

Yapı ve Kredi Bankası A.Ş.

Publicly announced consolidated financial statements and related disclosures at December 31, 2016 together with independent auditor's report

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

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

Independent auditor report

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

Report on the Consolidated Financial Statements

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

Responsibility of the Bank's Board of Directors for the Consolidated Financial Statements

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

Independent Auditor's Responsibility

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

An independent audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the independent auditor's professional judgment, including the assessment of risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the independent auditor considers the internal control relevant to bank's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control. An independent audit also includes evaluating the appropriateness of accounting policies used by the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Reports on arising from other regulatory requirements:

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

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

Additional paragraph for convenience translation to English:

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

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

Yaşar Bivas, SMMM
Partner

February 2, 2017
Istanbul, Turkey

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

THE CONSOLIDATED FINANCIAL REPORT OF
YAPI VE KREDİ BANKASI A.Ş. AS OF DECEMBER 31, 2016

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

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

Investments in subsidiaries, associates and joint ventures, whose financial statements have been consolidated in these year end consolidated financial statements are as follows.

Subsidiaries	Associates	Joint Ventures
1. Yapı Kredi Finansal Kiralama A.O.	1. Banque de Commerce et de Placements S.A.	1. Yapı Kredi Koray Gayrimenkul Yatırım Ortaklığı A.Ş.
2. Yapı Kredi Faktoring A.Ş.	2. Allianz Yaşam ve Emeklilik A.Ş.	
3. Yapı Kredi Yatırım Menkul Değerler A.Ş.		
4. Yapı Kredi Portföy Yönetimi A.Ş.		
5. Yapı Kredi Holding B.V.		
6. Yapı Kredi Bank Nederland N.V.		
7. Yapı Kredi Bank Moscow		
8. Stichting Custody Services YKB		
9. Yapı Kredi Bank Azerbaijan CJSC		
10. Yapı Kredi Invest LLC		
11. Yapı Kredi Bank Malta Ltd.		

Although Yapı Kredi Diversified Payment Rights Finance Company (the Structured Entity) is not a subsidiary of the Bank, it has been included in the consolidation since the Bank has 100% control.

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

Y. Ali KOÇ
Chairman of the
Board of Directors

H. Faik AÇIKALIN
Chief Executive Officer

Massimo FRANCESE
Chief Financial Officer

B. Seda İKİZLER
Financial Reporting and
Accounting Executive
Vice President

Wolfgang SCHILK
Chairman of Audit Committee

Adil G. ÖZTOPRAK
Member of Audit Committee

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

Name-Surname / Title : Aytuğ SADI / Head of Consolidation
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SECTION ONE

General information

I.	History of the Parent Bank including its incorporation date, initial legal status and amendments to legal status, if any	1
II.	Explanation about the Parent Bank's capital structure, shareholders holding directly or indirectly, collectively or individually, the management and controlling power and changes in current year, if any and explanations on the controlling group of the Bank	1
III.	Explanations regarding the board of directors, members of the audit committee, chief executive officer and executive vice presidents and their areas of responsibility and shares if any	2
IV.	Information on the individual and corporate shareholders having control shares of the Parent Bank	3
V.	Summary information on the Parent Bank's activities and service types	3
VI.	Differences between the communiqué on preparation of consolidated financial statements of Banks and Turkish Accounting Standards and short explanation about the entities subject to full consolidation or proportional consolidation and entities which are deducted from equity or entities which are not included in these three methods	4
VII.	The existing or potential, actual or legal obstacles on the immediate transfer of shareholder's equity between the Bank and its subsidiaries or reimbursement of liabilities	4

SECTION TWO

Consolidated financial statements

I.	Consolidated balance sheet (Statement of Financial Position)	5
II.	Consolidated off-balance sheet commitments	7
III.	Consolidated income statements	8
IV.	Consolidated statement of income and expense items accounted under shareholders' equity	9
V.	Consolidated statement of changes in shareholders' equity	10
VI.	Consolidated statement of cash flows	12
VII.	Profit appropriation statement	13

SECTION THREE

Accounting policies

I.	Explanations on basis of presentation	14
II.	Explanations on strategy of using financial instruments and foreign currency transactions	15
III.	Information on consolidation principles	16
IV.	Explanations on forward and option contracts and derivative instruments	18
V.	Explanations on interest income and expense	20
VI.	Explanations on fee and commission income and expenses	20
VII.	Explanations on financial assets	20
VIII.	Explanations on impairment of financial assets	22
IX.	Explanations on offsetting financial assets	22
X.	Explanations on sales and repurchase agreements and securities lending transactions	22
XI.	Information on assets held for resale and related to discontinued operations and explanations on liabilities related with these assets	23
XII.	Explanations on goodwill and other intangible assets	23
XIII.	Explanations on property and equipment	24
XIV.	Explanations on leasing transactions	25
XV.	Explanations on provisions, contingent asset and liabilities	26
XVI.	Explanations on obligations related to employee rights	26
XVII.	Explanations on taxation	28
XVIII.	Explanations on borrowings	30
XIX.	Explanations on issuance of share certificates	30
XX.	Explanations on avalized drafts and acceptances	30
XXI.	Explanations on government grants	30
XXII.	Profit reserves and profit distribution	30
XXIII.	Earnings per share	30
XXIV.	Related parties	31
XXV.	Explanations on operating segments	31
XXVI.	Explanations on other matters	31
XXVII.	Explanations on legal mergers under common control	31

SECTION FOUR

Financial Position and Risk Management

I.	Explanations on consolidated own funds	33
II.	Explanations on consolidated credit risk	40
III.	Explanations on the strategies and policies of the risk management system	48
IV.	Explanations on consolidated currency risk	66
V.	Explanations on consolidated interest rate risk	69
VI.	Explanation on share certificates position risk from banking book	71
VII.	Explanations on consolidated liquidity risk and consolidated liquidity coverage ratio	72
VIII.	Explanations on consolidated leverage ratio	77
IX.	Explanations on the presentation of financial assets and liabilities at fair values	78
X.	Explanations on hedge accounting	83
XI.	Explanations on the activities carried out on behalf of others and fiduciary transactions	83
XII.	Explanations on operating segments	83

SECTION FIVE

	Explanations and notes related to consolidated financial statements	
I.	Explanations and notes related to consolidated assets	86
II.	Explanations and notes related to consolidated liabilities	105
III.	Explanations and notes related to consolidated off-balance sheet accounts	113
IV.	Explanations and notes related to consolidated income statement	117
V.	Explanations and notes related to consolidated statement of changes in shareholders' equity	122
VI.	Explanations and notes related to consolidated statement of cash flows	123
VII.	Explanations and notes related to Group's merger, transfers and companies acquired by Bank	124
VIII.	Explanations and notes related to Group's risk group	124
IX.	Explanations and notes related to the domestic, foreign, off-shore branches or associates and foreign representatives of the Bank	126
X.	Explanations and notes related to subsequent events	126

SECTION SIX

	Other Explanations and Notes	
I.	Other explanations on Group's operations	128

SECTION SEVEN

	Explanations on the independent auditor's report	
I.	Explanations on independent auditor's report	128
II.	Explanations and notes prepared by independent auditor	128

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2016

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

Section One

General Information

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

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

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

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

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

In 2005, the Bank's shares that were owned by Çukurova Group Companies and the Saving Deposits Insurance Fund ("SDIF") were purchased by Koçbank. In 2006, Koçbank purchased additional shares of the Bank from BIST and an investment fund and, during the same year, all rights, receivables, debts and liabilities of Koçbank were transferred to the Bank pursuant the merger of the two banks.

In 2006 and 2007, with the acquisition of Yapı Kredi and its subsidiaries, KFS Group launched structural reorganisation and the following subsidiaries is still under the control of group were legally merged:

Merging entities		Merger date	Merged entity
Yapı Kredi	Koçbank	October 2, 2006	Yapı Kredi
Yapı Kredi Finansal Kiralama A.O. (“Yapı Kredi Leasing”)	Koç Leasing	December 25, 2006	Yapı Kredi Leasing
Yapı Kredi Faktoring A.Ş. (“Yapı Kredi Faktoring”)	Koç Faktoring	December 29, 2006	Yapı Kredi Faktoring
Yapı Kredi Portföy Yönetimi A.Ş. (“Yapı Kredi Portföy”)	Koç Portföy	December 29, 2006	Yapı Kredi Portföy
Yapı Kredi Yatırım Menkul Değerler A.Ş.(“Yapı Kredi Menkul”)	Koç Yatırım	January 12, 2007	Yapı Kredi Menkul
Yapı Kredi Bank Nederland N.V. (“Yapı Kredi NV”)	Koçbank Nederland N.V.	July 2, 2007	Yapı Kredi NV

After the merger and the share transfer procedures in 2007 and of a capital increase by TL 920 million in 2008, KFS owns 81,80% of the shares of the Bank.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2016 (continued)

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

General information (continued)

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

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

Board of Directors Members:

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

Audit Committee Members:

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

General Manager and Deputy General Manager:

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2016 (continued)

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

General information (continued)

Assistant General Managers:

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

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

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

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

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

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

The Parent Bank's activities summarized in the article 3 of the articles of association are as follows:

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

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

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements as of December 31, 2016 (continued)

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

General information (continued)

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

As of December 31, 2016, the Parent Bank has 18.366 employees (December 31, 2015 – 18.262 employees). The Parent Bank together with its consolidated subsidiaries is referred to as the "Group" in these consolidated financial statements. As of December 31, 2016 the Group has 19.419 employees (December 31, 2015 – 19.345 employees).

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

VI. Differences between the communiqué on preparation of consolidated financial statements of Banks and Turkish Accounting Standards and short explanation about the entities subject to full consolidation or proportional consolidation and entities which are deducted from equity or entities which are not included in these three methods:

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

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

All other subsidiaries are fully consolidated.

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

None.

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

Yapı ve Kredi Bankası A.Ş.

Consolidated financial statements as of December 31, 2016 and 2015

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

Section two

Consolidated financial statements

I. Consolidated balance sheet (Statement of Financial Position)

		Current Period (31/12/2016)			Prior Period (31/12/2015)		
Assets	Note (Section Five)	TL	FC	Total	TL	FC	Total
I. Cash and balances with Central Bank	I-a	9.051.439	24.031.856	33.083.295	3.463.676	23.925.271	27.388.947
II. Financial assets at fair value through profit or (loss) (net)	I-b	2.629.996	410.834	3.040.830	1.530.788	235.505	1.766.293
2.1 Trading financial assets		2.629.996	410.834	3.040.830	1.530.788	235.505	1.766.293
2.1.1 Government debt securities		18.888	17.825	36.713	51.614	14.492	66.106
2.1.2 Share certificates		6.635	-	6.635	8.040	-	8.040
2.1.3 Derivative financial assets held for trading	I-c	2.604.473	393.009	2.997.482	1.471.134	221.013	1.692.147
2.1.4 Other marketable securities		-	-	-	-	-	-
2.2 Financial assets designated at fair value through profit/(loss)		-	-	-	-	-	-
2.2.1 Government debt securities		-	-	-	-	-	-
2.2.2 Share certificates		-	-	-	-	-	-
2.2.3 Loans		-	-	-	-	-	-
2.2.4 Other marketable securities		-	-	-	-	-	-
III. Banks	I-ç	43.137	3.405.829	3.448.966	34.426	3.077.079	3.111.505
IV. Money markets		252	-	252	155.281	130.845	286.126
4.1 Interbank money market placements		-	-	-	-	-	-
4.2 Receivables from Istanbul Stock Exchange Money Market		-	-	-	155.270	130.845	286.115
4.3 Receivables from reverse repurchase agreements		252	-	252	11	-	11
V. Financial assets available-for-sale (net)	I-d,e	15.239.585	3.146.524	18.386.109	18.641.714	4.198.490	22.840.204
5.1 Share certificates		44.258	62.485	106.743	44.200	210.818	255.018
5.2 Government debt securities		14.431.742	1.620.631	16.052.373	17.759.935	2.635.202	20.395.137
5.3 Other marketable securities		763.585	1.463.408	2.226.993	837.579	1.352.470	2.190.049
VI. Loans and receivables	I-f	107.994.217	70.670.205	178.664.422	99.153.273	54.864.716	154.017.989
6.1 Loans and receivables		105.876.257	70.609.580	176.485.837	97.731.030	54.758.065	152.489.095
6.1.1 Loans to bank's risk group		1.608.647	993.427	2.602.074	1.539.567	248.413	1.787.980
6.1.2 Government debt securities		-	-	-	-	-	-
6.1.3 Other		104.267.610	69.616.153	173.883.763	96.191.463	54.509.652	150.701.115
6.2 Loans under follow-up		8.706.143	143.024	8.849.167	5.618.346	574.961	6.193.307
6.3 Specific provisions (-)		(6.588.183)	(82.399)	(6.670.582)	(4.196.103)	(468.310)	(4.664.413)
VII. Factoring receivables		1.240.811	1.653.468	2.894.279	1.226.141	1.032.983	2.259.124
VIII. Held-to-maturity investments (net)	I-g	4.831.667	6.757.223	11.588.890	1.960.446	5.148.363	7.108.809
8.1 Government debt securities		4.831.667	5.957.387	10.789.054	1.960.446	4.658.180	6.618.626
8.2 Other marketable securities		-	799.836	799.836	-	490.183	490.183
IX. Investments in associates (net)	I-ğ	231.974	437.143	669.117	211.588	338.140	549.728
9.1 Consolidated based on equity method		227.471	437.143	664.614	207.085	338.140	545.225
9.2 Unconsolidated		4.503	-	4.503	4.503	-	4.503
9.2.1 Investments in financial associates		-	-	-	-	-	-
9.2.2 Investments in non-financial associates		4.503	-	4.503	4.503	-	4.503
X. Subsidiaries (net)	I-h	7.300	-	7.300	7.300	-	7.300
10.1 Unconsolidated financial subsidiaries		-	-	-	-	-	-
10.2 Unconsolidated non-financial subsidiaries		7.300	-	7.300	7.300	-	7.300
XI. Joint ventures (net)	I-ı	18.114	-	18.114	20.851	-	20.851
11.1 Accounted based on equity method		18.114	-	18.114	20.851	-	20.851
11.2 Unconsolidated		-	-	-	-	-	-
11.2.1 Financial joint ventures		-	-	-	-	-	-
11.2.2 Non-financial joint ventures		-	-	-	-	-	-
XII. Lease receivables	I-i	1.720.318	6.584.168	8.304.486	1.614.761	5.247.500	6.862.261
12.1 Financial lease receivables		2.229.318	7.604.773	9.834.091	2.037.181	6.100.328	8.137.509
12.2 Operating lease receivables		-	-	-	-	-	-
12.3 Other		-	-	-	-	-	-
12.4 Unearned income (-)		(509.000)	(1.020.605)	(1.529.605)	(422.420)	(852.828)	(1.275.248)
XIII. Derivative financial assets held for hedging	I-j	1.096.608	113.104	1.209.712	954.773	6.268	961.041
13.1 Fair value hedge		246.295	-	246.295	257.144	-	257.144
13.2 Cash flow hedge		850.313	113.104	963.417	697.629	6.268	703.897
13.3 Foreign net investment hedge		-	-	-	-	-	-
XIV. Property and equipment (net)	I-k	2.678.356	34.691	2.713.047	2.733.389	34.095	2.767.484
XV. Intangible assets (net)	I-l	1.549.798	17.066	1.566.864	1.495.645	12.783	1.508.428
15.1 Goodwill		979.493	-	979.493	979.493	-	979.493
15.2 Other		570.305	17.066	587.371	516.152	12.783	528.935
XVI. Investment property (net)	I-m	-	-	-	-	-	-
XVII. Tax asset		178.240	1.151	179.391	64.613	13.528	78.141
17.1 Current tax asset		97.812	1.151	98.963	2.763	8.660	11.423
17.2 Deferred tax asset	I-n	80.428	-	80.428	61.850	4.868	66.718
XVIII. Assets held for resale and related to discontinued operations (net)	I-o	161.854	4.329	166.183	153.159	763	153.922
18.1 Held for sale purposes		161.854	4.329	166.183	153.159	763	153.922
18.2 Related to discontinued operations		-	-	-	-	-	-
XIX. Other assets	I-ö	2.104.336	3.088.997	5.193.333	1.821.607	1.758.172	3.579.779
Total assets		150.778.002	120.356.588	271.134.590	135.243.431	100.024.501	235.267.932

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

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

Yapı ve Kredi Bankası A.Ş.

Consolidated financial statements as of December 31, 2016 and 2015

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

I. Consolidated balance sheet (Statement of Financial Position)

		Current Period (31/12/2016)			Prior Period (31/12/2015)		
Liabilities	Note (Section Five)	TL	FC	Total	TL	FC	Total
I. Deposits	II-a	84.238.259	72.849.936	157.088.195	67.161.726	62.863.339	130.025.065
1.1 Deposits of the Bank's risk group		7.602.155	12.201.241	19.803.396	7.064.701	7.279.374	14.344.075
1.2 Other		76.636.104	60.648.695	137.284.799	60.097.025	55.583.965	115.680.990
II. Derivative financial liabilities held for trading	II-b	2.188.935	389.744	2.578.679	1.624.462	297.946	1.922.408
III. Funds borrowed	II-c	1.367.430	29.141.344	30.508.774	1.272.041	23.588.938	24.860.979
IV. Money markets		7.225.341	1.979.688	9.205.029	12.098.151	2.165.386	14.263.537
4.1 Funds from interbank money market		-	-	-	1.887.563	-	1.887.563
4.2 Funds from Istanbul stock exchange money market		2.931.228	-	2.931.228	1.960.438	-	1.960.438
4.3 Funds provided under repurchase agreements		4.294.113	1.979.688	6.273.801	8.250.150	2.165.386	10.415.536
V. Marketable securities issued (net)	II-ç	3.990.883	14.089.584	18.080.467	4.200.363	12.972.530	17.172.893
5.1 Bills		1.399.791	86.665	1.486.456	2.106.752	451.305	2.558.057
5.2 Asset backed securities		-	6.564.507	6.564.507	-	6.083.274	6.083.274
5.3 Bonds		2.591.092	7.438.412	10.029.504	2.093.611	6.437.951	8.531.562
VI. Funds		-	-	-	-	-	-
6.1 Borrower funds		-	-	-	-	-	-
6.2 Other		-	-	-	-	-	-
VII. Miscellaneous payables		9.152.217	2.010.570	11.162.787	8.055.012	1.739.669	9.794.681
VIII. Other liabilities	II-d	1.590.918	365.486	1.956.404	1.818.088	937.971	2.756.059
IX. Factoring payables		-	-	-	-	-	-
X. Lease payables	II-e	-	-	-	-	-	-
10.1 Financial lease payables		-	-	-	-	-	-
10.2 Operational lease payables		-	-	-	-	-	-
10.3 Other		-	-	-	-	-	-
10.4 Deferred lease expenses (-)		-	-	-	-	-	-
XI. Derivative financial liabilities held for hedging	II-f	66.263	23.033	89.296	39.313	108.965	148.278
11.1 Fair value hedge		49.949	508	50.457	3.926	305	4.231
11.2 Cash flow hedge		16.314	22.525	38.839	35.387	108.660	144.047
11.3 Foreign net investment hedge		-	-	-	-	-	-
XII. Provisions	II-g	3.359.679	1.334.393	4.694.072	2.961.036	1.021.950	3.982.986
12.1 General loan loss provision		1.884.546	1.225.025	3.109.571	1.702.877	924.394	2.627.271
12.2 Restructuring provisions		-	-	-	-	-	-
12.3 Reserve for employee rights		298.496	2.825	301.321	279.020	21.493	300.513
12.4 Insurance technical provisions (net)		-	-	-	-	-	-
12.5 Other provisions		1.176.637	106.543	1.283.180	979.139	76.063	1.055.202
XIII. Tax liability	II-ğ	566.362	15.479	581.841	614.290	5.163	619.453
13.1 Current tax liability		308.752	4.838	313.590	500.356	-	500.356
13.2 Deferred tax liability		257.610	10.641	268.251	113.934	5.163	119.097
XIV. Liabilities for property and equipment held for sale and related to discontinued operations (net)		-	-	-	-	-	-
14.1 Held for sale		-	-	-	-	-	-
14.2 Related to discontinued operations		-	-	-	-	-	-
XV. Subordinated loans	II-h	-	9.067.893	9.067.893	-	6.635.191	6.635.191
XVI. Shareholders' equity	II-ı	26.103.038	18.115	26.121.153	22.857.536	228.866	23.086.402
16.1 Paid-in capital		4.347.051	-	4.347.051	4.347.051	-	4.347.051
16.2 Capital reserves		2.643.512	18.115	2.661.627	2.648.597	228.866	2.877.463
16.2.1 Share premium		543.881	-	543.881	543.881	-	543.881
16.2.2 Share cancellation profits		-	-	-	-	-	-
16.2.3 Marketable securities valuation differences		(377.643)	(86.111)	(463.754)	(546.402)	261.490	(284.912)
16.2.4 Property and equipment revaluation differences		1.462.750	6.947	1.469.697	1.462.750	4.978	1.467.728
16.2.5 Intangible assets revaluation differences		-	-	-	-	-	-
16.2.6 Revaluation differences of investment property		-	-	-	-	-	-
16.2.7 Bonus shares from investments in associates, subsidiaries and joint ventures		4.561	-	4.561	4.503	-	4.503
16.2.8 Hedging funds (effective portion)		(191.241)	97.279	(93.962)	(9.083)	(34.866)	(43.949)
16.2.9 Value increase in assets held for sale and related to discontinued operations		-	-	-	-	-	-
16.2.10 Other capital reserves		1.201.204	-	1.201.204	1.192.948	(2.736)	1.190.212
16.3 Profit reserves		14.539.224	-	14.539.224	12.357.721	-	12.357.721
16.3.1 Legal reserves		844.539	-	844.539	751.512	-	751.512
16.3.2 Status reserves		-	-	-	-	-	-
16.3.3 Extraordinary reserves		12.913.149	-	12.913.149	11.148.251	-	11.148.251
16.3.4 Other profit reserves		781.536	-	781.536	457.958	-	457.958
16.4 Income or (loss)		4.572.749	-	4.572.749	3.503.693	-	3.503.693
16.4.1 Prior years' income or (loss)		1.639.954	-	1.639.954	1.595.010	-	1.595.010
16.4.2 Current year income or (loss)		2.932.795	-	2.932.795	1.908.683	-	1.908.683
16.5 Minority interest	II-ı	502	-	502	474	-	474
Total liabilities		139.849.325	131.285.265	271.134.590	122.702.018	112.565.914	235.267.932

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

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

Yapı ve Kredi Bankası A.Ş.

Consolidated financial statements as of December 31, 2016 and 2015

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

II. Consolidated off-balance sheet commitments

		Current Period (31/12/2016)			Prior Period (31/12/2015)		
	Note (Section Five)	TL	FC	Total	TL	FC	Total
A. Off-balance sheet commitments (II+III)		161.396.771	244.133.727	405.530.498	158.377.335	210.923.096	369.300.431
I. Guarantees and warranties	III-a-2,3	21.614.582	46.839.902	68.454.484	18.076.523	39.567.673	57.644.196
1.1 Letters of guarantee		21.568.691	31.223.540	52.792.231	18.031.594	27.139.408	45.171.002
1.1.1 Guarantees subject to state tender law		471.441	930.593	1.402.034	522.480	1.134.886	1.657.366
1.1.2 Guarantees given for foreign trade operations		2.597.219	30.138.999	32.736.218	2.329.832	25.797.251	28.127.083
1.1.3 Other letters of guarantee		18.500.031	153.948	18.653.979	15.179.282	207.271	15.386.553
1.2 Bank acceptances		-	195.766	195.766	-	173.524	173.524
1.2.1 Import letter of acceptance		-	195.766	195.766	-	173.524	173.524
1.2.2 Other bank acceptances		-	-	-	-	-	-
1.3 Letters of credit		11.407	9.181.763	9.193.170	11.483	8.032.380	8.043.863
1.3.1 Documentary letters of credit		11.407	9.181.763	9.193.170	11.483	8.032.016	8.043.499
1.3.2 Other letters of credit		-	-	-	-	364	364
1.4 Prefinancing given as guarantee		-	-	-	-	-	-
1.5 Endorsements		-	-	-	-	-	-
1.5.1 Endorsements to the Central Bank of the Republic of Turkey		-	-	-	-	-	-
1.5.2 Other endorsements		-	-	-	-	-	-
1.6 Securities issue purchase guarantees		-	-	-	-	-	-
1.7 Factoring guarantees		-	-	-	-	-	-
1.8 Other guarantees		34.484	1.960.487	1.994.971	33.446	1.430.529	1.463.975
1.9 Other warranties		-	4.278.346	4.278.346	-	2.791.832	2.791.832
II. Commitments	III-a-1	53.181.915	25.742.342	78.924.257	60.273.748	26.425.811	86.699.559
2.1 Irrevocable commitments		52.743.486	13.663.919	66.407.405	59.611.290	19.308.750	78.920.040
2.1.1 Asset purchase and sale commitments		3.706.202	12.562.607	16.268.809	13.018.015	17.850.821	30.868.836
2.1.2 Deposit purchase and sales commitments		27.500	6.581	34.081	-	-	-
2.1.3 Share capital commitments to associates and subsidiaries		-	-	-	-	-	-
2.1.4 Loan granting commitments		8.008.276	869.605	8.877.881	7.816.459	1.268.554	9.085.013
2.1.5 Securities issue brokerage commitments		-	-	-	-	-	-
2.1.6 Commitments for reserve deposit requirements		-	-	-	-	-	-
2.1.7 Commitments for cheques		6.686.199	-	6.686.199	6.521.085	-	6.521.085
2.1.8 Tax and fund liabilities from export commitments		6.014	-	6.014	6.376	-	6.376
2.1.9 Commitments for credit card limits		29.878.711	-	29.878.711	28.304.464	-	28.304.464
2.1.10 Commitments for credit cards and banking services promotions		18.409	-	18.409	13.810	-	13.810
2.1.11 Receivables from short sale commitments of marketable securities		-	-	-	-	-	-
2.1.12 Payables for short sale commitments of marketable securities		-	-	-	-	-	-
2.1.13 Other irrevocable commitments		4.412.175	225.126	4.637.301	3.931.081	189.375	4.120.456
2.2 Revocable commitments		438.429	12.078.423	12.516.852	662.458	7.117.061	7.779.519
2.2.1 Revocable loan granting commitments		438.429	12.018.342	12.456.771	662.458	7.053.496	7.715.954
2.2.2 Other revocable commitments		-	60.081	60.081	-	63.565	63.565
III. Derivative financial instruments	III-b-c	86.600.274	171.551.483	258.151.757	80.027.064	144.929.612	224.956.676
3.1 Derivative financial instruments for hedging purposes		29.395.251	23.277.181	52.672.432	27.798.633	30.327.804	58.126.437
3.1.1 Transactions for fair value hedge		668.301	1.990.110	2.658.411	671.683	940.678	1.612.361
3.1.2 Transactions for cash flow hedge		28.726.950	21.287.071	50.014.021	27.126.950	29.987.126	57.114.076
3.1.3 Transactions for foreign net investment hedge		-	-	-	-	-	-
3.2 Trading transactions		57.205.023	148.274.302	205.479.325	52.228.431	114.001.808	166.230.239
3.2.1 Forward foreign currency buy/sell transactions		5.932.158	9.341.391	15.273.549	3.521.186	6.155.716	9.676.902
3.2.1.1 Forward foreign currency transactions-buy		2.094.166	5.487.983	7.582.149	1.061.769	3.704.251	4.766.020
3.2.1.2 Forward foreign currency transactions-sell		3.837.992	3.853.408	7.691.400	2.459.417	2.451.465	4.910.882
3.2.2 Swap transactions related to foreign currency and interest rates		39.936.351	112.739.983	152.676.334	37.584.382	88.517.703	126.102.085
3.2.2.1 Foreign currency swap-buy		14.973.712	37.775.189	52.748.901	9.161.210	36.482.766	45.643.976
3.2.2.2 Foreign currency swap-sell		20.422.639	52.347.736	72.770.375	28.423.172	17.784.757	46.207.929
3.2.2.3 Interest rate swap-buy		2.270.000	21.520.029	23.790.029	-	17.125.090	17.125.090
3.2.2.4 Interest rate swap-sell		2.270.000	21.520.029	23.790.029	-	17.125.090	17.125.090
3.2.3 Foreign currency, interest rate and securities options		6.062.482	13.199.550	19.262.032	6.717.760	8.590.741	15.308.501
3.2.3.1 Foreign currency options-buy		2.134.509	6.547.706	8.682.215	1.991.034	4.697.239	6.688.273
3.2.3.2 Foreign currency options-sell		3.427.973	5.479.950	8.907.923	3.226.726	3.515.834	6.742.560
3.2.3.3 Interest rate options-buy		250.000	585.947	835.947	750.000	188.834	938.834
3.2.3.4 Interest rate options-sell		250.000	585.947	835.947	750.000	188.834	938.834
3.2.3.5 Securities options-buy		-	-	-	-	-	-
3.2.3.6 Securities options-sell		-	-	-	-	-	-
3.2.4 Foreign currency futures		-	-	-	-	-	-
3.2.4.1 Foreign currency futures-buy		-	-	-	-	-	-
3.2.4.2 Foreign currency futures-sell		-	-	-	-	-	-
3.2.5 Interest rate futures		-	-	-	-	-	-
3.2.5.1 Interest rate futures-buy		-	-	-	-	-	-
3.2.5.2 Interest rate futures-sell		-	-	-	-	-	-
3.2.6 Other		5.274.032	12.993.378	18.267.410	4.405.103	10.737.648	15.142.751
B. Custody and pledges received (IV+V+VI)		515.979.417	262.734.842	778.714.259	248.463.871	68.289.180	316.753.051
IV. Items held in custody		271.381.629	182.248.974	453.630.603	82.066.158	8.101.914	90.168.072
4.1 Customer fund and portfolio balances		-	-	-	-	-	-
4.2 Investment securities held in custody		250.948.565	181.437.884	432.386.449	62.659.805	7.113.567	69.773.372
4.3 Checks received for collection		15.840.681	148.728	15.989.409	15.587.989	150.107	15.738.076
4.4 Commercial notes received for collection		4.547.836	615.063	5.162.899	3.776.609	798.048	4.574.657
4.5 Other assets received for collection		-	40.085	40.085	-	34.137	34.137
4.6 Assets received for public offering		-	-	-	-	-	-
4.7 Other items under custody		44.547	7.214	51.761	41.775	6.055	47.830
4.8 Custodians		-	-	-	-	-	-
V. Pledges received		240.607.924	78.233.779	318.841.703	162.367.478	57.987.609	220.355.087
5.1 Marketable securities		179.680	390	180.070	185.826	322	186.148
5.2 Guarantee notes		1.000.765	285.982	1.286.747	1.063.319	300.003	1.363.322
5.3 Commodity		25.813	56.719	82.532	21.095	12.078	33.173
5.4 Warrants		-	-	-	-	-	-
5.5 Properties		104.128.522	67.662.780	171.791.302	88.195.061	45.988.762	134.183.823
5.6 Other pledged items		135.273.144	10.221.643	145.494.787	72.902.177	11.681.250	84.583.427
5.7 Pledged items-depository		-	6.265	6.265	-	5.194	5.194
VI. Accepted independent guarantees and warranties		3.989.864	2.252.089	6.241.953	4.030.235	2.199.657	6.229.892
Total off-balance sheet commitments (A+B)		677.376.188	506.868.569	1.184.244.757	406.841.206	279.212.276	686.053.482

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

Yapı ve Kredi Bankası A.Ş.

Consolidated financial statements as of December 31, 2016 and 2015

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

III. Consolidated income statement

Income and expense items		Note (Section Five)	Current Period 01/01- (31/12/2016)	Restated Prior Period 01/01- (31/12/2015)
I. Interest income	IV-a		19.109.871	16.300.345
1.1 Interest on loans	IV-a-1		15.684.097	13.132.800
1.2 Interest received from reserve deposits			118.632	43.309
1.3 Interest received from banks	IV-a-2		174.287	84.579
1.4 Interest received from money market transactions			21.539	37.877
1.5 Interest received from marketable securities portfolio	IV-a-3		2.400.058	2.392.122
1.5.1 Trading financial assets			5.302	11.284
1.5.2 Financial assets at fair value through profit or (loss)			-	-
1.5.3 Available-for-sale financial assets			1.671.117	1.947.172
1.5.4 Held to maturity investments			723.639	433.666
1.6 Financial lease income			517.228	438.643
1.7 Other interest income			194.030	171.015
II. Interest expense	IV-b		(10.889.187)	(9.122.142)
2.1 Interest on deposits	IV-b-4		(7.867.050)	(6.335.649)
2.2 Interest on funds borrowed	IV-b-1		(1.066.754)	(999.913)
2.3 Interest expense on money market transactions			(956.350)	(946.451)
2.4 Interest on securities issued	IV-b-3		(968.296)	(825.583)
2.5 Other interest expenses			(30.737)	(14.546)
III. Net interest income (I + II)			8.220.684	7.178.203
IV. Net fees and commissions income			2.972.884	2.840.960
4.1 Fees and commissions received			3.732.653	3.546.591
4.1.1 Non-cash loans			476.738	409.874
4.1.2 Other	IV-j		3.255.915	3.136.717
4.2 Fees and commissions paid			(759.769)	(705.631)
4.2.1 Non-cash loans			(11.597)	(8.707)
4.2.2 Other			(748.172)	(696.924)
V. Dividend income	IV-c		6.173	5.908
VI. Trading gain/(loss) (net)	IV-ç		187.323	(439.135)
6.1 Trading gains/(losses) on securities			17.548	264.590
6.2 Derivative financial transactions gains/(losses)	IV-d		(55.683)	816.658
6.3 Foreign exchange gains/(losses)			225.458	(1.520.383)
VII. Other operating income	IV-e		550.841	626.730
VIII. Total operating income / loss (III+IV+V+VI+VII)			11.937.905	10.212.666
IX. Provision for impairment of loans and other receivables (-)	IV-f		(2.955.042)	(2.649.238)
X. Other operating expenses (-)	IV-g		(5.315.318)	(5.077.318)
XI. Net operating income/(loss) (VIII-IX-X)			3.667.545	2.486.110
XII. Excess amount recorded as income after merger			-	-
XIII. Income/(loss) from investments accounted based on equity method			85.361	50.806
XIV. Income/(loss) on net monetary position			-	-
XV. Profit/(loss) before taxes from continuing operations (XI+XII+XIII+XIV)	IV-ğ		3.752.906	2.536.916
XVI. Tax provision for continuing operations (±)	IV-h		(820.046)	(628.188)
16.1 Current tax provision			(658.037)	(413.941)
16.2 Deferred tax provision			(162.009)	(214.247)
XVII. Net profit/loss from continuing operations (XV±XVI)			2.932.860	1.908.728
XVIII. Income from discontinued operations			-	-
18.1 Income from non-current assets held for resale			-	-
18.2 Profit from sales of associates, subsidiaries and joint ventures			-	-
18.3 Other income from discontinued operations			-	-
XIX. Expenses from discontinued operations (-)			-	-
19.1 Expenses for non-current assets held for resale			-	-
19.2 Loss from sales of associates, subsidiaries and joint ventures			-	-
19.3 Other expenses from discontinued operations			-	-
XX. Profit /losses before taxes from discontinued operations (XVIII-XIX)	IV-ğ		-	-
XXI. Tax provision for discontinued operations (±)	IV-h		-	-
21.1 Current tax provision			-	-
21.2 Deferred tax provision			-	-
XXII. Net profit/loss from discontinued operations (XX±XXI)			-	-
XXIII. Net profit/loss (XVII+XXII)	IV-i		2.932.860	1.908.728
23.1 Group's profit/loss			2.932.795	1.908.683
23.2 Minority interest profit/losses (-)	IV-i		65	45
Earnings/(loss) per share (in TL full)			0,0067	0,0044

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

Yapı ve Kredi Bankası A.Ş.

Consolidated financial statements as of December 31, 2016 and 2015

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

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

Income and expense items accounted under shareholders' equity		Current Period (31/12/2016)	Prior Period (31/12/2015)
I.	Transfers to marketable securities valuation differences from financial assets available for sale	(247.255)	(930.590)
II.	Property and equipment revaluation differences	-	1.525.692
III.	Intangible assets revaluation differences	-	-
IV.	Currency translation differences for foreign currency transactions	373.826	122.784
V.	Profit/loss on cash flow hedges (effective part of the fair value changes)	147.084	744.688
VI.	Profit/loss on foreign net investment hedges(effective part of the fair value changes)	(201.497)	(120.327)
VII.	Effects of changes in accounting policy and adjustment of errors	-	-
VIII.	Other income and expense items accounted under shareholders' equity according to TAS	2.257	20.459
IX.	Deferred tax on valuation differences	27.513	1.304
X.	Net profit or loss accounted directly under shareholders' equity (I+II+...+IX)	101.928	1.364.010
XI.	Current year profit/loss	2.932.860	1.908.728
11.1	Net change in fair value of marketable securities (recycled to profit-loss)	236.391	260.308
11.2	Part of cash flow hedge derivative financial instruments reclassified and presented on the income statement	(44.407)	(89.216)
11.3	Part of foreign net investment hedges reclassified and presented on the income statement	-	-
11.4	Other	2.740.876	1.737.636
XII.	Total income/loss accounted for the period (X+XI)	3.034.788	3.272.738

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

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

Yapı ve Kredi Bankası A.Ş.
Consolidated statement of changes in shareholders' equity as of December 31, 2015
(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

V. Consolidated statement of changes in shareholders' equity

Prior Period															Property and equipment and intangible assets revaluation fund		Asset held for resale/ discontinued operations revaluation fund		Total equity except minority interest		Minority Interest		Total shareholders' equity	
		Note (Section Five)	Paid-in capital	Adjustment to share capital	Share premium	Share cancellation profits	Legal reserves ⁽¹⁾	Status reserves	Extraordinary reserves ⁽¹⁾	Other reserves	Current period net income/ (loss)	Prior period net income/ (loss) ⁽¹⁾	Marketable securities valuation difference		Bonus shares from investments	Hedging funds								
December 31, 2015																								
I.	Period opening balance		4.347.051	-	543.881	-	641.000	-	9.815.284	1.524.256	2.056.015	1.383.961	391.468	18.485	4.503	(512.661)	-	20.213.243	462	20.213.705				
II.	Changes in accounting policies according to TAS 8		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
2.1	Effects of errors		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
2.2	Effects of the changes in accounting policies		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
III.	New balance (I+II)		4.347.051	-	543.881	-	641.000	-	9.815.284	1.524.256	2.056.015	1.383.961	391.468	18.485	4.503	(512.661)	-	20.213.243	462	20.213.705				
	Changes in the period		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
IV.	Increase/decrease due to the merger		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
V.	Marketable securities valuation differences		-	-	-	-	-	-	-	-	-	-	(720.756)	-	-	-	-	(720.756)	-	(720.756)				
VI.	Hedging transactions funds (effective portion)		-	-	-	-	-	-	-	-	-	-	-	-	-	499.490	-	499.490	-	499.490				
6.1	Cash flow hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	595.752	-	595.752	-	595.752				
6.2	Foreign net investment hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	(96.262)	-	(96.262)	-	(96.262)				
VII.	Property and equipment revaluation differences		-	-	-	-	-	-	-	-	-	-	-	1.449.243	-	-	-	1.449.243	8	1.449.251				
VIII.	Intangible assets revaluation differences		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
IX.	Bonus shares from investments in associates, subsidiaries and joint ventures		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
X.	Foreign exchange differences		-	-	-	-	-	-	-	105.786	-	-	44.376	-	-	(30.778)	-	119.384	-	119.384				
XL	Changes due to the disposal of assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
XII.	Changes due to the reclassification of assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
XIII.	Effect of the changes in equity of investment in associates		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
XIV.	Capital increase		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
14.1	Cash increase		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
14.2	Internal resources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
XV.	Share premium		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
XVI.	Share cancellation profits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
XVII.	Paid in-capital inflation adjustment difference		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
XVIII.	Other		-	-	-	-	-	-	-	16.641	-	-	-	-	-	-	-	-	16.641	-	16.641			
XIX.	Current year income or loss		-	-	-	-	-	-	-	-	1.908.683	-	-	-	-	-	-	1.908.683	45	1.908.728				
XX.	Profit distribution		-	-	-	-	110.512	-	1.332.967	1.487	(2.056.015)	211.049	-	-	-	-	-	(400.000)	(41)	(400.041)				
20.1	Dividend paid		-	-	-	-	-	-	-	-	-	(400.000)	-	-	-	-	-	(400.000)	(41)	(400.041)				
20.2	Transfers to reserves		-	-	-	-	110.512	-	1.332.967	1.487	(2.056.015)	611.049	-	-	-	-	-	-	-	-	-	-		
20.3	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
XXI.	Transactions with minority		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Period end balance (III+IV+V+.....+VIII+XIX+XX+ XXI)			4.347.051	-	543.881	-	751.512	-	11.148.251	1.648.170	1.908.683	1.595.010	(284.912)	1.467.728	4.503	(43.949)	-	23.085.928	474	23.086.402				

(1) Total legal reserves and extraordinary reserves of the consolidated entities except Parent Bank's legal reserves and extraordinary reserves have been presented under prior period net income/ (loss).

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

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

Yapı ve Kredi Bankası A.Ş.
Consolidated statement of changes in shareholders' equity as of December 31, 2016
(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

V. Consolidated statement of changes in shareholders' equity

Current Period												Property and equipment and intangible assets revaluation fund			Bonus shares from investments		Hedging funds		Asset held for resale/ discontinued operations revaluation fund		Total equity except minority interest		Minority Interest		Total shareholders' equity	
December 31, 2016		Note (Section Five)	Paid-in capital	Adjustment to share capital	Share premium	Share cancellation profits	Legal reserves ⁽¹⁾	Status reserves	Extraordinary reserves ⁽¹⁾	Other reserves	Current period net income/ (loss)	Prior period net income/ (loss) ⁽¹⁾	Marketable securities valuation difference													
I.	Prior period-end balance		4.347.051	-	543.881	-	751.512	-	11.148.251	1.648.170	1.908.683	1.595.010	(284.912)	1.467.728	4.503	(43.949)				23.085.928	474		23.086.402			
	Changes in the period		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
II.	Increase/decrease due to the merger		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
III.	Marketable securities valuation differences		-	-	-	-	-	-	-	-	-	-	(220.989)	-	-	-	-	-	-	(220.989)	-	-	(220.989)			
IV.	Hedging transactions funds (effective portion)		-	-	-	-	-	-	-	-	-	-	-	-	-	(43.531)	-	-	-	(43.531)	-	-	(43.531)			
4.1	Cash flow hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	117.667	-	-	-	117.667	-	-	117.667			
4.2	Foreign net investment hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	(161.198)	-	-	-	(161.198)	-	-	(161.198)			
V.	Property and equipment revaluation differences		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
VI.	Intangible assets revaluation differences		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
VII.	Bonus shares from investments in associates, subsidiaries and joint ventures		-	-	-	-	-	-	-	-	-	-	-	-	58	-	-	-	-	58	-	-	58			
VIII.	Foreign exchange differences		-	-	-	-	-	-	-	326.932	-	-	42.147	1.969	-	(6.482)	-	-	-	364.566	-	-	364.566			
IX.	Changes due to the disposal of assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
X.	Changes due to the reclassification of assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
XI.	Effect of the changes in equity of investment in associates		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
XII.	Capital increase		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
12.1	Cash increase		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
12.2	Internal resources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
XIII.	Share premium		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
XIV.	Share cancellation profits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
XV.	Paid in-capital inflation adjustment difference		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
XVI.	Other		-	-	-	-	-	-	-	5.018	-	(3.194)	-	-	-	-	-	-	-	1.824	-	-	1.824			
XVII.	Current year income or loss		-	-	-	-	-	-	-	-	2.932.795	-	-	-	-	-	-	-	-	2.932.795	65	-	2.932.860			
XVIII.	Profit distribution		-	-	-	-	93.027	-	1.764.898	2.620	(1.908.683)	48.138	-	-	-	-	-	-	-	-	(37)	-	(37)			
18.1	Dividend paid		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(37)	-	(37)			
18.2	Transfers to reserves		-	-	-	-	93.027	-	1.764.898	2.620	(1.908.683)	48.138	-	-	-	-	-	-	-	-	-	-	-	-		
18.3	Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
XIX.	Transactions with minority		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Period end balance (I+II+III+.....+XVII+XVIII+XIX)			4.347.051	-	543.881	-	844.539	-	12.913.149	1.982.740	2.932.795	1.639.954	(463.754)	1.469.697	4.561	(93.962)	-	-	-	26.120.651	502	-	26.121.153			

(1) Total legal reserves and extraordinary reserves of the consolidated entities except Parent Bank's legal reserves and extraordinary reserves have been presented under prior period net income/ (loss).

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

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

Yapı ve Kredi Bankası A.Ş.

Profit appropriation statements as of December 31, 2016 and 2015

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

VI. Consolidated statement of cash flows

	Note (Section Five)	Current Period (31/12/2016)	Prior Period (31/12/2015)
A. Cash flows from banking operations			
1.1 Operating profit before changes in operating assets and liabilities		1.221.892	3.385.641
1.1.1 Interest received		17.727.998	16.158.858
1.1.2 Interest paid		(10.633.451)	(9.100.081)
1.1.3 Dividend received		6.173	5.908
1.1.4 Fees and commissions received		3.732.653	3.546.591
1.1.5 Other income		(444.011)	1.711.994
1.1.6 Collections from previously written-off loans and other receivables		1.061.802	1.265.370
1.1.7 Payments to personnel and service suppliers		(4.386.305)	(4.672.655)
1.1.8 Taxes paid		(1.017.605)	(601.092)
1.1.9 Other	VI-c	(4.825.362)	(4.929.252)
1.2 Changes in operating assets and liabilities		(600.134)	189.588
1.2.1 Net (increase)/decrease in trading securities		30.515	24.884
1.2.2 Net (increase)/decrease in fair value through profit/loss financial assets		-	-
1.2.3 Net (increase)/decrease in banks		130.418	(3.055.324)
1.2.4 Net (increase)/decrease in loans		(28.715.594)	(30.809.612)
1.2.5 Net (increase)/decrease in other assets		(1.713.355)	(957.333)
1.2.6 Net increase /(decrease) in bank deposits		3.051.996	2.568.253
1.2.7 Net increase /(decrease) in other deposits		23.801.981	19.768.912
1.2.8 Net increase /(decrease) in funds borrowed		(2.804)	11.660.949
1.2.9 Net increase /(decrease) in payables		-	-
1.2.10 Net increase /(decrease) in other liabilities	VI-c	2.816.709	988.859
I. Net cash flows from banking operations		621.758	3.575.229
B. Cash flows from investing activities			
II. Net cash flows from investing activities		2.444.468	(6.459.411)
2.1 Cash paid for acquisition of investments in associates subsidiaries and joint ventures		-	(5.000)
2.2 Cash obtained from disposal of investments in associates subsidiaries and joint ventures		-	-
2.3 Purchases of property and equipment		(395.261)	(499.805)
2.4 Disposals of property and equipment		94.580	80.733
2.5 Purchase of investments available-for-sale		(14.336.340)	(21.010.767)
2.6 Sale of investments available-for-sale		18.501.225	15.667.773
2.7 Purchase of investment securities		(1.703.125)	(913.249)
2.8 Sale of investment securities		283.389	220.904
2.9 Other		-	-
C. Cash flows from financing activities			
III. Net cash flows from financing activities		1.453.047	723.981
3.1 Cash obtained from funds borrowed and securities issued		10.594.690	8.972.835
3.2 Cash used for repayment of funds borrowed and securities issued		(9.141.606)	(7.848.813)
3.3 Issued capital instruments		-	-
3.4 Dividends paid		(37)	(400.041)
3.5 Payments for finance leases		-	-
3.6 Other		-	-
IV. Effect of change in foreign exchange rates on cash and cash equivalents	VI-c	1.357.079	1.216.165
V. Net increase / (decrease) in cash and cash equivalents (I+II+III+IV)		5.876.352	(944.036)
VI. Cash and cash equivalents at beginning of the period	VI-a	10.082.660	11.026.696
VII. Cash and cash equivalents at end of the period	VI-a	15.959.012	10.082.660

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

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

VII. Profit appropriation statement ^{(1),(2)}

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

(1) Profit Appropriation Statement has been prepared according to unconsolidated financial statements of the Parent Bank.

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Section Three

Accounting policies

I. Explanations on basis of presentation:

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

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

The financial statements of subsidiaries operating abroad have been prepared in accordance with legislations and regulations of the country in which they are operating, however in order to provide fair presentation according to TAS, necessary adjustments and reclassifications are reflected to those financial statements.

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

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

The accounting policies and valuation principles applied in the preparation of financial statements are defined and applied in accordance with TAS and are consistent with the accounting policies applied for the year ended December 31, 2015, except for changes on accounting policies from historical cost basis to revaluation basis for buildings in tangible assets.

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Accounting policies (continued)

The effects of TFRS 9, "Financial Instruments" (2011 version, classification and measurement) which has not been implemented yet, are under evaluation by the Group. The standard which the Group did not early adopt will primarily have an effect on the classification and measurement of the Group's financial assets. The Group is currently assessing the impact of adopting TFRS 9. However, as the impact of adoption depends on the assets held by the Group at the date of adoption itself, it is not practical or possible to quantify the effect at this stage. As of the date of these financial statements, the other TAS/TFRS standards announced but not yet effective are not expected to have significant impact on the Group's accounting policies, financial position and performance.

Additional paragraph for convenience translation into English:

The differences between accounting principles, as described in the preceding paragraphs and accounting principles generally accepted in countries in which the accompanying consolidated financial statements are to be distributed and International Financial Reporting Standards ("IFRS") have not been quantified in the accompanying consolidated financial statements. Accordingly, the accompanying consolidated financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

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

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

Foreign currency denominated monetary assets and liabilities are translated with the Parent Bank exchange rates prevailing at the balance sheet date gains and losses arising from such valuations are recognised in the income statement under the account of "Foreign exchange gains or losses", except for valuation differences arising from foreign currency participations, subsidiaries and foreign currency non-performing loans. Foreign currency non-performing loans are translated with the exchange rates at the date of transfer to non-performing loans accounts.

The Group hedges part of the currency translation risk of net investments in foreign operations through currency borrowings. The effective portion of the foreign exchange difference of these financial liabilities is recognised in "Hedging funds" in equity.

The Group, classifies its financial liabilities as the financial liabilities classified at fair value through profit/loss in order to eliminate the accounting mismatch at the initial recognition.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Accounting policies (continued)

III. Information on consolidation principles:

a. Consolidation principles applied:

The consolidated financial statements have been prepared in accordance with the procedures listed in the "Communiqué related to the Regulation on the Preparation of the Consolidated Financial Statements of Banks" published in the Official Gazette No. 26340 dated November 8, 2006 and the "Turkish Accounting Standard for Consolidated Financial Statements" ("TFRS 10").

1. Consolidation principles of subsidiaries:

Subsidiaries are the entities controlled directly or indirectly by the Parent Bank.

Control is defined as the power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the Parent Bank's returns.

Subsidiaries are consolidated with full consolidation method by considering the results of their activities and the size of their assets and shareholders' equity. Financial statements of the related subsidiaries are included in the consolidated financial statements from the date control is transferred to the Group and they are taken out of consolidation scope when control no longer exists. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In accordance with the full consolidation method, balance sheet, income statement and off balance sheet items of the subsidiaries have been consolidated line by line with the balance sheet, income statement and off balance sheet of the Parent Bank. The book value of the investments of the Group in each subsidiary has been netted off with the portion of each subsidiary's capital that belongs to the Group. Unrealized gains and losses and balances resulting from the transactions among the entities included in consolidation have been eliminated. In the consolidated balance sheet and income statement, minority interest has been presented separately from the shares of the Group shareholders.

The subsidiaries included in consolidation, their title, their place of incorporation, their main activities and their effective shareholding rates are as follows:

Title	Incorporation (City/ Country)	Main activities	Effective rates (%)	Direct and indirect rates (%)
			December 31, 2016	December 31, 2016
Yapı Kredi Leasing	Istanbul/Turkey	Leasing	99,99	99,99
Yapı Kredi Faktoring	Istanbul/Turkey	Factoring	99,96	99,96
Yapı Kredi Menkul	Istanbul/Turkey	Investment Management	99,98	99,98
Yapı Kredi Portföy	Istanbul/Turkey	Portfolio Management	99,95	99,97
Yapı Kredi Holding B.V.	Amsterdam/Netherlands	Financial Holding	100,00	100,00
Yapı Kredi Bank N.V.	Amsterdam/Netherlands	Banking	100,00	100,00
Yapı Kredi Bank Moscow	Moscow/Russia	Banking	100,00	100,00
Yapı Kredi Azerbaijan	Baku /Azerbaijan	Banking	100,00	100,00
Stichting Custody Services YKB	Amsterdam/Netherlands	Custody services	100,00	100,00
Yapı Kredi Invest LLC	Baku/Azerbaijan	Portfolio Management	100,00	100,00
Yapı Kredi Malta	St.Julian/Malta	Banking	100,00	100,00
Yapı Kredi Diversified Payment Rights Finance Company ⁽¹⁾	George Town/ Cayman Islands	Special Purpose Company	-	-

(1) It is a special purpose entity established for securitization transactions and is included in the consolidation although it is not a subsidiary of the Parent Bank.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Accounting policies (continued)

2. Consolidation principles of associates:

The associates are entities in which the Parent Bank participates in their capital and has significant influence on them, although the Parent Bank has no capital or management control, is established in domestic and abroad. The related associates are consolidated with equity method.

Significant influence refers to the participation power on the constitution of the financial and management policies of the participated associate.

Equity method is an accounting method which foresees the increase or decrease of the book value of capital share in an associate from the changes in the participated associate's shareholders' equity during the period attributable to the portion of the investor and the deduction of the dividend received from the associate from the revised value of the associate amount.

The associates included in consolidation, their title, their place of incorporation, their main activities and their effective shareholding rates are as follows:

Title	(City/ Country)	Main activities	Effective rates % December 31, 2016	Direct and indirect rates % December 31, 2016
Banque de Commerce et de Placements S.A.	Geneva/Switzerland	Banking	30,67	30,67
Allianz Yaşam ve Emeklilik A.Ş.	Istanbul/Turkey	Insurance	20,00	20,00

3. Consolidation principles of joint ventures:

The joint venture is an entity in which the Parent Bank participates in its capital and has joint control and whose main operation is real estate investment trust ("REIT") and operates according to special legislation with permission and license and is established in Turkey. The related joint venture is consolidated with equity method in accordance with materiality principle.

Equity method is an accounting method which foresees the increase or decrease of the book value of capital share in a joint venture from the changes in the participated joint venture's shareholders' equity during the period attributable to the portion of the investor and the deduction of the dividend received from the associate from the revised value of the associate amount.

The joint venture included in consolidation, its title, its place of incorporation, main activities and effective shareholding rates are as follows:

Title	(City/ Country)	Main activities	Effective rates % December 31, 2016	Direct and indirect rates % December 31, 2016
Yapı Kredi Koray Gayrimenkul Yatırım Ortaklığı A.Ş.	Istanbul/Turkey	REIT	30,45	30,45

4. Transactions with minority shareholders:

The Group applies a policy of treating transactions with minority interests as transactions within the Group. The difference between the acquisition cost and net asset acquired is recognised under equity. Disposals from minority interests are also considered as equity transactions and result in changes in the equity of the Group.

Accounting policies (continued)

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

b. Presentation of unconsolidated subsidiaries, associates and joint ventures in consolidated financial statements:

Turkish Lira denominated investments in unconsolidated associates, subsidiaries and joint ventures are accounted at cost value, less any impairment, in accordance with "Turkish Accounting Standards for Individual Financial Statements" ("TAS 27") in the consolidated financial statements.

Foreign currency denominated investments in unconsolidated associates, subsidiaries and joint ventures are accounted at their original foreign currency costs translated into Turkish Lira using the exchange rates prevailing at the transaction date less impairment, if any.

When the cost of associates, subsidiaries and joint ventures is higher than the net realizable value, the carrying amount is reduced to the net realizable or fair value considering whether the value decrease is temporary or permanent and the ratio of the value decrease.

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

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

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

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

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

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

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

Accounting policies (continued)

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

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

V. Explanations on interest income and expense:

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

VI. Explanations on fee and commission income and expenses:

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

VII. Explanations on financial assets:

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

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

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

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

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Accounting policies (continued)

b. Held-to-maturity financial assets:

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

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

c. Loans and receivables:

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

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

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

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Accounting policies (continued)

d. Available-for-sale financial assets:

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

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

Interest income on available for sale financial assets are calculated by effective interest rate method and are accounted for in interest income account. At the time of sale of an available for sale financial assets before the maturity, the difference between the profit, which is the difference between the cost and sales price of the financial assets, and the interest income accrual are accounted under "Trading gains/(losses) on securities" according to the UCA.

VIII. Explanations on impairment of financial assets:

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

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

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

IX. Explanations on offsetting financial assets:

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

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

Securities subject to repurchase agreements ("Repos") are classified as "At fair value through profit or loss", "Available-for-sale" and "Held-to-maturity" according to the investment purposes of the Group and measured according to the portfolio to which they belong. Funds obtained from repurchase agreements are accounted under "Funds provided under repurchase agreements" in liabilities and the difference between the sale and repurchase price is accrued over the life of the repurchase agreements using the

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Accounting policies (continued)

"Effective interest method". Interest expense on repo transactions are recorded under "Interest expense on money market transactions" in the income statement.

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

The Group has no securities lending transactions.

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

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

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

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

XII. Explanations on goodwill and other intangible assets:

a. Goodwill:

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

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

b. Other intangible assets:

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Accounting policies (continued)

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

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

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

XIII. Explanations on property and equipment:

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

The Group adopted fair value accounting method for its buildings since March 31, 2015 in tangible assets in accordance with TAS 16.

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

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

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

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

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

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Accounting policies (continued)

XIV. Explanations on leasing transactions:

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

a. Accounting of leasing operations according to lessee:

Financial lease

The Group includes the lower of the market value of the fixed asset subject to financial leasing in the beginning of the financial leasing period or present value of the lease payments in property and equipment and records the liabilities arising from financial leasing in liabilities. Financing costs arising due to leasing are spread through the lease period forming a fixed interest rate. In addition, fixed assets that are obtained by the way of financial leasing are subject to depreciation based on their useful lives. If a decrease in the value of fixed assets that are subject to financial leasing is noticed, impairment provision is recognised. The liabilities arising from financial leasing contracts are accounted under "financial lease payables". Expenses arising from interest and exchange rate changes related to financial leasing liabilities are charged to the income statement. Lease payments are deducted from financial leasing payables.

Operational lease

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

b. Accounting of leasing operations according to lessor:

Assets that are subject to financial leasing are reflected as a receivable equal to the net leasing amount in the consolidated financial statements. Interest income is earned to form a fixed periodical interest rate on net investment amount of the related leased asset by the lessor and the portion relating to subsequent periods is followed in the unearned interest income account.

Allowances for impairment of lease receivables

The lease receivables provision for the impairment of investments in direct finance leases is established based on a credit review of the receivables portfolio. The Group has set this provision in accordance with the Communiqué of BRSA named "The Procedures Regarding the Provisions to Be Provided for the Loans of Leasing, Factoring and Consumer Finance Companies" ("Provisions Communiqué") which was published in the Official Gazette dated December 24, 2013, numbered 28861. According to the Communiqué, specific provisions are set in following proportions: minimum 20% for collateralized lease receivables for which related collections are delayed between 150 and 240 days, minimum 50% for collateralized lease receivables for which related collections are delayed between 240 days and 1 year and 100% for collateralized lease receivables for which related collections are delayed more than 1 year.

In accordance with the related Communiqué of Provision, the Group also recognizes specific provision even if the overdue days are less than the days stated above or receivables are not over due at all, by taking into account all the existing data regarding the creditor and based on the principals of reliability and prudence.

In the Communiqué of Provisions, it is stated that although it is not mandatory, a general provision which is not related to a specific transaction can be recognised for the losses arising from the principal or interest of lease receivables that are not overdue or overdue less than 150 days but the amount of

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Accounting policies (continued)

loss is not certain. In accordance with the Communiqué of Provisions, the Group sets a general provision for the lease receivables that have not been considered as doubtful yet.

Finance lease receivables and accounts receivables that cannot be recovered are written off and charged against the allowance for the impairment of lease and accounts receivables. Such receivables are written off after all the necessary legal proceedings have been completed and the amount of loss is finally determined. Recoveries of amounts previously provided for are treated as a reduction from the provision for the impairment of the lease receivable and are recognized as income.

XV. Explanations on provisions and contingent assets and liabilities:

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

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

Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the entity. Contingent assets are not recognized in financial statements since this may result in the recognition of income that may never be realized. Contingent assets are disclosed where an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements of the period in which the change occurs.

XVI. Explanations on obligations related to employee rights:

a. Employee termination benefits

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

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

b. Pension rights

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Accounting policies (continued)

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

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

The reasoning of the Constitutional Court regarding the abrogation of the corresponding article was published in the Official Gazette dated December 15, 2007, No 26372. With the publication of the reasoning of the decision, the Grand National Assembly of Turkey ("GNAT") started to work on new legal arrangements regarding the transfer of the fund members to SSI and the related articles of the "Law Regarding the Changes in Social Insurance and General Health Insurance Law and Other Related Laws and Regulations" No 5754 ("the New Law") regulating the transfer of the funds were approved by the GNAT on April 17, 2008. The New Law was published in the Official Gazette No. 26870 dated May 8, 2008. With the new law, the banks' pension funds will be transferred to SSI within three years from the date of publication of the decree and this period can be extended for a maximum of two years with the decision of the Council of Ministers. The transfer period was extended for another two years with the decision of the Council of Ministers No. 2011/1559 published in the Official Gazette dated April 9, 2011. According to the "Amendment of Social Insurance and General Health Insurance Law No. 6283" published in the Official Gazette dated March 8, 2012, Council of Ministers was authorized to increase the two-year extension period mentioned above to four years. According to the decision of The Council of Ministers dated February 24, 2014, the transfer date is set as May 2015. The Council of Ministers was authorized to determine the transfer date of pension funds in accordance with the last amendment in the first paragraph of the 20th provisional article of Law No.5510 implemented by the Law No. 6645 on Amendment of the Occupational Health and Safety Law and Other Laws and Decree Laws published in the Official Gazette dated April 23, 2015 and numbered 29335.

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

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

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

c. Defined contribution plans:

The Bank is required to pay certain contributions to the Social Security Institution on behalf of their employees. Other than these payments, the Group does not have any further obligation in this respect. Such premiums are charged to personnel expenses when incurred.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Accounting policies (continued)

d. Short term benefits of employee:

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

XVII. Explanations on taxation:

a. Current tax:

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

Turkish tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provisions for taxes, as reflected in these consolidated financial statements, have been calculated on a separate-entity basis.

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

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

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

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

Under the Turkish Corporate Tax Law, effective from April 24, 2003, investment allowances had provided a deduction from the corporate tax base of 40% of the purchase price of purchases of the brand new fixed assets having economic useful life and exceeding TL 10 and directly related with the production of goods and services and investment allowance that arose prior to April 24, 2003 had been taxed at 19,8% (withholding tax) unless they had been converted to new type at companies' will. Effective from January 1, 2006, Turkish government had ceased to offer investment incentives for capital investments and companies having unused qualifying capital investment amounts as of June 30, 2006 would be able to deduct such amounts from corporate income for the following years.

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

Accounting policies (continued)

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

and the related accounting records on which they are based, and may issue re-assessments based on their findings.

Tax rates that are used in tax calculations before the exemptions by foreign subsidiaries by taking current tax regulations in their countries into consideration as of December 31, 2016 are as follows:

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

b. Deferred tax:

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

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

Deferred tax assets and liabilities of subsidiaries subject to consolidation have been netted of in their standalone financial statements in accordance with TAS 12. The calculated deferred tax asset and deferred tax liability are presented as net in these financial statements.

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

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

c. Transfer pricing:

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

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

Accounting policies (continued)

As discussed in the relevant section of this communiqué, the taxpayers are required to fill out the "Transfer Pricing, Controlled Foreign Entities and Thin Capitalization" form for the purchase and

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

sale of goods or services conducted with their related parties in a taxation period, attach these forms to their corporate tax returns and submit to the tax offices.

XVIII. Explanations on borrowings:

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

The Group, classified its part of the financial debts as fair value through profit / loss on financial liabilities in order to eliminate the accounting mismatch at the initial recognition. The interest expenses paid and the differences between the amortised cost and the acquisition cost of the related debt instruments during the time held in the portfolio are accounted in the interest expense; the differences between the fair value and amortised cost of the related debt instruments are presented as trading gain and losses in the accompanying profit and loss statement.

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

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

XIX. Explanations on issuance of share certificates:

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

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

XX. Explanations on avalized drafts and letter of acceptances:

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

XXI. Explanations on government grants:

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

XXII. Profit reserves and profit distribution:

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

XXIII. Earnings per share:

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Accounting policies (continued)

	Current Period	Prior Period
Net Income/(loss) to be appropriated to ordinary shareholders	2.932.795	1.908.683
Weighted average number of issued ordinary shares(thousand)	434.705.128	434.705.128
Earnings per share (full TL)	0,0067	0,0044

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

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

XXIV. Related parties:

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

XXV. Explanations on operating segments:

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

XXVI. Explanations on other matters:

None.

XXVII. Legal mergers under common control:

As in TFRS 3 or in another standard in TFRS there is an absence of treatment that specifically applies to business combinations involving entities under common control, by examining the practices included in the generally accepted global accounting standards the Group decided to apply an accounting policy in parallel with the "pooling of interests" method in view of its judgement that the economic substance of the relevant transaction will be most reliably and accurately reflected in this manner. In the accounting of business combinations which occur under common control, assets and liabilities, subject to business combinations, are accounted for in the consolidated financial statements at their carrying values. Income statements are consolidated as of the beginning of the financial year in which the business combinations occurred. Financial statements belonging to previous periods also are adjusted in the same way in order to ensure the comparability. As a result of those transactions, any goodwill or negative goodwill is not calculated. The difference between the investment amount and the share in capital in the acquired company is directly accounted under equity as "the effect of legal mergers under common control".

POA has issued a policy decision in July, 2013 regarding "Accounting for business combinations Subject to Joint Control Group" which is effective for annual periods beginning on December 31, 2012.

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Accounting policies (continued)

Based on this decision, i) rights in business combinations under common control combinations should be accounted for by the method of pooling of interest, ii) due to that goodwill should be included in the financial statements, iii) while pooling of interest method is applied, at the beginning of the reporting period where the common control occurs, corrections should be made in the financial statements as if the combination has been completed and this common control should be represented comparatively. The accounting policy applied by the group is consistent with the decision of principle.

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Section four

Information related to financial position of the Group

I. Explanations on consolidated own funds:

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

The consolidated capital adequacy ratio of the Group is 13,18% (December 31, 2015 – 12,91%) and the Parent Bank is 14,21% (December 31, 2015 – 13,81%).

a. Information on consolidated own funds:

	Amounts subject to treatment	
	Current Period	before 1/1/2014 ⁽¹⁾
COMMON EQUITY TIER 1 CAPITAL		
Paid-up Capital	4.347.051	
Share issue premiums	543.881	
Retained earnings	14.539.224	
Accumulated other comprehensive income and other disclosed reserves which defined in the Turkish Accounting Standards	3.053.077	
Profit	4.572.749	
Net profit of the period	2.932.795	
Profit of the previous years	1.639.954	
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and cannot be recognised within profit for the period	4.561	
Minority interest	502	
Common Equity Tier 1 capital before regulatory adjustments	27.061.045	
Common Equity Tier 1 capital: regulatory adjustments		
Prudential valuation adjustments	19.189	
The sum of the net loss for the current period and the previous years which could not be absorbed by the retained earnings and losses recognised in equity in accordance with TAS	939.892	
Improvement costs for operating leasing	119.336	
Goodwill (net of related tax liability)	587.696	979.493
Other intangibles other than mortgage-servicing rights (net of related tax liability)	331.709	552.848
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
Cash-flow hedge reserve	379.150	
Shortfall of provisions to expected losses	-	
Securitisation gain on sale	-	
Gains and losses due to changes in own credit risk on fair valued liabilities	-	
Defined-benefit pension fund net assets	-	
Investments in own shares	-	
Credits extended contrary to the fourth paragraph of Articles 56 of the Banking Law	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank owns more than 10% of the issued share capital (amount above 10% threshold)	-	
Mortgage servicing rights (amount above 10% threshold)	-	
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
Amount exceeding the 15% threshold (as set out in the paragraph 2 of the Provisional Article 2 of the Regulation on Banks' Own Funds)	-	
The amount above threshold for the investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank owns more than 10% of the issued share capital	682.728	
The amount above threshold for mortgage servicing rights	-	
The amount above threshold for deferred tax assets arising from temporary differences	-	
National specific regulatory adjustments which shall be determined by the BRSA	-	
Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
Total regulatory adjustments to Common equity Tier 1	3.059.700	
Common Equity Tier 1 capital (CET1)	24.001.345	

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

	Current Period before 1/1/2014 ⁽¹⁾	Amounts subject to treatment
ADDITIONAL TIER I CAPITAL		
Preferred shares that are not included in Common Equity Tier 1 capital and related shares issue premiums	-	
Eligible capital instruments and relevant share issue premiums that are approved by the BRSA	-	
Eligible capital instruments and relevant share issue premiums that are approved by the BRSA (For the purposes of the Provisional Article 4 of the Regulation on Banks' Own Funds)	-	
Shares of Third Parties in Additional Tier I Capital	-	
Shares of Third Parties in Additional Tier I Capital (Covered by Temporary Article 3)	-	
Additional Tier 1 capital before regulatory adjustments	-	
Additional Tier 1 capital: regulatory adjustments	-	
Investments in own Additional Tier 1 instruments	-	
Reciprocal cross-holdings in Additional Tier 1 instruments	-	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
National specific regulatory adjustments which shall be determined by the BRSA	-	
Regulatory Adjustments which will be deducted from Tier 1 capital during the transition period		
Goodwill and other intangible assets and related deferred tax liabilities which will not deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	612.936	-
Net deferred tax asset/liability which is not deducted from Common Equity Tier 1 capital for the purposes of the sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
Total regulatory adjustments to Additional Tier 1 capital	-	
Total Additional Tier 1 capital	-	
Total Tier 1 capital (Tier 1 capital = Common Equity Tier 1 capital + Additional Tier 1 capital)	23.388.409	
TIER 2 CAPITAL		
Eligible capital instruments and relevant share issue premiums that are approved by the Agency	5.472.356	
Eligible capital instruments and relevant share issue premiums that are approved by the Agency (For the purposes of the Provisional Article 4 of the Regulation on Banks' Own Funds)	1.066.560	
Shares of Third Parties in Additional Tier I Capital	-	
Shares of Third Parties in Additional Tier I Capital (Covered by Temporary Article 3)	-	
Provisions (Article 8 of the Regulation on the Equity of Banks)	2.886.021	
Tier 2 capital before regulatory adjustments	9.424.937	
Tier 2 capital: regulatory adjustments		
Direct and indirect investments of the Bank on its own Tier 2 Capital (-)	-	
Investments of the Bank to banks that invest on the Bank's Tier 2 and components of equity issued by financial institutions with the conditions declared in Article 8	109.452	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold) (-)	-	
Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) (-)	-	
National specific regulatory adjustments which shall be determined by the BRSA	-	
Total regulatory adjustments to Tier 2 capital	109.452	
Total Tier 2 capital	9.315.485	
Total Capital (The sum of Tier 1 capital and Tier 2 capital)	32.484.365	
The Sum of Tier 1 Capital and Tier 2 Capital (Total Capital)		
Credits extended contrary to the provisions of Articles 50 and 51 of the Banking Law	13.811	
Portion of the sum of the banks' real estate net book values, which is in excess of fifty per cent of their own funds and net book values of those of merchandise and real estate which have to be acquired due to their receivables and disposed of pursuant to Article 57 of the Banking Law, which cannot be disposed of despite the lapse of a period of five years since the date of such acquisition	11.868	
National specific regulatory adjustments which shall be determined by the BRSA	193.850	
Regulatory Adjustments which will be deducted from Total Capital during the transition period		
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold) which will not deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	
Significant investments in the Additional Tier 1 capital and Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold) which will not deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold), mortgage servicing rights (amount above 10% threshold), deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability) which will not deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

OWN FUNDS	Current Period
Total Capital (The sum of Tier 1 capital and Tier 2 capital)	32.484.365
Total Risk Weighted Assets	246.436.668
CAPITAL ADEQUACY RATIOS	
Consolidated Common Equity Tier 1 Capital Adequacy Ratio (%)	9,74
Consolidated Tier 1 Capital Adequacy Ratio (%)	9,49
Consolidated Capital Adequacy Ratio (%)	13,18
BUFFERS	
Institution specific buffer requirement of the Bank	5,512
Capital conservation buffer requirement (%)	0,625
Bank's specific countercyclical buffer requirement (%)	0,012
The ratio of Additional Common Equity Tier 1 capital which will be calculated by the first paragraph of the Article 4 of Regulation on Capital Conservation and Countercyclical Capital buffers to Risk Weighted Assets (%)	3,739
Amounts below the thresholds for deduction (before risk weighting)	
Non-significant investments in the capital of other financials	-
Significant investments in the common stock of financials	-
Mortgage servicing rights (net of related tax liability)	-
Deferred tax assets arising from temporary differences (net of related tax liability)	1.218.309
Applicable caps on the inclusion of provisions in Tier 2 capital	
General provisions for standard based receivables (before tenthousandtwentyfive limitation)	3.109.571
Up to 1.25% of total risk-weighted amount of general provisions for receivables where the standard approach used	2.886.021
Excess amount of total provision amount to credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-
Excess amount of total provision amount to 0,6% of risk weighted receivables of credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)	-
Current cap on Additional Tier 1 capital instruments which subject to phase out arrangements in the Provisional Article 4 of the Regulation on Banks' Own Funds	-
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) which subject to Provisional Article 4 of the Regulation on Banks' Own Funds	-
Current cap on Tier 2 capital instruments which subject to phase out arrangements in the Provisional Article 4 of the Regulation on Banks' Own Funds	-
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) which subject to Provisional Article 4 of the Regulation on Banks' Own Funds	-

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

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

	Prior Period
Common Equity Tier 1 Capital	
Paid-in Capital to be Entitled for Compensation after All Creditors	4.347.051
Share Premium	543.881
Share Cancellation Profits	-
Legal Reserves	12.357.721
Other Comprehensive Income according to TAS	2.657.940
Profit	3.503.693
Net Current Period Profit	1.908.683
Prior Period Profit	1.595.010
Provisions for Possible Losses	-
Bonus Shares from Associates, Subsidiaries and Joint-Ventures not Accounted in Current Period's Profit	4.503
Minority shares	474
Common Equity Tier 1 capital before regulatory adjustments	23.415.263
Common Equity Tier 1 capital: regulatory adjustments	
Current and prior periods' losses not covered by reserves, and losses accounted under equity according to TAS (-)	596.826
Leasehold improvements on operational leases (-)	147.518
Goodwill and intangible assets and related deferred tax liabilities (-)	591.560
Net deferred tax assets / liabilities (-)	-
Shares Obtained against Article 56, Paragraph 4 of the Banking Law (-)	-
Investments in own common equity (-)	-
Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank does not own 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
Mortgage servicing rights (amount above 10% threshold) (-)	-
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability) (-)	-
Amount Exceeding the 15% Threshold of Tier I Capital as per the Article 2, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-
The Portion of Net Long Position of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank owns 10% or more of the Issued Share Capital not deducted from Tier I Capital (-)	-
Mortgage servicing rights (amount above 10% threshold) (-)	-
Excess Amount arising from Deferred Tax Assets from Temporary Differences (-)	-
Other items to be defined by the regulator (-)	-
Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions (-)	566.076
Total regulatory adjustments to Common equity Tier 1	1.901.980
Common Equity Tier 1 capital	21.513.283

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

	Prior Period
Additional Tier 1 capital: instruments	
Privileged stocks which are not included in common equity and share premiums	-
Directly issued qualifying Additional Tier 1 instruments (approved by the regulators) plus related stock surplus (Issued or Obtained after 1.1.2014)	-
Directly issued qualifying Additional Tier 1 instruments (approved by the regulators) plus related stock surplus (Issued or Obtained after 1.1.2014)	-
Minority shares	-
Additional Tier 1 capital before regulatory adjustments	-
Additional Tier 1 capital: regulatory adjustments	-
Direct and Indirect Investments of the Bank on its own Additional Core Capital (-)	-
Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank does not own 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Consolidated Banks and Financial Institutions where the Bank owns more than 10% of the Issued Share Capital (-)	-
Other items to be Defined by the regulator (-)	-
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions (-)	-
Total regulatory adjustments to Additional Tier 1 capital	-
Additional Tier 1 capital	-
Regulatory adjustments to Common Equity	
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	887.339
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-
Tier 1 capital	20.625.944
Tier 2 capital	
Directly issued qualifying Tier 2 instruments (that are approved by the regulator) plus related stock surplus (Issued or Obtained after 1.1.2014)	-
Directly issued qualifying Tier 2 instruments (that are approved by the regulator) plus related stock surplus (Issued or Obtained before 1.1.2014)	5.213.047
Pledged sources on behalf of the Bank for the use of committed share capital increase by shareholders	-
Generic Provisions	2.511.452
Minority shares	-
Tier 2 capital before regulatory adjustments	7.724.499
Tier 2 capital: regulatory adjustments	
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-
Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank does not own 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Core Capital and Tier II Capital of Consolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-)	-
Other items to be Defined by the regulator (-)	-
Total regulatory adjustments to Tier 2 capital	-
Tier 2 capital	7.724.499

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

	Prior Period
Total capital	28.350.443
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	6.808
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-)	11.345
Loans to Banks, Financial Institutions (domestic/foreign) or Qualified Shareholders in the form of Subordinated Debts or Debt Instruments Purchased from Such Parties and Qualified as Subordinated Debts (-)	149.667
Deductions as per the Article 20, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-
Other items to be Defined by the regulator (-)	280.437
The Portion of Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank does not own 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-
The Portion of Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-
The Portion of Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-
Shareholders's equity	27.902.186
Amounts below the thresholds for deduction	1.003.593
Remaining Total of Net Long Positions of the Investments in Own Fund Items of Consolidated Banks and Financial Institutions where the Bank owns 10% or less of the Issued Share Capital	-
Remaining total of net long positions of the investments in Tier I capital of Consolidated banks and Financial Institutions where the Bank owns more than 10% Or Less of the Tier I Capital	-
Remaining mortgage servicing rights	-
Net deferred tax assets arising from temporary differences	1.003.593

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

b. Information on debt instruments included in the calculation of equity⁽¹⁾::

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

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

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

d. Exposures subject to countercyclical capital buffer:

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

Exposures subject to countercyclical capital buffer:

Country	RWAs of Banking Book for Private Sector Lending	RWAs of Trading Book	Total
Turkey	186.579.351	-	186.579.351
Netherland	1.017.711	-	1.017.711
Malta	964.412	-	964.412
USA	683.405	-	683.405
Russia	604.402	-	604.402
Azerbaijan	521.316	-	521.316
Italy	497.329	-	497.329
Switzerland	433.952	-	433.952
United Arab Emirates	322.354	-	322.354
Germany	286.739	-	286.739
Other	1.781.867	-	1.781.867
Total	193.692.839	-	193.692.839

II. Explanations on consolidated credit risk:

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

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

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

Different rating systems are used for Small and Medium Sized Entities (SME) and Corporate/Commercial customers during the underwriting process of the Parent Bank. A separate rating model is used for the customers which operate in construction industry. The Bank uses scorecard system for its retail and credit card customers for the underwriting and limit management processes. The scorecard system was internally developed, and being updated and approved regularly.

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

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

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

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

The loan is overdue more than 90 days.

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

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

Deterioration of the creditworthiness of the borrower.

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

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

Risk classifications:	Current Period Risk Amount⁽¹⁾	Average Risk Amount
Conditional and unconditional receivables from central governments or central banks	62.360.507	59.082.584
Conditional and unconditional receivables from regional or local governments	234	302
Conditional and unconditional receivables from administrative units and non-commercial enterprises	545.458	68.513
Conditional and unconditional receivables from multilateral development banks	42.695	114.409
Conditional and unconditional receivables from international organizations	-	33.119
Conditional and unconditional receivables from banks and brokerage houses	21.063.597	20.233.771
Conditional and unconditional receivables from corporates	138.125.255	119.119.817
Conditional and unconditional retail receivables	77.666.186	70.411.819
Conditional and unconditional receivables secured by mortgages	15.398.666	16.330.360
Past due receivables	2.190.734	1.748.649
Receivables defined as high risk category by the Regulator	206.858	2.804.544
Investments similar to collective investment funds	112.641	547.164
Other receivables	10.054.719	8.909.994
Total	327.767.550	299.405.045

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

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

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

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

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

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

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

- e. 1. The proportion of the Parent Bank's top 100 and 200 cash loan balances in total cash loans is 27% and 35%.
2. The proportion of the Parent Bank's top 100 and 200 non-cash loan balances in total non-cash loans is 48% and 61%.
3. The proportion of the Parent Bank's cash and non-cash loan balances with the first 100 and 200 customers comprises of 26% and 35% of total cash loans and non-cash loans.
- f. The Group provided a general loan loss provision amounting to TL 3.109.571 (December 31, 2015 - TL 2.627.271).

g. Risk profile according to the geographical concentration:

	Risk Classifications ^{(1),(2)}													
	1	2	3	4	5	6	7	8	9	10	11	12	13	Total
Current Period														
Domestic	61.683.736	167	532.833	-	-	7.673.052	130.109.131	77.494.558	15.397.161	2.095.589	206.855	39.870	9.369.493	304.602.445
EU countries	482.151	67	-	35.777	-	10.797.441	3.222.716	9.306	642	3.977	2	-	2.197	14.554.276
OECD countries ⁽³⁾	-	-	-	-	-	287.625	1.041.137	1.572	100	-	-	-	-	1.330.434
Off-shore banking regions	-	-	-	-	-	900.262	150.019	5.280	-	8.689	-	-	-	1.064.250
USA, Canada	-	-	-	6.918	-	925.094	1.469.903	38.700	138	193	-	60.849	76	2.501.871
Other countries	194.620	-	12.625	-	-	480.123	2.132.349	116.770	625	82.286	1	119	225	3.019.743
Investment and associates, subsidiaries and joint ventures	-	-	-	-	-	-	-	-	-	-	-	11.803	682.728	694.531
Undistributed Assets / Liabilities ⁽⁴⁾	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	62.360.507	234	545.458	42.695	-	21.063.597	138.125.255	77.666.186	15.398.666	2.190.734	206.858	112.641	10.054.719	327.767.550
	Risk Classifications ^{(1),(4)}													
	1	2	3	4	5	6	7	8	9	10	11	12	13	Total
Prior Period														
Domestic	58.292.487	159	205	-	-	10.020.459	100.087.426	49.928.886	25.142.756	1.469.877	15.789.379	-	6.948.575	267.680.209
EU countries	242.187	-	31.827	46.795	65.203	8.328.619	2.432.348	5.054	2.357	99	818	-	12.934	11.168.241
OECD countries ⁽³⁾	-	-	-	-	-	185.332	1.269.070	405	1.129	-	82	-	-	1.456.018
Off-shore banking regions	-	-	-	-	-	87.782	178.429	3.011	-	8.399	8	-	-	277.629
USA, Canada	-	-	-	80.697	-	1.283.785	788.615	6.474	87	29	127	-	-	2.159.814
Other countries	112.734	-	13.503	-	-	432.947	2.418.276	149.721	1.125	44.362	171	-	-	3.172.839
Investment and associates, subsidiaries and joint ventures	-	-	-	-	-	-	-	-	-	-	-	-	11.803	11.803
Undistributed Assets / Liabilities ⁽⁴⁾	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	58.647.408	159	45.535	127.492	65.203	20.338.924	107.174.164	50.093.551	25.147.454	1.522.766	15.790.585	-	6.973.312	285.926.553

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

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

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

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

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

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Bank (continued)

ğ. Risk profile according to sectors and counterparties:

	Risk Classifications ^{(1),(2)}												TL	FC	Total
	1	2	3	4	5	6	7	8	9	10	11	12			
Agricultural	-	-	532.671	-	-	3.902.368	3.541.883	504.516	208.312	10.772	-	-	5.916.290	2.784.232	8.700.522
Farming and raising livestock	-	-	532.671	-	-	2.887.803	2.639.264	334.972	171.762	7.626	-	-	4.493.711	2.080.387	6.574.098
Forestry	-	-	-	-	-	870.719	878.904	167.457	36.087	3.028	-	-	1.376.244	579.951	1.956.195
Fishing	-	-	-	-	-	143.846	23.715	2.087	463	118	-	-	46.335	123.894	170.229
Manufacturing	-	30	12.667	-	-	73.253.166	15.590.822	4.359.316	796.459	58.898	2.492	-	37.050.961	57.022.889	94.073.850
Mining	-	-	14	-	-	2.739.495	443.966	139.488	37.490	1.717	-	-	1.666.456	1.695.714	3.362.170
Production	-	11	3.737	-	-	41.538.680	14.813.010	4.113.824	716.116	50.558	2.492	-	31.705.414	29.533.014	61.238.428
Electric, gas and water	-	19	8.916	-	-	28.974.991	333.846	106.004	42.853	6.623	-	-	3.679.091	25.794.161	29.473.252
Construction	-	2	2	-	-	21.647.631	6.070.669	3.221.344	271.880	55.655	-	18.114	13.498.983	17.786.314	31.285.297
Services	62.360.507	142	63	42.695	19.329.603	35.947.266	9.114.149	2.944.099	474.486	31.725	76.490	5.483.997	62.666.493	73.138.729	135.805.222
Wholesale and retail trade	-	1	-	-	-	5.363.728	3.908.921	831.443	251.306	17.173	-	-	7.883.303	2.489.269	10.372.572
Hotel, food and beverage services	-	-	-	-	-	6.156.798	973.141	1.223.554	47.921	2.507	-	-	2.171.624	6.232.297	8.403.921
Transportation and telecommunication	-	-	1	-	-	7.752.028	1.714.796	281.743	80.841	5.389	5.000	-	3.023.561	6.816.237	9.839.798
Financial institutions	62.360.507	67	-	42.695	19.328.882	2.965.456	214.816	104.156	21.566	345	71.490	5.256.520	41.763.702	48.602.798	90.366.500
Real estate and renting services	-	-	-	-	-	223.378	24.797	5.414	895	44	-	-	126.349	128.179	254.528
Employment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Education services	-	-	-	-	-	165.474	114.645	37.476	7.054	227	-	-	282.546	42.330	324.876
Health and social services	-	74	62	-	721	13.320.404	2.163.033	460.313	64.903	6.040	-	227.477	7.415.408	8.827.619	16.243.027
Other	-	60	55	-	1.733.994	3.374.824	43.348.663	4.369.391	439.597	49.808	33.659	4.552.608	55.960.636	1.942.023	57.902.659
Total	62.360.507	234	545.458	42.695	21.063.597	138.125.255	77.666.186	15.398.666	2.190.734	206.858	112.641	10.054.719	175.093.363	152.674.187	327.767.550

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

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

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

2-Conditional and unconditional receivables from regional or local governments

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

4-Conditional and unconditional receivables from multilateral development banks

5-Conditional and unconditional receivables from banks and brokerage houses

6-Conditional and unconditional receivables from corporates

7-Conditional and unconditional retail receivables

8-Conditional and unconditional receivables secured by mortgages

9-Past due receivables

10-Receivables defined as high risk category by the Regulator

11-Share certificate investment

12-Other receivables

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

h. Risk profile according to remaining maturities:

Risk classifications⁽¹⁾	1 month	1-3 month	3-6 month	6-12 month	1 year and over	Total
Conditional and unconditional receivables from central governments or central banks	21.991.366	259.184	63.250	1.450.446	38.579.023	62.343.269
Conditional and unconditional receivables from regional or local governments	-	167	-	-	67	234
Conditional and unconditional receivables from administrative units and non-commercial enterprises	-	181	-	12.625	532.652	545.458
Conditional and unconditional receivables from multilateral development banks	105	7.658	7.361	176	27.395	42.695
Conditional and unconditional receivables from banks and brokerage houses	1.583.663	4.346.592	1.679.020	2.298.545	9.858.429	19.766.249
Conditional and unconditional receivables from corporates	14.459.707	8.990.045	11.549.133	15.715.551	86.356.163	137.070.599
Conditional and unconditional retail receivables	23.156.249	8.323.026	4.593.128	7.578.234	32.784.583	76.435.220
Conditional and unconditional receivables secured by mortgages	328.846	627.171	909.866	1.475.730	12.057.053	15.398.666
Past due receivables	-	-	-	-	-	-
Receivables defined as high risk category by the Regulator	31.025	77.816	2.730	7.494	87.794	206.859
Investments similar to collective investment funds	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
General Total	61.550.961	22.631.840	18.804.488	28.538.801	180.283.159	311.809.249

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

i. Risk balances according to risk weights:

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

Risk Weights	0%	20%	35%	50%	75%	100%	150%	Total	Deductions from the shareholders' equity
1 Total exposure before credit risk mitigation	36.144.836	4.255.728	7.200.051	56.299.473	77.666.186	145.328.628	872.648	327.767.550	2.663.386
2 Total exposure after credit risk mitigation	34.377.049	3.625.644	7.200.051	55.410.731	77.456.931	140.660.513	785.325	319.516.244	2.663.386

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

j. Information according to sectors and counterparties:

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

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

Sectors / Counterparties	Loans			
	Impaired Loans	Past due	General Provisions	Specific Provisions
Agricultural	119.040	399.825	7.734	68.876
Farming and raising livestock	91.318	377.203	7.308	51.120
Forestry	19.526	14.678	276	12.416
Fishing	8.196	7.944	150	5.340
Manufacturing	2.044.279	1.697.662	29.037	1.316.484
Mining	42.281	181.577	2.854	23.049
Production	1.830.834	1.256.122	21.525	1.142.931
Electric, gas and water	171.164	259.963	4.658	150.504
Construction	983.973	975.726	15.145	548.741
Services	1.313.102	920.179	17.219	811.916
Wholesale and retail trade	958.094	707.460	13.214	544.053
Hotel, food and beverage services	41.171	74.132	1.437	15.411
Transportation and telecommunication	47.706	23.464	394	34.725
Financial institutions	6.386	43.756	675	1.914
Real estate and renting services	206.450	2.339	380	182.023
Self-employment services	-	-	-	-
Education services	15.264	14.753	268	8.314
Health and social services	38.031	54.275	851	25.476
Other	5.263.939	2.875.357	195.904	4.075.082
Total	9.724.333	6.868.749	265.039	6.821.099

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

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

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

	Opening balance	Provision amounts set aside during the period	Reversal of provisions	Other adjustments ⁽¹⁾	Close out balance
1 Specific provisions	4.664.413	2.187.865	(187.634)	5.938	6.670.582
2 General provisions	2.627.271	494.714	(13.201)	787	3.109.571

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

III. Explanations on the strategies and policies of the risk management system:

Notes and explanations in this section have been prepared in accordance with the Communiqué On Disclosures About Risk Management To Be Announced To Public By Banks that have been published in Official Gazette no. 29511 on October 23, 2015 and became effective as of March 31, 2016. The standardised approach is used for calculating the capital adequacy of the Bank, therefore, footnotes and explanations related to the internal rating based approach have not been disclosed.

1. Explanations on risk management and risk weighted assets

a) Risk management approach of the Bank

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

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

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

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

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

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

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

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

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

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

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

Value at Risk, Basis Point Value (interest rate sensitivity), and Credit Basis Point Value (credit spread sensitivity) are risk metrics calculated via internal models and used in measurement of market risks. Risk measures are monitored at product, portfolio and account (banking / trade) basis. Performance of internal models is measured by backtesting of the model's outputs.

With the liquidity coverage ratio introduced by Basel III, short term liquidity and structured liquidity methods, which are internally monitored in the Parent Bank, are utilized in liquidity risk management. Measurements performed via internal models in the context of market risk management are reported to the Bank's Top Management, Treasury, Financial Reporting and Credit Monitoring Units (for the Counterparty Credit Risk process) on a daily basis and to the Board of Directors and Executive Committee on a monthly basis.

Stress tests, provide a prospective point of view during risk management , budget and capital planning processes through reviewing the impact of events or changes in markets, which have a low possibility to occur under normal conditions but may result in losses to Bank in case they occur. The Bank performs stress tests to measure impacts of temporary or continuous deteriorations in market risk factors on income statement and to make capital plans. Scenarios, having basis, medium and high stress levels, aim to measure impacts of adverse conditions across the country on the economic value of the Bank through risk factors. Other important risk elements such as Fixed Assets held by the Bank

and financial investment risks faced through its subsidiaries, as well as price movements, are reviewed during stress test processes as well.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

Stress test studies are made with the active participation of senior management and impact of the stress test to the general risk profile of the Bank is reported. Senior management participates in establishing of stress test's scenario, analyzing of its results, through determination of the scope and approach of the scenario, guidance of required directions and review of results and recommendation of action plans. Stress scenarios, up-to-date estimations and crisis scenarios are prepared by Analytical Modelling and Macroeconomic Research Department under the supervision of Chief Economist.

The Parent Bank reduces market risk exposure within scope of its commercial activities through derivative instruments and makes an effort to control impacts of the risks on capital through hedge accounting implementation. It holds foreign exchange positions to manage residual positions as a result of banking activities through performing a conservative approach to exchange risk and manages its end of day positions at a minimum level.

For the mitigation of risks, Operational risk management carries out the activities of restructuring of processes, pre-assessments and controls of products, use of external sources and management of insurance activities for determination of appropriate exemptions and limitations. It performs studies throughout the Bank in order to analyze related losses and processes to determine risk mitigating actions and decrease future operational risks. Precautions are determined and applied with respect to loss incidents, key operational risk indicators, scenarios, projects and new product analysis.

Business continuity management policy aims at reducing the risks to a minimum level and ensuring the continuity of critical product and survives in an acceptable period. The policy is regularly updated and approved by the Board of Directors.

b. Overview of Risk Weighted Assets

	Risk Weighted Assets		Minimum Capital Requirements
	Current Period	Prior Period	Current Period
1 Credit risk (excluding counterparty credit risk) (CCR)	227.412.008	199.311.971	18.192.961
2 Of which standardised approach (SA)	227.412.008	199.311.971	18.192.961
3 Of which internal rating-based (IRB) approach	-	-	-
4 Counterparty credit risk	3.469.703	2.929.494	277.576
5 Of which standardised approach for counterparty credit risk (SA-CCR)	3.469.703	2.929.494	277.576
6 Of which internal model method (IMM)	-	-	-
7 Equity positions in banking book under market-based approach	-	-	-
8 Equity investments in funds – look-through approach	-	-	-
9 Equity investments in funds – mandate-based approach	-	-	-
10 Equity investments in funds – fall-back approach	-	-	-
11 Settlement risk	-	-	-
12 Securitisation exposures in banking book	-	-	-
13 Of which IRB ratings-based approach (RBA)	-	-	-
14 Of which IRB Supervisory Formula Approach (SFA)	-	-	-
15 Of which SA/simplified supervisory formula approach (SSFA)	-	-	-
16 Market risk	1.216.950	984.115	97.356
17 Of which standardised approach (SA)	1.216.950	984.115	97.356
18 Of which internal model approaches (IMM)	-	-	-
19 Operational risk	14.338.007	12.833.313	1.147.041
20 Of which Basic Indicator Approach	14.338.007	12.833.313	1.147.041
21 Of which Standardised Approach	-	-	-
22 Of which Advanced Measurement Approach	-	-	-
23 Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
24 Floor adjustment	-	-	-
25 TOTAL (1+4+7+8+9+10+11+12+16+19+23+24)	246.436.668	216.058.893	19.714.934

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

2. Linkages between financial statements and risk amounts

a. Differences and matching between asset and liabilities' carrying values in financial statements and risk amounts in capital adequacy calculation

	Carrying values in financial statements prepared as per TAS ⁽¹⁾	Carrying values in consolidated Financial statements prepared as per TAS but in compliance with the communiqué "Preparation of Consolidated Financial	Carrying values of items in accordance with TAS				
			Subject to credit risk	Subject to counterparty credit risk	Subject to the Securitisation framework	Subject to market risk	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances with the Central Bank	33.083.295	33.083.295	33.083.295	-	-	-	-
Trading Financial Assets	3.030.138	3.040.830	6.635	2.997.482	-	2.057.895	-
Financial Assets at Fair Value Through Profit or Loss	-	-	-	-	-	-	-
Banks	3.448.966	3.448.966	3.448.966	-	-	-	-
Money Market Placements	252	252	252	-	-	-	-
Financial Assets Available-for-Sale (net)	18.217.306	18.386.109	18.234.359	3.651.723	-	42.298	109.452
Loans and Receivables	177.833.362	178.664.422	178.456.761	-	-	-	207.661
Factoring Receivables	2.884.152	2.894.279	2.894.279	-	-	-	-
Held-to-maturity investments (net)	11.588.890	11.588.890	11.588.890	2.990.209	-	-	-
Investment in Associates (net)	664.667	669.117	4.503	-	-	-	664.614
Investment in Subsidiaries (net)	-	7.300	7.300	-	-	-	-
Investment in Joint ventures (net)	18.114	18.114	-	-	-	-	18.114
Lease Receivables	8.263.337	8.304.486	8.304.486	-	-	-	-
Derivative Financial Assets Held For Hedging	1.209.712	1.209.712	-	1.209.712	-	-	-
Property And Equipment (Net)	1.267.706	2.713.047	2.593.711	-	-	-	119.336
Intangible Assets (Net)	1.610.950	1.566.864	34.523	-	-	-	1.532.341
Investment Property (Net)	-	-	-	-	-	-	-
Tax Asset	94.246	179.391	179.391	-	-	-	-
Assets Held For Resale And Related To Discontinued Operations (Net)	166.183	166.183	154.315	-	-	-	11.868
Other Assets	5.151.657	5.193.333	5.193.333	-	-	-	-
TOTAL ASSETS	268.532.933	271.134.590	264.184.999	10.849.126	-	2.100.193	2.663.386
Liabilities							
Deposits	163.361.872	157.088.195	-	-	-	-	157.088.195
Derivative Financial Liabilities Held for Trading	2.578.679	2.578.679	-	2.578.679	-	2.042.589	-
Funds Borrowed	30.507.672	30.508.774	-	-	-	-	30.508.774
Money Markets	2.931.228	9.205.029	-	6.273.801	-	-	2.931.228
Marketable Securities Issued	17.907.451	18.080.467	-	-	-	-	18.080.467
Funds	-	-	-	-	-	-	-
Miscellaneous Payables	13.662.703	11.162.787	-	-	-	-	11.162.787
Other Liabilities	-	1.956.404	-	-	-	-	1.956.404
Factoring Payables	-	-	-	-	-	-	-
Lease Payables	-	-	-	-	-	-	-
Derivative Financial Liabilities Held For Hedging	89.296	89.296	-	89.296	-	-	-
Provisions	1.464.965	4.694.072	-	-	-	-	4.694.072
Tax Liability	41.684	581.841	-	-	-	-	581.841
Liabilities For Property And Equipment Held For Sale And Related To Discontinued Operations (net)	-	-	-	-	-	-	-
Subordinated Loans	9.067.893	9.067.893	-	-	-	-	9.067.893
Shareholder's Equity	26.919.490	26.121.153	-	-	-	-	26.121.153
TOTAL LIABILITIES	268.532.933	271.134.590	-	8.941.776	-	2.042.589	262.192.814

(1) Amounts valued in accordance with TAS (IFRS financial statements) reported in financial statements have not been subject to independent audit.

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

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

	Total	Subject To Credit Risk	Subject to the Securitisation	Subject To Counterparty Credit Risk	Subject To Market Risk
1 Asset carrying value amount under scope of regulatory Consolidation	277.134.318	264.184.999	-	10.849.126	2.100.193
2 Liabilities carrying value amount under regulatory scope of consolidation	6.899.187	-	-	8.941.776	(2.042.589)
3 Total net amount under regulatory scope of consolidation	284.033.505	264.184.999	-	19.790.902	57.604
4 Off-Balance Sheet Amounts	134.275.945	47.361.169	-	-	-
5 Differences in valuations	-	-	-	-	-
6 Differences due to different netting rules, other than those already included in row 2	-	-	-	-	-
7 Differences due to consideration of provisions	-	-	-	-	-
8 Differences resulted from the BRSA's applications	-	-	-	-	1.159.346
9 Carrying value of liabilities that are subjected to CCR as per TAS	-	-	-	-	-
10 Differences due to risk reduction	-	(1.502.215)	-	(13.024.296)	-
11 Other	-	-	-	-	-
12 Risk Amounts		310.043.953	-	6.766.606	1.216.950

c. Disclosures regarding differences between exposures valued in accordance with TAS and risk exposures

Main difference between amounts reported in financial statements and valued in accordance with TAS and amounts valued in accordance with TAS in scope of TAS in the framework of legal consolidation is that non-financial subsidiaries are not included in consolidation in scope of legal consolidation.

Bank's financial instruments subject to fair value measurement are valued using Mark-to-Market or Mark-to-Model approach based on their product types. Implementation of valuation methodologies is carried out in accordance with the "Fair Value Measurement" policies in line with the prudent valuation principles set out in the annex of the Directive on Measurement and Assessment of Banks' Capital Adequacy. The Bank uses market prices for bonds and futures contracts traded in organized markets, while it often uses platforms generating Mark-to-Model value for derivative transactions traded in OTC markets. Mark-to-Market or Mark-to-Model valuations are made on a daily basis so that changes in the market can be reflected in the Bank's financials with the same frequency.

The Independent Price Control process (IPV) is designed to draw the errors or deviations that may occur in the valuations to the minimum level, to calculate the correct profit / loss and risk, through verification, comparison and approval of market prices and model inputs regularly with independent and different sources. The purpose of the IPV is to ensure that the data used for bank valuations are generated on a daily basis from a highly representative, adequately liquid and accurate instruments. All these processes have a clear, integrated and complementary approach that is in line with the objectives of the Bank.

Prices quoted in active markets for securities and derivative transactions are used to record the fair value of an instrument, but quoted prices are generally not available in active markets. Appropriate valuation techniques are used for financial instruments that are not traded in the market but the estimated fair value is adjusted through valuation techniques of the market participant's estimation of

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

similar asset or liability price. Such adjustments are categorized close out cost, market liquidity, model risk and credit valuation adjustments.

Close out Cost adjustment reflects the amount which would be incurred to arrive at an appropriate ask/liquidation price (financial instruments which are assets at valuation date) or bid/unwind price (financial instruments which are liabilities at valuation date) for financial instruments valued at mid-market prices.

Market liquidity adjustment is calculated to reflect the amount which would be incurred to close out the position when liquidity is not sufficient. When there is not any tradeable price on liquid two way market, a liquidity discount is applied for pricing.

Model risk; reflects the risk stemming from deficiencies in model. Complexity of the model, being market standard and capability to incorporate all known risk factors determine the necessity/applicability of model risk adjustments.

Credit Value Adjustment (CVA), is defined as market value of counterparty credit risk (CCR), which arises from the possibility of a counterparty's default and considered in regulatory capital adequacy calculations for all CCR exposures.

3. Explanations on credit risk

a. General information regarding credit risk

i. General qualitative information regarding credit risk

Credit risk states risk and losses resulting from a situation in which the Bank cannot fulfil its liability through not complying with the contract requirements of the opposite party. The Bank determines a separate credit limit for each of the customers through taking legal legislation into account and internal rating system, financial analysis reports, sectoral concentration and credit policies, which are approved annually by the Board of Directors of the Bank, into consideration for limit allocations. Limits, allocated by the Board of Directors of the Bank for each opposite bank are daily tracked by Treasury Management in treasury transactions such as forward exchanges with correspondent banks and domestic banks and it is also systemically controlled whether the positions taken daily by the officers of Treasury Management, who are authorized to make transactions on the market, are in the range of determined limits or not. Liquid collaterals are prioritized in credit allocations within the framework of sector opportunities. Long term projections of companies are centrally analyzed for long term credit allocations and credits provided for project financing and pricing of interest risk is made for the commitments in question in coordination with treasury management.

The Group monitors debtors of its credit and other receivables with respect to their credit worthiness in accordance with related legislation. It also audits financial tables for credits and updates, when necessary. The Group monitors risk limitations based on debtor and group of debtor basis in accordance with related legal regulations.

Separate internal rating systems are used for small and medium sized enterprises (SMEs) and corporate and commercial customers at the Bank. The rating system used for SME customers gives an opportunity to determine credit approval authorization levels. By this means, firms, having lower rating grades are directed to upper authorization levels while firms, having higher rating grades, are directed to lower authorization levels and risk based optimization is aimed in credit processes.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

The Parent Bank uses score card to evaluate new applications for individual credits and credit card customers and management of application and limit management of current customers. Score card system is developed internally and updated and approved periodically.

Credit Policy is prepared to be well-structured in line with the BRSA loan management guidebook and aligned with the Unicredit Group rules to the maximum possible extent.

Credit Policy is revised at least once a year, approved by Board of Directors, announced within the bank and implemented in accordance with the appropriate procedures in banks. During the review of credit policies, economic conjuncture, the bank's capital adequacy ratio and amendments in related regulation are taken into consideration. Key elements such as target markets, portfolio structure and concentration, large exposures, credit limit applications, approval authorities are determined in the credit policies. In the policies, key messages are provided based on principles of prudence, continuity about the customers's worthiness, specific sectors, segments and products for growth in accordance with the defined credit strategies.

Credit Risk Management Section is established to manage the credit risk of the Bank by determining, measuring, monitoring, evaluating and reporting the risks. In order to improve the asset quality of the Bank, the main roles and responsibilities of the section are composed of performing periodical analyses on credit portfolio trend, calculating credit risk cost based on segments and executing compliance activities between risk management practices with Basel II requirements.

Credit Risk Management is consisting 4 sub units. Commercial Credit Risk Management is responsible for monitoring the design, development and implementation of probability of default (PD), exposure at default (EAD), loss given default (LGD) models which are in the scope of IRB communique (issued by BRSA – using internal rating based approach for credit risk calculations) and providing the design, development and implementation of all models to be developed under the scope of standards that have been specified for corporate customer segments. Retail Credit Risk Management is responsible for the development of the models and strategies that ensures efficient management of the credits for Banks growth targets and implementation of such strategies and models in rating and decision support systems. Risk Validation Department, performs the risk validation taking into consideration the statistical tests, Bank's internal procedures and competition analyses in the market. Validation processes consist of 3 main steps; data validation, model validation, strategy and process validation.

Basel II Program Management and Credit Risk Control Unit Section is responsible for active participation to the model development process and providing opinion as the last authority monitoring the performance of the rating systems and preparation of regular analysis based on the results, maintainance of proper running of the rating systems, leadership of the activities performed to close the gaps, information to BRSA and related parties in the Bank about the changes on the rating systems, maintainance of the implementation of the models in the Bank's processes in line with BRSA requirements, management of the IRB transition period and submission of necessary documents and monitoring the related projects .

Risk Reporting Control and Operational Risk Management is responsible for preparation of credit risk budgeting and credit risk reporting activities of the Bank, calculation of loan loss provisions on SBU basis; identification of the Credit Policy according to risk appetite of the Bank, implementation of the policy throughout the Banks and its subsidiaries, support to all units in the bank for the realted topics. The units establishes a common risk culture on group basis and performs process analyses of credit and risk management functions in subsidiaries to ensure standard risk management practices and establishes action plans for the standardiaization of all gaps within the group. It ensures taking

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

action for the correction and improvement data quality through performing tests related to credit and collaterals. The unit prepares reports for assessment of credit risk and for the preparation of various and comprehensive concentrations and forecasts on asset quality trends for the Bank, performs necessary calculations to measure the risk profile of the bank and ensures that the country risk is identified. Prepare comprehensive concentration reports for the assessment of Top Management.

The unit is also responsible for definition of the Operational/IT/Reputational risk policies, for the purpose of measurement, evaluation and management of the operational risk/ IT and reputational risks, implementation of monitoring and measurement systems, identification, reporting and monitoring the key risk indicators, and performance of scenario analyses. The unit also carries out the activities regarding Basel II compliance, operational risk weighted assets (RWA); and risk based insurance activities, implementation and monitoring IT Risk Map and Action Plans, coordination of risk management program for the risk evaluation of the support services.

Regular supervision and controls are performed to ensure that credit process is carried out in compliance with bank credit policies and procedures, loans are extended in accordance with principles and procedures determined by Board of Directors and loans are reported properly with the information of maturity, quantity and qualification to top management

Activities carried out by units within scope of internal systems are employed as a tool to define weak points regarding the credit risk management process, policy and procedures and to determine the transactions that are not compliant with limits, policy and procedures.

Issues that are observed during the examinations is being regularly reported to top management and Audit committee considering importance level.

Summary of the activities of units within the scope of internal systems are effectively utilized by the management and actions are taken in order to prevent repetition of weaknesses and conflicts regarding credit management.

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

ii. Credit quality of assets

Cari Dönem	Gross carrying values of as per TAS		Allowances/ impairments	Net values
	Defaulted exposures	Non-defaulted exposures		
1 Loans	9.326.242	187.618.421	9.990.089	186.954.574
2 Debt Securities	-	29.904.969	-	29.904.969
3 Off-balance sheet exposures	875.166	133.986.723	351.475	134.510.414
4 Total	10.201.408	351.510.113	10.341.564	351.369.957

iii. Changes in stock of defaulted loans and debt securities

	Cari Dönem
1 Defaulted loans and debt securities at end of the previous reporting period	7.200.623
2 Loans and debt securities that have defaulted since the last reporting period	4.063.841
3 Returned to non-defaulted status	(70.073)
4 Amounts written off	(703)
5 Other changes	(992.280)
6 Defaulted loans and debt securities at end of the reporting period (1+2-3-4+5)	10.201.408

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

iv. Additional disclosure related to the credit quality of assets

According to the BRSA Regulation "Regulation on the procedures and principles for the determination of qualification of loans and other receivables by Banks and provision to be set aside" in the cases:

- 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 identified as 'non-performing loans' and classified under default accounts. Specific provisions are calculated for these loans by coverage ratios which aside by policy after collateral deduction. There is no difference between "impaired loans" and "loans subject to provisioning" in the bank. All loans with 90 days overdue are subject to specific provisioning.

In accordance with the regulation; in the event that failure to meet payment obligations towards banks stems from temporary liquidity difficulties related to the loans and other receivables as part of the principles of classification, loans and other receivables including any overdue interest may be restructured or subject to a new redemption plan for the purpose of providing debtors with liquidity capability and ensuring recovery of receivables by bank.

Exposures provisioned against by major regions:

Current Period	Total
Domestic	238.885.408
USA,Canada	3.561.419
European Union (EU) Countries	9.735.535
OECD Countries	1.863.598
Off-Shore Banking Regions	176.304
Other Countries	4.095.407
Total	258.317.671

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

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

Exposures provisioned against by major sectors (1):

	Current Period
Agricultural	2.961.486
Farming and raising livestock	2.593.974
Forestry	235.491
Fishing	132.021
Manufacturing	99.784.949
Mining and Quarrying	4.133.518
Production	66.388.153
Electricity, Gas, Water	29.263.278
Construction	36.290.281
Services	53.094.507
Wholesale and retail trade	15.198.907
Hotel, food and beverage services	8.151.034
Transportation and telecommunication	10.024.117
Financial institutions	8.199.103
Real estate and leasing services	3.084.283
Self-employment services	1.065.417
Education services	284.806
Health and social services	7.086.840
Other	66.186.448
Total	258.317.671

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

Receivables according to remaining maturities:

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

Exposures provisioned against by major sectors:

Information on the amount of receivables and provisions provided for on the sector basis are disclosed in Note II of Section 4.

Exposures provisioned against by major regions:

The distribution of the specific provisions is predominantly domestic and a provision amounting to TL 6.545.731 has been set aside for the risk at an amount of TL 8.630.634.

Aging analysis for overdue receivables(1):

	Current Period
31-60 days overdue	5.172.237
61-90 days overdue	1.283.000
Total	6.455.237

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

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

General provision is allocated for the loans restructured from standard loans and loans under Follow-up and other receivables, specific provision is allocated for the loans restructured from non-performing loans.

	Current Period
Loans restructured from Standard Loans and Other	3.318.283
Loans restructured from Loans and other receivables under	2.439.787
Loans restructured from Loans under legal follow-up	528.332
Total	6.286.402

b. Credit risk mitigation

i. Qualitative disclosure on credit risk mitigation techniques

The Bank employs on-balance sheet netting and/or general netting agreements for specific capital market transactions for credit risk mitigation, with the condition of meeting the requirements of having implemented corresponding system supported methods and processes and clear documentation of the required documents.

The Bank may use assets (e.g. loans) and liabilities (e.g. deposits) as an on balance sheet netting instrument considering them as cash collateral.

The capital requirements may be determined on the base of net exposure of assets and liabilities, if the following conditions are met:

- The agreement should provide the Bank the authorization to monitor the receivable of the payee over a single value after netting all payables and receivables even though there is no such indicator for the counterparty showing bankruptcy or financial difficulty in accordance with the regulations of governments.
- The Bank is provided the authority of netting and monitoring the risk over a single value even the counterparty is not in bankruptcy case of a bankruptcy of one counterparty, the other counterparty should have the authority to terminate all contracts under the agreement
- The agreement should provide the facility to monitor the receivable of the payee over a single value after netting all payables and receivables in case of the termination of all contracts

For calculation of the fully-adjusted amount in determining the capital requirements, the supervisory volatility adjustments approach or own estimates volatility adjustments approach or internal models approach may be used.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

In the policies and procedures regarding the assessment and management of the collaterals as part of collateralized lending, Credit risk mitigation techniques aims at:

- Determination of general and specific requirements for the improvement and optimization of collateral systems, processes, strategies and procedures;
- Valuation of collateral taking into consideration the local regulations and procedures;
- Provision of the soundness, legal enforceability and maintainence of ratable collateral based on a legal framework;
- Determination of the level of the collateral haircut taking the local conditions and the process of risk management into consideration;
- Regular monitoring of the collateral value;
- Differentiation between counterparty (economic) and country (political) risk aspects,
- Mitigation of concentration risks, correlation risks and residual risks through recognition of collateral;
- Improvement in the quality of strategic business and overall Bank management
- Clear definition of Roles and Responsibilities
- Determination of acceptable collaterals and collateral related conditions (list of collateral) / (non-parametric condition list)

The credit policies establish an operational connection between Bank's activities and its risk capacity and covers the main business areas in accordance with target portfolio structure, risk targets regarding expected and unexpected loss in line with risk capacity and limits relating to risk concentration. Limits are ensured to be compliant with restrictions determined by related regulation and regulatory authorities. Bank uses an integrated approach in concentration risk management, in which all risk concentrations are identified, monitored and evaluated. Therefore, besides the loans to individuals and companies, also the concentrations of market, sector, country and segment are being taken into consideration. Bank pays utmost attention to any concentration of the credit and market risks on a specific counterparty or risk classification in accordance with policies and internal procedures.

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

ii. Credit risk mitigation techniques – overview

Current Period	Exposures unsecured: carrying amount as per TAS	Exposures secured by collateral	Collateralized amount of exposures secured by collateral	Exposures secured by financial guarantees	Collateralized amount of exposures secured by financial guarantees	Exposures secured by credit derivatives	Collateralized amount of exposures secured by credit derivatives
Loans	159.526.701	27.427.873	17.403.119	3.056.693	1.877.921	-	-
Debt securities	29.904.969	-	-	-	-	-	-
TOTAL	189.431.670	27.427.873	17.403.119	3.056.693	1.877.921	-	-
Of which defaulted	1.625.436	622.182	91.397	855	288	-	-

c. Credit risk under standardised approach

i. Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk

An international rating firm, Fitch Ratings' external risk ratings are used to determine the risk weights of the risk categories as per the Article 6 of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks". The international risk ratings are used for the exposures to central governments/central banks and for asset classes for which the counterparty resides in foreign countries.

Exposures to central governments and central banks which are not rated by Fitch Ratings are included in the calculation of capital adequacy as unrated. Receivables from residents in Turkey are classified as unrated. Risk weights of accounts which are not included in the trading accounts are classified by issuer's credit rating.

Fitch Ratings' risk ratings as per the credit quality grades and the risk weights according to exposure categories are presented below:

Credit Quality Grade	Fitch Ratings	Claims on sovereigns and Central Banks	Claims on administrative bodies and other non-commercial undertakings	Claims on banks and intermediary institutions		Claims on corporates
				Remaining maturity of claims under 3 months	Remaining maturity of claims over 3 months	
1	AAA AA+ AA AA-	0%	20%	20%	20%	20%
2	A+ A A-	20%	50%	20%	50%	50%
3	BBB+ BBB BBB-	50%	100%	20%	50%	100%
4	BB+ BB BB-	100%	100%	50%	100%	100%
5	B+ B B-	100%	100%	50%	100%	150%
6	CCC+ CCC CCC- CC C D	150%	150%	150%	150%	150%

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

ii. Standardised approach – Credit risk exposure and credit risk mitigation (CRM) effects

Current Period		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
Asset classes		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Exposures to central governments or central banks	58.614.442	1.209.711	60.320.156	179.162	15.699.911	%25,95
2	Exposures to regional governments or local authorities	-	835	-	167	83	%49,70
3	Exposures to public sector entities	12.637	843	12.637	169	2.562	%20,01
4	Exposures to multilateral development banks	34.295	9.699	34.295	8.399	-	-
5	Exposures to institutions	11.991.618	4.676.769	12.155.767	2.370.188	7.263.065	%50,00
6	Exposures to corporates	102.370.823	76.973.898	99.334.633	32.942.689	132.277.439	%100,00
7	Retail exposures	66.469.387	46.373.320	66.361.492	11.073.987	58.076.609	%75,00
8	Exposures secured by residential property	7.006.484	394.981	7.006.484	193.567	2.520.018	%35,00
9	Exposures secured by commercial real estate	7.743.934	719.839	7.743.934	454.681	4.099.307	%50,00
10	Past-due loans	2.366.460	-	2.186.414	-	2.166.239	%99,08
11	Higher-risk categories by the Agency Board	113.243	634.531	65.296	138.160	232.557	%114,30
12	Investments in equities	112.641	-	112.641	-	112.641	%100,00
13	Other assets	7.349.035	-	7.349.035	-	4.961.577	%67,51
TOTAL⁽¹⁾		264.184.999	130.994.426	262.682.784	47.361.169	227.412.008	%73,35

(1) Counterparty credit risk is not included in the table.

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Current Period												
	%0	%10	%20	%35	%50	%75	%100	%150	%200	%250	%1250	Total credit risk exposure amount (after CCF and CRM)
Asset classes/ Risk weight												
1 Exposures to central governments or central banks	29.232.770	-	7.638	-	31.121.054	-	137.856	-	-	-	-	60.499.318
2 Exposures to regional governments or local authorities	-	-	-	-	167	-	-	-	-	-	-	167
3 Exposures to public sector entities	-	-	12.806	-	-	-	-	-	-	-	-	12.806
4 Exposures to multilateral development banks	42.694	-	-	-	-	-	-	-	-	-	-	42.694
5 Exposures to institutions	-	-	1.778.179	-	11.680.694	-	1.067.082	-	-	-	-	14.525.955
6 Exposures to corporates	-	-	-	-	-	-	132.277.087	235	-	-	-	132.277.322
7 Retail exposures	-	-	-	-	-	77.435.479	-	-	-	-	-	77.435.479
8 Exposures secured by residential property	-	-	-	7.200.051	-	-	-	-	-	-	-	7.200.051
9 Exposures secured by commercial real estate	-	-	-	-	8.198.615	-	-	-	-	-	-	8.198.615
10 Past-due loans	-	-	-	-	719.279	-	788.205	678.930	-	-	-	2.186.414
11 Higher-risk categories by the Agency Board	-	-	-	-	47.958	-	49.338	106.160	-	-	-	203.456
12 Investments in equities	-	-	-	-	-	-	112.641	-	-	-	-	112.641
13 Other assets	2.302.499	-	106.201	-	-	-	4.940.335	-	-	-	-	7.349.035
TOTAL	31.577.963	-	1.904.824	7.200.051	51.767.767	77.435.479	139.372.544	785.325	-	-	-	310.043.953

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

4. Explanation on counterparty credit risk

a. Qualitative evaluation for Counterparty Credit Risk

Counterparty Credit Risk (CCR) is organized under Market Risk Management and is functioning within the scope of "Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks". These functions include counterparty credit risk calculations within general risk appetite and control process of risk management policies for CCR.

Credit limits under CCR are defined within the scope of internal model method, specified in "Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks. -Appendix 2", considering various stress scenarios.

General policies for collaterals and provisions under credit risk management are also valid for CCR. Exposure and collateral values are calculated on a daily basis. According to CCR Policies, Bank does not carry wrong way risk

In case of a downgrade in credit note, the amount of additional collateral the Bank has to provide is calculated periodically under several stress scenarios.

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

	Revaluation Cost	Potential credit risk exposure	EEPE ⁽¹⁾	Alpha used for computing regulatory EAD	Exposure after credit risk mitigation	Risk Weighted Amounts
Current Period						
1 Standart Approach-CCR	4.007.844	2.038.466		1,40	6.203.294	3.016.388
2 Internal Model Approach			-	-	-	-
3 Simplified Standardised Approach for Credit Risk Mitigation				-	-	-
4 Comprehensive Method for Credit Risk Mitigation					563.312	198.919
5 Value at Risk for Repo Transactions, Securities or Commodity lending or borrowing transactions				-	-	-
6 Total						3.215.307

(1) Effective expected positive exposure

c. Credit valuation adjustment (CVA) capital charge

Current Period	Exposure (After credit risk mitigation methods)	Risk Weighted Amounts
Total portfolio value with comprehensive approach		
CVA capital adequacy	-	-
1 (i) Value at risk component (3*multiplier included)	-	-
2 (ii) Stressed Value at Risk (3*multiplier included)	-	-
3 Total portfolio value with simplified approach CVA capital adequacy	6.203.294	254.396
4 Total amount of CVA capital adequacy	6.203.294	254.396

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

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

Current Period										
	Risk Weights/Risk Classes	%0	%10	%20	%50	%75	%100	%150	Other	Total credit risk ⁽¹⁾
1	Central governments and central banks receivables	93.402	-	-	-	-	-	-	-	93.402
2	Local governments and municipalities receivables	-	-	-	67	-	-	-	-	67
3	Administrative and non commercial receivables	-	-	66.057	-	-	-	-	-	66.057
4	Multilateral Development Bank receivables	-	-	-	-	-	-	-	-	-
5	Banks and Intermediary Institutions receivables	-	-	1.654.763	3.642.896	-	175.960	-	-	5.473.619
6	Corporate receivables	-	-	-	-	-	1.112.009	-	-	1.112.009
7	Retail receivables	-	-	-	-	21.452	-	-	-	21.452
8	Mortgage receivables	-	-	-	-	-	-	-	-	-
9	Non performing receivables	-	-	-	-	-	-	-	-	-
10	High risk defined receivables	-	-	-	-	-	-	-	-	-
11	Investments in equities	-	-	-	-	-	-	-	-	-
12	Other receivables	-	-	-	-	-	-	-	-	-
	Total	93.402	-	1.720.820	3.642.963	21.452	1.287.969	-	-	6.766.606

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

d. Composition of collateral for CCR exposure

Collaterals for Derivatives					Collaterals or Other Transactions	
Current Period		Collaterals Taken		Collaterals Given	Collaterals Taken	Collaterals Given
		Segregated	Unsegregated	Segregated	Unsegregated	
1	Cash-Local Currency	-	-	-	-	4.275.290
2	Cash - Foreign Currency	-	-	-	-	1.275.541
3	Total	-	-	-	-	5.550.831

e. Credit derivatives exposures

Current Period	Protection Bought	Protection Sold
Nominal		
Single-name credit default swaps	35.192	-
Index credit default swaps	-	-
Total return swaps	-	4.033.003
Credit Options	-	-
Other Credit Derivatives	-	-
Total Nominal	35.192	4.033.003
Rediscount Amount	(15)	(97.052)
Positive Rediscount Amount	354	-
Negative Rediscount Amount	(369)	(97.052)

f. Exposures to central counterparties

None.

5. Securitisations

None.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

6. Explanations on consolidated market risk

a. Qualitative disclosure on market risk

Market Risk Management department monitors the interest rate, exchange rate, stock, commodity and credit spread risks arising from the main financial activities of the Bank on a daily basis and measures the probability of loss that may arise from the related risks by using internal model. Risks measured are regularly reported to the business units, their compliance with Bank's risk appetite is monitored and impacts on capital requirement are analyzed. By taking into account the distinction between banking and trading portfolios, analyses and measurements enable Market Risk Management to determine specific limits on sub-portfolio / product levels.

Market risks that the Bank is exposed to are assessed and managed by a triple structure consisting of Treasury, Financial Planning and Market Risk Management Units. The Board of Directors, the Executive Committee and the Audit Committee have primary responsibility for management of such risks. Both Top management and the sub-units are responsible for managing the risks taking into account constraints and targets such as Bank's interest rate sensitivity, liquidity constraints, funding sources, budget targets, medium and long-term capital planning and profitability of the products in operation.

Models, strategies and processes that are accurate and integrated in accordance with risks the Bank is or may be exposed to have been established. Automated reporting and validation activities are carried out for effective analysis, monitoring and control mechanisms. Risk management infrastructure integrated with day-to-day activities enabling monitor and measurement independently from executive activities; and supports business and decision-making processes has been established. Policies, processes, targets, roles / responsibilities, and regular trainings are the main elements of the Bank's dissemination of risk culture and awareness. Systems and structures compatible with international best practices and in line with the risk appetite are available for risk management.

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

Market Risk Management organization consists of 4 sub-units; Market Risk Analysis, Asset-Liability Management and Affiliates Coordination, Counterparty Credit Risk and Risk Methodologies and Market Data Analysis units.

Market Risk Analysis unit; carry out the activities such as measuring and setting limits for risks arising from banking and trading books using advanced internal methods (Value at Risk, Base Point Value Sensitivity etc.), complying policies and procedures with new regulations and best practices, product-based risk / return analysis, developing risk measurement and valuation techniques and applying stress tests.

Asset Liability Management and Subsidiaries Coordination unit; enables the Bank to measure the liquidity risk, manage the structural interest rate exposure, manage the protection procedures and the protection accounting processes used to reduce the risk of re-pricing. Follows the concentration of the bank's funding side. Also paves the way for implementation of Bank-side risk applications and risk culture in the Bank's subsidiaries, plays an active role in risk appetite determination and coordination processes.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

Counterparty Credit Risk Management Unit calculates the exposures of over the counter (OTC) derivative transactions via internal model method and manages the inclusion of these exposures into the monitoring and the credit underwriting processes.

The Risk Methodologies and Market Data Analysis unit provides unbiased management of all market data related to treasury products under the risk management framework. The unit is responsible for the verification of fair values, and transfer of related data sources to the banking system.

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

b. Market risk under standardised approach

Current Period	Risk Weighted Asset
Outright products	
Interest rate risk (general and specific)	772.399
Equity risk (general and specific)	42.738
Foreign exchange risk	389.338
Commodity risk	-
Options	-
Simplified approach	-
Delta-plus method	12.475
Scenario approach	-
Securitisation	-
Total	1.216.950

7. Explanations on Operational Risk

The Bank calculates the amount subject to operational risk based on "Basic Indicator Method" by using 2015, 2014 and 2013 year-end gross income balances of the Bank, in accordance with Section 3 of the "Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio", published in the Official Gazette No. 28337 dated June 28, 2012, namely "The Calculation of the Amount Subject to Operational Risk". As of December 31, 2016, the total amount subject to operational risk is TL 13.109.939 (December 31, 2015 - TL 11.675.376) and the amount of the related capital requirement is TL 1.048.795 (December 31, 2015 - TL 934.030).

	2 Prior Period	1 Prior	Current	Total / Total number of years for which gross income is positive	Rate (%)	Total
	Value	Period Value	Period value			
Gross Income	5.496.635	7.988.285	9.455.891	7.646.937	15,00%	1.147.041
Amount subject to operational risk (Total*12,5)						14.338.007

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

8. Interest rate risk arising from banking accounts:

Interest rate risk means that the financial structure of the Bank is adversely affected by negative movements in interest rates. Changes in interest rates affect the Bank's earnings by changing the level of net interest incomes, other interest sensitive incomes and operating expenses. The change in interest rates also affects the underlying values of the Bank's assets for active, passive and off-balance sheet items by changing the economic values of future cash flows (and in some cases, the cash flows themselves).

Interest rate risk has three main reasons:

- **Revaluation Risk:** It is caused by the inconsistency in revaluation of active and passive items.
- **Yield Curve Risk:** It results from the variation of the curve and shape of the yield curve.
- **Basis Risk:** It's due to the low correlation of the earned and paid interest yields of different financial instruments with peer revaluation structure.

The customer's prepayment risk (option risk) is indirectly taken into account in managing and following the interest rate risk by following a specific risk protection rate.

Within the scope of the interest rate risk arising from banking accounts, the core deposit analysis for demand deposits is carried out according to the maximum maturity structure of the same regulation. In core deposit analysis, it is possible to distribute demand deposits up to 3 times using behavioral models updated once a year.

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

In accordance with the "Regulation on Measurement and Evaluation of the Interest Rate on Banking Accounts by Standard Shock Method", the economic value differences arising from fluctuations in interest rates are stated in the table below as of December 31, 2016, based on the significant currencies of the Bank.

Currency	Applied shock (+/- x basis points)	Gains/Losses	Gains/SE- Losses/SE
TRY	(+)500 bps	(2.513.657)	%(7,72)
TRY	(-)400 bps	2.503.767	%(7,69)
EUR	(+)200 bps	(232.786)	%(0,71)
EUR	(-)200 bps	232.057	%(0,71)
USD	(+)200 bps	(134.829)	%(0,41)
USD	(-)200 bps	286.728	%(0,88)
Total (For negative shocks)		3.022.552	%(9,28)
Total (For positive shocks)		(2.881.272)	%(8,85)

IV. Explanations on consolidated currency risk:

The difference between the Group's foreign currency denominated and foreign currency indexed on- and off-balance sheet assets and liabilities is defined as the "Net Foreign Currency Position" and it is the basis of currency risk. Cross currency risk is also taken into consideration for the currency risk calculations and measurements.

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

The Group keeps the amount of currency risk exposure within the related legal limits and follows the exchange position on a daily/regular basis. In addition, although the internal exchange position limit is lower when compared to the related legal limit, there has not been any limit exceeding during the period. As an instrument of currency risk management, derivatives such as swap and forwards are used to reduce risk whenever needed. In order to guard against extreme volatility during the year stress tests are applied. Value at risk method is used for the measurement of foreign exchange risk.

The details of hedging of the foreign currency debt instruments and net foreign currency investment risk with derivative instruments are disclosed in section four Note X.

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

(Exchange rates presented as full TL)

	USD	EUR
Balance sheet evaluation rate	TL 3,51920	TL 3,70990
1.Current bid rate on the first date	TL 3,53180	TL 3,69390
2.Current bid rate on the second date	TL 3,53290	TL 3,69010
3.Current bid rate on the third date	TL 3,51350	TL 3,67110
4.Current bid rate on the fourth date	TL 3,50410	TL 3,66390
5.Current bid rate on the fifth date	TL 3,50770	TL 3,66470
Arithmetic average of the last 31 days:	TL 3,49023	TL 3,67756
Balance sheet evaluation rate as of		
Prior Period:	TL 2,90760	TL 3,17760

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

Information on currency risk of the Group:

	EUR	USD	Other FC ⁽⁴⁾	Total
Current period				
Assets				
Cash (cash in vault, effectives, cash in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	6.964.891	12.058.587	5.008.378	24.031.856
Banks	2.339.578	962.258	103.993	3.405.829
Financial assets at fair value through profit or loss	116.621	294.151	62	410.834
Money market placements	-	-	-	-
Available-for-sale financial assets	700.325	2.424.882	21.317	3.146.524
Loans ⁽¹⁾	32.030.525	43.075.738	1.297.705	76.403.968
Investments in associates, subsidiaries and joint ventures	-	-	437.143	437.143
Held-to-maturity investments	868.012	5.889.209	2	6.757.223
Hedging derivative financial assets	24.511	88.593	-	113.104
Tangible assets	2.363	-	32.328	34.691
Intangible assets ⁽⁶⁾	-	-	-	-
Other assets ⁽²⁾	7.064.177	3.775.773	367.623	11.207.573
Total assets	50.111.003	68.569.191	7.268.551	125.948.745
Liabilities				
Bank deposits	1.146.107	1.307.770	60.406	2.514.283
Foreign currency deposits	24.214.215	43.731.650	2.389.788	70.335.653
Funds from money market	242.776	1.736.912	-	1.979.688
Funds borrowed from other financial institutions	18.958.930	9.810.136	372.278	29.141.344
Marketable securities issued	487.387	13.297.887	304.310	14.089.584
Miscellaneous payables	1.579.425	416.396	14.749	2.010.570
Hedging derivative financial liabilities	18.832	4.200	1	23.033
Other liabilities ⁽³⁾	193.253	9.724.788	27.104	9.945.145
Total liabilities	46.840.925	80.029.739	3.168.636	130.039.300
Net on balance sheet position	3.270.078	(11.460.548)	4.099.915	(4.090.555)
Net off balance sheet position⁽⁵⁾	(3.142.494)	11.314.635	(3.490.796)	4.681.345
Financial derivative assets	13.835.834	37.672.799	1.773.627	53.282.260
Financial derivative liabilities	16.978.328	26.358.164	5.264.423	48.600.915
Net position	127.584	(145.913)	609.119	590.790
Non-cash loans	18.594.521	24.690.691	3.554.690	46.839.902
Prior Period				
Total assets	32.470.485	66.706.485	5.900.844	105.077.814
Total liabilities	36.653.072	72.256.600	2.481.489	111.391.161
Net on-balance sheet position	(4.182.587)	(5.550.115)	3.419.355	(6.313.347)
Net off-balance sheet position	4.306.950	5.272.930	(2.551.242)	7.028.638
Financial derivative assets	9.401.060	35.397.322	1.958.188	46.756.570
Financial derivative liabilities	5.094.110	30.124.392	4.509.430	39.727.932
Net position	124.363	(277.185)	868.113	715.291
Non-cash loans	14.948.763	22.669.213	1.949.697	39.567.673

(1) Includes FX indexed loans amounting to TL 5.733.763 (December 31, 2015 - TL - 5.163.077) which have been disclosed as TL in the financial statements.

(2) Does not include foreign currency prepaid expenses amounting to TL 124.540 (December 31, 2015 - TL 96.981).

(3) Does not include foreign currency denominated general provisions for foreign currencies, hedged funds and marketable securities valuation differences under equity.

(4) Other FC column also includes gold balance.

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

(6) In accordance with the principles of the "Regulation on the calculation and implementation of foreign currency net general position/equity standard ratio by banks on consolidated and non-consolidated basis" foreign currency intangible assets amounted TL 17.066 is not considered in the calculation.

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

Currency risk sensitivity analysis ⁽¹⁾:

The table below represents the sensitivity of the Parent Bank to 15% change of currency exchange rates (USD and EUR).

15% change is the assumption of parity change that may be faced in a possible fluctuation used in the Bank's stress test scenarios.

	Current Period	Prior Period
Change in currency exchange rates⁽¹⁾	Profit/loss effect ⁽²⁾	Profit/loss effect ⁽²⁾
(+) %15	(55.076)	(58.451)
(-) %15	55.076	58.451

(1) Disclosed above is that of the Parent Bank.

(2) Excluding tax effect.

V. Explanations on consolidated interest rate risk:

The monitoring of interest rate sensitive assets and liabilities of the Parent Bank, including sensitivity analyses regarding the effect of interest rate fluctuations on the financial statements, is performed by the risk management department for all interest sensitive instruments over carrying values. The results are presented monthly to the Asset and Liability Management function of the Executive Committee. By using sensitivity and scenario analyses, the possible effects by interest rate volatility are analyzed. In these analyses possible losses are calculated for the change in fair value of interest sensitive products by applying shock tests to interest rates.

Sensitivity analyses are also calculated daily within Market Risk reporting on the basis of maturity and foreign exchange types and reported to Senior Management by checking them against the determined limits.

The Group utilizes TL/foreign currency and TL/TL interest rate swap transactions in order to limit the interest and foreign currency risk arising from short-term deposit and long-term consumer loans within the TL balance sheet.

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

a. Interest rate sensitivity of assets, liabilities and off-balance sheet items based on repricing dates:

Current Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Non interest bearing	Total
Assets							
Cash (cash in vault, effectives, cash in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	18.716.507	-	55.603	-	-	14.311.185	33.083.295
Banks	1.288.116	621.003	202.417	1.083	-	1.336.347	3.448.966
Financial assets at fair value through profit/loss	1.084.075	799.785	431.598	429.746	288.991	6.635	3.040.830
Money market placements	252	-	-	-	-	-	252
Available-for-sale financial assets	2.391.170	4.113.076	5.798.470	3.475.043	2.404.967	203.383	18.386.109
Loans	28.880.789	31.619.615	54.549.782	40.263.114	21.172.537	2.178.585	178.664.422
Held-to-maturity investments	11.601	868.075	1.505.914	1.645.515	7.557.785	-	11.588.890
Other assets	3.196.759	1.871.657	2.091.349	5.027.780	766.035	9.968.246	22.921.826
Total assets	55.569.269	39.893.211	64.635.133	50.842.281	32.190.315	28.004.381	271.134.590
Liabilities							
Bank deposits	6.263.450	598.498	696.516	-	-	613.650	8.172.114
Other deposits	87.315.238	25.054.236	8.862.812	981.506	133.683	26.568.606	148.916.081
Funds from money market	6.699.947	915.685	1.502.348	87.049	-	-	9.205.029
Miscellaneous payables	-	-	-	-	-	11.162.787	11.162.787
Marketable securities issued	598.290	10.802.731	1.112.075	5.530.026	37.345	-	18.080.467
Funds borrowed from other financial institutions	7.530.570	10.149.293	10.240.290	1.853.121	735.500	-	30.508.774
Other liabilities ⁽¹⁾	604.694	348.832	597.932	905.572	9.272.345	33.359.963	45.089.338
Total liabilities	109.012.189	47.869.275	23.011.973	9.357.274	10.178.873	71.705.006	271.134.590
Balance sheet long position	-	-	41.623.160	41.485.007	22.011.442	-	105.119.609
Balance sheet short position	(53.442.920)	(7.976.064)	-	-	-	(43.700.625)	(105.119.609)
Off-balance sheet long position	9.992.141	17.275.624	-	-	-	-	27.267.765
Off-balance sheet short position	-	-	(2.350.770)	(16.392.589)	(8.159.895)	-	(26.903.254)
Total position	(43.450.779)	9.299.560	39.272.390	25.092.418	13.851.547	(43.700.625)	364.511

⁽¹⁾ Shareholders' equity is presented in the "Non interest bearing"

Prior Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Non interest bearing	Total
Assets							
Cash (cash in vault, effectives, cash in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	17.087.214	-	58.152	-	-	10.243.581	27.388.947
Banks	928.892	782.638	170.961	-	-	1.229.014	3.111.505
Financial assets at fair value through profit/loss	639.390	221.550	608.555	238.771	49.987	8.040	1.766.293
Money market placements	284.115	2.011	-	-	-	-	286.126
Available-for-sale financial assets	2.064.819	5.606.359	7.561.054	3.788.649	3.546.226	273.097	22.840.204
Loans	24.799.040	18.136.911	49.801.041	39.551.011	20.201.092	1.528.894	154.017.989
Held-to-maturity investments	-	396.679	1.221.604	1.143.899	4.346.627	-	7.108.809
Other assets	1.908.390	1.229.534	1.759.260	4.402.110	564.058	8.884.707	18.748.059
Total assets	47.711.860	26.375.682	61.180.627	49.124.440	28.707.990	22.167.333	235.267.932
Liabilities							
Bank deposits	3.678.714	382.544	672.053	33.072	-	349.936	5.116.319
Other deposits	64.571.208	33.002.949	6.398.343	685.677	288.583	19.961.986	124.908.746
Funds from money market	13.702.748	315.153	245.636	-	-	-	14.263.537
Miscellaneous payables	-	-	-	-	-	9.794.681	9.794.681
Marketable securities issued	435.023	8.129.023	2.325.254	6.251.601	31.992	-	17.172.893
Funds borrowed from other financial institutions	6.792.512	9.134.800	7.339.844	768.127	825.696	-	24.860.979
Other liabilities ⁽¹⁾	763.758	583.539	1.104.543	193.425	6.086.423	30.419.089	39.150.777
Total liabilities	89.943.963	51.548.008	18.085.673	7.931.902	7.232.694	60.525.692	235.267.932
Balance sheet long position	-	-	43.094.954	41.192.538	21.475.296	-	105.762.788
Balance sheet short position	(42.232.103)	(25.172.326)	-	-	-	(38.358.359)	(105.762.788)
Off-balance sheet long position	6.138.880	18.321.753	-	-	-	-	24.460.633
Off-balance sheet short position	-	-	(6.677.496)	(14.181.466)	(4.332.133)	-	(25.191.095)
Total position	(36.093.223)	(6.850.573)	36.417.458	27.011.072	17.143.163	(38.358.359)	(730.462)

⁽¹⁾ Shareholders' equity is presented in the "Non interest bearing"

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

b. Average interest rates for monetary financial instruments:

The following average interest rates of the Group are calculated by weighting the rates with their principal amounts outstanding as of the balance sheet date.

Current Period	EUR	USD	Yen	TL
	%	%	%	%
Assets⁽¹⁾				
Cash (cash in vault, effectives, cash in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	-	0,49	-	3,31
Banks	1,36	0,45	-	11,14
Financial assets at fair value through profit/loss	3,06	3,69	-	9,92
Money market placements	-	-	-	11,00
Available-for-sale financial assets	4,31	5,46	-	9,59
Loans	4,16	5,90	4,97	13,17
Held-to-maturity investments	2,97	5,40	-	9,46
Liabilities⁽¹⁾				
Bank deposits	0,85	1,65	-	11,12
Other deposits	1,55	2,87	1,41	10,74
Funds from money market	0,21	1,18	-	8,50
Miscellaneous payables	-	-	-	-
Marketable securities issued	2,14	4,45	0,35	8,00
Funds borrowed from other financial institutions	1,24	2,38	3,16	6,57

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

Prior Period	EUR	USD	Yen	TL
	%	%	%	%
Assets⁽¹⁾				
Cash (cash in vault, effectives, cash in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	-	0,21	-	2,09
Banks	1,53	1,88	-	13,54
Financial assets at fair value through profit/loss	2,06	3,92	-	8,72
Money market placements	-	0,90	-	13,21
Available-for-sale financial assets	4,41	5,81	-	9,96
Loans	4,06	5,34	4,80	14,48
Held-to-maturity investments	3,40	5,39	-	10,61
Liabilities⁽¹⁾				
Bank deposits	1,17	1,13	-	11,07
Other deposits	1,51	2,21	1,72	12,73
Funds from money market	-	1,01	-	7,91
Miscellaneous payables	-	-	-	-
Marketable securities issued	1,78	3,72	0,81	11,07
Funds borrowed from other financial institutions	1,01	2,95	2,99	7,14

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

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

1. Comparison of the carrying, fair and market values of equity shares:

Group has no unconsolidated subsidiaries and joint venture quoted in Borsa Istanbul as of December 31, 2016.

2. Information on realised gains/losses, revaluation surpluses and unrealised gains/losses on equity securities and results included in core and supplementary capitals:

None.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

VII. Explanations on consolidated liquidity risk and consolidated liquidity coverage ratio:

Liquidity risk is defined as risk of unexpected loss to be occurred or Group to have difficulties in raising funds while meeting maturing liabilities. Liquidity management is daily monitored before Bank under Treasury Management, Risk Management and Capital Management. The liquidity policy of the Group is approved by the Bank's Board of Directors. Treasury Management is responsible for carrying out transactions which are appropriate to Bank's policy, monitoring of liquidity position and submitting necessary reports to executives. Capital management contributes to determine strategies and operating actions for the management of the liquidity position in addition to prepare funding plan and contingency plan of the Bank in cooperation with Treasury Management. Liquidity risk is evaluated with liquidity gap analysis, liquidity stress tests and supplementary precautions/measurements. Liquidity Gap analysis are performed for two different periods as short-term and long-term. Going concern scenario and structural positions are reported monthly. This reporting constitutes the basis of monitoring and management of liquidity position.

The Parent Bank functions as a central funding institution in its relations with its subsidiaries. Intra-group liquidity management and funding strategies are limited with related legal boundaries.

The Parent Bank issues an annual funding plan in order to sustain funding in a consistent and balanced way. Funding plan have to be updated at least annually and approved by the Executive Committee since it is complied with budgeting process and risk appetite frameworks. The primary purpose of the funding plan is to provide a reliable balance between assets and liabilities.

Both short-term liquidity and long-term (structural) liquidity measurement and reporting for all types of currencies are periodically made in Bank and its subsidiaries. There are limits which are predetermined and approved by the Board of Directors on the basis of all currencies for each period.

The Parent Bank mainly uses derivative transactions as managing liquidity risk and monitors cash inflow and outflow periods in the framework of funding plan balancing the distribution among currencies.

The Parent Bank aims to reduce the risks to the lowest level if required via measuring possible risks in liquidity with stress tests. Stress tests make it possible for the Bank to reinterpret analysis of its liquidity position according to scenarios depending on possible cases and tail risks except for crisis situations. The bank applies weekly liquidity stress tests consisting of different scenarios and maturity segments (maximum 60 days).

"Liquidity Contingency Plan" is applied if the Parent Bank needs more liquidity than its daily liquidity need because of possible financial events in future. Duties and responsibilities are defined in detail in the aforementioned plan.

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

	Unweighted Amounts ⁽¹⁾		Weighted Amounts ⁽¹⁾	
	TL+FC	FC	TL+FC	FC
CURRENT PERIOD				
HIGH QUALITY LIQUID ASSETS				
High Quality Liquid Assets			37.422.117	20.923.220
CASH OUTFLOWS				
Retail and Small Business Customers Deposits	69.078.398	25.675.920	6.010.001	2.567.559
Stable deposits	17.956.777	674	897.839	34
Less stable deposits	51.121.621	25.675.246	5.112.162	2.567.525
Unsecured Funding other than Retail and Small Business Customers Deposits	68.566.219	31.903.268	40.520.630	17.233.336
Operational deposits	-	-	-	-
Non-Operational Deposits	55.217.263	26.946.414	29.254.331	12.276.482
Other Unsecured Funding	13.348.956	4.956.854	11.266.299	4.956.854
Secured funding	-	-	-	-
Other Cash Outflows	10.764.663	9.704.586	10.764.265	9.704.188
Liquidity needs related to derivatives and market valuation changes on derivatives transactions	10.764.095	9.704.018	10.764.095	9.704.018
Debts related to the structured financial products	-	-	-	-
Commitment related to debts to financial markets and other off balance sheet liabilities	568	568	170	170
Commitments that are unconditionally revocable at any time by the Bank and other contractual commitments	58.439.430	37.172.450	2.921.972	1.858.623
Other irrevocable or conditionally revocable commitments	58.288.542	9.963.887	4.197.779	653.655
TOTAL CASH OUTFLOWS			64.414.647	32.017.361
CASH INFLOWS				
Secured Lending Transactions	-	-	-	-
Unsecured Lending Transactions	25.406.848	8.283.971	17.043.616	6.327.234
Other contractual cash inflows	9.585.283	7.961.171	9.585.283	7.961.171
TOTAL CASH INFLOWS	34.992.131	16.245.142	26.628.899	14.288.405
Capped Amounts				
TOTAL HIGH QUALITY LIQUID ASSETS			37.422.117	20.923.220
TOTAL NET CASH OUTFLOWS			37.785.748	17.728.956
Liquidity Coverage Ratio (%)			99,04	118,02

⁽¹⁾The arithmetic average of the last 3 months' month-end consolidated Liquidity Coverage Ratios are used

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

Current period	Minimum FC (%)	Minimum TOTAL(%)	Maximum FC (%)	Maximum TOTAL(%)
Week	Nov 11, 2016	Oct 7, 2016	Oct 28, 2016	Nov 18, 2016
Ratio (%)	96,77	87,98	145,26	107,51

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

PREVIOUS PERIOD	Unweighted Amounts ⁽¹⁾		Weighted Amounts ⁽¹⁾	
	TL+FC	FC	TL+FC	FC
HIGH QUALITY LIQUID ASSETS				
High Quality Liquid Assets			30.592.256	21.096.422
CASH OUTFLOWS				
Retail and Small Business Customers Deposits	61.274.185	25.773.923	5.149.032	2.303.333
Stable deposits	19.567.731	5.481.180	978.387	274.059
Less stable deposits	41.706.454	20.292.743	4.170.645	2.029.274
Unsecured Funding other than Retail and Small Business Customers Deposits	61.696.884	29.923.382	36.240.363	16.330.403
Operational deposits	-	-	-	-
Non-Operational Deposits	48.478.785	25.496.624	24.885.088	11.903.658
Other Unsecured Funding	13.218.099	4.426.758	11.355.275	4.426.745
Secured funding			20.529	20.529
Other Cash Outflows	16.322.074	9.027.288	16.320.394	9.025.608
Liquidity needs related to derivatives and market valuation changes on derivatives transactions	16.319.674	9.024.888	16.319.674	9.024.888
Debts related to the structured financial products	-	-	-	-
Commitment related to debts to financial markets and other off balance sheet liabilities	2.400	2.400	720	720
Commitments that are unconditionally revocable at any time by the Bank and other contractual commitments	50.132.649	32.035.021	2.506.632	1.601.751
Other irrevocable or conditionally revocable commitments	57.598.448	10.980.889	4.236.097	716.157
TOTAL CASH OUTFLOWS			64.473.047	29.997.781
CASH INFLOWS				
Secured Lending Transactions	-	-	-	-
Unsecured Lending Transactions	20.438.444	7.658.842	13.521.423	6.170.588
Other contractual cash inflows	17.043.992	13.455.403	15.741.643	10.434.732
TOTAL CASH INFLOWS	37.482.436	21.114.245	29.263.066	16.605.320
Capped Amounts				
TOTAL HIGH QUALITY LIQUID ASSETS			30.592.256	21.096.422
TOTAL NET CASH OUTFLOWS			35.209.981	13.392.461
Liquidity Coverage Ratio (%)			86,89	157,52

⁽¹⁾The arithmetic average of the last 3 months' month-end consolidated Liquidity Coverage Ratios are used

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

Prior period	Minimum FC (%)	Minimum TOTAL(%)	Maximum FC (%)	Maximum TOTAL(%)
Week	Nov 27, 2015	Dec 4, 2015	Oct 23, 2015	Dec 31, 2015
Ratio (%)	116,83	82,13	170,42	99,16

Funding sources of the Bank mainly consist of deposits which constitute 58% of total liabilities of the bank (December 31, 2015 – 55%) and also include repo, secured loans, syndication, securitization, bond/security issuance and other instruments including subordinated debts.

Cash, effective money, cheques, Central Bank of the Republic of Turkey ("CBRT") reserves and debt instruments issued by Treasury of the Republic of Turkey are treated as high quality liquid assets.

Cash outflows from derivative transactions in liquidity coverage ratio calculation are based on inclusion of net cash flows with maturity of 30 days in the calculation. Additionally, transactions having a margin possibility are included in liquidity coverage ratio calculation by taking the largest amount according to absolute value of net margin flows realized in the last 24 months in respect of 30 days period or for liability into consideration as cash outflow.

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

Secured funding consists of repo and secured loan transactions. A large part of securities which are subjects of aforementioned guaranteed funding transactions consist of Sovereign Bonds issued by Treasury of the Republic of Turkey and transactions are carried out both in CBRT market and interbank market.

The Bank manages all the transactions made before its foreign branches and partnership in the framework of central bank, markets and related legislation of the country in which the institutions are located. Legal lending limits and high limit transactions are closely monitored in this framework.

All cash inflow and outflow items related to liquidity profile of the Bank are included in liquidity coverage ratio tables above.

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

Breakdown of assets and liabilities according to their remaining maturities:

	Demand	Up to 1 Month	1-3 months	3-12 months	1-5 years	5 years and over	Unclassified (1)(2)	Total
Current Period								
Assets								
Cash (cash in vault, effectives, cash in transit, cheques purchased) and Balances with the Central Bank of the Republic of Turkey	11.059.900	21.967.792	-	55.603	-	-	-	33.083.295
Banks	1.336.347	1.288.116	324.041	499.387	1.075	-	-	3.448.966
Financial assets at fair value through profit or loss	-	554.056	402.704	842.677	887.506	347.252	6.635	3.040.830
Money market placements	-	252	-	-	-	-	-	252
Available-for-sale financial assets	96.640	1.578	124.342	718.519	7.745.531	9.592.756	106.743	18.386.109
Loans	-	26.834.639	21.792.217	40.082.186	47.069.950	40.706.845	2.178.585	178.664.422
Held-to-maturity Investments	-	11.601	-	1.116.243	1.692.743	8.768.303	-	11.588.890
Other assets ⁽¹⁾	2.341.239	2.198.211	1.286.479	2.386.388	5.991.751	1.074.603	7.643.155	22.921.826
Total assets	14.834.126	52.856.245	23.929.783	45.701.003	63.388.556	60.489.759	9.935.118	271.134.590
Liabilities								
Bank deposits	613.650	6.263.450	598.498	696.516	-	-	-	8.172.114
Other deposits	26.568.606	87.315.238	25.054.236	8.862.812	981.506	133.683	-	148.916.081
Funds borrowed from other financial institutions	-	1.548.498	2.694.096	19.245.859	6.275.556	744.765	-	30.508.774
Funds from money market	-	6.699.947	915.685	1.502.348	87.049	-	-	9.205.029
Marketable securities issued	-	598.290	4.238.224	1.112.075	6.952.758	5.179.120	-	18.080.467
Miscellaneous payables	1.160.731	9.471.654	167.339	121.803	38	-	241.222	11.162.787
Other liabilities ⁽²⁾	1.898.009	553.955	624.673	656.847	1.572.225	9.568.228	30.215.401	45.089.338
Total liabilities	30.240.996	112.451.032	34.292.751	32.198.260	15.869.132	15.625.796	30.456.623	271.134.590
Liquidity gap	(15.406.870)	(59.594.787)	(10.362.968)	13.502.743	47.519.424	44.863.963	(20.521.505)	-
Net Off-Balance Sheet Position	-	(64.060)	143.170	315.222	307.331	(307.266)	-	394.397
Derivative Financial Assets	-	34.979.429	16.618.726	19.487.152	38.499.350	19.688.420	-	129.273.077
Derivative Financial Liabilities	-	35.043.489	16.475.556	19.171.930	38.192.019	19.995.686	-	128.878.680
Non-Cash Loans	-	2.484.004	8.277.071	19.733.514	11.905.355	4.248.532	21.806.008	68.454.484
Prior Period								
Total assets	5.842.245	51.623.125	17.584.555	44.461.789	58.497.782	49.126.978	8.131.458	235.267.932
Total liabilities	23.926.320	92.826.699	38.623.070	24.869.206	14.848.860	13.691.309	26.482.468	235.267.932
Liquidity gap	(18.084.075)	(41.203.574)	(21.038.515)	19.592.583	43.648.922	35.435.669	(18.351.010)	-
Net Off-Balance Sheet Position	-	766.932	(471.172)	(120.615)	25.911	(34.020)	-	167.036
Derivative Financial Assets	-	29.597.702	15.304.298	28.029.816	28.025.521	11.604.519	-	112.561.856
Derivative Financial Liabilities	-	28.830.770	15.775.470	28.150.431	27.999.610	11.638.539	-	112.394.820
Non-Cash Loans	-	18.800.986	3.219.079	8.483.380	5.807.118	2.598.971	18.734.662	57.644.196

- (1) Assets that are necessary for continuance of banking activities and that cannot be liquidated in the short-term, such as fixed and intangible assets, investments in associates, subsidiaries, assets held for sale stationary stocks, prepaid expenses and loans under follow-up, are classified in this column.
- (2) Shareholders' equity is presented under the "Other liabilities" item in the "Unclassified" column.

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

Breakdown of financial liabilities according to their remaining contractual maturities:

The maturity distribution of values at contracted maturity date of non-derivative financial liabilities is presented below. Maturity segments also include the interests of related assets and liabilities.

Current Period ⁽¹⁾	Demand and up to 1 month	1-3 months	3-12 months	1-5 years	Above 5 years	Total
Liabilities						
Deposits	121.503.298	25.967.821	9.778.772	986.930	133.707	158.370.528
Funds borrowed from other financial Institutions	1.582.766	2.812.256	20.122.521	7.814.443	2.654.499	34.986.485
Funds from money market	6.718.374	922.314	1.515.507	87.049	-	9.243.244
Subordinated loans	-	131.831	416.029	2.163.955	10.147.038	12.858.853
Marketable securities issued	634.449	4.311.511	1.345.780	7.433.015	5.300.698	19.025.453
Total	130.438.887	34.145.733	33.178.609	18.485.392	18.235.942	234.484.563

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

Prior Period ⁽¹⁾	Demand and up to 1 month	1-3 months	3-12 months	1-5 years	Above 5 years	Total
Liabilities						
Deposits	88.996.260	33.859.767	7.241.042	754.978	349.975	131.202.022
Funds borrowed from other financial Institutions	1.567.281	2.240.927	14.317.262	6.150.021	4.178.948	28.454.439
Funds from money market	13.719.659	315.429	257.316	-	-	14.292.404
Subordinated loans	-	47.942	300.656	1.936.583	6.697.677	8.982.858
Marketable securities issued	521.307	1.663.115	3.129.545	8.535.659	4.338.997	18.188.623
Total	104.804.507	38.127.180	25.245.821	17.377.241	15.565.597	201.120.346

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

VIII. Explanations on consolidated leverage ratio:

The main reasons for the increase in leverage ratio in the current period are especially the decrease in the risk amounts of the derivative financial instruments and the off-balance sheet items together with the increase in the Tier 1 capital. The summary information for the comparison of total assets in consolidated financials prepared in accordance with TAS and total exposures:

	Current Period ⁽²⁾	Prior Period ⁽²⁾
1 Total assets in the consolidated financial statements prepared in accordance with TAS ^{(1),(2)}	258.250.351	231.901.550
2 Differences between the total assets in the consolidated financial statements prepared in accordance with TAS and the total assets in the consolidated financial statements prepared in accordance with Communiqué on Preparation of Consolidated Financial Statements of the Banks	2.357.502	2.276.833
3 Differences between the balances of derivative financial instruments and the credit derivatives in the consolidated financial statements prepared in accordance with the Communiqué on Preparation of Consolidated Financial Statements of the Banks and their risk exposures	2.628.564	2.467.817
4 Differences between the balances of securities financing transactions in the consolidated financial statements prepared in accordance with the Communiqué on Preparation of Consolidated Financial Statements of the Banks and their risk exposures	(7.113.205)	(9.898.917)
5 Differences between off-balance sheet items in the consolidated financial statements prepared in accordance with the Communiqué on Preparation of Consolidated Financial Statements of the Banks and their risk exposures	(10.420.733)	(2.512.027)
6 Other differences in the consolidated financial statements prepared in accordance with the Communiqué on Preparation of Consolidated Financial Statements of the Banks and their risk exposures	1.994.243	3.911.486
7 Total Risks	6.988.960	383.723.240

(1) The consolidated financial statements prepared in accordance with the sixth paragraph of the Article 5 in the Communiqué on Preparation of Consolidated Financial Statements of the Banks.

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

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

		Current Period ⁽¹⁾	Prior Period ⁽¹⁾
	On-Balance sheet exposures		
1	On-Balance sheet assets (Excluding derivative financial instruments and credit derivatives, including collaterals)	257.109.769	231.035.701
2	(Asset amounts deducted in determining Tier 1 capital)	(3.123.919)	(2.594.171)
3	Total on-Balance sheet exposures	253.985.850	228.441.530
	Derivative financial instruments and credit derivatives		
4	Replacement cost of derivative financial instruments and credit derivatives	1.114.120	826.025
5	Potential credit risk of derivative financial instruments and credit derivatives	2.628.564	2.467.817
6	Total derivative financial instruments and credit derivatives exposure	3.742.684	3.293.842
	Securities financing transaction exposure		
7	Total risk of gross securities financing transactions (excluding on-balance sheet exposure)	535.578	1.822.510
8	Agent transaction exposures	-	-
9	Total securities financing transaction exposures	535.578	1.822.510
	Off-balance sheet items		
10	Off-balance sheet exposure at gross notional amount	149.145.581	152.677.385
11	(Adjustments for conversion to credit equivalent amounts)	(10.420.733)	(2.512.027)
12	Total risk of off-balance sheet items	138.724.848	150.165.358
	Capital and total exposure		
13	Tier 1 capital	23.372.447	20.682.544
14	Total exposures	396.988.960	383.723.240
15	Leverage ratio (%)	5,89%	5,39%

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

IX. Explanations on the presentation of financial assets and liabilities at fair values:

The following table summarises the carrying values and fair values of some financial assets and liabilities of the Group. The carrying value represents the acquisition costs and accumulated interest accruals of corresponding financial assets or liabilities.

	Carrying value		Fair value	
	Current Period	Prior Period	Current period	Prior period
Financial assets	212.088.639	187.364.633	218.383.722	190.171.567
Due from money market	252	286.126	252	286.126
Banks	3.448.966	3.111.505	3.450.260	3.113.324
Available-for-sale financial assets	18.386.109	22.840.204	18.386.109	22.840.204
Held-to-maturity investments	11.588.890	7.108.809	10.981.828	7.038.312
Loans	178.664.422	154.017.989	185.565.273	156.893.601
Financial liabilities	225.908.116	188.488.809	225.863.146	189.242.810
Bank deposits	8.172.114	5.116.319	8.186.147	5.121.899
Other deposits	148.916.081	124.908.746	149.132.775	125.145.431
Funds borrowed from other financial institutions	30.508.774	24.860.979	30.074.417	24.989.311
Subordinated loans	9.067.893	6.635.191	9.170.193	6.726.059
Marketable securities issued	18.080.467	17.172.893	18.136.827	17.465.429
Miscellaneous payables	11.162.787	9.794.681	11.162.787	9.794.681

The fair values of deposits, banks, securities issued and funds borrowed from other financial institutions are determined by calculating the discounted cash flows using the current market interest rates.

The fair value of held-to-maturity assets is determined based on market prices or when this price is not available, based on market prices quoted for other securities subject to the same redemption qualifications in terms of interest, maturity and other similar conditions.

Information related to financial position of the Group (continued)

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

The expected fair value of loans and receivables is determined by calculating the discounted cash flows using the current market interest rates for the loans with fixed interest rates. For the loans with floating interest rates (such as overdrafts and credit card receivables), it is assumed that the carrying value approaches to the fair value.

IFRS 13, "Fair Value Measurement", requires classification of line items at fair value presented at the financial statements according to the defined levels. These levels depend on the observability of data used for fair value calculations. Classification for fair value is generated as followed below:

Level 1: Assets or liabilities with prices recorded (unadjusted) in active markets

Level 2: Assets or liabilities that are excluded in the Level 1 of recorded prices directly observable by prices or indirectly observable derived through prices observable from similar assets or liabilities

Level 3: Assets and liabilities where no observable market data can be used for valuation

According to these classification principles stated, the Group's classification of financial assets and liabilities carried at their fair value are as follows:

Current Period	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or (loss)	43.348	2.997.482	-	3.040.830
Government debt securities	36.713	-	-	36.713
Share certificates	6.635	-	-	6.635
Trading derivative financial assets	-	2.997.482	-	2.997.482
Other marketable securities	-	-	-	-
Available-for-sale financial assets	16.166.933	2.211.406	-	18.378.339
Government debt securities	16.052.373	-	-	16.052.373
Other marketable securities ⁽¹⁾	114.560	2.211.406	-	2.325.966
Hedging derivative financial assets	-	1.209.712	-	1.209.712
Total assets	16.210.281	6.418.600	-	22.628.881
Trading derivative financial liabilities	-	2.578.679	-	2.578.679
Marketable securities issued ⁽²⁾	-	4.111.709	-	4.111.709
Hedging derivative financial liabilities	-	89.296	-	89.296
Total liabilities	-	6.779.684	-	6.779.684

(1) As of December 31, 2016, non-listed share certificates accounted at cost in accordance with TAS 39 amounting to TL 7.770 is not included.

(2) Includes some financial liabilities classified at fair value through profit/loss in order to eliminate the accounting mismatch at the initial recognition in accordance with TAS 39 paragraph 9.

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

Prior Period	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or (loss)	74.146	1.692.147	-	1.766.293
Government debt securities	66.106	-	-	66.106
Share certificates	8.040	-	-	8.040
Trading derivative financial assets	-	1.692.147	-	1.692.147
Other marketable securities	-	-	-	-
Available-for-sale financial assets	20.426.821	2.405.868	-	22.832.689
Government debt securities	20.395.137	-	-	20.395.137
Other marketable securities ⁽¹⁾	31.684	2.405.868	-	2.437.552
Hedging derivative financial assets	-	961.041	-	961.041
Total assets	20.500.967	5.059.056	-	25.560.023
Trading derivative financial liabilities	-	1.922.408	-	1.922.408
Marketable securities issued ⁽²⁾	-	3.394.985	-	3.394.985
Hedging derivative financial liabilities	-	148.278	-	148.278
Total liabilities	-	5.465.671	-	5.465.671

(1) As of December 31, 2015, non-listed share certificates accounted at cost in accordance with TAS 39 amounting to TL 7.515 is not included.

(2) Includes some financial liabilities classified at fair value through profit/loss in order to eliminate the accounting mismatch at the initial recognition in accordance with TAS 39 paragraph 9.

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

X. Explanations on hedge accounting:

The Group applies the following hedge accounting models as of December 31, 2016:

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

Cross currency interest rate swaps are used as hedging instrument in FVH. Interest rate swaps and cross currency swaps are used as hedging instrument in CFH. Contractual amounts and the fair values as at December 31, 2016 of these hedging instruments are presented in the table below:

	Current Period			Prior Period		
	Notional ⁽¹⁾	Asset	Liability	Notional ⁽¹⁾	Asset	Liability
Hedging instrument						
Interest rate swap / cross currency swap (CFH)	24.782.722	963.417	38.839	28.436.221	703.897	144.047
Cross currency interest rate swap (FVH)	1.208.283	246.295	50.457	666.872	257.144	4.231
Total	25.991.005	1.209.712	89.296	29.103.093	961.041	148.278

(1) Only the "sell" legs of the related derivatives are presented with the addition of the "buy" legs of these derivatives amounting to TL 26.681.427 (December 31, 2015 - TL 29.623.344) the total notional of derivative financial assets amounting to TL 52.672.432 (December 31, 2015 - TL 58.726.437) is accounted for in off-balance sheet under "Hedging Derivative Financial Instruments" line item.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

The fair valuation methodology of the derivatives presented in the above table is disclosed in detail in the accounting principles section of these financial statements in Section III. Part IV.

Fair value hedge accounting:

Starting from March 1, 2009 and July 28, 2015 for marketable securities, the Bank has hedged the possible fair value effects of changes in market interest rates on part of its fixed interest TL mortgage and car loan portfolios and marketable securities and fair value effects of changes in foreign exchange rates on part of its foreign currency denominated funding and marketable securities by using cross-currency interest rate swaps. The Bank selected to apply macro FVH accounting for such relationship in accordance with TAS 39.

The impact of application of FVH accounting is summarized below;

Current Period						
Type of hedging instrument	Hedged item (asset and liability)	Nature of hedged risks	Fair value difference / adjustment of the hedged item ⁽¹⁾	Net fair value of the ⁽²⁾		Net gain/(loss) recognised in the income statement ³⁾
				Asset	Liability	
Cross currency interest rate swaps	Fixed interest TL mortgage and car loan portfolios and foreign currency funds, foreign currency securities	Fixed interest and changes in foreign exchange rate risk	(8.587)	205.519	49.949	14.710

- (1) The amount refers to the fair value of the hedged item calculated for the TL fixed interest mortgage and car loans in accordance with hedge accounting effectiveness tests. The foreign exchange rate changes of foreign currency fundings and cross-currency swaps are reflected to the income statement in foreign exchange gains / losses line item.
- (2) The amounts include the foreign exchange differences and net straight line interest accruals of the related derivatives.
- (3) The ineffective portion of the mentioned hedging transaction is TL 2.528.

Prior Period						
Type of hedging instrument	Hedged item (asset and liability)	Nature of hedged risks	Fair value difference / adjustment of the hedged item ⁽¹⁾	Net fair value of the ⁽²⁾		Net gain/(loss) recognised in the income statement ³⁾
				Asset	Liability	
Cross currency interest rate swaps	Fixed interest TL mortgage and car loan portfolios and foreign currency funds, foreign currency securities	Fixed interest and changes in foreign exchange rate risk	(23.297)	251.230	3.427	(14.775)

- (1) The amount refers to the fair value of the hedged item calculated for the TL fixed interest mortgage and car loans in accordance with hedge accounting effectiveness tests. The foreign exchange rate changes of foreign currency fundings and cross-currency swaps are reflected to the income statement in foreign exchange gains / losses line item.
- (2) The amounts include the foreign exchange differences and net straight line interest accruals of the related derivatives.
- (3) The ineffective portion of the mentioned hedging transaction is TL 2.286.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the group (continued)

At the inception date, the Parent Bank documents the relationship between the hedging instruments and hedged items required by the FVH accounting application in accordance with TAS 39 and its own risk management policies and principles. Every individual relationship is approved and documented in the same methodology. In accordance with TAS 39, the effectiveness tests of the relationships are performed in accordance with the Bank's risk management policies. In the effectiveness tests, the fair values of the hedged item are calculated using the same assumptions used in calculation of fair values of the derivatives.

The effectiveness tests are performed prospectively and retrospectively on a monthly basis. At the inception date the effectiveness tests are performed prospectively. If the underlying hedge does not conform to the FVH accounting requirements (out of the 80% - 125% effectiveness range) or if the management voluntarily decides to discontinue the hedging relation, the adjustments made to the carrying value (amortized cost) of the hedged item are amortized with the straight line method and recognized in the profit and loss accounts within the remaining maturity. In addition if the hedging instrument is sold or closed before its maturity, the amount of the fair value adjustments of the hedged items are amortized to profit and loss accounts with the straight line method within the remaining maturity.

Cash flow hedge accounting:

The Parent Bank started to apply macro cash flow hedge accounting from January 1, 2010 onwards in order to hedge its cash flow risk from floating interest rate liabilities. The hedging instruments are USD, EUR and TL interest rate swaps and cross currency swaps with floating receive, fixed pay legs, and the hedged item is the cash outflows due to financing of interests of repricing USD, EUR and TL deposits, borrowings and repos .

The impact of application of CFH accounting is summarized below:

Current Period						
Type of hedging instrument	Hedged item (asset and liability)	Nature of hedged risks	Net fair value of the hedging instrument		Net gain/(loss) recognized in hedging funds ⁽¹⁾	Net gain/(loss) reclassified to equity ⁽²⁾⁽³⁾
			Asset	Liability		
Interest rate swaps/ Cross currency interest rate swaps	Customer deposits, borrowings and repos	Cash flow risk due to the changes in the interest rates	963.417	38.839	379.149	111.184

(1) Includes deferred tax impact.

(2) Includes tax and foreign exchange differences.

(3) The ineffective portion of the mentioned hedging transaction is TL 5.290.

Prior Period						
Type of hedging instrument	Hedged item (asset and liability)	Nature of hedged risks	Net fair value of the hedging instrument		Net gain/(loss) recognized in hedging funds ⁽¹⁾	Net gain/(loss) reclassified to equity ⁽²⁾⁽³⁾
			Asset	Liability		
Interest rate swaps/ Cross currency interest rate swaps	Customer deposits, borrowings and repos	Cash flow risk due to the changes in the interest rates	703.897	144.047	267.965	564.974

(1) Includes deferred tax impact.

(2) Includes tax and foreign exchange differences.

(3) The ineffective portion of the mentioned hedging transaction is TL 6.355.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the group (continued)

At the inception date, the Parent Bank documents the relationship between the hedging instruments and hedged items required by the CFH accounting application in accordance with TAS 39 and its own risk management policies and principles. Every individual relationship is approved and documented in the same way. In accordance with TAS 39, the effectiveness tests of the relationships are performed in accordance with the Bank's risk management policies.

The effectiveness tests are performed on a monthly basis. If the underlying hedge does not conform to the CFH accounting requirements (out of the 80%-125% effectiveness range) or if the management voluntarily decides to discontinue the hedging relation or the hedging instrument is sold or closed before its maturity, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective shall remain separately in equity until the forecast transaction occurs or is no longer expected to occur. When the hedged forecasted transactions are no longer expected to occur, the net cumulative gain or loss is reclassified from other comprehensive income to profit and loss.

Net Investment Hedge

The Group hedges part of the currency translation risk of net investments in foreign operations through foreign currency borrowings. The Group's EUR denominated borrowing is designated as a hedge of the net investment in the Group's certain EUR denominated subsidiaries. The total amount of the borrowing designated as a hedge of the net investment at December 31, 2016 is EUR 386 million (December 31, 2015 - EUR 348 million).

XI. Explanations on the activities carried out on behalf of others and fiduciary transactions:

The Group carries out trading, custody, management and consulting services on behalf of customers and on their account. The Group has no fiduciary transactions.

XII. Explanations on consolidated operating segments:

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

- (1) Retail Banking
- (2) Corporate and Commercial Banking
- (3) Private Banking and Wealth Management.

The Parent Bank's Retail Banking activities include card payment systems, SME (small medium size enterprises) banking and individual banking. Retail Banking products and services offered to customers include card payment systems, consumer loans (including general purpose loans, auto loans, mortgages), commercial installment loans, SME loans, time and demand deposits, gold banking, investment accounts, life and non-life insurance products and payroll services. Card payment systems cover the management of products, services, campaigns for member merchants as well as the sales and activities for a variety of customer types. Crystal, Play, Adios and Taksitçi are the other card brands providing services for the different segments within the World brand, shopping and marketing platform of the Bank. The Bank also offers debit card and a prepaid card named World Hediye Card.

Corporate and Commercial Banking segment is organized into three subgroups: Corporate Banking for large-scale companies, Commercial Banking for medium-sized enterprises and Multinational Companies Banking for multinational companies. Corporate and Commercial Banking, has a product range of working capital finance, trade finance, project finance, domestic and international non-cash loans such as letters of credit and letters of guarantee, cash management and internet banking.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

Through its Private Banking and Wealth Management activities, the Bank serves high net worth customers and delivers investment products to this customer segment. Among the products and services offered to Private Banking customers are time deposit products, capital guaranteed funds, mutual funds, Type A Type B funds, derivative products such as forwards, futures and options in domestic futures exchange (VOB) and international markets, personal loans, foreign exchange, gold and equity trading, pension plans, insurance products and 7/24 safe deposit boxes and e-banking services. Also, personal art advisory, inheritance advisory, real estate advisory, tax advisory and philanthropic advisory are offered within the Private Banking and Wealth Management activities.

The Group's widespread branch network and alternative distribution channels including ATMs, telephone banking, internet banking and mobile banking are utilized to serve customers in all segments. Foreign operations include the Group's banking transactions in the Netherlands, Azerbaijan, Russia and Malta. Treasury, Asset – Liability Management and other operations, mainly consist of treasury management's results, operations of supporting business units and other unallocated transactions.

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

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

Current Period	Retail banking	Corporate and commercial banking	Private banking and wealth management	Other foreign operations	Other domestic operations	Treasury, Asset-Liability Management and Other	Consolidation adjustments ⁽¹⁾	Total operations of the Group
Operating revenue continuing	4.352.372	2.806.216	236.421	258.880	591.474	3.693.209	(6.840)	11.931.732
Operating expenses continuing	(4.331.137)	(1.020.631)	(102.516)	(123.775)	(233.340)	(2.465.801)	6.840	(8.270.360)
Net operating income continuing	21.235	1.785.585	133.905	135.105	358.134	1.227.408	-	3.661.372
Dividend income ⁽²⁾	-	-	-	-	-	6.173	-	6.173
Income/Loss from Investments accounted based on equity method	-	-	-	-	-	85.361	-	85.361
Profit before tax	21.235	1.785.585	133.905	135.105	358.134	1.318.942	-	3.752.906
Tax expense ⁽²⁾	-	-	-	-	-	(820.046)	-	(820.046)
Net period income from continuing operations	21.235	1.785.585	133.905	135.105	358.134	498.896	-	2.932.860
Minority interest (-)	-	-	-	-	-	(65)	-	(65)
Group income/loss	21.235	1.785.585	133.905	135.105	358.134	498.831	-	2.932.795
Segment assets	71.341.470	88.591.658	156.652	9.257.004	16.852.514	88.036.974	(3.796.213)	270.440.059
Investments in associates, subsidiaries and joint ventures	-	-	-	-	-	694.531	-	694.531
Total assets	71.341.470	88.591.658	156.652	9.257.004	16.852.514	88.731.505	(3.796.213)	271.134.590
Segment liabilities	61.218.411	55.827.497	32.536.775	7.499.987	14.606.510	77.118.308	(3.794.051)	245.013.437
Shareholders' equity	-	-	-	-	-	26.121.153	-	26.121.153
Total liabilities	61.218.411	55.827.497	32.536.775	7.499.987	14.606.510	103.239.461	(3.794.051)	271.134.590

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

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

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Information related to financial position of the Group (continued)

Prior Period	Retail banking	Corporate and commercial banking	Private banking and wealth management	Other foreign operations	Other domestic operations	Treasury, Asset-Liability Management and Other	Consolidation adjustments ⁽¹⁾	Total operations of the Group
Operating revenue continuing	4.085.978	2.371.581	213.250	272.453	540.672	2.679.482	43.342	10.206.758
Operating expenses continuing	(3.628.714)	(798.972)	(94.552)	(172.660)	(230.697)	(2.809.676)	8.715	(7.726.556)
Net operating income continuing	457.264	1.572.609	118.698	99.793	309.975	(130.194)	52.057	2.480.202
Dividend income ⁽²⁾	-	-	-	-	-	5.908	-	5.908
Income/Loss from Investments accounted based on equity method	-	-	-	-	-	50.806	-	50.806
Profit before tax	457.264	1.572.609	118.698	99.793	309.975	(73.480)	52.057	2.536.916
Tax expense ⁽²⁾	-	-	-	-	-	(628.188)	-	(628.188)
Net period income from continuing operations	457.264	1.572.609	118.698	99.793	309.975	(701.668)	52.057	1.908.728
Minority interest (-)	-	-	-	-	-	(45)	-	(45)
Group income/loss	457.264	1.572.609	118.698	99.793	309.975	(701.713)	52.057	1.908.683
Segment assets	69.090.016	70.054.161	169.838	7.557.491	13.109.386	77.070.175	(2.361.014)	234.690.053
Investments in associates, subsidiaries and joint ventures	-	-	-	-	-	577.879	-	577.879
Total assets	69.090.016	70.054.161	169.838	7.557.491	13.109.386	77.648.054	(2.361.014)	235.267.932
Segment liabilities	51.068.598	49.253.094	28.125.979	6.169.289	11.085.675	68.837.738	(2.358.843)	212.181.530
Shareholders' equity	-	-	-	-	-	23.086.402	-	23.086.402
Total liabilities	51.068.598	49.253.094	28.125.979	6.169.289	11.085.675	91.924.140	(2.358.843)	235.267.932

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

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Section five

Explanations and notes related to consolidated financial statements

I. Explanations and notes related to consolidated assets:

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

1. Information on cash and the account of the Central Bank of the Republic of Turkey ("the CBRT"):

	Current Period		Prior Period	
	TL	FC	TL	FC
Cash	1.451.290	1.247.992	1.437.741	567.110
The CBRT ⁽¹⁾	7.600.149	22.123.910	2.025.935	23.019.557
Other	-	659.954	-	338.604
Total	9.051.439	24.031.856	3.463.676	23.925.271

- (1) The balance of gold amounting to TL 4.784.973 is accounted for under the Central Bank foreign currency account (December 31, 2015 – TL 3.677.328).

2. Information on the account of the CBRT:

	Current Period		Prior Period	
	TL	FC	TL	FC
Demand unrestricted amount ⁽¹⁾	7.600.149	196.747	2.025.935	2.735.055
Time restricted amount	-	-	-	-
Time unrestricted amount	-	2.107.234	-	-
Reserve requirement ⁽²⁾	-	19.819.929	-	20.284.502
Total	7.600.149	22.123.910	2.025.935	23.019.557

- (1) The TL reserve requirement has been classified in "Central Bank Demand Unrestricted Account" based on the correspondence with BRSA letter as of January 3, 2008.

- (2) The Bank keeps TL, USD, EUR and Gold reserve deposits for its TL and FX liabilities at Central Bank accounts in accordance with the legislation of the Central Bank numbered 2005/1, "Decree on Reserve Deposits".

b. Information on financial assets at fair value through profit and loss:

The Group does not have financial assets at fair value through profit and loss subject to repo transactions (December 31, 2015 - None) and there is no financial assets at fair value through profit and loss given as collateral/blocked (December 31, 2015 - None).

c. Positive differences related to trading derivative financial assets:

	Current Period		Prior Period	
	TL	FC	TL	FC
Forward transactions	341.551	52	154.716	200
Swap transactions ⁽¹⁾	2.175.021	359.084	1.209.471	211.898
Futures transactions	-	-	-	-
Options	87.886	33.873	106.947	8.915
Other	15	-	-	-
Total	2.604.473	393.009	1.471.134	221.013

- (1) Includes Credit Default Swaps

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

ç. Information on banks:

1. Information on banks:

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks				
Domestic	42.324	1.721.272	19.613	1.383.588
Foreign ⁽¹⁾	813	1.684.557	14.813	1.693.491
Headquarters and branches abroad	-	-	-	-
Total	43.137	3.405.829	34.426	3.077.079

(1) The balance of foreign currency account in foreign banks includes the balance of gold amounting to TL 21.364 (December 31, 2015 – 116.632 TL).

2. Information on foreign banks account:

	Unrestricted amount		Restricted amount	
	Current Period	Prior Period	Current Period	Prior Period
EU countries	892.103	420.678	42.509	89.007
USA, Canada	513.937	949.461	77.422	72.690
OECD countries ⁽¹⁾	48.566	38.346	-	18.173
Off-shore banking regions	305	383	-	-
Other	110.528	119.536	-	30
Total	1.565.439	1.528.404	119.931	179.900

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

d. Information on available-for-sale financial assets which are subject to repurchase agreements and given as collateral / blocked:

Carrying values of available-for-sale financial assets which are subject to repurchase agreements and given as collateral / blocked:

Available-for-sale financial assets given as collateral/blocked amount to TL 1.567.715 (December 31, 2015 - TL 4.172.519) and available-for-sale financial assets subject to repo transactions amounts to TL 3.651.723 (December 31, 2015 - TL 8.389.163).

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

e. Information on available-for-sale financial assets:

	Current Period	Prior Period
Debt securities	18.381.399	22.925.060
Quoted on stock exchange	17.566.627	21.794.371
Not quoted ⁽¹⁾	814.772	1.130.689
Share certificates	152.061	300.332
Quoted on stock exchange	119	112
Not quoted ⁽²⁾	151.942	300.220
Impairment provision (-) ⁽³⁾	(243.991)	(403.267)
Other ⁽⁴⁾	96.640	18.079
Total	18.386.109	22.840.204

(1) Includes credit linked notes amounting to TL 475.930 (December 31, 2015 - TL 476.119).

(2) After the completion of the acquisition of Visa Europe by Visa Inc., 18.871 Series C Visa Inc. preferred shares have been allocated to the Bank.

(3) The figure includes the negative differences between the cost and the amortised cost of the securities and the impairment provisions, if any.

(4) Other available-for-sale financial assets include mutual funds.

f. Explanations on loans:

1. Information on all types of loans or advance balances given to shareholders and employees of the Group:

	Current Period		Prior Period	
	Cash	Non-cash	Cash	Non-cash
Direct loans granted to shareholders	-	-	-	-
Corporate shareholders	-	-	-	-
Real person shareholders	-	-	-	-
Indirect loans granted to shareholders	105.720	1.158.561	6.593	954.585
Loans granted to employees	150.384	620	138.434	492
Total	256.104	1.159.181	145.027	955.077

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

2. Information on the first and second group loans and other receivables and loans and other receivables that have been restructured or rescheduled:

Cash Loans	Standard loans and other receivables			Loans and other receivables under close monitoring		
	Loans and other receivables (Total)	of which, terms & conditions are changed		Loans and other receivables (Total)	of which, terms & conditions are changed	
		Payment plan extensions	Other		Payment plan extensions	Other
Non-specialized loans	170.484.214	3.318.283	-	6.001.623	2.439.787	123.451
Loans given to enterprises	88.451.393	825.962	-	1.509.038	800.574	84.205
Export loans	5.957.240	98.750	-	89.845	68.147	-
Import loans	-	-	-	-	-	-
Loans given to financial sector	4.093.778	-	-	-	-	-
Consumer loans	29.912.146	1.284.739	-	1.165.790	266.054	26.956
Credit cards	21.780.057	779.198	-	466.554	216.201	12.289
Other	20.289.600	329.634	-	2.770.396	1.088.811	1
Specialized lending	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
Total	170.484.214	3.318.283	-	6.001.623	2.439.787	123.451

(1) Fair value differences of the hedged items amounting to TL 21.890 expense are classified in other loans as explained in Note XII, Section IV.

	Standard loans and other receivables	Loans and other receivables under close monitoring
Number of modifications made to extend payment plan^{(1),(2),(3),(4)}		
Extended by 1 or 2 times	2.796.801	1.934.629
Extended by 3,4 or 5 times	466.129	421.621
Extended by more than 5 times	55.353	83.537
Total	3.318.283	2.439.787

	Standard loans and other receivables	Loans and other receivables under close monitoring
Number of modifications made to extend payment plan^{(1),(2),(3),(4)}		
0 - 6 Months	262.456	266.696
6 - 12 Months	230.458	230.178
1 - 2 Years	759.034	406.269
2 - 5 Years	1.314.542	686.869
5 Years and over	751.793	849.775
Total	3.318.283	2.439.787

(1) There is no loan which is subject to the temporary article 5 subsection 2 of the amendment of Provisioning Regulation dated on April 09, 2011

(2) There are 87 loans restructured in accordance with temporary article 6 subsection 2 of the amendment of Provisioning Regulation dated December 30, 2011 with maturities Until 0-6 months, 6-12 months and 1-2 years, 2-5 years, 5 years and over. 72 of them were restructured once or twice, 12 of them were restructured three, four or five times, 3 of them were structured more than five times.

(3) There is no loan which is subject to the temporary article 7 of the amendment of Provisioning Regulation dated on September 21, 2012.

(4) There are 546 loans restructured in accordance with temporary article 10 subsection of the amendment of Provisioning Regulation dated August 5, 2016 with maturities Until 0-6 months, 6-12 months and 1-2 years, 2-5 years, 5 years and over. 366 of them were restructured once or twice, 134 of them were restructured three, four or five times, 46 of them were structured more than five times.

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

3. Loans according to their maturity structure:

	Standard loans and other receivables	Agreement conditions modified	Loans and other receivables under close monitoring	Agreement conditions modified
	Loans and other receivables		Loans and other receivables	
Short-term loans and other receivables	55.999.980	921.250	1.044.618	412.817
Non-specialised loans	55.999.980	921.250	1.044.618	412.817
Specialised loans	-	-	-	-
Other receivables	-	-	-	-
Medium and long-term loans and other receivables	111.165.951	2.397.033	2.393.767	2.150.421
Non-specialised loans	111.165.951	2.397.033	2.393.767	2.150.421
Specialised loans	-	-	-	-
Other receivables	-	-	-	-

4.

(i) Information on loans by types and specific provisions:

Current Period	Corporate, commercial and other loans	Consumer loans	Credit cards	Financial Leasing	Factoring	Total
Standard loans	118.792.011	29.912.146	21.780.057	7.966.725	2.709.393	181.160.332
Watch list	4.369.279	1.165.790	466.554	279.550	174.064	6.455.237
Loans under legal follow-up	5.018.769	2.181.464	1.648.934	335.655	141.420	9.326.242
Specific provisions (-)	(3.472.056)	(1.805.842)	(1.392.684)	(277.444)	(130.598)	(7.078.624)
Total	124.708.003	31.453.558	22.502.861	8.304.486	2.894.279	189.863.187

Prior Period	Corporate, commercial and other loans	Consumer loans	Credit cards	Financial Leasing	Factoring	Total
Standard loans	100.194.821	28.127.331	19.312.167	6.644.822	2.143.844	156.422.985
Watch list	3.048.392	1.198.035	608.349	180.017	89.924	5.124.717
Loans under legal follow-up	3.605.834	1.527.753	1.059.720	279.521	130.318	6.603.146
Specific provisions (-)	(2.668.475)	(1.174.379)	(821.559)	(242.099)	(104.962)	(5.011.474)
Total	104.180.572	29.678.740	20.158.677	6.862.261	2.259.124	163.139.374

(ii) Fair value of collaterals:

Current Period	Corporate, commercial and other loans	Consumer loans	Credit cards	Financial Leasing	Factoring	Total
Watch List	8.309.903	998.699	-	279.550	-	9.588.152
Loans under legal follow-up ⁽¹⁾	1.173.649	100.758	-	335.655	-	1.610.062
Total	9.483.552	1.099.457	-	615.205	-	11.198.214

Prior Period	Corporate, commercial and other loans	Consumer loans	Credit cards	Financial Leasing	Factoring	Total
Watch List	4.795.752	3.214.142	-	69.011	-	8.078.905
Loans under legal follow-up ⁽¹⁾	643.319	80.044	-	40.153	-	763.516
Total	5.439.071	3.294.186	-	109.164	-	8.842.421

(1) Fair values of collaterals received for non-performing loans are calculated by using hair-cuts over their nominal values in accordance with the "Regulation of Procedures for Determination of Qualifications of Loans and Other Receivables by Banks and Provisions to be set aside".

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

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

	Short- term	Medium and long-term	Total
Consumer loans-TL	294.430	29.367.681	29.662.111
Real estate loans	6.907	12.525.704	12.532.611
Automotive loans	10.542	348.603	359.145
Consumer loans	276.981	16.493.374	16.770.355
Other	-	-	-
Consumer loans-FC indexed	-	36.673	36.673
Real estate loans	-	36.050	36.050
Automotive loans	-	-	-
Consumer loans	-	623	623
Other	-	-	-
Consumer loans-FC	26.951	52.729	79.680
Real estate loans	553	15.025	15.578
Automotive loans	1.226	723	1.949
Consumer loans	11.633	16.464	28.097
Other	13.539	20.517	34.056
Individual credit cards-TL	14.939.409	901.084	15.840.493
With installments	8.046.443	889.423	8.935.866
Without installments	6.892.966	11.661	6.904.627
Individual credit cards-FC	20.137	37.762	57.899
With installments	14.014	37.762	51.776
Without installments	6.123	-	6.123
Personnel loans-TL	5.875	61.065	66.940
Real estate loans	-	1.836	1.836
Automotive loans	-	127	127
Consumer loans	5.875	59.102	64.977
Other	-	-	-
Personnel loans-FC indexed	-	-	-
Real estate loans	-	-	-
Automotive loans	-	-	-
Consumer loans	-	-	-
Other	-	-	-
Personnel loans-FC	347	846	1.193
Real estate loans	-	-	-
Automotive loans	-	-	-
Consumer loans	139	586	725
Other	208	260	468
Personnel credit cards-TL	79.455	425	79.880
With installments	37.819	425	38.244
Without installments	41.636	-	41.636
Personnel credit cards-FC	611	115	726
With installments	401	115	516
Without installments	210	-	210
Credit deposit account-TL (real person)⁽¹⁾	1.231.295	-	1.231.295
Credit deposit account-FC (real person)	44	-	44
Total	16.598.554	30.458.380	47.056.934

(1) TL 1.645 of the credit deposit account belongs to the loans used by personnel.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

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

		Current Period	
	Short- term	Medium and long-term	Total
Commercial installments loans-TL	999.006	8.574.235	9.573.241
Business loans	962	814.402	815.364
Automotive loans	55.338	1.459.996	1.515.334
Consumer loans	942.706	6.299.837	7.242.543
Other	-	-	-
Commercial installments loans-FC indexed	9.998	226.175	236.173
Business loans	-	19.030	19.030
Automotive loans	16	65.260	65.276
Consumer loans	9.982	141.885	151.867
Other	-	-	-
Commercial installments loans-FC	-	-	-
Business loans	-	-	-
Automotive loans	-	-	-
Consumer loans	-	-	-
Other	-	-	-
Corporate credit cards-TL	6.266.960	501	6.267.461
With installment	4.109.171	47	4.109.218
Without installment	2.157.789	454	2.158.243
Corporate credit cards-FC	152	-	152
With installment	-	-	-
Without installment	152	-	152
Credit deposit account-TL (legal person)	1.055.185	-	1.055.185
Credit deposit account-FC (legal person)	-	-	-
Total	8.331.301	8.800.911	17.132.212

7. Loans according to types of borrowers:

	Current Period	Prior Period
Public	1.759.966	1.713.483
Private	174.725.871	150.775.612
Total	176.485.837	152.489.095

8. Distribution of domestic and foreign loans: Distribution has been disclosed based on the location where the customers operate.

	Current Period	Prior Period
Domestic loans	172.498.400	149.261.801
Foreign loans	3.987.437	3.227.294
Total	176.485.837	152.489.095

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

9. Loans granted to associates and subsidiaries:

	Current Period	Prior Period
Direct loans granted to associates and subsidiaries	21.974	33.816
Indirect loans granted to associates and subsidiaries	-	-
Total	21.974	33.816

10. Specific provisions provided against loans:

	Current Period	Prior Period
Loans and other receivables with limited collectability	167.995	124.531
Loans and other receivables with doubtful collectability	722.883	519.512
Uncollectible loans and other receivables	5.779.704	4.020.370
Total	6.670.582	4.664.413

Current Period	Corporate, commercial and other loans	Consumer loans	Credit cards	Total
January 1	2.668.475	1.174.379	821.559	4.664.413
Allowance for impairment	1.206.971	890.323	729.235	2.826.529
Amount recovered during the period	(408.573)	(259.335)	(158.390)	(826.298)
Loans written off during the period as uncollectible ⁽¹⁾	(125)	(574)	(4)	(703)
Exchange difference	5.308	1.049	284	6.641
December 31	3.472.056	1.805.842	1.392.684	6.670.582

Prior Period	Corporate, commercial and other loans	Consumer loans	Credit cards	Total
January 1	1.961.533	762.778	381.970	3.106.281
Allowance for impairment	1.145.261	668.114	598.949	2.412.324
Amount recovered during the period	(399.791)	(254.220)	(158.289)	(812.300)
Loans written off during the period as uncollectible ⁽¹⁾	(37.633)	(46)	(11)	(37.690)
Exchange difference	(895)	(2.247)	(1.060)	(4.202)
December 31	2.668.475	1.174.379	821.559	4.664.413

(1) Also includes the effects of the sales of non-performing loan portfolios.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

11. Information on non-performing loans (net):

(i).Information on non-performing loans restructured or rescheduled by the Group, and other receivables:

	III. Group	IV. Group	V. Group
	Loans and other receivables with limited collectability	Loans and other receivables with doubtful collectability	Uncollectible loans and other receivables
Current Period			
(Gross amounts before specific reserves)	21.222	101.075	406.035
Restructured loans and other receivables	21.222	101.075	406.035
Rescheduled loans and other receivables	-	-	-
Prior Period			
(Gross amounts before specific reserves)	51.746	88.265	146.882
Restructured loans and other receivables	51.746	88.265	146.882
Rescheduled loans and other receivables	-	-	-

(ii).Information on the movement of total non-performing loans:

	III. Group	IV. Group	V. Group
	Loans and other receivables with limited collectability	Loans and other receivables with doubtful collectability	Uncollectible loans and other receivables
Prior Period	694.782	1.310.280	4.188.245
Additions (+)	3.431.445	141.660	145.811
Transfers from other categories of non-performing loans (+)	-	2.851.441	2.238.822
Transfer to other categories of non-performing loans (-)	(2.851.441)	(2.238.822)	-
Collections (-)	(253.993)	(243.522)	(564.287)
FX valuation differences	(999)	(399)	847
Write-offs (-)	-	-	(703)
Corporate and commercial loans	-	-	(95)
Consumer loans	-	-	(574)
Credit cards	-	-	(4)
Other	-	-	(30)
Current Period	1.019.794	1.820.638	6.008.735
Specific provision (-)	(167.995)	(722.883)	(5.779.704)
Net balance on balance sheet	851.799	1.097.755	229.031

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

(iii).Information on non-performing loans granted as foreign currency loans

	III. Group	IV. Group	V. Group
	Loans and other receivables with limited collectability	Loans and other receivables with doubtful collectability	Uncollectible loans and other receivables
Current Period⁽¹⁾			
Period end balance	310	14.016	128.698
Specific provision (-)	(169)	(7.483)	(74.747)
Net balance on-balance sheet	141	6.533	53.951
Prior Period			
Period end balance	1.130	10.614	563.217
Specific provision (-)	(501)	(6.058)	(461.751)
Net balance on-balance sheet	629	4.556	101.466

⁽¹⁾ Foreign currency non-performing loans are translated with the exchange rates at the date of transfer to TL non performing loans accounts.

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

	III. Group	IV. Group	V. Group
	Loans and other receivables with limited collectability	Loans and other receivables with doubtful collectability	Uncollectible loans and other receivables
Current Period (net)	851.799	1.097.755	229.031
Loans granted to real persons and corporate entities (gross)	1.019.794	1.820.638	5.900.172
Specific provision amount (-)	(167.995)	(722.883)	(5.671.141)
Loans granted to real persons and corporate entities (net)	851.799	1.097.755	229.031
Banks (gross)	-	-	24.575
Specific provision amount (-)	-	-	(24.575)
Banks (net)	-	-	-
Other loans and receivables (gross)	-	-	83.988
Specific provision amount (-)	-	-	(83.988)
Other loans and receivables (Net) ⁽¹⁾	-	-	-
Prior Period (net)	570.251	790.768	167.875
Loans granted to real persons and corporate entities (gross)	694.782	1.310.280	4.079.682
Specific provision amount (-)	(124.531)	(519.512)	(3.911.807)
Loans granted to real persons and corporate entities (Net)	570.251	790.768	167.875
Banks (gross)	-	-	24.575
Specific provision amount (-)	-	-	(24.575)
Banks (net)	-	-	-
Other loans and receivables (gross)	-	-	83.988
Specific provision amount (-)	-	-	(83.988)
Other loans and receivables (Net) ⁽¹⁾	-	-	-

(1) The figure represents the total loans and receivables of Agrosan Kimya Sanayi Ticaret A.Ş., Tümteks Tekstil Sanayi Ticaret A.Ş and balances from Boyasan Tekstil Sanayi ve Ticaret A.Ş. in accordance with the Article 6 Paragraph 9 of regulation for provisions taken into account classification of loans and receivables.

Explanations and notes related to consolidated financial statements (continued)

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

12. Explanation on liquidation policy for uncollectible loans and receivables;

Uncollectible loans and receivables, which are classified in accordance with the Provisioning Regulation, are collected through legal follow-up, voluntary payments and liquidation of collaterals.

13. Explanation on "Write-off" policies:

The Bank's general policy for write-offs of loans and receivables under follow-up is to write of such loans and receivables that are proven to be uncollectible in legal follow-up process.

g. Information on held-to-maturity investments:

1. Characteristics and carrying values of held-to-maturity investments subject to repurchase agreements given as collateral / blocked:

Held-to-maturity investments given as collateral/blocked amounts to TL 2.779.442 (December 31, 2015 - TL 1.758.825). Held-to-maturity investments subject to repurchase agreements amount to TL 2.990.209 (December 31, 2015 - TL 3.147.388).

2. Information on government debt securities held-to-maturity:

	Current Period	Prior Period
Government bond	10.789.054	6.618.626
Treasury bill	-	-
Other debt securities	799.836	490.183
Total	11.588.890	7.108.809

3. Information on investment securities held-to-maturity:

	Current Period	Prior Period
Debt securities	11.887.471	7.303.077
Quoted on stock exchange	11.887.471	7.303.077
Not quoted	-	-
Impairment provision (-) ⁽¹⁾	(298.581)	(194.268)
Total	11.588.890	7.108.809

(1) Includes amortisation of the premiums paid during the purchase of the securities throughout the maturity of the securities and the impairment provisions, if any.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

4. Movement of held-to-maturity investments within the period:

	Current Period	Prior Period
Beginning balance	7.108.809	5.556.369
Foreign currency differences on monetary assets ⁽¹⁾	1.203.918	931.823
Purchases during year	1.703.125	913.249
Transfers ⁽³⁾	1.960.740	-
Disposals through sales and redemptions	(283.389)	(220.904)
Impairment provision (-) ⁽²⁾	(104.313)	(71.728)
Period end balance	11.588.890	7.108.809

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

(2) Includes amortisation of the premiums paid during the purchase of the securities throughout the maturity of the securities and the impairment provisions, if any.

(3) On July 18, 2016, the Bank classified some of its government debt securities from available-for-sale to held-to-maturity portfolio with a nominal amount of TL 1.970.607. The fair value of the aforementioned securities as of July 18, 2016 is TL 2.008.079 and has 8 years maturity in average.

ğ. Information on investments in associates (net):

1. General information on unconsolidated investments in associates:

No	Description	Address (City/ Country)	The Parent Bank's shareholding percentage - if different voting percentage (%)	Bank's risk group shareholding percentage (%)
1	Kredi Kayıt Bürosu ⁽¹⁾	Istanbul/Turkey	18,18	18,18
2	Bankalararası Kart Merkezi A.Ş. ⁽¹⁾	Istanbul/Turkey	9,98	9,98

No	Total Shareholders' assets	Shareholders' equity	Total fixed assets	Interest Income	Income from marketable securities portfolio	Current period profit / loss	Prior period profit / loss	Market Value
1	185.448	129.647	135.578	2.817	89	16.643	26.782	-
2	80.262	39.897	50.021	1.068	-	10.403	3.869	-

(1) Financial statement information disclosed above shows September 30, 2016 results.

2. Consolidated investments in associates:

(i). Information on consolidated investments in associates:

No	Description	Address (City/ Country)	The Parent Bank's shareholding percentage - if different voting percentage (%)	Other Shareholders' shareholding percentage (%) ⁽¹⁾
1	Banque de Commerce et de Placements S.A.	Geneva/ Switzerland	30,67	-
2	Allianz Yaşam ve Emeklilik A.Ş.	Istanbul/Turkey	-	20,00

(1) Other shareholders represent the consolidated Group companies.

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

- (ii). Main financial figures of the consolidated investments in associates in order of the above table:

No	Total assets	Shareholders' equity	Total fixed assets	Interest Income	Income from marketable securities portfolio	Current period profit / loss	Prior period profit / loss	Market Value
1	16.013.192	1.548.742	7.678	152.141	24.530	86.975	68.320	-
2	1.328.619	413.095	26.268	138.273	-	202.268	140.075	-

- (iii). Movement of consolidated investments in associates:

	Current Period	Prior Period
Balance at the beginning of the period	545.225	456.584
Movements during the period	119.389	88.641
Purchases	-	-
Free shares obtained profit from current years share	-	-
Dividends from current year income	88.099	49.009
Sales	-	-
Revaluation (decrease) / increase ⁽²⁾	58.861	61.566
Impairment provision ⁽¹⁾	(27.571)	(21.934)
Balance at the end of the period	664.614	545.225
Capital commitments	-	-
Shareholding percentage at the end of the period (%)	-	-

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

(2) Includes the differences in the other comprehensive income related with the equity method accounting.

- (iv). Information on sectors and the carrying amounts of consolidated investments in associates:

	Current Period	Prior Period
Banks	437.143	338.140
Insurance companies	227.471	207.085
Total financial investments	664.614	545.225

- (v). Investments in associates quoted on stock exchange: None.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

h. Information on shareholders' equity of the significant subsidiaries (net):

There is no deficit of regulatory limits on capital structure of the subsidiaries which are included in the consolidated capital adequacy ratio calculation in accordance with the capital adequacy ratio limits.

1. Information on shareholders' equity of the significant subsidiaries:

	Yapı Kredi Yatırım Menkul Değerler A.Ş.	Yapı Kredi Faktoring A.Ş.	Yapı Kredi Finansal Kiralama A.O.	Yapı Kredi Portföy Yönetimi A.Ş.	Yapı Kredi Nederland N.V.
Core Capital					
Paid-in capital	98.918	60.714	389.928	5.707	112.442
Inflation adjustment to share capital	-	-	-	-	-
Share premium	-	-	-	-	-
Property and equipment revaluation differences	13.697	-	-	-	-
Marketable Securities					
Valuation Differences	13.648	-	-	-	(2.794)
Other capital reserves	93.686	(6)	(217.064)	-	-
Legal reserves	68.107	8.034	79.305	18.164	-
Extraordinary reserves	198.933	10.458	771.384	-	481.813
Other reserves	-	-	-	-	516.739
Profit/loss	(7.526)	135.752	700.578	30.115	91.180
Current period net profit	62.420	37.769	225.810	30.115	91.180
Prior years' income or (loss)	(69.946)	97.983	474.768	-	-
Leasehold improvements (-)	-	-	426	192	74
Intangible assets (-)	19.945	1.598	3.762	532	145
Total core capital	459.518	213.354	1.719.943	53.262	1.199.161
Supplementary capital	-	10.127	42.264	-	208
Capital	459.518	223.481	1.762.207	53.262	1.199.369
Deductions from the capital	-	-	-	-	-
Total shareholders' equity	459.518	223.481	1.762.207	53.262	1.199.369

The above information is based on the information extracted from the individual financial statements of subsidiaries, used for consolidated financial statements of the Bank as of December 31, 2016.

There is no internal capital adequacy assessment process (ICAAP) for the subsidiaries.

Paid-in capital is a capital which have been disclosed as Turkish Lira in the articles of incorporation and registered in trade register.

Inflation adjustment to share capital is the adjustment difference arising from inflation accounting.

Extraordinary Reserves are the reserves which represent the remaining net income of the previous periods after providing the legal reserves in accordance with the General Assembly of the Bank.

Legal reserves are the income reserves that are provided according to the first paragraph and the third subparagraph of the second paragraph of the article no 466 and no 467 of the Turkish Commercial Code No. 6762 allocated as capital reserves separated from annual profit according to the laws of foundation.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

2. Unconsolidated subsidiaries

(i). Information on unconsolidated subsidiaries

Since the subsidiaries below are not financial subsidiaries, the related subsidiaries are unconsolidated and are carried at restated cost.

Description	Address (City/ Country)	The Parent Bank's shareholding percentage - if different voting percentage (%)	Bank's risk group shareholding percentage (%)
1 Yapı Kredi-Kültür Sanat Yayıncılık Tic. ve San. A.Ş.	Istanbul/Turkey	99,99	100,00
2 Enternasyonal Turizm Yatırım A.Ş.	Istanbul/Turkey	99,96	99,99
3 Yapı Kredi Teknoloji A.Ş.	Istanbul/Turkey	100,00	100,00

(ii). Main financial figures of the subsidiaries in order of the above table:

	Total assets	Shareholders' equity	Total fixed assets	Interest Income	Income from marketable securities portfolio	Current period profit / loss	Prior period profit / loss	Market Value
1	27.164	21.974	1.289	57	-	3.168	2.428	-
2	38.717	25.879	4.936	2.120	-	1.548	(620)	-
3	7.872	6.272	1.245	253	-	1.550	(682)	-

The above financial information is extracted from the financial statements of companies included in the preparation of consolidated financial statements are used as of December 31, 2016.

3. Consolidated subsidiaries:

(i). Information on consolidated subsidiaries:

Description	Address (City/ Country)	The Parent Bank's shareholding percentage - if different voting percentage (%)	Bank's risk group shareholding percentage (%)
1 Yapı Kredi Holding B.V.	Amsterdam/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 Moscow	Moscow/Russia	99,84	100,00
5 Yapı Kredi Leasing	Istanbul/Turkey	99,99	99,99
6 Yapı Kredi Portföy	Istanbul/Turkey	12,65	99,99
7 Yapı Kredi NV ⁽¹⁾	Amsterdam/Nederlands	67,24	100,00
8 Yapı Kredi Azerbaycan ⁽²⁾	Baku/Azerbaijan	99,80	100,00
9 Yapı Kredi Malta	St.Julian/Malta	-	100,00

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

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

(2) Includes the balances for Yapı Kredi Invest LLC.

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

(ii). Main financial figures of the consolidated subsidiaries in the order of the below table⁽¹⁾:

	Total assets	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit / loss	Prior period profit / loss	Market value ⁽²⁾	Required equity
1	229.188	228.936	-	-	-	77	326	-	-
2	4.694.056	483.967	42.195	291.953	7.541	62.420	59.558	-	-
3	3.065.904	214.952	2.338	178.023	-	37.769	9.867	-	-
4	448.603	199.922	17.944	32.166	1.551	13.352	14.115	-	-
5	9.259.232	1.724.131	4.683	519.133	-	225.810	196.527	-	-
6	64.334	53.966	1.152	5.430	-	30.115	27.850	-	-
7	7.322.200	1.199.381	735	342.890	13.297	91.180	61.198	-	-
8	922.809	130.427	30.196	56.465	47	(6.845)	395	-	-
9	554.656	218.802	2.883	13.413	177	320	(3.417)	-	-

(1) The above financial information is extracted from the financial statements of companies included in the preparation of consolidated financial statements are used as of December 31, 2016.

(iii). Movement schedule of consolidated subsidiaries:

	Current Period	Prior Period
Balance at the beginning of the period	3.614.436	3.309.478
Movements during the period	611.288	304.958
Purchases ⁽¹⁾	-	-
Free shares obtained profit from current years share	-	-
Dividends from current year income	431.423	345.342
Sales	-	-
Transfers	-	-
Revaluation (decrease) / increase ⁽¹⁾	270.579	66.047
Impairment provision ⁽²⁾	(90.714)	(106.431)
Balance at the end of the period	4.225.724	3.614.436
Capital commitments	-	-
Shareholding percentage at the end of the period (%)	-	-

(1) Includes the differences in the other comprehensive income related with the equity method accounting.

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

(iv). Sectoral information on financial subsidiaries and the related carrying amounts:

Financial Subsidiaries	Current Period	Prior Period
Banks	1.136.275	886.070
Insurance companies	-	-
Factoring companies	214.850	195.856
Leasing companies	1.724.028	1.498.228
Finance companies	-	-
Other financial subsidiaries	1.150.571	1.034.282
Total financial subsidiaries	4.225.724	3.614.436

(v). Subsidiaries quoted on stock exchange:

None (December 31, 2015 - None)

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

i. Information on joint ventures (net):

1. Unconsolidated joint ventures: None.
2. Consolidated joint ventures:
 - (i). Information on consolidated Joint Ventures:

Joint ventures	Bank's share	Group's share	TotalShareholders' assets	equity	Current assets	Non-current assets	Long term debt	Income	Expense
Yapı Kredi Koray Gayrimenkul Yatırım Ortaklığı A.Ş.	30,45	30,45	107.248	64.025	50.478	56.770	8.422	54.011	(60.269)
Total			107.248	64.025	50.478	56.770	8.422	54.011	(60.269)

i. Information on lease receivables (net):

- 1) Breakdown according to maturities:

	Current Period		Prior Period	
	Gross	Net	Gross	Net
Less than 1 year	2.932.321	2.402.637	2.339.085	1.917.198
Between 1- 4 years	5.196.033	4.378.313	4.262.288	3.557.981
More than 4 years	1.705.737	1.523.536	1.536.136	1.387.082
Total	9.834.091	8.304.486	8.137.509	6.862.261

- 2) Information for net investments in finance leases:

	Current Period		Prior Period	
	TL	FC	TL	FC
Gross lease receivables	2.229.318	7.604.773	2.037.181	6.100.328
Unearned financial income from leases (-)	(509.000)	(1.020.605)	(422.420)	(852.828)
Amount of cancelled leases (-)	-	-	-	-
Total	1.720.318	6.584.168	1.614.761	5.247.500

j. Information on hedging derivative financial assets:

	Current Period		Prior Period	
	TL	FC	TL	FC
Fair value hedge ⁽¹⁾	246.295	-	257.144	-
Cash flow hedge ⁽¹⁾	850.313	113.104	697.629	6.268
Foreign net investment hedge	-	-	-	-
Total	1.096.608	113.104	954.773	6.268

- (1) Explained in the note X of Section IV.

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

k. Information on tangible assets:

	Immovable	Leased fixed assets	Vehicles	Other tangible fixed assets	Total
Prior Period					
Cost	3.011.229	367.789	3.420	1.165.529	4.547.967
Accumulated depreciation (-)	(876.677)	(331.656)	(2.310)	(569.840)	(1.780.483)
Net book value	2.134.552	36.133	1.110	595.689	2.767.484
Current Period					
Net book value at beginning of the period	2.134.552	36.133	1.110	595.689	2.767.484
Additions ⁽¹⁾	87.088	1.848	192	126.433	215.561
Disposals (-), net	(20.848)	(1.613)	(18)	(7.946)	(30.425)
Reversal of impairment, net	-	-	-	(14.121)	(14.121)
Impairment (-)	-	505	-	211	716
Depreciation (-)	-	-	-	-	-
Transfers	(48.772)	(18.964)	(384)	(164.882)	(233.002)
Foreign exchange differences, net	5.353	678	44	759	6.834
Net book value at end of the period	2.157.373	18.587	944	536.143	2.713.047
Cost at the end of the period	3.081.285	351.285	3.420	1.193.245	4.629.235
Accumulated depreciation at the period end (-)	(923.912)	(332.698)	(2.476)	(657.102)	(1.916.188)
December 31, 2015	2.157.373	18.587	944	536.143	2.713.047

As of December 31, 2016, the Parent Bank had total provision for impairment amounting to TL 224.378 (December 31, 2015 – TL 224.378) for the property and equipment.

I. Information on intangible assets:

	Current Period	Prior Period
Balance at the beginning of the period	1.508.428	1.457.366
Additions during the period	179.700	187.093
Unused and disposed items (-)	(11.018)	(955)
Sales of a subsidiary	14.121	(1.230)
Impairment reversal	-	-
Amortization expenses (-)	(124.572)	(128.678)
Foreign exchange valuation differences	205	(5.168)
Balance at the end of the period	1.566.864	1.508.428

m. Information on investment property:

None (December 31, 2015 - None).

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

n. Information on deferred tax asset:

	Current Period		Prior Period	
	Tax base	Deferred Tax	Tax base	Deferred Tax
Reserves for employee benefit	869.327	173.673	874.762	175.788
Derivative financial liabilities	2.711.672	544.831	2.108.733	414.520
Securities portfolio valuation differences	567.845	113.569	378.951	99.176
Subsidiaries, investment in associates and share certificates	122.117	24.423	122.117	24.423
Other	985.185	196.977	766.946	153.153
Total deferred tax asset	5.256.146	1.053.473	4.251.509	867.060
Derivative financial assets	(4.266.432)	(844.032)	(2.784.083)	(561.588)
Valuation difference of securities portfolio	(1.129.363)	(225.991)	(953.965)	(190.819)
Property, equipment and intangibles, net	(1.823.817)	(121.656)	(1.860.362)	(127.130)
Other	(258.901)	(49.617)	(210.312)	(39.902)
Total deferred tax liability	(7.478.513)	(1.241.296)	(5.808.722)	(919.439)
Deferred tax asset, net⁽¹⁾	(2.222.367)	(187.823)	(1.557.213)	(52.379)

(1) Includes TL 80.428 deferred tax assets as of December 31, 2016.

Deferred tax expense amounting to TL 162.009 was recognized in profit and loss statement, whereas deferred tax income amounting to TL 27.516 was recognized directly in equity accounts for the period ended December 31, 2016.

o. Movement schedule of assets held for resale and related to discontinued operations:

	Current Period	Prior Period
Net book value at the beginning of the period	153.922	155.485
Additions	98.410	71.898
Transfers	(81.544)	(68.679)
Disposals (-), net	1.908	560
Impairment provision reversal	(416)	(400)
Impairment provision (-)	(5.714)	(5.149)
Depreciation (-)	(383)	207
Translation differences	-	-
Net book value at the end of the period	166.183	153.922
Cost at the end of the period	182.137	169.035
Accumulated depreciation at the end of the period (-)	(15.954)	(15.113)
Net book value at the end of the period	166.183	153.922

As of December 31, 2016, the Group booked impairment provision on assets held for resale with an amount of TL 6.346 (December 31, 2015 - TL 7.838).

ö. Information on other assets:

As of December 31, 2016, other assets do not exceed 10% of the total assets.

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

II. Explanations and notes related to consolidated liabilities:

a. Information on deposits:

1. Information on maturity structure of deposits/collected funds:

(i). Current Period:

	Demand	With 7 days notifications	Up to 1 month	1-3 Months	3-6 Months	6 Months - 1 Year	1 Year and over	Cumulative Deposit	Total
Saving deposits	6.145.162	2.534	1.392.165	31.602.890	1.555.624	209.889	174.943	485	41.083.692
Foreign currency deposits	12.804.821	36.207	9.292.694	36.447.490	3.899.045	4.665.206	2.289.801	-	69.435.264
Residents in Turkey	11.421.891	18.796	9.186.288	35.929.631	3.589.035	4.035.721	1.220.512	-	65.401.874
Residents abroad	1.382.930	17.411	106.406	517.859	310.010	629.485	1.069.289	-	4.033.390
Public sector deposits	230.784	-	35	3.797	16	180	59	-	234.871
Commercial deposits	6.795.962	-	4.835.125	17.433.057	2.765.952	1.302.572	333.090	-	33.465.758
Other institutions deposits	103.771	-	81.880	2.400.983	785.374	423.524	575	-	3.796.107
Precious metals vault	488.106	-	43.940	309.337	19.931	31.543	7.532	-	900.389
Bank deposits	613.650	42.914	5.559.697	971.004	275.121	670.239	39.489	-	8.172.114
The CBRT	-	-	-	-	-	-	-	-	-
Domestic banks	1.931	-	5.329.588	392.639	117.925	19.278	4.170	-	5.865.531
Foreign banks	181.583	42.914	230.109	578.365	157.196	650.961	35.319	-	1.876.447
Participation banks	430.136	-	-	-	-	-	-	-	430.136
Other	-	-	-	-	-	-	-	-	-
Total	27.182.256	81.655	21.205.536	89.168.558	9.301.063	7.303.153	2.845.489	485	157.088.195

(ii). Prior Period:

	Demand	With 7 days notifications	Up to 1 month	1-3 Months	3-6 Months	6 Months - 1 Year	1 Year and over	Cumulative Deposit	Total
Saving deposits	4.219.828	292	1.342.831	26.878.250	806.474	127.203	187.905	-	33.562.783
Foreign currency deposits	9.680.582	16.477	7.748.761	30.615.266	4.731.711	4.755.724	2.938.619	-	60.487.140
Residents in Turkey	8.654.417	8.900	7.710.165	29.872.663	3.009.199	707.224	1.177.571	-	51.140.139
Residents abroad	1.026.165	7.577	38.596	742.603	1.722.512	4.048.500	1.761.048	-	9.347.001
Public sector deposits	833.607	-	70	72.690	71	660	77	-	907.175
Commercial deposits	4.806.847	-	4.143.763	15.441.255	732.772	139.680	638.898	-	25.903.215
Other institutions deposits	91.538	-	62.089	2.592.019	320.813	402.005	1.190	-	3.469.654
Precious metals vault	329.584	-	5.828	59.963	26.188	33.296	123.920	-	578.779
Bank deposits	349.936	8.215	3.102.799	739.430	202.185	662.035	51.719	-	5.116.319
The CBRT	-	-	-	-	-	-	-	-	-
Domestic banks	1.854	-	2.886.157	365.081	-	-	-	-	3.253.092
Foreign banks	23.581	8.215	216.642	374.349	202.185	662.035	51.719	-	1.538.726
Participation banks	324.501	-	-	-	-	-	-	-	324.501
Other	-	-	-	-	-	-	-	-	-
Total	20.311.922	24.984	16.406.141	76.398.873	6.820.214	6.120.603	3.942.328	-	130.025.065

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

2. Information on saving deposits insurance:

(i). Information on saving deposits under the guarantee of the saving deposits insurance fund and exceeding the limit of deposit insurance fund:

Saving deposits ⁽¹⁾	Under the guarantee of deposit insurance		Exceeding the limit of the insurance deposit	
	Current period	Prior period	Current period	Prior period
Saving deposits	21.149.862	17.037.310	20.005.450	16.965.778
Foreign currency savings deposit	7.420.214	6.632.647	21.307.662	17.764.322
Other deposits in the form of savings deposits	329.328	241.329	480.438	277.182
Foreign branches' deposits under foreign authorities' insurance	-	-	-	-
Off-shore banking regions' deposits under foreign authorities' insurance	-	-	-	-

⁽¹⁾ The balances from foreign subsidiaries, calculated in accordance with their own regulation, are included.

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

	Current Period	Prior Period
Foreign branches' deposits and other accounts	6.581	5.495
Saving deposits and other accounts of controlling shareholders and deposits of their mother, father, spouse, children in care	-	-
Saving deposits and other accounts of president and members of board of directors, CEO and vice presidents and deposits of their mother, father, spouse, children in care	202.939	132.362
Saving deposits and other accounts in scope of the property holdings derived from crime defined in article 282 of Turkish criminal law no:5237 dated 26.09.2004	-	-
Saving deposits in deposit bank which is established in Turkey in order to engage in off-shore banking activities solely	-	-

b. Information on trading derivative financial liabilities:

	Current Period		Prior Period	
	TL	FC	TL	FC
Forward transactions	194.823	-	97.011	156
Swap transactions ⁽¹⁾	1.914.258	343.058	1.422.269	284.342
Futures transactions	-	-	-	-
Options	79.854	45.617	105.182	13.448
Other	-	1.069	-	-
Total	2.188.935	389.744	1.624.462	297.946

(1) Includes Credit Default Swaps

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

c. Information on borrowings:

1. Information on borrowings:

	Current Period		Prior Period	
	TL	FC	TL	FC
The Central Bank of the Republic of Turkey borrowings	-	418.480	-	-
From domestic banks and institutions	985.663	1.387.972	730.154	1.247.208
From foreign banks, institutions and funds	381.767	27.334.892	541.887	22.341.730
Total	1.367.430	29.141.344	1.272.041	23.588.938

2. Information on maturity structure of borrowings:

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-term	732.279	2.896.348	772.974	1.204.093
Medium and long-term	635.151	26.244.996	499.067	22.384.845
Total	1.367.430	29.141.344	1.272.041	23.588.938

ç. Information on marketable securities issued

	Current Period		Prior Period	
	TL	FC	TL	FC
Bills	1.399.791	86.665	2.106.752	451.305
Asset backed securities ^{(1), (2)}	-	6.564.507	-	6.083.274
Bonds	2.591.092	7.438.412	2.093.611	6.437.951
<i>Collateralized securities</i>	288.650	-	288.650	-
Total	3.990.883	14.089.584	4.200.363	12.972.530

(1) The Parent Bank classified some of its financial liabilities as the financial liabilities classified at fair value through profit/loss in order to eliminate the accounting mismatch at the initial recognition in accordance with TAS 39 paragraph 9. As of December 31, 2016, the total amount of financial liabilities classified as fair value through profit/loss is TL 4.111.709 (December 31, 2015 - TL 3.394.985) with an accrued interest income of TL 97.254 (December 31, 2015 - TL 82.505) and with a fair value difference of TL 19.783 recognized in the income statement as an expense (December 31, 2015 - TL 96.946 expense). On the other hand, the nominal amounts of the total return swaps which are closely related with these financial liabilities as of December 31, 2016 are TL 4.033.003 (December 31, 2015: TL 3.332.109) for buy legs and TL 4.033.003 (December 31, 2015: TL 3.332.109) for sell legs with a fair value differences amounting to TL 97.052 (December 31, 2015: 82.870 TL). The mentioned total return swaps have 10 year maturity in average.

(2) The Group obtains borrowings via its structured entity, Diversified Payment Rights Finance Company, with securitization transactions which is founded on its future money transfers within its funding programme.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

d. Information on other liabilities:

As of December 31, 2016, other liabilities do not exceed 10% of the total balance sheet commitments.

e. Information on lease payables:

1. Information on financial leasing agreements:

None (December 31, 2015 - None).

2. Information on operational leasing agreements:

The Parent Bank enters into operational leasing agreements annually for some of its branches and ATMs. The leases are prepaid and accounted as prepaid expenses under "Other Assets".

f. Information on hedging derivative financial liabilities:

	Current Period		Prior Period	
	TL	FC	TL	FC
Fair value hedge ⁽¹⁾	49.949	508	3.926	305
Cash flow hedge ⁽¹⁾	16.314	22.525	35.387	108.660
Foreign net investment hedge	-	-	-	-
Total	66.263	23.033	39.313	108.965

(1) Explained in Note X. of Section IV.

g. Information on provisions:

1. Information on general provisions:

	Current Period	Prior Period
I. Provisions for first group loans and receivables	2.475.808	2.091.893
<i>of which, Provision for Loans and Receivables with Extended Maturity</i>	184.180	85.758
II. Provisions for second group loans and receivables	268.623	213.075
<i>of which, Provision for Loans and Receivables with Extended Maturity</i>	92.159	57.504
Provisions for non-cash loans	107.664	89.448
Other	257.476	232.855
Total	3.109.571	2.627.271

2. Information on reserve for employee rights:

In accordance with Turkish Labour Law, the reserve for employment termination benefits is calculated as the present value of the probable future obligation in case of the retirement of employees. TAS 19 necessitates actuarial valuation methods to calculate the liabilities of enterprises.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

The following actuarial assumptions were used in the calculation of total liabilities:

	Current Period	Prior Period
Discount rate (%)	4,50	4,60
Possibility of being eligible for retirement (%)	93,63	93,89

The principal actuarial assumption is that the maximum liability will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. As the annual ceiling is revised semi-annually, the ceiling of full TL 4.426,16 effective from January 1, 2017 (January 1, 2016 - full TL 4.092,53) has been taken into consideration in calculating the reserve for employment termination benefits.

Movement of employment termination benefits liability in the balance sheet:

	Current Period	Prior Period
Prior period ending balance	141.388	141.134
Changes during the period	30.757	49.143
Recognized in equity	(2.683)	(20.478)
Paid during the period	(40.431)	(28.238)
Foreign currency differences	479	(173)
Balance at the end of the period	129.510	141.388

In addition, the Group has accounted for unused vacation rights provision amounting to TL 171.811 as of December 31, 2016 (December 31, 2015 - TL 159.125).

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

As of December 31, 2016, the provision related to the foreign currency difference of foreign currency indexed loans amounts to TL 708 (December 31, 2015 - TL 30.295). Provisions related to the foreign currency difference of foreign currency indexed loans are netted from the loan amount in the financial statements.

4. Other provisions:

(i) Information on other provisions:

	Current Period	Prior Period
Pension fund provision	568.006	574.249
Provisions on unindemnified non cash loans	150.517	105.932
Provision on lawsuits	75.955	64.875
Provisions on credit cards and promotion campaigns related to banking services	43.588	38.678
Other	345.114	271.468
Total	1.183.180	1.055.202

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

(ii) General reserves for possible losses:

	Current Period	Prior Period
General reserves for possible losses	100.000	-
Total	100.000	-

5. Pension fund provision:

The Parent Bank provided provision amounting to TL 568.006 (December 31, 2015 – TL 574.249) for the technical deficit based on the report prepared by a registered actuary in accordance with the technical interest rate of 9,8% determined by the New Law and CSO 1980 mortality table.

	Current Period	Prior Period
Income statement (charge)/benefit	6.243	80.652

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

	Current Period	Prior Period
Present value of funded obligations	1.964.448	1.757.364
- Pension benefits transferable to SSI	1.882.467	1.889.880
- Post employment medical benefits transferable to SSI	81.981	(132.516)
Fair value of plan assets	(1.396.442)	(1.183.115)
Provision for the actuarial deficit of the pension fund	568.006	574.249

The principal actuarial assumptions used were as follows:

	Current Period	Prior Period
Discount rate		
- Pension benefits transferable to SSI	%9,80	%9,80
- Post employment medical benefits transferable to SSI	%9,80	%9,80

Mortality rate: Average life expectation is defined according to CSO 1980 mortality table.

Plan assets are comprised as follows:

	Current Period		Prior Period	
	Amount	%	Amount	%
Government bonds and treasury bills	831.034	60	728.589	62
Premises and equipment	233.858	17	168.951	14
Bank placements	223.150	16	223.142	19
Other	108.400	7	62.433	5
Total	1.396.442	100	1.183.115	100

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

ğ. Information on taxes payable:

(i) Information on taxes payable:

	Current Period	Prior Period
Corporate Tax Payable	10.585	195.493
Taxation of Marketable Securities	108.253	111.321
Property Tax	2.872	2.795
Banking Insurance Transaction Tax ("BITT")	108.913	107.141
Foreign Exchange Transaction Tax	-	-
Value Added Tax Payable	10.414	13.240
Other	37.975	39.413
Total	279.012	469.403

(ii) Information on premium payables:

	Current Period	Prior Period
Social security premiums - employee	88	312
Social security premiums - employer	102	364
Bank pension fund premiums - employee	15.310	13.473
Bank pension fund premiums - employer	15.798	13.921
Pension fund deposit and provisions - employee	-	-
Pension fund deposit and provisions - employer	-	-
Unemployment insurance - employee	1.093	961
Unemployment insurance - employer	2.187	1.922
Other	-	-
Total	34.578	30.953

(iii) Information on deferred tax liability:

There is a deferred tax liability amounting to TL 268.251 as of December 31, 2016 reflected in the consolidated financial statements after the deferred tax assets and liabilities of each entity in consolidation has been netted off in their standalone financial statements as per TAS 12 (December 31, 2015 – TL 119.097).

h. Information on subordinated loans⁽¹⁾:

	Current Period		Prior Period	
	TL	FC	TL	FC
From domestic banks	-	-	-	-
From other domestic institutions	-	-	-	-
From foreign banks	-	9.067.893	-	6.635.191
From other foreign institutions	-	-	-	-
Total	-	9.067.893	-	6.635.191

(1) Subordinated loans are explained in detail in Note "Details on Subordinated Liabilities" of Section Four.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

I. Information on shareholders' equity:

1. Presentation of paid-in capital

	Current Period	Prior Period
Common stock	4.347.051	4.347.051
Preferred stock	-	-

2. Paid-in capital amount, explanation as to whether the registered share capital system is applied and if so, amount of registered share capital ceiling:

The Parent Bank's paid-in-capital is amounting to TL 4.347.051 and in accordance with the decision taken in the Ordinary General Assembly at April 7, 2008, the Parent Bank has switched to the registered capital system and the registered share capital ceiling is TL 10.000.000.

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

None (December 31, 2015 - None).

4. Information on transfers from capital reserves to capital during the current period: None.

5. Information on capital commitments, until the end of the fiscal year and the subsequent interim period: None.

6. Information on prior period's indicators on the Group's income, profitability and liquidity, and possible effects of these future assumptions on the Bank's equity due to uncertainties of these indicators:

The interest, liquidity, and foreign exchange risk related to on-balance sheet and off-balance sheet assets and liabilities are managed by the Parent Bank within several risk and legal limits.

7. Privileges on the corporate stock: None.

8. Information on value increase fund of marketable securities:

	Current Period		Prior Period	
	TL	FC	TL	FC
From investments in associates, subsidiaries, and joint ventures	-	-	-	-
Valuation difference	-	-	-	-
Foreign currency difference	-	-	-	-
Available for sale securities⁽¹⁾	(377.643)	(86.111)	(546.402)	261.490
Valuation differences	(377.643)	(86.111)	(546.402)	261.490
Foreign currency differences	-	-	-	-
Total	(377.643)	(86.111)	(546.402)	261.490

(1) Includes tax effect of foreign currency valuation differences.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

i. Information on minority interest:

	Current Period	Prior Period
Period opening balance	474	462
Current period income/(loss)	65	45
Dividends paid	(37)	(41)
Translation differences	-	8
Period ending balance	502	474

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

a. Information on off balance sheet commitments:

1. The amount and type of irrevocable commitments:

	Current Period	Prior Period
Commitments on credit card limits	29.878.711	28.304.464
Loan granting commitments	8.877.881	9.085.013
Commitments for cheques	6.686.199	6.521.085
Other irrevocable commitments	20.964.614	35.009.478
Total	66.407.405	78.920.040

2. Type and amount of probable losses and obligations arising from off-balance sheet items:

Obligations arising from off-balance sheet are disclosed in "Off-balance sheet commitments". The Group set aside general provision for its non-cash loans amounting to TL 107.664 (December 31, 2015 - TL 89.448) and specific provision amounting to TL 875.166 (December 31, 2015 - TL 597.477) for non-cash loans which are not indemnified yet amounting to TL 150.517 (December 31, 2015 - TL 105.932).

(i). Non-cash loans including guarantees, bank acceptance loans, collaterals that are accepted as financial guarantees and other letter of credits:

	Current Period	Prior Period
Bank acceptance loans	195.766	173.524
Letter of credits	9.193.170	8.043.863
Other guarantees and collaterals	6.273.317	4.255.807
Total	15.662.253	12.473.194

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

(ii). Guarantees, suretyships and other similar transactions:

	Current Period	Prior Period
Temporary letter of guarantees	3.060.589	1.926.929
Definite letter of guarantees	33.508.036	31.839.457
Advance letter of guarantees	8.291.959	5.556.443
Letter of guarantees given to customs	2.100.488	2.016.807
Other letter of guarantees	5.831.159	3.831.366
Total	52.792.231	45.171.002

3. Information on non-cash loans

(i). Total amount of non-cash loans:

	Current Period	Prior Period
Non-cash loans given against cash loans	5.483.022	3.496.922
With original maturity of 1 year or less than 1 year	855.258	465.353
With original maturity of more than 1 year	4.627.764	3.031.569
Other non-cash loans	62.971.462	54.147.274
Total	68.454.484	57.644.196

(ii) Information on sectoral concentration of non-cash loans:

	Current Period				Prior Period			
	TL	(%)	FC	(%)	TL	(%)	FC	(%)
Agricultural	268.785	1,24	264.445	0,56	201.097	1,11	300.661	0,76
Farming and raising livestock	226.348	1,04	190.047	0,41	145.432	0,80	248.322	0,63
Forestry	38.494	0,18	47.330	0,10	39.083	0,22	32.771	0,08
Fishing	3.943	0,02	27.068	0,06	16.582	0,09	19.568	0,05
Manufacturing	8.769.875	40,57	24.592.178	52,50	7.163.316	39,63	18.881.195	47,72
Mining	413.574	1,91	673.019	1,44	722.796	4,00	1.458.233	3,69
Production	5.953.750	27,54	19.436.022	41,49	5.379.717	29,76	14.272.627	36,07
Electric, gas and water	2.402.551	11,12	4.483.137	9,57	1.060.803	5,87	3.150.335	7,96
Construction	6.569.893	30,40	9.996.845	21,24	4.554.374	25,19	7.832.024	19,79
Services	5.704.088	26,39	11.961.363	25,54	4.243.253	23,48	10.018.001	25,32
Wholesale and retail trade	2.231.326	10,32	3.091.503	6,60	1.902.714	10,53	3.164.517	8,00
Hotel, food and beverage services	176.337	0,82	707.443	1,51	181.879	1,01	407.687	1,03
Transportation and telecommunication	551.457	2,55	3.475.197	7,42	377.454	2,09	3.044.644	7,69
Financial institutions	1.964.705	9,09	2.516.743	5,37	1.000.426	5,53	1.660.349	4,20
Real estate and renting services	270.474	1,25	308.212	0,66	262.802	1,45	189.037	0,48
Employment	-	0,00	-	0,00	-	-	-	-
Education services	40.232	0,19	21.676	0,05	31.839	0,18	63.497	0,16
Health and social services	469.557	2,17	1.840.589	3,93	486.139	2,69	1.488.270	3,76
Other	301.941	1,40	25.071	0,05	1.914.483	10,59	2.535.792	6,41
Total	21.614.582	100,00	46.839.902	100,00	18.076.523	100,00	39.567.673	100,00

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

(iii) Information on non-cash loans classified in Group I. and Group II:

Current Period	Group I		Group II	
	TL	FC	TL	FC
Non-cash loans				
Letters of guarantee	20.992.683	30.942.686	576.008	280.854
Bank acceptances	-	195.766	-	-
Letters of credit	11.407	9.174.537	-	7.226
Endorsements	-	-	-	-
Underwriting commitments	-	-	-	-
Factoring guarantees	-	-	-	-
Other commitments and contingencies	34.484	6.235.795	-	3.038
Total	21.038.574	46.548.784	576.008	291.118
Prior Period	Group I		Group II	
	TL	FC	TL	FC
Non-cash loans				
Letters of guarantee	17.753.621	27.065.480	277.973	73.928
Bank acceptances	-	173.524	-	-
Letters of credit	11.483	8.028.440	-	3.940
Endorsements	-	-	-	-
Underwriting commitments	-	-	-	-
Factoring guarantees	-	-	-	-
Other commitments and contingencies	33.446	4.221.266	-	1.095
Total	17.798.550	39.488.710	277.973	78.963

(iv) Maturity distribution of non cash loans:

Current Period ⁽¹⁾	Indefinite	Up to 1 year	1-5 years	Above 5 years	Total
Letter of credit	-	6.654.515	2.532.433	6.222	9.193.170
Letter of guarantee	21.464.214	9.410.155	18.179.733	3.738.129	52.792.231
Bank acceptances	-	168.491	24.902	2.373	195.766
Other	341.794	551.945	2.178.223	3.201.355	6.273.317
Total	21.806.008	16.785.106	22.915.291	6.948.079	68.454.484
Prior Period ⁽¹⁾	Indefinite	Up to 1 year	1-5 years	Above 5 years	Total
Letter of credit	-	5.752.609	2.284.257	6.997	8.043.863
Letter of guarantee	18.438.104	7.203.878	16.697.579	2.831.440	45.171.002
Bank acceptances	-	147.671	24.795	1.058	173.524
Other	296.558	420.689	1.519.946	2.018.614	4.255.807
Total	18.734.662	13.524.847	20.526.577	4.858.109	57.644.196

(1) The distribution is based on the original maturities.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

b. Information on derivative financial instruments:

	Current Period	Prior Period
Types of trading transactions		
Foreign currency related derivative transactions (I)	137.959.963	114.959.640
FC trading forward transactions	15.273.549	9.676.902
Trading swap transactions	105.096.276	91.851.905
Futures transactions	-	-
Trading option transactions	17.590.138	13.430.833
Interest related derivative transactions (II)	49.251.952	36.127.848
Forward interest rate agreements	-	-
Interest rate swaps	47.580.058	34.250.180
Interest rate options	1.671.894	1.877.668
Interest rate futures	-	-
Other trading derivative transactions (III)	18.267.410	15.142.751
A. Total trading derivative transactions (I+II+III)	205.479.325	166.230.239
Types of hedging derivative transactions		
Transactions for fair value hedge	2.658.411	1.612.361
Cash flow hedges	50.014.021	57.114.076
Transactions for foreign net investment hedge	-	-
B. Total hedging related derivatives	52.672.432	58.726.437
Total derivative transactions (A+B)	258.151.757	224.956.676

c. Information on credit derivatives and risk exposures:

Derivative portfolio of the Group includes credit default swaps for TL 453.384 for the period ended December 31, 2016. Credit default swaps linked to credit link notes are for the purposes protection seller and included in this figure (December 31, 2015 – TL 794.684).

Derivative portfolio includes total return swaps for TL 8.066.006 (31 December 2015 – TL 6.664.219) for the period ended 31 December 2016.

ç. Information on contingent liabilities and assets:

The Group has recorded a provision of TL 75.955 (December 31, 2015 – TL 64.875) for litigations against the Group and has accounted for it in accompanying consolidated 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.

d. Information on services in the name and account of others:

The Group's activities such as intermediation and custody to serve the investment needs of customers are followed up under off balance sheet accounts.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

IV. Explanations and notes related to consolidated income statement:

a. Information on interest income:

1. Information on interest income on loans:

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-term loans ⁽¹⁾	5.190.478	393.501	4.882.403	320.268
Medium/long-term loans ⁽¹⁾	6.988.914	3.026.361	5.535.883	2.316.712
Interest on loans under follow-up	84.707	136	77.480	54
Premiums received from resource utilisation support fund	-	-	-	-
Total	12.264.099	3.419.998	10.495.766	2.637.034

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

2. Information on interest income on banks:

	Current Period		Prior Period	
	TL	FC	TL	FC
From the CBRT	-	138	-	-
From domestic banks	141.846	1.470	61.896	3.427
From foreign banks	1.912	28.921	2.880	16.376
Headquarters and branches abroad	-	-	-	-
Total	143.758	30.529	64.776	19.803

3. Information on interest income on marketable securities:

	Current Period		Prior Period	
	TL	FC	TL	FC
From trading financial assets	4.162	1.140	10.042	1.242
From financial assets at fair value through profit or loss	-	-	-	-
From available-for-sale financial assets	1.491.281	179.836	1.740.814	206.358
From held-to-maturity investments	397.459	326.180	184.747	248.919
Total	1.892.902	507.156	1.935.603	456.519

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

	Current Period	Prior Period
Interests received from associates and subsidiaries	870	2.381

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

b. Information on interest expense:

1. Information on interest expense on borrowings:

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks	85.214	822.618	151.164	740.890
The CBRT	-	59	-	-
Domestic banks	40.176	31.341	82.262	33.728
Foreign banks	45.038	791.218	68.902	707.162
Headquarters and branches abroad	-	-	-	-
Other institutions	-	158.922	134	107.725
Total⁽¹⁾	85.214	981.540	151.298	848.615

(1) Includes fees and commissions related to borrowings.

2. Information on interest expense to associates and subsidiaries:

	Current Period	Prior Period
Interests paid to associates and subsidiaries	3.139	2.426

3. Information on interest expense to marketable securities issued:

	Current Period		Prior Period	
	TL	FC	TL	FC
Interest expense to marketable securities issued	430.076	538.220	348.860	476.723
Total	430.076	538.220	348.860	476.723

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

4. Maturity structure of the interest expense on deposits:

Account name	Demand deposit	Up to 1 month	Up to 3 months	Up to 6 months	Up to 1 year	More than 1 year	Cumulative deposit	Total	Prior Period
TL									
Bank deposit	200	127.077	3.617	-	169	147	11	131.221	95.473
Saving deposit	1	125.088	3.203.911	154.449	16.422	16.892	-	3.516.763	2.784.972
Public sector deposit	-	362	5.813	104	27	5	-	6.311	7.242
Commercial deposit	30	187.992	1.828.556	351.949	71.813	49.610	-	2.489.950	1.888.469
Other deposit	-	11.734	458.666	51.943	41.020	46	-	563.409	575.580
Deposit with 7 days notification	-	-	-	-	-	-	-	-	-
Total	231	452.253	5.500.563	558.445	129.451	66.700	11	6.707.654	5.351.736
FC									
Foreign currency deposit	1.100	201.497	734.413	61.620	61.552	50.008	-	1.110.190	946.702
Bank deposit	9	13.887	14.576	730	17.602	123	-	46.927	35.243
Deposit with 7 days notification	-	-	-	-	-	-	-	-	-
Precious metal vault	-	507	1.452	94	155	71	-	2.279	1.968
Total	1.109	215.891	750.441	62.444	79.309	50.202	-	1.159.396	983.913
Grand total	1.340	668.144	6.251.004	620.889	208.760	116.902	11	7.867.050	6.335.649

c. Information on dividend income:

	Current Period	Prior Period
Trading financial assets	-	-
Financial assets at fair value through profit or loss	-	-
Available-for-sale financial assets	37	32
Subsidiaries and associates	6.136	5.876
Total	6.173	5.908

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

	Current Period	Prior Period
Gain	30.213.163	46.365.051
Gain from capital market transactions	147.000	328.490
Derivative financial transaction gains	10.458.432	15.970.929
Foreign exchange gains	19.607.731	30.065.632
Loss(-)	(30.025.840)	(46.804.186)
Loss from capital market transactions	(129.452)	(63.900)
Derivative financial transaction losses	(10.514.115)	(15.154.271)
Foreign exchange loss	(19.382.273)	(31.586.015)
Net gain/loss	187.323	(439.135)

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

The amount of net income from derivative financial transactions related to exchange rate changes is TL 72.243 (December 31, 2015 - TL 1.668.074 loss).

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

e. Information on other operating income:

Other operating income mainly results from the collections and reversals from specific/generic provisions recorded in prior years and gain from the sale of Visa Europe to Visa Inc. amounting to TL 235.165.

f. Provision for impairment of loans and other receivables:

	Current Period	Prior Period
Specific provisions for loans and other receivables	2.187.865	1.755.646
III. Group loans and receivables	72.354	56.967
IV. Group loans and receivables	250.310	85.177
V. Group loans and receivables	1.865.201	1.613.502
General provision expenses	494.714	719.398
Provision expense for possible risks	100.000	-
Marketable securities impairment expenses ⁽¹⁾	49.402	80.104
Financial assets at fair value through profit or loss	898	1.225
Available-for-sale financial assets	48.504	78.879
Impairment of investments in associates, subsidiaries and held-to-maturity securities	70.098	38.955
Investments in associates	-	-
Subsidiaries	-	-
Joint ventures	-	-
Held-to-maturity investments ⁽¹⁾	70.098	38.955
Other	52.963	55.135
Total	2.955.042	2.649.238

(1) Includes amortisation of the premiums paid and amortised cost during the purchase of the securities throughout the maturity of the securities and the impairment provisions, if any.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

g. Information related to other operating expenses:

	Current Period	Prior Period
Personnel expenses	2.322.510	2.175.370
Reserve for employee termination benefits	9.413	20.793
Provision expense for pension fund	-	-
Impairment expenses of property and equipment	-	1.492
Depreciation expenses of property and equipment	233.002	218.092
Impairment expenses of intangible assets	-	-
Goodwill impairment expenses	-	-
Amortisation expenses of intangible assets	124.572	128.678
Impairment expenses of equity participations for which equity method is applied	-	-
Impairment expenses of assets held for resale	416	400
Depreciation expenses of assets held for resale	5.714	5.149
Impairment expenses of fixed assets held for sale and assets related to discontinued operations	-	-
Other operating expenses	1.823.002	1.626.536
Operational lease expenses	297.637	277.995
Repair and maintenance expenses	103.256	100.503
Advertising expenses	114.068	129.418
Other expense	1.308.041	1.118.620
Loss on sales of assets	19	117
Other	796.670	900.691
Total	5.315.318	5.077.318

ğ. Explanations on income/loss from continuing operations and discontinued operations before tax:

Income before tax includes net interest income amounting to TL 8.220.684 (December 31, 2015 - TL 7.178.203), net fee and commission income amounting to TL 2.972.884 (December 31, 2015 - TL 2.840.960) and total other operating expense amounting TL 5.315.318 (December 31, 2015 - TL 5.077.318).

As of December 31, 2016, the Group has no profit before taxes from discontinued operations (December 31, 2015 – None).

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

As of December 31, 2016, the Group has current tax expense amounting to TL 658.037 (December 31, 2015 - TL 413.941) and deferred tax expense amounting to TL 162.009 (December 31, 2015 - TL 214.247 deferred tax income).

As at December 31, 2016 the Group has no current and deferred tax income / (expense) related to discontinued operations (December 31, 2015 – None).

	Current Period	Prior Period
Profit before tax	3.752.906	2.536.916
Tax calculated at rate of 20%	750.581	507.383
Nondeductible expenses, discounts and other, net	69.465	120.805
Total	820.046	628.188

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

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

1. The characteristics, dimension and recurrence of income or expense items arising from ordinary banking transactions do not require any additional explanation to understand the Group's current period performance.
2. Information on any change in the accounting estimates concerning the current period or future periods: None

i. Income/loss of minority interest:

	Current Period	Prior Period
Income/(loss) of minority interest	65	45

j. Other items in income statement:

"Other fees and commissions received" in income statement mainly includes commissions and fees from credit cards and banking transactions.

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

a. Information on dividends:

Authorised body for profit appropriation of the current period is General Assembly. As of the preparation date of these financial statements, annual ordinary meeting of the General Assembly has not been held yet.

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

None.

c. Information on available for sale financial assets:

"Unrealised gain/loss" arising from changes in the fair value of securities classified as available-for-sale are not recognized in current year income statement but recognized in the "Marketable securities valuation differences" account under equity, until the financial assets are derecognised, sold, disposed or impaired.

ç. Hedging transactions:

The Parent Bank has begun to apply cash flow hedge accounting in order to hedge the risk of cash flow of its liabilities from January 1, 2010. In the scope of this application, the derivative financial instruments are specified as floating rate and fixed rate interest payment USD, EUR and TL interest rate swaps, hedging liabilities as the USD, EUR and TL customer deposits, repos, cash outflows due to re-pricing of loans because of the expected interest rate financing. In this context, fair value change of the effective portion of derivative financial instruments accounted in equity hedge funds, taking into account tax effects. Such amount as of December 31, 2016 is TL 379.150 profit (December 31, 2015 – 267.965 profit).

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

The Group hedges part of the currency translation risk of net investments in foreign operations through foreign currency borrowings. The Group's Euro denominated borrowing is designated as a hedge of the net investment in the Group's certain EUR denominated subsidiaries. The total amount of the borrowing designated as a hedge of the net investment at December 31, 2016 is EUR 386 million. The foreign exchange loss of TL 215.812 net of tax, on translation of the borrowing to Turkish Lira at the statement of financial position date is recognized in "hedging reserves" in equity.

e. Information on share issue premium:

Explained in details in Note XIX of Section Three.

VI. Explanations and notes related to consolidated statement of cash flows

a. Information on cash and cash equivalent:

1. Components of cash and cash equivalents and the accounting policy applied in their determination:

Cash and foreign currency balances together with demand deposits at banks including the unrestricted amounts of CBRT are defined as "Cash"; money market placements and time deposits in banks with original maturities of less than three months are defined as "Cash Equivalents".

2. Effect of a change in the accounting policies: None.
3. Reconciliation of cash and cash equivalent items with balance sheet and cash flow statements:
- 3 (i). Cash and cash equivalents at the beginning of period:

	Current Period	Prior Period
Cash	8.260.909	7.840.395
Cash and effectives	2.004.851	2.281.092
Demand deposits in banks	6.256.058	5.559.303
Cash equivalents	1.821.751	3.186.301
Interbank money market	284.706	1.567.096
Deposits in bank	1.537.045	1.619.205
Total cash and cash equivalents	10.082.660	11.026.696

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

3 (ii). Cash and cash equivalents at the end of the period:

	Current Period	Prior Period
Cash	12.245.083	8.260.909
Cash and effectives	2.699.282	2.004.851
Demand deposits in banks	9.545.801	6.256.058
Cash equivalents	3.713.929	1.821.751
Interbank money market	252	284.706
Deposits in bank	3.713.677	1.537.045
Total cash and cash equivalents	15.959.012	10.082.660

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

As of December 31, 2016, the Group's reserve deposits, including those at foreign banks and the TL reserve requirements, amount to TL 27.864.220 (December 31, 2015 - TL 25.106.367).

c. Explanations on other items in the statement of cash flows and the effects of the change in foreign exchange rates on cash and cash equivalents:

Decrease in "Other account" amounting to TL 4.825.362 (December 31, 2015 – TL 4.929.252 increase) which is classified under "Operating profit before changes in operating assets and liabilities" includes fee and commissions given, other operating expenses excluding personnel expenses and foreign exchange gains/losses.

Increase in "Net increase/decrease in other liabilities" amounting to TL 2.816.709 (December 31, 2015 - TL 988.859 increase) which is classified under "Changes in operating assets and liabilities" mainly arises from changes in miscellaneous payables, subordinated loans and other liabilities.

The effects of the change in foreign exchange rates on cash and cash equivalents are calculated as an increase approximately of TL 1.357.079 as of December 31, 2016 (December 31, 2015 - TL 1.216.165 decrease).

VII. Explanations and notes related to Group's merger, transfers and companies acquired by Bank

None.

VIII. Explanations and notes related to Group's risk group

a. The volume of transactions relating to the Group's risk group, outstanding loan and deposit transactions and profit and loss of the period:

1. Information on loans of the Group's risk group:

Current Period Group's risk group ⁽¹⁾ ⁽²⁾	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
Loans and other receivables						
Balance at the beginning of the period	33.816	10.388	106.881	954.585	1.688.868	2.440.007
Balance at the end of the period	21.974	8.492	519.444	1.158.561	2.394.592	2.586.737
Interest and commission income received	870	119	4.981	7.546	245.453	10.501

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

⁽²⁾ The information in table above includes loans and due from banks as well as marketable securities.

Explanations and notes related to consolidated financial statements (continued)

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Prior Period Group's risk group ^{(1) (2)}	Associates, subsidiaries and joint ventures		Direct and indirect shareholders of the Bank		Other real and legal persons that have been included in the risk group	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
Loans and other receivables						
Balance at the beginning of the period	88.339	5.916	47.956	536.763	1.320.617	2.117.169
Balance at the end of the period	33.816	10.388	106.881	954.585	1.688.868	2.440.007
Interest and commission income received	2.381	109	13.052	6.027	201.351	8.986

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

⁽²⁾ The information in table above includes loans and due from banks as well as marketable securities.

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

Group's risk group ^{(1) (2)} Deposit	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
Beginning of the period	82.069	121.840	19.927.462	13.660.682	5.148.413	10.291.156
End of the period	232.820	82.069	24.423.963	19.927.462	14.406.822	5.148.413
Interest expense on deposits⁽³⁾	3.139	2.426	1.107.376	892.403	556.428	385.410

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

⁽²⁾ The information in table above includes borrowings, marketable securities issued and repo transactions as well as deposits.

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

Group's risk group ⁽¹⁾	Associates, subsidiaries and joint ventures		Direct and indirect shareholders of the Bank		Other real and legal persons that have been included in the risk group	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
Transactions at fair value through profit or loss⁽²⁾						
Beginning of the period ⁽³⁾	-	-	1.455.484	150.569	146.778	879.327
End of the period ⁽³⁾	-	-	8.532.884	1.455.484	802.512	146.778
Total profit / loss	(8.091)	(7.169)	(9.004)	(53.226)	(9.512)	31.343
Transactions for hedging purposes⁽²⁾						
Beginning of the period ⁽³⁾	-	-	-	-	-	-
End of the period ⁽³⁾	-	-	-	-	-	-
Total profit / loss	-	-	-	-	-	-

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

⁽²⁾ The Bank's derivative instruments are classified as "Financial instruments at fair value through profit or loss" or "Derivative financial instruments held for hedging" according to TAS 39.

⁽³⁾ The balances at the beginning and end of the periods are disclosed as the total of buy and sell amounts of derivative financial instruments.

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

Salaries and benefits paid to the Group's top management amount to TL 56.454 as of December 31, 2016 (December 31, 2015 - TL 47.455).

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

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements December 31, 2016 (continued)

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

Explanations and notes related to consolidated financial statements (continued)

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

	Number	Number of Employees			
Domestic Branch	935	18.364			
			Country of incorporation		
Foreign Rep. Office	-	-	-		
				Total assets	Statutory share capital
Foreign Branch	1	2	Bahrain	15.264.658	-
Off-Shore Banking Region Branch ⁽¹⁾	-	-		-	-

(1) The values disclosed above are those of the Parent Bank.

X. Explanations and notes related to subsequent events

None.

Section six

Other Explanations and Notes

I. Other explanations on Group's operations

None.

Section Seven

Explanations on independent audit report

I. Explanations on independent auditor's report

The consolidated financial statements for the period ended December 31, 2016 have been audited by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A member firm of Ernst & Young Global Limited). The independent auditor's report dated February 2, 2017 is presented preceding the consolidated financial statements.

II. Explanations and notes prepared by independent auditor

None.