

Yapı ve Kredi Bankası A.Ş.

**Publicly announced consolidated financial statements and
related disclosures at December 31, 2019 together with
auditor's audit report**

**(Convenience translation of publicly announced consolidated financial
statements and independent auditor's report originally issued in Turkish, See
Note 1. of Section three)**

**CONVENIENCE TRANSLATION INTO ENGLISH OF
INDEPENDENT AUDITOR'S REPORT
ORIGINALLY ISSUED IN TURKISH
(See Note I of Section Three)
INDEPENDENT AUDITOR'S REPORT**

To the General Assembly of Yapı ve Kredi Bankası A.Ş.:

A. Audit of the Consolidated Financial Statements

1. Opinion

We have audited the accompanying consolidated financial statements of Yapı ve Kredi Bankası A.Ş. (the "Bank"), and its subsidiaries (collectively referred to as the "Group") which comprise the statement of consolidated balance sheet as at 31 December 2019, consolidated income statement, consolidated statement of income and expense items under shareholders' equity, consolidated statement of changes in shareholders' equity, consolidated statement of cash flows for the year then ended and the notes to the consolidated financial statements and a summary of significant accounting policies and consolidated financial statement notes.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Banking Regulation and Supervision Agency ("BRSA") Accounting and Financial Reporting Legislation which includes "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 Board and circulars and interpretations published by BRSA and Turkish Financial Reporting Standards ("TFRS") for those matters not regulated by the aforementioned regulations.

2. Basis for Opinion

Our audit was conducted in accordance with the "Regulation on Independent Audit of Banks" published by the BRSA on the Official Gazette No.29314 dated 2 April 2015 and the Standards on Independent Auditing (the "SIA") that are part of Turkish Standards on Auditing issued by the Public Oversight Accounting and Auditing Standards Authority (the "POA"). Our responsibilities under these standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We hereby declare that we are independent of the Group in accordance with the Ethical Rules for Independent Auditors (the "Ethical Rules") and the ethical requirements regarding independent audit in regulations issued by POA that are relevant to our audit of the consolidated financial statements. We have also fulfilled our other ethical responsibilities in accordance with the Ethical Rules and regulations. We believe that the audit evidence we have obtained during the independent audit provides a sufficient and appropriate basis for our opinion.

3. Key Audit Matters

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

Key Audit Matters	How the key audit matter was addressed in the audit
<p>Expected credit losses for loans and receivables</p> <p>The Group has total expected credit losses for loans and receivables amounting to TL 18.172.617 thousand in respect to total loans and receivables amounting to TL 262.653.227 thousand which represent a significant portion of the Group's total assets in its consolidated financial statements as at 31 December 2019. Explanations and notes related to expected credit losses for loans and receivables are presented Section Three Part 7, Section Four Part 2, Section Four Part 3.3, Section Five Part 1.7 in the accompanying consolidated financial statements as at 31 December 2019.</p> <p>The Group recognizes provision for impairment in accordance with "IFRS 9 Financial Instruments" ("IFRS 9") requirements effective from 1 January 2018 in line with the "Regulation on the Procedures and Principles for Classification of Loans and Provisions to be Provided" as published in the Official Gazette dated 22 June 2016 numbered 29750. The Group exercises significant decisions using subjective judgement, interpretation and assumptions over when and how much to record as loan impairment. The Group determines staging of credit identifying significant increase in credit risk with quantitative and qualitative assessments disclosed in Section Three Part 8 in the accompanying consolidated financial statements and default event disclosed in Section Four Part 2 in the accompanying consolidated financial statements. Information used in the expected credit loss assessment such as historical loss experiences, current conditions and macroeconomic expectations should be supportable and appropriate.</p>	<p>With respect to stage classification of loans and receivables and calculation of expected credit losses in accordance with IFRS 9, we have assessed policy, procedure and management principles of the Group within the scope of our audit. We tested the design and the operating effectiveness of relevant controls implemented in accordance with these principles.</p> <p>We checked appropriateness of matters considered in methodology applied by the Group for staging of loans and receivables and calculation of the provision amount. For forward looking assumptions by the Group's management in its expected credit losses calculations, we held discussions with management, evaluated the assumptions using publicly available information. Regarding expected credit losses methodology; we have assessed and tested appropriateness of model segmentation, lifetime probability of default model, exposure at default model, loss given default model and approaches in relation to projection of macroeconomic expectations with our financial risk experts. We have assessed expert judgment utilized in interpretation of supportable forward looking expectations (including macroeconomic factors). Our procedures also included the following:</p> <ul style="list-style-type: none"> • Together with our financial risk experts, we evaluated and tested reasonableness of the changes in the expected credit loss allowance methodology and the performance of the impairment models used. • We have checked selected models used in determination of provisions for various credit portfolios with our financial risk experts by reperforming on a sample selection basis • For a sample of exposures, we checked the accuracy of determining Exposure at Default, including the consideration of prepayments and repayments in the cash flows and the resultant arithmetical calculations.

Key Audit Matters	How the key audit matter was addressed in the audit
<p data-bbox="272 499 711 562">Expected credit losses for loans (Continued)</p> <p data-bbox="272 594 865 783">The Group has developed new and complex models, that requires data to be derived from multiple systems and has not been part of the financial reporting process before for determining significant increase in credit risk and calculation of TFRS 9 expected credit losses.</p> <p data-bbox="272 814 865 1329">Our audit was focused on this area due to existence of complex estimates and information used in the impairment assessment such as macro-economic expectations, current conditions, historical loss experiences; the significance of the loans and receivables balances; the classification of loans and receivables as per their credit risk (staging) and the importance of determination of the associated expected credit loss. Timely and correct identification of default event and significant increase in credit risk and level of judgements and estimations made by the management have significant impacts on the amount of impairment provisions for loans and receivables. Therefore, this area is considered as key audit matter.</p>	<ul data-bbox="901 594 1498 1518" style="list-style-type: none"> • We checked the calculation of the Loss Given Default (LGD) used by the Group in the expected credit losses calculations, and tested collaterals, recovery and costs in addition to arithmetical calculations. • For a selected sample, we checked expected credit losses determined based on individual assessment per Group’s policy by means of supporting data, and evaluated appropriateness via communications with management. • We checked key data sources for data used in expected credit losses calculations. We tested reliability and completeness of the data used in expected credit losses calculations with our information systems specialists. • We checked accuracy of resultant expected credit losses calculations. • To assess appropriateness of the Group’s determination of staging for credit risk, identification of impairment and timely and appropriate provisioning for impairment we have performed loan review procedures based on a selected sample. • We have reviewed disclosures made within the TFRS 9 framework in the financial statements of the Group with respect to loans and receivables and related impairment provision.

Key Audit Matters	How the key audit matter was addressed in the audit
<p>Valuation of Pension Fund obligations</p> <p>The Group has booked provision amounting to TL 1.178.063 for Pension Fund Liabilities in the accompanying consolidated financial statements as at 31 December 2019. Explanations on Valuation of Pension Obligations are presented in the section five part 2.6.3 in the accompanying consolidated financial statements.</p> <p>Yapı ve Kredi Bankası Anonim Şirketi Mensupları Yardım ve Emekli Sandığı (Pension Fund) is established in accordance with the Social Security Law numbered 506 article No 20 and is within the scope of Funds to be transferred to the Social Security Institution (SSI). The President is authorized to determine the transfer date. The total obligation of the fund is estimated using separate methods and assumption for benefits to be transferred and for non-transferrable benefits. The valuations of the pension obligations require significant judgement and technical expertise in choosing appropriate assumptions. Evaluation of Pension Fund liabilities include uncertainty of estimates and assumptions such as transferrable social benefits, discount rates, salary increases, economic and demographic assumptions.</p> <p>The Group's management uses external actuaries for the purpose of valuations of Pension Fund obligations.</p> <p>During our audit, above mentioned fundamental assumption and estimates used in calculations of Pension Fund obligations, uncertainty of the transfer date, technical interest rate determined by the law and significant impact from differentiation of these assumptions were taken into consideration, and this area is considered as key audit matter.</p>	<p>Within our audit we tested on a sample basis the accuracy of the employee data supplied by the Group management to the external actuary firm for the purpose of evaluation pension obligation. In addition, we verified the existence and values of the Pension Fund assets.</p> <p>We examined whether significant changes in actuarial assumptions used in calculation, employee benefits in the period, plan assets and liabilities, and regulations related to valuations exist, and tested significant changes.</p> <p>Through use of our actuarial specialist, we assessed the reasonableness of assumptions and evaluation made by the external actuaries in the calculation of the liability.</p>

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

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

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

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

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

Responsibilities of independent auditors in an independent audit are as follows:

Our aim is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance expressed as a result of an independent audit conducted in accordance with "Regulation on Independent Audit of Banks" published by the BRSA on the Official Gazette No.29314 dated 2 April 2015 and SIA is a high level of assurance but does not guarantee that a material misstatement will always be detected. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an independent audit conducted in accordance with "Regulation on Independent Audit of Banks" published by the BRSA on the Official Gazette No.29314 dated 2 April 2015 and SIA, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Assess the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

B. Other Responsibilities Arising From Regulatory Requirements

1. No matter has come to our attention that is significant according to subparagraph 4 of Article 402 of Turkish Commercial Code (“TCC”) No. 6102 and that causes us to believe that the Bank’s bookkeeping activities concerning the period from 1 January to 31 December 2019 period are not in compliance with the TCC and provisions of the Bank’s articles of association related to financial reporting.
2. In accordance with subparagraph 4 of Article 402 of the TCC, the Board of Directors submitted the necessary explanations to us and provided the documents required within the context of our audit.

Additional Paragraph for Convenience Translation

The effects of differences between accounting principles and standards explained in detail in Section Three 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.

PwC Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.

Halûk Yalçın, SMMM
Partner

Istanbul, 4 February 2020

**Convenience translation of publicly announced consolidated financial statements and audit report
originally issued in Turkish, See Note I. of Section three**

**THE CONSOLIDATED YEAR END FINANCIAL REPORT OF
YAPI VE KREDI BANKASI A.Ş. AS OF DECEMBER 31, 2019**

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 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 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.		
3. Yapı Kredi Yatırım Menkul Değerler A.Ş.	2. Allianz Yaşam ve Emeklilik A.Ş.	
4. Yapı Kredi Portföy Yönetimi A.Ş.		
5. Yapı Kredi Holding B.V.		
6. Yapı Kredi Bank Nederland N.V.		
7. Stichting Custody Services YKB		
8. Yapı Kredi Bank Azerbaijan CJSC		
9. 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 for the nine months and notes to these financial statements which are expressed, in **thousands of Turkish Lira** (unless otherwise stated) 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 and are presented enclosed.

Y. Ali KOÇ
Chairman of the
Board of Directors

Gökhan ERÜN
Executive Director and
CEO

Massimo FRANCESE
Chief Financial Officer

B. Seda İKİZLER
Financial Reporting and
Accounting Executive
Vice President

Wolfgang SCHILK
Chairman of the Audit
Committee

Dr. Ahmet ÇİMENÖĞLU
Member of the Audit
Committee

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

Name-Surname / Title : Umut Hallaç / International Reporting & Consolidation Manager
Telephone Number : 0212 339 98 87
Fax Number : 0212 339 61 05

Section one – General information		
1.	History of the Parent Bank including its incorporation date, initial legal status and amendments to legal status, if any	1
2.	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	1
3.	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	1
4.	Information on the individual and corporate shareholders having control shares of the Parent Bank	3
5.	Summary information on the Parent Bank’s activities and service types	3
6.	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	3
7.	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	3
Section two - Consolidated financial statements		
1.	Consolidated balance sheet (Statement of Financial Position)	4
2.	Consolidated off-balance sheet commitments	6
3.	Consolidated income statements	7
4.	Consolidated statement of income and expense items accounted under shareholders’ equity	8
5.	Consolidated statement of changes in shareholders’ equity	9
6.	Consolidated statement of cash flows	11
7.	Profit distribution statement	12
Section three – Accounting policies		
1.	Explanations on basis of presentation	13
2.	Explanations on strategy of using financial instruments and foreign currency transactions	14
3.	Information on consolidation principles	14
4.	Explanations on forward and option contracts and derivative instruments	16
5.	Explanations on interest income and expense	18
6.	Explanations on fee and commission income and expense	18
7.	Explanations on financial assets	18
8.	Explanations on impairment of financial assets	22
9.	Explanations on offsetting financial assets	24
10.	Explanations on sales and repurchase agreements and securities lending transactions	24
11.	Information on assets held for resale and related to discontinued operations and explanations on liabilities related with these assets	25
12.	Explanations on goodwill and other intangible assets	25
13.	Explanations on property and equipment	26
14.	Explanations on leasing transactions	26
15.	Explanations on provisions, contingent asset and liabilities	27
16.	Explanations on obligations related to employee rights	27
17.	Explanations on taxation	29
18.	Explanations on borrowings	30
19.	Explanations on issuance of share certificates	30
20.	Explanations on avalized drafts and acceptances	30
21.	Explanations on government grants	31
22.	Profit reserves and profit distribution	31
23.	Earnings per share	31
24.	Related parties	31
25.	Explanations on operating segments	31
26.	Explanations on other matters	31
Section four- Financial Position and Risk Management		
1.	Explanations on consolidated own funds	32
2.	Explanations on consolidation based risk management	36
3.	General information on risk management and risk weighted amount	42
4.	Explanations on consolidated currency risk	62
5.	Explanations on consolidated interest rate risk	64
6.	Explanations on share certificates position risk from banking book	65
7.	Explanation on consolidated liquidity risk management and liquidity coverage ratio	65
8.	Explanations on leverage ratio	70
9.	Explanations on the presentation of financial assets and liabilities at fair values	71
10.	Explanations on hedge accounting	73
11.	Explanations on the activities carried out on behalf of others and fiduciary transactions	75
12.	Explanations on consolidated operating segments	76
Section five - Explanations and notes related to consolidated financial statements		
1.	Explanations and notes related to consolidated assets	78
2.	Explanations and notes related to consolidated liabilities	93
3.	Explanations and notes related to consolidated off-balance sheet accounts	99
4.	Explanations and notes related to consolidated income statement	103
5.	Explanations and notes related to consolidated statement of changes in shareholders’ equity	106
6.	Explanations and notes related to consolidated statement of cash flows	107
7.	Explanations and notes related to related to Group’s risk group	108
8.	Explanations and notes related to the domestic, foreign, off-shore branches or associates and foreign representatives of the Bank	109
9.	Explanations and notes related to subsequent events	109
Section six – Other explanations and notes		
1.	Other explanations on the Parent bank’s operations	110
Section seven – Explanations on independent report		
1.	Explanations on independent auditor’s report	110
2.	Explanations and notes prepared by independent auditor	110

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

Section One

General Information

1. History of the Parent Bank including its incorporation date, initial legal status and amendments to legal status:

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.

2. 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. As of December 31, 2019, almost 18,10% of the shares of the Bank are publicly traded (December 31, 2018, - 18,10%). The remaining 81,90% 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. 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 Parent Bank increased to 81,80%. KFS shares increased to 81,90% with the capital increase by TL 4,1 billion in 2018.

According to the statement of Koç Holding A.Ş. on the Public Disclosure Platform (KAP) dated November 30,2019, Koç Group and UCG have reached a deal to exchange their shares in the Parent Bank and KFS.

Accordingly all the shares of KFS, which is currently a joint venture, will be transferred to Koç Group. Besides, after the shares are transferred, KFS will hold 40,95%, UCG will hold 31,93% directly and Koç Group will hold a total of 49,99% directly and indirectly of the Parent Bank shares.

It is expected that the sale transactions will be completed after obtaining necessary permission from legal authorities.

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

3. 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, 2019 the Parent Bank’s Board of Directors, Members of the Audit Committee, General Manager and Assistant General Managers are as follows:

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

Board of Directors Members:

Name	Responsibility
Y. Ali KOÇ	Chairman
Niccolò UBERTALLI	Vice Chairman
Gökhan ERÜN	Executive Director and CEO
Marco IANNACCONE	Executive Director and COO
A. Ümit TAFTALI	Member
Ahmet ÇİMENOĞLU	Independent Member
Ahmet Fadıl ASHABOĞLU	Member
Carlo VIVALDI	Member
Gianfranco BISAGNI	Member
Giovanna VILLA	Independent Member
Levent ÇAKIROĞLU	Member
Mirko D. G. BIANCHI	Member
Virma SÖKMEN	Independent Member
Wolfgang SCHILK	Independent Member

Audit Committee Members:

Name	Responsibility
Wolfgang SCHILK	Chairman
Ahmet ÇİMENOĞLU	Member
Giovanna VILLA	Member

General Manager:

Name	Responsibility
Gökhan ERÜN	Executive Director and CEO

Chief Operating Officer:

Name	Responsibility
Marco IANNACCONE	Executive Director and COO

Assistant General Managers:

Name	Responsibility
Akif Cahit ERDOĞAN	Information Technologies and Operation Management
Albert ANGERSBACH	Risk Management
Arif Özer İSFENDİYAROĞLU	Retail Banking Sales Management
Cemal Aybars SANAL	Legal Activities Management
Demir KARAASLAN	Retail Credits Management
Erhan ADALI	Corporate and Commercial Banking Management
Giovanni Battista AVANZI	Internal Audit / Chief Audit Executive
Hakan ALP	Human Resources and Organization Management
Massimo FRANCESE	Financial Planning and Administration Management
Mehmet Erkan ÖZDEMİR	Compliance and Internal Control / Consumer Relations Coordination Officer
Nurgün EYÜBOĞLU	Corporate and Commercial Credit Management
Saruhan YÜCEL	Treasury Management
Serkan ÜLGEN	Retail Banking Management
Yakup DOĞAN	Alternative Distribution Channels

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

4. 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.	6.918.131.285,23	81,90	6.918.131.285,23	-

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

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

The Parent Bank's activities summarized in the section 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.

As of December 31, 2019, the Parent Bank has 845 branches operating in Turkey and 1 branch in overseas (December 31, 2018 - 853 branches operating in Turkey, 1 branch in overseas).

As of December 31, 2019, the Parent Bank has 16.631 employees (December 31, 2018 - 17.577 employees). The Parent Bank together with its consolidated subsidiaries is referred to as the "Group" in these consolidated financial statements. As of December 31, 2019 the Group has 17.466 employees (December 31, 2018 - 18.448 employees).

6. 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 of the Preparation Consolidated Financial Statements 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.

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 since these entities are not financial institutions.

All other subsidiaries are fully consolidated.

7. 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.

Yapı ve Kredi Bankası A.Ş.**Consolidated financial statements as of December 31, 2019 and 2018**

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

Section two - Consolidated financial statements**1. Consolidated balance sheet (Statement of Financial Position)**

ASSETS	Note (Section five)	Current Period (31/12/2019)			Prior Period (31/12/2018)		
		TL	FC	Total	TL	FC	Total
I. FINANCIAL ASSETS (Net)		43.735.439	69.827.929	113.563.368	47.957.841	50.343.713	98.301.554
I.1 Cash and Cash Equivalents	1.1	17.120.068	64.219.910	81.339.978	17.073.953	45.027.781	62.101.734
1.1.1 Cash and Balances with Central Bank		2.488.632	40.997.298	43.485.930	16.756.471	40.074.837	56.831.308
1.1.2 Banks	1.4	3.862.439	23.349.349	27.211.788	237.598	5.032.042	5.269.640
1.1.3 Money Markets	1.4.3	10.803.630	-	10.803.630	105.175	12.056	117.231
1.1.4 Provisions for Expected Losses (-)		34.633	126.737	161.370	25.291	91.154	116.445
I.2 Financial assets where fair value change is reflected to income statement	1.2	230.597	342.600	573.197	26.978	221.178	248.156
1.2.1 Government debt securities		20.754	73.116	93.870	17.686	50.656	68.342
1.2.2 Share certificates		204.846	269.484	474.330	6.640	170.522	177.162
1.2.3 Other financial assets		4.997	-	4.997	2.652	-	2.652
I.3 Financial assets where fair value change is reflected to other comprehensive income statement	1.5,1.6	22.802.626	4.097.986	26.900.612	22.881.613	4.002.067	26.883.680
1.3.1 Government debt securities		22.710.089	2.050.829	24.760.918	22.790.241	2.167.987	24.958.228
1.3.2 Share certificates		77.416	2.929	80.345	64.144	2.650	66.794
1.3.3 Other financial assets		15.121	2.044.228	2.059.349	27.228	1.831.430	1.858.658
I.4 Derivative Financial Assets	1.3	3.582.148	1.167.433	4.749.581	7.975.297	1.092.687	9.067.984
1.4.1 Derivative financial assets where fair value change is reflected to income statement		3.327.461	1.124.994	4.452.455	5.105.944	792.954	5.898.898
1.4.2 Derivative financial assets where fair value change is reflected to other comprehensive income statement		254.687	42.439	297.126	2.869.353	299.733	3.169.086
II. FINANCIAL ASSETS MEASURED AT AMORTISED COST (Net)		161.098.247	112.948.931	274.047.178	140.831.209	116.899.465	257.730.674
2.1 Loans	1.7	152.024.450	96.025.148	248.049.598	133.996.637	99.138.357	233.134.994
2.2 Receivables From Leasing Transactions (Net)	1.12	2.487.469	8.008.303	10.495.772	2.699.972	10.075.491	12.775.463
2.3 Factoring Receivables		2.713.491	1.394.366	4.107.857	1.973.574	1.615.493	3.589.067
2.4 Financial Assets Measured at Amortised Cost	1.8	18.017.793	11.590.344	29.608.137	12.967.307	9.838.372	22.805.679
2.4.1 Government debt securities		17.686.989	10.704.522	28.391.511	12.967.307	9.077.343	22.044.650
2.4.2 Other financial assets		330.804	885.822	1.216.626	-	761.029	761.029
2.5 Provisions for Expected Losses (-)		14.144.956	4.069.230	18.214.186	10.806.281	3.768.248	14.574.529
III. ASSETS HELD FOR RESALE AND RELATED TO DISCONTINUED OPERATIONS (Net)	1.17	321.890	9.445	331.335	289.796	8.674	298.470
3.1 Held for Sale Purposes		321.890	9.445	331.335	289.796	8.674	298.470
3.2 Related to Discontinued Operations		-	-	-	-	-	-
IV. INVESTMENTS IN ASSOCIATES, SUBSIDIARIES AND JOINT VENTURES		347.068	902.257	1.249.325	297.293	784.140	1.081.433
4.1 Investments in Associates (net)	1.9	317.453	902.257	1.219.710	268.828	784.140	1.052.968
4.1.1 Consolidated based on Equity Method		311.352	902.257	1.213.609	262.727	784.140	1.046.867
4.1.2 Unconsolidated		6.101	-	6.101	6.101	-	6.101
4.2 Subsidiaries (Net)	1.10	7.300	-	7.300	7.300	-	7.300
4.2.1 Unconsolidated Financial Subsidiaries		-	-	-	-	-	-
4.2.2 Unconsolidated Non-Financial Subsidiaries		7.300	-	7.300	7.300	-	7.300
4.3 Joint Ventures (Net)	1.11	22.315	-	22.315	21.165	-	21.165
4.3.1 Consolidated based on Equity Method		22.315	-	22.315	21.165	-	21.165
4.3.2 Unconsolidated		-	-	-	-	-	-
V. PROPERTY AND EQUIPMENT (Net)	1.13	4.313.414	45.485	4.358.899	3.293.383	18.792	3.312.175
VI. INTANGIBLE ASSETS [Net]	1.14	1.889.731	31.093	1.920.824	1.791.184	25.928	1.817.112
6.1 Goodwill		979.493	-	979.493	979.493	-	979.493
6.2 Other		910.238	31.093	941.331	811.691	25.928	837.619
VII. INVESTMENT PROPERTY (Net)	1.15	-	-	-	-	-	-
VIII. CURRENT TAX ASSETS		-	3.090	3.090	5.851	3.653	9.504
IX. DEFERRED TAX ASSETS	1.16	2.129.358	-	2.129.358	712.891	-	712.891
X. OTHER ASSETS	1.18	3.387.621	10.204.022	13.591.643	3.393.959	6.718.482	10.112.441
TOTAL ASSETS		217.222.768	193.972.252	411.195.020	198.573.407	174.802.847	373.376.254

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, 2019 and 2018**

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

1. Consolidated balance sheet (Statement of Financial Position)

LIABILITIES	Note (Section Five)	Current Period (31/12/2019)			Prior Period (31/12/2018)		
		TL	FC	Total	TL	FC	Total
I. DEPOSITS	2.1	102.994.590	128.077.107	231.071.697	92.742.975	117.548.498	210.291.473
II. BORROWINGS	2.3.1	2.452.375	42.921.120	45.373.495	1.329.596	45.742.406	47.072.002
III. MONEY MARKETS		5.519.024	789.864	6.308.888	2.205.920	1.314.293	3.520.213
IV. MARKETABLE SECURITIES ISSUED (Net)	2.3.3	6.740.946	18.480.245	25.221.191	3.900.361	17.541.842	21.442.203
4.1 Bills		5.098.851	-	5.098.851	1.373.498	-	1.373.498
4.2 Asset backed Securities		-	3.746.311	3.746.311	-	3.835.712	3.835.712
4.3 Bonds		1.642.095	14.733.934	16.376.029	2.526.863	13.706.130	16.232.993
V. FUNDS		-	-	-	-	-	-
5.1 Borrower Funds		-	-	-	-	-	-
5.2 Other		-	-	-	-	-	-
VI. FINANCIAL LIABILITIES FAIR VALUE THROUGH PROFIT AND LOSS	2.3.4	830.929	12.353.676	13.184.605	330.910	7.634.494	7.965.404
VII. DERIVATIVE FINANCIAL LIABILITIES	2.2	5.568.959	1.536.323	7.105.282	6.383.398	904.351	7.287.749
4.1 Derivative Liabilities at Fair Value Through Profit and Loss		2.989.768	1.224.347	4.214.115	5.840.503	835.840	6.676.343
4.2 Derivative Liabilities at Fair Value Through Other Comprehensive Profit		2.579.191	311.976	2.891.167	542.895	68.511	611.406
VIII. FACTORING PAYABLES		-	-	-	-	-	-
IX. LEASE PAYABLES (Net)	2.5	897.433	29.790	927.223	-	-	-
X. PROVISIONS	2.6	3.441.735	300.496	3.742.231	3.114.494	344.691	3.459.185
10.1 Provisions for Restructuring		-	-	-	-	-	-
10.2 Provisions for Employee Rights	2.6.1	778.583	2.509	781.092	680.071	2.197	682.268
10.3 Insurance Technical Provisions (Net)		-	-	-	-	-	-
10.4 Other Provisions	2.6.3	2.663.152	297.987	2.961.139	2.434.423	342.494	2.776.917
XI. CURRENT TAX LIABILITIES	2.7	932.503	1.336	933.839	1.121.246	1.186	1.122.432
XII. DEFERRED TAX LIABILITIES		-	8.359	8.359	2.401	8.265	10.666
XIII. LIABILITIES FOR PROPERTY AND EQUIPMENT HELD FOR SALE AND RELATED TO DISCONTINUED OPERATIONS (Net)		-	-	-	-	-	-
13.1 Held for Sale		-	-	-	-	-	-
13.2 Related to Discontinued Operations		-	-	-	-	-	-
XIV. SUBORDINATED DEBT	2.9	821.340	17.758.699	18.580.039	-	13.557.153	13.557.153
14.1 Loans		-	5.102.941	5.102.941	-	5.574.724	5.574.724
14.2 Other Facilities		821.340	12.655.758	13.477.098	-	7.982.429	7.982.429
XV. OTHER LIABILITIES	2.4	15.471.432	2.075.159	17.546.591	15.046.590	3.593.906	18.640.496
XVI. SHAREHOLDERS' EQUITY	2.10	41.548.897	(357.317)	41.191.580	39.109.703	(102.425)	39.007.278
16.1 Paid in Capital		8.447.051	-	8.447.051	8.447.051	-	8.447.051
16.2 Capital Reserves		1.988.296	-	1.988.296	1.985.153	-	1.985.153
16.2.1 Share premium		556.937	-	556.937	556.937	-	556.937
16.2.2 Share Cancellation Profits		-	-	-	-	-	-
16.2.3 Other Capital Reserves		1.431.359	-	1.431.359	1.428.216	-	1.428.216
16.3 Other accumulated comprehensive income that will not be reclassified in profit or loss		1.635.497	7.315	1.642.812	1.661.712	7.315	1.669.027
16.4 Other accumulated comprehensive income that will be reclassified in profit or loss		(266.191)	(323.225)	(589.416)	871.298	(68.333)	802.965
16.5 Profit Reserves		24.503.543	(41.407)	24.462.136	19.836.498	(41.407)	19.795.091
16.5.1 Legal Reserves		1.102.781	-	1.102.781	869.410	-	869.410
16.5.2 Statutory reserves		-	-	-	-	-	-
16.5.3 Extraordinary Reserves		23.393.329	(41.407)	23.351.922	18.959.274	(41.407)	18.917.867
16.5.4 Other Profit Reserves		7.433	-	7.433	7.814	-	7.814
16.6 Profit or loss		5.240.014	-	5.240.014	6.307.380	-	6.307.380
16.6.1 Prior years' profits or losses		1.639.954	-	1.639.954	1.639.954	-	1.639.954
16.6.2 Current period net profit or loss		3.600.060	-	3.600.060	4.667.426	-	4.667.426
16.7 Minority interest		687	-	687	611	-	611
TOTAL LIABILITIES		187.220.163	223.974.857	411.195.020	165.287.594	208.088.660	373.376.254

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, 2019 and 2018**

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

2. Consolidated off-balance sheet commitments

	Note (Section Five)	Current Period (31/12/2019)			Prior Period (31/12/2018)		
		TL	FC	Total	TL	FC	Total
A. Off-balance sheet commitments (I-II+III)		241.782.716	388.539.643	630.322.359	216.053.385	358.751.820	574.805.205
I. Guarantees and warranties	3.1.2.1	26.946.770	62.617.711	89.564.481	26.281.959	59.503.230	85.785.189
1.1 Letters of guarantee	3.1.2.2	26.817.178	42.085.180	68.902.358	26.111.200	40.357.031	66.468.231
1.1.1 Guarantees subject to state tender law		367.229	604.813	972.042	562.791	1.240.942	1.803.733
1.1.2 Guarantees given for foreign trade operations		4.017.924	41.279.296	45.297.220	3.768.512	38.962.053	42.730.565
1.1.3 Other letters of guarantee		22.432.025	201.071	22.633.096	21.779.897	154.036	21.933.933
1.2 Bank acceptances		-	156.431	156.431	-	200.915	200.915
1.2.1 Import letter of acceptance		-	156.431	156.431	-	200.915	200.915
1.2.2 Other bank acceptances		-	-	-	-	-	-
1.3 Letters of credit		77.354	12.409.018	12.486.372	152.733	11.040.080	11.192.813
1.3.1 Documentary letters of credit		77.354	12.408.686	12.486.040	152.733	11.039.517	11.192.250
1.3.2 Other letters of credit		-	332	332	-	563	563
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		-	106.400	106.400	-	-	-
1.8 Other guarantees		52.238	3.781.228	3.833.466	18.026	3.997.024	4.015.050
1.9 Other warranties		-	4.079.454	4.079.454	-	3.908.180	3.908.180
II. Commitments	3.1.1	70.587.105	24.614.354	95.201.459	57.594.918	27.612.945	85.207.863
2.1 Irrevocable commitments		65.878.662	7.437.359	73.316.021	56.759.355	9.049.492	65.808.847
2.1.1 Asset purchase and sale commitments		1.494.732	6.254.891	7.749.623	1.969.620	6.371.281	8.340.901
2.1.2 Deposit purchase and sales commitments		-	-	-	-	-	-
2.1.3 Share capital commitments to associates and subsidiaries		-	-	-	-	-	-
2.1.4 Loan granting commitments		12.708.914	960.251	13.669.165	10.167.781	2.192.400	12.360.621
2.1.5 Securities issue brokerage commitments		-	-	-	-	-	-
2.1.6 Commitments for reserve deposit requirements		-	-	-	-	-	-
2.1.7 Commitments for cheques		3.389.714	-	3.389.714	2.990.824	-	2.990.824
2.1.8 Tax and fund liabilities from export commitments		4.074	-	4.074	4.551	-	4.551
2.1.9 Commitments for credit card limits		41.380.895	-	41.380.895	35.189.895	-	35.189.895
2.1.10 Commitments for credit cards and banking services promotions		30.190	-	30.190	27.510	-	27.510
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		6.870.143	222.217	7.092.360	6.409.174	485.371	6.894.545
2.2 Revocable commitments		4.708.443	17.176.995	21.885.438	835.563	18.563.453	19.399.016
2.2.1 Revocable loan granting commitments		4.708.443	17.069.512	21.777.955	835.563	18.472.473	19.308.036
2.2.2 Other revocable commitments		-	107.483	107.483	-	90.980	90.980
III. Derivative financial instruments		144.248.841	301.307.578	445.556.419	132.176.508	271.635.645	403.812.153
3.1 Derivative financial instruments for hedging purposes		50.023.902	53.444.098	103.468.000	48.681.680	48.579.047	97.260.727
3.1.1 Transactions for fair value hedge		606.305	3.280.042	3.886.347	549.020	3.717.204	4.266.224
3.1.2 Transactions for cash flow hedge		49.417.597	50.164.056	99.581.653	48.132.660	44.861.843	92.994.503
3.1.3 Transactions for foreign net investment hedge		-	-	-	-	-	-
3.2 Trading transactions		94.224.939	247.863.480	342.088.419	83.494.828	223.056.598	306.551.426
3.2.1 Forward foreign currency buy/sell transactions		8.093.113	17.786.742	25.879.855	8.163.952	11.115.016	19.278.968
3.2.1.1 Forward foreign currency transactions-buy		3.364.739	9.641.611	13.006.350	3.862.433	6.037.224	9.899.657
3.2.1.2 Forward foreign currency transactions-sell		4.728.374	8.145.131	12.873.505	4.301.519	5.077.792	9.379.311
3.2.2 Swap transactions related to foreign currency and interest rates		80.570.889	195.610.573	276.181.462	69.476.428	175.834.744	245.311.172
3.2.2.1 Foreign currency swap-buy		11.352.683	69.003.550	80.356.233	15.933.191	63.810.780	79.743.971
3.2.2.2 Foreign currency swap-sell		37.468.206	43.134.867	80.603.073	46.261.237	35.319.820	81.581.057
3.2.2.3 Interest rate swap-buy		15.875.000	41.736.078	57.611.078	3.641.000	38.352.072	41.993.072
3.2.2.4 Interest rate swap-sell		15.875.000	41.736.078	57.611.078	3.641.000	38.352.072	41.993.072
3.2.3 Foreign currency, interest rate and securities options		3.741.319	8.349.687	12.091.006	5.034.420	12.244.720	17.279.140
3.2.3.1 Foreign currency options-buy		2.043.723	2.136.917	4.180.640	1.735.423	5.022.695	6.758.118
3.2.3.2 Foreign currency options-sell		1.497.596	2.736.368	4.233.964	2.998.997	3.709.657	6.708.654
3.2.3.3 Interest rate options-buy		100.000	2.584.853	2.684.853	150.000	2.325.046	2.475.046
3.2.3.4 Interest rate options-sell		100.000	891.549	991.549	150.000	1.187.322	1.337.322
3.2.3.5 Securities options-buy		-	-	-	-	-	-
3.2.3.6 Securities options-sell		-	-	-	-	-	-
3.2.4 Foreign currency futures		199.618	198.789	398.407	-	-	-
3.2.4.1 Foreign currency futures-buy		199.618	-	199.618	-	-	-
3.2.4.2 Foreign currency futures-sell		-	198.789	198.789	-	-	-
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		1.620.000	25.917.689	27.537.689	820.028	23.862.118	24.682.146
B. Custody and pledges received (IV+V+VI)		849.240.622	763.404.510	1.612.645.132	681.102.121	594.748.523	1.275.850.644
IV. Items held in custody		427.276.968	661.765.075	1.089.042.043	363.119.243	531.619.754	894.738.997
4.1 Customer fund and portfolio balances		-	-	-	-	-	-
4.2 Investment securities held in custody		403.266.572	661.038.762	1.064.305.334	339.110.318	530.965.211	870.075.529
4.3 Checks received for collection		17.179.886	68.572	17.248.458	18.335.720	63.956	18.399.676
4.4 Commercial notes received for collection		6.772.366	568.443	7.340.809	5.615.061	510.019	6.125.080
4.5 Other assets received for collection		-	71.180	71.180	-	64.289	64.289
4.6 Assets received for public offering		-	-	-	-	-	-
4.7 Other items under custody		58.144	18.118	76.262	58.144	16.279	74.423
4.8 Custodians		-	-	-	-	-	-
V. Pledges received		395.405.815	89.997.642	485.403.457	298.328.314	53.251.826	351.580.140
5.1 Marketable securities		831.183	659	831.842	249.891	583	250.474
5.2 Guarantee notes		720.000	278.319	998.319	1.144.853	317.023	1.461.876
5.3 Commodity		6.946	-	6.946	17.430	-	17.430
5.4 Warrants		-	-	-	-	-	-
5.5 Properties		140.794.432	37.026.755	177.821.187	120.540.545	30.105.856	150.646.401
5.6 Other pledged items		253.053.254	52.681.274	305.734.528	176.375.595	22.818.924	199.194.519
5.7 Pledged items-depository		-	10.635	10.635	-	9.440	9.440
VI. Accepted independent guarantees and warranties		26.557.839	11.641.793	38.199.632	19.654.564	9.876.943	29.531.507
Total off-balance sheet commitments (A+B)		1.091.023.338	1.151.944.153	2.242.967.491	897.155.506	953.500.343	1.850.655.849

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, 2019 and 2018**

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

3. Consolidated income statement

	Note (Section Five)	Current Period (01/01/2019- 31/12/2019)	Prior Period (01/01/2018- 31/12/2018)
Income and expense items			
I. INTEREST INCOME	4.1	37.851.770	35.508.387
1.1 Interest on Loans	4.1.1	29.046.377	25.681.345
1.2 Interest received from reserve deposits		375.844	415.131
1.3 Interest Received from Banks	4.1.2	1.059.517	773.117
1.4 Interest Received from Money Market Transactions		516.515	58.739
1.5 Interest Received from Marketable Securities Portfolio	4.1.3	5.447.042	7.182.346
1.5.1 Financial Assets at Fair Value Through Profit and Loss		12.299	11.186
1.5.2 Financial Assets at Fair Value Through Other Comprehensive income		3.134.692	4.535.722
1.5.3 Financial assets measured at amortised cost		2.300.051	2.635.438
1.6 Financial Lease Income		929.016	930.218
1.7 Other Interest Income		477.459	467.491
II. INTEREST EXPENSE (-)	4.2	22.320.754	21.011.923
2.1 Interest on Deposits	4.2.4	15.484.106	14.331.588
2.2 Interest on Funds Borrowed	4.2.1	3.194.571	2.446.396
2.3 Interest expense on money market transactions		664.161	1.506.986
2.4 Interest on Securities Issued	4.2.3	2.730.885	2.174.148
2.5 Interest on Lease Payables		164.792	-
2.6 Other Interest Expense		82.239	552.805
III. NET INTEREST INCOME/EXPENSE (I - II)		15.531.016	14.496.464
IV. NET FEES AND COMMISSIONS INCOME/EXPENSE		5.528.746	4.236.344
4.1 Fees and Commissions Received		7.367.158	5.630.813
4.1.1 Non-cash Loans		1.070.187	798.094
4.1.2 Other		6.296.971	4.832.719
4.2 Fees and Commissions Paid		1.838.412	1.394.469
4.2.1 Non-cash Loans		30.063	28.293
4.2.2 Other		1.808.349	1.366.176
V. DIVIDEND INCOME	4.3	16.972	14.567
VI. TRADING PROFIT/LOSS (Net)	4.4	(1.434.837)	(81.168)
6.1 Trading Gains/Losses on Securities		279.666	129.989
6.2 Derivative Financial Transactions Gains/Losses	4.5	(407.971)	11.895.305
6.3 Foreign Exchange Gains/Losses		(1.306.532)	(12.106.462)
VII. OTHER OPERATING INCOME	4.7	1.493.314	1.255.118
VIII. GROSS PROFIT FROM OPERATING ACTIVITIES (III+IV+V+VI+VII)		21.135.211	19.921.325
IX. PROVISION FOR EXPECTED LOSSES (-)	4.6	8.983.811	7.131.834
X. OTHER PROVISION EXPENSES (-)	4.6	47.914	172.432
XI. PERSONNEL EXPENSES (-)		3.394.078	3.051.597
XII. OTHER OPERATING EXPENSES (-)	4.8	4.269.580	3.633.384
XIII. NET OPERATING PROFIT/LOSS (VIII-IX-X-XI-XII)		4.439.828	5.932.078
XIV. SURPLUS WRITTEN AS GAIN AFTER MERGER		-	-
XV. PROFIT/LOSS FROM EQUITY METHOD APPLIED SUBSIDIARIES		93.952	115.817
XVI. NET MONETARY POSITION GAIN/LOSS		-	-
XVII. PROFIT/LOSS BEFORE TAXES FROM CONTINUING OPERATIONS (XIII+XIV+XV+XVI)	4.9	4.533.780	6.047.895
XVIII. PROVISION FOR TAXES ON INCOME FROM CONTINUING OPERATIONS (±)	4.10	933.594	1.380.357
18.1 Current Tax Provision		1.829.227	1.025.376
18.2 Expense effect of deferred tax (+)		-	354.981
18.3 Income effect of deferred tax (-)		895.633	-
XIX. NET PROFIT/LOSS FROM CONTINUING OPERATIONS (XVII±XVIII)		3.600.186	4.667.538
XX. INCOME FROM DISCONTINUED OPERATIONS		-	-
20.1 Income from assets held for sale		-	-
20.2 Profit from sale of associates, subsidiaries and joint ventures		-	-
20.3 Other income from discontinued operations		-	-
XXI. EXPENSES FROM DISCONTINUED OPERATIONS (-)		-	-
21.1 Expenses on assets held for sale		-	-
21.2 Losses from sale of associates, subsidiaries and joint ventures		-	-
21.3 Other expenses from discontinued operations		-	-
XXII. PROFIT/LOSS BEFORE TAXES FROM DISCONTINUED OPERATIONS (XX - XXI)		-	-
XXIII. TAX PROVISION FOR DISCONTINUED OPERATIONS (±)		-	-
23.1 Current tax provision		-	-
23.2 Expense effect of deferred tax (+)		-	-
23.3 Income effect of deferred tax (-)		-	-
XXIV. NET PROFIT/LOSS FROM DISCONTINUED OPERATIONS (XXII±XXIII)		-	-
XXV. NET PROFIT/LOSS (XIX+XXIV)	4.11	3.600.186	4.667.538
25.1 Group's profit/loss		3.600.060	4.667.426
25.2 Minority shares	4.12	126	112
Earnings/(loss) per share (full TL)		0,0043	0,0073

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, 2019 and 2018

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

4. Consolidated statement of income and expense items accounted under shareholders' equity

	Current Period (31/12/2019)	Prior Period (31/12/2018)
I. PROFIT (LOSS)	3.600.186	4.667.538
II. OTHER COMPREHENSIVE INCOME	(1.418.596)	287.451
2.1 Other comprehensive income that will not be reclassified to profit or loss	(26.215)	446.698
2.1.1. Gains (losses) on Revaluation of Property, Plant and Equipment	14.291	545.509
2.1.2. Gains (losses) on revaluation of Intangible Assets	-	-
2.1.3. Gains (losses) on remeasurements of defined benefit plans	(66.783)	(52.110)
1.4. Other Components of Other Comprehensive Income That Will Not Be Reclassified to Profit Or Loss	15.715	2.359
2.1.5. Taxes Relating To Components Of Other Comprehensive Income That Will Not Be Reclassified To Profit Or Loss	10.562	(49.060)
2.2. Other Comprehensive Income That Will Be Reclassified to Profit or Loss	(1.392.381)	(159.247)
2.2.1. Exchange Differences on Translation	425.259	892.573
2.2.2. Valuation and/or Reclassification Profit or Loss from financial assets at fair value through other comprehensive income	2.054.824	(1.892.583)
2.2.3. Income (loss) Related with Cash Flow Hedges	(4.110.380)	1.162.325
2.2.4. Income (loss) Related with Hedges of Net Investments in Foreign Operations	(274.663)	(618.595)
2.2.5. Other Components of Other Comprehensive Income that will be Reclassified to Other Profit or Loss	-	-
2.2.6. Taxes Relating To Components Of Other Comprehensive Income That Will Be Reclassified To Profit Or Loss	512.579	297.033
III. TOTAL COMPREHENSIVE INCOME (LOSS) (I+II)	2.181.590	4.954.989

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 1. of section three)

Yapı ve Kredi Bankası A.Ş.

Consolidated statement of changes in shareholders' equity as of December 31, 2019

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

5. Consolidated statement of changes in shareholders' equity

Current Period (31/12/2019)					Other Accumulated Comprehensive Income			Other Accumulated Comprehensive Income								
	Changes in shareholder's equity				That Will Not Be Reclassified In Profit and Loss			That Will Be Reclassified In Profit and Loss			Profit reserves	Prior period net income/(loss)	Current period net income/(loss)	Total equity except minority interest	Minority Interest	Total shareholders' equity
	Paid-in capital	Share premium	Share certificate cancellation profits	Other capital reserves	1	2	3	4	5	6						
I. Balance at the beginning of the period	8.447.051	556.937	-	1.428.216	1.866.531	(225.129)	27.625	2.037.236	(1.776.305)	542.034	19.795.091	1.639.954	4.667.426	39.006.667	611	39.007.278
II. Adjustment in accordance with TAS 8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Effect of adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2. Effect of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III. New balance (I+II)	8.447.051	556.937	-	1.428.216	1.866.531	(225.129)	27.625	2.037.236	(1.776.305)	542.034	19.795.091	1.639.954	4.667.426	39.006.667	611	39.007.278
IV. Total comprehensive income (loss)	-	-	-	-	12.897	(52.090)	12.978	425.259	1.602.694	(3.420.334)	-	-	3.600.060	2.181.464	126	2.181.590
V. Capital increase in cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VI. Capital increase through internal reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII. Issued capital inflation adjustment difference	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. Convertible bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX. Subordinated debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X. Increase (decrease) through other changes, equity	-	-	-	3.143	-	-	-	-	-	-	(381)	-	-	2.762	-	2.762
XI. Profit distribution	-	-	-	-	-	-	-	-	-	-	4.667.426	-	(4.667.426)	-	(50)	(50)
11.1. Dividends distributed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(50)	(50)
11.2. Transfers to legal reserves	-	-	-	-	-	-	-	-	-	-	4.667.426	-	(4.667.426)	-	-	-
11.3. Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Period end balance (III+IV+.....+X+XI)	8.447.051	556.937	-	1.431.359	1.879.428	(277.219)	40.603	2.462.495	(173.611)	(2.878.300)	24.462.136	1.639.954	3.600.060	41.190.893	687	41.191.580

1. Tangible assets revaluation reserve,
2. Accumulated gains / losses on remeasurements of defined benefit plans,
3. Other accumulated amounts of other comprehensive income that will not be reclassified to profit or loss,
4. Exchange differences on translation reserve,
5. Accumulated gains (losses) due to revaluation and/or reclassification of financial assets measured at fair value through other comprehensive income,
6. Accumulated gains or losses on cash flow hedges and net investment hedges.

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 1. of section three)

Yapı ve Kredi Bankası A.Ş.

Consolidated statement of changes in shareholders' equity as of December 31, 2018

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

5. Consolidated statement of changes in shareholders' equity

Changes in shareholder's equity	Prior Period (31/12/2018)				Other Accumulated Comprehensive Income That Will Not Be Reclassified In Profit and Loss			Other Accumulated Comprehensive Income That Will Be Reclassified In Profit and Loss			Profit reserves	Prior period net income/(loss)	Current period net income/(loss)	Total equity except minority interest	Minority Interest	Total shareholders' equity
	Paid-in	Share	Share	Other												
	capital	premium	certificate cancellation profits	capital reserves	1	2	3	4	5	6						
I. Balance at the beginning of the period	4.347.051	543.881	-	1.329.747	1.381.028	(184.484)	25.785	1.144.663	(410.701)	117.925	16.552.355	1.639.954	3.614.081	30.101.285	541	30.101.826
II. Adjustment in accordance with TAS 8	-	-	-	-	-	-	-	-	110.325	-	(243.404)	-	(133.079)	-	(133.079)	
2.1. Effect of adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
2.2. Effect of changes in accounting policies	-	-	-	-	-	-	-	-	110.325	-	(243.404)	-	(133.079)	-	(133.079)	
III. New balance (I+II)	4.347.051	543.881	-	1.329.747	1.381.028	(184.484)	25.785	1.144.663	(300.376)	117.925	16.308.951	1.639.954	3.614.081	29.968.206	541	29.968.747
IV. Total comprehensive income (loss)	-	-	-	-	485.503	(40.645)	1.840	892.573	(1.475.929)	424.109	-	-	4.667.426	4.954.877	112	4.954.989
V. Capital increase in cash	4.100.000	13.056	-	(29.472)	-	-	-	-	-	-	-	-	4.083.584	-	4.083.584	
VI. Capital increase through internal reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
VII. Issued capital inflation adjustment difference	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
VIII. Convertible bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
IX. Subordinated debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
X. Increase (decrease) through other changes, equity	-	-	-	108	-	-	-	-	-	-	(108)	-	-	-	-	
XI. Profit distribution	-	-	-	127.833	-	-	-	-	-	-	3.486.248	-	(3.614.081)	-	(42)	
11.1. Dividends distributed	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(42)	
11.2. Transfers to legal reserves	-	-	-	127.833	-	-	-	-	-	-	3.486.248	-	(3.614.081)	-	-	
11.3. Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Period end balance (III+IV+.....+X+XI)	8.447.051	556.937	-	1.428.216	1.866.531	(225.129)	27.625	2.037.236	(1.776.305)	542.034	19.795.091	1.639.954	4.667.426	39.006.667	611	39.007.278

1. Tangible assets revaluation reserve,
2. Accumulated gains / losses on remeasurements of defined benefit plans,
3. Other accumulated amounts of other comprehensive income that will not be reclassified to profit or loss,
4. Exchange differences on translation reserve,
5. Accumulated gains (losses) due to revaluation and/or reclassification of financial assets measured at fair value through other comprehensive income,
6. Accumulated gains or losses on cash flow hedges and net investment hedges.

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, 2019 and 2018**

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

6. Consolidated statement of cash flows

	Notes (Section Five)	Current Period (31/12/2019)	Prior Period (31/12/2018)
A. CASH FLOWS FROM BANKING OPERATIONS			
1.1 Operating profit before changes in operating assets and liabilities		15.242.759	10.051.749
1.1.1 Interest received		35.898.867	28.860.286
1.1.2 Interest paid		(22.054.837)	(20.355.110)
1.1.3 Dividend received		16.972	14.567
1.1.4 Fees and commissions received		7.367.158	5.630.813
1.1.5 Other income		1.113.365	2.121.212
1.1.6 Collections from previously written-off loans and other receivables		1.971.303	1.380.367
1.1.7 Cash Payments to personnel and service suppliers		(7.462.604)	(6.390.993)
1.1.8 Taxes paid		(2.458.913)	(642.045)
1.1.9 Other	6.3	851.448	(567.348)
1.2 Changes in operating assets and liabilities subject to banking operations		7.804.419	(6.471.411)
1.2.1 Net (increase) decrease in Financial Assets at Fair Value through Profit or Loss		(157.170)	(145.539)
1.2.2 Net (increase) decrease in due from banks		(4.303.416)	(6.785.334)
1.2.3 Net (increase) decrease in loans		(20.140.448)	(27.307.429)
1.2.4 Net (increase) decrease in other assets		(3.630.547)	(5.951.381)
1.2.5 Net increase (decrease) in bank deposits		(5.321.815)	950.497
1.2.6 Net increase (decrease) in other deposits		26.610.741	35.336.043
1.2.7 Net increase (decrease) in financial liabilities at fair value through profit or loss		5.198.149	3.736.167
1.2.8 Net increase (decrease) in funds borrowed		6.080.578	(6.284.391)
1.2.9 Net increase (decrease) in matured payables		-	-
1.2.10 Net increase (decrease) in other liabilities	6.3	3.468.347	(20.044)
I. Net cash provided from banking operations		23.047.178	3.580.338
B. CASH FLOWS FROM INVESTING ACTIVITIES			
II. Net cash provided from investing activities		(6.044.435)	(1.866.239)
2.1 Cash paid for the purchase of associates, subsidiaries and joint ventures		-	-
2.2 Cash obtained from the sale of associates, subsidiaries and joint ventures		-	-
2.3 Cash paid for the purchase of tangible and intangible asset		(571.614)	(554.845)
2.4 Cash obtained from the sale of tangible and intangible asset		194.769	75.760
2.5 Cash paid for the purchase of financial assets at fair value through other comprehensive income		(14.834.071)	(13.723.476)
2.6 Cash obtained from the sale of financial assets at fair value through other comprehensive income		14.017.695	14.415.812
2.7 Cash paid for the purchase of financial assets at amortised cost		(5.269.230)	(4.065.376)
2.8 Cash obtained from sale of financial assets at amortised cost		418.016	1.985.886
2.9 Other		-	-
C. CASH FLOWS FROM FINANCING ACTIVITIES			
III. Net cash flows from financing activities		(1.898.927)	5.612.483
3.1 Cash obtained from funds borrowed and securities issued		33.466.345	13.263.606
3.2 Cash outflow from funds borrowed and securities issued		(34.965.104)	(11.734.665)
3.3 Equity instruments issued		-	4.083.584
3.4 Dividends paid		(50)	(42)
3.5 Payments for lease liabilities		(400.118)	-
3.6 Other		-	-
IV. Effect of change in foreign exchange rate on cash and cash equivalents	6.3	4.621.998	15.321.623
V. Net increase/decrease in cash and cash equivalents		19.725.814	22.648.205
VI. Cash and cash equivalents at beginning of the period	6.1	46.492.483	23.844.278
VII. Cash and cash equivalents at end of the period	6.1	66.218.297	46.492.483

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, 2019 and 2018

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

7. Profit distribution statement^{(1),(2)}

	Current Period	Prior Period
	(31/12/2019)	(31/12/2018)
I. Distribution of current year income		
1.1 Current year income	4.338.936	5.855.491
1.2 Taxes and duties payable (-)	738.876	1.188.065
1.2.1 Corporate tax (income tax)	1.623.617	791.064
1.2.2 Income withholding tax	-	-
1.2.3 Other taxes and duties	(884.741)	397.001
A. Net income for the year (1.1-1.2)	3.600.060	4.667.426
1.3 Prior year losses (-)	-	-
1.4 First legal reserves (-)	-	233.371
1.5 Other statutory reserves (-)	884.741	-
B. Net income available for distribution [(A+(1.3+1.4+1.5))]	2.715.319	4.434.055
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	-	-
1.1 Second legal reserves (-)	-	-
1.11 Statutory reserves (-)	-	-
1.12 Extraordinary reserves	-	4.434.055
1.13 Other reserves	-	-
1.14 Special funds	-	-
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	0,0043	0,0073
3.1 To owners of ordinary shares	0,0043	0,0073
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 Distribution Statement has been prepared according to unconsolidated financial statements of the Parent Bank.

(2) Regarding profit distribution, the authorized body of the Bank is the General Assembly and the annual general assembly meeting has not been held as of the date of preparation of these financial statements. Since the dividend distribution proposal for 2019 has not yet been prepared by the Board of Directors, only the distributable profit is stated in the profit distribution table.

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

Section Three - Accounting policies

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

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 at fair value through other comprehensive income, derivative financial assets/liabilities, buildings and art objects and paintings in tangible assets. Besides, the carrying values of assets carried at amortized cost but subject to fair value hedge are adjusted to reflect the fair value changes related to the hedged risks.

The accounting policies and valuation principles employed for the preparation of consolidated financial statements are in compliance with TFRS 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 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 no specific regulation has been made by BRSA, it has been determined and applied according to the principles of TFRS.

In accordance with the "Communiqué amending the Communiqué on the Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks" published in the Official Gazette dated February 1, 2019 with No. 30673, the accompanying previous period financial statements were made compatible with the new financial statement formats.

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.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

2. 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 in accordance with 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 monitored within limits determined levels by the Board of Directors under the context of 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.

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 "Other accumulated comprehensive income that will be reclassified in profit or loss " in equity.

In order to eliminate the inconsistency in the recognition, the Group, might classify its financial liabilities as the financial liabilities classified at fair value through profit/loss upon the initial recognition.

3. Information on consolidation principles:

3.1. 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 "TFRS 10-Consolidated Financial Statements"

3.1.1. 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:

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

Title	Incorporation (City/ Country)	Main activities	Effective	Direct and
			rates (%) December 31, 2019	indirect rates (%) December 31, 2019
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 Azerbaijan	Baku /Azerbaijan	Banking	100,00	100,00
Stiching Custody Services YKB	Amsterdam/Netherlands	Custody services	100,00	100,00
Yapı Kredi Malta ⁽¹⁾	St.Julian's /Malta	Banking	100,00	100,00
Yapı Kredi Diversified Payment Rights Finance Company ⁽²⁾	George Town/ Cayman Islands	Special Purpose Company	-	-

(1) As of October 25, 2019, it has been decided by Bank's Board of Directors to liquidate Bank's indirect subsidiary Yapı Kredi Bank Malta Ltd, of which 100% of its shares owned through Yapı Kredi Holding B.V. The liquidation process is expected to be completed within 18 months following the approval of legal authorities in Malta. The liquidation of Yapı Kredi Bank Malta is not expected to make a significant impact on Bank's activities and financial statements.

(2) 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

3.1.2. 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 %	Direct and
			December 31, 2019	indirect rates % December 31, 2019
Banque de Commerce et de Placements S.A.	Geneva/Switzerland	Banking	30,67	30,67
Allianz Yaşam ve Emeklilik A.Ş.	İstanbul/Turkey	Insurance	20,00	20,00

3.1.3. 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 %	Direct and
			December 31, 2019	indirect rates % December 31, 2019
Yapı Kredi Koray Gayrimenkul Yatırım Ortaklığı A.Ş.	İstanbul/Turkey	REIT	30,45	30,45

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

3.1.4. 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.

3.1.5. 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 "TAS 27 - Individual Financial Statements" 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.

4. 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 (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 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 and currency swaps. The effective portion of the fair value changes of the hedging instruments are recorded in "Other accumulated comprehensive income that will be reclassified in profit or loss" 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 as of December 31, 2019

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

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 "IFRS 9- Financial Instruments" and are therefore treated as "Derivative financial assets at fair value through profit or loss".

"Derivative financial assets 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 "Derivative financial assets at fair value through profit or loss" and if the fair value difference is negative, it is disclosed under "Derivative financial liabilities at fair value through profit or loss". 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 "IFRS – 9 Financial Instruments"; 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, 2019, the Parent Bank's credit derivatives portfolio included total return 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 "IFRS 9 - Financial Instruments" 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.

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 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.

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 Financial Reporting Standards, "IFRS – 9 Financial Instruments", comprising the product of Exposure, Probability of Default (PD) and Loss Given Default (LGD). CVA is calculated based on the exposure of each counterparty.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

Within the scope of TFRS 13 Fair Value Measurement standard; (i) if there is a significant decrease in the volume or level of activity for that asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities); (ii) when the transaction or quoted price does not represent fair value; and / or (iii) when a price for a similar asset requires significant adjustment to make it comparable to the asset being measured, or (iv) when the price is stale, the Bank makes an adjustment to the transactions or quoted prices and reflects this adjustment to the fair value measurement. In this context, the Bank determines the point within the range that is most representative of fair value under current market conditions.

5. 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.

Retrospective rediscount calculation and foreign exchange evaluation is performed for non performing loans, and accrued interest and discounts as of transfer to non performing loan accounts are accounted under loan accrual/rediscount accounts as per Uniform Chart of Accounts ('UCA'). The Bank ceases accruing interest after non-performing loan classification. In place of that, interest amount representing the time value of future collections is recognized under interest income instead of provision expense.

6. 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.

Except for fees and commissions that are integral part of the effective interest rates of financial instruments measured at amortized costs, the fees and commissions are accounted for in accordance with TFRS 15.

7. Explanations on financial assets:

As of January 1, 2018, the Group has applied TFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL)
- Fair value through other comprehensive income (FVOCI)
- Amortised cost.

According to TFRS 9 classification of financial assets is based on two criterias; business model under which the financial asset is being managed and contractual cash flows representing solely payments of principal and interest of the financial asset. This evaluation incorporates whether there is any clause that may change timing or amount of contractual cash flows of the financial asset.

Classification of financial assets reflects the business model of how the Group manages the assets in order to generate cash flows. Bank's business model may be to collect solely the contractual cash flows from the assets or to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the 'other' business model and measured at FVPL.

Assessment of the business model

The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

The business model does not depend on management's intentions for an individual instrument. Accordingly, this condition is not a single instrument basis approach for classification and should be determined on a higher level of aggregation.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

During the assessment of the business model for management of financial assets, all relevant evidences at the assessment date have been taken into consideration. Such relevant evidence includes below:

- How the performance of the portfolio is evaluated and reported to the Group's management;
- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets with duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

If cash flows are realised in a way that is different from the expectations on the date of the assessment of the business model, that does not give rise to a prior period error in the financial statements nor does it change the classification of the remaining financial assets held in that business model as long as all relevant information that was available at the time of business model assessment were. However, when the business model is assessed for newly originated or newly purchased financial assets, it must be considered information about how cash flows were realised in the past, along with all other relevant information.

The business models are divided into three categories. These categories are defined below:

- Business model whose objective is to hold assets in order to collect contractual cash flows

Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the life of the instrument. That is, the Group manages the assets held within the portfolio to collect those particular contractual cash flows.

Although the objective of Group's business model may be to hold financial assets in order to collect contractual cash flows, the Group does not need to hold all of those instruments until the maturity. Thus Group's business model can be to hold financial assets to collect contractual cash flows even when sales of financial assets occur or are expected to occur in the future.

The business model may be to hold assets to collect contractual cash flows even if the Group sells financial assets when there is an increase in the assets' credit risk. The Group considers reasonable and supportable information, including forward looking information in order to determine whether there has been an increase in the assets' credit risk. Regardless of their frequency and value, sales due to an increase in the assets' credit risk are not inconsistent with a business model whose objective is to hold financial assets to collect contractual cash flows because the credit quality of financial assets is relevant to the Group's ability to collect contractual cash flows

- A business model whose objective is achieved by both collecting contractual cash flows and selling financial assets

The Group may hold financial assets in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In this type of business model, the Group's management has made a decision on both collecting contractual cash flows and selling financial assets are necessary for achieving the objective of the business model. There are various objectives that may be consistent with this type of business model. For example, the objective of the business model may be to manage liquidity needs on daily basis, to maintain a particular interest yield profile or to match the duration of the financial assets to the duration of the liabilities funding those assets. To achieve such an objective, the Group will both collect contractual cash flows and sell financial assets.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

Compared to a business model whose objective is to hold financial assets to collect contractual cash flows, this business model will typically involve greater frequency and value of sales. This is because selling financial assets is integral to achieving the business model's objective instead of being only incidental to it.

➤ Other business models

Financial assets are measured at fair value through profit or loss if they are not held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets

A portfolio of financial assets that is managed and whose performance is evaluated on a fair value basis is neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. The Group is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

When the contractual conditions are exposed to the risks which are not consistent with the basic lending arrangement or variability of cash flows, the relevant financial asset is measured at fair value through profit or loss.

7.1. 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.

The principles regarding the accounting of derivative financial instruments are explained in detail in Note 4 of this section.

7.2. Financial assets measured at amortised cost:

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, are measured at amortised cost. These financial assets are initially recognized at total of acquisition and transaction cost. After their initial recognition they are carried at "Amortized cost" using the "Effective interest method".

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

7.3. Loans:

Loans are financial assets raised through lending without having the intention to trade in the short term. Loans are non derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted on active market. Loans 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 are accounted for in foreign exchange gain/loss accounts.

The Parent Bank provides provision for expected credit losses 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. 29750 dated June 22, 2016 and in line with "TFRS 9 - Financial Instruments". 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". Policy about write-off is disclosed in detail in explanations and notes related to consolidated assets of Section Five.

7.4. Financial assets at fair value through other comprehensive income:

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI).

Financial assets at fair value through other comprehensive income are subsequently re-measured at fair value. When fair values based on market prices cannot be obtained reliably, the financial assets at fair value through other comprehensive income are carried at fair values determined by using alternative models. "Unrealized gains and losses" arising from changes in the fair value of financial assets classified as financial assets at fair value through other comprehensive income are recognized in the shareholders' equity as "Other accumulated comprehensive income that will be reclassified in profit or loss", 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 financial assets at fair value through other comprehensive income are recorded in interest income and dividend income as appropriate.

Interest income on financial assets at fair value through other comprehensive income are calculated by effective interest rate method and are accounted for in interest income account. At the time of sale of an financial assets at fair value through other comprehensive income 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 "Profit/losses from capital market transactions".

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

7.5. Equity instruments of fair value through other comprehensive income:

At initial recognition, Group can make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an equity instrument within the scope of TFRS 9. Such election is made on an instrument basis.

Fair value differences recognized in other comprehensive income are not transferred to profit or loss in the following periods and transferred to prior years' profit/loss. The equity instruments measured at fair value through other comprehensive income, are not subject to impairment calculation.

8. Explanations on impairment of financial assets:

The Parent Bank assesses the expected credit losses ("ECL") related with its debt instrument assets carried at amortised cost and at fair value through other comprehensive income, with the exposure arising from loan commitments and financial guarantee contracts on a forward-looking basis. The Parent Bank recognises a loss allowance for such losses at each reporting date. The measurement of expected credit losses reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money;
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The measurement of the expected credit loss allowance:

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and at fair value through other comprehensive income is an area that requires the use of advanced models and significant assumptions about future economic conditions and credit behaviour.

These financial assets will be divided into three categories depending on the gradual increase in credit risk observed since their initial recognition. Impairment shall be recognized on outstanding amounts in each category, as follows:

Stage 1:

For the financial assets at initial recognition or that do not have a significant increase in credit risk since initial recognition. Impairment for credit risk will be recorded in the amount of 12-month expected credit losses.

Stage 2:

In the event of a significant increase in credit risk since initial recognition, the financial asset will be transferred to this stage. Impairment for credit risk will be determined on the basis of the instrument's lifetime expected credit losses.

Stage 3:

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognized and interest revenue is calculated on the net carrying amount.

Life-time expected credit loss is calculated on an individual or collective basis for the financial assets in stage 2 and stage 3.

General provisions represent ECLs for the first stage and the second stage, specific provisions represent ECLs for the third stage.

The Parent Bank has developed specific models for calculating the expected loss; such models are based on the parameters of PD, LGD and EAD and on the effective interest rate. In particular:

- the PD (Probability of Default), represents the probability of occurrence of an event of default of the credit exposure, in a defined time lag;
- the LGD (Loss Given Default), represents the percentage of the estimated loss, and thus the expected rate of recovery, at the date of occurrence of the default event of the credit exposure;
- the EAD (Exposure at Default), represents the measure of the exposure at the time of the event of default of the credit exposure;
- the Effective interest rate is the discount rate that expresses of the time value of money.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

Such parameters are calculated starting from the corresponding parameters used for IRB preparation purposes, with specific adjustments in order to ensure consistency between accounting and regulatory treatment despite different regulatory requirements.

The main adjustments aimed at:

- removal of prudency principal required for IRB preparation phase;
- introducing "point-in-time" adjustments to replace "through-the-cycle" adjustments required for IRB preparation phase (YKB is at pre-application stage for A-IRB models. TFRS-9 parameters developed over these parameters.);
- with reference to lifetime PD, through-the-cycle PD curves obtained by adjusting observed cumulated default rates were calibrated in order to reflect point-in-time on portfolio default rates.

Recovery rate incorporated into through-the-cycle LGD was adjusted in order to remove prudency principle and to reflect the most updated trend of recovery rates discounted at effective interest rate or at its best approximation.

The lifetime EAD has been obtained by converting the 1 year regulatory or managerial model to life-time, removing margin of prudency and including the expected discounted cash flow.

The Stage Allocation model is a key aspect of the new accounting model required to calculate expected credit losses which is aimed at transferring credit exposures from Stage 1 to Stage 2.

With reference to the quantitative component of the model for stage allocation, the Parent Bank has adopted a statistical approach based on a quantiles regression whose objective is to define a threshold in terms of maximum variation acceptable between the PD at the time of origination and the PD assessed at the reporting date.

The Stage Allocation model was based on a combination of relative and absolute elements. The main elements were:

- comparison, for each transaction, between the PD measured at the time of recognition and PD as at the reporting date, both calculated according to internal models, through thresholds set in a way considering all key variables of each transaction that can affect the Bank's expectation of PD changes over time;
- absolute elements such as the backstops required by law;
- additional internal evidence

Significant increase in credit risk

In the assessment of significant increase in credit risk quantitative and qualitative assessments are made;

Quantitative Assessment:

As a result of quantitative assessment, related financial asset is classified as stage 2 (Significant Increase in Credit Risk) when any of the following criterias are satisfied.

As of reporting date:

- Lifetime expected credit losses shall be recognized on a transaction base, when 30 days past due status is reached. The Group can abandon this estimation when it has reasonable and supportable information available which demonstrates that even if contractual payments become more than 30 days past due, this does not represent a significant increase in the credit risk of a financial instrument.
- In case a loan has been restructured, it will be followed up under Stage 2 during the follow-up period mentioned in the related regulations. The loan can be transferred back to Stage 1 at end of the follow-up period if there is no significant deterioration.
- Provisions on unindemnified non cash loans are evaluated as significant increase in credit risk.

Qualitative Assessment:

The probability of significant increase in credit risk under qualitative assessment is based on the comparison of probability of default of a loan in the origination and as of reporting date.

The Group uses distribution regression on segment basis in order to calculate the thresholds used in defining the significant increase in credit risk.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

Financial instruments defined as low risk for TFRS 9 are;

- Receivables from Central Bank of the Republic of Turkey;
- Loans with counterparty of Treasury of the Republic of Turkey
- The issued securities or guaranteed marketable securities from central banks of the countries where Group's subsidiaries, associates are resident;
- Bank placements;
- Other money market transactions;
- Transactions of Group's associates and subsidiaries

Forward Looking Information:

Forward-looking macroeconomic information is incorporated into credit risk parameters during assessment of significant increase in credit risk and expected credit loss calculation.

For the calculation of expected credit loss, Group uses macroeconomic estimation method which is developed during creation of various scenarios. Macroeconomic variables prevailing during these estimates are Gross Domestic Product (GDP) the Deflator of Gross Domestic Product and Mortgage Price Index.

When expected credit losses are estimated in accordance with the forward looking macroeconomic information, the Group evaluates 3 scenarios (base, pessimistic and optimistic) with various weights based. Each of these scenarios are in relation with different probability of default risk.

Where macroeconomic scenarios do not include longer than 1 year maturity, a process called "convergence to the mean" is applied.

9. 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.

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

Securities subject to repurchase agreements ("Repo") are classified as "Financial assets at fair value through profit or loss", "Financial assets at fair value through other comprehensive income" and "Financial assets measured at amortised cost" 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 "Money market funds" 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 money markets" 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.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

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

According to the "IFRS-5 Non-current Assets Held for Sale and Discontinued Operations" 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.

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.

12. Explanations on goodwill and other intangible assets:

12.1. 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.

As explained in Note 2, Section 1, in 2006, all rights, receivables, debts and liabilities of Koçbank were transferred to the Bank pursuant the merger of the two banks. The goodwill resulting from the merger and calculated in line with IFRS 3, was recorded in the unconsolidated financial statements of the Bank.

In line with "IFRS 3- Business Combinations" the goodwill is not subject to amortization but is tested annually or more frequently for impairment losses, if any, in line with "IAS 36 - Impairment on Assets". For the purposes of impairment testing, goodwill is allocated to each of the Bank's cash-generating units that is expected to benefit from the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the income statement. An impairment loss recognized for goodwill is not reversed in subsequent periods. On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

There is no evidence of impairment on the goodwill amount as a result of the impairment test.

12.2. 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 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 "IAS 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 utilise the economic benefit from the asset.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

13. 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 "TAS 16- Property, Plant and Equipment". 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- Property, Plant and Equipment".

The depreciation rate for buildings is 2-4%; for movables and movables acquired under financial leasing depreciation is calculated over estimated useful life by using the straight-line method.

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 "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.

14. Explanations on leasing transactions:

The Group performs leasing transactions in the capacity of the lessee and lessor.

14.1. Accounting of leasing operations according to lessee:

The Group has adopted "TFRS 16 - Leases" as of January 1, 2019. The Group has applied the simplified transition approach and elected not to restate comparative figures.

In accordance with "TFRS 16 - Leases", the Group calculates "right-of-use" amount using the present value of the lease payments of fixed asset at the beginning of the leasing period and recognizes under "property and equipment". Unpaid leasing payments are calculated at their net present value and recognized under "lease payables" in liabilities. Lease payments are discounted using related borrowing rates.

Fixed assets that are subject to leasing is amortised on the basis of leasing period. Interest expense related to lease payables is classified under "interest on lease payables" under "interest expense" and exchange rate changes are classified under "foreign exchange gains/losses". Leasing payments are deducted from lease payables.

Impact of TFRS 16 on financial statements as of January 1, 2019 is as follow:

Information on lease payables:

	January 1, 2019
Operating lease commitments	1.418.695
Total lease payables within the scope of TFRS 16 (discounted using the borrowing rate)	846.301
Finance lease payables	-
Lease payables	846.301
- Current lease liabilities	191.103
- Non-current lease liabilities	655.198

Information on total right-of-use assets:

	January 1, 2019
Branch	787.822
ATM	46.220
Other	12.259
Total right-of-use assets	846.301

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

14.2. 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.

14.2.1 Provision for doubtful 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 TFRS 9 rules.

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.

15. Explanations on provisions, 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 "TAS 37- Provisions, Contingent Liabilities and Contingent Assets".

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.

16. Explanations on obligations related to employee rights:

16.1. Employee termination benefits

Obligations related to severance pay and vacation rights are accounted for in accordance with "TAS 19- Employee Rights" 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 severance pay 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- Employee Rights" standard.

16.2. 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.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

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 26731. 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. The president was authorized to determine the transfer date of pension funds in accordance with the last amendment by the Law No. 30473 published in the Official Gazette dated July 9, 2018.

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.

16.3. Short term benefits of employee:

Within the scope of "TAS 19- Employee Rights", 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.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

17. Explanations on taxation:

17.1. 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. In addition, with the 91st article of The Law numbered 7061 on Amendment of Certain Taxes and Laws and Other Acts which came into effect, being published in the Official Gazette dated December 5, 2017 and numbered 30261, current 20% corporate tax rate, will be applied as 22% for enterprises' corporate income belonging to the taxation periods of 2018, 2019 and 2020.

Corporate tax rate business income tax in accordance with the laws of the institutions to be added as unacceptable the reduction of costs in the tax laws, exemptions and reductions to the tax base found as a result of the reduction that will be applied. Additional tax is not 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 on their corporate income. Advance tax is 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 50% portion of the capital gains derived from the sale of 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 last day 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.

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, 2019 are as follows:

Netherlands	25,00%
Azerbaijan	20,00%
Malta	35,00%

17.2. 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 "TAS 12-Income Taxes" and in accordance with BRSA's explanations and circulars and the tax legislation. The Group calculates deferred tax on deductible temporary differences, 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.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

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-Income Taxes". 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.

17.3. 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.

18. Additional 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 "amortized cost" including costs of transactions using the "effective interest method".

The Group classifies 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. For the related liabilities until the maturity, the Bank presents interest expenses paid and the difference between amortized cost and acquisition cost in the interest expense, the difference between the fair value of the financial liabilities and amortized cost presents under the trading gain/(loss) in the income 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, Group obtains funds by issuing bonds and bills.

19. 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".

20. Explanations on avalized drafts and letter of acceptances:

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

21. 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 694 (December 31, 2018 - TL 1.075).

22. 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.

No dividend payments of the Parent Bank were announced after the balance sheet date.

23. 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) to be appropriated to ordinary shareholders	3.600.060	4.667.426
Weighted average number of issued ordinary shares(thousand)	844.705.128	643.084.249
Earnings per share (full TL)	0,0043	0,0073

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 2019 (2018 - no bonus shares were issued).

24. 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 "TAS 24-Related Parties". The transactions with related parties are disclosed in detail in Note 7. of Section Five.

25. Explanations on operating segments:

Information about operating segments which are determined in line with "TFRS 8- Operating Segments" together with organizational and internal reporting structure of the Bank, are disclosed in Note 12 of Section Four.

26. Explanations on other matters:

None.

Yapı ve Kredi Bankası A.Ş.**Notes to consolidated financial statements as of December 31, 2019**

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

Section four - Information related to financial position of the Group**1. Explanations on consolidated own funds:**

The calculation of the own funds and the capital adequacy standard 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 consolidated capital adequacy ratio of the Group is 16,74% (December 31, 2018 – 14,81%) and the Parent Bank is 17,81% (December 31, 2018 – 16,07%).

1.1. Information related to capital adequacy ratio:

	Current Period	Prior Period
COMMON EQUITY TIER 1 CAPITAL		
Paid-up Capital	8.447.051	8.447.051
Share issue premiums	556.937	556.937
Retained earnings	25.884.402	21.216.976
Accumulated other comprehensive income and other disclosed reserves which defined in the Turkish Accounting Standards	4.515.991	5.647.070
Profit	5.240.014	6.307.380
Net profit of the period	3.600.060	4.667.426
Profit of the previous years	1.639.954	1.639.954
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and cannot be recognised within profit for the period	9.093	6.331
Minority interest	687	611
Common Equity Tier 1 capital before regulatory adjustments	44.654.175	42.182.356
Common Equity Tier 1 capital: regulatory adjustments		
Prudential valuation adjustments	82.259	54.299
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	1.825.733	3.175.078
Improvement costs for operating leasing	130.170	107.326
Goodwill (net of related tax liability)	979.493	979.493
Other intangibles other than mortgage-servicing rights (net of related tax liability)	868.508	789.064
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
Cash-flow hedge reserve	-	1.513.584
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 (-) 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	-	1.068.032
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	3.886.163	7.686.876
Common Equity Tier 1 capital (CET1)	40.768.012	34.495.480

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

	Current Period	Prior Period
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	3.861.130	-
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)	-	-
Third parties' share in the Additional Tier 1 capital	-	-
Third parties' share in the Additional Tier I capital (Temporary Article 3)	-	-
Additional Tier 1 capital before regulatory adjustments	3.861.130	-
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 (-)	-	-
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	3.861.130	-
Total Tier 1 capital (Tier 1 capital = Common Equity Tier 1 capital + Additional Tier 1 capital)	44.629.142	34.495.480
TIER 2 CAPITAL		
Eligible capital instruments and relevant share issue premiums that are approved by the Agency	6.817.423	7.070.650
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)	492.467	711.040
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⁾	2.896.894	2.720.587
Tier 2 capital before regulatory adjustments	10.206.784	10.502.278
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	112.694	87.791
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	112.694	87.791
Total Tier 2 capital	10.094.090	10.414.487
Total Capital (The sum of Tier 1 capital and Tier 2 capital)	54.683.723	44.866.207
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	4.337	4.893
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 ⁽³⁾	-	-
National specific regulatory adjustments which shall be determined by the BRSA	35.172	38.866
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 (-)	-	-

Yapı ve Kredi Bankası A.Ş.**Notes to consolidated financial statements as of December 31, 2019**

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

OWN FUNDS	Current Period	Prior Period
Total Capital (The sum of Tier 1 capital and Tier 2 capital)	54.683.723	44.866.207
Total Risk Weighted Assets	326.754.145	302.881.004
CAPITAL ADEQUACY RATIOS		
Common Equity Tier 1 Capital Adequacy Ratio (%)	12,48	11,39
Tier 1 Capital Adequacy Ratio (%)	13,66	11,39
Capital Adequacy Ratio (%)	16,74	14,81
BUFFERS		
Institution specific buffer requirement of the Bank (a+b+c)	4,049	3,042
a)Capital conservation buffer requirement (%)	2,500	1,875
b)Bank's specific countercyclical buffer requirement (%)	0,049	0,042
c)Systemically important Bank buffer	1,500	1,125
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 (%)	7,658	5,389
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	1.213.663	-
Mortgage servicing rights (net of related tax liability)	-	-
Deferred tax assets arising from temporary differences (net of related tax liability)	3.025.366	2.576.876
Applicable caps on the inclusion of provisions in Tier 2 capital		
General provisions for standard based receivables (before tenthousandtwentyfive limitation)	6.595.432	5.355.077
Up to 1.25% of total risk-weighted amount of general provisions for receivables where the standard approach used	3.713.967	3.487.932
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	492.467	711.040
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	4.993.118	4.549.860

(1) Represents after tax, net amount of general provisions.

(2) According to the "Regulation Regarding to changes on Regulation on Banks' Shareholders' Equity" published in Official Gazette No.30121 on July 11, 2017, related article has been abolished.

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note 1. of section three)

Yapı ve Kredi Bankası A.Ş. Notes to consolidated financial statements as of December 31, 2019

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

1.2. Information on debt instruments included in the calculation of equity:

	1	2	3	4	5	6	7
Lender (1.2); Issuer (3.4,5,6,7)	UNICREDIT SPA	UNICREDIT SPA	Yapı ve Kredi Bankası A.Ş.	Yapı ve Kredi Bankası A.Ş.	Yapı ve Kredi Bankası A.Ş.	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/ US984848AF87	XS1867595750/ US984848AL55	TRSYKKB62914	TRSYKKB92911
Governing law(s) of the instrument	BRSA / Austria Law	BRSA / Austria Law	BRSA / CMB / LONDON STOCK EXCHANGE / English Law	English Law /Turkish Law	English Law /Turkish Law	BRSA / CMB //Turkish Law	BRSA /CMB / Turkish Law
Regulatory treatment							
Transitional Basel III rules	No	No	Yes	No	No	No	No
Eligible at stand-alone / consolidated	Stand-alone -Consolidated	Stand-alone -Consolidated	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	Bond	Bond	Bond
Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	2.085	963	492	2.970	3.861	500	300
Par value of instrument	3.475	1.604	5.485	2.970	3.861	500	300
Accounting classification	Liability – Subordinated Debt- amortized cost	Liability – Subordinated Debt- amortized cost	Liability – Subordinated Debt- amortized cost	Liability – Subordinated Debt- amortized cost	Liability – Subordinated Debt- amortized cost	Liability – Subordinated Debt- amortized cost	Liability – Subordinated Debt- amortized cost
Original date of issuance	January 9, 2013	December 18, 2013	December 6, 2012	March 8, 2016	January 15, 2019	July 3, 2019	October 3, 2019
Perpetual or dated	Dated	Dated	Dated	Dated	Demand	Dated	Dated
Original maturity date	10 years	10 years	10 years	10 years 1 day	-	10 years	10 years
Issuer call subject to prior supervisory approval	Yes	Yes	No	Yes	Yes	Yes	Yes
Optional call date, contingent call dates and redemption amount	After 5th year	After 5th year	-	5th year	Every 5 year	After 5th year	After 5th year
Subsequent call dates, if applicable	After 5th year	After 5th year	-	-	Every 5 year	After 5th year	After 5th year
Coupons / dividends							
Fixed or floating dividend/coupon	Fixed	Fixed	Fixed	Fixed	Fixed	Variable Interest	Variable Interest
Coupon rate and any related index	5,7%	First 5 years 6,55% fixed, second 5 years 7,7156 fixed	5,7%	8,625% (5 Year MidSwap+ 7,40% coupon)	13,875% (5 Year MidSwap+ 11,245% coupon)	3 months TRLIBOR + 1,00%	TLREF Index change + 1,30%
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	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	On demand	Mandatory	Mandatory
Existence of step up or other incentive to redeem	-	-	-	-	-	-	-
Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Cumulative	Noncumulative	Noncumulative	Noncumulative
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	In case of default and in case Common Equity Tier 1 lower than 5,125%	In case there is a possibility that the official authorization of the Bank is cancelled or the Bank shares are transferred to SDIF.	In case there is a possibility that the official authorization of the Bank is cancelled or the Bank shares are transferred to SDIF
If write-down, full or partial	-	-	-	Partial	Partial and completely	Partial and completely	Partial and complete
If write-down, permanent or temporary	-	-	-	Permanent	Temporary	Permanent	Permanent
If temporary write-down, description of write-up mechanism	-	-	-	-	In case of default and in case Common Equity Tier 1 higher than 5,125%	-	-
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	After the senior creditors and TIER 1	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	No	No	No
Details of incompliance with article number 7 and 8 of “Own fund regulation”	-	-	8-2-ğ	-	-	-	-

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

1.3. 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, the losses and gains 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".

1.4. 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 November 5, 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	241.956.815	-	241.956.815
Malta	1.438.148	-	1.438.148
Netherland	1.001.315	-	1.001.315
Italy	839.598	-	839.598
Azerbaijan	818.624	-	818.624
Switzerland	498.332	-	498.332
Marshall Islands	495.734	-	495.734
Republic of Maldives	436.047	-	436.047
USA	373.622	-	373.622
Egypt	285.829	-	285.829
Malesia	269.408	-	269.408
Luxembourg	234.485	-	234.485
Bulgaria	204.124	-	204.124
United Arab Emirrates	187.201	-	187.201
Russia	173.394	-	173.394
Kazakhstan	170.221	-	170.221
England	166.005	-	166.005
Germany	160.277	-	160.277
Turkish Republic of Northern Cyprus	134.062	-	134.062
Slovenia	111.674	-	111.674
Other	497.671	-	497.671
Total	250.452.586		250.452.586

2. Explanations on consolidated credit risk:

2.1. 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 Parent 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.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

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

Rating system used for Medium Sized Entities (ME), Small and Medium Sized Entities (SME) and Corporate/Commercial customers is also used for defining the authorization level for loan granting. Thus, customers with a low rating are assigned to higher authority levels, whereas customers with a high rating are assigned to lower authority levels. By using this methodology it is aimed to establish risk based optimization in the loan processes.

Probability of default of a customer is calculated through this internally developed rating system. The rating concentration of Corporate/Commercial, ME and SME customers according to Parent Bank's rating system is as follows:

	Current Period	Prior Period
Above average	47,5%	48,1%
Average	42,8%	45,1%
Below average	9,7%	6,8%

The Parent Bank takes following criterias into consideration for the identification of default:

- 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 Group sets aside expected credit loss in accordance with the Provisioning Regulation within the scope of "provisions" and "value adjustments".

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	94.463.109	93.816.552
Conditional and unconditional receivables from regional or local governments	-	-
Conditional and unconditional receivables from administrative units and non-commercial enterprises	103.721	265.977
Conditional and unconditional receivables from multilateral development banks	86.158	83.543
Conditional and unconditional receivables from banks and brokerage houses	59.834.328	42.062.301
Conditional and unconditional receivables from corporates	188.617.790	189.673.466
Conditional and unconditional retail receivables	83.103.509	80.193.364
Conditional and unconditional receivables secured by mortgages	25.309.787	28.438.437
Past due receivables	7.276.653	5.357.243
Receivables defined as high risk category by the Regulator	191.966	154.136
Investments similar to collective investment funds	4.997	2.905
Share certificate investment	1.798.221	1.247.478
Other receivables	15.361.320	15.341.988
Total	476.151.559	456.637.390

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

- 2.2. 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.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

- 2.3.** 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.

- 2.4.** 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.

- 2.5.** In terms of credit risk;

- The proportion of the Parent Bank's top 100 and 200 cash loan balances in total cash loans is 36% and 43%. (December 31, 2018- 31% and 40%).
- The proportion of the Parent Bank's top 100 and 200 non-cash loan balances in total non-cash loans is 49% and 62%. (December 31, 2018- 49% and 64%).
- The proportion of the Parent Bank's cash and non-cash loan balances with the first 100 and 200 customers comprises of 39% and 48% of total cash loans and non-cash loans. (December 31, 2018- 37% and 47%).

- 2.6.** The Group provided a general loan loss provision amounting to TL 6.595.432 (December 31, 2018 - TL 5.355.077).

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note 1. of section three)

Yapı ve Kredi Bankası A.Ş.
Notes to consolidated financial statements as of December 31, 2019

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

2.7. 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	92.345.409	-	103.721	-	23.962.311	177.137.414	82.913.622	25.302.205	6.918.701	191.963	4.997	279.039	15.194.016	424.353.398
EU countries	1.810.346	-	-	77.244	19.262.627	3.871.623	6.512	3.296	276.800	-	-	137	13.362	25.321.947
OECD countries ⁽³⁾	-	-	-	-	2.070.193	1.438.374	902	1.688	2	-	-	-	-	3.511.159
Off-shore banking regions	-	-	-	-	35.926	1.082.846	33	-	11.717	-	-	-	-	1.130.522
USA, Canada	-	-	-	8.914	14.084.889	2.200.226	1.707	934	3.060	-	-	269.484	-	16.569.214
Other countries	307.354	-	-	-	418.382	2.887.307	180.733	1.664	66.373	3	-	210	153.942	4.015.968
Investment and associates, subsidiaries and joint ventures	-	-	-	-	-	-	-	-	-	-	-	1.249.351	-	1.249.351
Undistributed Assets / Liabilities ⁽⁴⁾	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	94.463.109	-	103.721	86.158	59.834.328	188.617.790	83.103.509	25.309.787	7.276.653	191.966	4.997	1.798.221	15.361.320	476.151.559

	Risk Classifications ⁽¹⁾⁽²⁾													Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	
Prior Period														
Domestic	98.007.763	-	144.844	-	3.103.195	172.577.153	78.682.607	28.141.833	3.692.982	105.662	2.567	66.505	12.987.500	397.512.611
EU countries	1.149.792	-	-	70.720	17.058.988	4.945.893	5.104	1.611	14.814	-	-	-	5.692	23.252.614
OECD countries ⁽³⁾	-	-	-	-	749.614	1.696.717	651	1.524	-	73	-	-	-	2.448.579
Off-shore banking regions	-	-	-	-	50.628	1.039.793	8	-	13.294	-	-	-	-	1.103.723
USA, Canada	-	-	-	7.900	1.447.623	1.313.503	1.857	253	74	-	-	170.646	-	2.941.856
Other countries	138.784	-	-	-	1.128.821	3.228.328	165.516	933	72.558	-	-	186	10.213	4.745.339
Investment and associates, subsidiaries and joint ventures	-	-	-	-	-	-	-	-	-	-	-	13.401	-	13.401
Undistributed Assets / Liabilities ⁽⁴⁾	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	99.296.339	-	144.844	78.620	23.538.869	184.801.387	78.855.743	28.146.154	3.793.722	105.735	2.567	250.738	13.003.405	432.018.123

- (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 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
9- Past due receivables
10- Receivables defined as high risk category by the Regulator
11- Investments similar to collective investment funds
12-Share certificate investment
13-Other receivables

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note 1. of section three)

Yapı ve Kredi Bankası A.Ş.
Notes to consolidated financial statements as of December 31, 2019

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

2.8. 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	13			
Agricultural	5	-	2.595	-	-	4.963.076	1.749.182	345.335	219.965	1.112	-	-	-	3.671.554	3.609.716	7.281.270
Farming and raising livestock	5	-	2.595	-	-	3.861.271	1.505.927	317.680	159.174	1.019	-	-	-	3.013.127	2.834.544	5.847.671
Forestry	-	-	-	-	-	875.744	216.511	25.562	3.300	20	-	-	-	531.668	589.469	1.121.137
Fishing	-	-	-	-	-	226.061	26.744	2.093	57.491	73	-	-	-	126.759	185.703	312.462
Manufacturing	-	-	1.354	-	121.214	109.280.775	20.031.791	6.960.848	4.216.546	156.751	-	1.870	-	62.059.882	78.711.267	140.771.149
Mining	-	-	-	-	-	1.198.611	219.220	42.098	108.324	341	-	-	-	1.111.012	457.582	1.568.594
Production	-	-	1.309	-	121.214	66.431.471	19.477.738	6.700.086	2.650.762	9.102	-	1.870	-	51.083.827	44.309.725	95.393.552
Electric, gas and water	-	-	45	-	-	41.650.693	334.833	218.664	1.457.460	147.308	-	-	-	9.865.043	33.943.960	43.809.003
Construction	-	-	28	-	-	29.923.322	5.136.536	3.085.716	797.773	17.198	-	22.636	-	13.504.464	25.478.745	38.983.209
Services	93.944.115	-	99.744	86.158	58.403.811	43.016.733	10.216.743	7.708.091	1.413.975	6.273	-	1.770.924	9.826.287	97.951.064	128.541.790	226.492.854
Wholesale and retail trade	-	-	-	-	-	5.436.443	4.702.709	1.028.973	265.720	2.142	-	-	-	8.267.269	3.168.718	11.435.987
Hotel, food and beverage services	2	-	4	-	-	5.235.514	1.288.865	2.854.390	249.841	350	-	-	-	3.070.788	6.558.178	9.628.966
Transportation and telecommunication	-	-	-	-	-	11.307.107	1.378.004	484.902	319.975	1.256	-	204.053	-	3.615.668	10.079.629	13.695.297
Financial institutions	93.942.054	-	16	86.158	58.403.811	7.556.384	352.067	456.975	26.177	206	-	1.560.493	9.826.287	75.511.466	96.699.162	172.210.628
Real estate and renting services	-	-	368	-	-	4.574.102	550.904	2.246.423	487.786	902	-	-	-	1.865.895	5.994.590	7.860.485
Employment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Education services	1.618	-	444	-	-	394.476	152.453	86.974	8.454	27	-	-	-	590.419	54.027	644.446
Health and social services	441	-	98.912	-	-	8.512.707	1.791.741	549.454	56.022	1.390	-	6.378	-	5.029.559	5.987.486	11.017.045
Other	518.989	-	-	-	1.309.303	1.433.884	45.969.257	7.209.797	628.394	10.632	4.997	2.791	5.535.033	58.985.305	3.637.772	62.623.077
Total	94.463.109	-	103.721	86.158	59.834.328	188.617.790	83.103.509	25.309.787	7.276.653	191.966	4.997	1.798.221	15.361.320	236.172.269	239.979.290	476.151.559

(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- Investments similar to collective investment funds
- 12-Share certificate investment
- 13-Other receivables

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note 1. of section three)

Yapı ve Kredi Bankası A.Ş.
Notes to consolidated financial statements as of December 31, 2019

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

2.9. Risk profile according to remaining maturities:

Risk classifications⁽¹⁾	1 month	1-3 months	3-6 months	6-12 months	1 year and over	Total
Conditional and unconditional receivables from central governments or central banks	39.614.751	3.790.317	1.018.617	1.372.892	46.678.260	92.474.837
Conditional and unconditional receivables from regional or local governments	-	-	-	-	-	-
Conditional and unconditional receivables from administrative units and non-commercial enterprises	7.830	7.062	32.715	30.351	25.672	103.630
Conditional and unconditional receivables from multilateral development banks	891	169	8.745	844	75.509	86.158
Conditional and unconditional receivables from banks and brokerage houses	31.137.845	3.606.449	3.018.380	1.814.736	7.907.090	47.484.500
Conditional and unconditional receivables from corporates	13.633.083	15.841.023	15.053.609	23.228.159	120.786.548	188.542.422
Conditional and unconditional retail receivables	29.472.493	2.946.659	4.329.464	6.241.259	37.319.164	80.309.039
Conditional and unconditional receivables secured by mortgages	475.803	882.837	1.291.314	2.025.064	20.584.770	25.259.788
Past due receivables	-	-	-	-	-	-
Receivables defined as high risk category by the Regulator	266	94.955	1.373	3.871	72.827	173.292
Investments similar to collective investment funds	-	-	4.997	-	-	4.997
Share certificate investment	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
General Total	114.342.962	27.169.471	24.759.214	34.717.176	233.449.840	434.438.663

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

2.10. 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%	2%	4%	20%	35%	50%	75%	100%	150%	250%	Total	Deductions from the shareholders' equity
1 Total exposure before credit risk mitigation	87.786.674	12.923.453	88.571	32.059.662	10.649.700	28.703.987	83.103.509	217.853.567	1.768.773	1.213.663	476.151.559	2.130.374
2 Total exposure after credit risk mitigation	97.153.413	308.898	88.571	31.999.242	10.649.700	28.052.729	75.604.494	210.221.630	1.023.019	1.213.663	456.315.359	2.130.374

Yapı ve Kredi Bankası A.Ş.**Notes to consolidated financial statements as of December 31, 2019**

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

2.11. 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, 2019.

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, 2019.

Sectors / Counterparties	Loans		Provisions
	Impaired Loans (TFRS9)		Expected Credit Losses
	Significant increase in credit risk	Credit – Impaired (Stage 3)	
Agricultural	734.395	788.732	557.200
Farming and raising livestock	315.539	614.285	456.134
Forestry	320.999	35.829	29.930
Fishing	97.857	138.618	71.136
Manufacturing	24.739.178	11.271.349	10.346.843
Mining	111.309	355.124	258.526
Production	6.341.565	7.049.838	4.837.013
Electric, gas and water	18.286.304	3.866.387	5.251.304
Construction	12.006.835	2.473.976	2.434.763
Services	6.254.165	3.779.803	2.676.699
Wholesale and retail trade	800.467	1.062.760	792.758
Hotel, food and beverage services	725.157	657.145	417.821
Transportation and telecommunication	675.265	807.972	529.572
Financial institutions	1.100.704	56.337	154.982
Real estate and renting services	2.299.596	897.081	519.385
Education services	18.257	27.544	20.251
Health and social services	634.719	270.964	241.930
Other	2.796.517	2.224.275	1.844.690
Total	46.531.090	20.538.135	17.860.195

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

	Opening balance	Provision amounts set aside during the period	Reversal of provisions	Other adjustments ⁽¹⁾	Close out balance
1 Specific provisions	10.334.357	7.694.137	(1.611.363)	(3.545.630)	12.871.501
2 General provisions	5.355.077	1.289.674	(28.289)	(21.030)	6.595.432

(1) The figure represents the written off loans, foreign exchange differences and also includes non performing loan sales.

3. Explanations on Consolidation Based Risk Management:**3.1. General Information on Risk Management and Risk Weighted Amount****3.1.1. Risk management approach of the Bank**

Risk management strategy of the Group 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 Group 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.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

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.

The Credit Policy Directive , which reflects the general framework of the Parent Bank's credit allocation activities, is updated at least 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 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.

İSEDES 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 "Strategic Risk Control" and "Risk Validation" 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.

Yapı ve Kredi Bankası A.Ş.**Notes to consolidated financial statements as of December 31, 2019**

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

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.

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 Macroeconomic Research Department.

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.

3.1.2. 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)	289.482.466	271.987.460	23.158.597
2 Of which standardised approach (SA)	289.482.466	271.987.460	23.158.597
3 Of which internal rating-based (IRB) approach	-	-	-
4 Counterparty credit risk	5.037.926	7.045.736	403.034
5 Of which standardised approach for counterparty credit risk (SA-CCR)	5.037.926	7.045.736	403.034
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	2.603	1.459	208
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	2.689.968	2.872.391	215.197
17 Of which standardised approach (SA)	2.689.968	2.872.391	215.197
18 Of which internal model approaches (IMM)	-	-	-
19 Operational risk	26.507.024	20.973.958	2.120.562
20 Of which Basic Indicator Approach	26.507.024	20.973.958	2.120.562
21 Of which Standardised Approach	-	-	-
22 Of which Advanced Measurement Approach	-	-	-
23 Amounts below the thresholds for deduction (subject to 250% risk weight)	3.034.158	-	242.733
24 Floor adjustment	-	-	-
25 TOTAL (1+4+7+8+9+10+11+12+16+19+23+24)	326.754.145	302.881.004	26.140.331

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note 1. of section three)

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

3.2. Linkages between financial statements and risk amounts:

3.2.1. Differences and matching between asset and liabilities’ carrying values in financial statements and risk amounts in capital adequacy calculation:

Current Period	Carrying values in financial statements prepared as per TAS	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	Subject to market risk	Not subject to capital requirements or subject to deduction from capital	
Assets								
Financial Assets (Net)	113.280.776	113.563.368	97.964.963	19.685.955	-	3.302.377	112.694	
Loans(Net)	274.101.624	274.047.178	280.289.333	-	-	-	39.509	
Assets Held For Resale And Related To Discontinued Operations (Net)	331.335	331.335	331.335	-	-	-	-	
Investment in Subsidiaries, Associates, Joint ventures (net)	1.236.241	1.249.325	1.249.325	-	-	-	-	
Property And Equipment (Net)	2.415.275	4.358.899	4.228.729	-	-	-	130.170	
Intangible Assets (Net)	1.965.121	1.920.824	72.823	-	-	-	1.848.001	
Tax Asset	2.330.060	2.132.448	2.132.448	-	-	-	-	
Other Assets	13.326.249	13.591.643	13.702.645	-	-	-	-	
TOTAL ASSETS	408.986.681	411.195.020	399.971.601	19.685.955	-	3.302.377	2.130.374	
Liabilities								
Deposits	234.805.573	231.071.697	-	-	-	-	231.071.697	
Borrowings	44.446.270	45.373.495	-	-	-	-	45.373.495	
Money Markets	2.575.025	6.308.888	-	3.695.745	-	-	2.613.143	
Marketable Securities Issued	24.956.076	25.221.191	-	-	-	-	25.221.191	
Financial liabilities fair value through profit and loss	13.184.605	13.184.605	-	-	-	-	13.184.605	
Derivative Financial Liabilities	7.105.282	7.105.282	-	2.683.935	-	2.800.734	4.421.347	
Lease Payables	927.223	927.223	-	-	-	-	927.223	
Provisions	3.355.268	3.742.231	-	-	-	-	3.742.231	
Tax Liability	320.496	942.198	-	-	-	-	942.198	
Subordinated Loans	18.580.039	18.580.039	-	-	-	-	18.580.039	
Other Liabilities	19.374.925	17.546.591	-	-	-	-	17.546.591	
Shareholder’s Equity	39.355.899	41.191.580	-	-	-	-	41.191.580	
TOTAL LIABILITIES	408.986.681	411.195.020	-	6.379.680	-	2.800.734	404.815.340	

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note 1. of section three)

Yapı ve Kredi Bankası A.Ş.
Notes to consolidated financial statements as of December 31, 2019

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

Prior Period	Carrying values in financial statements prepared as per TAS	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	Subject to market risk	Not subject to capital requirements or subject to deduction from capital	
Assets								
Financial Assets (Net)	97.971.271	98.258.593	89.249.743	10.889.480	-	5.124.665	87.791	
Loans(Net)	257.453.264	257.773.635	262.689.291	-	-	-	43.759	
Assets Held For Resale And Related To Discontinued Operations (Net)	298.470	298.470	298.470	-	-	-	-	
Investment in Subsidiaries, Associates, Joint ventures (net)	1.068.349	1.081.433	13.401	-	-	-	1.068.032	
Property And Equipment (Net)	1.374.391	3.312.175	3.204.849	-	-	-	107.326	
Intangible Assets (Net)	1.861.354	1.817.112	48.555	-	-	-	1.768.557	
Tax Asset	931.569	722.395	722.395	-	-	-	-	
Other Assets	10.061.979	10.112.441	10.302.945	-	-	-	-	
TOTAL ASSETS	371.106.281	373.376.254	366.529.649	10.889.480	-	5.124.665	3.075.465	
Liabilities								
Deposits	211.636.961	210.291.473	-	-	-	-	210.291.473	
Borrowings	47.157.273	47.072.002	-	-	-	-	47.072.002	
Money Markets	2.174.724	3.520.213	-	1.345.575	-	-	2.174.638	
Marketable Securities Issued	21.158.177	21.442.203	-	-	-	-	21.442.203	
Financial liabilities fair value through profit and loss	7.965.404	7.965.404	-	-	-	-	7.965.404	
Derivative Financial Liabilities	7.287.749	7.287.749	-	4.284.377	-	5.639.073	3.003.372	
Lease Payables	-	-	-	-	-	-	-	
Provisions	2.787.803	3.459.185	-	-	-	-	3.459.185	
Tax Liability	674.897	1.133.098	-	-	-	-	1.133.098	
Subordinated Loans	13.557.153	13.557.153	-	-	-	-	13.557.153	
Other Liabilities	19.582.387	18.640.496	-	-	-	-	18.640.496	
Shareholder’s Equity	37.123.753	39.007.278	-	-	-	-	39.007.278	
TOTAL LIABILITIES	371.106.281	373.376.254	-	5.629.952	-	5.639.073	367.746.302	

Yapı ve Kredi Bankası A.Ş.**Notes to consolidated financial statements as of December 31, 2019**

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

3.2.2. Main sources of differences between regulatory exposure amounts and carrying values in financial statements:

Current Period		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	422.959.933	399.971.601	-	19.685.955	3.302.377
2	Liabilities carrying value amount under regulatory scope of consolidation	9.180.414	-	-	6.379.680	2.800.734
3	Total net amount under regulatory scope of consolidation	413.779.519	399.971.601	-	13.306.275	501.643
4	Off-Balance Sheet Amounts	183.924.359	57.229.378	-	1.733.413	-
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	-	-	-	-	2.188.325
9	Differences due to risk reduction	-	(5.814.119)	-	(10.111.189)	-
	Risk Amounts		451.386.860	-	4.928.499	2.689.968

Prior Period		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	382.543.794	366.529.649	-	10.889.480	5.124.665
2	Liabilities carrying value amount under regulatory scope of consolidation	11.269.025	-	-	5.629.952	5.639.073
3	Total net amount under regulatory scope of consolidation	371.231.989	366.529.649	-	5.259.528	(514.408)
4	Off-Balance Sheet Amounts	161.631.451	57.393.313	-	1.629.821	-
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	-	-	-	-	3.386.799
9	Differences due to risk reduction	-	(3.931.836)	-	(21.390)	-
	Risk Amounts		419.991.127	-	6.867.959	2.872.391

3.2.3 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.

Group'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 Group 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 Group'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.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

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.

3.3. Explanations on credit risk

3.3.1. General information regarding credit risk

3.3.1.1. General qualitative information regarding credit risk

Credit risk is the loss or the risk of the Parent Bank in case counterparty cannot 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.

Credit granting authorization levels are also determined in accordance with the rating of the customer in ME and 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.

The Parent Bank uses score card to evaluate new applications for retail 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.

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 2 sub units.

Commercial Credit Risk Management is responsible for taking part in the model development processes of PD, EAD, LGD models which are in the scope of IRB communique (issued by BRSA – using internal rating based approach for credit risk calculations) and giving opinions as the ultimate authority, supervising the rating systems, monitoring the performance, analysing the results regularly, ensuring the proper functioning of the rating systems, leading the studies for the areas that need improvement and the deficiencies identified, informing the BRSA about the changes made in the rating systems and the relevant units within the Bank, evaluating model use test, ensuring dissemination of the models in the bank internal processes within the scope requested by the BRSA, managing IRB transition process, providing the documentation requested in this process and monitoring the projects carried out in the Bank within the scope of Basel II for commercial customers. This business unit is also responsible for taking part in the development processes of operational models used in underwriting, monitoring, collection, etc. processes and monitoring their performance. In addition, the department is responsible for developing underwriting / monitoring strategies for corporate customer segments and putting them into practice through decision support systems.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

Retail Credit Risk Management is responsible for taking part in the model development processes of PD, EAD, LGD models which are in the scope of IRB communique (issued by BRSA – using internal rating based approach for credit risk calculations) and giving opinions as the ultimate authority, supervising the rating systems, monitoring the performance, analysing the results regularly, ensuring the proper functioning of the rating systems, leading the studies for the areas that need improvement and the deficiencies identified, informing the BRSA about the changes made in the rating systems and the relevant units within the Bank, evaluating model use test, ensuring dissemination of the models in the bank internal processes within the scope requested by the BRSA, managing IRB transition process, providing the documentation requested in this process and monitoring the projects carried out in the Bank within the scope of Basel II for private individual customers. This business unit is responsible for taking part in the development processes of operational models used in underwriting, monitoring, collection, etc. processes and monitoring their performance. In addition, the department is responsible for developing underwriting / monitoring strategies for individual loan products and putting them into practice through 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.

Strategic Risk Control is responsible for preparation of credit risk budgeting and credit risk reporting activities of the Parent 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 Parent Bank for the related topics. The unit 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.

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.

İSEDES 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.

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.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

3.3.1.2. Credit quality of assets

	Current Period	Gross carrying values of as per TAS		Allowances/ impairments	Net values
		Defaulted exposures	Non-defaulted exposures		
1	Loans	19.362.337	243.290.890	18.172.617	244.480.610
2	Debt Securities	-	56.580.044	94.342	56.485.702
3	Off-balance sheet exposures	1.175.798	161.704.704	927.439	161.953.063
4	Total	20.538.135	461.575.638	19.194.398	462.919.375

	Prior Period	Gross carrying values of as per TAS		Allowances/ impairments	Net values
		Defaulted exposures	Non-defaulted exposures		
1	Loans	13.300.362	236.199.162	14.531.568	234.967.956
2	Debt Securities	-	49.749.420	98.820	49.650.600
3	Off-balance sheet exposures	1.079.128	150.514.908	866.322	150.727.714
4	Total	14.379.490	436.463.490	15.496.710	435.346.270

3.3.1.3 Changes in stock of defaulted loans and debt securities

	Current Period	Prior Period
1	14.379.490	10.559.057
2	Loans and debt securities that have defaulted since the last reporting period	8.504.919
3	Returned to non-defaulted status	59.536
4	Amounts written off	2.516.488
5	Other changes	(2.108.462)
6	20.538.135	14.379.490

3.3.1.4 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:

- 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;
- 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;
- for which debtors have suffered deterioration in their creditworthiness and credits have suffered weakness consequently or;
- 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 classified as non performing loans and are transferred to non performing loan accounts. Within the scope of the same regulation, these loans are set aside for the expected credit loss according to the internal models developed by the Bank.

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.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

3.3.1.4.1.Exposures provisioned against by major regions:

	Current Period	Prior Period
Domestic	321.073.185	308.195.342
USA,Canada	4.009.514	2.135.230
European Union (EU) Countries	6.383.485	6.802.617
OECD Countries	2.661.237	2.442.738
Off-Shore Banking Regions	130	795
Other Countries	5.218.684	5.373.635
Total	339.346.235	324.950.356

(1) Breakdown of cash, non-cash and non-performing loans with respect to geographical regions are provided.

3.3.1.4.2. Exposures provisioned against by major sectors ⁽¹⁾:

	Current Period	Prior Period
Agricultural	9.663.508	7.263.746
Farming and raising livestock	7.654.143	5.208.646
Forestry	1.457.615	1.489.187
Fishing	551.750	565.913
Manufacturing	143.193.155	134.796.477
Mining and Quarrying	2.162.692	3.017.705
Production	94.750.349	86.836.061
Electricity, Gas, Water	46.280.114	44.942.711
Construction	45.675.600	53.868.180
Services	62.594.231	57.653.086
Wholesale and retail trade	11.018.992	10.982.055
Hotel, food and beverage services	8.318.445	8.223.653
Transportation and telecommunication	11.873.621	13.271.749
Financial institutions	11.422.115	9.929.862
Real estate and leasing services	8.814.540	4.797.382
Education services	649.247	345.130
Health and social services	10.497.271	10.103.255
Other	78.219.741	71.368.866
Total	339.346.235	324.950.356

(1) Breakdown of cash loans, non cash loans and non performing loans by sector is as in the above table.

3.3.1.4.3. Receivables according to remaining maturities:

Receivables according to remaining maturities are explained Note VII of Section 4.

3.3.1.4.4. 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.

3.3.1.4.5. Exposures provisioned against by major regions:

The distribution of the specific provisions is predominantly domestic and a provision amounting to TL 17.603.089 (December 31, 2018- TL 12.901.556) has been set aside for the risk at an amount of TL 11.771.616 (December 31, 2018- TL 9.301.872).

3.3.1.4.6. Aging analysis for overdue receivables ⁽¹⁾:

	Current Period	Prior Period
31-60 days overdue	1.433.652	1.710.601
61-90 days overdue	973.003	1.273.724
Other	35.381.258	30.641.657
Total	37.787.913	33.625.982

(1) Overdue receivables represent over due of cash loans.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

3.3.1.4.7. Breakdown of restructured receivables based on whether or not provisions are allocated:

Provisions are recognized for all Non-performing loans in accordance with Provisioning Regulation.

	Current Period	Prior Period
Loans restructured from Loans and other receivables under close monitoring	21.562.029	4.742.251
Loans restructured from Loans under legal follow-up	1.356.496	491.437
Total	22.918.525	5.233.688

3.3.1.4.8. Informations related to expected credit losses for loans:

	Stage 1	Stage 2	Stage 3	Total
Beginning of the period (1 January 2019)	1.317.374	3.642.041	9.572.153	14.531.568
Additions	649.148	1.015.132	7.538.235	9.202.515
Disposals	(508.820)	(231.499)	(1.734.198)	(2.474.517)
NPL sales	-	-	(2.721.412)	(2.721.412)
Write offs	-	-	(853.886)	(853.886)
Transfer to stage 1	15.262	(14.422)	(840)	-
Transfer to stage 2	(361.187)	400.129	(38.942)	-
Transfer to stage 3	(25.845)	(282.850)	308.695	-
Exchange differences	67.633	391.048	29.668	488.349
End of the period	1.153.565	4.919.579	12.099.473	18.172.617

	Stage 1	Stage 2	Stage 3	Total
Beginning of the period (1 January 2018)	1.904.788	626.032	8.393.414	10.924.234
Additions	326.059	2.822.981	6.541.279	9.690.319
Disposals	(687.289)	(400.228)	(2.918.142)	(4.005.659)
NPL sales	-	-	(2.015.868)	(2.015.868)
Write offs	-	-	(500.620)	(500.620)
Transfer to stage 1	53.213	(47.453)	(5.760)	-
Transfer to stage 2	(338.584)	385.924	(47.340)	-
Transfer to stage 3	(30.432)	(58.787)	89.219	-
Exchange differences	89.619	313.572	35.971	439.162
End of the period	1.317.374	3.642.041	9.572.153	14.531.568

3.3.2. Credit risk mitigation

3.3.2.1. Qualitative disclosure on credit risk mitigation techniques

The Parent 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 Parent 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.

Yapı ve Kredi Bankası A.Ş.**Notes to consolidated financial statements as of December 31, 2019**

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

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)

In the calculations regarding credit risk mitigation, the Bank performs risk mitigation within the regulations set out in the Credit Risk Mitigation Techniques Notification dated September 6, 2014 and numbered 29111 and uses a comprehensive financial guarantee method for its financial collaterals. With the comprehensive financial collateral method, the relevant volatility adjustments specified in the regulation made on the value of the financial collaterals that are used in calculating the capital requirements.

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.

3.3.2.2. 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	174.388.950	70.091.660	37.707.385	11.903.657	9.616.692	-	-
Debt securities	56.485.702	-	-	-	-	-	-
TOTAL	230.874.652	70.091.660	37.707.385	11.903.657	9.616.692	-	-
Of which defaulted	3.811.620	3.451.244	932.993	733.593	371.782	-	-

	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
Prior Period							
Loans	169.831.073	65.136.883	37.917.685	12.559.374	9.177.350	-	-
Debt securities	49.650.600	-	-	-	-	-	-
TOTAL	219.481.673	65.136.883	37.917.685	12.559.374	9.177.350	-	-
Of which defaulted	2.249.667	1.478.542	385.677	199.034	46.465	-	-

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

3.3.3. Credit risk under standardised approach

3.3.3.1. 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 all the exposures to central governments/central banks, for Financial Institutions, Corporations, Regional Governments, Administrative Bodies and for Multinational Development Banks asset classes of 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.

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		
				Contractual maturity of claims under 3 months	Contractual maturity of claims over 3 months	Claims on corporates
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%

Yapı ve Kredi Bankası A.Ş.**Notes to consolidated financial statements as of December 31, 2019**

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

3.3.3.2. 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	
	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	93.739.760	1.652	103.663.658	228.778	12.694.935	12,22%
2 Exposures to regional governments or local authorities	-	-	-	-	-	0,00%
3 Exposures to public sector entities	53.722	123.222	53.712	49.678	103.390	100,00%
4 Exposures to multilateral development banks	75.243	21.529	75.243	10.915	-	0,00%
5 Conditional and unconditional receivables from banks and brokerage houses	41.450.308	12.306.819	41.514.884	2.507.194	16.454.249	37,38%
6 Exposures to institutions	140.169.354	104.756.514	135.085.647	43.302.762	176.575.685	98,98%
7 Exposures to corporates	76.725.641	62.127.161	69.592.033	6.007.307	56.699.505	75,00%
8 Retail exposures	10.587.317	130.104	10.587.317	62.383	3.727.395	35,00%
9 Exposures secured by residential property	12.742.688	2.357.619	12.742.688	1.658.082	7.200.385	50,00%
10 Exposures secured by commercial real estate	7.244.356	52.945	6.861.754	31.762	5.426.929	78,73%
11 Past-due loans	18.674	2.046.794	18.605	167.920	278.557	149,34%
12 Higher-risk categories by the Agency Board	4.997	-	4.997	-	2.602	52,07%
13 Investments in equities	1.798.221	-	1.798.221	-	3.618.715	201,24%
14 Other assets	15.361.320	-	15.361.320	-	9.736.880	63,39%
TOTAL	399.971.601	183.924.359	397.360.079	54.026.781	292.519.227	64,80%

Prior Period	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	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	99.290.012	4.396	108.364.155	371.306	10.952.189	10,07%
2 Exposures to regional governments or local authorities	-	-	-	-	-	-
3 Exposures to public sector entities	89.350	133.970	89.346	54.812	144.158	100%
4 Exposures to multilateral development banks	68.586	19.796	68.587	10.033	-	-
5 Conditional and unconditional receivables from banks and brokerage houses	15.329.908	5.865.150	15.479.580	3.028.160	9.818.985	53,05%
6 Exposures to institutions	136.949.760	100.024.831	131.486.410	43.075.587	172.882.250	99,04%
7 Exposures to corporates	71.105.253	53.117.435	65.439.425	7.307.338	54.560.072	75,00%
8 Retail exposures	9.514.269	100.901	9.514.269	47.078	3.346.472	35,00%
9 Exposures secured by residential property	17.197.592	2.047.900	17.197.592	1.354.737	9.276.164	50,00%
10 Exposures secured by commercial real estate	3.711.332	136.233	3.662.715	82.188	3.243.909	86,62%
11 Past-due loans	16.877	180.839	16.783	84.316	150.361	148,73%
12 Higher-risk categories by the Agency Board	2.567	-	2.567	-	1.459	56,84%
13 Investments in equities	250.738	-	250.738	-	250.738	100,00%
14 Other assets	13.003.405	-	13.003.405	-	7.362.162	56,62%
TOTAL	366.529.649	161.631.451	364.575.572	55.415.555	271.988.919	64,76%

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note 1. of section three)

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

3.3.3.3. Standard Approach: Receivables by risk classes and risk weights

Current Period												Total credit risk exposure amount (after CCF and CRM)
Asset classes/ Risk weight	0%	10%	20%	35%	50%	75%	100%	150%	200%	250%	1250%	
1 Exposures to central governments or central banks	91.183.994	-	16.883	-	-	-	12.691.559	-	-	-	-	103.892.436
2 Exposures to regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-
3 Exposures to public sector entities	-	-	-	-	-	-	103.390	-	-	-	-	103.390
4 Exposures to multilateral development banks	86.158	-	-	-	-	-	-	-	-	-	-	86.158
5 Conditional and unconditional receivables from banks and brokerage houses	-	-	30.545.548	-	6.302.947	-	7.133.418	40.165	-	-	-	44.022.078
6 Exposures to institutions	330.804	-	701.714	-	1.841.102	-	175.514.789	-	-	-	-	178.388.409
7 Exposures to corporates	-	-	-	-	-	75.599.340	-	-	-	-	-	75.599.340
8 Retail exposures	-	-	-	10.649.700	-	-	-	-	-	-	-	10.649.700
9 Exposures secured by residential property	-	-	-	-	14.400.770	-	-	-	-	-	-	14.400.770
10 Exposures secured by commercial real estate	-	-	-	-	3.731.962	-	2.362.765	798.789	-	-	-	6.893.516
11 Past-due loans	-	-	-	-	-	-	2.460	184.065	-	-	-	186.525
12 Higher-risk categories by the Agency Board	178	-	2.343	-	683	-	1.793	-	-	-	-	4.997
13 Investments in equities	-	-	-	-	-	-	584.558	-	-	1.213.663	-	1.798.221
14 Other assets	5.540.375	-	105.082	-	-	-	9.715.863	-	-	-	-	15.361.320
Total	97.141.509	-	31.371.570	10.649.700	26.277.464	75.599.340	208.110.595	1.023.019	-	1.213.663	-	451.386.860

Prior Period												Total credit risk exposure amount (after CCF and CRM)
Asset classes/ Risk weight	0%	10%	20%	35%	50%	75%	100%	150%	200%	250%	1250%	
1 Exposures to central governments or central banks	97.783.273	-	-	-	-	-	10.952.188	-	-	-	-	108.735.461
2 Exposures to regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-
3 Exposures to public sector entities	-	-	-	-	-	-	144.158	-	-	-	-	144.158
4 Exposures to multilateral development banks	78.619	-	-	-	-	-	-	-	-	-	-	78.619
5 Conditional and unconditional receivables from banks and brokerage houses	-	-	6.670.505	-	6.705.507	-	5.130.924	804	-	-	-	18.507.740
6 Exposures to institutions	-	-	470.454	-	2.606.760	-	171.484.784	-	-	-	-	174.561.998
7 Exposures to corporates	-	-	-	-	-	72.746.763	-	-	-	-	-	72.746.763
8 Retail exposures	-	-	-	9.561.347	-	-	-	-	-	-	-	9.561.347
9 Exposures secured by residential property	-	-	-	-	18.552.329	-	-	-	-	-	-	18.552.329
10 Exposures secured by commercial real estate	-	-	-	-	1.503.849	-	1.739.192	501.862	-	-	-	3.744.903
11 Past-due loans	-	-	-	-	741	-	1.094	99.264	-	-	-	101.099
12 Higher-risk categories by the Agency Board	351	-	670	-	442	-	1.104	-	-	-	-	2.567
13 Investments in equities	-	-	-	-	-	-	250.738	-	-	-	-	250.738
14 Other assets	5.562.874	-	97.961	-	-	-	7.342.570	-	-	-	-	13.003.405
Total	103.425.117	-	7.239.590	9.561.347	29.369.628	72.746.763	197.046.752	601.930	-	-	-	419.991.127

Yapı ve Kredi Bankası A.Ş.**Notes to consolidated financial statements as of December 31, 2019**

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

3.4. Explanation on counterparty credit risk**3.4.1. 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.

3.4.2. Assessment of Counterparty Credit Risk according to the models of measurement

Current Period		Revaluation Cost	Potential credit risk exposure	EEPE ⁽¹⁾	Alpha used for computing regulatory EAD	Exposure after credit risk mitigation	Risk Weighted Amounts
1	Standart Approach-CCR	2.168.211	1.733.413	-	1,40	3.875.568	2.806.284
2	Internal Model Approach			-	-	-	-
3	Simplified Standardised Approach for Credit Risk Mitigation					-	-
4	Comprehensive Method for Credit Risk Mitigation					655.460	321.783
5	Value at Risk for Repo Transactions, Securities or Commodity lending or borrowing transactions					-	-
Total							3.128.067

Prior Period		Revaluation Cost	Potential credit risk exposure	EEPE ⁽¹⁾	Alpha used for computing regulatory EAD	Exposure after credit risk mitigation	Risk Weighted Amounts
1	Standart Approach-CCR	4.358.273	1.629.821	-	1,40	5.965.825	4.126.047
2	Internal Model Approach			-	-	-	-
3	Simplified Standardised Approach for Credit Risk Mitigation					-	-
4	Comprehensive Method for Credit Risk Mitigation					541.461	231.720
5	Value at Risk for Repo Transactions, Securities or Commodity lending or borrowing transactions					-	-
Total							4.357.767

(1) Effective expected positive exposure

3.4.3. Credit valuation adjustment (CVA) capital charge

	Current Period		Prior period	
	Exposure (After credit risk mitigation methods)	Risk Weighted Amounts	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	3.875.568	1.900.138	6.507.286	2.507.402
Total amount of CVA capital adequacy	3.875.568	1.900.138	6.507.286	2.507.402

Yapı ve Kredi Bankası A.Ş.**Notes to consolidated financial statements as of December 31, 2019**

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

3.4.4. Standardised approach – CCR exposures by regulatory portfolio and risk weights

Current Period												Total credit risk ⁽¹⁾
Risk Weights/Risk Classes	0%	2%	4%	10%	20%	35%	50%	75%	100%	150%		
1 Central governments and central banks receivables	11.904	-	-	-	-	-	-	-	21.050	-	32.954	
2 Local governments and municipalities receivables	-	-	-	-	-	-	-	-	-	-	-	
3 Administrative and non commercial receivables	-	-	-	-	-	-	-	-	-	-	-	
4 Multilateral Development Bank receivables	-	-	-	-	-	-	-	-	-	-	-	
5 Banks and Intermediary Institutions receivables	-	308.898	88.571	-	627.672	-	1.510.381	-	120.115	-	2.655.637	
6 Corporate receivables	-	-	-	-	-	-	5.566	-	1.969.870	-	1.975.436	
7 Retail receivables	-	-	-	-	-	-	-	5.154	-	-	5.154	
8 Mortgage receivables	-	-	-	-	-	-	259.318	-	-	-	259.318	
9 Non performing receivables	-	-	-	-	-	-	-	-	-	-	-	
10 High risk defined receivables	-	-	-	-	-	-	-	-	-	-	-	
11 Investments in equities	-	-	-	-	-	-	-	-	-	-	-	
12 Other receivables	-	-	-	-	-	-	-	-	-	-	-	
Total	11.904	308.898	88.571	-	627.672	-	1.775.265	5.154	2.111.035	-	4.928.499	

Prior Period										Total credit risk ⁽¹⁾
Risk Weights/Risk Classes	0%	10%	20%	35%	50%	75%	100%	150%		
1 Central governments and central banks receivables	-	-	-	-	-	-	5.466	-	5.466	
2 Local governments and municipalities receivables	-	-	-	-	-	-	-	-	-	
3 Administrative and non commercial receivables	-	-	-	-	-	-	-	-	-	
4 Multilateral Development Bank receivables	-	-	-	-	-	-	-	-	-	
5 Banks and Intermediary Institutions receivables	-	-	946.064	-	3.109.371	-	9.207	-	4.064.642	
6 Corporate receivables	-	-	-	-	-	-	2.757.969	-	2.757.969	
7 Retail receivables	-	-	-	-	-	7.403	-	-	7.403	
8 Mortgage receivables	-	-	-	-	32.479	-	-	-	32.479	
9 Non performing receivables	-	-	-	-	-	-	-	-	-	
10 High risk defined receivables	-	-	-	-	-	-	-	-	-	
11 Investments in equities	-	-	-	-	-	-	-	-	-	
12 Other receivables	-	-	-	-	-	-	-	-	-	
Total	-	-	946.064	-	3.141.850	7.403	2.772.642	-	6.867.959	

(1) Total credit risk: Value of Capital Adequacy Calculations after Counterparty Credit Risk methods are applied.

3.4.5. Composition of collateral for CCR exposure

Collaterals for Derivatives					Collaterals or Other Transactions	
Current Period	Collaterals Taken		Collaterals Given		Collaterals Taken	Collaterals Given
	Segregated	Unsegregated	Segregated	Unsegregated		
1 Cash-Local Currency	-	2.594	-	-	2.936.526	10.703.351
2 Cash - Foreign Currency	-	17.961	-	-	789.711	-
3 Domestic sovereign debts	-	5.501	-	-	10.709.991	4.233.025
4 Other collateral	-	-	-	-	-	-
Total	-	26.056	-	-	14.436.228	14.936.376

Collaterals for Derivatives					Collaterals or Other Transactions	
Prior Period	Collaterals Taken		Collaterals Given		Collaterals Taken	Collaterals Given
	Segregated	Unsegregated	Segregated	Unsegregated		
1 Cash-Local Currency	-	6.776	-	-	1.269.049	-
2 Cash - Foreign Currency	-	14.886	-	-	-	-
3 Domestic sovereign debts	-	595	-	-	-	1.379.051
4 Other collateral	-	12	-	-	-	-
Total	-	22.269	-	-	1.269.049	1.379.051

Yapı ve Kredi Bankası A.Ş.**Notes to consolidated financial statements as of December 31, 2019**

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

3.4.6. Credit derivatives exposures

	Current Period		Prior Period	
	Protection Bought	Protection Sold	Protection Bought	Protection Sold
Nominal				
Single-name credit default swaps	-	-	-	-
Index credit default swaps	-	-	-	-
Total return swaps	-	12.732.747	-	8.115.956
Credit Options	-	-	-	-
Other Credit Derivatives	-	-	-	-
Total Nominal	-	12.732.747	-	8.115.956
Rediscount Amount	-	(229.460)	-	(346.698)
Positive Rediscount Amount		274.073		10.579
Negative Rediscount Amount		(503.533)		(357.277)

3.4.7. Exposures to central counterparties

	Current Period		Prior Period	
	Exposure at default (post-CRM)	RWA	Exposure at default (post-CRM)	RWA
1 Exposure to Qualified Central Counterparties (QCCPs) (total)		103.615		56.141
Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which				
2 (i) OTC Derivatives	114.438	4.060	360.673	180.567
3 (ii) Exchange-traded Derivatives	-	-	-	-
4 (iii) Securities financing transactions	283.033	5.661	-	-
5 (iv) Netting sets where cross-product netting has been approved	-	-	-	-
6 Segregated initial margin	-	-	-	-
7 Non-segregated initial margin	-	-	-	-
8 Pre-funded default fund contributions	-	-	-	-
9 Unfunded default fund contributions	-	-	-	-
11 Exposures to non-QCCPs (total)		-		-
Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions) ; of which				
12 (i) OTC Derivatives	-	-	-	-
13 (ii) Exchange-traded Derivatives	-	-	-	-
14 (iii) Securities financing transactions	-	-	-	-
15 (iv) Netting sets where cross-product netting has been approved	-	-	-	-
16 Segregated initial margin	-	-	-	-
17 Non-segregated initial margin	-	-	-	-
18 Pre-funded default fund contributions	-	-	-	-
19 Unfunded default fund contributions	-	-	-	-
20	-	-	-	-

3.5. Securitisations

None.

3.6. Explanations on consolidated market risk**3.6.1. 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 Group 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 Group 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.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

Models, strategies and processes that are accurate and integrated in accordance with risks the Group 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 Group 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 Group; 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.

3.6.2. Market risk under standardised approach

	Current Period	Prior Period
	Risk Weighted Asset	Risk Weighted Asset
Outright products	2.669.818	2.831.116
1 Interest rate risk (general and specific)	1.563.732	1.143.514
2 Equity risk (general and specific)	11.213	11.275
3 Foreign exchange risk	1.094.873	1.676.327
4 Commodity risk	-	-
Options	20.150	41.275
5 Simplified approach	-	-
6 Delta-plus method	20.150	41.275
7 Scenario approach	-	-
8 Securitisation	-	-
Total	2.689.968	2.872.391

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

3.7. Explanations on Operational Risk

The Bank calculates the amount subject to operational risk based on "Basic Indicator Method" by using 2018, 2017 and 2016 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. 29511 dated October 23, 2015, namely "The Calculation of the Amount Subject to Operational Risk". As of December 31, 2019, the total amount subject to operational risk is TL 26.507.024 (December 31, 2018 - TL 20.973.958) and the amount of the related capital requirement is TL 2.120.562 (December 31, 2018 - TL 1.677.917).

Current Period	2 Prior Period Value	1 Prior Period Value	Current Period value	Total / Total number of years for which gross income is positive	Rate (%)	Total
Gross Income	11.465.876	12.636.566	18.308.797	14.137.079	15,00%	2.120.562
Amount subject to operational risk (Total*12,5)						26.507.024

Prior Period	2 Prior Period Value	1 Prior Period Value	Current Period value	Total / Total number of years for which gross income is positive	Rate (%)	Total
Gross Income	9.455.891	11.465.876	12.636.566	11.186.111	15,00%	1.677.917
Amount subject to operational risk (Total*12,5)						20.973.958

3.8. 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. In addition, Consumer Price Index bonds model and early payment model in some consumer loans are also considered in the calculation of interest rate risk.

Interest rate risk is monitored daily through internal reports and reports made to the Executive Board on a monthly basis.

Yapı ve Kredi Bankası A.Ş.**Notes to consolidated financial statements as of December 31, 2019**

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

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, 2019, based on the significant currencies of the Bank.

Currency	Applied shock (+/- x basis points)	Current Period		Prior Period	
		Gains/Losses	Gains/SE- Losses/SE	Gains/Losses	Gains/SE- Losses/SE
TRY	(+)500 bp	(2.779.791)	(5,09)%	(2.066.411)	(4,59)%
TRY	(-)400 bp	2.547.494	4,67%	1.918.554	4,26%
EUR	(+)200 bp	(88.345)	(0,16)%	(97.759)	(0,22)%
EUR	(-)200 bp	107.025	0,20%	110.571	0,25%
USD	(+)200 bp	(126.269)	(0,23)%	172.203	(0,38)%
USD	(-)200 bp	417.118	0,76%	7.013	0,02%
Total (For negative shocks)		3.071.637	5,63%	2.036.137	4,52%
Total (For positive shocks)		(2.994.405)	(5,49)%	(1.991.967)	(4,43)%

4. 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.

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 10.

The Parent Bank's publicly announced foreign exchange bid rates as of the date of the financial statements and for the last five working days prior to that date are as follows:

(Exchange rates presented as full TL)	USD	EUR
Balance sheet evaluation rate	5,9402	6,6506
First day current bid rate	5,9370	6,6117
Second day current bid rate	5,9302	6,5759
Third day current bid rate	5,9293	6,5755
Fourth day current bid rate	5,9364	6,5773
Fifth day current bid rate	5,9291	6,5714
Arithmetic average of the last 30 days:	5,8357	6,4814
Evaluation rate as of prior period:	5,2609	6,0280

Yapı ve Kredi Bankası A.Ş.**Notes to consolidated financial statements as of December 31, 2019**

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

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	18.634.201	19.802.327	2.560.770	40.997.298
Banks	3.674.552	19.524.917	149.880	23.349.349
Financial assets at fair value through profit or loss	8.693	333.907	-	342.600
Money market placements	-	-	-	-
Financial assets at fair value through other comprehensive income	686.986	3.237.174	173.826	4.097.986
Loans ⁽¹⁾	51.850.016	48.722.746	1.950.725	102.523.487
Investments in associates, subsidiaries and joint ventures	-	-	902.257	902.257
Financial assets measured at amortised cost	1.326.122	10.264.221	1	11.590.344
Hedging derivative financial assets	34.576	42.439	-	77.015
Tangible assets	8.586	-	36.899	45.485
Other assets ⁽²⁾	4.787.395	5.512.341	532.566	10.832.302
Total assets	81.011.127	107.440.072	6.306.924	194.758.123
Liabilities				
Bank deposits	998.119	429.827	133.379	1.561.325
Foreign currency deposits	42.056.062	78.383.949	6.075.771	126.515.782
Funds from money market	759.218	30.646	-	789.864
Funds borrowed from other financial institutions	19.519.772	23.237.760	163.588	42.921.120
Marketable securities issued	1.169.306	17.310.938	1	18.480.245
Miscellaneous payables	584.452	661.409	34.987	1.280.848
Hedging derivative financial liabilities	96.229	215.747	-	311.976
Other liabilities ⁽³⁾	1.021.981	31.392.130	54.394	32.468.505
Total liabilities	66.205.139	151.662.406	6.462.120	224.329.665
Net on balance sheet position	14.805.988	(44.222.334)	(155.196)	(29.571.542)
Net off balance sheet position⁽⁵⁾	(14.622.916)	44.032.728	1.313.524	30.723.336
Financial derivative assets	18.761.225	67.285.838	2.660.600	88.707.663
Financial derivative liabilities	33.384.141	23.253.110	1.347.076	57.984.327
Net position	183.072	(189.606)	1.158.328	1.151.794
Non-cash loans	32.650.835	25.685.167	4.281.709	62.617.711
Prior period				
Total assets	83.972.116	86.608.353	8.261.009	178.841.478
Total liabilities	75.065.277	129.283.156	3.840.455	208.188.888
Net on-balance sheet position	8.906.839	(42.674.803)	4.420.554	(29.347.410)
Net off-balance sheet position⁽⁵⁾	(8.649.898)	41.447.193	(3.030.744)	29.766.551
Financial derivative assets	11.678.811	67.127.521	1.857.074	80.663.406
Financial derivative liabilities	20.328.709	25.680.328	4.887.818	50.896.855
Net position	256.941	(1.227.610)	1.389.810	419.141
Non-cash loans	28.874.888	26.186.386	4.441.956	59.503.230

(1) Includes FX indexed loans amounting to TL 1.147.274 (December 31, 2018 - TL 4.356.033) which have been disclosed as TL in the financial statements.

(2) Does not include foreign currency prepaid expenses amounting to TL 330.310 (December 31, 2018 - TL 291.474).

(3) Does not include foreign currency other comprehensive income and expense under equity.

(4) Other FC column also includes gold balance.

(5) Forward transactions classified as commitments are also included.

Currency risk sensitivity analysis:

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 ⁽¹⁾
(+) % 15	(148.104)	(154.786)
(-) % 15	148.104	154.786

(1) Represents the balances of the Parent Bank.

(2) Excluding tax effect.

Yapı ve Kredi Bankası A.Ş.**Notes to consolidated financial statements as of December 31, 2019**

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

5. Explanations on consolidated interest rate risk:

The monitoring of interest rate sensitive assets and liabilities of the Parent Bank, 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 Parent Bank utilizes TL/FC and TL/TL interest rate and money swap transactions in order to limit the interest and foreign currency risk arising from short-term deposit and long-term consumer loans within the balance sheet.

5.1. 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	19.217.128	-	-	-	-	24.268.802	43.485.930
Banks	11.976.949	1.489.545	801.074	64.231	-	12.879.989	27.211.788
Financial assets at fair value through profit/loss	-	162	4.536	13.874	75.296	479.329	573.197
Receivables from money markets	10.803.630	-	-	-	-	-	10.803.630
Financial assets at fair value through other comprehensive income	2.795.718	5.877.816	9.044.577	6.900.060	2.202.096	80.345	26.900.612
Loans ⁽¹⁾	34.443.764	32.068.141	76.404.792	86.334.621	14.039.572	1.189.720	244.480.610
Financial assets measured at amortised cost	6.066.570	3.938.811	5.053.572	3.709.314	10.839.870	-	29.608.137
Other assets	953.026	1.413.564	1.165.593	1.238.766	308.582	23.051.585	28.131.116
Total assets	86.256.785	44.788.039	92.474.144	98.260.866	27.465.416	61.949.770	411.195.020
Liabilities							
Bank deposits	3.857.173	49.427	12.299	-	-	1.138.876	5.057.775
Other deposits	134.497.570	28.344.401	8.846.851	2.285.622	272.471	51.767.007	226.013.922
Funds from money market	5.201.232	317.793	789.863	-	-	-	6.308.888
Miscellaneous payables	-	-	-	-	-	14.697.241	14.697.241
Marketable securities issued	3.123.877	13.806.731	8.290.583	-	-	-	25.221.191
Funds borrowed from other financial institutions	6.624.057	19.373.853	14.005.520	3.711.567	1.658.498	-	45.373.495
Other liabilities ⁽²⁾	4.826.893	13.827.593	863.319	14.687.916	5.557.515	48.759.272	88.522.508
Total liabilities	158.130.802	75.719.798	32.808.435	20.685.105	7.488.484	116.362.396	411.195.020
Balance sheet long position	-	-	59.665.709	77.575.761	19.976.932	-	157.218.402
Balance sheet short position	(71.874.017)	(30.931.759)	-	-	-	(54.412.626)	(157.218.402)
Off-balance sheet long position	14.532.346	35.990.412	-	-	-	-	50.522.758
Off-balance sheet short position	-	-	(5.150.258)	(38.927.418)	(5.444.707)	-	(49.522.383)
Total position	(57.341.671)	5.058.653	54.515.451	38.648.343	14.532.225	(54.412.626)	1.000.375

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	26.927.180	-	-	-	-	29.904.128	56.831.308
Banks	1.054.624	788.121	1.506.119	84.687	-	1.836.089	5.269.640
Financial assets at fair value through profit/loss	-	5	937	14.744	52.657	179.813	248.156
Receivables from money markets	12.318	84.708	20.205	-	-	-	117.231
Financial assets at fair value through other comprehensive income	3.051.441	5.368.953	8.543.658	6.677.678	3.175.156	66.794	26.883.680
Loans ⁽¹⁾	39.696.958	34.672.686	76.379.072	73.130.920	12.319.526	(1.231.206)	234.967.956
Financial assets measured at amortised cost	4.328.097	2.591.160	2.419.269	3.586.492	9.880.661	-	22.805.679
Other assets	1.077.966	2.467.754	1.782.536	3.296.959	489.372	17.138.017	26.252.604
Total assets	76.148.584	45.973.387	90.651.796	86.791.480	25.917.372	47.893.635	373.376.254
Liabilities							
Bank deposits	8.826.637	337.899	230.691	-	-	1.012.074	10.407.301
Other deposits	115.485.681	36.179.812	10.339.682	2.577.490	195.126	35.106.381	199.884.172
Funds from money market	2.093.895	443.570	982.748	-	-	-	3.520.213
Miscellaneous payables	-	-	-	-	-	14.662.414	14.662.414
Marketable securities issued	680.654	5.088.792	3.257.971	9.870.672	2.544.114	-	21.442.203
Funds borrowed from other financial institutions	9.335.403	22.115.474	7.032.452	6.690.421	1.898.252	-	47.072.002
Other liabilities ⁽²⁾	1.692.331	17.375.026	7.193.432	1.938.715	604.114	47.584.331	76.387.949
Total liabilities	138.114.601	81.540.573	29.036.976	21.077.298	5.241.606	98.365.200	373.376.254
Balance sheet long position	-	-	61.614.820	65.714.182	20.675.766	-	148.004.768
Balance sheet short position	(61.966.017)	(35.567.186)	-	-	-	(50.471.565)	(148.004.768)
Off-balance sheet long position	13.237.750	31.963.808	-	-	-	-	45.201.558
Off-balance sheet short position	-	-	(3.722.500)	(33.959.108)	(7.726.791)	-	(45.408.399)
Total position	(48.728.267)	(3.603.378)	57.892.320	31.755.074	12.948.975	(50.471.565)	(206.841)

(1) Non-performing loans are presented in the "Non-Interest Bearing" column after being offset against expected loss provisions.

(2) Shareholders' equity is presented under "Non interest bearing"

Yapı ve Kredi Bankası A.Ş.**Notes to consolidated financial statements as of December 31, 2019**

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

5.2. 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	-	-	-	10,00
Banks	1,11	1,74	-	11,08
Financial assets at fair value through profit/loss	3,38	5,96	-	15,71
Receivables from money markets	-	-	-	9,63
Financial assets at fair value through other comprehensive income	3,34	5,37	-	13,32
Loans	4,73	6,94	5,15	16,81
Financial assets measured at amortised cost	2,64	5,55	-	13,46
Liabilities⁽¹⁾				
Bank deposits	0,14	2,01	-	11,31
Other deposits	0,66	2,18	0,30	10,96
Funds from money market	1,90	2,50	-	10,11
Miscellaneous payables	-	-	-	-
Marketable securities issued	2,68	5,10	-	11,87
Funds borrowed from other financial institutions	2,19	4,07	2,64	13,08

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	-	1,99	-	17,58
Banks	1,55	1,85	-	22,81
Financial assets at fair value through profit/loss	4,13	6,18	-	13,49
Money market placements	0,01	-	-	26,93
Available-for-sale financial assets	4,10	5,46	-	18,65
Loans	4,90	7,40	5,15	19,46
Held-to-maturity investments	2,82	5,42	-	18,23
Liabilities⁽¹⁾				
Bank deposits	1,24	2,71	-	24,46
Other deposits	1,94	4,27	1,85	22,13
Funds from money market	0,10	4,46	-	22,69
Miscellaneous payables	-	-	-	-
Marketable securities issued	2,16	5,10	-	19,69
Funds borrowed from other financial institutions	1,87	4,44	2,64	16,41

(1) Does not include demand/non-interest transactions.

6. Explanation on share certificates position risk from banking book:

None.

7. Explanations on consolidated liquidity risk management and liquidity coverage ratio:

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 Parent Bank doesn't function as a central funding institution in its relations with its subsidiaries. Intra-group liquidity management and funding strategies are limited with related legal boundaries.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

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 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 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 Parent Bank to reinterpret analysis of its liquidity position according to scenarios depending on possible cases and tail risks except for crisis situations. Liquidity Stress Test methodology makes a similar approach with LCR template and hence allows the overview of the results in line with Basel approaches. The Parent Bank applies and reports liquidity stress tests consisting of different scenarios and maturity segments both on solo and consolidated level and the results are compared with limit and trigger levels set, with different frequencies (weekly, monthly etc.) according to the scenarios.

"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. Both the liquidity policy and liquidity contingency policy are in line with UniCredit group policies and BRSA best practice documents on liquidity risk management. The abovementioned policies and the thresholds (limits etc.) covered within liquidity risk management framework are updated and approved at least annually.

Funding sources of the Group mainly consist of deposits which constitute 56% of total liabilities of the Bank (December 31, 2018 – 56%) and also include repo, secured loans, syndication, securitization, bond/security issuance and other instruments including subordinated debts.

The Parent Bank calculates and reports the Liquidity Coverage Ratio (LCR) in full compliance with the regulations. LKO is a metric measuring the adequacy of unencumbered free liquid assets owned by banks (called high quality liquid assets) to meet expected net cash outflows over the next 30 days. The metric is an important Basel regulation that measures short-term liquidity and is closely monitored in the Parent Bank. In addition to the Bank LKO, the Net Stable Funding Rate (NSFR), which is considered another complementary element and provides another important medium / long-term liquidity risk measurement, has also begun internally. These two metrics are also included within the Risk Appetite Indicators and closely monitored at the Bank.

High quality liquid assets mentioned in LCR calculation consist of cash, effective money, Central Bank of the Republic of Turkey ("CBRT") accounts and 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.

Secured funding consists of repo and secured borrowing 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 Parent 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 below.

Yapı ve Kredi Bankası A.Ş.**Notes to consolidated financial statements as of December 31, 2019**

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

Simple arithmetic average calculated for the last three months liquidity coverage ratio by using the amounts calculated based on simple arithmetic averages

Current Period	Unweighted Amounts		Weighted Amounts	
	TL+FC	FC	TL+FC	FC
High Quality Liquid Assets				
High Quality Liquid Assets			87.661.333	44.566.242
Cash Outflows				
Retail and Small Business Customers Deposits	138.109.713	71.559.646	12.280.972	7.155.880
Stable deposits	30.599.984	1.683	1.529.999	84
Less stable deposits	107.509.729	71.557.963	10.750.973	7.155.796
Unsecured Funding other than Retail and Small Business Customers Deposits	90.172.839	48.305.280	50.585.312	24.298.061
Operational deposits	-	-	-	-
Non-Operational deposits	67.057.937	41.881.649	30.795.420	17.874.430
Other Unsecured funding	23.114.902	6.423.631	19.789.893	6.423.631
Secured funding			40.724	20.838
Other Cash Outflows	2.163.856	2.442.546	2.163.856	2.442.546
Liquidity needs related to derivatives and market valuation changes on derivatives transactions	2.163.856	2.442.546	2.163.856	2.442.546
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	98.352.547	67.979.626	4.917.627	3.398.981
Other irrevocable or conditionally revocable commitments	82.967.517	16.614.348	8.403.838	4.111.332
Total Cash Outflows			78.392.329	41.427.638
Cash Inflows				
Secured Lending Transactions	-	-	51.966	-
Unsecured Lending Transactions	38.959.285	24.828.509	31.505.959	22.337.694
Other contractual cash inflows	677.894	25.548.194	677.894	25.548.194
Total Cash Inflows	39.637.179	50.376.703	32.235.819	47.885.888
			Capped Amounts	
Total High Quality Liquid Assets			87.661.333	44.566.242
Total Net Cash Outflows			46.156.510	10.356.909
Liquidity Coverage Ratio (%)			189,92	430,30

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 TL+FC (%)	Maximum FC (%)	Maximum TL+FC (%)
Week	October, 11 2019	November 1, 2019	November 29,2019	December 20, 2019
Ratio(%)	385,94	165,84	539,87	212,23

Yapı ve Kredi Bankası A.Ş.**Notes to consolidated financial statements as of December 31, 2019**

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

Simple arithmetic average calculated for the last three months of 2018 liquidity coverage ratio by using the amounts calculated based on simple arithmetic averages

Prior Period	Unweighted Amounts		Weighted Amounts	
	TL+FC	FC	TL+FC	FC
High Quality Liquid Assets				
High Quality Liquid Assets			72.363.955	44.615.297
Cash Outflows				
Retail and Small Business Customers Deposits	117.062.064	56.132.353	10.549.624	5.613.177
Stable deposits	23.131.651	1.161	1.156.583	58
Less stable deposits	93.930.413	56.131.192	9.393.041	5.613.119
Unsecured Funding other than Retail and Small Business Customers Deposits	91.519.027	56.615.062	50.542.765	28.231.119
Operational deposits	-	-	-	-
Non-Operational deposits	70.939.732	49.721.502	32.717.588	21.338.775
Other Unsecured funding	20.579.295	6.893.560	17.825.177	6.892.344
Secured funding	-	-	70.039	69.517
Other Cash Outflows	9.572.692	16.589.239	9.572.692	16.589.239
Liquidity needs related to derivatives and market valuation changes on derivatives transactions	9.572.692	16.589.239	9.572.692	16.589.239
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	95.711.522	67.934.687	4.785.576	3.396.734
Other irrevocable or conditionally revocable commitments	78.407.939	17.588.666	6.129.908	1.277.846
Total Cash Outflows			81.650.604	55.177.632
Cash Inflows				
Secured Lending Transactions	-	-	467	-
Unsecured Lending Transactions	35.311.991	19.588.304	26.372.518	16.764.278
Other Contractual Cash Inflows	2.183.137	18.712.636	2.183.137	18.712.637
Total Cash Inflows	37.495.128	38.300.940	28.556.122	35.476.915
			Capped Amounts	
Total High Quality Liquid Assets			72.363.955	44.615.297
Total Net Cash Outflows			53.094.483	19.700.717
Liquidity Coverage Ratio (%)			136,29	226,47

The dates and values of minimum and maximum foreign currency and total liquidity coverage ratios calculated weekly related to the last three months of 2018 for the Parent Bank are explained in the table below.

	Minimum FC (%)	Minimum TL+FC (%)	Maximum FC (%)	Maximum TL+FC (%)
Week	December 21, 2018	October 5, 2018	October 12, 2018	December 21, 2018
Ratio(%)	159,71	122,64	228,13	148,69

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note 1. of section three)

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

Breakdown of assets and liabilities according to their remaining maturities:

Current Period	Demand	Up to 1 Month	1-3 months	3-12 months	1-5 years	5 years and over	Unclassified ⁽¹⁾⁽²⁾	Total
Assets								
Cash (cash in vault, effectives, cash in transit, cheques purchased) and Balances with the Central Bank of the Republic of Turkey	29.135.078	14.350.852	-	-	-	-	-	43.485.930
Banks	12.879.989	11.976.949	1.489.545	801.074	64.231	-	-	27.211.788
Financial assets at fair value through profit or loss	4.997	-	162	4.536	13.874	75.296	474.332	573.197
Receivables from money markets	-	10.803.630	-	-	-	-	-	10.803.630
Financial assets at fair value through other comprehensive income	-	603.496	361.500	3.825.147	16.955.287	5.074.837	80.345	26.900.612
Loans ⁽¹⁾	-	34.527.377	24.888.502	61.136.517	99.725.683	23.012.811	1.189.720	244.480.610
Financial assets measured at amortised cost	-	245.446	751.890	1.412.070	11.874.660	15.324.071	-	29.608.137
Other assets	4.474.150	547.800	879.239	1.057.870	1.636.661	985.939	18.549.457	28.131.116
Total assets	46.494.214	73.055.550	28.370.838	68.237.214	130.270.396	44.472.954	20.293.854	411.195.020
Liabilities								
Bank deposits	1.138.876	3.857.173	49.427	12.299	-	-	-	5.057.775
Other deposits	51.767.007	133.895.170	28.354.410	9.431.488	2.293.376	272.471	-	226.013.922
Funds borrowed from other financial institutions	-	4.022.053	2.709.944	30.167.543	5.075.551	3.398.404	-	45.373.495
Funds from money market	-	5.201.183	317.793	789.912	-	-	-	6.308.888
Marketable securities issued	-	3.181.443	3.629.472	2.446.812	15.653.188	310.276	-	25.221.191
Miscellaneous payables	1.331.380	12.463.139	345.887	236.970	-	-	319.865	14.697.241
Other liabilities ⁽²⁾	2.608.197	339.798	1.570.184	1.963.573	26.938.834	11.298.970	43.802.952	88.522.508
Total liabilities	56.845.460	162.959.959	36.977.117	45.048.597	49.960.949	15.280.121	44.122.817	411.195.020
Net liquidity gap	(10.351.246)	(89.904.409)	(8.606.279)	23.188.617	80.309.447	29.192.833	(23.828.963)	-
Net Off-Balance Sheet Position	-	(206.595)	78.957	165.459	114.246	848.308	-	1.000.375
Derivative Financial Assets	-	43.907.013	37.444.102	32.460.190	69.759.199	39.707.893	-	223.278.397
Derivative Financial Liabilities	-	44.113.608	37.365.145	32.294.731	69.644.953	38.859.585	-	222.278.022
Non-Cash Loans	-	2.432.558	11.994.741	31.384.826	14.781.144	4.932.327	24.038.885	89.564.481
Prior Period								
Total assets	42.378.411	62.312.795	27.280.537	63.169.427	121.014.446	46.150.267	11.070.371	373.376.254
Total liabilities	40.952.817	146.026.076	55.214.254	46.381.480	31.622.257	11.505.641	41.673.729	373.376.254
Liquidity gap	1.425.594	(83.713.281)	(27.933.717)	16.787.947	89.392.189	34.644.626	(30.603.358)	-
Net Off-Balance Sheet Position	-	(902.831)	277.849	105.446	(359.509)	672.204	-	(206.841)
Derivative Financial Assets	-	48.551.700	19.488.079	30.856.012	67.131.478	35.775.387	-	201.802.656
Derivative Financial Liabilities	-	49.454.531	19.210.230	30.750.566	67.490.987	35.103.183	-	202.009.497
Non-Cash Loans	-	3.400.820	8.544.541	29.612.655	13.710.204	6.209.896	24.307.073	85.785.189

(1) Non-performing loans are presented in the "Unclassified" column after being offset against expected loss provisions.

(2) Shareholders' equity is presented in the "Unclassified" column.

Yapı ve Kredi Bankası A.Ş.**Notes to consolidated financial statements as of December 31, 2019**

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

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	191.729.202	28.743.361	9.809.052	2.306.455	277.572	232.865.642
Borrowings	4.075.472	3.038.931	31.801.366	8.328.092	6.320.440	53.564.301
Funds from money market	5.209.797	321.037	794.202	-	-	6.325.036
Subordinated loans	298.587	208.129	997.530	19.510.304	4.647.788	25.662.338
Marketable securities issued	3.317.098	3.657.316	2.469.354	16.470.672	621.668	26.536.108
Total	204.630.156	35.968.774	45.871.504	46.615.523	11.867.468	344.953.425

Prior Period ⁽¹⁾	Demand and up to 1 month	1-3 months	3-12 months	1-5 years	Above 5 years	Total
Liabilities						
Deposits	161.540.983	37.838.275	11.319.874	2.595.039	195.126	213.489.297
Borrowings	5.082.465	6.125.162	24.127.513	12.611.773	6.752.919	54.699.832
Funds from money market	2.111.549	446.183	1.003.309	-	-	3.561.041
Subordinated loans	-	204.319	622.570	13.598.201	3.189.421	17.614.511
Marketable securities issued	958.512	2.495.592	3.860.371	13.298.497	3.020.060	23.633.032
Total	169.693.509	47.109.531	40.933.637	42.103.510	13.157.526	312.997.713

(1) Maturities of non-cash loans are described in Note 3 of Section V.

8. Explanations on consolidated leverage ratio:

The main reason for the increase in leverage ratio for the current period is the increase in 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⁾	395.781.598	377.436.485
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	1.994.413	2.274.785
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	1.160.136	4.916.012
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	(2.342.551)	(6.370.030)
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	(19.949.270)	(15.747.074)
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	2.242.640	(8.483.428)
7 Total Risks	584.950.872	549.163.000

(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.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

	Current Period ⁽¹⁾	Prior Period ⁽¹⁾	
On-Balance sheet exposures			
1	On-Balance sheet assets (Excluding derivative financial instruments and credit derivatives, including collaterals)	399.276.954	368.518.621
2	(Asset amounts deducted in determining Tier 1 capital)	(3.974.767)	(5.976.314)
3	Total on-Balance sheet exposures	395.302.187	362.542.307
Derivative financial instruments and credit derivatives			
4	Replacement cost of derivative financial instruments and credit derivatives	2.668.361	2.699.516
5	Potential credit risk of derivative financial instruments and credit derivatives	1.160.136	4.916.012
6	Total derivative financial instruments and credit derivatives exposure	3.828.497	7.615.528
Securities financing transaction exposure			
7	Total risk of gross securities financing transactions (excluding on-balance sheet exposure)	448.597	470.170
8	Agent transaction exposures	-	-
9	Total securities financing transaction exposures	448.597	470.170
Off-balance sheet items			
10	Off-balance sheet exposure at gross notional amount	205.320.860	194.282.069
11	(Adjustments for conversion to credit equivalent amounts)	(19.949.270)	(15.747.074)
12	Total risk of off-balance sheet items	185.371.590	178.534.995
Capital and total exposure			
13	Tier 1 capital	44.368.728	34.298.597
14	Total exposures	584.950.872	549.163.000
15	Leverage ratio (%)	7,60	6,26

(1) The arithmetic average of the last 3 months in the related periods.

9. 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.

	Book value	Fair value
	Current period	Current period
Financial assets	357.177.394	373.422.645
Due from money market	10.803.630	10.803.630
Banks	27.211.788	28.003.202
Financial assets at fair value through other comprehensive income	26.900.612	26.900.612
Financial assets measured at amortised cost	29.608.137	28.863.097
Loans	262.653.227	278.852.104
Financial liabilities	348.128.268	350.121.059
Bank deposits	5.057.775	5.059.558
Other deposits	226.013.922	225.912.616
Funds borrowed from other financial institutions	45.373.495	45.144.765
Financial liabilities fair value through profit and loss	13.184.605	13.184.605
Subordinated loans	18.580.039	20.399.518
Marketable securities issued	25.221.191	25.722.756
Miscellaneous payables	14.697.241	14.697.241

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

	Book value	Fair value
	Prior period	Prior period
Financial assets	304.575.677	313.227.842
Due from money market	117.231	117.231
Banks	5.269.563	5.280.916
Financial assets at fair value through other comprehensive income	26.883.680	26.883.680
Financial assets measured at amortised cost	22.805.679	27.598.896
Loans	249.499.524	253.347.119
Financial liabilities	314.990.649	314.740.848
Bank deposits	10.407.301	10.407.301
Other deposits	199.884.172	199.842.689
Funds borrowed from other financial institutions	47.072.002	46.902.531
Financial liabilities fair value through profit and loss	7.965.404	7.965.404
Subordinated loans	13.557.153	13.596.916
Marketable securities issued	21.442.203	21.363.593
Miscellaneous payables	14.662.414	14.662.414

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.

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 where fair value change is reflected to income statement	104.660	269.484	199.053	573.197
Financial assets where fair value change is reflected to other comprehensive income statement	24.760.918	2.126.075	-	26.886.993
Derivative financial assets	-	4.749.581	-	4.749.581
Total assets	24.865.578	7.145.140	199.053	32.209.771
Derivative financial liabilities	-	7.105.282	-	7.105.282
Financial liabilities at fair value through profit or loss	-	13.184.605	-	13.184.605
Total liabilities	-	20.289.887	-	20.289.887

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

Prior Period	Level 1	Level 2	Level 3	Total
Financial assets where fair value change is reflected to income statement	77.634	170.522	-	248.156
Financial assets where fair value change is reflected to other comprehensive income statement	24.958.228	1.914.835	-	26.873.063
Derivative financial assets	-	9.067.984	-	9.067.984
Total assets	25.035.862	11.153.341	-	36.189.203
Derivative financial liabilities	-	7.287.749	-	7.287.749
Financial liabilities at fair value through profit or loss	-	7.965.404	-	7.965.404
Total liabilities	-	15.253.153	-	15.253.153

The Group classify its buildings carried at their fair value within property and equipment under level 3.

10. Explanations on hedge accounting:

The Group applies the following hedge accounting models as of December 31, 2019:

- Fair value Hedge ("FVH")
- Cash Flow Hedge ("CFH")

If the fair value of the hedging instrument within fair value hedge ("FVH") is positive it is classified under, "Derivative financial assets at fair value through profit or loss"; if the fair value is negative, it is classified under "Derivative financial liabilities at fair value through profit or loss".

If the fair value of the hedging instrument under hedge of cash flow hedge ("CFH") is positive, it is classified under "Derivative financial assets at fair value through other comprehensive income" if the fair value is negative, it is classified under "Derivative financial liabilities at fair value through other comprehensive income".

Cross currency interest rate swaps and interest rate swaps are used as hedging instrument in FVH. Interest rate swaps, currency swaps and cross currency swaps are used as hedging instrument in CFH. Contractual amounts and the fair values as at December 31, 2019 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 swaps/ currency swaps/cross currency swaps (CFH)	49.943.888	297.126	2.891.167	46.404.018	3.169.086	611.406
Interest rate swaps/Cross currency interest rate swaps (FVH)	2.049.160	36.266	316.376	2.215.979	80.703	313.994
Total	51.993.048	333.392	3.207.543	48.619.997	3.249.789	925.400

(1) Only the "sell" legs of the related derivatives are presented with the addition of the "buy" legs of these derivatives amounting to TL 51.474.952 (December 31, 2018 - TL 48.640.730) the total notional of derivative financial assets amounting to TL 103.468.000 (December 31, 2018 - TL 97.260.727) 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 detail in the accounting principles section of these financial statements in Section 3. Part 4.

10.1. Fair value hedge accounting:

Starting from March 1, 2009, the Parent Bank has hedged the possible fair value effects of changes in market interest rates on some of its fixed interest loan portfolios and fair value effects of changes in foreign exchange rates on part of its foreign currency funds by using cross-currency interest rate swaps.

Starting from July 28, 2015, the Parent Bank has hedged the possible fair value effects of changes in market interest rates and foreign exchange rates on marketable securities by using interest rates swaps and cross-currency interest rate swaps.

The Bank selected to apply macro FVH accounting for such relationship in accordance with "TAS 39- Financial Instruments: Recognition and Measurement".

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

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	
Interest rate swaps/ Cross currency interest rate swaps	Some of fixed interest loan portfolios, foreign currency funds and marketable securities	Fixed interest and changes in foreign exchange rate risk	24.529	1.690	316.376	(19.636)
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	Some of fixed interest loan portfolios, foreign currency funds and marketable securities	Fixed interest and changes in foreign exchange rate risk	44.165	-	313.994	20.740

(1) The amount refers to the fair value of the hedged item calculated for some of fixed interest loan portfolios 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 5.896 income (December 31 2018- TL 31.652 income).

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- Financial Instruments: Recognition and Measurement" and its own risk management policies and principles. Every individual relationship is approved and documented in the same methodology. In accordance with "TAS 39- Financial Instruments: Recognition and Measurement", 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 and the effectiveness of risk relationships are measured. 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.

10.2. 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, currency 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.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

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/ currency swaps/Cross currency interest rate swaps	Customer deposits, repos and borrowings	Cash flow risk due to the changes in the interest rates	297.126	2.891.167	(1.462.792)	(3.206.096)

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	Customer deposits, repos and borrowings	Cash flow risk due to the changes in the interest rates	3.169.086	611.406	1.743.304	906.613

(1) Includes deferred tax impact.

(2) Includes tax and foreign exchange differences.

(3) The ineffective portion of the mentioned hedging transaction is TL 422.890 income (December 31, 2018 – TL 41.508 income).

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- Financial Instruments: Recognition and Measurement” and its own risk management policies and principles. Every individual relationship is approved and documented in the same way. In accordance with “TAS 39- Financial Instruments: Recognition and Measurement”, 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 and the effectiveness of risk relationships are measured. 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.

10.3. Hedge From Foreign Net Investment Risk:

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, 2019 is EUR 452 million (December 31, 2018 - EUR 430 million).

11. 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.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

12. Explanations on consolidated operating segments:

The Group carries out its banking operations through two main business units:

- Retail Banking
- Corporate and Commercial Banking.

The Parent Bank's Retail Banking activities include card payment systems, individual, individual portfolio, blue class, private banking, ME and SME 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, SME Banking Packages, time and demand deposits, gold banking, investment accounts, life and non-life insurance products and payroll services. In addition, customers who receive their monthly salary/SSI payments through our bank are offered privileges covering various banking transactions. 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 Parent Bank. Through its Blue Class and Private Banking 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, mutual funds, foreign exchange, gold and equity trading. Also, personal art advisory, inheritance advisory, real estate advisory, tax advisory, education and philanthropic advisory are offered within the Private Banking and Wealth Management activities.

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, internet banking, financial advisory and equity management advisory.

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. Treasury, Asset – Liability Management and other operations, mainly consist of treasury management's results, operations of supporting business units and other unallocated transactions.

Yapı ve Kredi Bankası A.Ş.**Notes to consolidated financial statements as of December 31, 2019**

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

Major balance sheet and income statement items based on operating segments:

The below table is prepared in accordance with the Management Information System (MIS) data of the Bank.

	Retail banking	Corporate and commercial banking	Other foreign operations	Other domestic operations	Treasury, Asset- Liability Management and Other	Consolidation adjustments ⁽¹⁾	Total operations of the Group
Current Period							
Operating revenue continuing	9.655.866	9.891.868	396.300	1.129.444	58.571	(13.810)	21.118.239
Operating expenses continuing	(6.669.444)	(5.894.790)	(190.710)	(460.874)	(3.493.375)	13.810	(16.695.383)
Net operating income continuing	2.986.422	3.997.078	205.590	668.570	(3.434.804)	-	4.422.856
Dividend income ⁽²⁾	-	-	-	-	16.972	-	16.972
Income/Loss from Investments accounted based on equity method ⁽²⁾	-	-	-	-	93.952	-	93.952
Profit before tax	2.986.422	3.997.078	205.590	668.570	(3.323.880)	-	4.533.780
Tax expense ⁽²⁾	-	-	-	-	(933.594)	-	(933.594)
Net period income from continuing operations	2.986.422	3.997.078	205.590	668.570	(4.257.474)	-	3.600.186
Minority interest (-)	-	-	-	-	(126)	-	(126)
Group income/loss	2.986.422	3.997.078	205.590	668.570	(4.257.600)	-	3.600.060
Segment assets	82.232.054	130.014.639	13.018.351	18.215.607	167.422.208	(957.164)	409.945.695
Investments in associates, subsidiaries and joint ventures	-	-	-	-	1.249.325	-	1.249.325
Total assets	82.232.054	130.014.639	13.018.351	18.215.607	168.671.533	(957.164)	411.195.020
Segment liabilities	154.441.907	69.577.123	9.688.309	14.964.122	122.289.143	(957.164)	370.003.440
Shareholders' equity	-	-	-	-	41.191.580	-	41.191.580
Total liabilities	154.441.907	69.577.123	9.688.309	14.964.122	163.480.723	(957.164)	411.195.020
Prior Period							
Operating revenue continuing	8.141.407	6.573.989	385.713	1.008.084	3.806.771	(9.206)	19.906.758
Operating expenses continuing	(5.278.402)	(5.225.362)	(157.034)	(392.913)	(2.944.742)	9.206	(13.989.247)
Net operating income continuing	2.863.005	1.348.627	228.679	615.171	862.029	-	5.917.511
Dividend income ⁽²⁾	-	-	-	-	14.567	-	14.567
Income/Loss from Investments accounted based on equity method ⁽²⁾	-	-	-	-	115.817	-	115.817
Profit before tax	2.863.005	1.348.627	228.679	615.171	992.413	-	6.047.895
Tax expense ⁽²⁾	-	-	-	-	(1.380.357)	-	(1.380.357)
Net period income from continuing operations	2.863.005	1.348.627	228.679	615.171	(387.944)	-	4.667.538
Minority interest (-)	-	-	-	-	(112)	-	(112)
Group income/loss	2.863.005	1.348.627	228.679	615.171	(388.056)	-	4.667.426
Segment assets	80.911.357	125.801.320	14.332.022	19.849.689	134.540.954	(3.140.521)	372.294.821
Investments in associates, subsidiaries and joint ventures	-	-	-	-	1.081.433	-	1.081.433
Total assets	80.911.357	125.801.320	14.332.022	19.849.689	135.622.387	(3.140.521)	373.376.254
Segment liabilities	172.116.780	76.729.909	11.470.565	16.998.446	60.193.797	(3.140.521)	334.368.976
Shareholders' equity	-	-	-	-	39.007.278	-	39.007.278
Total liabilities	172.116.780	76.729.909	11.470.565	16.998.446	99.201.075	(3.140.521)	373.376.254

(1) Consolidation adjustments include transactions with subsidiaries and investments consolidated in these financial statements.

(2) Related items expenses have not been distributed based on operating segments and have been presented under "Treasury, Asset-Liability Management and Other".

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

Section five - Explanations and notes related to consolidated financial statements

1. Explanations and notes related to consolidated assets:

1.1. Information related to cash and the account of the Central Bank:

1.1.1. 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	1.489.030	3.103.669	1.443.460	3.443.030
The CBRT ⁽¹⁾	999.602	35.841.927	15.313.011	35.417.868
Other	-	2.051.702	-	1.213.939
Total	2.488.632	40.997.298	16.756.471	40.074.837

(1) The balance of gold amounting to TL 2.092.586 is accounted for under the Central Bank foreign currency account (December 31, 2018 – TL 4.233.215).

1.1.2. Information on the account of the CBRT:

	Current Period		Prior Period	
	TL	FC	TL	FC
Demand unrestricted amount ⁽¹⁾	999.602	21.554.089	8.416.404	21.436.238
Time unrestricted amount	-	-	6.896.607	-
Time restricted amount	-	-	-	-
Reserve requirement ⁽²⁾	-	14.287.838	-	13.981.630
Total	999.602	35.841.927	15.313.011	35.417.868

(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 Group 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".

1.2. 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 and there is no financial assets at fair value through profit and loss given as collateral/blocked (December 31, 2018 - None).

1.3. Information on derivative financial assets:

1.3.1 Positive differences related to derivative financial assets held for trading:

	Current Period		Prior Period	
	TL	FC	TL	FC
Forward transactions	443.084	80	940.093	133
Swap transactions	2.844.864	1.072.784	3.909.672	664.415
Futures transactions	563	-	-	-
Options	37.260	17.547	256.107	47.662
Other	-	7	72	41
Total	3.325.771	1.090.418	5.105.944	712.251

1.3.2 Positive differences related to derivative financial assets held for hedging:

	Current Period		Prior Period	
	TL	FC	TL	FC
Fair value hedges ⁽¹⁾	1.690	34.576	-	80.703
Cash flow hedges ⁽¹⁾	254.687	42.439	2.869.353	299.733
Hedges for investments made in foreign countries	-	-	-	-
Total	256.377	77.015	2.869.353	380.436

(1) Explained in Note 10 of section 4.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

1.4. Information on banks:

1.4.1. Information on banks:

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks				
Domestic	3.862.175	3.390.558	231.581	1.877.059
Foreign ⁽¹⁾	264	19.958.791	6.017	3.154.983
Headquarters and branches abroad	-	-	-	-
Total	3.862.439	23.349.349	237.598	5.032.042

(1) The balance of foreign currency account in foreign banks includes the balance of gold amounting to TL 12.157 (December 31, 2018 –TL 15.594).

1.4.2. Information on foreign banks account:

	Unrestricted amount		Restricted amount	
	Current Period	Prior Period	Current Period	Prior Period
EU countries	5.439.439	1.296.679	51.215	329.230
USA, Canada	12.547.270	1.176.416	365.275	242.192
OECD countries ⁽¹⁾	1.395.498	19.495	-	-
Off-shore banking regions	497	196	-	-
Other	98.415	18.529	61.446	78.186
Total	19.481.119	2.511.315	477.936	649.608

(1) OECD countries except EU countries, USA and Canada.

1.4.3 Information on money markets receivables:

As of December 31, 2019 a total of TL 10.803.630 reverse repo transactions with domestic banks are included in the money market receivables (31 December 2018 – TL 262).

1.5. Information on financial assets at fair value through other comprehensive income which are subject to repurchase agreements and given as collateral / blocked:

As of December 31, 2019 financial assets at fair value through other comprehensive income given as collateral/blocked amount to TL 1.540.466 (December 31, 2018 -TL 1.292.400) and subject to repo transactions amounts to TL 3.069.033 (December 31, 2018 -TL 959.438).

1.6. Information on financial assets at fair value through other comprehensive income:

	Current Period	Prior Period
Debt securities	26.962.313	27.926.090
Quoted on stock exchange ⁽¹⁾	26.665.302	27.662.947
Not quoted	297.011	263.143
Share certificates	125.783	112.232
Quoted on stock exchange	237	213
Not quoted	125.546	112.019
Impairment provision (-) ⁽²⁾	187.484	1.154.642
Total	26.900.612	26.883.680

(1) As of January 1, 2018, the Group has changed its business model for some government debt securities with the adoption of TFRS 9. As a result government bonds with an amount of TL 1.998.350 has been classified from financial assets at fair value through other comprehensive income to financial assets measured at amortised cost.

(2) Includes the negative differences between the acquisition cost and the market price, related to the securities portfolio.

1.7. Explanations on loans:

1.7.1 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	35.013	1.199.169	90.240	1.351.956
Loans granted to employees	220.797	561	172.230	510
Total	255.810	1.199.730	262.470	1.352.466

Yapı ve Kredi Bankası A.Ş.**Notes to consolidated financial statements as of December 31, 2019**

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

1.7.2 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	Loans under close monitoring			
		Not under the scope of restructuring	Loans under restructuring		
			Modifications on agreement conditions	Refinancing	
Non-specialized loans	192.660.808	15.150.983	2.277.163	19.284.094	
Loans given to enterprises	84.855.318	12.010.740	2.009.380	10.226.781	
Export loans	14.998.335	501.480	133.662	5.485.804	
Import loans	-	-	-	-	
Loans given to financial sector	5.196.522	-	-	-	
Consumer loans	34.753.239	945.777	531	1.307.886	
Credit cards	27.797.548	720.602	-	678.254	
Other ⁽¹⁾	25.059.846	972.384	133.590	1.585.369	
Specialized loans	-	-	-	-	
Other receivables	12.842.169	1.074.901	772	-	
Total	205.502.977	16.225.884	2.277.935	19.284.094	

(1) Fair value differences of the hedged items amounting to TL 5.101 are classified in other loans as explained in Note 10, Section 4.

	Standard loans	Loans under close monitoring
12-month provisions for possible losses	1.153.565	-
Significant increase in credit risk	-	4.919.579
Total	1.153.565	4.919.579

1.7.3. Loans according to their maturity structure:

	Standard loans	Loans under close monitoring	
		Not under the scope of restructuring	Agreement conditions modified
Short-term loans	72.442.549	3.461.999	731.943
Medium and long-term loans	133.060.428	12.763.885	20.830.086
Total	205.502.977	16.225.884	21.562.029

1.7.4. Information on loans by types and specific provisions**1.7.4.1 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	130.110.021	34.753.239	27.797.548	9.113.207	3.728.962	205.502.977
Watch list	33.059.190	2.254.194	1.398.856	799.235	276.438	37.787.913
Loans under legal follow-up	15.876.347	1.548.208	1.251.995	583.330	102.457	19.362.337
Specific provisions (-)	9.342.081	1.167.057	1.063.002	446.891	80.442	12.099.473
Total	169.703.477	37.388.584	29.385.397	10.048.881	4.027.415	250.553.754

Prior Period	Corporate, commercial and other loans	Consumer loans	Credit cards	Financial Leasing	Factoring	Total
Standard loans	130.775.909	30.676.654	26.336.206	11.586.324	3.198.087	202.573.180
Watch list	29.135.149	1.946.463	1.678.442	645.155	220.773	33.625.982
Loans under legal follow-up	10.071.226	1.358.436	1.156.509	543.984	170.207	13.300.362
Specific provisions (-)	7.512.095	884.225	598.582	433.729	143.522	9.572.153
Total	162.470.189	33.097.328	28.572.575	12.341.734	3.445.545	239.927.371

Yapı ve Kredi Bankası A.Ş.**Notes to consolidated financial statements as of December 31, 2019**

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

1.7.4.2 Specific provisions on loans:

Current Period	Corporate, commercial and other loans	Consumer loans	Credit cards	Financial leasing receivables	Factoring receivables	Total
Opening balance	7.512.095	884.225	598.582	433.729	143.522	9.572.153
Allowance for impairment	5.397.419	1.014.561	1.012.982	102.370	10.903	7.538.235
Amount recovered during the period(-)	923.136	343.990	187.648	10.407	104	1.465.285
Loans written off during the period as uncollectible (-)	2.664.563	395.477	362.578	78.801	73.879	3.575.298
Exchange difference	13.652	14.146	1.870	-	-	29.668
December 31	9.335.467	1.173.465	1.063.208	446.891	80.442	12.099.473

Prior Period	Corporate, commercial and other loans	Consumer loans	Credit cards	Financial leasing receivables	Factoring receivables	Total
31.12.2017 Close out balance	4.371.011	1.470.045	1.197.808	217.713	102.546	7.359.123
TFRS 9 Remeasurement	817.283	74.606	24.086	116.910	1.406	1.034.291
Opening balance	5.188.294	1.544.651	1.221.894	334.623	103.952	8.393.414
Allowance for impairment	4.827.156	1.054.740	515.075	99.106	45.202	6.541.279
Amount recovered during the period(-)	1.522.233	817.874	536.796	-	5.120	2.882.023
Loans written off during the period as uncollectible (-)	999.858	911.908	604.210	-	512	2.516.488
Exchange difference	18.736	14.616	2.619	-	-	35.971
December 31	7.512.095	884.225	598.582	433.729	143.522	9.572.153

1.7.4.3. Fair value of collaterals:

Current Period	Corporate, commercial and other loans	Consumer loans	Credit cards	Financial Leasing	Factoring	Total
Watch List	16.868.020	423.481	-	799.235	-	18.090.736
Loans under legal follow-up	5.622.970	166.405	-	583.330	-	6.372.705
Total	22.490.990	589.886	-	1.382.565	-	24.463.441

Prior Period	Corporate, commercial and other loans	Consumer loans	Credit cards	Financial Leasing	Factoring	Total
Watch List	18.506.067	311.152	-	285.410	-	19.102.629
Loans under legal follow-up	4.074.692	138.469	-	498.385	-	4.711.546
Total	22.580.759	449.621	-	783.795	-	23.814.175

Yapı ve Kredi Bankası A.Ş.**Notes to consolidated financial statements as of December 31, 2019**

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

1.7.5. Information on consumer loans, individual credit cards, personnel loans and personnel credit cards:

	Short- term	Medium and long-term	Total
Consumer loans-TL	747.158	34.076.431	34.823.589
Real estate loans	6.250	10.462.445	10.468.695
Automotive loans	22.324	599.614	621.938
Consumer loans	718.584	23.014.372	23.732.956
Other	-	-	-
Consumer loans-FC indexed	-	16.389	16.389
Real estate loans	-	16.389	16.389
Automotive loans	-	-	-
Consumer loans	-	-	-
Other	-	-	-
Consumer loans-FC	13.288	83.033	96.321
Real estate loans	321	26.766	27.087
Automotive loans	171	241	412
Consumer loans	11.108	49.768	60.876
Other	1.688	6.258	7.946
Individual credit cards-TL	20.136.709	648.539	20.785.248
With installments	10.205.703	180.583	10.386.286
Without installments	9.931.006	467.956	10.398.962
Individual credit cards-FC	72.470	23.216	95.686
With installments	44.069	23.216	67.285
Without installments	28.401	-	28.401
Personnel loans-TL	13.803	80.254	94.057
Real estate loans	-	1.781	1.781
Automotive loans	90	201	291
Consumer loans	13.713	78.272	91.985
Other	-	-	-
Personnel loans-FC indexed	-	-	-
Real estate loans	-	-	-
Automotive loans	-	-	-
Consumer loans	-	-	-
Other	-	-	-
Personnel loans-FC	115	1.233	1.348
Real estate loans	-	-	-
Automotive loans	-	-	-
Consumer loans	115	1.233	1.348
Other	-	-	-
Personnel credit cards-TL	120.400	352	120.752
With installments	55.194	250	55.444
Without installments	65.206	102	65.308
Personnel credit cards-FC	860	206	1.066
With installments	346	206	552
Without installments	514	-	514
Credit deposit account-TL (Real Person)⁽¹⁾	1.975.727	-	1.975.727
Credit deposit account-FC (Real Person)	2	-	2
Total	23.080.532	34.929.653	58.010.185

(1) TL 3.574 of the credit deposit account belongs to the loans used by personnel.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

1.7.6. Information on commercial installment loans and corporate credit cards:

	Short- term	Medium and long-term	Total
Commercial installments loans-TL	609.710	17.381.837	17.991.547
Business loans	473	1.153.478	1.153.951
Automotive loans	49.115	705.539	754.654
Consumer loans	560.122	15.522.820	16.082.942
Commercial installments loans-FC indexed	-	47.147	47.147
Business loans	-	3.657	3.657
Automotive loans	-	11.461	11.461
Consumer loans	-	32.029	32.029
Corporate credit cards-TL	8.126.301	66.014	8.192.315
With installment	5.454.526	53.099	5.507.625
Without installment	2.671.775	12.915	2.684.690
Corporate credit cards-FC	1.337	-	1.337
With installment	-	-	-
Without installment	1.337	-	1.337
Credit deposit account-TL (legal person)	984.007	-	984.007
Total	9.721.355	17.494.998	27.216.353

1.7.7. Distribution of domestic and foreign loans:

Distribution has been disclosed based on the location where the customers operate:

	Current Period	Prior Period
Public	2.891.413	1.959.146
Private	240.399.477	234.240.016
Total	243.290.890	236.199.162

1.7.8. Distribution of domestic and foreign loans:

Distribution has been disclosed based on the location where the customers operate:

	Current Period	Prior Period
Domestic loans	236.169.712	228.447.608
Foreign loans	7.121.178	7.751.554
Total	243.290.890	236.199.162

1.7.9. Loans granted to associates and subsidiaries:

	Current Period	Prior Period
Direct loans granted to associates and subsidiaries	4.654	8.537
Indirect loans granted to associates and subsidiaries	-	-
Total	4.654	8.537

1.7.10. Information on credit-impaired (Stage 3):

	Current Period	Prior Period
Loans and other receivables with limited collectability	1.896.265	1.210.885
Loans and other receivables with doubtful collectability	1.999.521	1.703.093
Uncollectible loans and other receivables	8.203.687	6.658.175
Total	12.099.473	9.572.153

Yapı ve Kredi Bankası A.Ş.**Notes to consolidated financial statements as of December 31, 2019**

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

1.7.11. Information on non-performing loans (net):**1.7.11.1 Information on non-performing loans restructured or rescheduled, and other receivables:**

	III. Group	IV. Group	V. Group
	Loans with limited collectability	Loans with doubtful collectability	Uncollectible loans
Current Period			
(Gross amounts before specific reserves)	187.399	238.221	930.876
Restructured loans	187.399	238.221	930.876
Prior Period			
(Gross amounts before specific reserves)	57.548	109.283	324.606
Restructured loans	57.548	109.283	324.606

1.7.11.2. Information on the movement of total non-performing loans:

	III. Group	IV. Group	V. Group
	Loans with limited collectability	Loans with doubtful collectability	Uncollectible loans
Prior Period⁽¹⁾	2.920.768	2.701.936	7.677.658
Additions (+)	8.961.067	1.082.259	1.520.485
Transfers from other categories of non-performing loans (+)	-	7.808.234	7.183.783
Transfer to other categories of non-performing loans (-)	7.808.234	7.183.783	-
Collections (-)	440.572	637.077	893.654
FX valuation differences	99	462	44.204
Write-offs (-) ⁽²⁾	-	-	853.886
Sold (-)	-	-	2.721.412
Corporate and commercial loans	-	-	1.898.751
Consumer loans	-	-	386.955
Credit cards	-	-	361.827
Other	-	-	73.879
Current Period	3.633.128	3.772.031	11.957.178
Provision (-)	1.896.265	1.999.521	8.203.687
Net balance on balance sheet	1.736.863	1.772.510	3.753.491

As of December 31, 2019, in accordance with the changes on "Provisioning Regulation" published in the Official Gazette No. 30961 dated November 27, 2019 by the BRSA, the Group has written off corporate and commercial loans amounting to TL817.316 that are classified under Group 5, more than 540 days overdue and after collaterals deducted 100% provisioned hence there is no reasonable expectation of recovery. After the loans had written off within the period in accordance with the changes on Provisioning Regulation, non performing loan ratio decreased from 7,66% to 7,37%.

Non-performing loans which comprises of consumer loans, commercial loans and credit cards under follow-up with amounting to TL 2.568.732 have been sold to a selection of asset management companies for a total amount of TL 91.926.

1.7.11.3. Information on non-performing loans granted as foreign currency loans:

	III. Group	IV. Group	V. Group
	Loans with limited collectability	Loans with doubtful collectability	Uncollectible loans
Current Period			
Period end balance	2.052.238	1.878.526	4.470.186
Provision amount(-)	1.061.495	760.092	2.425.448
Net balance on-balance sheet	990.743	1.118.434	2.044.738
Prior Period			
Period end balance	1.305.753	1.360.289	1.050.266
Provision amount(-)	426.159	842.942	947.762
Net balance on-balance sheet	879.594	517.347	102.504

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

1.7.11.4. Information on the gross and net amounts of the non-performing loans according to types of borrowers:

	III. Group	IV. Group	V. Group
	Loans with limited collectability	Loans with doubtful collectability	Uncollectible loans
Current Period (net)	1.736.863	1.772.510	3.753.491
Loans granted to real persons and corporate entities (gross)	3.633.128	3.772.031	11.844.095
Provision amount (-)	1.896.265	1.999.521	8.090.604
Loans granted to real persons and corporate entities (net)	1.736.863	1.772.510	3.753.491
Banks (gross)	-	-	29.183
Provision amount (-)	-	-	29.183
Banks (net)	-	-	-
Other loans (gross)	-	-	83.900
Provision amount (-)	-	-	83.900
Other loans (Net)	-	-	-
Prior Period (net)	1.709.883	998.843	1.019.483
Loans granted to real persons and corporate entities (gross)	2.920.768	2.701.936	7.564.487
Provision amount (-)	1.210.885	1.703.093	6.545.004
Loans granted to real persons and corporate entities (Net)	1.709.883	998.843	1.019.483
Banks (gross)	-	-	29.183
Provision amount (-)	-	-	29.183
Banks (net)	-	-	-
Other loans and receivables (gross)	-	-	83.988
Provision amount (-)	-	-	83.988
Other loans and receivables (Net)	-	-	-

1.7.11.5. Information on interest accruals, rediscounts and valuation differences calculated for non-performing loans and their provisions:

	III. Group	IV. Group	V. Group
	Loans with limited collectability	Loans with doubtful collectability	Uncollectible loans
Current Period (net)	77.251	72.178	133.953
Interest accruals and rediscounts and valuation differences	266.994	245.097	689.893
Provision amount (-)	189.743	172.919	555.940
Prior Period (net)	63.343	54.249	9.997
Interest accruals and rediscounts and valuation differences	226.817	261.143	92.601
Provision amount (-)	163.474	206.894	82.604

1.7.12. Explanation on liquidation policy for uncollectible loans and receivables:

Uncollectible loans and receivables, which are classified in accordance with the Provisioning Regulation, are collected as “loans and other receivables with limited collectability” and “loans and other receivables with doubtful collectability” by restructuring and/or voluntary payments and liquidation of collaterals through legal follow-up.

1.7.13. Explanation on “Write-off” policies:

In order to ensure the liquidation of non-performing loans and other receivables related to the liquidation policy, to provide the maximum collection all possible alternatives within the framework of the legislation are applied, and in case of collection, liquidation or receivables with no possibility of restructuring, the legal follow-up and conversion of collaterals into cash method is applied.

The receivables that are determined to be uncollectible in the Legal Follow-up process regarding the write-off policy can be deleted by the resolution of the Board of Directors by fulfilling the requirements in the relevant laws, regulations and internal directives.

Besides, in accordance with the changes on “Provisioning Regulation” published in the Official Gazette No. 30961 dated November 27, 2019 by BRSA, the Parent Bank, in line with TFRS 9, may write off part of the loans for which the Parent Bank has no reasonable expectation of recovery and that are classified under group 5 with a life time expected credit loss due to the default of debtor, starting from the following reporting date that the loan is classified in group 5. Write off is only an accounting application in accordance with the related change in the regulation and it does not result in waive from the Parent Bank’s right to receive.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

1.8. Information on financial assets at amortized cost:

1.8.1. Information on Financial assets measured at amortised cost which are subject to repurchase agreements and given as collateral / blocked:

As of December 31, 2019 financial assets measured at amortised cost given as collateral/blocked amounts to TL 14.201.277 (December 31, 2018: TL 9.738.610) and subject to repo transactions amounts to TL 1.163.698 (December 31, 2018: TL 862.058)

1.8.2. Information on public sector debt securities measured at amortized cost:

	Current Period	Prior Period
Government bond	28.391.511	22.044.650
Treasury bill	-	-
Other debt securities	1.216.626	761.029
Total	29.608.137	22.805.679

1.8.3. Information on financial assets measured at amortized cost:

	Current Period	Prior Period
Debt securities	30.482.598	23.446.720
Quoted on stock exchange	30.482.598	23.446.720
Not quoted	-	-
Impairment provision (-) ⁽¹⁾	874.461	641.041
Total	29.608.137	22.805.679

(1) Includes amortization of the premiums paid during the purchase of the securities throughout the maturity of the securities.

1.8.4. Movement of financial assets measured at amortized cost within the period:

	Current Period	Prior Period
Beginning balance	22.805.679	14.197.066
Foreign currency differences on monetary assets ⁽¹⁾	2.184.664	4.794.227
Purchases during year	5.269.230	4.065.376
Transfers ⁽²⁾	-	1.998.350
Disposals through sales and redemptions	418.016	1.985.886
Impairment provision (-) ⁽³⁾	233.420	263.454
Period end balance	29.608.137	22.805.679

(1) Also includes the changes in the interest income accruals.

(2) As of January 1, 2018, the Group has changed its business model for some government debt securities with the adoption of TFRS 9. As a result government bonds with an amount of TL 1.998.350 has been classified from "Financial assets at fair value through other comprehensive income" to "Financial assets measured at amortised cost" in prior period.

(3) Includes amortization of the premiums paid during the purchase of the securities throughout the maturity of the securities.

1.9. Information on investments in associates (net):

1.9.1. 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/Türkiye	18,18	18,18
2	Bankalararası Kart Merkezi A.Ş. ⁽¹⁾	Istanbul/Türkiye	9,98	9,98

1.9.2. 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	Market Value
1	348.965	224.008	234.334	8.774	-	26.579	34.818	-
2	147.868	93.468	65.949	3.852	-	28.503	15.603	-

(1) Financial statement information disclosed above shows September 30, 2019 results.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

1.9.3. Consolidated investments in associates:

1.9.4. 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.	İstanbul/Türkiye	-	20,00

(1) The other shareholders represent the consolidated Group companies.

1.9.5. 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	20.073.873	3.266.221	23.116	482.897	59.079	180.015	153.142	-
2	2.158.616	840.213	121.172	236.341	-	354.675	270.477	-

1.9.6. Movement of consolidated investments in associates:

	Current Period	Prior Period
Balance at the beginning of the period	1.046.867	772.025
Movements during the period	166.742	274.842
Purchases	-	-
Bonus shares obtained	-	-
Share of current year income	92.802	113.038
Sales	-	-
Foreign exchange gain/(loss) stems from the foreign subsidiaries ⁽¹⁾	119.481	201.522
Impairment provision (-) ⁽²⁾	45.541	39.718
Balance at the end of the period	1.213.609	1.046.867
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

1.9.7. Information on sectors and the carrying amounts of consolidated investments in associates:

	Current Period	Prior Period
Banks	902.257	784.140
Insurance companies	311.352	262.727
Total financial investments	1.213.609	1.046.867

1.9.8. Investments in associates quoted on stock exchange:

None. (December 31, 2018-None)

1.10. Information on 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.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

1.10.1. 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.O.	Yapı Kredi Portföy Yönetimi A.Ş.	Yapı Kredi Nederland N.V.
Core capital					
Paid in Capital	98.918	60.714	389.928	7.642	112.442
Inflation adjustment to share capital	-	-	-	-	-
Share premium	-	-	-	-	-
Other Capital Reserves	95.737	-	(217.104)	-	-
Other comprehensive income that will not be classified under profit or loss	52.830	(1.717)	2.154	(1.066)	-
Other comprehensive income that will be classified under profit or loss	25	-	-	-	1.547.201
Legal Reserves	62.493	8.034	79.305	27.469	-
Extraordinary Reserves	166.189	137.940	659.399	-	789.856
Other Profit Reserves	-	-	-	-	-
Income or Loss	42.799	212.279	1.637.702	46.972	133.933
Current Year Income/Loss	112.745	110.521	361.715	46.972	133.933
Prior Years' Income/Loss	(69.946)	101.758	1.275.987	-	-
Leasehold improvements (-)	180	214	-	227	253
Intangible assets (-)	28.974	3.585	11.545	526	3.272
Total core capital	489.837	413.451	2.539.839	80.264	2.579.907
Supplementary capital	25.701	43	1.322	-	9.720
Capital	515.538	413.494	2.541.161	80.264	2.589.627
Deductions from the capital	-	-	-	-	-
Total shareholders' equity	515.538	413.494	2.541.161	80.264	2.589.627

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, 2019.

The internal capital adequacy for the subsidiaries is calculated with the model and approaches used in the Parent Bank within the scope of the consolidated ICAAP report.

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 as of December 31, 2019**

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

1.10.2. Unconsolidated subsidiaries:**1.10.2.1. 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.	İstanbul/Türkiye	99,99	100,00
2 Enternasyonal Turizm Yatırım A.Ş.	İstanbul/Türkiye	99,96	99,99
3 Yapı Kredi Teknoloji A.Ş.	İstanbul/Türkiye	100,00	100,00

1.10.2.2. 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	48.611	33.427	1.645	1	-	6.326	2.013	-
2	56.327	43.485	4.795	5.322	-	12.156	3.888	-
3	16.229	11.961	908	1.464	-	3.796	4.267	-

1.10.3. Consolidated subsidiaries:**1.10.3.1. 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/Nederlands	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 Leasing	Istanbul/Turkey	99,99	99,99
5 Yapı Kredi Portföy	Istanbul/Turkey	12,65	99,99
6 Yapı Kredi NV ⁽¹⁾	Amsterdam/Nederlands	67,24	100,00
7 Yapı Kredi Azerbaycan	Bakü/Azerbaijan	99,80	100,00
8 Yapı Kredi Malta	St.Julian/Malta	-	100,00

(1) Includes the balances for Sticing Custody Services YKB.

Although Yapı Kredi Diversified Payment Rights Finance Company ("Special Purpose Entity") which is established for securitisation transactions of Yapı Kredi is not a subsidiary, it is included in the consolidation.

1.10.3.2. Main financial figures of the consolidated subsidiaries in the order of the below 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	Required equity
1	234.411	234.079	-	-	-	(134)	153	-	-
2	4.253.032	518.991	52.149	181.010	24.137	112.745	100.252	-	-
3	3.400.019	417.250	8.277	418.982	-	110.521	98.223	-	-
4	10.783.161	2.551.384	15.379	938.957	-	361.715	331.168	-	-
5	96.621	81.017	913	12.481	-	46.972	36.014	-	-
6	10.745.614	2.583.432	11.692	570.690	19.381	133.933	155.325	-	-
7	1.561.521	322.354	64.587	79.200	8.784	19.056	11.936	-	-
8	697.255	410.628	299	25.735	825	3.995	4.202	-	-

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

1.10.4. Movement schedule of consolidated subsidiaries:

	Current Period	Prior Period
Balance at the beginning of the period	5.971.254	4.800.064
Movements during the period	917.699	1.171.190
Purchases	-	-
Free shares obtained profit from current years share	335	-
Share of current year income	760.710	707.668
Sales(-)	-	-
Revaluation (decrease) / increase ⁽¹⁾	324.148	511.903
Impairment provision (-) ⁽²⁾	167.494	48.381
Balance at the end of the period	6.888.953	5.971.254
Capital commitments	-	-
Shareholding percentage at the end of the period (%)	-	-

(1) Includes the differences in the other comprehensive income of consolidated subsidiaries. Prior periods includes the first time application impact of TFRS 9 for associates and joint ventures accounted using equity method amounting to net TL 181.350 expense.

(2) Includes dividend income received in the current period.

1.10.5. Sectoral information on financial subsidiaries and the related carrying amounts:

Financial Subsidiaries	Current Period	Prior Period
Banks	2.058.889	1.755.210
Insurance companies	-	-
Factoring companies	417.051	306.915
Leasing companies	2.551.230	2.185.240
Finance companies	-	-
Other financial subsidiaries	1.861.783	1.723.889
Total financial subsidiaries	6.888.953	5.971.254

1.10.6. Subsidiaries quoted on stock exchange:

None. (December 31, 2018-None)

1.11. Information on joint ventures (net):

1.11.1. Unconsolidated joint ventures:

None.

1.11.2. Consolidated joint ventures:

1.11.2.1. Information on consolidated Joint Ventures:

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	97.470	82.317	36.962	60.508	8.393	55.780	51.626
Total			97.470	82.317	36.962	60.508	8.393	55.780	51.626

Yapı ve Kredi Bankası A.Ş.**Notes to consolidated financial statements as of December 31, 2019**

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

1.12. Information on lease receivables (net):**1.12.1. Breakdown according to maturities:**

	Current Period		Prior Period	
	Gross	Net	Gross	Net
Less than 1 year	4.446.913	3.762.575	5.516.800	4.568.759
Between 1- 4 years	5.899.442	4.950.006	7.588.989	6.578.470
More than 4 years	1.950.347	1.783.191	1.803.181	1.628.234
Total	12.296.702	10.495.772	14.908.970	12.775.463

1.12.2. Information for net investments in finance leases:

	Current Period		Prior Period	
	TL	FC	TL	FC
Gross lease receivables	3.117.745	9.178.957	3.403.167	11.505.586
Unearned financial income from leases (-)	630.276	1.170.654	703.195	1.430.095
Amount of cancelled leases (-)	-	-	-	-
Total	2.487.469	8.008.303	2.699.972	10.075.491

1.13. Information on on tangible assets:

	Immovable	Leased fixed assets	Vehicles	Right-of-use assets ⁽¹⁾	Other tangible fixed assets	Total
Prior Period						
Cost	3.556.036	263.572	2.980	-	1.470.997	5.293.585
Accumulated depreciation (-)	921.521	254.624	2.698	-	802.567	1.981.410
Net book value	2.634.515	8.948	282	-	668.430	3.312.175
Current Period						
Net book value at beginning of the period	2.634.515	8.948	282	-	668.430	3.312.175
Opening balance (IFRS16)	-	-	-	846.301	-	846.301
Additions	13.812	-	-	496.805	313.143	823.760
Disposals (-), net	6.516	22	-	132.823	2.075	141.436
Reversal of impairment, net	-	-	-	-	119	119
Impairment (-)	-	-	-	-	-	-
Depreciation (-)	26.465	2.813	138	283.931	171.100	484.447
Foreign exchange differences, net	-	846	5	-	1.576	2.427
Net book value at end of the period	2.615.346	6.959	149	926.352	810.093	4.358.899
Cost at the end of the period	3.535.914	239.385	3.024	1.158.073	1.686.364	6.622.760
Accumulated depreciation at the period end (-)	920.568	232.426	2.875	231.721	876.271	2.263.861
Net book value	2.615.346	6.959	149	926.352	810.093	4.358.899

(1) Includes branch and atm leases accounted within the scope of TFRS 16.

As of December 31, 2019, the Parent Bank had total provision for impairment amounting to TL 207.255 (December 31, 2018 – TL 207.255) for the property and equipment.

1.14. Information on investment property:

	Current Period	Previous Period
Net book value at the beginning of the period	1.817.112	1.682.226
Additions	258.471	244.086
Disposals (-), net	7	-
Transfer	38	-
Impairment provision reversal	-	-
Depreciation (-)	157.994	116.088
Translation differences	3.204	6.888
Net book value at the end of the period	1.920.824	1.817.112

1.15. Information on investment property:

None. (December 31, 2018 - None).

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

1.16. Information on deferred tax asset

	Current Period		Prior Period	
	Tax base	Deferred tax	Tax base	Deferred tax
Expected Credit Losses	6.668.891	1.469.385	5.530.794	1.217.225
Derivative financial liabilities	2.053.919	445.784	-	-
Pension fund provision	1.178.063	259.174	921.350	202.697
Temporary differences	781.092	171.792	682.268	150.055
Valuation difference of securities portfolio	205.288	45.163	2.224.089	489.300
Subsidiaries, investment in associates and share certificates	132.758	29.207	122.186	26.881
Other	2.249.793	493.107	1.335.838	292.680
Total deferred tax asset	13.269.804	2.913.612	10.816.525	2.378.838
Property, equipment and intangibles, net	(2.788.950)	(365.447)	(2.443.778)	(293.216)
Valuation difference of securities portfolio	(775.826)	(170.683)	(3.687.572)	(811.266)
Derivative financial assets	-	-	(1.780.235)	(378.426)
Other	(1.181.203)	(256.483)	(790.848)	(193.705)
Total deferred tax liability	(4.745.979)	(792.613)	(8.702.433)	(1.676.613)
Deferred tax asset / (liability), net	8.523.825	2.120.999	2.114.092	702.225

There is a deferred tax asset amounting to TL 2.129.358 and deferred tax liability amounting to TL 8.359 as of December 31, 2019 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, 2018 – TL 712.891 deferred tax asset and TL 10.666 deferred tax liability).

1.17. 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	298.470	209.854
Additions	216.814	159.194
Disposals (-), net	186.156	73.067
Impairment provision reversal	1.087	1.450
Impairment provision (-)	-	309
Translation differences	1.120	1.348
Net book value at the end of the period	331.335	298.470
Cost at the end of the period	338.195	307.586
Accumulated depreciation at the end of the period (-)	6.860	9.116
Net book value at the end of the period	331.335	298.470

As of December 31, 2019, the Group booked impairment provision on assets held for resale with an amount of TL 3.602 (December 31, 2018 - TL 4.689)

1.18. Information on other assets:

As of December 31, 2019, other assets do not exceed 10% of the total assets

Yapı ve Kredi Bankası A.Ş.**Notes to consolidated financial statements as of December 31, 2019**

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

2. Explanations and notes related to consolidated liabilities:**2.1. Information on deposits:****2.1.1. Information on maturity structure of deposits/collected funds:**

Current Period	Demand	Up to 1 month	1-3 Month	3-6 Month	6 Month- 1 Year	1 Year and over	Cumulative savings account	Total
Saving deposits	10.548.305	18.808.962	31.453.611	1.075.550	812.427	690.717	1.110	63.390.682
Foreign currency deposits	28.723.896	13.162.882	65.273.909	3.363.494	4.405.123	8.033.848	-	122.963.152
Residents in Turkey	25.828.742	12.451.792	63.502.841	3.032.618	2.310.420	1.447.231	-	108.573.644
Residents abroad	2.895.154	711.090	1.771.068	330.876	2.094.703	6.586.617	-	14.389.508
Public sector deposits	1.293.752	3.080	8.286	878	98	45	-	1.306.139
Commercial deposits	8.682.060	10.987.400	12.238.066	329.005	584.804	92.787	-	32.914.122
Other institutions deposits	156.583	198.278	651.990	402.394	428.821	49.131	-	1.887.197
Precious metals vault	2.362.411	206.884	571.548	95.928	250.328	65.531	-	3.552.630
Bank deposits	1.138.876	2.715.690	847.185	286.875	69.149	-	-	5.057.775
The CBRT	-	-	-	-	-	-	-	-
Domestic banks	7.256	2.536.174	596.437	286.875	57.158	-	-	3.483.900
Foreign banks	208.114	179.516	250.748	-	11.991	-	-	650.369
Participation banks	923.506	-	-	-	-	-	-	923.506
Other	-	-	-	-	-	-	-	-
Total	52.905.883	46.083.176	111.044.595	5.554.124	6.550.750	8.932.059	1.110	231.071.697

Prior Period	Demand	Up to 1 month	1-3 Month	3-6 Month	6 Month- 1 Year	1 Year and over	Cumulative savings account	Total
Saving deposits	6.650.198	2.165.456	36.823.863	8.313.437	1.333.258	877.060	1.160	56.164.432
Foreign currency deposits	20.093.087	13.142.080	63.479.684	4.779.280	4.687.717	5.014.165	-	111.196.013
Residents in Turkey	17.632.628	12.129.420	61.903.652	4.149.880	2.650.519	1.554.838	-	100.020.937
Residents abroad	2.460.459	1.012.660	1.576.032	629.400	2.037.198	3.459.327	-	11.175.076
Public sector deposits	1.189.579	2.674	5.483	459	99	23	-	1.198.317
Commercial deposits	5.891.404	7.599.008	10.354.409	1.784.661	993.821	62.283	-	26.685.586
Other institutions deposits	119.735	103.261	1.361.760	231.659	996.277	52.341	-	2.865.033
Precious metals vault	1.162.378	150.773	305.887	45.968	83.191	26.594	-	1.774.791
Bank deposits	1.012.074	7.465.716	1.492.358	297.604	135.375	4.174	-	10.407.301
The CBRT	-	2.869.462	-	-	-	-	-	2.869.462
Domestic banks	13.728	4.413.177	482.447	270.743	28.239	4.174	-	5.212.508
Foreign banks	224.956	183.077	1.009.911	26.861	107.136	-	-	1.551.941
Participation banks	773.390	-	-	-	-	-	-	773.390
Other	-	-	-	-	-	-	-	-
Total	36.118.455	30.628.968	113.823.444	15.453.068	8.229.738	6.036.640	1.160	210.291.473

2.1.2. Information on saving deposits insurance:**2.1.2.1. 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	34.895.590	26.749.561	28.488.975	29.414.866
Foreign currency savings deposit	19.119.479	12.217.306	47.850.939	39.666.935
Other deposits in the form of savings deposits	1.642.752	807.367	1.544.417	822.760
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.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

2.1.2.2. Saving deposits which are not under the guarantee of saving deposit insurance fund of real persons:

	Current Period		Prior Period	
	TL	FC	TL	FC
Foreign branches' deposits and other accounts		10.094		9.744
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		489.526		284.829
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		-		-

2.2. Information on trading derivative financial liabilities:

2.2.1. Negative differences table for derivative financial liabilities held for trading:

	Current Period		Prior Period	
	TL	FC	TL	FC
Forward transactions	98.515	53	143.108	66
Swap transactions ⁽¹⁾	2.542.199	1.206.146	5.129.217	785.267
Futures transactions	-	-	-	-
Options	29.672	17.223	248.837	49.638
Other	3.006	925	5.347	869
Total	2.673.392	1.224.347	5.526.509	835.840

2.2.2. Negative differences table for derivative financial liabilities held for hedging:

	Current Period		Prior Period	
	TL	FC	TL	FC
Fair value hedges ⁽¹⁾	316.376	-	313.994	-
Cash flow hedges ⁽¹⁾	2.579.191	311.976	542.895	68.511
Hedges for investments made in foreign countries	-	-	-	-
Total	2.895.567	311.976	856.889	68.511

(1) Explained in Note 10 of section 4

2.3. Information on banks and other financial institutions:

2.3.1. Information on borrowings:

	Current Period		Prior Period	
	TL	FC	TL	FC
The Central Bank of the Republic of Turkey borrowings				
From domestic banks and institutions	2.440.872	2.309.071	1.319.479	1.653.153
From foreign banks, institutions and funds	11.503	40.612.049	10.117	44.089.253
Total	2.452.375	42.921.120	1.329.596	45.742.406

2.3.2. Information on maturity structure of borrowings:

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-term	2.394.340	12.620.395	1.303.939	13.622.616
Medium and long-term	58.035	30.300.725	25.657	32.119.790
Total	2.452.375	42.921.120	1.329.596	45.742.406

2.3.3. Information on marketable securities issued

	Current Period		Prior Period	
	TL	FC	TL	FC
Bills	5.098.851	-	1.373.498	-
Asset backed securities ⁽¹⁾	-	3.746.311	-	3.835.712
Bonds ⁽²⁾	1.642.095	14.733.934	2.526.863	13.706.130
Total	6.740.946	18.480.245	3.900.361	17.541.842

(1) 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 program.

(2) Including mortgage backed securities amounting to TL 2.023.673 as of December 31, 2019 (December 31, 2018 – 1.218.736 TL).

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

2.3.4. Information on financial liabilities fair value through profit and loss:

The Group 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 TFRS 9. As of December 31, 2019, the total amount of financial liabilities classified as fair value through profit/loss is TL 13.184.605 (December 31, 2018 –TL 7.965.404) with an accrued interest income of TL 245.152 (December 31, 2018 - TL 413.597 income) and with a fair value difference of TL 146.197 recognized in the income statement as a loss (December 31, 2018 - TL 566.340 income). On the other hand, the buy and sell nominal amounts of the total return swaps and bond forwards which are closely related with these financial liabilities as of December 31, 2019 are TL 13.132.747 (December 31, 2018: TL 8.115.956) with a fair value differences amounting to TL 236.129 liability (December 31, 2018 –TL 346.698 liability). The mentioned total return swaps have 8 year maturity in average.

2.4. Information on other liabilities:

As of December 31, 2019, other liabilities do not exceed 10% of the total balance sheet commitments.

2.5. Information on lease payables:

	Current Period ⁽¹⁾		Prior Period	
	Gross	Net	Gross	Net
Less than 1 year	334.032	203.266	-	-
Between 1-4 years	679.738	409.720	-	-
More than 4 years	524.214	314.237	-	-
Total	1.537.984	927.223	-	-

(1) The Group has adopted TFRS 16 standard as of 1 January 2019. As an opening balance, TL 846.301 is recognised as "lease payables".

2.6. Information on provisions:

2.6.1. 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- Employee Rights", 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 (%)	4,67	5,65
Possibility of being eligible for retirement (%)	94,85	94,45

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 6.730,15 effective from January 1, 2020 (January 1, 2019 - full TL 6.017,60) 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	463.258	400.547
Changes during the period	82.369	65.569
Recognized in equity	66.783	52.110
Paid during the period	(74.942)	(54.968)
Balance at the end of the period	537.468	463.258

In addition, the Group has accounted for unused vacation rights provision amounting to TL 243.624 as of December 31, 2019 (December 31, 2018 - TL 219.010).

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

2.6.2. Information on provisions related with the foreign currency difference of foreign currency indexed loans:

As of December 31, 2019, there is no provision amounting in TL related to the foreign currency difference of foreign currency indexed loans amounts. (December 31, 2018 - TL 435). Provisions related to the foreign currency difference of foreign currency indexed loans are netted from the loan amount in the financial statements.

2.6.3. Information on other provisions:

	Current Period	Prior Period
Pension fund provision	1.178.063	921.350
Provisions on unindemnified non cash loans	772.000	762.204
Generic provisions on non cash loans	155.439	104.118
Provision on lawsuits	130.271	158.325
Provisions on credit cards and promotion campaigns related to banking services	60.428	54.311
Other	664.938	776.609
Total	2.961.139	2.776.917

Pension fund provision:

The Parent Bank provided provision amounting to TL 1.178.063 (December 31, 2018 – TL 921.350) 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	256.713	230.498

The amounts recognized in the balance sheet are determined as follows:

	Current Period	Prior Period
Present value of funded obligations	3.592.934	2.871.022
- Pension benefits transferable to SSI	3.763.200	3.003.344
- Post employment medical benefits transferable to SSI	(170.266)	(132.322)
Fair value of plan assets	(2.414.871)	(1.949.672)
Provision for the actuarial deficit of the pension fund	1.178.063	921.350

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	%
Bank placements	1.110.210	46	871.760	45
Government bonds and treasury bills	881.688	37	654.202	34
Premises and equipment	300.254	12	261.345	13
Other	122.719	5	162.365	8
Total	2.414.871	100	1.949.672	100

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

2.7. Explanations on tax liability:

2.7.1. Information on taxes payable:

	Current Period	Prior Period
Corporate Tax Payable	316.861	665.364
Taxation of Marketable Securities	189.641	162.568
Property Tax	3.832	3.290
Banking Insurance Transaction Tax ("BITT")	220.637	164.713
Foreign Exchange Transaction Tax	6.999	-
Value Added Tax Payable	59.715	14.119
Other	75.095	65.178
Total	872.780	1.075.232

2.7.2. Information on premium payables:

	Current Period	Prior Period
Social security premiums - employee	566	485
Social security premiums - employer	634	545
Bank pension fund premiums - employee	23.031	20.558
Bank pension fund premiums - employer	31.892	21.210
Pension fund deposit and provisions - employee	-	-
Pension fund deposit and provisions - employer	-	-
Unemployment insurance - employee	1.645	1.467
Unemployment insurance - employer	3.291	2.935
Other	-	-
Total	61.059	47.200

2.8. Liabilities for property and equipment held for sale and related to discontinued operations (net):

None. (December 31, 2018- None)

2.9. Information on subordinated debt⁽¹⁾:

	Current Period		Prior Period	
	TP	YP	TP	YP
Debt instruments to be included in additional capital calculation⁽²⁾	-	4.098.336	-	-
Subordinated loans	-	-	-	-
Subordinated debt	-	4.098.336	-	-
Debt instruments to be included in contribution capital calculation	821.340	13.660.363	-	13.557.153
Subordinated loans ⁽³⁾	-	5.102.941	-	5.574.724
Subordinated debt ⁽⁴⁾	821.340	8.557.422	-	7.982.429
Total	821.340	17.758.699	-	13.557.153

(1) Subordinated loans are explained in detail in the Note "Information on debt instruments included in the calculation of equity" in section four

(2) On January 15, 2019, the Parent Bank issued Additional Tier 1 Capital (AT1) notes with a nominal amount of USD 650 million in compliance with the features specified in the Article 7 of the BRSA Equity Regulation entitled "Additional Tier 1". Mentioned debt instruments are eligible to be included in the Additional Tier 1 capital of the Bank, with no specified maturity, having the early redemption every five years after issuance subject to BRSA approval and with an annual rate of 13.875% for the first five years having coupon payments every 6 months. If the core Tier 1 ratio falls below 5.125%, it may be subject to temporary value reduction. The mentioned debt instruments will be traded in the Ireland Stock Exchange. Out of the total issuance; USD 400 million nominal amount have been purchased by Koç Holding A.Ş. and Unicredit S.p.A in equal amounts, and these purchased amounts are committed not to be sold for 180 days.

(3) On January 16, 2019, the Parent Bank has made a partial pay back of USD 200 million before its maturity of the subordinated loan of USD 470 million granted by UniCredit S.p.A on December 18, 2013 with a maturity of 10 years, which was structured in accordance with the features specified in the Article 8 of the BRSA Regulation on the Equity of Banks, and repayable by the debtor after 5 years from the issuance. The paid amount has been realized as USD 190 million principal and plus accrued interest in accordance with the valuation report prepared under CMB regulations.

(4) On July 3, 2019, the Parent Bank issued bonds, which can qualify as Tier 2 capital, in the nominal value of TL 500 million (full TL) with a variable rate and maturity of 10 years to be sold to qualified investors in domestic market. Related bonds have the qualifications specified in Article 8 of the Regulation Regarding Banks' Shareholders' Equity", and can be redeemed after five years depending on BRSA approval.

(5) On October 3, 2019, the Parent Bank issued bonds, which can qualify as Tier 2 capital, in the nominal value of TL 300 million (full TL) with a variable rate and maturity of 10 years to be sold to qualified investors in domestic market. Related bonds have the qualifications specified in Article 8 of the Regulation Regarding Banks' Shareholders' Equity", and can be redeemed after five years depending on BRSA approval.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

2.10. Information on shareholders' equity:

2.10.1. Presentation of paid-in capital:

	Current Period	Prior Period
Common stock	8.447.051	8.447.051
Preferred stock	-	-

2.10.2. Amount of paid-in capital, disclosure of whether the Bank's registered capital system is applied and if applied registered capital ceiling:

Capital System	Paid-In Capital	Registered Share Capital Ceiling
Registered Capital System	8.447.051	10.000.000

2.10.3. Information on the share capital increases during the period and the sources:

None. (December 31, 2018 - 4.100.000 TL).

2.10.4. Information on transfers from capital reserves to capital during the current period:

None. (December 31, 2018 - None).

2.10.5. Information on capital commitments, until the end of the fiscal year and the subsequent interim period:

None. (December 31, 2018 - None).

2.10.6. 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.

2.10.7. Privileges on the corporate stock tors:

None. (December 31, 2018 - None).

2.10.8. Information on value increase fund of marketable securities:

	Current Period		Prior Period	
	TP	YP	TP	YP
From investments in associates, subsidiaries, and joint ventures	-	-	-	-
Revaluation difference	-	-	-	-
Foreign currency difference	-	-	-	-
Financial assets at fair value through other comprehensive income⁽¹⁾	(118.560)	(55.051)	(1.485.889)	(290.416)
Revaluation difference	(118.560)	(55.051)	(1.485.889)	(290.416)
Foreign currency differences	-	-	-	-
Total	(118.560)	(55.051)	(1.485.889)	(290.416)

(1) Includes tax effect related to foreign currency valuation differences in TL column.

2.10.9. Information on minority interest:

	Current Period	Prior Period
Period opening balance	611	541
Current period income/(loss)	126	112
Dividends paid	(50)	(42)
Period ending balance	687	611

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

3. Explanations and notes related to consolidated off-balance sheet accounts

3.1. Information on off balance sheet commitments:

3.1.1. The amount and type of irrevocable commitments:

	Current Period	Prior Period
Commitments on credit card limits	41.380.895	35.189.895
Loan granting commitments	13.669.165	12.360.621
Commitments for cheques	3.389.714	2.990.824
Other irrevocable commitments	14.876.247	15.267.507
Total	73.316.021	65.808.847

3.1.2. 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 155.439 (December 31, 2018 - TL 104.118) and provision amounting to TL 1.175.798 (December 31, 2018 - TL 1.079.128) for non-cash loans which are not indemnified yet amounting to TL 772.000 (December 31, 2018 - TL 762.204).

3.1.2.1. 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	156.431	200.915
Letter of credits	12.486.372	11.192.813
Other guarantees and collaterals	8.019.320	7.923.230
Total	20.662.123	19.316.958

3.1.2.2. Guarantees, suretyships and other similar transactions:

	Current Period	Prior Period
Temporary letter of guarantees	1.311.813	1.300.681
Definite letter of guarantees	41.657.055	40.157.923
Advance letter of guarantees	10.370.952	11.080.557
Letter of guarantees given to customs	2.945.128	2.442.000
Other letter of guarantees	12.617.410	11.487.070
Total	68.902.358	66.468.231

3.1.3. Information on non-cash loans:

3.1.3.1. Total amount of non-cash loans:

	Current Period	Prior Period
Non-cash loans given against cash loans	12.890.158	11.989.428
With original maturity of 1 year or less than 1 year	2.883.023	2.376.215
With original maturity of more than 1 year	10.007.135	9.613.213
Other non-cash loans	76.674.323	73.795.761
Total	89.564.481	85.785.189

Yapı ve Kredi Bankası A.Ş.**Notes to consolidated financial statements as of December 31, 2019**

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

3.1.3.2. Information on sectoral concentration of non-cash loans:

	Current Period				Prior Period			
	TL	(%)	FC	(%)	TL	(%)	FC	(%)
Agricultural	423.082	1,57	5.607.706	8,96	324.600	1,24	3.467.490	5,83
Farming and raising livestock	280.232	1,04	5.101.009	8,15	231.432	0,88	3.179.968	5,34
Forestry	109.974	0,41	421.242	0,67	81.750	0,31	234.420	0,39
Fishing	32.876	0,12	85.455	0,14	11.418	0,04	53.102	0,09
Manufacturing	13.465.937	49,97	31.546.807	50,38	12.312.519	46,85	29.244.175	49,15
Mining	73.819	0,27	223.412	0,36	118.106	0,45	683.391	1,15
Production	10.188.987	37,81	25.885.995	41,34	8.694.393	33,08	24.289.219	40,82
Electric, gas and water	3.203.131	11,89	5.437.400	8,68	3.500.020	13,32	4.271.565	7,18
Construction	5.975.921	22,18	13.681.566	21,85	6.420.726	24,43	13.634.899	22,91
Services	6.871.718	25,50	11.644.678	18,60	7.021.359	26,72	13.016.022	21,87
Wholesale and retail trade	1.839.803	6,83	1.311.170	2,09	1.476.561	5,62	929.867	1,56
Hotel, food and beverage services	440.898	1,64	1.691.972	2,70	275.597	1,05	1.588.633	2,67
Transportation and telecommunication	786.159	2,92	3.446.468	5,50	624.555	2,38	3.624.958	6,09
Financial institutions	2.326.725	8,63	1.574.937	2,52	3.499.891	13,32	2.313.533	3,89
Real estate and renting services	248.027	0,92	641.535	1,02	249.299	0,95	345.271	0,58
Employment	-	-	-	-	-	-	-	-
Education services	134.826	0,50	50.924	0,08	44.742	0,17	44.440	0,07
Health and social services	1.095.280	4,06	2.927.672	4,68	850.714	3,24	4.169.320	7,01
Other	210.112	0,78	136.954	0,22	202.755	0,77	140.644	0,24
Total	26.946.770	100,00	62.617.711	100,00	26.281.959	100,00	59.503.230	100,00

3.1.3.3. Information 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	24.168.982	35.587.877	2.299.149	5.687.909
Bank acceptances	-	155.433	-	998
Letters of credit	65.804	12.041.638	11.550	367.380
Endorsements	-	-	-	-
Underwriting commitments	-	-	-	-
Factoring guarantees	-	106.400	-	-
Other commitments and contingencies	50.630	7.468.742	1.608	374.583
Total	24.285.416	55.360.090	2.312.307	6.430.870

Prior Period	Group I		Group II	
	TL	FC	TL	FC
Non-cash loans				
Letters of guarantee	24.300.588	38.455.359	1.810.612	822.544
Bank acceptances	-	183.378	-	17.537
Letters of credit	152.733	11.018.187	-	21.893
Endorsements	-	-	-	-
Underwriting commitments	-	-	-	-
Factoring guarantees	-	-	-	-
Other commitments and contingencies	18.026	7.901.706	-	3.498
Total	24.471.347	57.558.630	1.810.612	865.472

Yapı ve Kredi Bankası A.Ş.**Notes to consolidated financial statements as of December 31, 2019**

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

3.1.3.4. Maturity distribution of non cash loans:

Current Period ⁽¹⁾	Indefinite	Up to 1 year	1-5 years	Above 5 years	Total
Letter of credit	-	9.481.060	2.791.953	213.359	12.486.372
Letter of guarantee	23.312.489	14.637.102	24.032.696	6.920.071	68.902.358
Bank acceptances	-	136.716	15.461	4.254	156.431
Other	726.396	1.094.738	642.044	5.556.142	8.019.320
Total	24.038.885	25.349.616	27.482.154	12.693.826	89.564.481

Prior Period ⁽¹⁾	Indefinite	Up to 1 year	1-5 years	Above 5 years	Total
Letter of credit	-	8.264.030	2.733.290	195.493	11.192.813
Letter of guarantee	24.326.925	11.438.694	24.432.851	6.269.761	66.468.231
Bank acceptances	-	167.613	29.447	3.855	200.915
Other	1.101.131	520.904	636.249	5.664.946	7.923.230
Total	25.428.056	20.391.241	27.831.837	12.134.055	85.785.189

(1) The distribution is based on the original maturities

3.2. Information on derivative financial instruments:

	Current Period	Prior Period
Types of trading transactions		
Foreign currency related derivative transactions (I)	195.652.172	194.070.768
FC trading forward transactions	25.879.855	19.278.968
Trading swap transactions	160.959.306	161.325.028
Futures transactions	398.407	-
Trading option transactions	8.414.604	13.466.772
Interest related derivative transactions (II)	118.898.558	87.798.512
Forward interest rate agreements	-	-
Interest rate swaps	115.222.156	83.986.144
Interest rate options	3.676.402	3.812.368
Interest rate futures	-	-
Other trading derivative transactions (III)	27.537.689	24.682.146
A. Total trading derivative transactions (I+II+III)	342.088.419	306.551.426
Types of hedging derivative transactions		
Transactions for fair value hedge	3.886.347	4.266.224
Cash flow hedges	99.581.653	92.994.503
Transactions for foreign net investment hedge	-	-
B. Total hedging related derivatives	103.468.000	97.260.727
Total derivative transactions (A+B)	445.556.419	403.812.153

3.3. Information on credit derivatives and risk exposures:

The Group has no credit default swaps in derivative portfolio for the period ended 31 December 2019. Credit default swaps linked to credit link notes are for the purposes protection seller and included in this figure (December 31, 2018 – None).

Derivative portfolio includes total return swap that has a nominal amount of TL 25.465.494 (total of buy and sell leg) as of 31 December 2019 (31 December 2018 – TL 16.231.912).

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

3.4. Information on contingent liabilities and assets:

The Group has recorded a provision of TL 130.271 (December 31, 2018 – TL 158.325) for litigations against the Group and has accounted for it in accompanying consolidated the 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.

3.5. Information on services on behalf 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.

Yapı ve Kredi Bankası A.Ş.**Notes to consolidated financial statements as of December 31, 2019**

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

4. Explanations and notes related to consolidated income statement:**4.1. Information on interest income:****4.1.1. Information on interest income on loans:**

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-term loans ⁽¹⁾	8.125.146	697.510	7.575.164	811.039
Medium/long-term loans ⁽¹⁾	12.865.405	5.846.637	10.673.211	5.434.315
Interest on loans under follow-up	1.511.679	-	1.187.616	-
Premiums received from resource utilisation support fund	-	-	-	-
Total	22.502.230	6.544.147	19.435.991	6.245.354

(1) Includes fees and commissions received for cash loans.

4.1.2. Information on interest income on banks:

	Current Period		Prior Period	
	TL	FC	TL	FC
From the CBRT	47.252	-	259.743	-
From domestic banks	552.688	22.866	259.032	19.482
From foreign banks	1.699	435.012	88.183	146.677
Headquarters and branches abroad	-	-	-	-
Total	601.639	457.878	606.958	166.159

4.1.3. Information on interest income on marketable securities:

	Current Period		Prior Period	
	TP	YP	TP	YP
From financial assets where fair value change is reflected to income statement	7.894	4.405	9.144	2.042
From financial assets where fair value change is reflected to other comprehensive income statement	2.907.608	227.084	4.343.683	192.039
From financial Assets Measured at Amortised Cost	1.841.390	458.661	2.119.238	516.200
Total	4.756.892	690.150	6.472.065	710.281

4.1.4. Information on interest income received from associates and subsidiaries:

	Current Period	Prior Period
Interests received from associates and subsidiaries	843	2.003
Total	843	2.003

4.2. Information on interest expense:**4.2.1. Information on interest expense on borrowings:**

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks	315.486	2.128.347	252.437	1.700.946
The CBRT	-	5.129	-	3.887
Domestic banks	253.733	117.799	219.233	50.939
Foreign banks	61.753	2.005.419	33.204	1.646.120
Headquarters and branches abroad	-	-	-	-
Other institutions	-	750.738	-	493.013
Total⁽¹⁾	315.486	2.879.085	252.437	2.193.959

(1) Includes fees and commissions related to borrowings.

4.2.2. Information on interest expense to associates and subsidiaries:

	Current Period	Prior Period
Interests paid to associates and subsidiaries	7.233	4.714
Total	7.233	4.714

4.2.3. Information on interest expense to marketable securities issued:

	Current Period		Prior Period	
	TL	FC	TL	FC
Interest expense to marketable securities issued	1.018.070	1.712.815	857.273	1.316.875
Total	1.018.070	1.712.815	857.273	1.316.875

Yapı ve Kredi Bankası A.Ş.**Notes to consolidated financial statements as of December 31, 2019**

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

4.2.4. Maturity structure of the interest expense on deposits:

Account name	Time Deposit						Cumulative deposit	Total	Prior Period
	Demand deposit	Up to 1 month	Up to 3 months	Up to 6 months	Up to 1 year	More than 1 year			
TL									
Bank deposit	1.191	112.548	68.984	-	314	1.056	-	184.093	255.053
Saving deposit	-	1.697.227	5.809.072	567.649	193.958	186.240	226	8.454.372	7.093.877
Public sector deposit	-	105	1.434	165	50	3	-	1.757	3.130
Commercial deposit	8	1.702.455	1.561.115	132.909	144.986	14.696	-	3.556.169	3.119.061
Other deposit	-	139.551	490.985	25.555	185.111	23.939	-	865.141	805.408
Deposit with 7 days notification	-	-	-	-	-	-	-	-	-
Total	1.199	3.651.886	7.931.590	726.278	524.419	225.934	226	13.061.532	11.276.529
FC									
Foreign currency deposit	3.277	382.339	1.651.675	131.015	133.737	88.193	-	2.390.236	2.969.375
Bank deposit	4.382	20.645	912	-	108	6	-	26.053	81.465
Deposit with 7 days notification	-	-	-	-	-	-	-	-	-
Precious metal vault	-	1.804	2.325	416	1.195	545	-	6.285	4.219
Total	7.659	404.788	1.654.912	131.431	135.040	88.744	-	2.422.574	3.055.059
Grand total	8.858	4.056.674	9.586.502	857.709	659.459	314.678	226	15.484.106	14.331.588

4.3. Information on dividend income:

	Current Period	Prior Period
Financial assets at fair value through profit or loss	5.381	8.686
Financial assets at fair value through other comprehensive income	4.096	1.678
Other	7.495	4.203
Total	16.972	14.567

4.4. Information on trading gain/loss (net):

	Current Period	Prior Period
Gain	83.852.144	118.957.559
Gain from capital market transactions	340.299	180.186
Derivative financial transaction gains	32.538.987	48.113.404
Foreign exchange gains	50.972.858	70.663.969
Loss(-)	85.286.981	119.038.727
Loss from capital market transactions	60.633	50.197
Derivative financial transaction losses	32.946.958	36.218.099
Foreign exchange loss	52.279.390	82.770.431
Net gain/loss	(1.434.837)	(81.168)

4.5. Information on gain/loss from derivative financial transactions:

The net gain resulting from the foreign exchange differences related to derivative financial transactions is TL 2.113.039 (December 31, 2018 - TL 12.381.027 gain).

4.6. Allowance for expected credit losses and other provisions:

	Current Period	Prior Period
Allowance for expected credit losses	8.983.811	7.112.841
12-month expected credit losses (Stage 1)	154.888	152.688
Significant increase in credit risk (Stage 2)	1.134.786	2.337.832
Credit-Impaired (Stage 3)	7.694.137	4.622.321
Impairment provisions for financial assets	-	-
Financial assets at fair value through profit or loss	-	-
Financial assets at fair value through other comprehensive income	-	-
Impairment provisions related to investments in associates, subsidiaries and jointly controlled partnerships (Joint ventures)	-	-
Investments in associates	-	-
Subsidiaries	-	-
Jointly controlled partnerships (joint ventures)	-	-
Other	47.914	191.425
Total	9.031.725	7.304.266

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

4.7. Information on other operating income:

"Other Operating Income" in the Income Statement mainly includes collections from receivables for which Specific / General provision has been allocated in prior periods.

4.8. Information related to other operating expenses:

	Current Period	Prior Period
Reserve for employee termination benefits	4.221	13.546
Provision expense for pension fund	256.713	230.498
Impairment expenses of property and equipment	-	-
Depreciation expenses of property and equipment	484.447	177.190
Impairment expenses of intangible assets	-	-
Goodwill impairment expenses	-	-
Amortization expenses of intangible assets	157.994	116.088
Impairment expenses of equity participations for which equity method is applied	-	-
Impairment expenses of assets held for resale	-	309
Depreciation expenses of assets held for resale	-	-
Impairment expenses of fixed assets held for sale and assets related to discontinued operations	-	-
Other operating expenses	2.360.847	2.312.005
lease expenses in the context of TFRS 16 exception	63.791	332.620
Repair and maintenance expenses	145.463	136.836
Advertising expenses	125.234	133.341
Other expense	2.026.359	1.709.208
Loss on sales of assets	187	-
Other	1.005.171	783.748
Total	4.269.580	3.633.384

4.9. Provision for taxes on income from continuing operations and discontinued operations:

Income before tax includes net interest income amounting to TL 15.531.016 (December 31, 2018 -TL 14.496.464), net fee and commission income amounting to TL 5.528.746 (December 31, 2018 - TL 4.236.344), personnel expenses amounting to TL 3.394.078 (December 31, 2018 - TL 3.051.597) and total other operating expense amounting to TL 4.269.580 (December 30, 2018 - TL 3.633.384).

As of December 31, 2019, the Group has no profit before taxes from discontinued operations (December 31, 2018 – None).

4.10. Provision for taxes on income from continuing operations and discontinued operations:

As of December 31, 2019, the Group has current tax expense amounting to TL 1.829.227 (December 31, 2018 - TL 1.025.376 loss) and deferred tax income amounting to TL 895.633 (December 31, 2018 - TL 354.981 loss).

	Current Period	Prior Period
Profit before tax	4.533.780	6.047.895
Tax calculated at legal tax rate	997.432	1.330.537
Nondeductible expenses discounts and other, net	(63.838)	49.820
Total	933.594	1.380.357

4.11. Information on net income/loss for the period:

4.11.1. 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.

4.11.2. Information on any change in the accounting estimates concerning the current period or future periods: None

4.12. Income/loss of minority interest:

	Current Period	Prior Period
Income/(loss) of minority interest	126	112

4.13. 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 consolidated financial statements as of December 31, 2019

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

5. Explanations and notes related to consolidated statement of changes in shareholders' equity

5.1. Information on dividends:

Authorised body for profit distribution 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.

5.2. Information on increase/decrease amounts resulting from merger:

None.

5.3. Information on equity share premiums:

The details regarding property and equipment valuation differences are disclosed in section 3 note 19.

5.4. Explanations on property and equipment valuation differences:

Grup, adopted fair value accounting method for its buildings and art objects and paintings in tangible assets in accordance with TAS 16 "Property, Plant and Equipment". As of 31 December 2019, revaluation gain under shareholders' equity is amounting to TL 1.879.428 (31 December 2018 – TL 1.866.531).

5.5. Explanations related to employee rights liabilities:

Actuarial gains and losses in employee benefits provisions are accounted under equity. As of December 31, 2019 actuarial loss under shareholders' equity are amounting to TL 277.219 (31 December 2018 – TL 225.129).

5.6. Explanations on financial assets at fair value through other comprehensive income:

"Unrealized gains and losses" arising from changes in the fair value of financial assets classified as financial assets at fair value through other comprehensive income are recognized in the shareholders' equity until the related assets are impaired or disposed.

5.7. 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 under "Other accumulated comprehensive income that will be reclassified in profit or loss", taking into account tax effects. Such amount as of December 31, 2019 is TL 1.462.792 loss (December 31, 2018 – 1.743.304 profit).

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, 2019 is EUR 452 million. (December 31, 2018 – EUR 430 million). The foreign exchange loss of TL 1.415.508 (December 31, 2018 – TL 1.201.270 loss). 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.

5.8. Information on other capital and profit reserves:

Other capital and profit reserves in general comprise of legal reserves and extraordinary reserves.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

6. Explanations and notes related to consolidated statement of cash flows:

6.1. Information on cash and cash equivalent:

6.1.1. 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".

6.1.2. Effect of a change in the accounting policies:

None.

6.1.3. Reconciliation of cash and cash equivalent items with balance sheet and cash flow statements:

6.1.3.1. Cash and cash equivalents at the beginning of period:

	Current Period	Prior Period
Cash	37.724.999	14.993.683
Cash and effectives	4.886.490	2.562.013
Demand deposits in banks	32.838.509	12.431.670
Cash equivalents	8.767.484	8.850.595
Interbank money market	117.231	817.005
Deposits in bank	8.650.253	8.033.590
Total cash and cash equivalents	46.492.483	23.844.278

6.1.3.2. Cash and cash equivalents at the end of the period:

	Current Period	Prior Period
Cash	41.978.729	37.724.999
Cash and effectives	4.592.699	4.886.490
Demand deposits in banks	37.386.030	32.838.509
Cash equivalents	24.239.568	8.767.484
Interbank money market	10.803.630	117.231
Deposits in bank	13.435.938	8.650.253
Total cash and cash equivalents	66.218.297	46.492.483

6.2. Information on cash and cash equivalents those are not in use due to legal limitations and other reasons:

As of December 31, 2019, the Group's cash and cash equivalents those are not in use due to legal limitations and other reasons, including those at foreign banks and the TL reserve requirements, amount to TL 37.414.740 (December 31, 2018 - TL 44.550.642).

6.3. 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 851.448 increase (December 31, 2018 – TL 567.348 decrease) 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 3.468.347 increase (December 31, 2018 - TL 20.044 decrease) 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 4.621.998 as of December 31, 2019 (December 31, 2018 - TL 15.321.623 increase).

Yapı ve Kredi Bankası A.Ş.**Notes to consolidated financial statements as of December 31, 2019**

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

7. Explanations and notes related to Group's risk group:**7.1. The volume of transactions relating to the Group's risk group, outstanding loan and deposit transactions and profit and loss of the period:****7.1.1. 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						
Balance at the beginning of the period	8.537	73.717	585.510	1.351.956	3.823.152	4.218.277
Balance at the end of the period	4.654	3.351	815.658	1.199.169	2.568.348	3.147.488
Interest and commission income received	843	51	31.050	8.267	447.939	23.895
Prior 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						
Balance at the beginning of the period	8.523	10.130	413.696	1.358.830	2.582.313	3.078.551
Balance at the end of the period	8.537	73.717	585.510	1.351.956	3.823.152	4.218.277
Interest and commission income received	2.003	180	27.376	8.202	538.824	24.788

(1) Defined in subsection 2 of the 49th article of the Banking Act No. 5411.

(2) The balances at the beginning and end of the periods are disclosed as the total of buy and sell amounts of derivative financial instruments.

7.1.2. Information on deposits of the Group's risk group:

Group's risk group	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	32.007	27.440	39.787.874	29.100.563	22.326.048	18.301.565
End of the period	96.427	32.007	34.185.545	39.787.874	22.510.602	22.326.048
Interest expense on deposits	7.233	4.714	2.503.473	2.447.124	1.357.180	1.176.337

(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.

7.1.3. Information on forward and option agreements and other derivative instruments with the Group's risk group:

Group's risk group	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						
Beginning of the period ⁽²⁾	-	-	3.330.535	4.585.782	983.564	4.263.455
End of the period ⁽²⁾	-	-	563.016	3.330.535	10.730.513	983.564
Total profit / loss⁽³⁾	-	544	(14.966)	(473.269)	58.698	(592.874)
Transactions for hedging purposes						
Beginning of the period ⁽²⁾	-	-	1.456.586	1.375.186	-	-
End of the period ⁽²⁾	-	-	1.059.016	1.456.586	-	-
Total profit / loss	-	-	9.016	106.586	-	-

(1) Defined in subsection 2 of the 49th article of the Banking Act No. 5411.

(2) The balances at the beginning and end of the periods are disclosed as the total of buy and sell amounts of derivative financial instruments.

7.2. Information regarding benefits provided to the Group's top management:

Salaries and benefits paid to the Group's top management amount to TL 88.601 as of December 31, 2019 (December 31, 2018- TL 66.780).

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

8. Explanations and notes related to the domestic, foreign, off-shore branches or associates and foreign representatives of the Bank⁽¹⁾:

	Number	Number of Employees			
Domestic Branch	845	16.628			
			Country of incorporation		
Foreign Rep. Office	-	-	-		
				Total assets	Statutory share capital
Foreign Branch	1	3	Bahrain	14.444.728	-
Off-Shore Banking Region Branch	-	-		-	-

(1) Represent the Parent Banks' amounts.

9. Explanations and notes related to subsequent events :

According the Bank's Board of Directors resolution dated January 15, 2020, it has been decided to submit the amendment of the articles regarding the increase of the registered capital ceiling for approval in the first ordinary General Assembly to raise the upper limit of registered capital from TL 10.000.000 to TL 15.000.000 and to extend the permit provided for the upper limit of authorized capital from the end of 2020 until the end of 2024 after obtaining the necessary permissions.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2019

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

Section six - Other Explanations and Notes

1. Other explanations on the Parent Bank's operations

None.

Section seven - Explanations on independent audit report

1. Explanations on independent auditor's audit report

The consolidated financial statements for the period ended December 31, 2019 have been audited by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. The independent auditor's audit report dated February 4, 2020 is presented preceding the consolidated financial statements.

2. Explanations and notes prepared by the independent auditor

None.