash and cash equivalents those are not in use due to legal limitations and other reasons:

As of December 31, 2016, the Group's reserve deposits, including those at foreign banks and the TL reserve requirements, amount to TL 27.864.220 (December 31, 2015 - TL 25.106.367).

c. Explanations on other items in the statement of cash flows and the effects of the change in foreign exchange rates on cash and cash equivalents:

Decrease in "Other account" amounting to TL 4.825.362 (December 31, 2015 – TL 4.929.252 increase) which is classified under "Operating profit before changes in operating assets and liabilities" includes fee and commissions given, other operating expenses excluding personnel expenses and foreign exchange gains/losses.

Increase in "Net increase/decrease in other liabilities" amounting to TL 2.816.709 (December 31, 2015 - TL 988.859 increase) which is classified under "Changes in operating assets and liabilities" mainly arises from changes in miscellaneous payables, subordinated loans and other liabilities.

The effects of the change in foreign exchange rates on cash and cash equivalents are calculated as an increase approximately of TL 1.357.079 as of December 31, 2016 (December 31, 2015 - TL 1.216.165 decrease).

VII. Explanations and notes related to Group's merger, transfers and companies acquired by Bank

None.

VIII. Explanations and notes related to Group's risk group

a. The volume of transactions relating to the Group's risk group, outstanding loan and deposit transactions and profit and loss of the period:

1. Information on loans of the Group's risk group:

Current Period	Associates, subsidiaries and joint ventures		Direct and indirect shareholders of the Group		Other real and legal persons that have been included in the risk group	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
Group's risk group ⁽¹⁾⁽²⁾						
Loans and other receivables						
Balance at the beginning of the period	33.816	10.388	106.881	954.585	1.688.868	2.440.007
Balance at the end of the period	21.974	8.492	519.444	1.158.561	2.394.592	2.586.737
Interest and commission income received	870	119	4.981	7.546	245.453	10.501

⁽¹⁾ Defined in subsection 2 of the 49th article of the Banking Act No. 5411.

⁽²⁾ The information in table above includes loans and due from banks as well as marketable securities.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

Prior Period	Associates, subsidiaries and joint ventures		Direct and indirect shareholders of the Bank		Other real and legal persons that have been included in the risk group	
Group's risk group ^{(1) (2)}	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
Loans and other receivables						
Balance at the beginning of the period	88.339	5.916	47.956	536.763	1.320.617	2.117.169
Balance at the end of the period	33.816	10.388	106.881	954.585	1.688.868	2.440.007
Interest and commission income received	2.381	109	13.052	6.027	201.351	8.986

⁽¹⁾ Defined in subsection 2 of the 49th article of Banking Act No. 5411.

⁽²⁾ The information in table above includes loans and due from banks as well as marketable securities.

2. Information on deposits of the Group's risk group:

Group's risk group ^{(1) (2)}	Associates, subsidiaries and joint ventures		Direct and indirect shareholders of the Bank		Other real and legal persons that have been included in the risk group	
Deposit	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
Beginning of the period	82.069	121.840	19.927.462	13.660.682	5.148.413	10.291.156
End of the period	232.820	82.069	24.423.963	19.927.462	14.406.822	5.148.413
Interest expense on deposits⁽³⁾	3.139	2.426	1.107.376	892.403	556.428	385.410

⁽¹⁾ Defined in subsection 2 of the 49th article of the Banking Act No. 5411.

⁽²⁾ The information in table above includes borrowings, marketable securities issued and repo transactions as well as deposits.

3. Information on forward and option agreements and other derivative instruments with the Group's risk group:

Group's risk group ⁽¹⁾	Associates, subsidiaries and joint ventures		Direct and indirect shareholders of the Bank		Other real and legal persons that have been included in the risk group	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
Transactions at fair value through profit or loss⁽²⁾						
Beginning of the period ⁽³⁾	-	-	1.455.484	150.569	146.778	879.327
End of the period ⁽³⁾	-	-	8.532.884	1.455.484	802.512	146.778
Total profit / loss	(8.091)	(7.169)	(9.004)	(53.226)	(9.512)	31.343
Transactions for hedging purposes⁽²⁾						
Beginning of the period ⁽³⁾	-	-	-	-	-	-
End of the period ⁽³⁾	-	-	-	-	-	-
Total profit / loss	-	-	-	-	-	-

⁽¹⁾ Defined in subsection 2 of the 49th article of the Banking Act No. 5411.

⁽²⁾ The Bank's derivative instruments are classified as "Financial instruments at fair value through profit or loss" or "Derivative financial instruments held for hedging" according to TAS 39.

⁽³⁾ The balances at the beginning and end of the periods are disclosed as the total of buy and sell amounts of derivative financial instruments.

b. Information regarding benefits provided to the Group's top management:

Salaries and benefits paid to the Group's top management amount to TL 56.454 as of December 31, 2016 (December 31, 2015 - TL 47.455).

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

IX. Explanations and notes related to the domestic, foreign, off-shore branches or associates and foreign representatives of the Bank:

	Number	Number of Employees			
Domestic Branch	935	18.364			
			Country of incorporation		
Foreign Rep. Office	-	-	-		
				Total assets	Statutory share capital
Foreign Branch	1	2	Bahrain	15.264.658	-
Off-Shore Banking Region Branch ⁽¹⁾	-	-		-	-

(1) The values disclosed above are those of the Parent Bank.

X. Explanations and notes related to subsequent events

None.

Section six

Other Explanations and Notes

I. Other explanations on Group's operations

None.

Section Seven

Explanations on independent audit report

I. Explanations on independent auditor's report

The consolidated financial statements for the period ended December 31, 2016 have been audited by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A member firm of Ernst & Young Global Limited). The independent auditor's report dated February 2, 2017 is presented preceding the consolidated financial statements.

II. Explanations and notes prepared by independent auditor

None.

Yapı Kredi Directory

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Web Site:	http://www.yapikredi.com.tr
Branch Information:	Yapı Kredi's branch contact information is available on the Bank's website.
Social Media Information:	Yapı Kredi is active on social media via Facebook, I all those channels, the Bank is represented as Yapı Kredi.

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