



***VakifBank's yellow
illuminates the future***

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We have numerous characteristics that distinguish us from our peers: Our track record, achievements, performance...

And of course, our color, which differentiates us, and tells a lot about the Bank.

Our color is a reflection of life, Turkey and the future. Wherever you turn, you will see a piece of us, a signature by us.



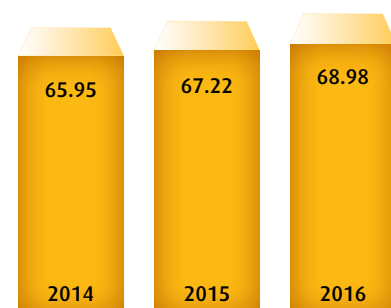
THE COLOR OF DILIGENCE

The bank with the highest ratio of performing loans to total assets among peers

68.98%

RATIO OF PERFORMING LOANS TO TOTAL ASSETS (%)

In 2016, the ratio of performing loans to total assets came in at **68.98%**.





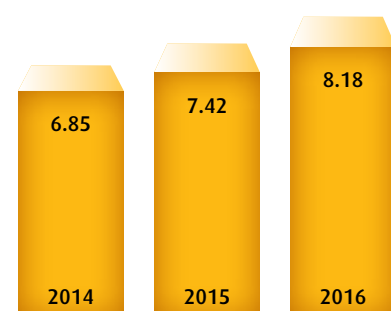
THE COLOR OF ASCENT

Huge contribution to blue chip projects which will change Turkey's landscape and future

USD 8.18 BILLION

PROJECT FINANCE SUPPORT (USD BILLION)

Project finance support grew by 10.24% in 2016 reaching **USD 8.18 billion.**





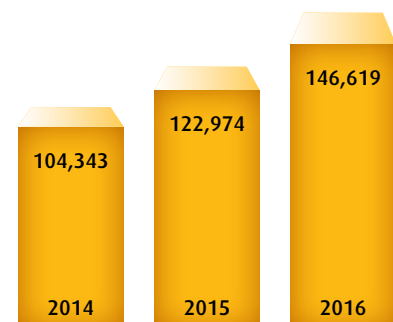
THE COLOR OF GROWTH

In order to contribute to Turkey's development, the Bank grew above the sector average in SME, Commercial and Agricultural Loans

22.25%

PERFORMING LOANS (TL MILLION)

In 2016, performing loans increased by 19.23% reaching **TL 146,619 million.**





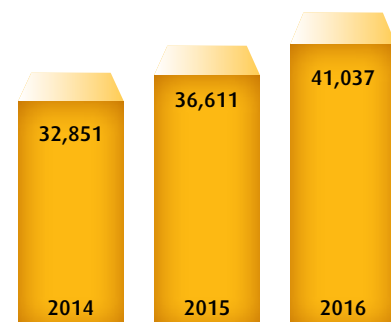
THE COLOR OF BLISS

In order to make dreams and targets come true, the Bank outpaced the sector in terms of retail loan growth.

12.09%

TOTAL RETAIL LOANS (TL MILLION)

In 2016, the retail loans allocated totaled **TL 41,037 million.**





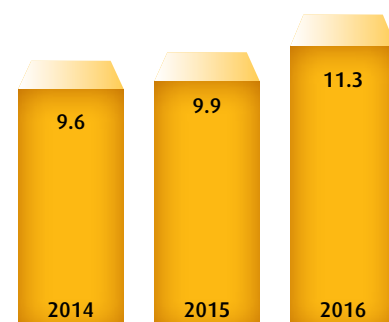
THE COLOR OF TRUST

In 2016, the Bank borrowed a total of USD 11.3 billion from overseas as a result of the international financial markets' trust in the Bank.

USD 11.3 BILLION

TOTAL INTERNATIONAL BORROWING (USD BILLION)

In 2016, total international borrowing increased by **13.31%**.







THE COLOR OF PRIDE

Built over an area of 7.5 decares to serve the Turkish sports disciplines, VakıfBank Spor Sarayı can host a total of 2 thousand spectators.

TL 60 MILLION

AGENDA OF THE 63rd ORDINARY GENERAL ASSEMBLY MEETING

THE AGENDA OF THE 63RD ORDINARY GENERAL ASSEMBLY MEETING DATED MAY 4, 2017 OF TÜRKİYE VAKIFLAR BANKASI T.A.O.

1. Opening and the formation of Presidency Council,
2. Reading and discussion of the 2016 Board of Directors' Annual Activity Report, Turkish Court of Accounts Report and Audit Board Report,
3. Reading of Auditors' Report,
4. Reading, discussion and approval of 2016 financial report,
5. Discharge of the Board members regarding the 2016 activities,
6. Determination of profit usage and the amount of profit to be distributed according to the Board of Directors' proposal,
7. The renewal of the elections for the Board of Directors,
8. The renewal of the elections for the Audit Board,
9. Determination on the remuneration of the members of the Board of Directors and the Audit Board,
10. Authorization of the Board Members to conduct business with the Bank in accordance with Articles 395 and 396 of the Turkish Commercial Code, without prejudice to the provisions of the Banking Law,
11. Election of Auditor,
12. Informing shareholders about the donations made during the year,
13. Wishes and comments,
14. Closing remark.

2016 PROFIT DISTRIBUTION PROPOSAL AND DIVIDEND POLICY

TÜRKİYE VAKIFLAR BANKASI T.A.O. DIVIDEND POLICY

Issues about VakıfBank's profit distribution are regulated in Article 9 of VakıfBank's Law No.6219 and Article 84 and 85 of the Articles of Incorporation. According to this, from the annual profit of the Bank, the following amounts shall be distributed to:

- 5% to the ordinary reserve up to the amount of paid-in capital,
- 5% to the first extraordinary reserve,
- 9% to the employees as dividend premium to be distributed within the principles determined by the Board of Directors as limited to three months gross salary of the employee,
- To the second extraordinary reserve from remaining balance in the amount that will be determined by the General Assembly in case of a necessity for the Bank to continuously improve and to provide its steady profit distribution or reinstate the assets according to Article 523/2 of the Turkish Commercial Code,

The remaining ordinary reserve is allocated for the possible losses that will occur in the future and first extraordinary reserve is allocated to retrieve extraordinary losses of the Bank.

The General Assembly can decide to use the second extraordinary reserve for reinstating the assets or continuous improvement of the Bank and providing its steady profit distribution. Meanwhile, it can be also decided to use the excess capital from the capital increase partially or totally in this sense.

According to the profit distribution policy, a balanced policy is pursued between the benefits of the shareholders and partnership.

VakıfBank determines its profit distribution policy by considering the compliance of the Banking Regulation and Supervision Agency and meeting the targeted standard ratios stated in the Protective Provisions of Banking Law No. 5411 with prospective growth strategy, financial needs, general economic conditions and capital adequacy ratio.

Each year, the Board of Directors submits its profit distribution proposal to the General Assembly. The profit distribution proposal of the Board of Directors is discussed and decided in the General Assembly and announced to the public through Public Disclosure Platform at the same day.

Profit is distributed in line with the way and date determined by the General Assembly within the scope of relevant legislation.

TÜRKİYE VAKIFLAR BANKASI T.A.O. PROFIT DISTRIBUTION PROPOSAL

The Bank's Board of Directors convened on 08.03.2017 and reached the following resolutions:

The profit of TL 2,703,041,923.78- posted in the balance sheet as a result of the operations of 2016, shall be distributed as seen in the profit distribution table presented below, in line with the Article 9 of VakıfBank Law no. 6219 and Article 84 of the Articles of Incorporation,

As per Article 9/D of VakıfBank Law and Article 84/C of our Articles of Incorporation, a decision was made to transfer the TL 147,970,168.01 in employee dividends -written off as an expense in 2016 after setting aside the necessary reserves- to the relevant account in order to distribute the stated amount to the employees, and to pay the amount set aside as dividends -that will be limited to gross three month salary- to all employees on the date that will be determined by our Board of Directors.

TL 49,443,486.17- which is 75% of the TL 65,924,648.22 of which TL 2,237,384.57 and TL 63,687,263.65 in proceeds received from the sale of subsidiaries and real estate properties disposed of during 2016, shall be transferred to a special liability-side reserve account pursuant to Article 5/1-e of Corporate Tax Law No. 5520.

2016 PROFIT DISTRIBUTION TABLE (TL)

NET PROFIT	2,703,041,923.78
Postponed Tax Income (-)	19,941,212.16
Distributable Net Profit	2,683,100,711.62
I- Legal Reserves	268,310,071.16
1. First Legal Reserve	134,155,035.58
2. Legal Reserves set aside as per the Bank's Act and Articles of Incorporation (Article 9/D of VakıfBank Law)	134,155,035.58
II- Profit Distributable to Shareholders	2,414,790,640.46
III- Special Reserves	49,443,486.17
IV- Dividends to be Paid to Shareholders (Article 9/E of VakıfBank Law)	120,000,000.00
V- Extraordinary Reserves	2,245,347,154.29

COMPLIANCE OPINION ON THE ANNUAL REPORT

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

To the Board of Directors of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı: Report on the Board of Directors' Annual Report in accordance with Independent Audit Standards

We have audited the annual report of the Türkiye Vakıflar Bankası T.A.O. ("Bank") and consolidated subsidiaries of it (together will be referred as "the Group") for the accounting period ending on 31 December 2016.

Board of Directors' Responsibility for the Annual Report

The Bank management is responsible for performing the necessary internal control to ensure that the annual report is prepared as an accurate document in compliance with Article 514 of the Turkish Commercial Code no. 6102, "Regulation on the Methods and Principles for the Preparation and Publication of Annual Reports by Banks" issued on the Official Gazette dated 1 November 2006 and numbered 26333, Banking Regulation and Supervision Authority's (BRSA) regulations on banks' accounting methodology, BRSA's communiqués and statements, as well as Turkish Accounting Standards; and in consistency with the consolidated financial statements and the bank-only financial statements ("financial statements") issued as per "BRSA Legislation on Accounting and Financial Reporting".

Independent Auditor's Responsibility

Our responsibility is to present our opinion as to whether the financial information included in the Bank's annual report is accurate and consistent with the Bank's consolidated financial statements and on the basis of our independent audit based on Article 397 of Turkish Commercial Code, and "Regulation on the Independent Audit of Banks" issued on the Official Gazette dated 2 April 2015 and numbered 29314.

Our independent audit process was in compliance with Independent Audit Standards ("BDS"), a part of the Turkish Audit Standards issued by Public Oversight Accounting and Auditing Standards Authority ("POA"). These standards require compliance with ethical stipulations and demand that the independent audit be planned so as to provide assurance that the financial information in the annual report is accurate and in accordance with the consolidated financial statements.

The independent audit involves the application of audit procedures to produce audit evidence on historical financial data. The selection of these procedures depends on the professional judgement of the independent auditor.

We believe that the independent audit evidence we have collected during the independent audit provide an appropriate and sufficient basis to allow us formulate an opinion.

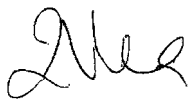
Opinion

In our opinion, the financial statements included in the Board of Directors' annual report, in all material respects, are fairly presented and consistent with the consolidated financial statements subject to our audit.

Other Responsibilities Arising from the Legislation

As per Article 402, paragraph 3 of the Turkish Commercial Code No. 6102, in the framework of the BDS 570 on "Continuity of the Enterprise", we found no issue worthy of reporting which could jeopardize the continuity of the Bank's operations in the foreseeable future.

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



ZEYNEP URAS, SMMM
Partner

İstanbul, March 8, 2017

DECLARATION OF RESPONSIBILITY

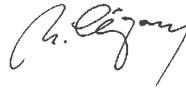
We have examined the Bank's "2016 Annual Report" and we acknowledge and state that:

Based on the information we possess pursuant to our duties and responsibilities within the Bank, the report does not contain any misstatements in material aspects or omissions that may be construed as misleading;

As of the period the report is prepared for, financial statements and other information on financial matters contained in the report honestly and realistically reflect the financial position of the Bank as well as all major risks and uncertainties it is exposed to.



RAMAZAN GÜNDÜZ
Chairman of the Board



MEHMET EMİN ÖZCAN
*Deputy Chairman of the Board and
Member of the Audit Committee*



SABAHATTİN BİRDAL
*Board Member and Member
of the Audit Committee*



HALİL AYDOĞAN
General Manager



METİN RECEP ZAFER
Executive Vice President



ÇAĞATAY ÇAĞRI KÖKSAL
Strategy Development Manager

VAKIFBANK

IN BRIEF

In 2016, while the Turkish banking sector preserved its robust structure and maintained its growth drive, **VakıfBank continued to grow, bringing its total assets up to TL 212,540 million.**

Date of Incorporation	April 13, 1954
Head Office	İstanbul
Paid-in Capital	TL 2,500,000,000
Number of Employees	15,615
Number of Domestic Branches	921
Number of Overseas Branches	3
Number of Subsidiaries and Affiliates	23
Independent Audit Company	PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
Address	Türkiye Vakıflar Bankası T.A.O. Head Office Sultan Selim Mahallesi
Telephone	(90 212) 398 15 15 - (90 212) 398 10 00
Fax	(90 212) 398 11 55
Website	http://www.vakifbank.com.tr
E-mail Address	vakifbank@hs01.kep.tr

VAKIFBANK'S CORNERSTONES

VakıfBank's Mission

Continuously increasing the value created for customers, employees, shareholders and society by utilizing its assets productively. Managing the values it has been entrusted with effectively and efficiently on the strength of its foundation ("Vakıf" in Turkish) culture.

VakıfBank's Vision

Becoming the best, most preferred, and highest value-creating bank in the region.

VakıfBank's Core Values

- √ Reliability
- √ Social responsibility
- √ Result orientation
- √ Customer focus
- √ Innovative approach
- √ Teamwork
- √ Loyalty
- √ Leadership

HISTORY AND OWNERSHIP STRUCTURE

In addition to core banking products and services, VakıfBank also runs investment banking and capital markets operations. **VakıfBank presents to its customers the widest possible range of financial products via cutting edge technologies.**

One of the pioneering banks that established Covered Bond program, which allows the residential mortgage-backed securities, VakıfBank broke new ground in 2016 by becoming the first Turkish bank to issue a Covered Bond in international debt capital markets.

FOUNDING YEAR

1954

VakıfBank was established under a special charter act, Law No. 6219 dated January 11, 1954, so as to utilize foundations' monies in the most efficient manner, contribute to Turkey's savings rate based on modern banking principles, and to channel the deposits collected toward the country's economic development. VakıfBank commenced its operations on April 13, 1954, with an initial capital of TL 50 million. Since its foundation, the Bank has been subject to special legal provisions and has contributed significantly to the growth and development of the Turkish economy.

LONG-STANDING TRADITION AND KNOW-HOW

Representing a well-established tradition with longstanding experience and know-how in the Turkish banking system, VakıfBank has not only succeeded in becoming one of the most profitable banks in the sector, it has also helped the Turkish economy to grow, develop and integrate with the global economy. The Bank also managed to execute a rapid and sustainable growth strategy, quickly caught up with large-scale banks, and strengthened its leading position in the sector.

Today, VakıfBank provides a complete range of modern banking products and services via its corporate, commercial and SME banking, as well as its retail and private banking business lines.

In addition to core banking products and services, VakıfBank also runs investment banking and capital markets operations; the Bank provides a wide range of financial services including insurance, financial leasing and factoring through its financial subsidiaries, via cutting edge technologies.

TURKEY'S PIONEER BANK

Always a pioneer in international banking in Turkey, VakıfBank has remained the most active Turkish bank in global markets in 2016, by issuing the first residential mortgage-backed securities Covered Bond, selling dedicated bonds as part of its global medium-term note program, as well as securing syndication loans, securitization loans and long and medium-term financing from diverse resources.

THE FIRST EURO-DENOMINATED RESIDENTIAL MORTGAGE-BACKED COVERED BOND ISSUANCE

One of the pioneering banks that established in 2015 the Covered Bond program, which allows residential mortgage-backed securities, VakıfBank broke new ground in 2016 by becoming the first Turkish bank to issue a Covered Bond in international debt capital markets. The issuance dated May 4, 2016, has a total nominal worth of EUR 500 million. It has a redemption date of May 4, 2021, coupon rate of 2.375% and rate of return of 2.578%.

OWNERSHIP STRUCTURE OF TÜRKİYE VAKIFLAR BANKASI T.A.O.

Shareholders	Number of Shares (Hundred per Share)	Capital (TL Thousand)	Share Capital (%)
Registered Foundations Represented by the General Directorate of Foundations (Group A)	1,075,058,640	1,075,058	43.00
VakıfBank Pension Fund (Group C)	402,552,666	402,553	16.10
Registered Foundations Represented by the General Directorate of Foundations (Group B)	386,224,785	386,225	15.45
Other Appendant Foundations (Group B)	2,823,304	2,823	0.11
Other Registered Foundations (Group B)	1,448,543	1,448	0.06
Individuals and Legal Entities (Group C)	1,532,626	1,533	0.06
Free Float (Group D)	630,359,436	630,360	25.22
Total	2,500,000,000	2,500,000	100.00

FREE FLOAT RATE

25.22%

SHARES OWNED BY THE CHAIRMAN, BOARD MEMBERS, GENERAL MANAGER AND EXECUTIVE VICE PRESIDENTS

İsmail Alptekin, a Member of the Bank's Board of Directors, holds VakıfBank "Class C" stock representing TL 59.36 of share capital (0.00000237%).

DISCLOSURES MADE TO BORSA İSTANBUL WITHIN THE CONTEXT OF INFORMING SHAREHOLDERS

Pursuant to CMB Communiqué (II-15.1): "Principles for Material Disclosures to Public", the Bank issued 417 material event disclosures in 2016. These disclosures were concurrently published on the BIST Public Disclosure Platform (www.kap.gov.tr) and on the Bank's website (www.vakifbank.com.tr).

AMENDMENTS TO THE ARTICLES OF INCORPORATION

FORMER VERSION

Head Office

Article: 5- (As amended with the Ordinary General Assembly resolution dated March 29, 2013) The head office of the Bank is in İstanbul, at the address Sanayi Mahallesi, Eski Büyükdere Caddesi, Güler Sokak, No:51, Kâğıthane/İstanbul. The Bank can open new branch offices in Turkey or abroad in the locations it deems necessary, in accordance with Banking Law No. 5411. These branch offices, in which the full range of banking transactions are performed, operate as a state bank's branches, and accept the deposits of public agencies.

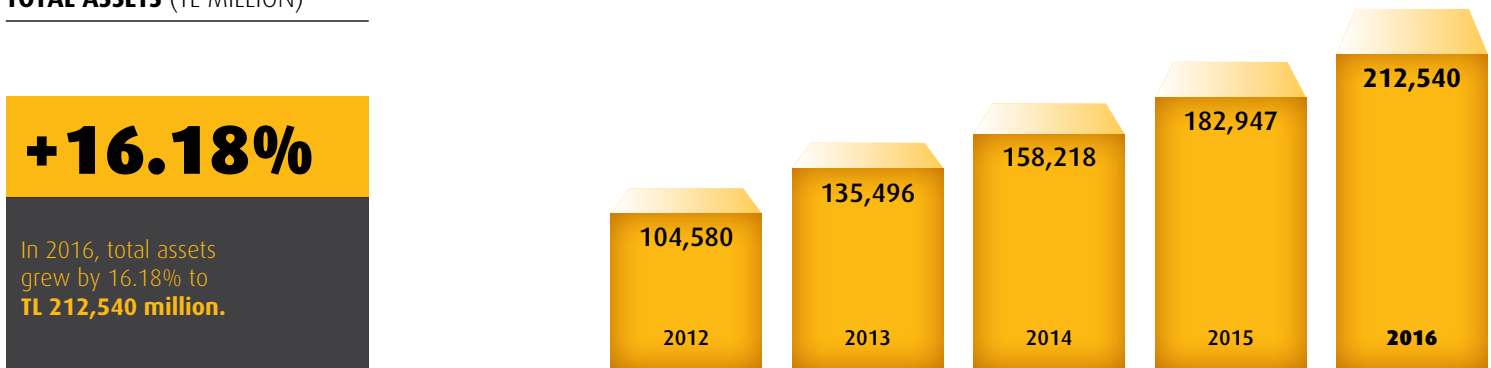
NEW VERSION

Head Office

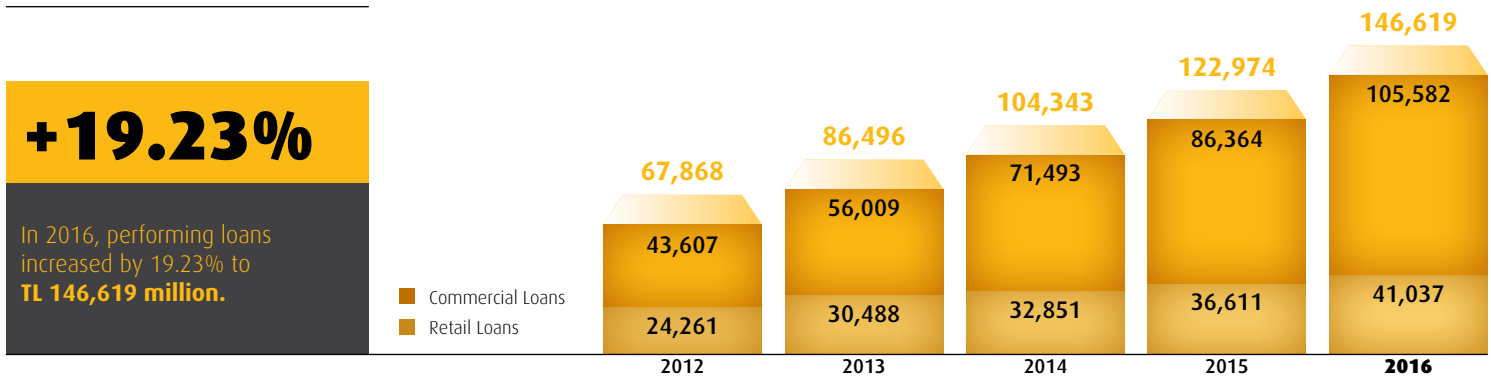
Article: 5- (Amended type with the decision of Ordinary General Assembly dated 29.03.2016) The head office of the Bank is in İstanbul, at the address Sultan Selim Mahallesi, Eski Büyükdere Caddesi, No:59, 34415 Kâğıthane/İstanbul. The Bank can open new branch offices in Turkey or abroad in the locations it deems necessary, in accordance with Banking Law No. 5411. These branch offices, in which the full range of banking transactions are performed, operate as a state bank's branches, and accept the deposits of public agencies.

KEY FINANCIAL INDICATORS

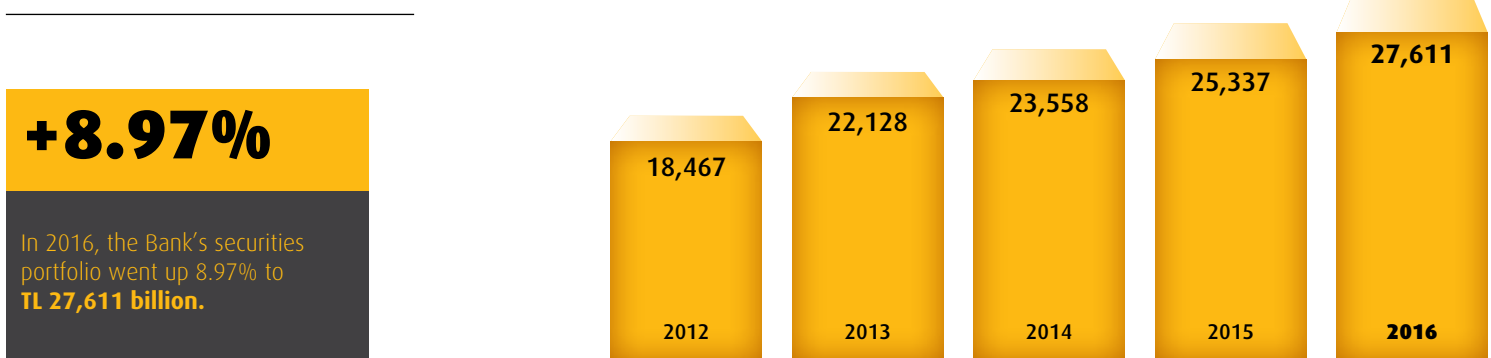
TOTAL ASSETS (TL MILLION)



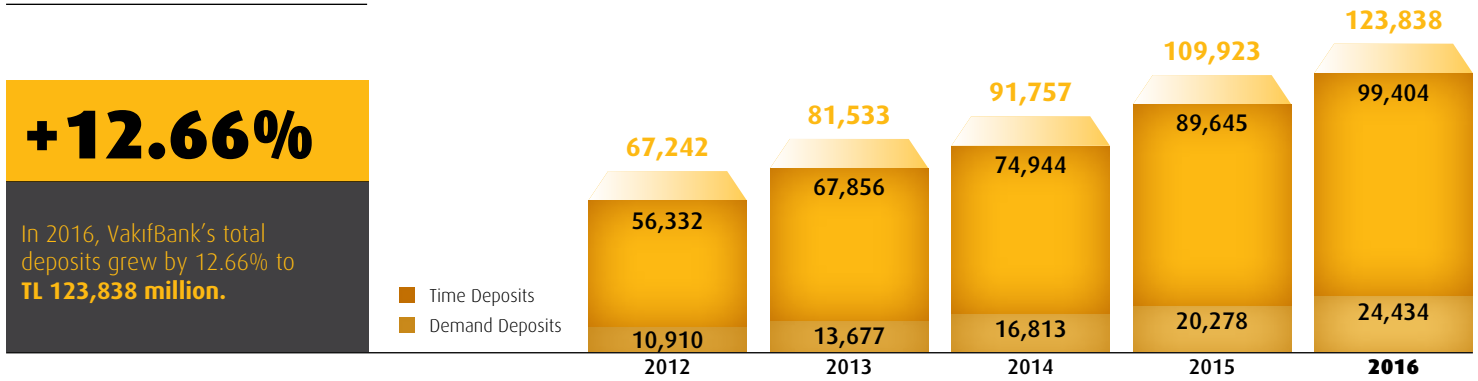
PERFORMING LOANS (TL MILLION)



SECURITIES PORTFOLIO (TL MILLION)



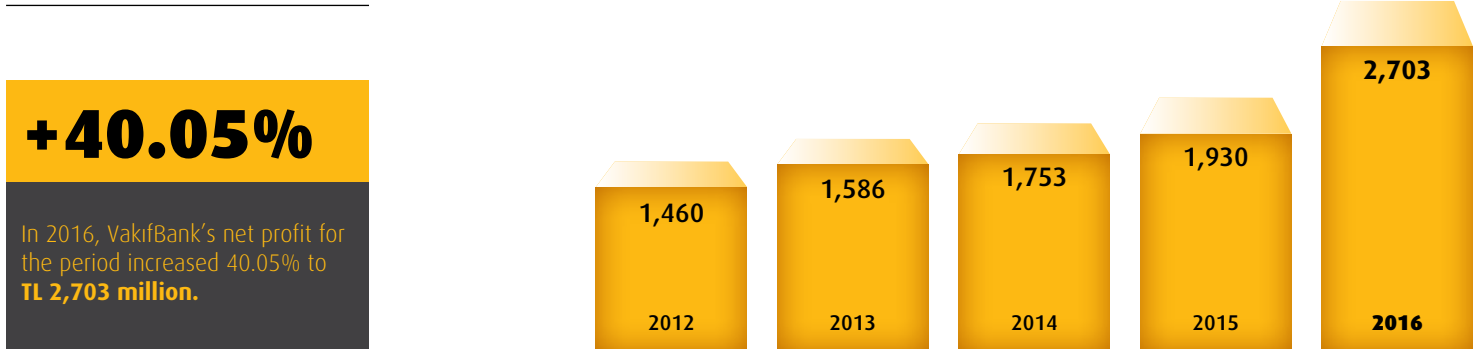
DEPOSITS (TL MILLION)



SHAREHOLDERS' EQUITY (TL MILLION)

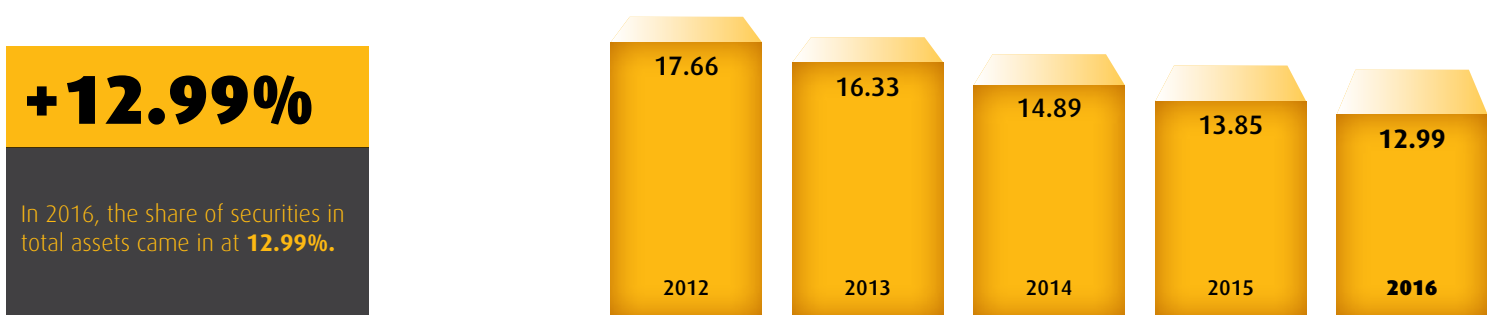


NET PROFIT AND LOSS (TL MILLION)

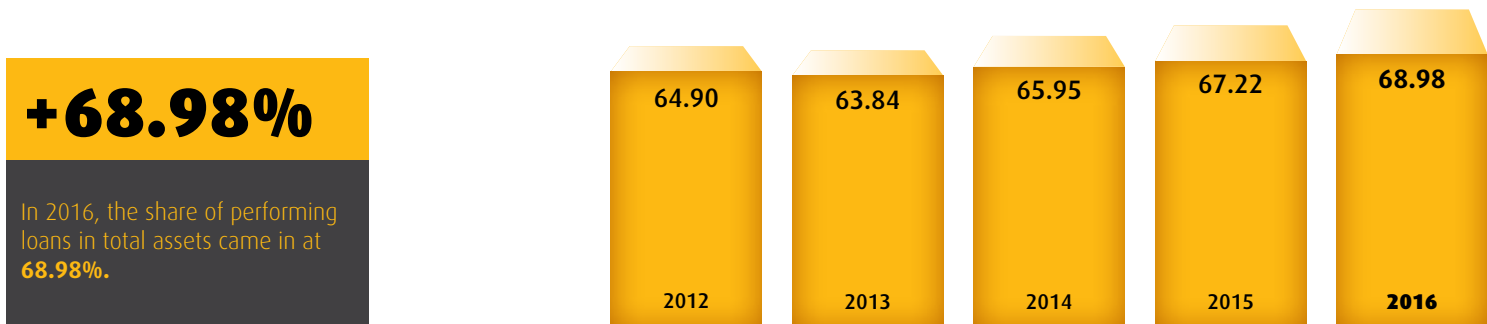


KEY RATIOS

SECURITIES/TOTAL ASSETS (%)



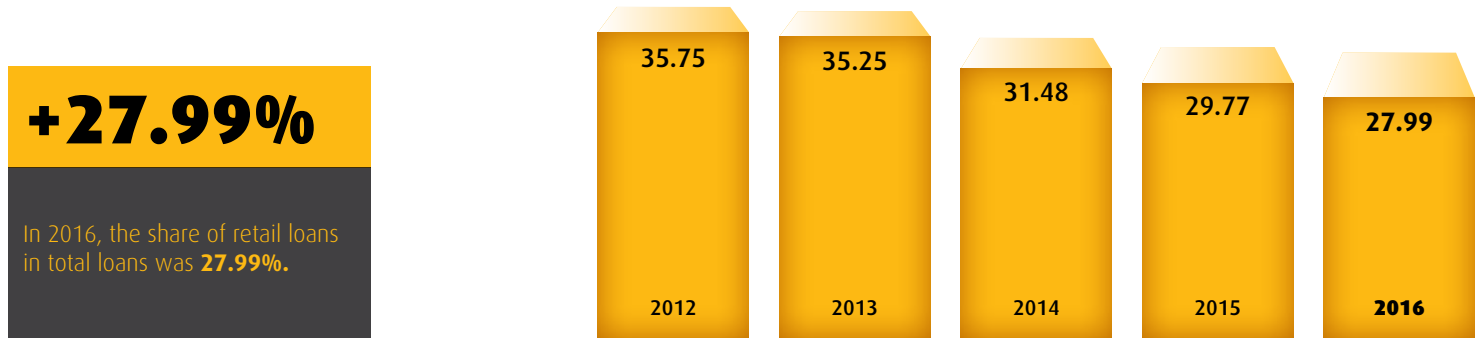
PERFORMING LOANS/TOTAL ASSETS (%)



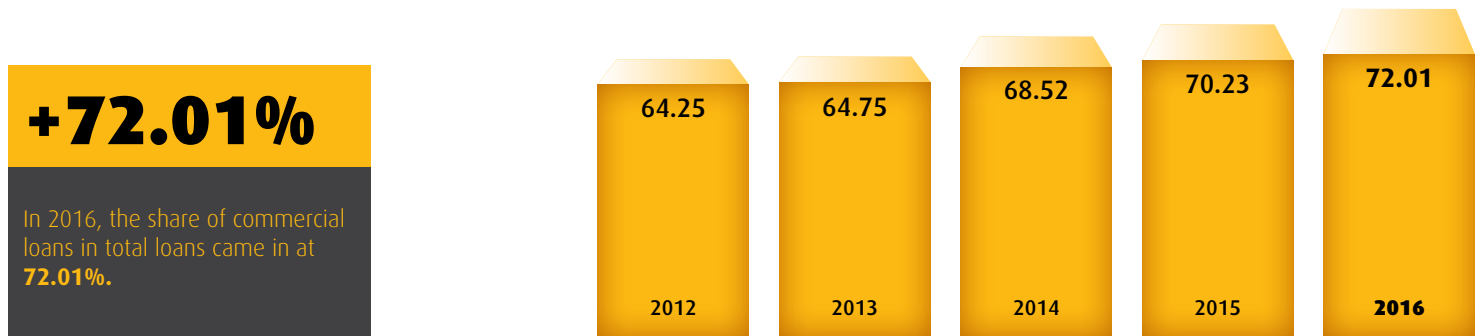
PERFORMING LOANS/DEPOSITS (%)



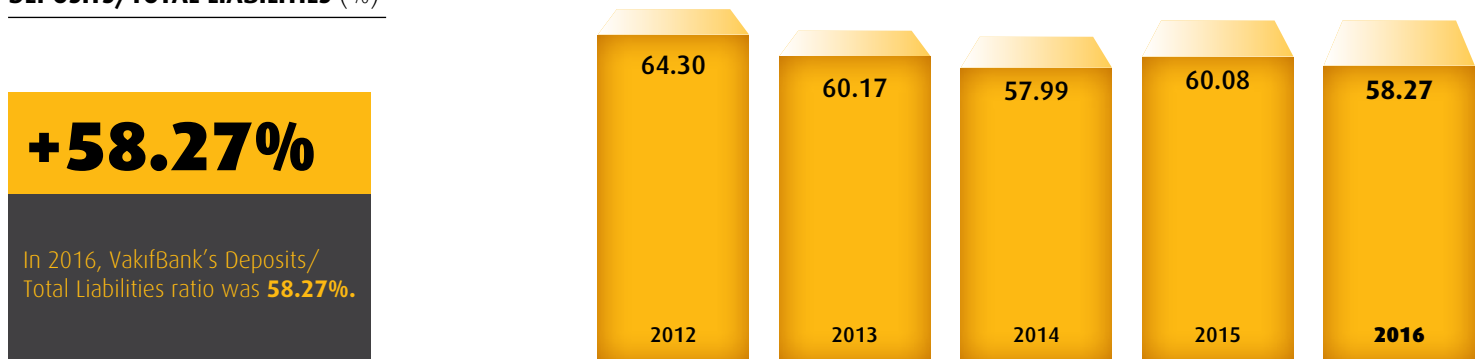
RETAIL LOANS/PERFORMING LOANS (%)



COMMERCIAL LOANS/PREFORMING LOANS (%)



DEPOSITS/TOTAL LIABILITIES (%)





MESSAGE FROM THE CHAIRMAN

In 2016, total assets grew by 16.18% to TL 212,540 million.

Loan growth was the main reason for the increase in total assets.

In 2016, the policies pursued by developed country central banks were closely monitored by international markets.

Esteemed Shareholders,

The year 2016 was a period when concerns about the global economy continued. In its report on the global economic outlook, the OECD lowered its global growth estimate for 2016 from 3% to 2.9%. An analysis of the growth performance of developed economies that have a significant impact on global growth shows that the US economy, which leads the pack, displayed a higher-than-anticipated 3.5% growth rate in the third quarter of 2016. As such, the US economy posted the highest rate in the last two years, with an added boost from an increase in consumption and public spending. It is considered that in the coming period, Donald Trump, who won the elections in November 2016 to become the new US president, will implement policies that will add a further impetus to the US growth. The 0.3% growth of the Euro Zone in the third quarter suggests that the economic outlook in the region is sanguine despite the Brexit decision. The Japanese economy, on the other hand, showed a lower-than-expected growth performance of 0.3% in the third quarter. The Chinese economy, a driving engine of global economic growth, expanded by 6.7% in the third quarter -as in the previous two quarters- thus confirming the stability in economic activity.

In 2016, the policies pursued by developed country central banks were closely monitored by international markets. In December 2015, the Fed took its first decision to raise interest rates after almost 10 years. The policy rate was increased 25 bps, up from the 0-0.25% interval to the 0.25-0.50% interval. The Fed raised this rate by another 25 bps in its December 2016 meeting.

The ECB continues to pursue an expansionary monetary policy meant to bolster economic activity. With a view to lowering borrowing costs and bolstering the economy, the ECB increased the size of its monthly bond purchase program from EUR 60 billion to EUR 80 billion in 2016. The ECB employed negative interest rates for the first time in June 2014, and at its March 2016 meeting, it lowered the deposit rate (for banks) that was already in negative territory by another 10 basis points to -0.40%. At its last meeting in December 2016, the ECB decided to keep its interest rate stable and maintain its bond purchase volume (EUR 80 billion per month) at the same level until March 2017. From then onwards, the purchases will be lowered to EUR 60 billion per month until December 2017.

MESSAGE FROM THE CHAIRMAN

In a crucial development in the year 2016, the UK decided to exit the European Union. Furthermore, **it is considered that the Brexit decision could well spread to other EU members, posing a serious risk for the future of the union.**

In 2016, while the Bank of Japan maintained its expansionary monetary policies, the People's Bank of China tightened monetary conditions in order to preserve the value of the yuan.

In Japan, where deflationary pressures continue, the Bank of Japan announced that it will stick to its quantitative easing program. At the November meeting, the BoJ kept its interest rate fixed at -0.1% and did not make changes to its bond purchase program; however, it indicated that the inflation target of 2% will be reached later than expected, that is, in 2018. In this meeting, as in the October meeting, the BoJ decided to continue its yield curve control integrated in its current quantitative and qualitative bond purchase program. Since the economic recovery was not deemed to be sufficient, the BoJ will most probably continue its quantitative easing scheme and intervene in the economy by increasing public spending, since its existing monetary policy instruments are of limited effect.

In this period, the People's Bank of China (PBOC) tightened monetary conditions in order to preserve the value of the yuan. Owing to the sharp rises in Chinese overnight interest rates, PBOC started to employ its foreign exchange reserves in order to alleviate the depreciation of the yuan, and as a result, the Chinese foreign exchange reserves -the largest in the world- continued to contract in 2016 as was the case in 2015.

In another crucial development of the year 2016, the UK decided to exit the EU. After the Brexit decision, the BoE tried to inspire trust in the markets by announcing that it will take all the necessary action in order to put a brake on rising volatility. In July, at its first meeting following the Brexit decision, the BoE decided to adapt a "wait and see" strategy, keeping interest rates unchanged at 0.50%. In its August meeting, BoE lowered its policy rate for the first time since 2009. As such, the policy rate dropped from 0.50% to a record low of 0.25%. Furthermore, the bond purchase program was raised from GBP 375 billion to GBP 435 billion. Following the announcement of these measures, the British pound lost its value vis-a-vis the euro and dollar. On the other hand, it is considered that the Brexit decision could well spread to other EU members, posing a serious risk for the future of the union.

In 2016, the Bank increased its net income by 40.05% to
TL 2.7 billion, upholding its successful performance.

While these developments were taking place across the globe, the Turkish economy grew by 2.2% in the first nine months of 2016. A breakdown of growth data by sector shows that public administration, healthcare and social services, and real estate activities geared up their growth impetus.

The Turkish banking sector kept up its robust performance in the year 2016. In this period, the sector's total assets grew by 15.84% to TL 2,730,942 million, and loans by 16.80% to TL 1,734,342 million. As of year-end, the sector's total profit was TL 37,532 million, shareholders' equity amounted to TL 300,172 million, and the capital adequacy ratio was 15.57%.

As for VakıfBank's performance in 2016, our total assets rose 16.18%, reaching TL 212,540 million. The main factor underlying this increase was the growth in loans. Commercial loans increased by 22.25% and retail loans by 12.09%. Total performing loans, on the other hand, were up by 19.23% to TL 146,619 million. In the same period, our deposits rose by 12.66% to TL 123,838 million. The Bank also continued to diversify its funding structure by issuing bonds in both domestic and overseas markets.

The Bank brought up its profit up 40.05% over the prior year to TL 2,703 million in 2016, thereby upholding its successful performance. In 2017, we shall add to our long list of achievements.

On this occasion, on behalf of the Bank, I would like to extend my gratitude to our esteemed customers for their contribution to our success, to our diligent employees, and to our shareholders and investors for their unfaltering trust in us.

Yours sincerely,



RAMAZAN GÜNDÜZ
Chairman

Total performing loans rose by 19.23% to the order of TL 146,619 million. In the same period, total deposits went up 12.66% to TL 123,838 million.



MESSAGE FROM THE GENERAL MANAGER

With cash loans at TL 146.6 billion and non-cash loans at **TL 40.4 billion, we made a total contribution of TL 187.1 billion to the national economy.**

We maintained a close watch on global developments such as the US elections and the Brexit referendum in 2016. The policies to be adopted by the new US president Trump and the possible effects of these policies on other countries may top the agenda in the year 2017.

Distinguished shareholders,

We maintained a close watch on global developments such as the US elections and the Brexit referendum in 2016. The policies to be adopted by the new US president Trump and the possible effects of these policies on other countries may top the agenda in the year 2017. Furthermore, the UK's decision to leave the EU may spread to other member states, thereby posing a serious threat for the future of the European Union in the coming period.

In 2016, a number of regulatory measures were taken to enable banks to extend more loans and provide stronger support to the real economy. The Banking Regulation and Supervision Agency (BRSA) lowered the reserve requirements for retail loans, easing the limitations on the number of credit card installments in certain sectors, and loosened maturity limitations on consumer loans and car loans. In parallel with these resolutions by BRSA, the Central Bank of Turkey took measures in the second half to ease liquidity conditions, such as lowering reserve requirements and change the coefficients in certain tranches of the foreign currency facility under the Reserve Option Mechanism, which had a positive impact on bank profits.

In 2016, the profits of the Turkish banking sector jumped 44.01% over the prior year. Furthermore, in this period, the total assets of the Turkish banking industry rose by 15.84% over the previous year to reach TL 2,731 billion. In 2016, loans continued to play a determining role in asset growth and the ratio of loans to total assets increased to 63.51%.

In the year 2016, VakıfBank increased its total assets by 16.18% to TL 212,540 million. Loans remained the most important component of assets, with a weight of 68.98%. With cash loans of TL 146,619 million and non-cash loans of TL 40,448 million, we made a total contribution of TL 187,067 million to the national economy.

The Bank expanded retail loans by 12.09% to the order of TL 41,037 million. An important contribution to the increase in retail loans came from mortgage loans, which, helped by the drop in interest rates, increased by 12.35% to reach TL 16,983 million. In this period, we increased commercial loans by 22.25%, thereby continuing to bolster production and investment efforts.

MESSAGE FROM THE GENERAL MANAGER

VakıfBank broke new ground in 2016 by becoming the first Turkish bank to issue a **Covered Bond in international debt capital markets.**

By allocating international funds to our SMEs, we strive to stand by SMEs under all circumstances. As such, we have managed to bring the Bank's total SME loans up to TL 37.4 billion.

Standing by SMEs has been one of VakıfBank's top goals since 2010. To this end, we continue to provide financial and non-financial solutions to our SMEs. We extend the funds secured from abroad to our SMEs so as to stand by them under any circumstance. As such, the Bank's total SME loans have grown to TL 37,354 million.

At the ceremony where the most successful renewable energy and energy efficiency projects financed by the second phase of the Turkey Sustainable Energy Finance Program (TurSEFF) 2013-2016 were recognized, VakıfBank received the award for "Leading Bank in Energy Efficiency Financing". The Bank provided funds over EUR 122 million for 346 projects, which corresponds to 40% of the 868 projects financed since the initiation of TurSEFF in 2010, and to 27% of the total financing.

In the last days of 2016, the European Investment Bank (EIB) assigned a one-off EUR 300 million loan limit to the Bank. This is of crucial importance to us, since it is the largest ever loan limit allocated to VakıfBank. We will be proudly extending these loans to support the Turkish real economy.

In this period, we continued to expand our funds in a healthy manner. We increased deposits by 12.66% to TL 123,838 million. In order to diversify our funds, and extend the maturity of these funds, we sustained our efforts to provide wholesale funding.

In 2016, total international borrowing amounted to USD 11.3 billion. These funds confirm the international trust in the Turkish economy, Turkish banking sector and our Bank. In the coming period, we will continue to bring in long-term cost-effective funds so as to support the national economy.

VakıfBank broke new ground in 2016 by becoming the first Turkish bank to issue a Covered Bond in international debt capital markets. We received the awards of "Debut Deal of the Year" and "Best Debut Deal of the Year" with the first ever Euro-denominated Mortgage Covered Bond issuance of Turkey amounting to EUR 500 million.

**Asset
Size**

**TL 212.5
Billion**

In 2016 we obtained a total of USD 11.3 billion in international borrowings, **thereby confirming the world's trust in the Turkish economy, the Turkish banking sector and our Bank.**

In October, credit rating agency Moody's downgraded Turkey's sovereign rating to non-investment grade, and VakıfBank obtained a total of USD 1,725 million international borrowing -USD 835 million in a syndication loan and USD 890 million in a securitization deal- in a single week.

In 2016, we raised our shareholders' equity by 14.74% to TL 19,239 million. Over the same period, our net income jumped 40.05% to TL 2,703 million.

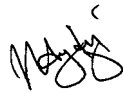
We also continued our support to sports in the year 2016. In June 2015, we had started the construction of the new sports center of VakıfBank Women's Volleyball Team, which won a World Championship, two European Champions League Championships, one European Challenge, one European Top Teams, as well as nine Turkish League cups, five Turkey Cups and two Turkey Super Cups. VakıfBank Spor Sarayı was completed in only 15 months following the groundbreaking ceremony, and opened its doors on November 12, 2016. This sports facility will not only help raise new athletes capable of representing Turkey all over the world, but also contribute to Istanbul's bid to become a host city for the Olympic Games.

The VIT (VakıfBank Innovative Transformation) technological transformation program was successfully completed upon the commissioning of 10 separate projects during the period. With the completion of the VIT program, we have built a single common platform for all banking practices. As such, we have employed the latest technologies and reached our targets such as rapid development of apps and products, practical management and accurate reporting.

Under our collaboration with the TEMA foundation, we planted saplings equal to the number of mortgage loans extended to customers in 2016 plus the number of total VakıfBank employees. At the "VakıfBank Memorial Forest" created on land in Burdur and İstanbul owned by the Ministry of Forestry, we have planted a total of 75,000 saplings.

I would like to take this occasion to extend my gratitude, on behalf of the Bank, to our customers, employees, shareholders, investors and all other social stakeholders for their invaluable contributions to our success in 2016.

Sincerely yours,



HALİL AYDOĞAN
General Manager

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THE WORLD AND TURKEY IN 2016

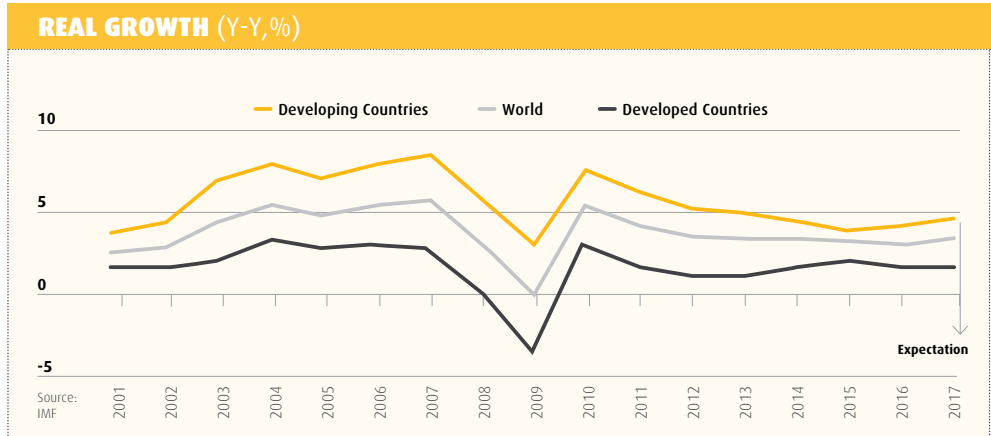
After growing by 3.2% in 2015, the global economy is expected by the IMF to close the year 2016 with a growth rate of 3.1%. The OECD, on the **other hand, brought its previous global growth estimate down from 3% to 2.9% in its Global Economic Outlook Report.**

GLOBAL ECONOMY

THE GLOBAL ECONOMY CONTINUES TO EXHIBIT SIGNS OF MODERATE RECOVERY

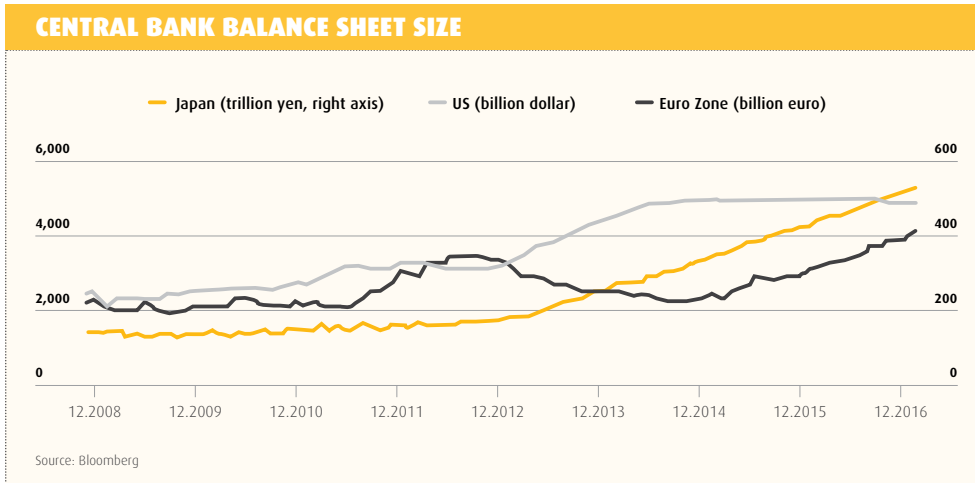
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The US economy, which leads the developed nations, grew at a lower-than-expected 1.9% in the fourth quarter of 2016, owing to the contraction of trade and to weak consumer spending. The US economy, expected to close the year 2016 with a growth rate of 1.9%, is forecast to grow by 2.2% in the year 2017 owing to the expansionary fiscal policies expected from the new US president Trump.



The Eurozone economy gained momentum in the first quarter to grow 0.6%, before slowing down to a growth rate of 0.3% in the second and third quarters, and finally grew by 0.5% in the last quarter of the year. The zone thus closed the year 2016 with a growth rate of 1.8%, indicating that economic activity is relatively vibrant despite the BREXIT decision. However, possible political uncertainties in the coming period and the policies of the new US president Trump could create pressure on the zone's economy. Accordingly, as a result of such factors, the Euro Zone is forecast to close the year 2017 with growth of 1.5%. The Japanese economy posted a slightly lower-than-expected growth rate of 0.3% in the last quarter.

The Chinese economy, which plays a crucial role in global economic growth, displayed in 2015 its weakest annual growth performance since 2009 with a rate of 6.9%, and then a slightly higher-than-anticipated growth rate of 6.8% in the last quarter of the year. The Chinese economy closed the year 2016 with 6.7%, thus managing to reach the government's official target of 6.50-7.00% growth. In 2017, the custom tariffs and protective commercial policy that the US president Trump is expected to impose on countries such as China and Mexico could have a negative effect on exports, which in turn could lead to a growth rate of 6.2%, below that in 2016.



CENTRAL BANK POLICIES

Developed economies such as the USA, Europe and Japan have generally pursued expansionary monetary policies to trigger the recovery of the global economy. In 2014 and 2015, divergences started between the monetary policies of developed country central banks. The Fed had announced in May 2013 its decision to end the QE3 program initiated back in September 2012, and put an end to this program on October 29, 2014. In December 2015, the Fed hiked interest rates for the first time in almost 10 years. The Fed thus brought up its policy rate by 25 bps from 0-0.25% to 0.25-0.50%. After the said meeting, the Fed chair Janet Yellen indicated that four interest rate hikes could take place in the year 2016. However, the Fed hiked rates only once in 2016. At the December meeting, the Fed increased the policy rate by another 25 bps to 0.50-0.75%, and Yellen said that they revised the number of expected interest rate increases up from two to three for the year 2017. Furthermore, Yellen also added that the gradual rate increase will continue.

In 2017, the Fed is expected to remain the central bank that makes headlines. It must be underlined that the latest decisions unveiled by the Fed will have an effect on the policies of other central banks. Furthermore, the policy decisions by the new US president Trump who took office on January 20th, will undoubtedly have an effect on the Fed’s resolutions. In this respect, global and US economic actors will keep a close watch on what kind of a trajectory the Fed, which embarked upon a monetary tightening program, will pursue.

The ECB continues its expansionary monetary stance meant to prop up economic activity. The ECB employed negative interest rates for the first time in June 2014, and at its March 2016 meeting, it lowered the deposit rate (for banks) that was already in negative territory by another 10 basis points to -0.40%. With an intent of lowering borrowing costs and bolstering the economy, the ECB increased the size of its monthly bond purchase program from EUR 60 billion to EUR 80 billion in 2016. In his speech, the ECB President Mario Draghi stated that the ECB’s bond purchase program will continue until March 2017. At its last

meeting in December 2016, the ECB decided to keep its interest rate stable and maintain its bond purchase volume (EUR 80 billion per month) at the same level until March 2017. From then onwards, the purchases will be lowered to EUR 60 billion per month until December 2017. The ECB is currently lowering its bond purchase volume, a policy which could be defined as partial tightening. Whether the ECB will end its quantitative easing policy in 2017 is a subject of heated debate.

In Japan, where the deflationary pressures remain, the BoJ has announced that it will continue with its quantitative easing program until inflation reaches 2%. In the beginning of the year, at its January meeting, BoJ unexpectedly brought the interest rate for the banks’ deposits at BoJ down to negative territory. At its meeting on September 21st, BoJ announced that it made a change to its monetary policy framework, and that it will keep the yield curve under control, and also continue its quantitative and qualitative monetary easing program. At its November meeting, BoJ indicated that the inflation target will not be attained before the year 2018.

BoJ gave up on its target for the monetary base and announced that it will employ bond purchases in order to keep long term treasury bond rates under control. The BoJ is expected to stick to its expansionary policy in 2017. Given that the Japanese government, which continues to purchase bonds, has an indebtedness rate above 200%, investors are concerned by the fact that the government has failed to bring about the recovery despite the long-standing bond purchase program. An increase in the interest rate, which hovers close to 0%, could lead to worries about the government’s capacity to roll over its debt. However, the fact that most of the national debt is held by domestic investors, in particular pension funds, is a factor which partially alleviates concerns over the country risk.

THE WORLD AND TURKEY IN 2016

Developed economies continued to struggle with the problem of deflation in 2016. In the US economy, the inflation rate rose from 0.7% in 2015 **up to 2.1% in 2016, which meant that the Fed's inflation target of 2% was attained.**

The British referendum resulted in a decision for the UK's exit from the EU, triggering sell-offs in the global markets. The pound depreciated sharply and investors opted for investment instruments viewed as safe haven, resulting in sell-offs in emerging markets as well.

In China, the volatility in financial markets started in the beginning of the year, and the depreciation of the Chinese currency fueled risk perception in the global markets as well. China displayed its weakest growth since 1990 in 2015 with 5.9%, and went on to grow 6.7% in 2016. At the end of the year, the People's Bank of China (PBOC) tightened monetary conditions in order to reduce the leverage and protect the domestic currency, thereby aggravating the pressure on the market.

Chinese foreign exchange reserves dropped by around USD 600 billion, falling from USD 3.9 trillion to USD 3.3 trillion in 2015, and continued to contract in 2016, as well. In January 2016, PBOC started to employ its foreign exchange reserves to limit the sharp depreciation in the yuan, which had dropped to its lowest level in five years owing to the sharp rises in overnight rates. A similar situation took place at the end of the year, and once again concerns were expressed over the central bank's decision to use the foreign exchange reserves.

The year 2017 may bring additional pressure on the Chinese currency and the Chinese reserves already under risk. However, in case of a similar concern over the reserves, the possible scenario would deviate from what happened in 2016 in a significant dimension. In 2016, even as the yuan sharply depreciated and a significant portion of the Chinese dollar reserves melted rapidly, the Fed was quite cautious in raising rates in consideration of the global economic conditions. However,

the new US president Trump who took office on January 20, 2017 may implement policies that could prompt the Fed to hike the rates at a faster pace, which in turn could accelerate the appreciation of the US dollar and rekindle concerns over the Chinese reserves in the coming period.

THE WORLD ECONOMIES, STRUGGLING WITH DEFLATION, GAVE SIGNALS OF RECOVERY IN 2016

In 2016, there were recovery signals from the world economies, which for a long time were experiencing a slowdown in economic activity due to persistent low inflation rates. Whereas other countries implemented an expansionary monetary policy, the US started to tighten its monetary policy in 2014 and the inflation rate rose from 0.7% in 2015 up to 2.1% in 2016, which meant that the Fed's inflation target of 2% was attained. The attainment of the target inflation rate and other positive results coming from the USA confirmed that economic activity was growing stronger in the country. The Eurozone inflation rate, which was 0.2% in 2015, came in at the higher-than-expected rate of 1.1% in 2016 owing to the hike in energy prices. This figure is also the highest Eurozone inflation rate since September 2013. The ECB's ultimate inflation target is 2%, and judging by the current inflation rate, this target may be reached not in the short-term but in the long-term. As for Japan, inflation closed the year 2015 at 0.2% and rose to only 0.3% as of year-end 2016, which suggests that the deflationary pressures remain despite the transition to negative interest rates in early 2016.

The Euro Zone inflation rate, which was 0.2% in 2015, came in at a higher-than-expected **1.1% in 2016 owing to rising energy prices, which is its highest level since September 2013.**

THE EFFECTS OF BREXIT

The British referendum held on June 23 resulted in a decision for the UK's exit from the EU, despite the markets' expectations to the contrary, triggering sell-offs in the global markets. The pound depreciated sharply and the investors moved towards investment instruments considered to be safe havens, resulting in sell-offs in emerging markets. This environment strengthened the expectation that the Fed would postpone its interest rate rises. However, the referendum's adverse impact remained limited at first, since the markets chose to focus on the Fed's short-term course of action rather than Brexit's longer-term negative effects. Nevertheless, the British pound displayed one of the sharpest drops among all currencies in 2016. As the details regarding the UK's exit from the EU became clearer, the currency lost more and more of its value. As a result, the pound had lost around 7% of its value by July. The exit could take as long as two years, and the process may inflict permanent damage on the British economy, especially its financial hub in London. Furthermore, the UK's exit decision could spread to other countries, casting a shadow on the future of the European Union.

THE US PRESIDENTIAL ELECTIONS BOOSTED VOLATILITY IN THE GLOBAL MARKETS

Donald Trump's victory in the US elections despite market expectations triggered sharp volatility in global markets. There were hikes in the dollar index and US bond yields, accompanied by capital outflow from emerging markets. The protective foreign trade and active fiscal policies underlined by Trump's election speeches, in case they materialize, could possibly increase the inflationary pressure in the USA. This, in turn, strengthens expectations that the Fed could bring up rates faster in the upcoming periods.

OIL PRICES HEAD UPWARDS

After falling sharply in 2014, oil prices had continued their downward course in 2015. In 2016, they recovered somewhat to surpass the USD 50 per barrel mark. Surplus supply had been crucial in the drop of the oil price, and news surging in February 2016 that the oil production levels would be frozen caused prices to tilt up. However, in April, the meeting bringing together OPEC members and non-OPEC countries in Qatar's capital Doha, did not result in a decision to put a brake on production, which stopped the increase in oil prices. Months later, in September, OPEC

members came together in an unofficial meeting in Algeria in order to stop and reverse the downtrend in oil prices, which had halved in the previous two years. At the said meetings, Energy Minister Alexander Novak of Russia, one of the world's largest oil producers, stated that a freeze of the production level can be decided upon only at an official OPEC meeting; thus, no decision was reached in the Algeria meeting, once again preventing a rise in the oil price. Although producers agreed on limiting the crude output, they failed to take concrete measures to this end, which resulted in a volatile trajectory for oil prices.

Finally, on November 30, 2016, OPEC members met in Vienna and decided to bring down daily oil production to 1.2 million barrels. As a result, in 2016, the oil price recovered some of the price loss of previous years. As such, it closed the year 2016 at USD 55 per barrel, above the USD 50 per barrel mark. Considering that global growth remains sluggish, doubts exist as to whether OPEC member oil producing countries will abide by the decision to cut supply, and that shale gas producers who had ended production due to the low price level may resume production once the price goes above USD 60. It is estimated that the oil price increase will remain limited in the year 2017.

THE WORLD AND TURKEY IN 2016

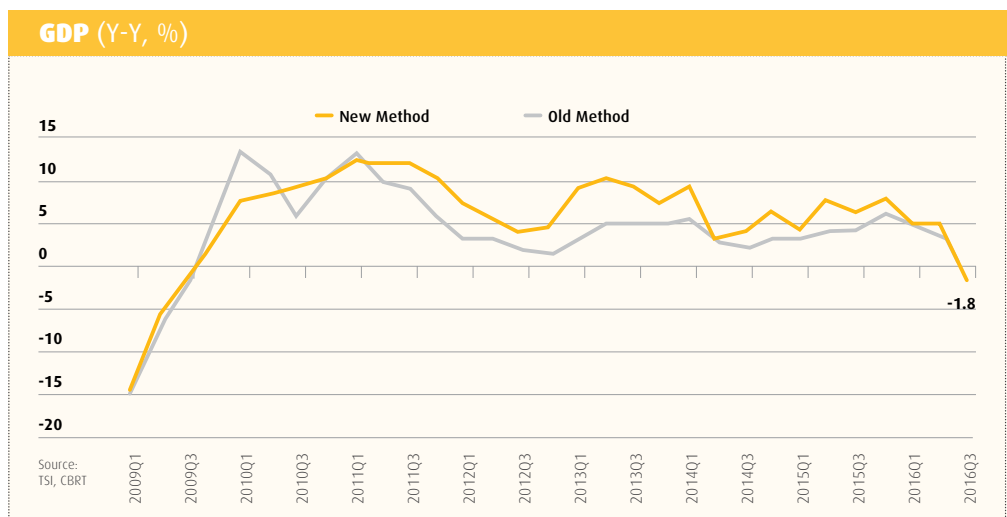
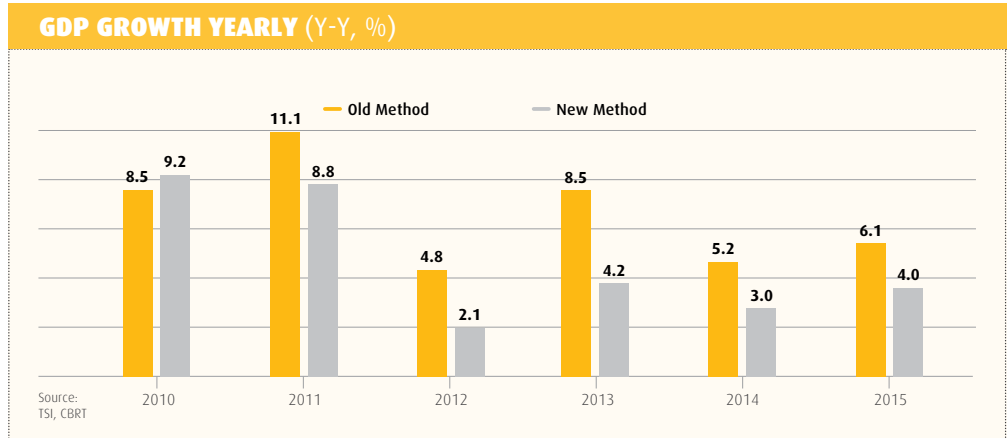
Gross Domestic Product (GDP) grew 4.5% in the first two quarters of 2016. In the third quarter, growth over the previous year was in

negative territory for the first time since 2009 as the Turkish economy contracted 1.8%.

TURKISH ECONOMY

CONTRACTION IN THE ECONOMY

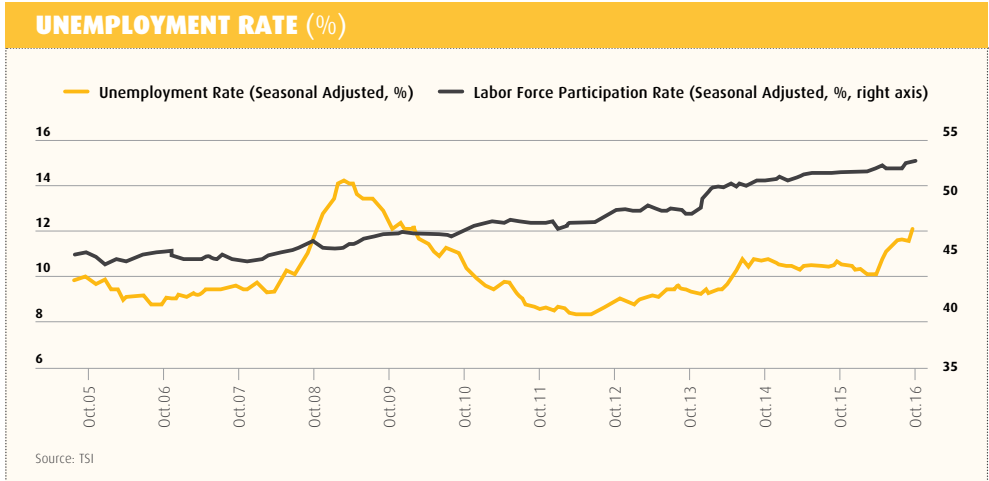
Gross Domestic Product (GSYH) grew 4.5% in the first two quarters of 2016, propped up by household spending. In the third quarter, however, growth over the prior year fell in negative territory for the first time since 2009 and the economy contracted 1.8%. Seasonally and calendar adjusted GDP contracted 2.7% year-over-year in the third quarter. The third quarter represented the lowest seasonally and calendar adjusted growth since the first quarter of 2009. In the third quarter, the drop in household spending and investment were key to bringing about a negative growth rate, and public spending was the only component with a positive impact on growth. Despite displaying its largest hike since 1999, public spending could not counteract the negative impact of the other growth components. In the first nine months of 2016, Turkey grew by only 2.2%, thus losing steam when compared with the previous year.¹



¹ For calculating of the Gross Domestic Product (GDP), a new calculation method was used as of the third quarter of 2016. With the new calculation method, the base year 1998 was changed to 2009.

An analysis of growth per sector shows that the main sectors agriculture, industry and services contracted in the third quarter of the year. In the first three quarters of 2016, problems with Russia had an adverse impact on tourism and agriculture. Now that relations with Russia are starting to go back to normal, it is expected that this negative impact will be less in both the last quarter of 2016 and in 2017. The construction industry, which made positive contributions to growth in the first two quarters of 2016, continued to do so in the third quarter.

In the third quarter of 2016, Turkish Statistical Institute (TURKSTAT) switched to a new method in national income calculations and there were large revisions to the past growth figures. Whereas the growth for the first quarter of 2016 dropped from 4.7% to 4.5%, that for the second quarter rose from 3.1% to 4.5%. Such a rise in the national income is welcome since it will lower ratios such as current account / GDP and budget deficit / GDP. In the final quarter of the year, the primary indicators for economic activity point to recovery. In the final quarter of the year, regulations as regards the loan allocations and the installment limitations on credit cards were eased. These may have a positive impact on retail loan growth, which in turn could bring up household consumption and therefore GDP growth. This may also lead to an increase in finance and insurance activity. Furthermore, industrial production, one of the most important leading indicators of growth, tilted upward after reaching a nadir in September, and the rise in public spending is set to continue. All of these factors suggest that the fourth quarter may see a recovery in growth. However, the recent rise in the foreign exchange rate could well limit the contribution of industrial production to growth. According to the forecasts in the Medium Term Program issued by the Turkish Ministry of Development, the economy is expected to close the year 2016 with 3.2% growth and the year 2017 with 4.4% growth.



RISE IN UNEMPLOYMENT RATE

The unemployment rate, which averaged 10.2% in the first ten months of 2015 rose to 10.6% compared to the same period in 2016. On the other hand, the seasonally adjusted unemployment rate, which was 10.3% in the period of January – October 2015, rose to 10.7% in the same period of 2016. In 2016, the slowdown in economic activity led to a rise in unemployment. As of October 2015, the seasonally adjusted data point to an employment increase in industry and services, but not agriculture.

It is considered that the expected increase in growth in 2017 will bring down unemployment. However, the expansion of the total labor force with the participation of women in recent years could continue in 2017, thereby limiting the drop in the unemployment rate.

INFLATION AT 8.53%

After closing the year 2015 at 8.8%, inflation closed 2016 at 8.53%, above the Medium Term Program target of 7.5%. Especially in the first half of the year 2016, inflation tilted downwards because food prices remained below their historical average, the foreign exchange rate remained unchanged, and oil prices were low. However, in the final quarter, the foreign exchange rate rose rapidly, Special Consumer Tax increases came prior to New Year’s Eve, and oil and food prices headed upwards, which all combined to lead to an uptick in the inflation rate. Besides, the rise in the foreign exchange rate and the trajectory of the commodity prices in 2016 played a crucial role in bringing up the producer price index, which rose to 9.94% as of end-2016 after pursuing a volatile course. In the coming period, the movements in food prices and foreign exchange rate are likely to have an impact on inflation. Furthermore, the Food and Agricultural Product Markets Monitoring Committee (Food Committee) could take measures which may keep food inflation below its historical average in 2017. In this respect, in case food prices remain low and the foreign exchange rate volatility dissipates, inflation may fare better in 2016 than it did in 2017. The Medium Term Program (2017-2019) anticipates an inflation rate of 6.5% for the year 2017.

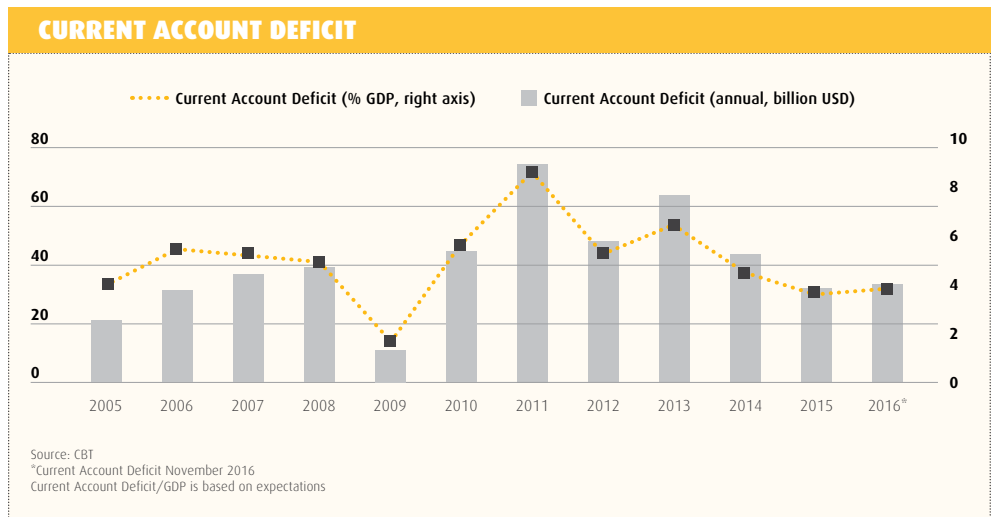
THE WORLD AND TURKEY IN 2016

The foreign trade deficit, which was USD 63.4 billion in 2015, declined to USD 56 billion in 2016. **This improvement was due to the fact that exports increased more than imports.**

FOREIGN TRADE DEFICIT RECORDS DROP

The foreign trade deficit, after closing the year 2015 at USD 63.4 billion, dropped to USD 56 billion in 2016. One reason underlying this improvement was the fact that exports outpaced imports. With the added positive effect of continuing low oil prices, the energy import bill dropped, thereby making a positive albeit modest contribution to bringing down the annual foreign trade deficit. Furthermore, weak domestic demand was also effective in reducing the foreign deficit. However, exports were seen to lower in the same period largely because of the ongoing economic woes in Turkey's major trade partners and the drop in the euro – dollar parity.

After heading downwards for a long while, energy prices resumed growth in January 2016, which suggests that the favorable base effect of energy prices on the foreign trade deficit will be reduced in the year 2017. However, after rising somewhat, oil prices remained stable around USD 50 per barrel, which means that energy prices will have a positive impact on the foreign trade deficit. As a result of decisions taken by public authorities, domestic demand will pick up in 2017, thereby creating some upward pressure on the foreign trade deficit. On the other hand, the normalization of relations with Russia, one of Turkey's major trade partners, will have a positive effect on the foreign trade via a rise in exports. In addition, the lifting of sanctions towards Iran and the reintegration of this country to global trade will strengthen Turkey's commercial ties to Iran. In case the rise of the foreign exchange rate, which started in

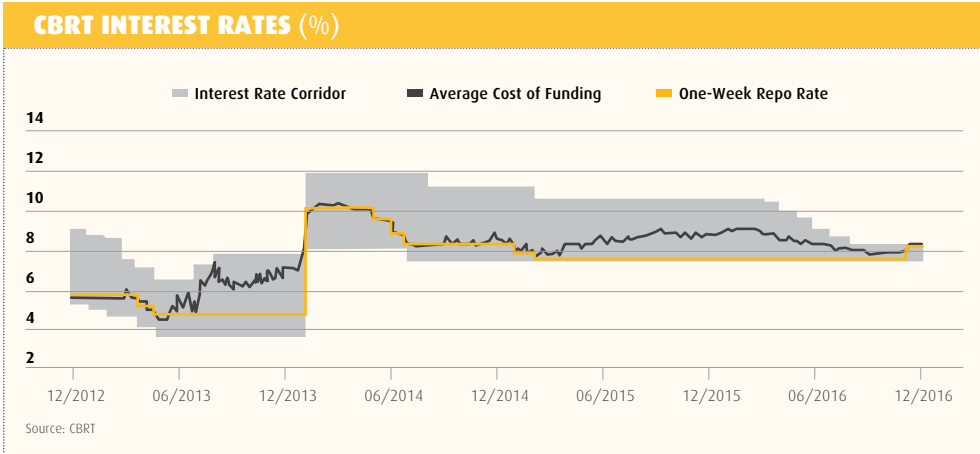


October 2016, continues into 2017, a possible drop in imports would narrow the foreign trade deficit. In brief, positive developments in commercial ties, and the rise in the foreign exchange rate will make favorable contributions to the foreign trade deficit in 2017; however, the negative effect of the energy prices could lead to a limited increase in the deficit.

CURRENT ACCOUNT DEFICIT HIT USD 28.6 BILLION IN THE JANUARY-NOVEMBER PERIOD

The current account deficit, which was USD 27.2 billion in January-November 2015, rose to USD 28.6 billion in the same period of 2016. The deficit totaled USD 32.3 billion (3.8% of GDP) in the year 2015, before rising to USD 33.7 billion by November 2016 according to the cumulative figures for twelve months.

The improvement of the current account deficit in the first 11 months of 2015 was largely due to the contraction of the foreign trade deficit, which in turn was related to lower oil prices bringing down Turkey's energy import bill. Furthermore, in another key development, the contraction of the global trade volume led to lower Turkish imports. Foreign trade related developments in the period from January to November 2016 compared to the same period of 2015 contributed to the contraction of the current account deficit, while slipping net service revenues and the outflow of foreign currency had an adverse impact. The drop in net service revenues can be explained largely by the reduction in tourist numbers owing to economic woes in neighboring countries, while the foreign currency outflow can be attributed to the spike in profit transfers.



It is possible for the rise in energy prices to increase the current account deficit in 2017 via foreign trade. However, the return to normal of commercial ties with Russia will have a positive impact on tourism, and the amelioration of trade relations with Iran can limit this negative impact of energy prices. As a result of the resolutions by public authorities, domestic demand may pick up in 2017, which could create some upwards pressure on the current deficit by means of imports; however, the increase in the foreign exchange in the last months of 2016 may limit such a rise in imports and therefore in the current deficit. As such, the rise in the current account deficit in 2017 is expected to remain limited.

CBRT CONTINUED THE SIMPLIFICATION PROCESS IN 2016

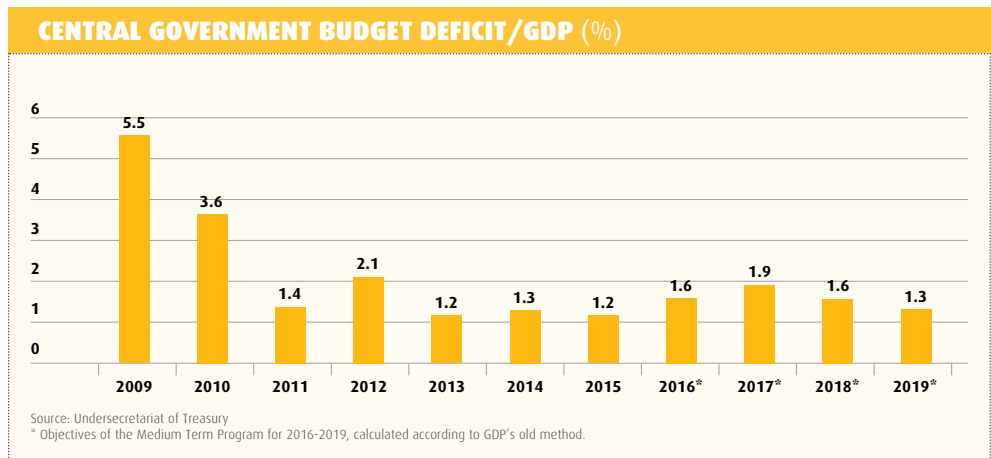
The Central Bank of the Republic of Turkey (CBRT) continued to make use of interest rates and other instruments to preserve price stability and financial stability in 2016. CBRT lowered by a total of 250 basis points the marginal funding rate, which is the upper limit of the interest rate corridor, in the March-September 2016 period. In the November meeting, pointing at the domestic foreign exchange rate fluctuations which creates expectation of inflation deterioration owing to the global economic uncertainty and high volatility, CBRT raised its policy rate by 50 basis points to 8% and the marginal funding rate by 25 basis points to 8.50%. As a result, following its sharp interest rate hikes in October 2014 and the ensuing gradual reductions, CBRT increased its policy rate for the first time in two years in November. In addition to this rate increase designed to intervene against the foreign exchange rate volatility, CBRT also raised the reserve requirement ratios. In its last meeting for the year, CBRT left the rates unchanged. It is expected that CBRT's upcoming policy steps will be determined by global market conditions, foreign exchange rate and the inflation outlook, which is closely connected to the exchange rate.

The Central Bank of the Republic of Turkey (CBRT) continued to use interest rate and non-interest rate instruments together in 2016, and followed a policy of price stability as well as financial stability.

THE WORLD AND TURKEY IN 2016

The central government budget, reporting a deficit of TL 23 billion 525 million in the January-December 2015 period, **reported a deficit of TL 29 billion 258 million in the January-December period of 2016.**

The primary surplus, an important component in terms of debt management, was TL 20 billion 989 million in the January-December 2016 period.



On the other hand, the Fed performed its second rate hike in December 2016, and is expected to continue these increases in a gradual manner in 2017. In the USA, possible expansionary fiscal policies by Donald Trump could lead to an upward pressure on prices and thereby urge the Fed to accelerate its monetary tightening efforts. As such, the markets have started to adopt an outlook of more rapid price increases. Such a development is certain to have an impact on CBRT's monetary policy.

CENTRAL GOVERNMENT BUDGET DEFICIT CAME IN AT TL 29 BILLION 258 MILLION FOR THE JANUARY-DECEMBER 2016 PERIOD.

The central government deficit, which stood at TL 23 billion 525 million in the January – December 2015 period, materialized as TL 29 billion 258 million in the January – December 2016 period. Budget revenues rose 14.8% year-on-year from TL 482 billion 780 million in January – December 2015 to TL 554 billion 431 million in January – December 2016. On the other hand, budget spending went up by 15.3% year-on-year from TL 506 billion 305 million in the period of January – December 2015 to TL 583 billion 689 million in the same period of 2016.

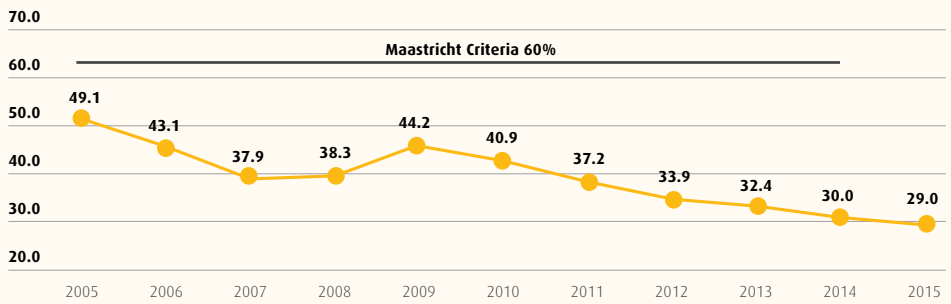
The primary surplus, crucial for debt management purposes, came in at TL 20 billion 989 million in the period of January – December 2016. The ratio of the central budget deficit to GDP, which stood at 1.2% in 2015 is expected to reach 1.6% in 2016, according to the Medium Term Program (2017-2019). Since the government is expected to increase spending in order to bolster economic activity, the ratio of the central government budget deficit to GDP is anticipated to materialize as 1.9% in 2017, according to the Medium Term Program (2017-2019).

CENTRAL GOVERNMENT GROSS DEBT STOCK

The central government gross debt stock went up from TL 678.2 billion in 2015 to TL 759.6 billion in 2016; of which, TL 468.6 billion was in the form of local currency debt and TL 291 billion in foreign currency denominated debt. Within the framework of the Maastricht Criteria, also referred as the “EU’s Financial Rule,” the debt stock to GDP ratio has been declining steadily, particularly since 2009. This proves the importance of progress in fiscal policies and public administration in Turkey, which boasts an investment-grade credit rating.

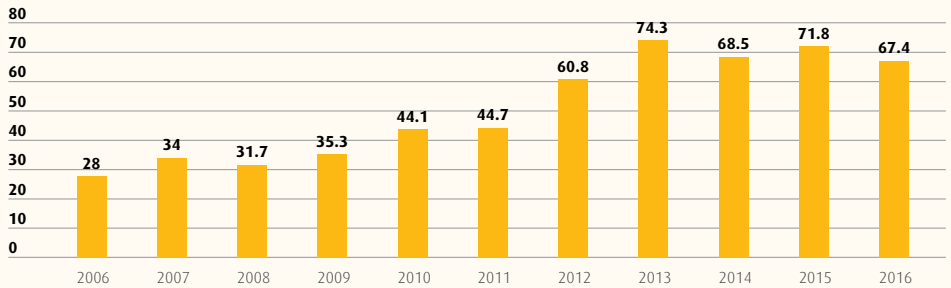
As per 2016 realizations, the average cost of fixed income TL-denominated debt increased from 9.5% on December 2015 to 10.1% while the average maturity of domestic cash debt declined from 71.8 months in 2015 to 67.4 months on December 2016. In order to broaden the investor base and diversify the funding base, Turkey continued to issue lease certificates, which were issued for the first time in 2012 and regularly issued in the domestic market since 2013.

CENTRAL GOVERNMENT GROSS DEBT STOCK (% GDP)



Source: Undersecretariat of Treasury
Rates are based on the old GDP method.

DOMESTIC DEBT MATURITY (MONTHS)



Source: Undersecretariat of Treasury

THE WORLD AND TURKEY IN 2016

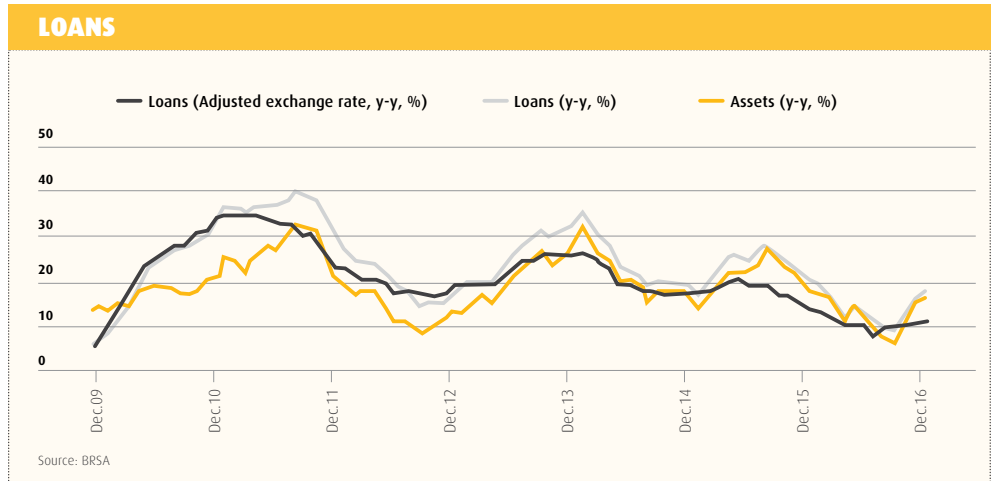
Both the rising FX and the loosening macro-prudential measures have led to an increase in the annual growth rate of loans. **Loans reached TL 1 trillion 734.3 billion in 2016, increasing by 16.8% compared to the previous year.**

BANKING SECTOR

THE BANKING SECTOR GREW BY 15.8% IN 2016.

The asset size of the Turkish banking sector reached TL 2 trillion 730.9 billion, increasing by 15.8% in 2016 compared to the previous year. The sector's total assets corresponded to 101.8% of GDP in the third quarter of 2016. In 2016, loans continued to play a crucial role in the growth of assets, and the percentage of loans among total assets reached 63.5%, preserving its historically high level.

The slowdown in the annual growth rate of loans – which began in September 2015 as a result of macro-prudential measures put into effect in 2013 to increase savings of the public authorities – continued in 2016 and the annual growth rate of loans declined to 8.61%, the lowest level in the last seven years. Declining FX had an impact on the slowdown in the annual growth rate of loans in 2016. In order for the banks to support the real economy more, the Banking Regulation and Supervision Agency (BRSA) has loosened the macro-prudential measures after July by decreasing the reserve requirements for retail loans, easing the installment limits on credit cards in some sectors, and introducing more flexible maturity limits on general purpose consumer loans and auto loans. Thus, both the depreciation of the Turkish lira and the



loosening macro-prudential measures have led to an increase in the annual growth rate of loans. Loans reached TL 1 trillion 734.3 billion in 2016, increasing by 16.8% compared to the previous year. The non-performing loans (NPL) in the sector, increased by 22.2% in 2016 compared to the previous year and reached TL 58.1 billion. The annual growth rate of the NPL decreased from 30.5% (figure in 2015) to 22.2% in 2016. As some banks sold their non-performing loans during the year, this had a significant impact on the declining annual growth rate of the NPL in 2016. The NPL ratio rose from 3.10% (figure as of 2015 yearend) to 3.24% in 2016.

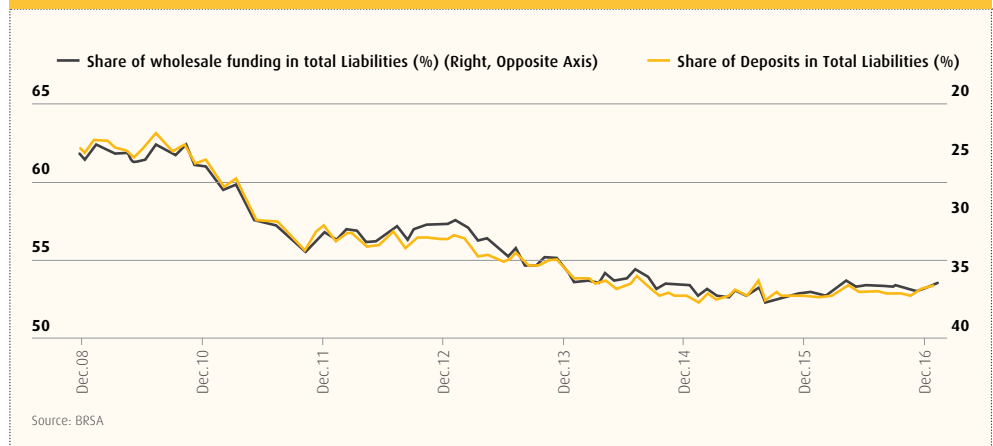
The securities portfolio increased by 6.6% on an annual basis to TL 351.6 billion in 2016. With the impact of the sharp decline in the annual growth rate of the securities in foreign currency and the low trend in interest rates, the annual growth rate of securities portfolio decreased to 2.2% in the last quarter of the year, which was the lowest figure since August 2013. However, as a result of the increase in foreign currency exchange rates and the banks increasingly purchasing government bonds with the impact of the increase in interest rates in the last quarter of the year, the annual growth rate of the securities portfolio rose to 6.6%.

DECREASE IN FX DEPOSITS

In 2016, the ratio of deposits in total liabilities did not change significantly compared to the previous year and the ratio of deposits in total liabilities was more than 50%. In October, 2015 the decline in the annual growth rate of deposits continued also in 2016. The decrease in foreign currency (FX) deposits was a significant factor in this decline. While the declining foreign currency exchange rates had an impact on the decrease in FX deposits in the first few months of the year, after May the FX deposit account holders preferred Turkish lira (TL) deposits as a result of the increasing foreign currency. As a consequence, the slowdown in the annual growth rate of FX deposits continued. Particularly after July, there was a noticeable decrease in foreign exchange deposit accounts. In the last quarter of the year, rising foreign currency exchange rates and rising interest rates, led to an increase in the annual growth rate of deposits. Thus, the annual growth rate of deposits that declined to 5.6% in the third quarter of 2016, rose to 16.7% in the last quarter.

In 2016, the maturity of term deposits was concentrated mostly around 1 to 3 months. The ratio of loans to deposits increased slightly in 2016 compared to the previous year. The high ratio of loans to deposits in the sector, and maturity of time deposits around 1 to 3 months indicate that the sector’s structural problem “maturity mismatch” continued and that the sector had a tendency to find more foreign resources in order to fund the loans it has provided.

SHARE OF DEPOSITS IN TOTAL LIABILITIES



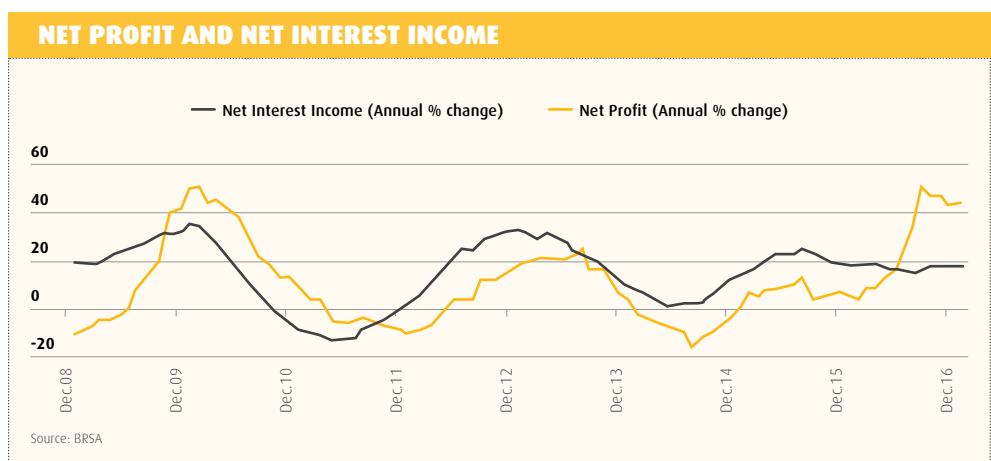
The volatility in foreign currency exchange rates in 2016 had a significant impact on the trend of wholesale funding. Until October, where a sharp increase in foreign currency exchange rates took place, there was a decrease in the annual growth rate of wholesale funding, 60% of which are denominated in foreign currency. Whereas in the last quarter of the year, the annual growth rate of wholesale funding started to increase again. In spite of the sharp increase in the annual growth rate of wholesale funding in the last quarter of the year, it was observed that the annual growth rate of wholesale funding was rather lower compared to 2015. This situation was also a consequence of the Fed starting to increase interest rates in December 2015 as well as the rollover ratio which was below 100% for syndication loans. While there was a slowdown in the annual growth rate of deposit/wholesale funding, there was an increase in the annual growth rate of shareholder’s equity in 2016. Thus, the annual growth rate of shareholder’s equity which was 13% in 2015 rose to 14.5% in 2016 while the share of shareholder’s equity in total liabilities was 11%.

In 2016, the maturity of term deposits was concentrated mostly around 1 to 3 months. The ratio of loans to deposits increased slightly in 2016 compared to the previous year.

THE WORLD AND TURKEY IN 2016

In order for the banks to support the real economy more, the Banking Regulation and Supervision Agency (BRSA) loosened the macro-prudential measures after July by decreasing the **reserve requirements for retail loans, easing the installment limits on credit cards in some sectors, and introducing more flexible maturity limits on loans.**

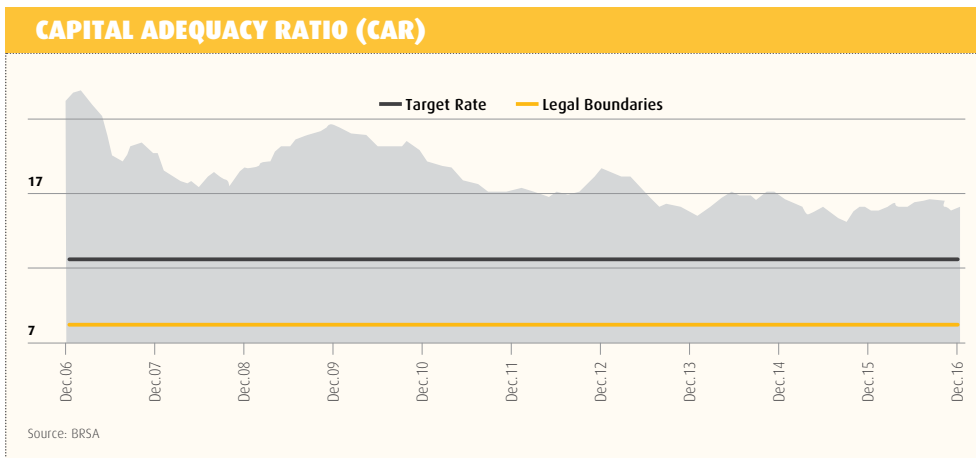
In 2016, the Turkish banking sector's net income rapidly increased. This increase was due to the previous year's base impact, the rise in net interest income and the decisions taken by the public authorities.



INCREASE IN PROFITABILITY

In 2016, the Turkish banking sector's net income rapidly increased. This increase was due to the previous year's base impact, the rise in net interest income and the decisions taken by the public authorities. Considering 2016 in general, the increase in profitability is due to the increase in the operating revenue until July, and then due to the rise in interest income for the rest of the year.

In 2016, a number of regulations were made to help the banks to allocate more loans in order to support the real economy. The Banking Regulation and Supervision Agency (BRSA) has taken decisions to decrease the reserve requirements for retail loans, easing the installment limits on credit cards in some sectors, and introduce more flexible maturity limits on general purpose consumer loans and auto loans. The BRSA decisions and the measures taken by the Central Bank in the second half of the year to loosen liquidity conditions such as reducing the legal reserve requirements and changing the coefficients in some slices of foreign exchange capacity within the scope of the Reserve Option Mechanism had a positive impact on banks' net income. As a consequence, in 2016, the Turkish banking sector's net income reached TL 37.5 billion, increasing by 44.1% in 2016. As a result of the increase in the profitability, the return on assets and the return on equity also increased. The return on assets, which was 1.1% as of 2015 year end, increased to 1.4% in 2016 while the return on equity increased from 9.9% to 12.50%.



In spite of its rising trend in general in 2016, the capital adequacy ratio of the sector was 15.6% as of 2016 year-end, remaining at the same level of 2015.

In spite of its rising trend in general in 2016, the capital adequacy ratio of the sector was 15.6% as of 2016 year-end, remaining at the same level of 2015. As there was an increase in shareholders equity and net income, slowing loan growth had an impact on the increasing capital adequacy ratio during 2016.

On the other hand, the annual growth rate of assets and liabilities is expected to decrease slightly in 2017. Following the election of Donald Trump in the US, the fact that the policies he promised to implement could require faster interest rate increases, might be leading to upward pressure on interest rates on global scale. In such case, the banking sector might have some difficulty in

finding lower cost funding from international capital markets, and thus there might be an upward pressure on the interest rates in the Turkish banking sector. Increasing pressure might lead to a cost increase in the sector while the annual growth rate of loans might shrink slightly. Furthermore, considering the maturity mismatch in the sector as well, the increasing cost of funding for banks as a result of the recent tightening steps of the Central Bank, might lead to a pressure on net interest margin and net income in the upcoming period.

2016

AT A GLANCE

VakıfBank received the awards of “Debut Deal of the Year” and “Best Debut Deal of the Year” with the first ever Euro-denominated Mortgage Covered Bond issuance of Turkey in April, amounting to EUR 500 million with five years maturity.



TarımKart, specially designed for agricultural producers

VakıfBank has launched TarımKart, which is a special product designed for producers carrying out activities in the field of agriculture and animal husbandry. Launched in order to facilitate producers' lives, VakıfBank TarımKart combines numerous options on a single card, enabling customers to do shopping with affordable conditions, flexible payment dates, and options to postpone their payments. Offering services specially designed for agricultural banking in about 300 branches, VakıfBank, with its TarımKart, offers the opportunity to shop with affordable conditions in all organizations which VakıfBank member merchants, such as dealers, agricultural chambers, producer unions, irrigation associations that provide producers with input such as diesel, animal feed, fertilizer, pesticides, seeds, saplings, and veterinary services. With dealers using TarımPOS, producers can benefit from installment options for specific dates with flexible installments up to 12 months. Card holders can withdraw money from all bank ATMs, and determine the dates to pay their debts according to their income schedule.



Two awards for Turkey's first Euro-denominated mortgage covered bond issuance

VakıfBank received the awards of “Debut Deal of the Year” and “Best Debut Deal of the Year” with the first ever Euro-denominated Mortgage Covered Bond issuance of Turkey in April, amounting to EUR 500 million with five years maturity. Receiving the “Award for Excellence: Debut” in June, which is considered as one of the most prestigious awards in Europe, organized by The Covered Bond Report magazine and The Covered Bond Investor Council (CBIC) functioning under The International Capital Markets Association (ICMA), VakıfBank was granted, in December, “Best Debut Deal of the Year” at the “Covered Bond 2016 Conference” organized for the 14th time by The European Covered Bond Council (ECBC) and Euromoney.



USD 1 billion 725 million international borrowing within one week

In October, when the credit rating agency Moody's downgraded the sovereign rating to non-investment grade, VakıfBank obtained a USD 835 million syndication loan and USD 890 million securitization loan, amounting to USD 1 billion 725 million in international borrowings within one week.

The second syndication loan of 2016 with 367 days maturity, amounting to USD 224.5 million and EUR 544 million in two tranches with the participation of 22 banks from 12 countries, will be used in financing foreign trade.

A Euro and USD denominated DPR transaction was provided in seven separate tranches, USD 354.4 million of which has a maturity of five years and USD 535.7 million of which has a maturity of seven years.

VakıfBank has launched the TMO Kart, which provides immense convenience to **producers or merchants who sell wheat, barley, corn or rice to the Turkish Grain Board (TMO).**

Express shopping with Express Card

VakıfBank has launched the “Express Card”, which enables customers who urgently need a credit card, to have a card rapidly and easily. The Express Card, which does not charge any annual card fees, can be used straightaway. Besides having all features of VakıfBank credit cards, the Express Card also offers installment opportunities by giving Worldpuan (bonus points). Existing card holders can also use the Express Card to meet their urgent card needs in case their cards are lost, stolen or renewed.



VakıfBank Sports Palace opens

The opening ceremony of the VakıfBank Spor Sarayı, which was completed in only 15 months after laying its foundation, was organized with the top level participation of state and government, as well as numerous guests. Constructed as a nine-floor building that will be the home arena of VakıfBank women’s volleyball team in national and international games, VakıfBank Spor Sarayı, with its 30,000 square meters of indoor sports facilities, will also serve various Turkish sports in branches such as basketball, handball, swimming, and gymnastics besides volleyball.



“Leading Bank in Financing Energy Efficiency” Award

VakıfBank received the “Leading Bank in Financing Energy Efficiency” Award at the TurSEFF Sustainable Energy Excellence Awards Ceremony where awards were given to the most successful renewable energy and energy efficiency projects financed in the second phase of the “Turkish Sustainable Energy Financing Facility” (TurSEFF) (2013-2016).

VakıfBank has provided more than a total of EUR 122 million funds for 346 projects, corresponding to 40% of the 868 projects financed since 2010 when TurSEFF was launched. VakıfBank, on its own, financed 27% of the total funds provided within the scope of TurSEFF. VakıfBank also was the first bank to be included in the third phase of the TurSEFF program that was launched at the awards ceremony.



REVIEW OF OPERATIONS

IN 2016

Increasing its number of customers with an approach based on asset quality and profitability, VakıfBank achieved a significant increase in cross sales ratio and business segment profitability. **In 2016, the corporate customer base of VakıfBank increased by 8%.**

CORPORATE BANKING

Maintaining its high asset quality also in 2016, and continuing its loan support for real sector firms, VakıfBank achieved a 34% increase in corporate cash loans extended in 2016 while achieving a 28% increase in corporate non-cash loans.

VakıfBank meets the entire corporate banking product and service needs of its customers with a specialized sales and operational staff, wide product range, advanced technology infrastructure and efficient business processes.

In the corporate banking segment, VakıfBank developed a strategy and an action plan focusing on asset quality and profitability, thus increasing the number of customers served, as well as the cross-sales ratio and segment profitability. VakıfBank increased the number of its Corporate Banking customers by 8% in 2016.

INCREASE IN THE NUMBER OF CUSTOMERS

In accordance with the Bank's strategy of growing and acquiring market share in the SME segment, VakıfBank used a wide variety of offerings to achieve this objective, including direct debit system (DDS), card-based collection systems, dealership letter of guarantee agreements covering the dealer and supplier networks of corporate customers, and wholesale payment systems. Thus, the Bank made important progress in its striving to become the primary bank of corporate customers, their affiliates and subsidiaries. In addition, VakıfBank acquired numerous new customers among supplier and dealer firms, and companies in other areas of the financial value chain.

"PRIMARY BANK OF CUSTOMERS"

Serving in the corporate banking segment with a customer-focused sales and marketing strategy, a company-specific service approach and an approach that values customers as long-term business partners, VakıfBank also managed to increase its transaction volume in 2016 thanks to its "Being the Primary Bank of Customers" vision.

Maintaining its high asset quality also in 2016, and continuing its loan support for real sector firms – which are determined via effective and healthy customer criteria used for selecting customers – VakıfBank achieved a 34% increase in corporate cash loans extended in 2016 while achieving a 28% increase in corporate non-cash loans.

VakıfBank pursued an active policy in financing the high value added projects of its corporate customers in 2016, and created financing

facilities by allocating long term cash and non-cash loans for customers' investments. Achieving a 5.30% increase in the project loans extended for customers in the corporate segment, VakıfBank continued to contribute to the development of the country's economy and the real sector in 2016 as well.

INCREASE IN FOREIGN TRADE VOLUME

VakıfBank continued providing high-quality and efficient services to corporate customers with significant foreign trade volumes through its extensive network of international correspondent banks, expert sales and operational staff, retooled foreign trade business processes, and advanced technology infrastructure. Thereby, the Bank increased its foreign trade volume by 3%.

In 2016, as in the prior year, the Bank generated sources that enabled it to extend the average maturity of the liabilities and reduce funding costs by using products that generated wholesale funding. Cost-effective wholesale funding increased by 48% in 2016 compared to 2015.

Thanks to the strategy of increasing cross selling to corporate segment customers, VakıfBank increased the volume of collection by 44% and boosted the volume of tax and social security collections by 64%.

Seeing customer relations as the foundation of long-term partnerships and standing by its customers under all circumstances and market conditions, VakıfBank aims to further strengthen cooperation with existing customers with its innovative products and cash/non-cash loan facilities while increasing its presence in the corporate segment by acquiring new customers.

VakıfBank not only met the expectations and needs of its customers, but also focused on offering faster and higher quality service as well as innovative and **alternative financial solutions, increasing the number of commercial banking customers by 4.10% in 2016.**

COMMERCIAL BANKING

Offering commercial banking customers financing solutions suited to their financial needs thanks to a wide product range and extensive branch network, VakıfBank expanded its commercial cash loans by 25.17% and non-cash loans by 20.25% as of year-end 2016.

Serving large-scale enterprises as well as public institutions and enterprises through its Commercial Banking business unit structured under the Commercial and Corporate business line, VakıfBank maintained its steady and broad-based growth in 2016 with products and services customized according to customer expectations and needs.

STEADY GROWTH

VakıfBank devised its Commercial Banking business line strategy and action plan with a focus on asset quality and profitability. As a result, the Bank expanded its customer base while giving a major boost to the cross-selling ratio and segment profitability.

With its dynamic and expert human resources, the Bank not only met the expectations and needs of its customers but also focused on offering innovative and alternative financial solutions, increasing the number of commercial customers by 4.10% in 2016.

Offering customers financing solutions suited to their financial structure thanks to a vast product range and wide branch network, VakıfBank expanded its commercial cash loans by 25.17% and non-cash loans by 20.25% as of year-end 2016.

Thanks to the strategy of increasing cross-selling, VakıfBank raised the volume of collection cheques intermediated by the Bank in the commercial segment by 8% while boosting the volume of tax, social security and Gümkart collections by 16%.

The international trade transactions of commercial customers were carried out in a swift and secure fashion, via the Bank's upgraded IT systems infrastructure and well-experienced personnel.

Under the loan agreement between VakıfBank and the European Bank for Reconstruction and Development (EBRD), designed to meet the financing needs of commercial customers for foreign trade transactions, the limit allocated by EBRD to the Bank was increased as a result of productive and effective collaborative efforts between the two institutions. As such, financing needs of commercial customers for foreign trade transactions were met under convenient terms.

PROJECT FINANCING

With its vast know-how and experience in the field, VakıfBank continued in 2016 to meet the financing needs of commercial customers arising from their investments and projects. By providing the funds obtained from the EIB and the World Bank as investment and operating capital to commercial customers, the Bank diversified its financial solutions on offer. As such, the volume of project finance loans provided by the Bank to commercial customers rose 19.55%, and a further contribution was made to the development of the national economy and the real economy in 2016.

VakıfBank focuses on eco-friendly and sustainable development which minimizes the adverse effects of global climate change, and is featured in the Borsa Istanbul (BIST)'s Sustainability Index. In line with this mission, the Bank continued to provide loans at exclusive conditions to commercial customers in the fields of energy efficiency and renewable energy projects.

Via its modernized IT infrastructure, wide-spread branch network, specialized and dynamic personnel, the Bank continues to offer financial solutions suited to customer needs. In 2016, the Bank will retain its broad-based growth, and aim at becoming the business partner and main bank of its commercial customers.

REVIEW OF OPERATIONS

IN 2016

Increasing its cash loans by 12.18% in 2016, VakıfBank continued to support SME customers, the engine of the Turkish economy, with all its power.

SME BANKING

Pursuant to protocols signed with KOSGEB, VakıfBank continued to develop SME-specific loan products while providing cost-effective international funding and making these facilities available to SMEs.

VakıfBank accurately analyzed the needs of SMEs, which are the driving force of the economy, and continued to stand by SMEs in 2016 with non-financial products and services, continuing its consistent growth in the SME Banking segment.

2016 PERFORMANCE

On the basis of the provisions for the "Regulation on Definition, Classification and Qualifications of Small and Medium Size Enterprises," VakıfBank continued supporting SME customers in 2016 by increasing its cash loans by 12.18% compared to the previous year.

VakıfBank continued to develop innovative products to meet the specific needs of SME customers in 2016:

Most notable products in this category include:

- VakıfBank designed loan products exclusively for KOSGEB-registered enterprises with active SME certifications as part of "KOSGEB Support Programs Performance Guarantee," "2016 KOSGEB Emergency Support Loan in Manufacturing Industry and Organized Industrial Zones," "KOSGEB 2016 Machinery & Equipment Loan Support" and "KOSGEB 2016 Zero-Interest Working Capital Loan" extended pursuant to a protocol between the Bank and KOSGEB. These loans came with interest support, reduced fees, and special discounts and exemptions in banking products and services.
- VakıfBank continued to secure low-cost overseas funding and make these facilities available to SMEs. Resources procured within this effort include EUR 200 million from European Investment Bank; USD 65 million from European Bank for Reconstruction and

Development consisting of USD 55 million of additional TurSEFF II funding and USD 10 million from TurSEFF III; and EUR 25 million in additional funding as part of the Woman Entrepreneur Support Package.

- At the TurSEFF Sustainable Energy Excellence Awards Ceremony where the most successful renewable energy and energy efficiency projects funded during the second phase (2013-2016) of the Turkey Sustainable Energy Finance Facility were selected, VakıfBank was named the "Leading Bank in Energy Efficiency Financing." VakıfBank also became the first bank to receive funds under the TurSEFF III program.
- As part of the World Bank SME Energy Efficiency Loan agreement, a grant was obtained from the Global Environment Fund (GEF) for energy efficiency projects undertaken pursuant to energy performance contracts from energy service companies (ESCO); eligibility conditions for the grant were announced to customers on the Bank's website.
- VakıfBank continued to finance the operational, export and investment-related needs of SME, commercial and corporate segment firms in Turkey. The USD 25 million incremental facility secured from European Bank for Reconstruction and Development was disbursed to meet the financing needs of agricultural producers and firms in the agricultural value chain in the form of TURAFF Agricultural Enterprise Financing Loan.
- Under the Greater Anatolia Guarantee Facility program signed by the Bank and EIB, a loan facility of EUR 25 million was secured to meet the financing needs of SMEs and commercial firms in the Regions with Development Priority (43 provinces in the 12 NUTS regions).

Increase in Cash Loans

12.18%



- The Credit Guarantee Fund (KGF) and the Bank reached a new protocol to regulate “loan guarantee transactions in the scope of Treasury support” and the Treasury-supported KGF guarantee scheme was accordingly revised.
- Under a protocol signed by VakıfBank and The Banks Association of Turkey (TBB), the Bank can intermediate in services such as “Loan Limit/Loan Risk and Unliquidated Liabilities Report, Dishonored Cheque and Paid Cheque Report, Protested Bill Report and Negative Retail Loan Report” made available by TBB to commercial and retail customers.
- VakıfBank continued to provide its full support to SMEs which are members of Chambers of Industry and Commerce in 2016. To this end, partnership protocols were signed with Chambers of Industry and Commerce in cities from all regions including several cities, and in under these protocols, long-term financing facilities with maturity terms of up to seven years were offered to chamber members under exclusive conditions.

- In the first quarter of 2016, VakıfBank met the cash needs of SMEs arising from their operational activities via the SME Winter Loan without Documentation Fee.
- In celebration of its 62nd Anniversary, VakıfBank offered SMEs the 62nd Anniversary Loan featuring a 36-month payback period, affordable interest rates, and a documentation fee of only TL 62. The Bank financed the summer season cash needs of SMEs with the Summer Loan Campaign at attractive interest rates with options including a three-month grace period, and installment deferrals up to a total of four installments.
- The “SME Buy Now, Pay in 2017 Loan” was rolled out to enable SMEs to defer paying for their end-of-the-year cash outlays as of September 2016 for four months until 2017.
- In November 2016, VakıfBank launched the KOBİDOST 2016 Loan campaign where SMEs can meet their cash needs under an attractive monthly interest rate of 0.98% and up to a payback period of 36 months. The campaign allowed SMEs to breathe easy financially in the closing days of the year.

OBJECTIVES FOR 2017

- VakıfBank shall continue to support its SME customers in 2017. As SMEs’ needs diversify in the face of changing market conditions, the Bank is keen on becoming the best service provider by keeping a close watch on the market and SMEs. In accordance with this goal, VakıfBank will introduce both financial and non-financial new products and services to SMEs in 2017. The Bank will continue to procure funding facilities from international financial institutions in order to provide cost-effective finance opportunities for SMEs.
- In addition, VakıfBank will continue to offer technological products and services that may be of use to SMEs to the extent of the advances in technology. The Commercial Internet Banking Enhancement project launched in 2016 as part of this effort will be finalized in Q1 2017. Once the project is completed, Bank customers will be able to perform a wide range of transactions, from foreign trade and loans to payments and collections, at the time of their choosing from anywhere they have internet access.

Commercial Loans

TL 105.6 Billion

SMEs can access, free-of-charge, all VakıfBank products and services, up-to-date financial data, calendar of national and international fairs, and detailed information on grants, investment subsidies and incentives on the www.vakifbankkobidost.com.tr website.

REVIEW OF OPERATIONS

IN 2016

VakıfBank continued its support for the agriculture industry by launching the **TarımKart product for farmers, enabling agricultural producers to purchase their input needs quickly under attractive terms.**

AGRICULTURAL BANKING

As part of TarımKart sales efforts that began to intensify from the first month of 2016, hundreds of villages were visited while thousands of producers became TarımKart holders and began taking advantage of opportunities offered at VakıfBank agricultural member merchants.

Establishing Agricultural Banking units in 2014 in an effort to better serve agricultural producers, VakıfBank continues to make producers' lives easier with its subject matter specialists situated in the Head Office, regional offices and branches; its faith in the importance of agricultural production; and qualified agricultural banking products and services trusted by millions of producers.

As part of its Agricultural Banking services, in an effort to offer TarımKart (Agricultural Card), Tarım POS (Agricultural POS), TMO Kart, other loan products and campaigns with payment dates coinciding with harvest times, and government-sponsored agricultural insurance services to producers, the Bank organized meetings for dedicated specialists employed in 279 branches that emphasized the strategic importance of agriculture and communicated to them the opportunities presented to the industry pursuant to VakıfBank's customer-oriented banking approach. Regional agricultural marketing and sales staff with experience in the agriculture industry were appointed in four additional regions with an eye toward expanding agricultural banking operations.

VakıfBank continued its support for the agriculture industry by launching the TarımKart product for the farmers, enabling agricultural producers to purchase their input needs quickly under attractive terms. TarımKart enables producers to take out cash loans from all VakıfBank ATMs to finance their agricultural input purchases, and make interest-free installment purchases up to a certain number of periods at VakıfBank agricultural member merchants. Features offered by TarımKart were promoted to producers and producer unions via meetings and visits. As part of TarımKart sales efforts that began to intensify from the first month of 2016, hundreds of villages were visited while thousands of producers became TarımKart holders and began taking advantage of opportunities offered at VakıfBank agricultural member merchants.

Visit weeks were organized for each of the 279 branches in order for chambers of agriculture and union members as well as cooperative partners to reap the benefits of TarımKart. Agricultural member merchant agreements were put in place to enable TarımKart holder members/partners of Pankobirlik (Beet Grower Cooperatives Union) and Agricultural Credit Cooperatives, each of which has more than one million partners, as well as Tarıř Üzüm, to make agricultural input purchases under attractive terms. The number of VakıfBank agricultural member merchants reached nearly 3,000 with the participation of feed, fertilizer, fuel, and agricultural equipment dealers.

Number of Agricultural Member Merchants

3,000



The portion of the USD 95 million facility, obtained from the European Bank for Reconstruction and Development (EBRD) to meet producers' needs under proper conditions, designated for farmers was fully disbursed in a short time.

Through centralized agreements, the Bank continued to offer discounted loan products for producers with flexible payment terms compatible with the cash flow patterns of the agricultural industry. VakıfBank signed a protocol with the Association of Red Meat Producers to meet Association members' operational input needs, such as breeding cattle and feed, under attractive prices and flexible payment terms conforming to the breeding cycle.

VakıfBank continued to offer solutions for every segment of agriculture, from crop planting, dairy farming and greenhouse farming to animal husbandry, poultry farming and beekeeping, compatible with the cash flow cycle of each activity. The Bank organized campaigns to finance operating needs and investment projects of producers under affordable terms. To this end, as part of the Full Support for Farmers Campaign, VakıfBank funded operating needs such as breeding cattle, feed, fertilizer and pesticides as well as loan needs for dairy animal, farming land, tractor and agricultural equipment purchases under attractive interest rates.

In an attempt to promote VakıfBank's agricultural banking products and services to agricultural producers, teams of specialists comprised of Head Office, regional directorate and branch personnel were sent to attend national and local fairs.

The portion of the USD 95 million facility, obtained from the European Bank for Reconstruction and Development (EBRD) to meet producers' needs under proper conditions, designated for farmers was fully disbursed in a short time.

REVIEW OF OPERATIONS

IN 2016

VakıfBank responded to the financing needs of more than 700,000 customers under proper conditions in 2016. As a result of its customer-oriented approach, the share of **VakıfBank's general-purpose consumer loans, auto loans, and mortgage loans in its retail loan book stand at 49.43%, 1.20% and 49.37%, respectively.**

RETAIL BANKING

VakıfBank instantaneously met the general purpose loan demands of its pay-roll customers through its extensive branch network; alternative distribution channels such as the call center and SMS; as well as internet banking and mobile banking channels, which in turn increased customer satisfaction and loyalty.

Serving around 13 million retail customers, VakıfBank continues to be one of the leaders of the sector with its experience in retail banking and its customer-focused strategy. VakıfBank responded to the financing needs of more than 700 thousand customers in 2016 under proper conditions. Thanks to this customer-focused approach, the share of VakıfBank's general-purpose consumer loans, auto loans, and mortgage loans in its retail loan book stand at 49.43%, 1.20% and 49.37%, respectively.

STRONG GROWTH IN CONSUMER LOANS

VakıfBank's general-purpose consumer loans grew 11.63% in 2016 compared to year-end 2015 with a 10.79% market share. As a result of its efforts to increase Overdraft Account utilization, VakıfBank raised overdraft volume by 9.88% in 2016 while maintaining its market leadership with 22.50% market share. The Bank's market shares in mortgage loans and auto loans stand at 10.34% and 6.09%, respectively.

CUSTOMER-ORIENTED RETAIL LOAN PRODUCTS

In an effort to make customers feel special and maximize customer satisfaction, the Bank organized segment-based general-purpose consumer loan campaigns such as exclusive campaigns for public sector employees, retirees, and the upper income segment. In addition, the Bank continued its pioneer position in the sector by offering the "Establishment Anniversary Loan," "Holiday Loan," "New Year's Loan" and other traditional loan campaigns to all retail customers.

INSTANT LOAN AT THE SPEED OF INTERNET

VakıfBank instantaneously met the general purpose loan demands of its pay-roll customers through its extensive branch network; alternative distribution channels such as the call center and SMS; as well as internet banking and mobile banking channels, which in turn increased customer satisfaction and loyalty.

VakıfBank began offering Overdraft Account service on the Internet Banking and Mobile Banking channels in 2016 and stood by its customers at the time of their financial needs on an instantaneous basis, which allowed the Bank to maintain its market leadership while maximizing customer satisfaction.

CUSTOMER MANAGEMENT (CRM)

It is essential for the Bank, which serves 13 million retail customers, to implement service differentiation models for such a large base in order to increase customer satisfaction. To this end, retail customer segmentation criteria were overhauled based on value segmentation in 2016; segment designations were made according to the new criteria from September 2016; and the quality of service rendered to customers on the channels was increased.

VakıfBank initiated the customer product-propensity modeling project in 2016 in an attempt to identify the needs of retail customers with a proactive approach and to offer the right products to the right customers.

As part of the multi-channel campaign management infrastructure, branch, internet banking, telephone banking, ATM, e-mail and SMS channels were specialized simultaneously in an integrated structure based on customer

Number of Retail Customers

13 Million



needs. Gaining the capability to undertake multi-channel and personalized customer interactions and carry out real-time campaigns informed by simultaneous customer transactions, the Bank responded to customer needs with the right offerings through the right channels and began to address customer satisfaction and needs more effectively by leveraging state-of-the-art technology.

LEADING POSITION IN MORTGAGE LOANS

VakıfBank continued to support the growth of the housing sector thanks to its mortgage loan products and services developed based on market conditions as well as its customer-oriented banking approach. The Bank attained 10.34% market share in mortgage loans in 2016 as a result of its wide range product portfolio, flexible payment options tailored to each customer, and effective campaigns. Maintaining its leading position in the sector, VakıfBank increased its mortgage loan book by 12.35% reaching TL 16,983 million.

VakıfBank Yellow-Shutter Mortgage Loans offer prospective homeowners the opportunity to find answers to all of their questions and apply for loans in a fast and convenient manner through a team of mortgage specialists, the www.saripanjur.com.tr website, the 444 5 724 Call Center, and 5724 SMS channels.

Continuing to increase communication with customers on Alternative Distribution Channels and adapt to advancing technology, the Bank began accepting preapproved mortgage loan applications through the Mobile Banking channel.

VakıfBank continued to offer mortgage loans to customers who prefer to purchase a home

from a new housing development in 2016. The Bank reached agreements with leading companies in the sector, municipalities, housing cooperatives and urban transformation companies, enabling retail customers to purchase a home with the assurance of VakıfBank. As such, the Bank continued its contribution to the sector's development and increased the number of affiliated branded residence, office and urban transformation projects from 450 in 2015 to 500 in 2016.

In addition, customers who want to become homeowners with personalized payment options from VakıfBank Yellow-Shutter (SarıPanjur), can access the contracted housing projects by visiting www.saripanjur.com.tr, as well as through VakıfBank stands in real estate development project sales offices.

Thanks to the improvements in loan allocation processes and automatization in input fields, the workload of branches and operational risk was lowered while increasing customer satisfaction in 2016.

As part of the partnership with TEMA Foundation within the Environment Friendly Mortgage Loan campaign, 58,000 trees were planted at the Burdur Tefenni Beyköy site on behalf of customers who utilized a mortgage loan during 2016.

VakıfBank unveiled a new practice where the interest support ratio for "Yellow-Shutter Urban Transformation Loans," provided by the Bank for financing homes located in risky structures and areas in order to transform the disaster risk sites, varies according to Energy Performance Certificate ownership and energy efficiency level.

As a result of its partnership with Vakıf Emeklilik A.Ş. and Güneş Sigorta A.Ş., VakıfBank provided insurance coverage to mortgage loan customers while significantly increasing its insurance penetration levels.

In addition to various Yellow-Shutter products presented in previous years, the Bank continued with special mortgage loan campaigns for public sector employees, Police Solidarity and Assistance Fund (POLSAN), Turkish Armed Forces Assistance and Pension Fund (OYAK) members, as well as the winter housing loan campaign, allowing 450 thousand people to become homeowners via the Yellow-Shutter scheme as of year-end 2016.

CORPORATE PAYROLL ACTIVITIES

As one of the leading banks in corporate payroll activities, a fiercely competitive segment of the banking sector, VakıfBank expanded its pension operations, becoming one of the most preferred banks by employees of both the public and private sectors as well as by pensioners.

STRATEGIES FOR 2017

VakıfBank plans to enrich its product range and launch new Retail Banking products and services in response to customer needs in 2017. In addition, the Bank aims to meet customer demands particularly on digital channels and become an easily accessible bank that renders fast and excellent service. VakıfBank will continue to invest in its technology infrastructure, organize campaigns that will maximize customer productivity, undertake initiatives geared toward increasing non-interest revenues, raise the cross-selling ratio by increasing customer loyalty, and maintain its competitive approach in the banking industry.

REVIEW OF OPERATIONS

IN 2016

VakıfBank Private Banking increased its total assets under management (AUM) by 12% year-on-year in 2016 reaching **TL 2.23 billion in AUM. New customer acquisitions accounted for around 95.77% of the total AUM.**

PRIVATE BANKING

Aside from financial benefits, VakıfBank Private Banking makes a difference by also offering customers non-financial privileges, as well as boutique events and organizations that appeal to individual preferences.

Launched in 2011 with the aim of rendering personalized and exclusive services to customers, VakıfBank Private Banking completed its branch organization by 2014. VakıfBank Private Banking currently operates from seven Private Banking branches: three in Istanbul and one each in Ankara, Izmir, Bursa and Adana.

Private Banking provides customized financial solutions for customers of the high income group in its branches through Private Banking Portfolio Managers, who are specialized in their respective fields. At special service locations designed to maximize customer comfort, Private Banking offers not only the standard banking product range, but also alternative investment options suited to the needs and expectations of Private Banking customers.

Building its growth strategies on new customer acquisition and customer satisfaction since its establishment, VakıfBank Private Banking increased its total assets under management (AUM) by 12% year-on-year in 2016, reaching TL 2.23 billion in AUM. New customer acquisitions accounted for around 95.77% of the total AUM.

PORTFOLIO MANAGER TRAINING

VakıfBank Private Banking strives to provide the most reliable and the best service to its customers at all times. To this end, the trainings are organized in order to enhance both technical knowledge and sales and the relationship management skills of portfolio managers.

In 2016, Istanbul Ticaret University, Boğaziçi University and Global Financial Network (GFN) Institute jointly developed the "Certified Financial Planner Training Program," a one-year program for obtaining the globally-recognized "Certified Financial Planner" designation. Portfolio managers who attended the program were administered courses on portfolio management and investment planning as well as risk management and insurance planning, tax planning, retirement planning, and real estate planning. VakıfBank Private Banking portfolio managers will continue to participate in similar training activities in 2017.

EXCLUSIVE EVENTS

Aside from financial benefits, VakıfBank Private Banking makes a difference by also offering customers non-financial privileges, as well as boutique events and organizations that appeal to individual preferences. To this end, numerous activities on history and art are organized with a view to laying the foundations of long-term relations with current and potential customers.

VakıfBank Private Banking will continue to grow its AUM, expand its service offerings, and increase its market share in 2017. The Department will also continue to stand by its customers with the boutique events it offers to them.

**Private Banking
Asset Size**

**TL 2.23
Billion**

Cash Management developed products and services in response to customer needs and demands, generated special integration solutions for customers particularly in the public sector, **continued to carry out marketing initiatives, and recorded large increases in all product volumes.**

CASH MANAGEMENT

The Dealer Collection System (DCS), offered by the Bank to customers as an alternative supply chain financing product, continued to grow at an accelerating pace in 2016 as the number of customers registered in the system jumped 11% to 4,296 while the volume of collections soared 83%.

VakifBank's system upgrade activities continued in 2016, as the entire line of cash management products was migrated to the new system. Cash Management developed products and services in response to customer needs and demands, generated special integration solutions for customers particularly in the public sector, continued to carry out marketing initiatives, and recorded large increases in all product volumes.

The processing infrastructure of the Direct Debit System (DDS), which ensures the swift and secure collection by parent companies of their receivables from customers, gained a very functional structure upon the overhaul of the Bank's IT infrastructure. Continuing to market the DDS product effectively, the Bank reached 241 parent companies and 4,117 dealers while increasing the DDS collection volume 31% on the previous year.

The Dealer Collection System (DCS), offered by the Bank to customers as an alternative supply chain financing product, continued to grow at an accelerating pace in 2016 as the number of customers registered in the system jumped 11% to 4,296 while the volume of collections soared 83%.

New protocols were signed and infrastructure upgrades were completed in 2016 in corporate collections, which enable firms and individuals to pay their taxes, Social Security Institution (SGK) premiums, tuition fees as well as electric, water, phone, and natural gas bills via VakifBank. As a result of increased diversity in collection products, higher service quality, and infrastructure improvements, corporate collections rose 25% compared to 2015.

Transaction volumes in tax and social security collections, the two most important line items in corporate collections, grew 51% and 16%, respectively, in 2016.

In 2016, VakifBank continued to actively market the Gümkart product, which enables firms engaged in foreign trade to effectuate their payments quickly, securely and efficiently, as the Bank acquired new customers. Customs duty collections through Gümkart reached TL 35 billion.

In addition, VakifBank registered a large jump in the number of customers using the "Customs Tax Payments via SMS" product, which was developed in due consideration of competitive market conditions and customer demands and needs as an alternative to current customs tax payment methods in 2016.

Continuing to carry out technology investment initiatives in 2016 in an attempt to make customers' lives easier via digital solutions, the Bank attained considerable increases in terms of customer numbers in the Mass Payment System, Check Integration System, Online Account Activity, and MT940 products.

E-Transformation projects continued to be at the core of Cash Management operations in 2016. To this end, the number of customers utilizing the e-Invoice Special Integrator service and the e-Ledger service rose 27% and 20% year over year, respectively. In addition, authorization for the e-Archive Special Integrator service, the third leg of the transformation projects, was obtained from the Revenue Administration in 2016. VakifBank will begin to provide active commercial service in this area during 2017.

OUTLOOK FOR 2017

The Bank will continue to develop all its Cash Management products in response to competitive market conditions and customer needs and view product quality and customer satisfaction as its number one priority. VakifBank aims to expand its customer base while further strengthening its relationships with existing customers by developing new products in line with customer needs and advances in technology in 2017.

REVIEW OF OPERATIONS

IN 2016

VakıfBank's total deposits rose 12.66% compared to 2015 and reached

TL 123.8 billion thanks to customer confidence as well as an extensive branch network and alternative distribution channels.

TREASURY MANAGEMENT

VakıfBank met the treasury products-related demands of customers in all segments via high service quality and a more robust technology infrastructure in 2016.

Starting in 2016 with a rate hike by the Fed, the U.S. Central Bank, markets were very volatile in the first quarter of 2016 due to concerns over the Chinese economy and worries about the European banking industry. In the aftermath of the U.K. vote to leave the European Union, asset prices rallied and global risk appetite increased as a result of partial calming of the nerves with the expectation that the European Central Bank (ECB), the Bank of England (BoE), and other major central banks will pursue an expansionary monetary policy. This positive environment continued until the U.S. presidential election. Interest rates in global markets rose, emerging market currencies came under pressure, and volatility increased in all global markets as a result of president-elect Donald Trump's promises to increase the budget deficit, restrain international trade, and boost infrastructure investments.

At the beginning of the year, the Fed was projected to hike the rates a total of four times in 2016. However, the Fed became more wary of rate hikes due to the developments

in the European, Chinese and Japanese economies; low energy prices; and lack of clear recovery signals in economic reports. The result of the U.S. presidential election reinforced expectations that the new economic administration will cut taxes, increase government spending, and pursue a pro-growth agenda. Consequently, heavy selling ensued in U.S. government bonds as yields rallied. The Fed raised its policy rate by 25 basis points to the 0.50%-0.75% band at its December meeting.

The Euro Zone growth rate fell below the target throughout the year while sovereign debt problems continued. The ECB implemented additional measures to the expansionary monetary policy. The Bank lowered all policy rates while expanding the asset purchase program by including euro-denominated bonds issued by non-bank financial institutions. To this end, the ECB began buying corporate bonds in June. Despite these measures taken by the ECB, Euro Zone economic reports failed to confirm a recovery in economic activity. In the second half of the year, concerns about banking systems of Euro Zone countries with high levels of non-performing loans came to the fore. At its December meeting, the ECB extended the duration of its asset purchase program while lowering the purchase amount.

In Japan, which is also struggling to induce growth, the BoJ lowered interest rates to negative territory. The Bank also provided oral guidance by announcing that it will move to weaken the Japanese yen if necessary. The potential adverse impact of negative interest rates on Japanese banks' balance sheets is causing concern. A large stimulus package was announced in Japan in support of growth. In its September meeting, the BoJ announced a

shift of focus in its monetary stimulus from expanding the money supply to controlling the yield curve. The Bank also stated that the new policy will continue until the inflation rate target of 2% is reached. Under this policy, the Bank is abandoning long-term bond purchases in favor of higher yields in the long term.

Economic uncertainty continues to be major story in the U.K., which is facing economic difficulties in the aftermath of the Brexit vote. In an effort to prevent a slowdown in growth, the Bank of England lowered its policy rate from 0.50% to 0.25% after seven years at its September meeting while boosting its monthly asset purchase program. In addition, the Bank added purchases of corporate bonds of companies with high credit ratings to the plan.

The Chinese economy continued to slow down as China's foreign trade weakens, which in turn weighs on the growth in global trade. The sharp moves in the Chinese equity markets and in the Yuan due to the new regulations rolled out at the beginning of 2016 led to large fluctuations on a global scale. Potential further slowdown in the Chinese economy and problems in the banking system and credit markets make the risk of contagion to its immediate periphery and to the global economy via trade and finance likely.

Oil prices trended down in the first months of the year due to constant supply, elimination of the oil export ban in the United States by congressional action, and the concerns that Iran will start exporting oil again after the lifting of sanctions. Beginning to rise in March with production cut expectations, prices accelerated upwards after the official production cut announcement at OPEC's December meeting.

Growth problems also surfaced in the emerging markets in 2016. Weakening global trade, slowdown in the Chinese economy, volatility in commodity prices, and internal problems of these countries resulted in lower growth rates.

While capital flows into emerging markets recovered in Q3 2016, this trend reversed itself into strong capital outflows after the U.S. presidential election. Financial fluctuations in the aftermath of the election are projected to raise funding costs of emerging market banks and lead to deterioration in credit conditions.

2016 has been a very eventful year for the Central Bank of Turkey (CBT) due to domestic and international developments. In line with its efforts to simplify the monetary policy, the Bank lowered its overnight lending rate by a cumulative 250 basis points until October. Domestic developments in mid-July resulted in higher risk premiums, rising market interest rates, and depreciation of the Turkish lira. In response, the CBT announced new measures in order to ensure continued efficient functioning of markets and took additional steps toward supporting financial stability and regulating foreign exchange and Turkish lira liquidity. To this end, the Bank lowered reserve requirements, simplified collateral requirements, and took steps to increase the contribution of export rediscount loans to foreign exchange reserves. These liquidity measures mitigated the increasing volatility in the markets.

After the sharp rally in foreign currencies against the Turkish lira following the U.S. presidential election, the CBT increased the one-week repo rate by 50 basis points to 8.00% and raised the marginal funding rate by 25 basis points to 8.50% while keeping the overnight borrowing rate unchanged at 7.25% at its November meeting. At the same time, the Central Bank injected additional liquidity into the financial system by lowering reserve requirements on foreign currency deposits of all maturities. In addition, the CBT authorized the extension of export and FX-earning services rediscount credits at their respective maturity dates and permitted loan repayments to be made in Turkish liras.

Consumer inflation fell noticeably in the first quarter of the year due to improvements in food inflation as well as support from import prices. However, the rally in oil prices in the second quarter began to mitigate the positive impact of import prices. In addition, core inflation indicators recorded an improvement as a result of falling cumulative effects of

the foreign exchange rates as well as the economic slowdown due to developments in the tourism sector.

Tax hikes on fuel products as well as higher tobacco product prices limited the improvement in consumer inflation in third quarter while slowing domestic demand supported the gradual decline in core inflation. Rising food prices, special consumption tax hikes, increasing fuel prices and rallying foreign exchange rates against the Turkish lira in the last quarter led to a sharp increase in inflation, particularly in December.

The economy grew in the first half of 2016 induced us by domestic demand. However, the traitorous coup attempt in July, slowdown in the tourism sector, and grain-based declines in agricultural output combined to have a negative impact on growth in the second half. However, the government implemented a series of measures in order to prevent the economic activity from stagnating and stimulate GDP growth. Investment incentives rolled out by the government represent major strides in boosting Turkey's production capacity.

Employment increased and the unemployment rate declined in the early months of 2016 despite the minimum wage hike and stagnating tourism activities. Higher employment in the services sector, particularly the public administration and social services, led to lower unemployment rates. Maintaining fiscal discipline continues to serve as a buffer against external shocks.

EFFECTIVE LIQUIDITY MANAGEMENT

VakifBank made effective use of CBT's monetary policy tools; monitored developments in domestic and international markets; assessed monetary policy resolutions, inflation projections and pricing behavior; and carried out a dynamic liquidity management program. In an effort to benefit from the cost advantage in liquidity management, the Bank embraced an approach of effectively utilizing alternative markets. In 2017, CBT's monetary policies, international developments and market interest rate expectations will continue to be the primary determinants of VakifBank's liquidity management strategy.

A DYNAMIC STRUCTURE IN SECURITIES PORTFOLIO MANAGEMENT

VakifBank created a dynamic structure in securities portfolio management that jointly assesses domestic market conditions, international developments, and pricing behaviors. To this end, the securities portfolio

was structured according to yields, maturities and asset types based on the Bank's budget targets and prevailing market conditions. In 2017, the Bank will continue to employ the existing dynamic approach; remain steadfast to effective risk management rules within a balanced approach; and boost the Bank's trading income through capital markets trading and foreign exchange transactions.

TL 123.8 BILLION DEPOSIT SIZE

Continuing to offer innovative and value-added deposit products and services to customers in 2016, VakifBank's total deposits rose 12.66% compared to 2015 and reached TL 123.8 billion owing to customer confidence as well as an extensive branch network and alternative distribution channels. The Bank's total deposits in 2016 consisted of TL 86.1 billion of Turkish lira-denominated deposits and TL 37.7 billion of foreign currency-denominated deposits.

Focusing on cost control in terms of providing funds, VakifBank continued to offer campaigns in line with customer needs and expectations and to be one of the most preferred destinations of depositors. VakifBank's retail deposits rose 20.14% compared to year-end 2015 and reached TL 54.2 billion. During this period, Turkish lira retail deposits were up by 23.12% to TL 34.9 billion while foreign currency retail deposits increased 15.10% to TL 19.3 billion. The share of retail deposits in total deposits ticked up from 41.00% in 2015 to 43.73% in 2016.

Outperforming the sector average in terms of demand deposits, VakifBank raised its total demand deposits by 20.50% at year-end 2016 compared to year-end 2015, from TL 20.3 billion to TL 24.4 billion. The share of demand deposits in total deposits stands at 19.73%, as demand deposits continue to be a major element that lowers the Bank's overall cost of funding.

VakifBank met the treasury products-related demands of customers in all segments via high service quality and a more robust technology infrastructure in 2016. The Bank focused on regulatory compliance and technology infrastructure efforts, and successfully completed and implemented a number of projects.

Technology infrastructure projects will continue in 2017 in an effort to increase the quality of services rendered to the customers and branches. Prioritizing customer needs and demands, VakifBank aims to attain planned growth in customer numbers and market shares by offering treasury products that fit market conditions.

REVIEW OF OPERATIONS

IN 2016

As part of its Investment Banking activities, VakıfBank offers customers investment products and **services such as equities, futures and options, mutual funds, bank bonds, and gold.**

INVESTMENT BANKING

In order to diversify the Bank's funding sources, reduce interest rate risk, contribute to liquidity management, and increase the average maturity of liabilities, VakıfBank issued 45 bank bonds with a total nominal value of TL 9.3 billion, capturing a 14% market share.

**Bank Bonds
Issued**

**TL 9.3
Billion**

VakıfBank, which occupies an important place in the banking sector, is sympathetic to the cause of investors in its capital markets operations with products and services that channel savings into investments. VakıfBank is making strides toward being a major business partner preferred by retail and corporate clients in money and capital markets owing to its custom-tailored solutions and competence in using state-of-the-art technology.

BROKERAGE SERVICES FOR CAPITAL MARKETS INSTRUMENTS

As part of its Investment Banking activities, VakıfBank offers customers investment products and services such as equities, futures and options, mutual funds, corporate bonds, and gold.

As part of its Investment Banking activities, VakıfBank offers customers investment products such as equities, derivative transactions of futures and options, mutual funds, bank bonds, and gold. Developments in the markets are closely monitored according to customer needs and expectations, and new products and services are delivered to a large customer base through various channels.

Equity and Derivatives Market transactions are carried out by the Bank subsidiary Vakıf Yatırım Menkul Değerler A.Ş. (Vakıf Investment Securities) as part of order transfer intermediation activities; in addition, the Bank intermediates in IPO brokerage as well as equity transactions such as capital increase, invitation and dividend payments.

The Bank continued to develop equity and derivative order placement channels at full pace in 2016 while taking necessary steps to diversify electronic order placement channels. All capital markets transactions other than equities and derivatives can be performed through any of the Bank's branches, investment centers, private banking branches, ATMs, mobile banking, internet banking and call center. Equity and derivative transactions can only be placed through investment centers, private banking branches, mobile banking, internet banking, call center and VakıfBank Trade Online transaction platform.

BANK BONDS

In order to diversify the Bank's funding sources, reduce interest rate risk, contribute to liquidity management and increase the average maturity of liabilities, VakıfBank obtained authorization from the Capital Markets Board to issue a total nominal value of TL 16 billion in bank bonds of various types and maturities in domestic and international markets. VakıfBank issued 45 bank bonds with a total nominal value of TL 9.3 billion, capturing a 14% market share.

As a result of these efforts, the Bank was named the "Largest Bond Issuer after July 15" at the Capital Markets Congress, an organization for giving bond placement awards, held by the Turkish Capital Markets Association on November 4-5, 2016.

In the upcoming periods, VakıfBank bonds will continue to be presented to corporate and retail investors as an alternative investment instrument.

Under the management of portfolio management specialists pursuant to strategies tailored to customer needs, Vakıf Portföy mutual funds reached **a 6.11% market share and TL 2.23 billion in total assets under management (AUM) as of year-end 2016.**

MUTUAL FUNDS

As part of mutual fund participation share trading and active marketing activities, the Bank provides brokerage service for money market funds and the short term debt instruments fund founded by Vakıf Portföy (Vakıf Portfolio) through all of its branches and Investment Centers as well as Alternative Distribution Channels such as Internet Banking, Telephone Banking, ATMs and Mobile Banking. In addition, VakıfBank provides access to all other funds via branches and Internet Banking over the TEFAS Platform (Turkish Electronic Fund Trading Platform).

Under the management of portfolio management specialists pursuant to strategies tailored to customer needs, Vakıf Portföy mutual funds reached a 6.11% market share and TL 2.23 billion in total assets under management (AUM) as of year-end 2016.

GOLD BANKING AND GOLD DAYS

As one of the first banks to launch gold banking, VakıfBank makes its 25 years of experience in this segment available to customers through its branches as well as alternative channels.

VakıfBank realized approximately 54 tons of gold trading volume in 2016 while the year-end gold reserve volume stands at 7.8 tons. As part of VakıfBank Gold Days initiated in early 2013, Cumhuriyet gold coins (in wholes, halves and quarters) as well as all-carat gold jewelry including bracelets, rings, and necklaces are assessed by gold experts and corresponding amounts are deposited into customers' Golden Era Accounts in grams of gold. Gold Days were organized at 520 branches in 2016 and personalized expert service was provided in many locations. VakıfBank will continue and expand the scope of this initiative in 2017.

Gold Banking Transaction Volume

54 Tons

VAKIFBANK'TA ALTIN GÜNLERİ
SİZ DE ALTINLARINIZI VAKIFBANK'A GETİRİN, KARŞILIĞI KADAR ALTIN HESABINIZA YATIRILSIN.
ALTINLARINIZ ÇALINMA VE KAYBOLMA RİSKİ OLMADAN HESABINIZDA GÜVENDE OLSUN.

VakıfBank Altın Günleri'nde Altın Kalitesini uzmanlar tarafından altınlarımızın değer tespiti yapıldı ve gram altın karşılığında hesabınıza yatırıldı. Altın toplama görüşmelerini yapacağınız jübeler için www.vakifbank.com.tr adresini ziyaret edebilirsiniz.

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VakıfBank
BANKA İÇİN FARKLI

REVIEW OF OPERATIONS

IN 2016

VakıfBank continued to be the most active Turkish bank in international markets with private placements, **syndication and securitization loans, and long-term, cost-effective loans procured from various sources.**

FOREIGN TRADE AND CORRESPONDENT BANKING

VakıfBank broke new ground in 2016 and became the first Turkish bank to issue covered bonds in international debt capital markets. The issue placed on May 4, 2016 has a nominal value of EUR 500 million, maturity date of May 4, 2021, coupon rate of 2.375% and yield of 2.578%.

**Number
of Private
Placement
Transactions**

222

Breaking more new ground by issuing Turkey's first Euro-denominated Mortgage-Backed Covered Bond, VakıfBank continued to be the most active Turkish bank in international markets in 2016 with private placements as part of its Global Medium Term Notes (GMTN) program, syndication and securitization loans, and long-term, cost-effective loans procured from various sources.

BROADER INVESTOR BASE

While reaching new funding sources in different currencies at various maturities, VakıfBank also expanded its investor base with new structured finance products which it pioneers. By increasing the maturity of its funding sources in this manner, VakıfBank remains an important contributor to the Turkish economy and a dedicated supporter of the real economy through long-term and cost-effective facilities.

TURKEY'S FIRST EURO-DENOMINATED MORTGAGE-BACKED SECURITY (COVERED BOND)

As the first bank to establish the Global Medium Term Notes (GMTN) program in Turkey, VakıfBank also issued the first ever euro-denominated Eurobond of Turkey apart from the sovereign under the GMTN program which broke new ground in 2014. In a ground-breaking achievement, the Bank became the first Turkish bank to issue Basel III-compliant subordinated notes in international capital markets in 2015. The issuance amount to USD 500 million with a maturity date of 3 February 2025 and having a call option on 3 February

2020, priced at a yield of 6.95% and a coupon rate of 6.875%. VakıfBank broke more new ground in 2016 and became the first Turkish bank to issue covered bonds in international capital markets. The issue, placed on May 4, 2016, has a face value of EUR 500 million, redemption date of May 4, 2021, coupon rate of 2.375% and yield of 2.578%.

ONE OF THE LARGEST ISSUERS OF PRIVATE PLACEMENTS

As part of its medium term note program, the Bank performed a total of 222 private placements with 17 different banks. The transactions were carried out in different currencies (US dollars, euros and Swiss francs) and maturities of three months, six months, one year and two years with a total amount of USD 4.69 billion. The Bank raised the equivalent of USD 426 million from 23 private placement deals in 2016.

SYNDICATION LOANS

In April 2016, VakıfBank obtained a one-year USD 920 million equivalent syndicated loan consisting two tranches of USD 207 million and EUR 631.5 million with the participation of 30 banks. The total cost of the loan secured for the purpose of foreign trade financing was Libor + 0.85% and Euribor +0.75%. In the second half of 2016, with the participation of 22 banks, the Bank secured another one-year syndicated loan facility of USD 835 million in two tranches of USD 224.5 million and EUR 544 million with a total cost of Libor + 1.10% and Euribor +1.00%. With these transactions, the Bank obtained a total of USD 1.75 billion in syndicated loans in 2016.

SEVEN-TRANCHE SECURITIZATION LOAN

As part of its securitization program backed by international future flows as well as two tranches of treasury transactions, VakıfBank obtained the equivalent of USD 890 million in securitization financing, in euros and U.S. dollars, by means of carrying out operations that the organization requires including future cash flows and treasury funding transactions. Of the facility procured in seven tranches, the USD 354.4 million portion has a five-year maturity and the USD 535.7 million portion has a seven-year maturity.

The USD 65 million facility raised from the European Bank for Reconstruction and Development (EBRD) is being used to finance energy efficiency projects of SMEs.

SUPPORTING THE REAL ECONOMY VIA BILATERAL AGREEMENTS

VakıfBank continues to collaborate with the European Investment Bank (EIB), the World Bank and the European Bank for Reconstruction and Development (EBRD) to provide long-term, cost-effective funding to the real economy.

Due to its successful performance in the Greater Anatolia Guarantee Facility (GAGF-I) secured from EIB through an agreement in 2010 amounting to EUR 75 million, the second phase (GAGF II) worth EUR 50 million was allocated to VakıfBank in 2015. As part of the project, the Bank continues to finance SMEs operating in development priority regions. The said financing facility has a five-year maturity, and the capital will be repaid in a lump payment at the end of the maturity term. As part of the GAGF II Project, EIB allocated to VakıfBank another fund worth EUR 25 million and the loan agreement for this tranche was signed on 18 December 2015. Loan disbursements ended in November 2016.

Due to its sustained successful performance in the loan disbursements as part of this additional facility, VakıfBank was allocated an additional EUR 50 million by the European Investment Bank as part of the GAGF II project. The agreement for this loan was signed on December 14, 2016. The prerequisite work for the disbursement of the facility is still ongoing.

The European Investment Bank (EIB) allocated a EUR 200 million facility to VakıfBank in 2013 to be extended to Turkish municipalities and their subsidiary companies. VakıfBank and the European Investment Bank signed the Municipal Infrastructure Projects Financing Loan Agreement for a EUR 100 million tranche of this facility on December 19, 2013 under the guarantee of the Undersecretariat of Treasury of Turkey. The first tranche of this loan in the amount of USD 67,865,000.00 (corresponding to EUR 50 million) was transferred to the Bank accounts on February 26, 2014. Pursuant to the agreement signed between the Bank, the European Investment Bank and the Undersecretariat of Treasury of Turkey on November 26, 2015, this 12-year facility with a three-year grace period for principal repayments was converted to an SME Financing loan. After the conversion, the funds procured in February 2014 were fully disbursed in a short time and the second tranche of the loan in the amount of USD 54,865,000.00 (corresponding to EUR 50 million) arrived in the Bank's accounts on March 29, 2016. The VakıfBank Additional SME-B Loan Agreement for the remaining EUR 100 million portion of the EUR 200 million facility was signed on May 6, 2016. As part of the agreement, the EUR 50 million first tranche of the loan was transferred to the Bank's accounts on October 14, 2016 and the resource was fully disbursed by the end of November 2016. The second tranche of the loan in the amount of EUR 50 million arrived in the Bank's accounts on December 22, 2016. Loan disbursements from this resource are currently ongoing. This is a 12-year facility with a four-year grace period.

The loan agreements for the EUR 200 million facility allocated to VakıfBank by the European Investment Bank in 2014 under the guarantee of the Undersecretariat of Treasury of Turkey as part of VakıfBank Loan II for SMEs and Midcaps II project were signed in the form of two EUR 100 million tranches in 2014 and in 2015. These loans have a maturity of eight years with a three-year grace period. Disbursements from the VakıfBank Loan II for SMEs and Midcaps II project were completed as of October 2016.

As a result of its sustained success in projects targeting SMEs and medium-sized businesses, the European Investment Bank allocated a new EUR 300 million fund to the Bank under the name of VakıfBank Loan III for SMEs and Midcaps. To be obtained under the guarantee of the Undersecretariat of Treasury of Turkey, the first agreement for the loan in the amount of EUR 100 million was signed on December 16, 2016. The funds are expected to arrive in January 2017. This loan will have a maturity of eight years with a three-year grace period. The Bank plans to sign the agreements for the remaining EUR 200 million portion of the facility as part of this project in 2017.

In addition to the USD 80 million Turkey Sustainable Energy Financing II Project (TurSEFF II) secured through an agreement between VakıfBank and EBRD on 10 May 2013, an eight-year co-financing facility of EUR 50 million with a three-year grace period was secured with an agreement signed with the EIB on 15 July 2013 under the guarantee of Undersecretariat of Treasury. The second tranche worth EUR 25 million of the said loan was transferred to the Bank's account on 3 December 2015 and VakıfBank continues to disburse the loans as part of the said project.

50% of the EUR 50 million facility secured from the European Bank for Reconstruction and Development (EBRD) as part of VakıfBank's Residential Mortgage Covered Bond Issuance Program will be extended to SMEs in the agriculture sector while the remaining 50% will be used in supporting women entrepreneurs (as part of the EBRD's Women in Business program) with a focus on priority development regions.

LOAN AGREEMENTS WITH KfW

The EUR 100 million loan facility extended to VakıfBank to be used in financing micro, small and mid-cap companies operating in Turkey, secured through an agreement signed with KfW in 2013, was transferred to the Bank's account on 15 November 2013. This facility was disbursed in as short as one and a half months.

REVIEW OF OPERATIONS

IN 2016

VakıfBank continues to cooperate with the European Investment Bank (EIB), World Bank, and the **European Bank for Reconstruction and Development (EBRD) in order to support the real sector with long-term, cost-effective funding.**

FOREIGN TRADE AND CORRESPONDENT BANKING

As part of its Residential Mortgage Covered Bond Program, VakıfBank issued Turkey's first ever benchmark Euro-denominated covered bond with a five-year maturity amounting to EUR 500 million on May 4, 2016.

**Correspondent
Bank Network**

1,570

In recognition of VakıfBank's success in this project, work was initiated with KfW on another loan tranche with the same characteristics. As a result of these efforts, a loan agreement of EUR 200 million was signed between the Bank and KfW on 24 June 2015 under the guarantee of the Undersecretariat of Treasury. This ten-year facility with a three-year grace period was transferred to the Bank's account on 30 July 2015. The said loan represents the largest single agreement signed by KfW with a Turkish bank. Loan disbursements as part of this project were completed in October 2016.

RESIDENTIAL MORTGAGE COVERED BOND ISSUANCE PROGRAM

In order to tap into alternative financing facilities in international debt capital markets, VakıfBank set up on 29 July 2015 a EUR 3 billion Residential Mortgage Covered Bond Issuance Program composed of covered bonds, which have been in use for many years in developed markets such as Europe as a funding instrument, and are allowed in Turkey since the CMB's 2007 Communiqué on Mortgage Covered Bonds. VakıfBank plans to seize opportunities which could appear in international markets and perform its first issuance as part of the said program in 2016. As part of the program, VakıfBank made a five-year, EUR 500 million residential mortgage covered bond issuance on May 4, 2016 as Turkey's first ever Euro-denominated mortgage-backed security issuance. The placement received EUR 3.2 billion worth of offers from nearly 300 participants; as a result, the transaction closed at MS+250, 30 basis points lower than the initial price of MS+280. The issue had a yield of 2.578% and a coupon rate of 2.375%. This coupon rate is the lowest coupon rate bond issued by a Turkish entity including the bond issuances of the Undersecretariat of Treasury of Turkey.

THREE INTERNATIONAL AWARDS FOR THE COVERED BOND PLACEMENT

The fifth annual "The Covered Bond Report Awards for Excellence," organized jointly by International Capital Markets Association (ICMA)'s Covered Bond Investor Council (CBIC) and The Covered Bond Report magazine and accepted as one of the most prestigious awards in Europe, were given in June 2016 in Frankfurt. VakıfBank's issuance of Turkey's first ever euro-denominated Mortgage Covered Bond, with a five-year maturity amounting to EUR 500 million, in April was awarded with the first prize in the "Award for Excellence: Debut" category.

In addition, VakıfBank became the first Turkish bank to win an award at the award ceremony organized following the "Covered Bond 2016 Conference," organized by European Covered Bond Council (ECBC) and Euromoney for the 14th time this year. VakıfBank's Covered Bond issuance was awarded the first prize in the "Best Debut Deal of the Year" category.

As a result, VakıfBank's issuance of Turkey's first ever euro-denominated Mortgage Covered Bond was voted as "Best Debut Deal" for the second time in three months among EUR 130 billion worth of covered bonds issued since the beginning of 2016 all over the world.

VakıfBank's Covered Bond issue won another first prize from Global Capital, a prestigious and acclaimed media organization of international capital markets, in the "CEEMEA Financial Institution Deal of the Year" category. This award reaffirmed how prestigious and important covered bond placements are in international capital markets. Thanks to VakıfBank's issuance, the covered bond, which is a prevalent capital markets instrument in developed European countries, caught the



attention of other Turkish banks as well as banks in other emerging economies in the region. Consequently, many Turkish banks will be able to tap long-term funding sources in the medium and long term using this instrument.

The Covered Bond placement increased VakıfBank's name and brand recognition among covered bond investors particularly in continental Europe, significantly boosting the Bank's image and brand value among investors.

FOREIGN TRADE AND CORRESPONDENT BANKS

VakıfBank's robust correspondent bank network, comprised of 1,570 banks and financial institutions in 130 countries across the world. The network is managed in line with the principles of mutual trust, collaboration, and transparency by a dynamic team specialized in CRM focused on creating fast and alternative solutions for their customers. This network continues to expand by the day with the establishment of new relationships. Following the agreements signed with the EBRD and the International Finance Corporation (IFC) to develop foreign trade, VakıfBank acts as an intermediary for export letters of credit and guarantees from the banks supported in the program under the umbrella of these institutions. Thanks to its extensive network of correspondent banks as well as its lines of credit, VakıfBank continues to support funding for foreign trade transactions and remains one of the most preferred banks in this segment.

VAKIFBANK'S INTERNATIONAL ORGANIZATION

VakıfBank International AG

VakıfBank International AG, headquartered in Vienna, was established in 1999 in line with VakıfBank's plans to expand overseas and conduct international banking operations. The Bank has branches in Vienna, Frankfurt and Cologne.

New York Branch

The New York Branch was established in 1995 to better exploit opportunities in international

financial markets and to provide more comprehensive solutions to customers in foreign trade.

Bahrain Branch

The Bahrain Branch was established in 2005 to finance foreign trade transactions, which continue to expand due to the soaring business volume between Turkey and the Gulf Region, and to fund projects planned in this region.

Arbil Branch

Pioneering the banking sector once again, VakıfBank secured its place among the first Turkish banks that have opened branches in Northern Iraq. The Bank's aim is to support the commercial and economic collaboration between Turkey and Iraq and to back Turkish entrepreneurs who make investments in the region. The Arbil Branch commenced operation in February 2011.

Effective Communication with Investors

During 2016, VakıfBank regularly provided information about its corporate affairs and operations to investors and securities firms.

In 2016, the Investor Relations Department:

- Attended 17 local and international investor conferences, and held face-to-face meetings with approximately 650 foreign and local institutional investors. More than 210 meetings were conducted at the Bank's Istanbul offices, conferring with nearly 450 investors and analysts.
- Organized four teleconferences to assess the results of financial statements, and published the records of these teleconferences on the Bank's English-language website.
- Held regular annual assessment meeting with four credit rating agencies (Fitch, Moody's, S&P, and Capital Intelligence).
- Remained in close contact with numerous equity analysts issuing reports about VakıfBank and provided timely and accurate input during the preparatory stages of the reports. Feedback on these reports was communicated to the analysts.
- Continuously updated the English version of the Bank's website and provided convenience English translations for

material event disclosures published on the Public Disclosure Platform, allowing all stakeholders and shareholders to remain informed in an accurate and up-to-date manner.

- The 62nd Ordinary General Assembly Meeting in 2016 was organized in the scope and manner demanded by the Banking Law, Capital Markets Law, Corporate Governance Communiqué, the Bank's Articles of Incorporation and other applicable legislation.
- In an effort to ensure the continuity of VakıfBank in the BIST Sustainability Index, correspondence was conducted with related organizations while reviewing the reports drafted by EIRIS (Ethical Investment Research Services Limited) on the Bank's index performance and exchanging opinions on the subject.
- Joint initiatives were carried out with other departments in the Bank in order to maximize the Bank's environmental, social and corporate governance performance.
- Efforts are under way to prepare the Bank's second Sustainability Report, in accordance with the Global Reporting Initiative (GRI) G4 standards, covering the 2016 operating year.
- Stakeholder opinions were solicited by way of various communication channels (survey, phone calls, meetings) in order to set the Sustainability Report's scope and the Bank's long-term sustainability strategy. To this end, the Bank delivered surveys to 200 stakeholders, conducted phone calls with 10 stakeholders, and met face-to-face with 10 stakeholders.
- The Corporate Governance Committee was tasked with coordinating the efforts to establish, operate and maintain an ISO 9001 Quality Management System within the Bank, the method of which was also defined by the Corporate Governance Committee. Efforts are already under way for this initiative.
- For the first time among Turkish Banks, VakıfBank Investor Relations designed and launched in 2014 its Investor Relations App for the iPhone and iPad users among its investor base. The app was downloaded to tablet PCs and smartphones by 6,330 users from the beginning of the launch and 1,630 users during the year of 2016.

REVIEW OF OPERATIONS

IN 2016

A “Sustainability Working Group” was formed under the Corporate Governance Committee in order to **carry out sustainability activities in an effective and productive manner that enhances VakıfBank’s corporate identity.**

SUSTAINABILITY ORGANIZATION

VakıfBank raised its performance score from “C” in 2015 to “B” (Management) in 2016 in the CDP climate change program consisting of a number of reports including climate change strategy, governance, risk management and carbon emissions.



VakıfBank’s sustainability governance organization was restructured in 2016 in an attempt to carry out sustainability practices in an effective and productive manner that enhances VakıfBank’s corporate identity while ensuring the Bank’s permanence in the BIST Sustainability Index.

Under this structure, the Corporate Governance Committee, which is also responsible for overseeing the Bank’s compliance with the Corporate Governance Principles, was authorized as the highest level of decision-maker and ultimately responsible authority while a “Sustainability Working Group” was formed under the Corporate Governance Committee. “Sustainability Service” continued to operate as part of the Investor Relations Department, which is charged with performing sustainability initiatives, while Environmental Management Service was active under the Head of Support Services.

ENVIRONMENTAL SUSTAINABILITY

VakıfBank raised its performance score from a “C” in 2015 to a “B” (Management) in 2016 in the CDP climate change program consisting of a number of reports including climate change strategy, governance, risk management and carbon emissions. In 2016, the Bank included the Climate Change and Sustainability training module in the new employee orientation training package, and initiated efforts to raise the awareness level of the employees. VakıfBank also began to integrate the ISO 14001 Environmental Management System to the Bank’s service locations in 2016.

SUSTAINABILITY REPORTING

Efforts are under way to prepare the Bank’s second Sustainability Report, in accordance with the Global Reporting Initiative (GRI) G4 standards, covering the 2016 operating year.

In a year where the average sector growth was 10.8%, VakıfBank Worldcard raised its turnover by 18.5% to **TL 31 billion in 2016 and became the second fastest growing bank in the industry by this measure.**

PAYMENT SYSTEMS

“Express Card,” available conveniently and quickly to customers in urgent need of a credit card, was launched in September 2016. Holders of Express Card, a card with no annual fees, enjoy the privilege of using a credit card without any wait.



Focusing on customer satisfaction in its payment systems, VakıfBank continued to grow its market share steadily in credit cards by enhancing its products with value-added services through the “Generous Card That Understands Shopping” concept in 2016.

In a year where the average sector growth was 10.8%, VakıfBank Worldcard raised its turnover by 18.5% to TL 31 billion in 2016 and became the second fastest growing bank in the industry by this measure. Worldcard reached 221 million transactions for the full year.

	2012	2013	2014	2015	2016
Credit Card Debt Receivables (TL million)	2,639	3,256	3,129	3,832	4,545
Market Share (%)	3.69	3.92	4.22	4.87	5.52

	2012	2013	2014	2015	2016
Credit Card Turnover (TL million)	13,699	17,802	21,208	26,037	30,863
Market Share (%)	3.79	4.20	4.47	4.79	5.13

	2012	2013	2014	2015	2016
Number of Credit Cards	2,768,491	2,985,056	3,178,033	3,104,233	3,509,065
Market Share (%)	5.09	5.25	5.57	5.32	5.97

REVIEW OF OPERATIONS

IN 2016

VakıfBank Worldcard continued to meet general customer needs while expanding its portfolio of loyalty programs through card segmentation and **co-branding targeting various exclusive groups and organizations, adapting to emerging technologies, and moving forward steadily.**

PAYMENT SYSTEMS

VakıfBank Platinum Credit Cards, offered to upper-segment customers, continued to offer features designed to meet the unique needs of these cardholders in 2016.

VakıfBank Worldcard continued to meet general customer needs by offering customer-oriented solutions based on basic needs while expanding its portfolio of loyalty programs through card segmentation and co-branding targeting various exclusive groups and organizations, adapting to emerging technologies, and moving forward steadily.

VakıfBank's rich portfolio of credit cards includes:

- MilPlus Classic and MilPlus Platinum Exclusive offering features for high-income individuals focused on travel,
- VakıfBank Platinum and VakıfBank Gold Card, equipped with special services designed for high-income individuals,
- Rail&Miles, for those who prefer to travel by train,
- Beşiktaş, Fenerbahçe, Galatasaray, Trabzonspor, Gaziantepspor and Diyarbakırspor Team Credit Cards, for sports fans who want to support their favorite teams,
- Öğretmenim, ASES and KAMUSEN credit cards, designed to meet the needs of specific professional groups,
- VakıfBank BusinessCard, to meet the needs of commercial enterprises,
- TarımKart for customers with agricultural operations,
- Like Card and Campus Card, designed for university students and intended for the youth segment, providing campaign-based advantages,
- Social Assistance Card for social institutions,
- Tercih Card for customers who do not want to pay annual credit card fees.



VakıfBank credit card holders can benefit from all opportunities offered both in VakıfBank and in World member firms. In addition, the Bank offers additional benefits for customers through special projects and campaigns.

EXCLUSIVE SERVICES FOR PLATINUM CARDHOLDERS

VakıfBank Platinum Credit Cards, offered to upper-segment customers, continued to offer features designed to meet the unique needs of these cardholders in 2016. To make domestic and overseas trips more comfortable and enjoyable, cardholders are offered discounts at the passenger lounges of the domestic and international terminals at Sabiha Gökçen Airport in İstanbul, and Esenboğa Airport in Ankara.

In addition, VakıfBank Platinum cardholders can enjoy Rail&Miles CIP Lounges free-of-charge in the Ankara, Eskişehir, and Konya rail terminals.

In addition to these travel advantages, more practical services were unveiled for Platinum cardholders, including discounts at dry cleaners, transportation providers, gift shops, and selected restaurants.

ASES – a special card for occupational groups – is a unique product provided only for the members of the Police Solidarity and Assistance Fund, and Elementary School Teachers’ Health Care and Social Assistance Fund.

In addition to the services offered to the other cards, discounts are provided from affiliated merchants with this card.

EASIER TRAVELLING WITH THE VAKIFBANK MILPLUS CARD

Designed to appeal to frequent travellers, the MilPlus Card Program provides exclusive benefits for VakıfBank customers who travel extensively.

MilPlus Platinum Card holders can use the points earned by making purchases at three times their value in flight ticket purchases. If they do not have enough points for the purchase, they are still able to use three times the value with Avans Puan (Advance Points) to get the tickets they want. MilPlus Platinum Card holders are offered complimentary airport lounge service, travel insurance, rail terminal lounge service as well as discounts in dry cleaning, transportation, flower shops and selected restaurants.

Meanwhile, Milplus Card holders can use them at twice their value while purchasing flight tickets with MilPlus. MilPlus Card holders are offered complimentary airport lounge service, travel insurance, rail terminal lounge service as well as discounts in dry cleaning, transportation, flower shops and selected restaurants.

INSTANTANEOUS SHOPPING WITH EXPRESS CARD

“Express Card,” available conveniently and quickly to customers in urgent need of a credit card, was launched in September 2016. Holders of Express Card, a card with no annual fees available for immediate delivery at VakıfBank branches, enjoy the privilege of using a credit card without any wait and make the needed purchases instantaneously.



In addition to all features of VakıfBank credit cards, Express Card holders also earn Worldpoints from their purchases while benefiting from installment opportunities that make their purchases affordable. Existing cardholders can also meet their urgent need for a card with Express Card in the event of loss, theft or renewal of their cards.

CO-BRANDED CARDS

Exclusive opportunities were offered to specific customer segments through co-branded products in 2016.

Annual credit card fees are not applicable for the Şişli and Üsküdar Credit Cards offered to residents of Şişli and Üsküdar along with the Öğretmenim, ASES, and Kamu-Sen Credit Cards that are offered to specific professional groups. The cards operated in agreement with these and similar institutions are mostly regarded as social projects, and a certain percentage of the purchases made with these cards are donated to the organization’s aid pool, the assistance campaign, or the relevant union.



Cardholders can support social responsibility projects without any extra cost; the donated funds are transferred to Şişli and Üsküdar Municipalities’ social assistance pool as the cards are used.

ASES – a special card for occupational groups – is a unique product provided only for the members of the Police Solidarity and Assistance Fund, and Elementary School Teachers’ Health Care and Social Assistance Fund. In addition to the services offered to the other cards, discounts are provided from affiliated merchants with this card.

CREDIT CARD FOR YOUNG PEOPLE: THE LIKE CARD

In 2016, VakıfBank continued to market its Like Card, designed exclusively for university students.

Like Card holders earn Likepoints in addition to Worldpoints, and can use their Likepoints for the campaigns on www.likecard.com.tr to win prizes such as iPhones and iPads.

REVIEW OF OPERATIONS

IN 2016

In an effort to appeal to sports fans, VakıfBank provides an exclusive credit card for **Beşiktaş, Fenerbahçe, Galatasaray, Trabzonspor, Gaziantepspor and Diyarbakırspor.**

PAYMENT SYSTEMS

VakıfBank continued its operations in prepaid social assistance cards in partnership with 38 municipalities and social assistance foundations in 2016. Some 70,000 new cards were issued in 2016 while the Bank provided support for social assistance projects with over 300,000 cards in total.

In order to encourage academic success, Like Card awarded students who documented their accomplishments at school with additional Likepoints and 50% of their expenditures on movie tickets during each term.

VAKIFBANK FAN CARDS

In an effort to appeal to sports fans, VakıfBank provides an exclusive credit card for the fans of the four biggest football clubs Beşiktaş, Fenerbahçe, Galatasaray, and Trabzonspor- as well as for two additional teams from Anatolia, Gaziantepspor and Diyarbakırspor. In line with specific agreements made with each team, a portion of the monthly card transactions is transferred to the clubs.

In addition to World and VakıfBank campaigns organized for Fan Card customers, additional campaigns to encourage card usage habits were conducted in 2015, including gift match tickets, jerseys and licensed products, installments for season ticket purchases for specific teams, discounts at team fan shops, gift Worldpoints, and additional installment opportunities.

PREPAID SOCIAL ASSISTANCE CARDS

VakıfBank continued its operations in prepaid social assistance cards in partnership with 38 municipalities and social assistance foundations in 2016. Some 70,000 new cards were issued in 2016 while the Bank provided support for social assistance projects with over 300,000 cards in total.



DEBIT CARDS

VakıfBank aimed to increase customer satisfaction with campaigns related to the debit card product, and continued to implement efforts to increase the usage of debit cards in shopping as well as for cash withdrawals in 2016.

The "Instantaneous Debit Card" product was developed in an attempt to eliminate the debit card printing and delivery period and resolve customer's basic banking needs before they leave the branch; the Bank reached nearly 400,000 Instantaneous Debit Cards in just one year.

Total shopping turnover of debit cards increased 34% year-on-year to reach TL 3,526 million in 2016 while the number transactions was up by 25% compared to the previous year to 70.7 million.



GROWTH OF BUSINESS CARDS CONTINUED IN 2016

The Bank tried to maximize customer satisfaction by adding product features, services and campaigns to VakıfBank BusinessCard, which is intended for existing and new loan customers in the corporate, commercial and especially SME segments.

Segmentation efforts have been initiated in line with the growing commercial credit card portfolio, as the Bank is working to develop new products which appeal to specific segments and customer groups.

BusinessCard turnover continued to grow during 2016 and reached TL 843 million as of December 2016 while the number of cards in circulation stood at 153,524 in December 2016. BusinessCard loan receivables increased 4.12% year-over-year to reach TL 1,448 million. VakıfBank's market share in BusinessCard turnover was 7.57%, ranking the Bank sixth in the market.

TARIMKART

TarımKart, designed exclusively for agricultural producers, was launched in 2016. TarımKart holders can finance the needed inputs for their agricultural operations; take advantage of grace periods and discounted interest rates in their purchases from agricultural member merchants; and take out cash loans for their cash needs within their cash withdrawal limits. In addition, the payment due date for the card is determined according to the harvest time, offering a single yearly payment for purchases and cash withdrawals.

NEW PRODUCTS AND DEVELOPMENTS IN MEMBER MERCHANT SERVICES

VakıfBank's member merchant turnover rose 11.19% to TL 35.5 billion in 2016. The Bank continues to increase its merchant network market share steadily.

In 2016, the Bank carried out new applications and campaigns to increase the scope, turnover and efficiency of its merchant network.

Member Merchants	2012	2013	2014	2015	2016
Turnover (TL million)	16,563	21,447	26,649	31,984	35,562
Market Share (%)	4.53	5.01	5.61	5.84	5.90

TRANSITION TO CASH REGISTER POS DEVICES

The Bank made the necessary changes for businesses that are required to use new generation POS cash registers pursuant to new regulations; as a result, VakıfBank's applications were made compatible with TÜBİTAK-approved new generation payment recording devices. In addition, VakıfBank offered discounts, installments, points, and advantages to help merchant customers procure POS cash registers. In response to this new legislation, the Bank completed the necessary software updates for the Fixed POS and PC-connected Cash Register POS, planned for launch in the coming period, as VakıfBank's POS payment infrastructure became compatible with all next-generation cash register POS products available for purchase in the field.

V-POS RENEWED

In order to provide more dynamic, faster, and more secure services, and to meet all the demands of contracted merchants in line with changing customer needs and advances in technology, improvements to the Bank's Virtual POS infrastructure have been completed, and new V-POS products were offered to contracted merchants.

With its advanced features, the new VPOS product offers contracted merchants swift and practical payment solutions over the Internet and easily meets needs such as reconciliation, reporting management and the like for collections thanks to its user-friendly interface.

RECURRING COLLECTION SYSTEM

V-POS product enables the Bank to offer Recurring Collection System (TTS) service to schools, insurance agencies, housing projects, associations, among others which receive regular payments and/or perform card-free (Mail-Order) transactions. The Recurring Collection System allows contracted merchants to carry out their collections regularly after entering customer data, payment times and payments methods to the system once, without need for any additional software.

REVIEW OF OPERATIONS IN 2016

Information on current regulations concerning the POS ecosystem, new products, **and monthly campaigns for sectors can be reached on the www.vakifbankpos.com.tr website.**

PAYMENT SYSTEMS

“TarımPOS (Agricultural POS)” was launched to enable TarımKart holder agricultural producers to purchase agricultural production inputs such as seeds, saplings, fertilizer, pesticides, fuel, feed, animal medicine and veterinary services with discounts, installments and interest-free periods.



AGRICULTURAL OPERATIONS NOW EASIER WITH TARIMPOS

Designed especially for agriculturalists, “TarımPOS (Agricultural POS)” allows TarımKart (Agricultural Card) holders to shop for seeds, saplings, fertilizers, pesticides, animal medicine and veterinary services by enjoying discounts, installments and interest-free periods. VakıfBank TarımPOS offers contracted merchants advantages such as swift and instant collection, special campaign prices for TarımPOS, and payment in advance and installment schemes aligned to harvest times which suit TarımKart holders.

AFFORDABLE POS FOR COST-CONSCIOUS BUSINESSES

VakıfBank launched Affordable POS packages based on business terms and monthly turnover limits, providing the opportunity to fix POS costs in advance with a fixed monthly fee. The Bank offered alternatives to fit the needs of member merchants under Installment and Single Payment packages.

ONLINE AT WWW.VAKIFBANKPOS.COM.TR

Information on current regulations concerning the POS ecosystem, new products, and monthly campaigns for sectors can be reached on the www.vakifbankpos.com.tr website. The site allows online POS pre-applications, ensuring customer acquisition and satisfaction. These efforts represent milestones toward the Bank’s goal of establishing a broad-based member merchant network.



DISTRIBUTION CHANNELS

Transactions offered through the internet banking channel were diversified in 2016, as an overwhelming majority of transactions conducted in the branch were made available to customers on this channel.

The Bank is going through a process in which almost all banking transactions can be performed via non-branch channels and alternative channels which account for a large number of transactions. As a result of this process, the Bank establishes new channels to facilitate its communication with customers and takes steps to increase the number of transactions performed in current channels.

INTERNET BANKING AND MOBILE BANKING

Transactions offered through the internet banking channel were diversified in 2016, as an overwhelming majority of transactions conducted in the branch were made available to customers on this channel.

A significant number of transactions available on the Internet Banking application were also developed for the Mobile Banking application in 2016, which eliminated the need for customers using the Mobile Banking application to use the Internet Banking channel due to unavailability of certain sets of transactions on Mobile Banking.

As a result of these improvements in the Internet Banking and Mobile Banking applications, the number of active customers using these channels soared 43% compared to 2015 to reach 2 million; the number of Mobile Banking application users jumped 100% to 1.3 million. Paralleling the increase in the number of Internet Banking and Mobile Banking users, the number of financial transactions executed through these channels rose 38% in 2016 compared to the previous year.

VakifBank will continue to carry out development and sales initiatives in 2017 in an effort to further increase the number of Internet Banking and Mobile Banking users as well as the share of these two channels in the Bank's transactions.

The Bank plans to redesign the user interfaces and internal workflows of both the Mobile Banking and the Internet Banking applications in 2017. The Bank also aims to complete the missing set of transactions in the Corporate Internet Banking application and enable Mobile Signature in transaction approvals in Q1 2017.

ATM

In 2016, the Bank continued the efforts initiated in 2013 to expand the ATM network and modernize the current ATMs. The total number of ATMs deployed rose from 3,576 in 2015 to 3,917 in 2016, in an increase of 9%.

As part of efforts to modernize the current ATM stock, the number of cash deposit ATMs increased 21% from 3,093 as of year-end 2015 to 3,746. In parallel to the rising number of ATMs, in terms of the most-frequently performed ATM transactions of cash withdrawals, cash deposits and payments, the number of financial transactions executed at ATMs increased by 19 million, or 13.5%, compared to 2015.

REVIEW OF OPERATIONS

IN 2016

The Bank continued the efforts initiated in 2013 to expand the ATM network and modernize the existing ATMs in 2016, **as the total number of ATMs rose 9%, from 3,576 in 2015 to 3,917 in 2016.**

DISTRIBUTION CHANNELS

In an effort to better manage the amounts of cash in the ATMs and lower the cost of cash available in ATMs, the Bank intends to purchase Recycle ATMs; development of the software that will run these ATMs is already under way.



Meanwhile, the ATM software was given a complete overhaul and the new software was put to the use of customers. The new software gives customers a wider transaction menu to choose from. The new software also allows the Bank to monitor and repair ATM breakdowns in a more efficient way and in a shorter space of time. All ATMs will be upgraded with new software in 2017.

In an effort to better manage the amounts of cash in the ATMs and lower the cost of cash available in ATMs, the Bank intends to purchase Recycle ATMs; development of the software that will run these ATMs is already under way.

Cognizant that ensuring the seamless functioning of ATMs requires monitoring not only the hardware but also the cabins, which include power systems, air conditioners and UPS, the Bank procured software and hardware

which enable the centralized surveillance of out-of-branch ATMs and initiated pilot studies. As part of this project, VakıfBank installed smart devices in 1,675 off-site ATMs in 2016 and began to remotely monitor these ATMs. Smart device installations will continue in 2017; the Bank will be monitoring 2,000 ATMs remotely via these devices when the project is complete.

CALL CENTER

In 2015, the Call Center's Voice Guidance System was simplified. The system started to recognize customers from their phone numbers, welcome them with their names and simply their card password entry. As such, customers could connect to customer representatives in a shorter space of time and complete their transactions more quickly. Instead of the external software used to support customer representatives in transactions, the Bank launched its in-house software and managed to cut licensing costs. The number of customer representatives was increased and the call response rates were improved. Service quality was boosted as a result of intense customer representative training programs.

In 2016, further investments will be made to the human resources and technological infrastructure of the Call Center so as to improve the call response rates and speed.

In addition, initiatives were planned to increase the share of the Call Center channel in the Bank's marketing and sales activity.

The VIT (VakifBank Innovative Transformation) technology transformation program was successfully completed with the 10 projects implemented during the year. The VIT program created a common platform for all banking applications and attained the goals of fast application/product development, easy management, and accurate reporting.

INFORMATION TECHNOLOGIES

The Information Technologies Department continued to meet the Bank's technology, service and new product requirements while rendering high performance and efficiency-oriented services in 2016.

The Information Technologies Department continued in 2016 to meet the Bank's technology, service and new product requirements and offer services centered on high performance and productivity. The Bank's technological infrastructure and banking practices were structured so as to swiftly respond to changing business needs and market conditions, quickly adapt to new technologies, and rapidly design new services and products. The integration of these cutting edge technologies to business processes continues to yield results that enhance our competitiveness.

In the field of Information Technologies, innovations and technological advancements in the sector were closely monitored and the necessary IT investment was undertaken. A number of value-adding projects were initiated in due consideration of the Bank's strategies and objectives.

The VIT (VakifBank Innovative Transformation) technology transformation program, which was initiated in 2011, was successfully completed with the 10 projects implemented during the year. At its conclusion, the VIT program created a common and single platform for all banking applications and attained the goals of fast application/product development, easy management, and accurate reporting by deploying state-of-the-art technologies.

OPERATIONAL DEVELOPMENT PROJECTS COMPLETED IN 2016

VIT-Core Banking-Money Transfers: Money transfer applications that are integrated with the Participant Interface System (KAS), operate within the rules of the Central Bank of Turkey and the Financial Crimes Investigation Board (MASAK), and respond to customer needs quickly were rolled out in all channels.

VIT-Accounting-Accounting Transactions Phase 2: This project assigned the Bank's income and expenses to related activities and branches, and provided a more detailed breakdown of the profit.

VIT-Treasury and Investment-FTF: This project facilitated the tracking of cost and product utilization ratios as requested by the Asset/Liability Management Committee by calculating FTF income and expenses by product (deposits, loans, credit cards).

VIT-Sales and Marketing-Dynamic Pricing: This project enabled easy defining of pricing based on various criteria such as customer, customer segment, branch, channel, date, and currency; pricing and market offering of products in packages; monitoring of customer contracts for pricing proposals; and performance of necessary analyses thanks to the reports on defined and realized pricing.

VIT-Foreign Trade: This project simplified customers' import and export transactions while increasing the Bank's foreign trade volume.

REVIEW OF OPERATIONS IN 2016

This project aimed to accelerate loan product development and sales process and create a competitive edge for the Bank; **it enabled the Bank to launch new products in short order with the parametric loan product structure.**

INFORMATION TECHNOLOGIES

VakifBank ATM applications were completely overhauled. The new MultiVendor platform provided an infrastructure that is compatible with various ATM brands while new customer transactions were rolled out.



VIT-Commercial Loans-Installment Loan Disbursement: This project aimed to accelerate loan product development and sales process and create a competitive edge for the Bank; it enabled the Bank to launch new products in short order with the parametric loan product structure.

VIT-ADC-Vendor-Independent ATM Software Installation (MultiVendor): VakifBank ATM applications were completely overhauled. The new MultiVendor platform provided an infrastructure that is compatible with various ATM brands while new customer transactions were rolled out. In addition, integration of ATM monitoring, electronic journal office, and remote key management applications were completed.

VIT-Sales and Marketing-Profitability: This project created a profitability breakdown by customer, segment, product, branch, portfolio, channel, and region; included all transactions that create interest or non-interest income or costs for the Bank in the profitability pool; and put together real-time/daily/monthly/annual reports to track the Bank's profitability.

VIT-Reporting and Notifications-Legal and Regulatory Reporting: As part of the project, 154 legal and regulatory reports, including Central Bank of Turkey, Banking Regulation and Supervision Agency, and Revenue Administration reporting as well as Credit Bureau of Turkey filings, were prepared on the VIT platform. The off-system data required for the legal and regulatory reporting (New York and Arbil branch Loans, Deposits, Securities, Derivatives, TOKI, TarımKart) were included in the DWH inventory.

VIT-Loan Monitoring-Loan Monitoring: Under this project, the loans under close monitoring according to new criteria send notifications to customers, who have delinquency, collects overdraft account notification fees, and informs the other modules.

Corporate Scorecard: Infrastructure was established to create a scorecard for commercial enterprises above a certain turnover threshold to be initiated in the branches.



Check Transactions: Check transactions were migrated to the VIT platform.

Derivatives Transactions Control and Reporting System: This project enables the Bank to monitor position limits; oversee the compatibility of transactions with the market conditions; mark-to-market of derivatives transactions and portfolios with alternative methods; create portfolio gain/loss reports; and perform systematic valuation adjustments.

Mobile Field Sales Application Phase 1: This project allowed field sales staff to reach VakıfBank customers more quickly using a specially designed tablet application while enhancing operational efficiency by minimizing paperwork.

TarımKart: The launch of the TarımKart product meets the industry-specific loan needs of agricultural producer customers.

Internet Banking Loan: General purpose consumer loans were originated through the Internet channel. Processes implemented as part of this effort include automatic evaluation of the loan application, overdraft limit increase/establishment, and life insurance policy loan sales.

Retail Loans Decision Support System: This project transformed loan scoring into a flexible structure with the PowerCurve methodology and enabled simulation support for changes in the decision tree.

Pension Fund and Private Social Security Foundation Premium and Personnel Operations: A flexible infrastructure was established for Pension Fund transactions, which made it possible to meet the application needs more quickly.

Allocation Reporting Tasks: Reports for Commercial, SME and Agricultural Loan directorates began to be generated automatically, preventing manual errors while increasing efficiency.

Deposit Insurance Fund of Turkey (TMSF) E-Lien Application: Already conducting e-lien activities for the Revenue Administration, the Bank also began to carry out e-lien services for the Deposit Insurance Fund of Turkey (TMSF). Seized property as well as all receivables and rights are liquidated and deposited into TMSF accounts.

Automated Target Revision: This project enables the automated revision of targets assigned to branches, teams, and portfolios based on the upstream change, without the need for manual intervention.

Capital Markets Board (SPK) Regulations: An infrastructure was put in place pursuant to the Capital Markets Board (SPK)'s new regulations. This project allows the Bank to determine whether customers possess the knowledge and experience to discern the risks in the investment products they intend to invest in, as well as assessing whether a product or service is appropriate for the customer.

Customer Registry Address Data Cleanup: The Bank completed the wholesale cleanup of its entire customer address data as part of the agreement with the Credit Bureau of Turkey (KKB). VakıfBank implemented instantaneous address check procedures and reference address database integration in order to maintain the clean database.

Statistical Modeling and Simulation Tool: The Bank began leveraging credit card product data to identify the customers that will become delinquent, and developed "Customer Value Segmentation" as well as Overdraft Account and General Purpose Consumer Loan Propensity models in retail loans.

Real Estate Management Project: Valuation, e-auction and accounting integrations enabled the Bank to inventory its real estate holdings accurately in a rapid manner; and track, report and query deed, sale, auction, tax, insurance, cost, and other related information. The rollout of the application allowed VakıfBank to accelerate the processes, while initiating the auctions and selling the properties faster.

Academic Training Portal: A new portal that offers various resources was established in order to support the training and development of the Bank's employees and increase their participation rate in training opportunities.

REVIEW OF OPERATIONS IN 2016

Business impact analyses were conducted for tracking regulatory compliance requirements and ensuring service continuity using the **DURUM application, which is used for governing the Bank's information systems.**

INFORMATION TECHNOLOGIES

The Bank purchased and commissioned a data destruction application that reliably destroys data in storage environments and generates a certificate of data destruction at the conclusion of the destruction process.



PROJECTS

- Business impact analyses were conducted for tracking regulatory compliance requirements and ensuring service continuity using the DURUM application, which is used for governing the Bank's information systems.
- Policies and scenarios were created on the DLP (Data Loss Prevention) application in an effort to prevent the leakage of critical information entity outside of the Bank.
- The Bank initiated an effort to gather logs from all systems using the SIEM product; established correlation between the logs; and created the necessary alarm and reporting mechanisms.
- The Nexpose product was purchased to identify the Bank's weaknesses.
- The Bank conducted security baseline audits on its critical systems in regular intervals and took action to mitigate the problems identified during these audits.
- Penetration tests were conducted for applications open to the external environment and measures were implemented to tighten the security of the applications.
- Required action was taken to establish PCI DSS compatibility and the certificate was renewed.
- The Bank purchased and commissioned a data destruction application that reliably destroys data in storage environments and generates a certificate of data destruction at the conclusion of the destruction process.
- The Bank procured a workload automation application that will automate IT operations and minimize operational errors. VakıfBank plans to automate all operational processes in 2017.
- The ATM management system integration project for replacement and remote monitoring of uninterruptible power supplies of off-site ATMs was completed.
- Opening, closing and renovation operations of units and branches were carried out.

As a result of the expansion of the reach of the e-bookkeeping requirement into mutual funds pursuant to the Tax Procedures Law General Communiqué, the **Bank procured development services that included mutual funds in its electronic bookkeeping process.**

An e-fax application was purchased in order to shut down the analog lines used in facsimile communications and to conduct the facsimile communication electronically without changing the fax numbers.

- Efforts were initiated to increase the performance of the computers of end users in the Bank's units.
- The Bank continued the infrastructure and server relocation efforts as part of the project to build a new Data Center in Ankara. VakıfBank aims to complete the Ankara Data Center project in 2017.
- A data mapping application was procured that maps the data in the Debt Enforcement/Bankruptcy pool as a whole to the Bank's databases and reports the results.
- As a result of the expansion of the reach of the e-bookkeeping requirement into mutual funds pursuant to the Tax Procedures Law General Communiqué, the Bank procured development service that included mutual funds in its electronic bookkeeping process.

- An e-archive application, as a supplement to e-invoice, was procured.
- An e-fax application was purchased in order to shut down the analog lines used in facsimile communications and to conduct the facsimile communication electronically without changing the fax numbers.

INVESTMENT AND INFRASTRUCTURE PROJECTS

- The password storage and management application reduced the dependence on individuals for access to servers during emergencies and enhanced the password security of all servers.
- The NAP/NAC solution restricted access to the Bank's intranet to only allow the authorized personnel.
- Systems, data, and all critical applications (Branch, ATM, Internet, Mobile, Credit Cards, Call Center, Foreign Trade, and similar) at various locations were relocated to Istanbul Data Center. Configuration efforts at the centralized infrastructure, applications and nodes (ATM, POS, company connections) level, a prerequisite for critical platform to operate within an active/active infrastructure, are ongoing.
- Installations at a third location close to Istanbul Data Center that will provide data backup were completed. Efforts are ongoing for real-time backup.
- Emergency testing for 2016 was completed with the routing of real production environments between Istanbul and Ankara Data Centers.
- The service continuity ratio in all service channels was improved by a large margin as a result of upgrading the technology infrastructure, precise monitoring, and resolution of critical problems.
- Other applications and utilities commissioned during the year include Web/Internet security product, utility for behavioral analysis on end user computers, the product for retaining transaction traces in AD Exchange and file servers, certificate management utility, virtualization layer security product, new penetration prevention product, and the product for centralized policy implementation and activity monitoring for Linux servers.
- Security tightening efforts were initiated for branch/unit switch devices.
- The Bank planned a capacity increase in the backup infrastructure in an attempt to securely back up the growing volume of data, and launched an initiative to back up the data in different environments using different products according to the criticality levels of data.
- Dial-Up POS centralization project was completed.
- Pursuant to the new communiqué, distributed voice recording infrastructure was built for the Treasury Department, Capital Markets Board, and the branches.
- Internet access infrastructure was overhauled to a dual-center backup and load-balanced structure.

REVIEW OF OPERATIONS

IN 2016

Continuing with the “Compassionate Bank” concept in 2016, VakıfBank underscored this mission in all of its corporate communication campaigns.

The **commercial film launched in March highlighted the fact that VakıfBank learned “compassion” from this land.**

CORPORATE COMMUNICATION

Continuing to conduct active communication activities over print, visual and audio media outlets, VakıfBank established effective, efficient and strong contact with existing and potential customers.

VakıfBank’s communications initiatives continued effectively in 2016 while sustaining continuity in corporate image efforts. Campaigns organized throughout the year focused on communication efforts. Continuing to conduct active communication activities over print, visual and audio media outlets, VakıfBank established effective, efficient and strong contact with existing and potential customers. Press conferences were held to announce various partnerships and cooperation efforts.

“WE LEARNED COMPASSION FROM YOU”

VakıfBank promoted all its service and product offerings effectively using all available channels of communication. Continuing with the “Compassionate Bank” concept in 2016, VakıfBank underscored this mission in both above the line and below the line advertising campaigns. The image commercial film launched in March highlighted the fact that VakıfBank learned “compassion” from this land; the film was met with heavy interest from the public.

VakıfBank conducted intensive below the line communication campaigns for Express Card, added to the Bank’s portfolio of credit cards during the year and available conveniently and quickly to customers in urgent need of a credit card, and for TarımKart that was designed exclusively for agricultural producers. Below the line communications efforts for VakıfBank’s

MilPlus and MilPlus Platinum cards, which multiply the value of Worldpoints in airplane, bus and hotel/tour bookings, continued this year. The Bank also continued its communications efforts for special campaigns for other credit cards, led by the Like Card available exclusively for university students.

Communication efforts for retail banking products were expanded and supported with above the line initiatives targeting seasonal loan products as well as loan products designed for special days. In addition, a commercial film was produced and all communication channels were utilized effectively for the Instantaneous Loan product that launched in 2016.

Since VakıfBank’s powerful entry into agricultural banking in 2014, intensive communication initiatives have been ongoing in this segment led by TarımKart and Farmers’ Day Loan. In addition to the launch of TarımKart at the end of 2015, the Bank announced new partnerships with PANKOBİRLİK and TÜKETBİR members.

SME Banking-related communications focused on below the line campaigns. The prominent communication initiatives in this segment in 2016 include seasonal loan products, the “Woman Entrepreneur Support Loan” sourced from the EBRD, and the “Buy Now, Pay in 2017” campaign for SMEs.

CORPORATE

SOCIAL RESPONSIBILITY

VakıfBank Spor Sarayı, one of the world's best sports complexes for which ground was broken in 2015, was commissioned **in November 2016 for the benefit of sports in Turkey to develop the champions of the future.**

As part of the partnership with TEMA Foundation, VakıfBank planted as many trees as its mortgage loan originations in 2016, plus the number of VakıfBank employees. Some 75,000 trees were planted in the "VakıfBank Memorial Forests" on land owned by the Ministry of Forestry located in Burdur and in the Şile district of Istanbul.



VakıfBank, which pursues communication and sponsorship projects in accordance with its long-established social responsibility strategy, continued to contribute to projects in education, sports, culture and arts, and finance in 2016. In line with its image of "Compassionate Bank", VakıfBank supported training programs, projects and activities across the country.

75,000 TREES IN 2016

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VakıfBank continued to host artists and art enthusiasts in various organizations held in the foyer areas of its Head Offices in Istanbul and Ankara, while the Turkish Folk Music and Turkish Classical Music choruses comprised of Bank employees gave concerts and contributed to arts and culture in this special way.

A GREAT GIFT FOR SPORTS IN TURKEY

VakıfBank has been supporting Turkish volleyball uninterruptedly for 30 years. The Bank maintained its sponsorship of and communication support for VakıfBank Sports Club, which registered unprecedented and unimaginable accomplishments with its women's volleyball team. To crown this support, VakıfBank Spor Sarayı, one of the world's best sports complexes for which ground was broken in 2015, was commissioned in November 2016 for the benefit of sports in Turkey to develop the champions of the future. A spectacular opening ceremony was organized for this giant complex, honored by the participation of state and government dignitaries. Furthermore, players from VakıfBank Sports Club's youth teams acted in the commercial film produced for this complex, a gift for the future of sports in Turkey, in an attempt to be a memorable source of motivation for new victories.

AFFILIATES AND SUBSIDIARIES

VakıfBank supports the Turkish economy with 23 subsidiaries and affiliates in a number of industries. The value of VakıfBank's subsidiary and affiliate portfolio on its **balance sheet increased to TL 2.1 billion as of December 2016, up from TL 1.9 billion in 2015.**

Thirteen of VakıfBank's subsidiaries and affiliates operate in the financial services industry (four in banking, two in insurance, and seven in other financial lines of business) while 10 are non-financial companies (one in energy, two in tourism, one in manufacturing, and six in other commercial lines of business).

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Thirteen of VakıfBank's affiliates and subsidiaries operate in the financial services sector (four in banking, two in insurance and seven in other financial lines of business) while 10 are non-financial subsidiaries (one in energy, two in tourism, one in manufacturing and six in other commercial companies). The value of the Bank's subsidiary and affiliate portfolio increased to TL 2.1 billion as of December 2016, up from TL 1.9 billion in 2015.

FINANCIAL SERVICES GROUP

VakıfBank International AG

VakıfBank International AG was established in Austria in 1999 to grow VakıfBank's international operations in line with its strategy to expand abroad. VakıfBank controls a 90% stake in the Company's capital of EUR 70 million.

Kıbrıs Vakıflar Bankası Ltd.

Established in the Turkish Republic of Northern Cyprus by the Cyprus Administration for Foundations, VakıfBank owns a 15% stake in Kıbrıs Vakıflar Bankası Ltd., which runs banking activities with capital of TL 70 million.

Türkiye Sınai Kalkınma Bankası A.Ş.

Established in 1950, Türkiye Sınai Kalkınma Bankası A.Ş. provides long-term funds for medium and large-scale investment projects, engages in investment banking activities, and offers corporate finance services. VakıfBank owns an 8.38% stake in the Bank's share capital of TL 2,050 million.

Takasbank-İstanbul Takas ve Saklama Bankası A.Ş.

İstanbul Takas ve Saklama Bankası A.Ş. (Takasbank) is engaged in clearing and custody services as well as investment banking services. VakıfBank owns a 4.37% stake in the Bank's share capital of TL 600 million.

Güneş Sigorta A.Ş.

Güneş Sigorta is a general (non-life) insurer originally established in 1957 under VakıfBank's direction. VakıfBank owns a 48.20% stake in the Company's share capital of TL 270 million.

Vakıf Emeklilik A.Ş.

VakıfBank holds a 53.90% stake in the TL 26.5 million share capital of the Company, which was established to provide individual or group private pension and life insurance services.

Vakıf Finansal Kiralama A.Ş.

Vakıf Finansal Kiralama A.Ş. was founded in 1988 to provide a comprehensive range of leasing services. VakıfBank owns a 58.71% stake in the Company's share capital of TL 87 million.

Vakıf Menkul Kıymetler Yatırım Ortaklığı A.Ş.

Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş. is an investment trust. It was established in 1991 as a publicly held company to manage the assets of small and individual investors in the stock exchange, facilitate the trading of marketable securities and maximize the returns of its portfolio by closely monitoring foreign exchange, stock and money markets. VakıfBank owns a 22.89% stake in the Company's share capital of TL 20 million.

Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş.

Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. was founded in 1996 under the guidance of VakıfBank as the first real estate investment trust in Turkey with an issued capital of TL 250,000. The Company was set up to establish and manage a portfolio of real estate properties and real estate backed capital markets instruments. VakıfBank owns a 38.70% stake in the Company's share capital of TL 213 million.

Vakıf Factoring A.Ş.

Vakıf Factoring A.Ş. was established in 1998 to provide factoring services for domestic and international commercial transactions. VakıfBank owns a 78.39% stake in the Company's share capital of TL 22.4 million.

Vakıf Yatırım Menkul Değerler A.Ş.

Vakıf Yatırım Menkul Değerler A.Ş. was established under the direction of VakıfBank to conduct capital market activities in the same year pursuant to the Capital Markets Board's resolutions dated August 15, 1996. VakıfBank owns a 99% stake in the Company's share capital of TL 35 million. In addition to providing brokerage services, Vakıf Yatırım Menkul Değerler A.Ş. (Vakıf Investment Inc.) performs repurchasing agreements of securities (repo transactions), and provides investment consultancy services.

Vakıf Portföy Yönetimi A.Ş.

Vakıf Portföy Yönetimi A.Ş. was established to manage customer portfolios consisting of capital markets instruments as the authorized agent under discretionary portfolio management agreements pursuant to the Capital Markets Law and other applicable legislation. The Company's core business is setting up and managing mutual funds in line with CMB regulations and other applicable legislation. The Company also provides investment advisory and capital markets services. VakıfBank owns a 100% stake in the Company's share capital of TL 12 million.

Kredi Garanti Fonu A.Ş.

Kredi Garanti Fonu A.Ş. was established in 1991 to provide collateral for all types of loans in favor of SMEs, farmers, artisans, craftsmen and the self-employed. VakıfBank participated in the Company in 2009 and owns a 1.69% stake in its share capital of TL 278.4 million.

NON-FINANCIAL SERVICES GROUP

Taksim Otelcilik A.Ş.

Taksim Otelcilik A.Ş. was established in 1966 to build, contract out and manage hotels, motels and similar facilities capable of increasing Turkey's incoming tourism potential. VakıfBank owns a 51% stake in the Company's share capital of TL 334.3 million.

Vakıf Gayrimenkul Değerleme A.Ş.

Vakıf Gayrimenkul Değerleme A.Ş. was established in 1995 to provide appraisal and valuation services for all types of real estate properties. VakıfBank owns a 54.29% stake in the Company's share capital of TL 14 million.

Vakıf Pazarlama Sanayi ve Ticaret A.Ş.

VakıfBank holds a 69.33% stake in the TL 30.2 million share capital of Vakıf Pazarlama Sanayi ve Ticaret A.Ş., which is engaged in providing recruitment support service, shared health and security unit services, and other related services.

Vakıf Enerji ve Madencilik A.Ş.

VakıfBank owns a 65.50% stake in the TL 85 million share capital of the Company, which operates in the energy industry.

Roketsan Roket Sanayii ve Ticaret A.Ş.

Roketsan Roket Sanayii ve Ticaret A.Ş. engages in the production, manufacturing and sale of rocket fuel as well as missiles, rockets and rocket launchers, and their engines. VakıfBank owns a 9.93% stake in the Company's share capital of TL 147 million.

Kredi Kayıt Bürosu A.Ş. (KKB)

Kredi Kayıt Bürosu A.Ş. was established in 1995 to manage the flow of loan information. VakıfBank owns a 9.09% stake in the Company's share capital of TL 7.4 million.

Bankalararası Kart Merkezi A.Ş.

Bankalararası Kart Merkezi A.Ş. was established in 1990 to conduct card based payment systems, clearing and provisioning services. VakıfBank owns a 9.70% stake in the Company's share capital of TL 14 million.

İzmir Enternasyonal Otelcilik A.Ş.

İzmir Enternasyonal Otelcilik A.Ş. engages in contracting out of the building and the management of tourist hotels and commercial centers. VakıfBank owns a 5% stake in the Company's share capital of TL 120,000.

Güçbirliği Holding A.Ş.

Güçbirliği Holding A.Ş. was established in 1995 to invest in companies engaged in agriculture and commerce, and to contribute to the development of the national economy. VakıfBank owns a 0.07% stake in the Company's share capital of TL 30 million.

World Vakıf UBB Ltd. in Liquidation

World Vakıf UBB Ltd. in Liquidation was founded in the Turkish Republic of Northern Cyprus with capital of USD 500,000 and VakıfBank has an 82% stake in the Company. The Court of Lefkoşa Kaza in TRNC has ruled for the liquidation of the Company with its resolution dated 24 May 2010, and the resolution was reaffirmed as of 2013.

SUMMARY REPORT OF THE BOARD OF DIRECTORS

Dear Shareholders,

The paths of developed country central banks, which have been pursuing expansionary monetary policies since the global crisis, began to diverge as of 2015. The Fed, Central Bank of the United States, already embarked on a tightening cycle as it raised its policy rate for the first time in 10 years in December 2015. The European Central Bank (ECB), on the other hand, continued to stimulate economic activity and maintained its expansionary monetary policies. However, ECB's announcement that it will begin scaling back its asset purchases as of April 2017 was assessed as partial tightening. The Bank of Japan (BoJ), Japan's Central Bank, also announced its intent to maintain its loose monetary policy until the inflation rate hits 2%. The People's Bank of China, China's Central Bank, tightened monetary conditions at the end of the year in an attempt to reduce leverage and support the currency.

The Central Bank of Turkey (CBT) pursued both price stability and financial stability by continuing to employ both interest rate and non-interest rate tools in 2016. CBT lowered the marginal funding rate, which corresponds to the upper band of the interest rate corridor, by a cumulative 250 basis points between the period of March 2016 and September 2016. However, CBT raised its policy rate by 50 basis points to 8% and its marginal funding rate, which is the upper band of the interest rate corridor, by 25 basis points to 8.50% at its November meeting due to global economic uncertainties as well as the inflationary pressures from foreign currency exchange rate movements in the domestic market resulting from extreme volatility. Therefore, after gradually lowering the rates since the sharp rate hike in January 2014, CBT raised its policy rate for the first time in November. In addition to raising rates to intervene in the movements in the TL exchange rates, CBT also made changes to the reserve requirements.

Similar to 2015, the robust structure of the banking sector continued to support the performance of Turkish industry in 2016. Total assets of the banking industry reached TL 2,731 billion, up 15.84% compared to year-end 2015. Loans accounted for the majority of the sector's asset growth in 2016, as loans increased 16.80% from TL 1,485 billion in 2015 to TL 1,734 billion as of December 2016.

Deposits, the largest source of funding for the banking sector, rose 16.72% y-o-y to TL 1,454 billion at year-end 2016. The banking sector continued to issue bonds and bills during this period, as total placements grew 18.81% in 2016 compared to 2015. Despite the global economic environment plagued with uncertainties, the funds raised by the banking industry from overseas markets continued to rise, as total funds borrowed reached TL 409 billion as of December 2016.

Total shareholders' equity of the sector jumped from TL 262 billion at year-end 2015 to TL 300 billion as of December 2016. The banking sector's capital adequacy ratio stands at 15.57%. Net income of the sector soared 44.06% compared to the same period of 2015 to reach TL 37,532 million as of December 2016.

VakıfBank also had a successful performance in 2016, as the Bank's total assets reached TL 212.5 billion with a 16.18% increase compared to the same period of the previous year. During this period, VakıfBank's loans expanded 19.23% to reach TL 146.6 billion, continuing to account for the largest share of the Bank's growth. A glance at the breakdown of loans by segment reveals that retail loans rose 12.09% to TL 41 billion, as the Bank maintained its strong presence in the market. During this period, commercial loans jumped 22.25% to TL 105.6 billion.

VakıfBank's total deposits grew 12.66% to TL 123.8 billion. Demand deposits were up by 20.50% while term deposits increased 10.89%. Diversifying its funding sources beyond deposits, VakıfBank continued to issue bills and bonds of various maturities and types in 2016, as the Bank's total securities issuance soared 39.44% compared to year-end 2015.

VakıfBank's shareholders' equity rose to TL 19.2 billion in 2016 while net income jumped 40.05% to TL 2,703 million. The Bank's return on average equity (ROAE) and return on average assets (ROAA) during this period were 15.01% and 1.37%, respectively.

We would like to thank our customers, employees, and shareholders for their contributions to our results in 2016.

Respectfully,

TÜRKİYE VAKIFLAR BANKASI T.A.O.
BOARD OF DIRECTORS

BOARD OF DIRECTORS



RAMAZAN GÜNDÜZ

Chairman

Ramazan Gündüz began his banking career as an intern at VakıfBank in 1977. Subsequently, he worked as Assistant Auditor and Auditor before serving in various managerial positions including Assistant Manager of the İstanbul Region, Manager of the İstanbul Financial Analysis and Intelligence Department, Manager of the Şişli Branch, Manager of the Medium-Sized Loans Department, Head of the Loans Department, Manager of the İstanbul Regional Directorate, Executive Vice President and Board member. Following his retirement, Ramazan Gündüz served as General Manager of Vakıf Menkul Kıymetler Yatırım Ortaklığı and Vakıf Leasing, both of which are subsidiaries of VakıfBank. He was appointed to the Board at the General Assembly Meeting dated April 3, 2009. He has been the Chairman of the Board of Directors since March 29, 2013 and International AG since April 27, 2015.



MEHMET EMİN ÖZCAN

*Deputy Chairman -
Independent Board Member*

Mehmet Emin Özcan graduated from Ankara University, Faculty of Political Sciences, Department of Economics and Finance in 1982 and began his professional career at Türkiye İş Bankası A.Ş. as Assistant Auditor on January 1, 1983. Subsequently, he assumed various managerial responsibilities at Albaraka Türk Katılım Bankası A.Ş. He was Executive Member of the Board of Directors of Halk Bankası A.Ş. responsible for Foreign Affairs and Treasury between March 2003 and April 2005. At the same time, he assumed duties as Bank Representative at Institute of International Finance (IIF), Member of the Board of Directors at Demir-Halk Bank/Netherlands, Halk Yatırım Menkul Değerler A.Ş. and Halk Finansal Kiralama A.Ş. He served as Member of the Board of Directors of T.C. Ziraat Bankası A.Ş. between April 2005 and May 2010. He also assumed duties at various subsidiaries of T.C. Ziraat Bankası A.Ş. as Chairman/Member of the Board of Directors. He was appointed Vice Chairman of the Board of Directors of Türkiye Halk Bankası A.Ş. in April 2010. Mr. Özcan has been serving as Vice Chairman of the Board of Directors at VakıfBank since March 2013. He is also a Member VakıfBank's Audit Committee and Credit Committee as well as Chairman of the Board of Directors of Vakıf Yatırım Menkul Değerler A.Ş. Mr. Özcan is a fluent English speaker. He is married with three children.



HALİL AYDOĞAN

General Manager

Born in 1950 in Afyonkarahisar, Halil Aydoğan graduated from İstanbul University, Faculty of Economics, Department of Business Administration and Finance in 1976. He began his career at VakıfBank as Assistant Auditor in 1977. Subsequently, he served as Auditor from 1980 to 1983; Assistant Manager in the Mecidiyeköy Branch between 1983 and 1985; and Branch Manager in the Kadıköy, Mecidiyeköy, Taksim, İstanbul and Şişli branches from 1985 until 1996. Mr. Aydoğan assumed the positions of Executive Vice President at VakıfBank between 1996 and 1999 and General Manager at Vakıf Finansal Kiralama A.Ş. from 1999 to 2000. He was a Member of Parliament from Afyonkarahisar for the 22nd and 23rd terms, a member of the State Owned Enterprises Commission for two years, and a member of the Planning and Budget Commission for seven years. On January 5, 2012, Mr. Aydoğan was appointed as Chairman of the Board of Directors of VakıfBank and has served as General Manager of the Bank since March 29, 2013. He also holds the position of Chairman of the Board of Directors at Taksim Otelcilik A.Ş. and at Güneş Sigorta A.Ş. and is a Board member of Türkiye Sınai Kalkınma Bankası A.Ş. and Foreign Economic Relations Board.

**İSMAİL ALPTEKİN***Board Member*

Having graduated from İstanbul University, Faculty of Law in 1968, İsmail Alptekin began his professional career as an attorney at Türkiye Zirai Donatım Kurumu and subsequently worked as Auditor at TÜBİTAK. He held positions as a Board member at VakıfBank for two terms (1975-1978, 1996-1997), a member of Ankara Metropolitan Municipality Council, and as a Member of Parliament from Bolu during the 21st term and from Ankara during the 22nd term. He was also appointed Vice Chairman of the Parliament during his terms in office. İsmail Alptekin was appointed as a Member of the Board of Directors at the Ordinary General Assembly Meeting dated April 3, 2009. He is also a Member VakıfBank's Corporate Governance Committee and Alternati Member of VakıfBank's Credit Committee as well as Chairman of the Board of Directors of Vakıf Gayrimenkul Değerleme A.Ş.

**DR. ADNAN ERTEM***Board Member*

Born in 1965, Adnan Ertem completed his secondary education in Erzurum. He graduated from İstanbul University, Faculty of Political Sciences, Department of Public Administration in 1987, and earned his Ph.D. in 1997 in Sociology. Starting his career as Assistant Auditor at the General Directorate of Foundations in 1988, Dr. Ertem was appointed as Auditor in 1991 and Chief Auditor in 2002. Between 2002 and 2007, he served as the Deputy Manager at the İstanbul Regional Directorate of Foundations. Between 2007 and 2010, Dr. Ertem served as Deputy Undersecretary of the Turkish Prime Ministry and in October 2010 he was appointed as General Director of the Turkish Prime Ministry, General Directorate of Foundations. On October 27, 2010, he was appointed as a Member of the Board of Directors at VakıfBank. He is married with two daughters. Dr. Ertem serves as a Member of VakıfBank's Remuneration Committee and Chairman of the Board of Directors of Vakıf Emeklilik A.Ş. As of June 2015, he has also been serving as Deputy Chairman of the Board of Directors of Vakıf Katılım Bankası A.Ş.

**ÖZTÜRK ORAN***Independent Board Member*

Öztürk Oran was born in Kars in 1956. He graduated from Erzurum Kazım Karabekir Training Institute, Department of Turkish Language (Turkish Language and Literature). Mr. Oran also holds a degree from the Banking and Trade Law Training Institute and İstanbul University, Faculty of Business Administration Accounting Institute Budgeting and Standard Costs specialty program. He began his professional career in 1974 at VakıfBank as an officer. At the same time, he attended Foreign Trade, English, Accounting and Bank Management trainings at the Training Center of the Banks Association of Turkey for a period of three years and received an honorary degree. During his 28 years of banking experience, he worked 12 years at VakıfBank and 16 years at Faisal Finance Participation Bank, assuming duties at various departments and all levels. Since 2003, he has served as Chairman of the Board of Directors at pharmaceutical companies where he is also a partner. Mr. Oran is a Member of the Board of Directors and a Council Member at İstanbul Chamber of Commerce and Member of the Board of Directors at World Trade Center İstanbul. In addition, he held various managerial roles in a number of civil society organizations and foundations such as the Orphans Association and Orphans Foundation. He is married with two daughters. Öztürk Oran is fluent in English. He was elected as Member of the Board of Directors at VakıfBank's Extraordinary General Assembly Meeting dated April 30, 2014. He is also a member of the Corporate Governance Committee and Remuneration Committee. Mr. Oran serves as Deputy Chairman of the Board of Directors of VakıfBank International AG. As of June 2015, he has also been serving as Chairman of the Board of Directors of Vakıf Katılım Bankası A.Ş.

BOARD OF DIRECTORS



DİLEK YÜKSEL

Board Member

Dilek Yüksel was born in Niksar, Tokat in 1977. She graduated from Gazi University, Faculty of Economics and Administrative Sciences, Department of Economics. She studied banking and economy at the Banking Law and Research Institute. She worked as the Manager of Press and Public Relations Department in Samsun Atakum Municipality, and the Chief of Mamak Municipality's Culture Branch. She was elected as a Member of Parliament for the 23rd and 24th legislative terms from Tokat province. In the 23rd legislative term of the Grand National Assembly of Turkey (GNAT), she was a member of the Committee on State Economic Enterprises. Ms. Yüksel also served both as a member and the spokesperson of the Committee on National Defense; member of the Committee on Equal Opportunity for Women and Men; and Head of the sub-committee on Enhancement of Women's Employment in All Fields and Suggestions for Solution in the 24th legislative term. In addition, she served as a Secretary Member of the Presidency Council of the GNAT for the 24th legislation term. She was elected as Member of VakıfBank's Board of Directors at the Ordinary General Assembly dated March 29, 2016. Ms. Yüksel is fluent in English and she is married with two children. She also serves as a Member of the Bank's Remuneration Committee, Alternate Member of the Bank's Credit Committee, and Chairman of the Board of Directors at Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş.



SABAHATTİN BİRDAL

Independent Board Member

Sabahattin Birdal was born in Kemah/Erzincan in 1952. He graduated from İstanbul University, Faculty of Economics, Department of Business Administration-Public Finance. Mr. Birdal began his professional career as Assistant Auditor at VakıfBank and subsequently assumed duties as Auditor and Branch Manager. He served as Bank Services Manager at Faisal Finance Bank, as Branch and Department Manager and as Executive Vice President at Kuveyt Türk Evkaf Finance House. Mr. Birdal assumed duties as Deputy Mayor of Üsküdar Municipality between April 2004 and March 2008, and as Member of the Board of Directors of VakıfBank between March 2008 and October 2010. He was appointed to Halkbank's Board of Directors on October 27, 2010. Sabahattin Birdal was elected Member of VakıfBank's Board of Directors at the meeting held on March 31, 2014. He is also a member of the Audit Committee and a member of the Credit Committee. He is also the Chairman of Vakıf GYO, Chairman of Vakıf Factoring A.Ş., Chairman of Vakıf GYO-Halk GYO Adi Ortaklığı and Chairman of Vakıf GYO-Obaköy Adi Ort.

BOARD OF STATUTORY AUDITORS



YUNUS ARINCI

Board of Statutory Auditors Member

Yunus Arıncı graduated from Ankara University, Faculty of Political Sciences, Department of Public Administration. He began his professional career as Assistant Auditor at the Prime Ministry in 1997 and later completed his post graduate degree at Indiana University between 2007 and 2009. After serving as Auditor and Chief Auditor at the Prime Minister's Office, he took office as Head of the Audit Committee between October 14, 2009-July 13, 2015. Yunus Arıncı was appointed as Chairman of the Presidential State Audit Committee on July 13, 2015, an office he continues to hold. He was appointed Member of the Audit Committee of T. Vakıflar Bankası T.A.O. on March 29, 2013.



MEHMET EMİN BAYSA

Board of Statutory Auditors Member

Mehmet Emin Baysa graduated from Ankara University, Faculty of Political Sciences, Department of Public Administration. He has a master's degree in Public Administration from the Academy of National Security and Public Administration Institute for Turkey and the Middle East. He began public service as District Governor candidate in the Ministry of Interior and served as Assistant Auditor of Customs for a short period of time. After working as Assistant Auditor, Auditor and Chief Auditor in the Prime Ministry, Mr. Baysa served as Head of Foreign Affairs and Vice President of the Audit Board in the Office of the Prime Minister. On July 29, 2015, he was appointed Vice President of the Audit Board in the Office of the Prime Minister, a post he continues to hold. He was elected as Member of VakıfBank's Audit Board on March 29, 2016.

EXECUTIVE MANAGEMENT



HALİL AYDOĐAN

General Manager

(Office of the Chief Counsel – Corporate Communications Department – Executive Assistant – Board of Directors Secretariat – Strategy Development Department – Economic Research Department)

Born in 1950 in Afyonkarahisar, Halil Aydođan graduated from İstanbul University, Faculty of Economics, Department of Business Administration and Finance in 1976. He began his career at VakıfBank as Assistant Auditor in 1977. Subsequently, he served as Auditor from 1980 to 1983; Assistant Manager in the Mecidiyeköy Branch between 1983 and 1985; and Branch Manager in the Kadıköy, Mecidiyeköy, Taksim, İstanbul and Şişli branches from 1985 until 1996. Mr. Aydođan assumed the positions of Executive Vice President at VakıfBank between 1996 and 1999 and General Manager at Vakıf Finansal Kiralama A.Ş. from 1999 to 2000. He was a Member of Parliament from Afyonkarahisar for the 22nd and 23rd terms, a member of the State Owned Enterprises Commission for two years, and a member of the Planning and Budget Commission for seven years. On January 5, 2012, Mr. Aydođan was appointed as Chairman of the Board of Directors of VakıfBank and has served as General Manager of the Bank since March 29, 2013. He also holds the position of Chairman of the Board of Directors at Taksim Otelcilik A.Ş. and at Güneş Sigorta A.Ş. and is a Board member of Türkiye Sınai Kalkınma Bankası A.Ş. and member of Foreign Economic Relations Board.



METİN RECEP ZAFER

Executive Vice President

(General Accounting and Financial Transactions Department – Treasury and Foreign Operations Department – Banking Operations Department – Consumer Relations Coordination Department – Application Development Department 1 – Application Development Department 2 – System Administration Department – IT Operations and Support Department – IT Demand Management Department – IT Business Development Department – Project Management Department – Information Security, IT Process and Compliance Department)

Metin Recep Zafer is a graduate of Marmara University, Faculty of Economics and Administrative Sciences, Department of Economics. He earned his MA and Ph.D. from the same university. Starting his banking career in 1992, he served as Assistant Associate, Auditor and Department Manager at the branches, head offices and audit committees of various banks. He was appointed as Executive Vice President at VakıfBank on June 13, 2006. Mr. Zafer is fluent in English.



SERDAR SATOĐLU

Executive Vice President

(Private Banking Department - Subsidiaries Department)

Serdar Satođlu was born in Ankara in 1972. He graduated from TED Ankara College in 1990 and Ankara University, Faculty of Political Science, Department of Finance in 1994. Serdar Satođlu received his Master's degree in Capital Markets and Stock Exchanges at Marmara University, Banking and Insurance Institute in 2006. He received his Ph.D. in Banking in 2010 from the same Institute. Joining VakıfBank on March 6, 1995 as Assistant Auditor, Serdar Satođlu was appointed Head of the Audit Committee of Vakıf Yatırım Menkul Deđerler A.Ş. in 2001. He subsequently served as General Manager and Member of the Board of Directors at the same company for seven years between 2003 and 2010. He served as General Manager and Member of the Board of Directors of Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş. between 2005 and 2006. He was promoted to Executive Vice President at T. Vakıflar Bankası T.A.O. as of June 17, 2010. He was a Member of the Board of Directors at TakasBank between 2008 and 2010; first Member of the Audit Committee and then Member of the Board of Directors at TSPAKB between 2011 and 2014; Board Member at the Turkish Derivatives Exchange (VOB A.Ş.) between 2011 and 2012; and Board Member at the Central Registry Agency (MKK) between 2012 and 2014; Board Member at Vakıf Portföy Yönetimi A.Ş. between 2011 and 2014. He continues his stint as Board Member of Takasbank A.Ş., to which he was reelected in March 2015, and also serves as Chairman of the Audit Committee. Serdar Satođlu is married, has three children and is fluent in English.

**HASAN ECESOY***Executive Vice President*

(Treasury Banking - International Banking and Investor Relations Directorate - International Branches Coordination)

Hasan Ecesoy graduated from Uludağ University, Faculty of Engineering, Department of Electronics, and holds a Master's degree from Istanbul Technical University, Department of Business Administration as well as a Ph.D. from Marmara University, Department of Economics. He started his banking career in 1993 at Ziraat Bankası Banking School, went on to take office in the treasury departments of various banks, before being appointed as Executive Vice President of the Bank in June 2010. Hasan Ecesoy is fluent in English.

**OSMAN DEMREN***Executive Vice President*

(Commercial & Corporate Loans Department - Retail & SME Loans Department - Appraisal & Financial Analysis)

Osman Demren is a graduate of Dokuz Eylül University, Faculty of Economics and Administrative Sciences, Department of Business Administration and received his Master's degree from Okan University's Banking Program. Joining T. Vakıflar Bankası T.A.O. on December 16, 1996 as Assistant Auditor, Osman Demren was appointed as Executive Vice President on March 23, 2011 after working as Auditor, Assistant Manager and Regional Manager for several years at the Bank. He is fluent in English.

**M. LÜTFÜ ÇELEBİ***Executive Vice President*

(Corporate and Commercial Banking - SME Banking - Cash Management Operations - Bank Insurance Department - Corporate Branches)

Muhammet Lütfü Çelebi is a 1992 graduate of Istanbul University, Faculty of Economics and Administrative Sciences, Department of Economics. He started his career in 1995 at T. Vakıflar Bankası T.A.O. as Assistant Auditor. Between 1998 and 2001, he worked as Assistant Manager and Manager at a number of the Bank's branches. From 2011 to 2013, he held the position of Head of Retail Banking; he was appointed as Executive Vice President of T. Vakıflar Bankası T.A.O. on October 4, 2013. He is fluent in English.

EXECUTIVE MANAGEMENT



MUSTAFA SAYDAM

Executive Vice President

(Human Resources - Support Services - Distribution Channels)

Mustafa Saydam is a graduate of Gazi University, Faculty of Economics and Administrative Sciences, Department of Business Administration. He started his career in 1993 at T. Vakıflar Bankası T.A.O. as Assistant Auditor. After working as Auditor between 1996 and 1999, he served as Assistant Manager and Manager in various branches/departments at the Bank. He worked as the Head of Human Resources from 2005 until 2010, and as Head of the Audit Board between 2010 and 2013. Mr. Saydam was appointed as Executive Vice President of T. Vakıflar Bankası T.A.O. on October 7, 2013. He is fluent in English.



MEHMET EMİN KARAAĞAÇ

Executive Vice President

(Loan Monitoring and Risk Tracking - Legal Services)

Born in Konya in 1963, Mehmet Emin Karaağaç graduated from Istanbul University, Faculty of Law and started his career as Attorney at Türkiye İş Bankası A.Ş. in 1989. He served as Assistant Legal Counsel and Legal Counsel at various units of Türkiye İş Bankası A.Ş. until January 2, 2012. He assumed the position of Chief Legal Advisor in VakıfBank's Legal Department on January 3, 2012. Mr. Karaağaç was appointed the Bank's Executive Vice President of Legal Affairs, Loan Monitoring and Legal Proceedings on October 25, 2013.



YAKUP ŞİMŞEK

Executive Vice President

(Retail Banking Department - Payment Systems Department - Payment Systems Operations Department – Bancassurance Department)

Yakup Şimşek graduated from Ankara University, Faculty of Political Sciences, Department of Business Administration in 1992. He began his banking career at VakıfBank as Assistant Auditor in 1996 and served as Auditor from 1999 to 2002. Subsequently, he served as Deputy Manager and Manager in various branches and departments of the Bank. He served as Head of the Bank's Audit Board from 2008 to 2010, and as Manager of the East Anatolian Regional Directorate and Manager of the Southeast Anatolian Regional Directorate of the Bank, respectively, after 2010. While serving as Head of the Cash Management Department, a position he was appointed to on March 4, 2014, he was appointed Executive Vice President at the Bank on August 25, 2016.

INTERNAL CONTROL SYSTEMS

EXECUTIVES

ERSİN ÖZOĞUZ

Head of the Audit Board

Ersin Özoğuz is a graduate of Dokuz Eylül University, Faculty of Economics and Administrative Sciences, Department of Finance. Ersin Özoğuz started working as Assistant Auditor on the Board of Auditors on December 16, 1996. Subsequently, he served as Manager at various branches, Regional Manager and Head at the Bank's various Head Office departments. While serving as the Head of Cash Management Operations, he was appointed as Head of the Audit Board on February 20, 2014.

ZEKİ SÖZEN

Head of Risk Management

Zeki Sözen graduated from Middle East Technical University, Department of Computer Engineering; he completed postgraduate study at the same institution. Zeki Sözen began his professional career at VakıfBank as a Programmer in the Electronic Business Intelligence Systems (EBIS) Department on September 9, 1987. Subsequently, he served as Senior Programmer, Assistant Manager, Manager and Head of different departments of the EBIS Department prior to his appointment to Head of Risk Management on August 7, 2008.

RAMAZAN SIRYOL

Head of Internal Audit

Ramazan Sıryol is a graduate of İstanbul University, Faculty of Economics, Department of Public Finance. He began his career in 1993 as Assistant Auditor under the Head of the Audit Board. Since 2001, he has assumed managerial duties in various Bank branches. He was appointed as Head of the Audit Committee in 2008. Internal Audit, Legislation Monitoring and Compliance and Assessment are within the scope of his field of responsibilities. He speaks English.

COMMITTEES

AUDIT COMMITTEE

Mehmet Emin Özcan and Sabahattin Birdal were elected to the Audit Committee that was established in order to assist the VakıfBank Board of Directors in carrying out its auditing and oversight responsibilities.

The Audit Committee has assumed the following duties and functions:

- Overseeing the effectiveness and adequacy of the internal control systems of the Bank; functioning of these systems as well as the accounting and reporting systems in accordance with applicable laws and regulations; and maintaining the integrity of the information generated by these systems on behalf of the Board of Directors,
- Performing the preliminary assessments required for the selection of the independent audit firms by the Board of Directors,
- Monitoring the activities of the independent audit firms selected by the Board of Directors on a regular basis,
- Ensuring the consolidated functioning and coordination of the internal audit functions of the institutions subject to consolidated audit,
- Receiving regular reports from the departments in charge of and independent audit companies working on internal audit, internal control and risk management systems as regards their operations.

CREDIT COMMITTEE

VakıfBank Credit Committee is comprised of two permanent members and two alternate members, in addition to the General Manager. Mehmet Emin Özcan and Sabahattin Birdal serve as permanent members while İsmail Alptekin and Dilek Yüksel are alternate members.

The functions of the Credit Committee are as follows:

- Performing the tasks stipulated in the Banking Law in accordance with the principles set forth by the Board of Directors,
- Soliciting the written recommendation of the Head Office in lending decisions, and providing the financial analysis and news and intelligence reports about those applying for loans with respect to recommendations for loans that require the procurement of account status documentation,
- Providing any type of information that may be requested by any of the members of the Board of Directors about the Committee's activities and cooperating in the performance of any checks and controls since the Committee's activities are overseen by the Board of Directors.

CORPORATE GOVERNANCE COMMITTEE

VakıfBank Corporate Governance Committee consists of Chairman Öztürk Oran and Members İsmail Alptekin and Mustafa Turan. The Corporate

Governance Committee is responsible for overseeing the Bank's compliance with the Corporate Governance Principles.

The Corporate Governance Committee also fulfills the following functions:

- Overseeing the degree of compliance with the Corporate Governance Principles within the Bank and determining the reasons in case of non-compliance as well as determining the negative impacts resulting from incomplete adherence to these principles and recommending corrective actions to be taken in respect thereof,
- Formulating methods that will provide transparency in the identification of the candidates for the Board of Directors to be recommended to the Board of Directors,
- Undertaking research and developing recommendations about the number of executives in senior management positions,
- Formulating recommendations and monitoring the implementations related to the principles and practices for performance evaluation and compensation of the members of the Board of Directors and the executives,
- Providing recommendations to the Board of Directors pertaining to the persons to be appointed to the Bank's senior management positions consisting of Executive Vice Presidents and equivalents,
- Investigating the independence of the members of the Board of Directors and uncovering any conflicts of interest,
- Providing assessments and recommendations related to the structure and operating principles of the committees reporting to the Board of Directors.

REMUNERATION COMMITTEE

With the Board of Directors decision numbered 82893 and dated January 26, 2012, the VakıfBank Remuneration Committee was established in line with Article 6 of the Corporate Governance Principles that was amended with the "Regulation on Making Amendment to the Regulation Regarding the Corporate Governance Principles of Banks" that was published in the Official Gazette No. 27959 dated June 9, 2011. The Committee Chairman is Öztürk Oran and the members are Dr. Adnan Ertem and Dilek Yüksel.

The Remuneration Committee:

- Evaluates remuneration policies and practices in the context of risk management, and reports its recommendations to the Board of Directors annually.
- Develops its recommendations regarding the remuneration of the members of the Board of Directors and senior executives by taking into consideration the Bank's long-term objectives. The Committee identifies remuneration criteria that are linked to the respective performance of both the Bank and the Board Members. Considering the degree of realization of the

criteria, the Committee submits its remuneration proposals regarding Board Members and senior executives to the Board of Directors.

ASSET/LIABILITY MANAGEMENT COMMITTEE

The Asset/Liability Management Committee meets on a weekly basis to evaluate economic and market developments and to discuss the impact of these developments on the Bank's balance sheet. In addition, by reviewing the cost of funding as well as currency, interest rate, liquidity and credit risks, the Committee provides direction to ensure that actions impacting the Bank's balance sheet are in line with the Bank's objectives and strategies. In addition, the Committee monitors sources and uses movements that constitute the cash inflow and outflow in the short term, development of budget parameters by segment, and market shares; and evaluates measures and actions that will inform the liquidity, resource procurement and resource utilization transactions in accordance with the Bank's primary objectives and strategies.

The Committee, chaired by the General Manager, is comprised of Executive Vice Presidents, the Manager of Economic Research and the Head of Risk Management.

COMMITTEE MEETING FREQUENCY AND ATTENDANCE AT MEETINGS

Board of Directors

It generally convenes every 15 days, but more frequently in case of emergencies. The Board of Directors convened for 28 meetings and passed 1,425 resolutions in 2016.

Audit Committee

The Audit Committee generally convenes once a month. The Audit Committee convened for 16 meetings and passed 62 resolutions in 2016.

Credit Committee

It generally convenes every 15 days and holds extraordinary meetings in case of emergencies. The meeting time is determined based on the number of agenda items received by the meeting secretariat and their urgency status. The Committee convened for 75 meetings and passed 431 resolutions in 2016.

Corporate Governance Committee

It convenes at the dates specified by the Committee Chairman; generally every three months or at least twice a year, but not to exceed six months between meetings. The Committee convened for two meetings in 2016.

Remuneration Committee

It meets at least once a year. The Committee convened once in 2016.

Asset/Liability Management Committee

The Committee generally meets weekly; it convened 44 times in 2016.

HUMAN RESOURCES PRACTICES

In line with the “Training Needs Assessment,” 2,306 classroom training sessions were conducted on 499 different topics in 2016. Some 49,225 participants received a total of 434,370 hours of training during these sessions.

11,304 employees, out of the Bank’s total personnel count of 15,615, attended at least one training session.

VakifBank’s human resources applications support the Bank’s overall success while reinforcing its corporate identity, vision, mission, values, goals and plans. The Bank’s investments in improving the employees’ skills also boost the productivity and efficacy of the efforts expended to realize VakifBank’s goals.

EMPLOYEE MANAGEMENT

- Armed with the awareness that human capital is the primary source of its success as well as its most valuable asset, the Bank aims to recruit qualified and visionary young talents who are open to improvement; develop its managers of the future from within; enhance the personal and professional skills of each and every employee through human resources applications; ensure both “internal” and “external customer” satisfaction; and sustain a work environment staffed with highly motivated professionals.
- The Bank tried to ensure effective conduct of operations in its branches and units with the optimal number of employees while managing the existing human resources efficiently in 2016. Recruitment processes were administered interactively with all units in light of the strategies determined based on the Bank’s long-term strategic goals and the permanent staff of branches and units. In response to the staffing needs that arose during the year, 1,043 new employees were hired to the Bank’s branches and units. The Bank’s personnel count increased 1.33% compared to the previous year and reached 15,615 at year-end 2016.

- As part of the Bank’s obligation to render uninterrupted banking services to customers, staffing levels of branches organized under regional directorates are monitored closely. Personnel needs are identified pursuant to evaluations based on a number of criteria including average number of employees per branch, average personnel count in the region based on branch sizes, number of permanent branch employees, and the number of employees leaving the Bank. To this end, the Bank has been pursuing a regional recruitment approach since 2014 where the Bank’s personnel needs are met by hiring local candidates who live in the same locations as the branches. As part of this process, the Bank identifies candidates on a regional basis to be recruited for the branches in need of new employees; subjects them to general knowledge and competence tests; conducts job interviews with the successful candidates; and hires intern public servants on a regional basis. As a direct consequence of the regional recruitment process, where candidates are hired for positions in the same province as they reside, employee motivation and satisfaction is maximized while their adaptation and contribution to the Bank are increased. This approach also eliminates transfer requests that were a result of recruitment through a centralized exam in the previous years.
- In its recruitment processes, the Bank uses the modern and contemporary evaluation tools presented by the independent human resources firms that are contractors of the Bank. The Bank focuses on the importance of recruiting qualified and the right candidates who conform to the corporate culture and aim to improve themselves. To

this end, as part of the initiatives carried out with its contractor firms, the Bank conducted activities to improve and update the recruitment tests and applications used in recruitment processes based on the Bank’s needs on the basis of each position.

- Under the Bank’s growth policy, a candidate database was created to meet the staffing needs and quickly recruit professionals who are qualified enough to work for the Bank. To this end, in order to conduct candidate selection when the need arises, a system was created on the Bank’s website where candidates can upload their resumes to this database. The candidate database facilitates easy access to the Bank for all job seekers.
- Pursuant to the principle of “maintaining a permanent working environment open to communication at all levels” that is also among the core principles VakifBank’s Human Resources Policy, an “Internal Customer Satisfaction Survey” was conducted in 2016 in order to measure the level of satisfaction from the services provided by Head Office units to the branches. The survey identified the areas of strength, areas of compliance with the general level of services within the Bank, and areas of improvement with respect to the services rendered by related units to the branch personnel, who are defined as “internal customers.” Results for the units included in the survey were shared with the managers of these units. Suggestions of employees who took part in the survey, as well as the efforts and contributions of the managers whose units were assessed in the survey toward increasing service quality, created significant value-added for sustaining the Bank’s success.

HUMAN RESOURCES PRACTICES

Pursuing a career policy that is compatible with the strategy of developing its own managers from within, VakıfBank provides every promising employee who

improves himself or herself with a career path that offers an opportunity for promotion at certain intervals based on pre-determined criteria.

CAREER AND PERFORMANCE

- Pursuing a career policy that is consistent with its strategy of “being a bank that develops its own directors”, VakıfBank, in line with pre-determined criteria, offers a career path that provides promotion opportunities in certain periods to every promising employee and to the employees who exhibit personal and professional development. To this end, based on the Bank’s growth ambitions and pursuant to the related articles of the Bank’s Personnel Directive and Specialized Employee Directive that govern promotions, employees were promoted to a higher title in 2016.
- In compliance with Labor Law no. 4857, persons with disabilities were employed in the provinces the Bank has more than 50 personnel.
- Pursuant to Articles 10 and 30 of the “Occupational Health and Safety Law” no. 6331 as well as the “Occupational Health and Safety Risk Assessment Regulation” no. 28512 dated December 29, 2012, authorized persons began to draft Risk Analysis and Emergency Plans for all units and branches of the Bank.
- As part of the Performance Assessment and Incentive System, performance bonuses are paid to branch personnel and sales personnel according to their own accomplishment scores in the regional directorates with assigned targets, and to Head Office personnel according to the average accomplishment score of the branches, every six months, in due consideration of seniority.
- In 2016, performance evaluations of sales personnel were conducted on a daily basis according to measurable, attainable, and realistic targets, which were set by taking

into consideration the skill sets and current job descriptions of the employee, and objective and fair evaluations in accordance with these targets. The Bank also achieved a high level of employee motivation by making semi-annual incentive payments to its employees.

- The performance management system was updated based on developments in the banking industry, the Bank’s projections, and the feedback from marketing units.

PLANNING AND ORGANIZATION

- In due consideration of domestic and international economic developments and the dynamic structure of the sector, VakıfBank, a market maker in a constantly evolving and growing banking industry, reinforced its organizational structure by forming four new units in 2016 in an effort to ensure effective and efficient functioning of its units, address the changing needs of the industry and of customers, and comply with new regulations. In addition, operational guidelines of nine departments were updated so as to create the job descriptions of the new departments and to align the functioning of the Bank’s departments according to current-day conditions and legislative procedures.
- The need to revise the structure of the Bank’s committees arose in order to accelerate the Bank’s sustainability initiatives; increase the effectiveness of these efforts; and enable the Sustainability Committee and the Sustainability Sub-Committee to move more effectively and faster. To this end, the Sustainability Committee was dissolved; all of its duties and authorities were assigned to the Corporate Governance Committee; and

the Corporate Governance Committee was appointed as the authorized entity to establish, manage and sustain the ISO 9001 and ISO 14001 standards.

- The permanent staff initiative was continued with an expanded scope and new methods with the aim of identifying the staffing needs of Head Office units and branches, in terms of skill sets and personnel count, in order for them to execute their functions effectively and efficiently, and ensuring optimal utilization of the existing human resources.
- A Personal Data Working Group was formed with the participation of all related units at the manager level in order to ensure the Bank’s compliance with the changes stipulated in the Personal Data Protection Law no. 6698; implementation of the required system and regulatory changes; management of customer demands; and taking rapid action in this direction.
- With its strong capital structure, asset quality and extensive branch network in the Turkish banking industry, VakıfBank embraces the principle of rendering effective, efficient and customer-oriented services. To this end, in order to ensure the continuity of its robust organization, VakıfBank increased the total number of its branches from 920 to 924 by opening eight new branches while closing one branch and three satellite branches.
- VakıfBank has a large base of salary direct deposit customers. In order to become more accessible to these and other customers, perform transactions such as payments and corporate collections on site, and ensure service continuity in cases of emergencies such as natural disasters and popular movements, the Bank completed the purchase of two Mobile Branches in 2016.

In order to ensure the continuity of its robust organization, VakıfBank increased the total number of its branches from **920 to 924 in 2016 by opening eight new branches while closing one branch and three satellite branches.**

TRAINING

- As part of its human resources policies, VakıfBank provides training opportunities for its employees in order to support their development in line with their career goals, improve their motivation, create job satisfaction, and increase their work productivity. To this end, in line with the "Training Needs Assessment," 2,306 classroom training sessions were conducted on 499 different topics in 2016. Some 49,225 participants received a total of 434,370 hours of training during these sessions. Some 11,304 employees, out of the Bank's total personnel count of 15,615, attended at least one training session while 7,577 employees attended multiple training sessions.
- In addition to classroom training sessions, 147,690 participants completed e-learning modules offered on 122 topics.

STRATEGIC GOALS FOR 2017

- VakıfBank's recruitments will continue to provide young candidates with professional opportunities to embark on a career in the banking industry in 2017. To this end, the Bank will continue to hire new employees who possess the necessary qualifications to work for the Bank through written examinations and job interviews to fill the staffing needs due to new branch openings as well as attrition (retirements, resignations, and the like) with due consideration to permanent staff needs and levels of branches and units. The Bank plans to continue hiring Assistant Auditors, Assistant Analysts, and Public Service Interns as well as Assistant IT Analysts, Engineers, Architects, and Attorneys according to the needs of business units in 2017.

- VakıfBank plans to continue regional hiring in 2017 by subjecting the candidates who meet the minimum requirements to written examinations and interviews to quickly fill the staffing needs of branches based on the needs of regions.
- The Bank has conducted surveys among branch employees in recent years in an attempt to solicit their ideas and opinions on the quality of the services rendered by Head Office units, which directly contributes to improving the branch-unit business coordination. VakıfBank plans to conduct the "Internal Customer Satisfaction Survey" again in the upcoming year. The survey is also intended to increase the employees' engagement with and value-added to the Bank.
- Pursuant to the related articles of the Bank's Personnel Directive and Specialized Employee Directive that govern promotions, the Bank plans to administer a promotion in title examination to personnel and specialized employees (Assistant Analyst, Assistant Financial Analyst) in the Professional Public Servant category.
- Pursuant to Labor Law no. 4857, in response to growing personnel count, if the need for employees with disabilities arises in the provinces where the Bank has more than 50 personnel, the Bank will continue to hire persons with disabilities in 2017.
- The Bank sets career goals for employees based on their competencies, performance, education, training and certifications.
- As a result of the transfer of all operational processes to VIT, the Bank plans to conduct performance measurement for the operations personnel.
- The Bank plans to conduct performance measurement for sales personnel employed in Private Banking branches.
- In accordance with the Bank's goals and strategies, VakıfBank plans to restructure the Bank's organization to meet its needs; revise the operational guidelines of all units; and align them with the Bank's business processes.
- In line with new laws, regulations and requirements for the banking industry, VakıfBank plans to establish coordination between the units and support the developments that will impact the Bank's structuring.
- Armed with the awareness that the Bank's most valuable asset is its human capital, the Bank plans to conduct the permanent staff analyses in order to determine the optimal personnel needs of units and branches.
- In response to economic policies in the world and in Turkey in 2017, in line with the Bank's profitability, growth, deposit and loan targets, and with the strength the Bank derives from customers, VakıfBank plans to expand its branch network while relocating the unprofitable branches to new locations that are expected to be profitable for the Bank.
- The Bank aims to increase customer satisfaction by giving tickets through the Mobile Branch for the q-matic systems in the branches and directing customers from busy branches to less busy branches.
- VakıfBank plans to ensure that the trainings administered in response to employee needs can be put into practice, support social learning, focus on business results, and use technology intensively.

OUTSOURCED SUPPORT SERVICES

Under Banking Law n.5411 and Regulation n.28106 on Procurement of Support Services for Banks (date: 05.11.2011), VakıfBank procures support services from various firms in order to increase its service quality and maximize customer satisfaction.

As part of the services received from the companies specified within the framework of Law No. 5188 regarding "Private Security Services," support services such as private security and cash transportation, information systems, various campaigns, merchant verification, and call center services included in the scope of improving Bank's registries, retail marketing and data input services, negotiable instrument printing, deposits and credit account statements printing, human resources, et al. are procured from the following companies, provided that the Bank has the authority in management, content, access, control, auditing and updating.

For private security and cash transportation services received from companies in accordance with Law No. 5188 on Private Security Services

- Group 4 Securicor Güvenlik Hizmetleri A.Ş.
- Desmer Güvenlik Hizmetleri A.Ş.
- Ekol Grup Güvenlik Ltd. Şti.
- Securitas Güvenlik Hizmetleri A.Ş.
- Bakkaloğlu Özel Güvenlik Ltd. Şti.

For the Maintenance of IT Systems Software Services

- Asseco See Teknoloji A.Ş.
- Bilişim Bilgisayar Hizmetleri Ltd. Şti.
- Crif Enformasyon Derecelendirme ve Dan. Hizm. San. ve Tic. A.Ş.
- Diebold ATM Cihazları Tic. A.Ş.
- DRT Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
- Eretim Bilgisayar Hizmetleri ve Danışmanlık Ltd. Şti.
- Etcbase Yazılım ve Bilişim Teknolojileri Ltd. Şti.
- Experian Bilgi Hizmetleri Ltd. Şti.
- Global Bilişim Bilgisayar Yazılım Danışmanlık San. ve Tic. Ltd. Şti.
- IBM Global Services İş ve Teknoloji Hizmetleri Tic. Ltd. Şti.
- ICS Financial Systems Ltd.
- Infina Yazılım A.Ş.
- Innova Bilişim Çözümleri A.Ş.
- Key İnternet Hizmetleri Bilgisayar Yazılım Don. Mühendislik Müş. San. ve Tic. Ltd. Şti.
- Kobil Bilgisayar Enerji ve Elektrik Sistemleri San. Tic. Ltd. Şti.
- Optiim İş Çözümleri A.Ş.
- Provus Bilişim Hizmetleri A.Ş.
- Pronet Güvenlik Hizmetleri A.Ş.
- Riskaktif Danışmanlık Eğitim ve Yazılım San. Tic. Ltd. Şti.
- Suntec Business Solutions FZE
- Turkstrust Bilgi İletişim ve Bilişim Güvenliği Hiz. A.Ş.
- Troy TRM Enformasyon ve Yazılım San. Tic. Ltd. Şti.
- Uzman Bilişim Danışmanlık A.Ş.
- V.R.P. Veri Raporlama Programlama Bilişim Yazılım ve Dan. Hiz. Tic. A.Ş.
- Verifone Elektronik ve Danışmanlık Ltd. Şti.

For Call Center Services

- CMC İletişim ve Çağrı Merkezi Hizmetleri A.Ş.
- Assisst Rehberlik ve Müşteri Hizmetleri A.Ş.

For Retail Marketing and Data Entry Services

- Infoverify Danışmanlık Hizmetleri A.Ş.
- PTT Genel Müdürlüğü
- 8 Car Dealers

For the Printing of Negotiable Instruments

- MTM Holografı Güvenlikli Basım ve Bilişim Teknolojileri San. ve Tic. A.Ş.

For Outsourcing

- Vakıf Pazarlama Sanayi ve Ticaret A.Ş.
- GNY Tanıtım İletişim Hizmetleri ve Dış Tic. Ltd. Şti.
- OBSS Bilişim Bilgisayar Hiz. Dan. San. ve Tic. Ltd. Şti.
- LYNKS Bilişim Hizmetleri San. Tic. Ltd. Şti.
- GMG Bilgi Teknolojileri Ltd. Şti.
- Binova Bilişim Danışmanlık Ltd. Şti.
- Sar Yazılım Bilgi Teknolojileri Danışmanlık Eğitim Ltd. Şti.
- Set Bilgisayar Yazılım Donanım Eğitim Müş. Hiz. Ltd. Şti.
- TrioTech Yazılım Ltd. Şti.

For Credit Cards Distribution Services

- Kurye Net Motorlu Kuryecilik ve Dağıtım Hizmetleri A.Ş.

Deposits and Credit Account Statements Printing

- Mastercard Payment Transaction Services Turkey Bilişim Hizmetleri A.Ş.

TRANSACTIONS WITH THE BANK'S RISK GROUP

The details of the transactions with the Bank's risk group in 2016 and related explanations are presented in the annual report as a note to Section VII of the Independent Audit Report on Unconsolidated Financial Statements.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

CHAPTER I - DECLARATION OF CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE

Türkiye Vakıflar Bankası T.A.O. ("VakıfBank" or "Bank"), has adopted the Corporate Governance Principles stipulated in accordance with the Banking Legislation, Capital Markets Legislation, Turkish Commercial Code and other relevant regulations. VakıfBank pays utmost attention in order to actualize these principles and has adopted the equality, transparency, accountability and responsibility concepts of the Corporate Governance Principles published by Capital Markets Board (CMB).

The Bank ensured compliance with the following Corporate Governance Principles from among those stipulated in the Annex of the Corporate Governance Communiqué II-17.1 that entered into force after being published in the Official Gazette (no. 28871) on the 3rd of January 2014;

a-) The Bank is in compliance with the following compulsory principles that must be implemented by the banks: (1.3.1.), (1.3.5.), (1.3.6.), (1.3.9.), (4.2.6.), (4.3.1.), (4.3.2.), (4.3.3.), (4.3.4.), (4.3.5.), (4.3.6.), (4.3.7.), (4.3.8.), (4.5.1.), (4.5.2.), (4.5.3.), (4.5.4.), (4.5.9.), (4.5.10.), (4.5.11.), (4.5.12.), (4.5.13.), (4.6.2.) and (4.6.3.).

b-) Regarding the non-compulsory principles:

In order to achieve compliance with the principle no. 1.3.10, the Bank's Board of Directors established a "Donation and Aid Policy" within the period and this policy was published on the website in Turkish and English. The policy was approved by the shareholders at the 61st Ordinary General Assembly Meeting held in 2015, and thus full compliance with the principle was achieved.

In order to comply with principle no.1.6.1, the Bank's Board of Directors established a "Profit Distribution Policy" in 2014, and published the policy document in Turkish and English on the website. The policy was approved by the shareholders at the 61st Ordinary General Assembly Meeting held in 2015, and thus full compliance with the principle was achieved.

Eight members of the Board of Directors are elected by the General Assembly whilst one member is appointed by the Prime Minister. There is one female member in the Board of Directors which is composed of the eight members who were elected at the 62nd Ordinary General Assembly of 2016. On the other hand, in spite of the fact that the 25% ratio advised in the Corporate Governance Principle n.4.3.9 is not reached exactly, no disputes have arisen between the stakeholders so far.

CHAPTER II - SHAREHOLDERS

2.1 Investor Relations Department

The Investor Relations Department carries out its activities under the Head of International Banking and Investor Relations that reports to the Executive Vice President Mr. Hasan Ecesoy.

Conducting relations with foreign and corporate investors, rating institutions and shareholders, the Investor Relations Department makes required notifications regarding all activities carried out and quarterly submits presentations, in particular, regarding the financial comparative analysis of VakıfBank with its peers to the Board of Directors.

The licenses of the department directors are as shown below:

Name-Surname	Title	License
Mustafa Turan*	Head	Capital Market Activities Advanced Level License, Derivative Instruments License, Corporate Governance License
Ali Tahan	Manager	Capital Market Activities Advanced Level License, Derivative Instruments License, Corporate Governance License

*Assumes duties as a member of the Corporate Governance Committee as per the 11th Article and 2nd paragraph of the Corporate Governance Communiqué.

Employees serving in the Investor Relations Department are as follows:

Name-Surname	Title	Phone	E-mail
Mustafa TURAN	Head	+90 212 316 73 90	mustafa.turan@vakifbank.com.tr
Ali TAHAN	Manager	+90 212 316 73 36	ali.tahan@vakifbank.com.tr
Zeynep Nihan DİNCEL	Assistant Manager	+90 212 316 73 83	zeynepnihan.dincel@vakifbank.com.tr
Yasemin KEÇELİOĞLU	Associate	+90 212 316 73 85	yasemin.kecelioglu@vakifbank.com.tr
Ece Seda YASAN	Associate	+90 212 316 74 01	eceseda.yasan@vakifbank.com.tr
Yusuf YILMAZ	Assistant Associate	+90 212 316 73 88	yusuf.yilmaz2@vakifbank.com.tr
Berna SELEM ARSLANTAŞ	Assistant Officer	+90 212 316 75 94	bernaselem.arslantas@vakifbank.com.tr

CORPORATE GOVERNANCE PRINCIPLES

COMPLIANCE REPORT

The main duties and responsibilities of the Investor Relations Department are as follows:

- Managing the relations with existing and potential foreign and local institutional investors and rating institutions,
- Maintaining the relations with brokerage companies' analysts who prepare reports about the Bank,
- Attending meetings organized inside and outside the country on behalf of VakıfBank,
- Preparing quarterly presentations regarding results of the financial statements and making teleconferences,
- Preparing corporate presentations and similar type of meeting tools that publicize the Bank, arranging various target-driven publicity and informative meetings,
- Keeping the "Investor Relations" page up-to-date that includes Turkish and English contents on the Bank's website,
- Working in coordination with the relevant Headquarters departments in preparing and updating the Corporate Governance Principles Compliance Report,
- Answering the shareholders' written information requests about the Bank,
- Preparing documents that must be submitted for the shareholders' information and review regarding Ordinary and Extraordinary General Assembly meetings and holding General Assembly meetings in compliance with the relevant legislation, the Bank's Articles of Incorporation and other internal regulations,
- Making the disclosure of material matters - required to be made within the scope of the Capital Markets Legislation and the relevant legislation that the Bank is liable to comply with - via Public Disclosure Platform,
- Carrying out activities in collaboration with the departments for sustainability activities,
- Providing coordination necessary for establishing, running, and creating a sustainable Quality and Environment Management System - with a methodology to be determined by the Corporate Governance Committee - within the Bank.

During 2016, the Investor Relations Department:

- Approximately 1,500 information requests submitted by the shareholders were responded to.

- 17 local and foreign investor conferences were attended, and face-to-face meetings were held with approximately 650 foreign and local institutional investors.
- More than 210 meetings were held in the Bank's Istanbul office and roughly 450 investors/analysts were interviewed.
- Following the investor conferences attended, reports were prepared in line with the feedback obtained from the investors and presented to the top management.
- Four teleconferences about the results of the financial statements were arranged and their records were published on the English version of the website.
- Annual ordinary evaluation meetings were held with four rating institutions (Fitch, Moody's, S&P and Capital Intelligence).
- Close contact was made with all the analysts issuing reports about the Bank, accurate and reliable information was given to the analysts at the report preparation stages and opinions were shared with the analysts on the prepared reports.
- It was ensured that 2016 Ordinary General Assembly meetings were held within the scope and in compliance with the Banking Law, Capital Markets Law, Corporate Governance Communiqué, the Bank's Articles of Incorporation and other legislations.
- Secretarial procedures were performed for the Corporate Governance Committee, which is the highest body authorized for coordinating sustainability activities, and for the Sustainability Work Group which carries out activities under this Committee. Anticipated meetings and meeting agendas were determined.
- As the Bank is listed in the BIST Sustainability Index, correspondence with the related organizations has been carried out to make sure that the Bank continues to be listed in the Index. Furthermore, EIRIS (Ethical Investment Research Services Limited) evaluated the reports issued about the Bank's index performance, and shared its opinions with the Bank.
- In order to maximize the Bank's performance in environmental, social and Corporate Governance issues, activities were carried out in collaboration with other units of the Bank.
- In conformity with the Global Reporting Initiative G4 requirements, activities were initiated to prepare the second Sustainability

Report of the Bank, that will cover 2016 activity period.

- In order to formulate the framework of the Sustainability Report, and set the long term sustainability strategy of the Bank, various communication channels (surveys, phone calls and meetings) were used and opinions of the shareholder were taken. Within this scope, approximately 200 shareholders were surveyed, 10 shareholders were contacted by phone calls while face-to-face meetings were held with 10 shareholders.
- Necessary assignments were made within the Bank with the aim of providing coordination necessary for establishing, running, and creating a sustainable Quality and Environment Management System - with a methodology to be determined by the Corporate Governance Committee.
- For the institutional and foreign investors, Turkey's first investor relations application in English that was prepared by the related Bank units in 2014 for iPhone and iPad users, was actualized with the name "VakıfBank IR." From the date of activating the application until the end of 2016, 6,330 users 1,630 of it in 2016, downloaded the application and started using it on tablets and smartphones.

2.2 Exercise of Shareholders' Right to Information

Questions asked in writing or via phone calls to the Investor Relations Department are answered, except the ones that interfere with confidential information and trade secrets, by contacting with the most authorized person who is the addressee of the question.

Information and developments that interest the shareholders such as stock transaction, capital increase, dividend transactions, General Assembly meetings, financial statements, disclosure of material matters, are regularly communicated with the related parties via websites, newspaper ads, mails or phone calls. Mentioned developments and information are shared with the investors located abroad via e-mail. Moreover, information requests made within the activity period by the domestic shareholders about the status of their stocks, conversion transactions of the existing shares and stock sharing transactions upon death are responded in writing.

VakifBank has two separate investor relations websites prepared both in Turkish and English. These are:

Investor Relations website in Turkish:

http://www.vakifbank.com.tr/Yatirimci_lliskileri.aspx?pageID=657

Investor Relations website in English:

<http://www.vakifbank.com.tr/investor-relations.aspx?pageID=625>

These websites include; corporate information, Bank's Articles of Association and the Law on VakifBank, General Assembly information documents, profit distribution chart, General Assembly Internal directive, attendance lists, brief minutes, periodic financial statements and annual reports, credit rating scores given by credit rating agencies, Corporate Governance reports, sustainability information, stock data and announcements about the developments in the Bank. Publicly announced via Disclosure Platform developments about VakifBank and disclosure of material matters are available on these websites. Bank's corporate websites do not include any information and announcement that may have impact on using shareholders rights.

VakifBank is regularly audited within the framework of the Banking Law, in particular, and relevant legislation.

2.3 General Assembly Meetings

The Ordinary General Assembly Meeting was held at the Headquarters' address in 2016. 62nd Ordinary General Assembly Meeting was held on the 29th of March 2016 and meeting quorum was 88.31%.

Ordinary General Assembly Meeting was held as per the provisions of the "Regulation On The General Assemblies Of The Joint Stock Companies That Will Be Made In Electronic Environment" and "Communiqué On The General Assembly System That Will Be Used In The General Assemblies Of The Joint Stock Companies". The shareholders had the opportunity to attend the General Assembly meeting on an electronic platform, express their opinions, make suggestions, and cast their votes.

In order to inform the shareholders in prior to General Assembly Meetings, the call for General Assembly, the agenda, power of attorney sample and other attached documents were publicly announced in conformity with the relevant legislation via Public Disclosure Platform, Turkish Trade Registry Gazette, Electronic General Assembly System and at least on two newspapers (published nationwide) selected by the Board of Directors. These documents were also published in Turkish and English on the Bank's website. A minimum of 21 days prior (meeting and call dates excluded), a call for a General Assembly is made in the Central Registry Agency system for the e-General Assembly service that enables participating, making proposals and statements, and voting at the Bank's General Assembly Meeting on electronic platform. Moreover, these documents are sent to the shareholders whose up-to-date addresses are listed on the Bank's records.

The 2015 annual report, issued for the General Assembly, including Bank's balance sheet and profit/loss statements of 2015 accounting period, Board of Directors annual report, auditor's report and independent external audit company report, was made available in prior to the General Assembly for the Bank shareholders' information and review via Central Registry Agency system and all branches of the Bank. Furthermore, in case shareholders request, Bank's branch staff will be providing them with the copies of the call for General Assembly, agenda and power of attorney samples. Shareholders, entitled to attend the General Assembly, who completed the necessary procedures did attend the Ordinary General Assembly Meeting held in 2016.

The invitation letters published before the meetings contain the following information:

- Date, time and location of the meeting,
- Agenda of the meeting,
- The body inviting shareholders to the meeting (e.g. Bank's Board of Directors),
- The locations where the annual report, balance sheet and profit/loss accounts statements are available for review by shareholders in case of ordinary meeting announcements (Head Office and branches),
- Sample power of attorney for shareholders who will not attend the meeting in person.

The issued annual report includes information such as; information regarding the activities of the Bank, information regarding the top management, Bank's balance sheets, balance sheet footnotes, independent audit report, audit board report, Board of Directors' proposal for profit distribution, Corporate Governance Principles Compliance Report, etc. Upon request, the Investor Relations Department provides shareholders with a copy of the annual report before or after the General Assembly meeting.

All shareholders, irrespective of the size of their participating share, are entitled to speak, to express opinion and to ask questions related to the agenda items of both Ordinary and Extraordinary General Shareholders' meetings. The answers given by the Meeting Chairman and Council to the questions, suggestions and opinions, and to other issues of the shareholders – who physically and/or electronically attended the Ordinary General Assembly Meeting held on the 29th of March 2016 was included in detail in the General Assembly minutes. Following the General Assembly, General Assembly Meeting minutes and annexes are publicly announced via Public Disclosure Platform, Turkish Trade Registry Gazette, e-Company Information Portal and Electronic General Assembly System, and furthermore on the Bank's website.

The 39th Article of the Bank's Articles of Incorporation is as follows: "Every shareholder attending the General Assembly Meeting has the opportunity to declare his/her opinions and ask question about the agenda items, under equal circumstances and within the framework of the principles regarding the conduct of the meeting. Questions asked to the Board of Directors, are verbally answered right on the spot if possible, if not they will be answered in writing within one week following the General Assembly provided that they are necessary for using shareholders' rights and that they do not interfere with trade secrets." At the Ordinary General Assembly Meeting held on the 29th of March 2016, shareholders' questions were answered during the meeting by the Investor Relations Department. Furthermore, within the scope of the Corporate Governance Principle no. 1.3.5; the questions asked at the General Assembly meeting and the answers given, were published on the Bank's website within the 30 days following the meeting date.

CORPORATE GOVERNANCE PRINCIPLES

COMPLIANCE REPORT

At the General Assembly Meeting held on the 29th of March 2016, shareholder Sevda Alkan had a dissenting opinion about the 8th item of the agenda, and she stated that the Bank did not have sufficient number of female members in the Board of Directors as per the Corporate Governance Principles. On the other hand, at the General Assembly of the Bank, Dilek Yüksel was elected as a female member of the Board of Directors. In spite of the fact that the number advised in the Corporate Governance Principle n.4.3.9, is not reached exactly, no disputes have arisen between the stakeholders so far.

Information was given at the General Assembly Meeting about the amount of aid and donation made by the Bank within the period. Summary of the General Assembly Meeting include information about this issue.

At the Ordinary General Assembly Meeting held in 2016, shareholders did not make any request to add an item on the agenda of the Ordinary General Assembly Meeting.

In addition in 2016, there was no matter left to the General Assembly for resolution due to the majority of the independent Members of the Board of Directors not casting affirmative vote.

Shareholders (who control the management of the Company), Board of Directors' members, managers who have administrative responsibilities, and their spouses and blood relatives and relatives by marriage up to second-degree did not make any important transaction with the Bank or its associate companies which may lead to conflicts of interest. Furthermore, the aforementioned persons did not make any transaction, related to a commercial business that is within the scope of the Bank's or its associate companies' field of activity, for their own account or for the account of others or did not become unlimited partners in other companies carrying out similar commercial businesses.

2.4 Voting and Minority Rights

The provisions regarding voting rights of the shareholders and the use of these rights

are stipulated in the Article 30 of VakıfBank Articles of Incorporation. As per the Articles 43 and 48 of the Bank's Articles of Incorporation; group (A), (B) and (C) shareholders have the privilege to nominate in the election of the Board of Directors while group (A) and (C) shareholders have the privilege in the election of the Audit Committee.

Bank shares are divided into Class (A), (B), (C) and (D) group. The nominal values and voting rights of the share certificates of all classes are equal. Class (D) consists of publicly traded shares.

Shareholders who hold or represent 10 shares are entitled to one vote at the General Assembly meetings while those who hold more than 10 shares are entitled to a number of votes calculated as per the proportion specified above without any limitation.

In VakıfBank's capital, there is no mutual participation relationship. The use of the minority rights is subject to Turkish Commercial Code, Capital Markets Law, relevant legislation and to the communiqué and resolutions of CMB.

2.5 Dividend Rights

There are no provisions in the Bank's Articles of Incorporation that stipulates privileges in participating in profit sharing. The principles regarding the profit distribution of VakıfBank's shares are stipulated in the Articles 82, 83, 84, 85 of the Bank's Articles of Incorporation.

Each year, Board of Directors of VakıfBank submits its proposal on profit distribution to the General Assembly and to the Shareholders' information via annual report prior to the General Assembly meeting. The proposal of the Board of Directors regarding profit distribution is discussed and resolved at the General Assembly. Profit distribution procedures were completed within the legal timeframe in line with the decision taken by the General Assembly about distributing 2015 Profit and necessary notifications were made to the public authorities. Furthermore, the relevant decision was publicly announced on the same day via Public Disclosure Platform.

In profit distribution, a balanced policy is pursued between the benefits of the shareholders and partnership.

With the aim of complying with the Corporate Governance Principle no. 1.6.1., in 2014, the Board of Directors of the Bank created a "Profit Distribution Policy" and published the document in Turkish and English on the corporate website. Profit Distribution Policy was presented to the approval of the shareholders at the Ordinary General Assembly Meeting held in 2015. Thus, full compliance with the relevant principle was achieved.

2.6 Transfer of Shares

All Bank shares are registered shares and divided into Class (A), (B), (C), and (D) groups.

The Council of Ministers is entitled to sell and to determine the procedures and principles of the sale of Class (A) shares of the Bank and the Class (B) shares held by the attendant foundations under the General Directorate of Foundations.

The Bank's Articles of Incorporation does not include any provisions to restrict the transfer of Class (B) shares held by other attendant foundations and of Class (C) and (D) shares.

However, the Bank's Board of Directors is authorized to convert Class (B) shares held by attendant foundations (subject to permission by the General Directorate of Foundations) and Class (C) shares into Class (D) shares at the request of the Shareholders.

CHAPTER III - PUBLIC DISCLOSURE AND TRANSPARENCY

3.1 Bank Website and Its Content

The Bank has two separate websites; that are regularly updated and published in accordance with the Corporate Governance Principles in Turkish (www.vakifbank.com.tr) and in English (www.vakifbank.com.tr/English.aspx?pagelD=977).

VakıfBank has two separate investor relations website published in Turkish and in English^{(1), (2)}

⁽¹⁾ Investor Relations website in Turkish: http://www.vakifbank.com.tr/Yatirimci_Iliskileri.aspx?pagelD=657

⁽²⁾ Investor Relations website in English: <http://www.vakifbank.com.tr/investorrelations.aspx?pagelD=625>

These websites include; corporate information, periodic financial statements and annual reports, ratings given by credit rating agencies, Corporate Governance reports, information regarding sustainability, and the sustainability reports of the Bank, stock data, presentations for investors, Bank's Articles of Association and the Law on VakıfBank, General Assembly Internal directive, attendance lists, General Assembly brief minutes, capital increase and dividend ratios, analyst lists, VakıfBank's management, organizations structure, committees, code of ethics, information policy, profit distribution policy, anti bribery and corruption policy, compensation policy, human rights and employee rights policy, aid and donation policy, remuneration policy, environment policy, social responsibility policy Occupational Health and Safety, MASAK compliance policy, and announcements regarding the developments in the Bank. These websites also include the disclosure of material matters on publicly announced developments about VakıfBank via Public Disclosure Platform. Bank's corporate websites do not include any information and announcement that may have impact on using shareholders rights.

Interactive Analysis Function offers the opportunity to make comparative analysis of VakıfBank shares and indices in local and foreign currencies.

Bank's website is in compliance with the CMB's Corporate Governance Communiqué (II-17.1; date: 03.01.2014) principles no. (2.1.1), no. (2.1.2), no. (2.1.3) and no. (2.1.4) regarding corporate websites. Most of the announcements made by the Bank via Public Disclosure Platform are translated into English and published on the webpage. Furthermore, it is made sure that the English version is consistent with the Turkish version and is prepared in a manner that will be correct, complete, direct, comprehensible, and sufficient enough for the persons who will make use of the announcement to make a decision.

3.2 Annual Report

Bank's Annual Report is in compliance with the CMB's Corporate Governance Communiqué (II-17.1; date: 03.01.2014) principles no. (2.2.1) and no. (2.2.2) regarding Annual Report.

CHAPTER IV - STAKEHOLDERS

4.1 Disclosure of Information to Stakeholders

VakıfBank stakeholders are informed regularly about the issues deemed necessary, through press releases, press conferences, interviews, annual reports, news on the website, announcements and various meetings.

In order to ensure accurate and reliable flow of information, the Investor Relations Department prepares presentations regarding the financial statements disclosed each quarter, shares these presentations with the investors via website and e-mail and also announces them through live teleconferences. The Department, by attending the investor meetings organized by the investment companies, shares the developments related with the Bank and the sector and answers any type of related question and request over the phone or via e-mail on a daily basis. On the Bank's website, necessary technical infrastructure was built in the "Sorun Çözelim" section for the Bank customers' information requests, comments or complaints about the Bank's services and products. Information requests, suggestions and complaints of customers about the Bank's products and services as well as the problems of customers are resolved by all relevant departments of the Bank in the most effective manner.

In order to speed up stakeholders' access to information, and to facilitate Corporate Governance Committee's access to the Bank's transactions that are contrary to legislation and that are ethically not appropriate, mail addresses surdurulebilirlik@vakifbank.com.tr and sustainability@vakifbank.com.tr were made available and presented for the information of the stakeholders on the corporate website in the Investor Relations section.

The Information System Portal was built in order to provide information to Bank employees. All announcements are made on this intranet portal that is an internal information sharing system. At different locations employees can have immediate and effective access to the information they are looking for due to the fact that all internal information is available on the system. In this manner, as employee satisfaction increases,

time and energy loss is prevented, as well. The aim is to achieve cost saving and faster communication with the help of this portal.

The oversight of the existing control mechanisms for the compliance of the transactions performed by VakıfBank with the relevant legislation, banking practices, Bank's internal policies and ethical principles, is done by the Compliance Directorate with the coordination of Audit Board Department, Internal Control Department and Risk Management Department. The scope of the compliance function consists of: tracking of the compliance risks that may arise from the international regulations, in the foreign branches and consolidated partners of VakıfBank, performing necessary tasks in order to continuously increase the compliance awareness and culture within the Bank. The Audit Board is directly informed about the results of the activities carried out regarding the compliance function.

4.2 Stakeholder Participation in Management

The Bank takes utmost care of its employees and all the stakeholders and thereby aiming to meet the expectations of its internal and external customers by improving the quality of its products and services: In order to achieve this aim, it designs all its systems in a manner that they can be continuously improved.

VakıfBank pays utmost attention that its employees play an effective role at the development stage of new products and services. With an e-mail address created in the Bank, employees are given the opportunity to state their opinions within the scope of the new product development. The presented opinions, after being evaluated by the departments of the Head Office, can be brought to the project stage.

If necessary, the Bank also provides information to the stakeholders who are not Bank employees, about the issues that concern them via e-mail, phone and other communication channels. The Bank established the department called Consumer Relations Coordination Center, accessible via the Internet, to ensure customer satisfaction. All suggestions, complaints or positive feedback about the Bank's products and services are communicated to the relevant department via

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e-mail. Additionally, customers can perform all banking transactions through a direct call to VakıfBank 7/24 branch at 0850 222 0 724.

4.3 Human Resources Policy

Within the scope of the sustainability efforts, the “Human Rights and Employee Rights Policy” that fulfills the requisites of the principle no. 3.3.1. of the Corporate Governance Communiqué (II-17.1) was made available for the information of the stakeholders on the corporate website.

Making maximum use of its existing human resources with its HR practices in order to reach its targets, the Bank also aims to maintain the labor peace with the equal opportunity working environment it provides to its staff.

In this context, the growth strategy followed by considering the increasing competition in the banking sector, through its existing HR policies the Bank supports its employees’ development, and prioritizes the issue of creating motivation and job satisfaction. The Bank also aims to maximize employee loyalty and happiness.

The main principles of the Human Resources policy carried out by the Bank are given below:

- Creating and maintaining a working environment that will increase the motivation and efficiency of the Bank employee,
- Prioritizing the concept of gender equality in performing the policy and procedures of the Bank without discriminating among the female-male employee members, and thus providing a working environment where all employee members have equal opportunities and labor peace,
- Maintaining a permanent working environment open to communication at all levels,
- Evaluating employees’ success and performance at work, encourage them, maintaining their moral and motivation at the highest level,
- Considering the material and moral interests of the employees’ and pursuing, maintaining, developing a fair wage policy

- where equal wages are given for equal jobs without making any gender discrimination,
- Developing their knowhow and skills through training programs given to the employee within the Bank,
- Cultivating its employee in line with their career targets within the framework of the Bank’s training policy,
- Taking necessary measures to increase health, safety, and welfare of the female/male employees, and increasing their loyalty to the Bank,
- Providing the employees with opportunities to get title promotions on the basis of female male equality, and contributing to improving their management and leadership skills with the new responsibilities given,
- Creating high motivation by developing individual and professional competencies of the employee and strengthening their loyalty to the Bank,
- Keeping track of the modern HR practices and developments, adapting the latest HR practices in the Bank’s system and making them practicable.

The criteria about the personnel to be employed at the Bank, are specified in the Bank Personnel Directive. Recruitment process is carried out in line with the principles stipulated in the relevant legislation, taking long term strategic targets of the Bank and norm staff of the branches and departments into consideration.

For the Bank’s success to continue, the aim is to effectively and efficiently manage the current human resources, and to carry out activities in the branches/departments with optimum number of personnel.

In the recruitment process carried out to meet the need for personnel, candidates can start working for the Bank as Assistant Bank Examiner, Assistant Specialist, Assistant Controller, and Intern. The personnel who will be working at the Bank are chosen from among the candidates, who are graduates of a 4-year department any university, with a bachelor’s degree in departments related banking, or other fields that will be determined by the Bank. Special attention is paid to make sure candidates have a

postgraduate degree and knowledge of foreign language. On the other hand, the Bank employs IT Assistant Specialists in the Bank’s Information Technology units, Lawyers in the Legal units, and Engineers and Architects in the relevant business units.

Considering the lack of permanent staff in the Branches/Departments, and the need for authorized employee in the existing/future Branches/Departments employee, and probable retirements, resignations and the like, promotion exams are made in accordance with the Bank Employee Directive’s relevant clauses that regulate promoting.

The aim is to create a structure based on the specialization of the staff members in line with their competencies and thus to determine their career steps by taking their performance measurements and trainings into consideration. Making evaluations with an organizational approach that cultivates its managers/executives, and monitoring the employee members who have the competencies necessary for the job, and making sure that they are cultivated for executive positions. To this end, efforts are made to increase the corporate (employee) loyalty, and to create an organization where activities are carried out adopting the corporate culture.

The performance process is continuously reviewed and improved as the performance measurements of branches and regional directorates are made; performances are fairly and objectively evaluated; bonuses are paid to staff members depending on their performances.

Training programs inside and outside the Bank are carried out to improve the competencies of the staff and to ensure that the employees are specialized in their jobs in line with their career plans through the approach targeting continuous learning, innovation and perfection.

Furthermore, there are special orientation trainings for novice Assistant Auditors, Assistant Associates, and Officers to build up the corporate culture, and to make sure they adapt themselves to the Bank.

Employees are informed about their job descriptions and distribution as well as performance and awarding principles via documents in the Bank's information systems and via notifications/announcements.

The Bank's staff works in accordance with the provisions of private law, and is recruited in conformity with the provisions of the Labor Law no. 4857 currently in effect. Bank employees are "Turkish Bank and Insurance Company Employees Union" (BASS) members, and thus working conditions of the employees are determined with the collective bargaining agreements between the Bank and the union. Currently, CBA for the 22nd Period between 01.05.2015 and 30.04.2017 is in effect.

Relations between the employees and employers are carried out by the directors and representatives of the abovementioned unions. The union representatives forward the requests and complaints of the employees of the Bank about working conditions, personal rights, duties and responsibilities to the employers and monitor the process. Furthermore, there are union representatives, elected among the staff working in the Bank's Branches/Departments, (i) who should monitor whether or not the Collective Bargaining Agreement and the laws in force about the union members are practiced in line with their purposes and, (ii) who should verbally or in writing inform the director of that workplace about the insufficiency and discrepancy they detected on these issues.

To date, there has not been any complaint from the employees about any discrimination issues. The names, surnames and duties of the directors of the abovementioned unions are given below.

Name-Surname	Position
Turgut YILMAZ	President
Mustafa EREN	Secretary General
Nefiye ARSLAN	Secretary General-Finance

4.4 Ethical Rules and Social Responsibility

Pursuant to its objectives of protecting stability and reliability in the banking sector by preventing unfair competition, improving service quality and maintaining the reputation of the banking profession before the public, the Bank, with Board of Directors' resolution numbered 74205, dated February 16, 2006, adopted the Bank's Banking Ethical Rules, issued by the Banks Association of Turkey and has undertaken to comply with these rules. This resolution was approved by the General Assembly held on March 31, 2006. Business Ethics in Banking (Code of Ethics) is available in Turkish and English on the Bank's website. Assuring to comply with the Business Ethics in Banking, VakıfBank has adopted the principle of contributing to social life at the maximum level. In line with the influence of the "foundation heritage" in its roots and the image of "Compassionate Bank" as principal of corporate culture, the Bank carried out important projects in the fields of sponsorship and social responsibility also in 2016.

Just like it has done perpetually for 30 years, VakıfBank has continued to support Turkish volleyball, and opened the VakıfBank Spor Sarayı, whose foundation was laid in 2015. VakıfBank Sports Club again accomplished top-level achievements; Championship in the Turkish League, second in the European Champions League and third in the World Clubs Championship.

VakıfBank Spor Sarayı was completed in a short period of time like 15 months, and opened its doors. With 30,000 square meters of construction area, the economic life of the hall which was added as a value by VakıfBank to Turkish sports, is planned to be at least 25 years. The facility will be the home arena of VakıfBank volleyball team; volleyball team A, feeder teams and the volleyball school. The facility also has a training gym, multi-purpose gym, swimming pool, fitness room, club administration office, and a multi-purpose event room.

Carrying its support for sports and education to schools all across the country, VakıfBank has provided a great number of schools with sports equipment and stationery materials by its own means and by means of the sports club and has also sponsored and hosted numerous national organizations.

Within the scope of the collaboration developed with TEMA, saplings, equal to the number of mortgage loans extended to the customers in 2016 plus the number of VakıfBank employees, were planted. A total of 75,000 saplings were planted in the "VakıfBank Memorial Forests" created on the Ministry of Forestry lands in Burdur and İstanbul Şile.

Continuing to support arts also in this year, VakıfBank gave many painters the opportunity to exhibit their works in the galleries in Ankara and İstanbul. Moreover, Turkish Folk Music and Turkish Classical Music choruses formed within the Bank continued their activities throughout the year, while these activities and concerts were supported by VakıfBank.

The companies' performance in environmental, social, and Corporate Governance fields is taken as basis in the BİST Sustainability Index, which was initiated by Borsa İstanbul in 2014, in order to increase perception, knowledge and practices in the field of sustainability in Turkey and among Borsa İstanbul companies in particular. Being listed in the BİST Sustainability Index since the beginning, VakıfBank maintains its position in the index for the November 2016 – October 2017 period as a result of the evaluations made in 2016. Being listed in this index which is a very significant indicator in terms of Corporate Governance and sustainable development, is the proof of the Bank's insight in this area.

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CHAPTER V - BOARD OF DIRECTORS

5.1 Structure and Formation of the Board of Directors

Name - Surname	Position	Start Date of Position
Ramazan Gündüz	Chairman Board Member (C)	29.03.2013 06.04.2009
Mehmet Emin Özcan	Board Member (D) Independent Board Member Deputy Chairman Credit Committee Member Audit Committee Member	28.03.2014 29.03.2013 29.03.2013 05.04.2013 04.04.2014
Halil Aydoğın	General Manager- Executive Board Member-Ordinary Member	29.03.2013
İsmail Alptekin	Board Member (A) Corporate Governance Committee Member Credit Committee Substitute Member	06.04.2009 07.04.2009 30.03.2015
Dr. Adnan Ertem	Board Member (A) Remuneration Committee Member	28.10.2010 06.04.2012
Öztürk Oran	Independent Board Member (A) Corporate Governance Committee Member Remuneration Committee Member	30.04.2014 08.05.2014 30.03.2015
Dilek Yüksel	Board Member (B) Remuneration Committee Member Credit Committee Substitute Member	29.03.2016 29.03.2016 29.03.2016
Sabahattin Birdal	Independent Board Member (C) Audit Committee Member Credit Committee Member	31.03.2014 04.04.2014 29.03.2016
Board of Auditors		
Yunus Arıncı	Audit Board Member	19.03.2010
Mehmet Emin Baysa	Audit Board Member	29.03.2016

Pursuant to the regulations of the Banking Regulation and Supervision Agency, the Chairman of the Board of Directors does not have executive tasks and duties. The General Manager Halil AYDOĞAN is an executive member of the Board of Directors. There are no other executive members in the Board of Directors except the General Manager. The term of office of the members of the Board of Directors is three years. Members completing their term of office can be reelected. Résumés of the Members of the Board of Directors are included on www.vakifbank.com.tr^{(1), (2)}

As per the Capital Markets Board regulations regarding Corporate Governance Principles, the number of Independent Members of the Board of Directors was determined as "three". On 29.01.2015 at the Bank Ordinary General Assembly, Mehmet Emin ÖZCAN, Sabahattin BİRDAL and Öztürk ORAN were elected as Independent Members of the Board of Directors.

Independent Members of the Board of Directors' statements of independence are available, and there is no breach of independence as of the relevant activity period.

⁽¹⁾ <http://www.vakifbank.com.tr/yonetim-kurulu-uyeleri.aspx?pageID=300>

⁽²⁾ <https://www.vakifbank.com.tr/management.aspx?pageID=843>

Duties of the Members of the Board of Directors outside the Bank within the Group:

Name - Surname	Subsidiary	Position in the Subsidiary	Start Date of Position
Ramazan Gündüz	VakıfBank International AG	Chairman	27.04.2015
Mehmet Emin Özcan	Vakıf Yatırım Menkul Değerler A.Ş.	Chairman	27.03.2015
Halil Aydoğan	Güneş Sigorta A.Ş.	Chairman	09.04.2013
	Taksim Otelcilik A.Ş.	Chairman	15.02.2012
	TSKB A.Ş.	Member	16.12.2013
İsmail Alptekin	Vakıf Gayrimenkul Değerleme A.Ş.	Chairman	31.05.2010
Dr. Adnan Ertem	Vakıf Emeklilik A.Ş.	Chairman	30.03.2011
Sabahattin Birdal	Vakıf Faktoring A.Ş.	Chairman	15.04.2016
	Vakıf Gayrimenkul Yatırım Ort. A.Ş.	Chairman	30.04.2014
Öztürk Oran	VakıfBank International AG	Chairman Deputy Chairman	27.04.2015
Dilek Yüksel	Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş.	Chairman	12.04.2016

Member of the Board of Directors Dr. Adnan ERTEM's duties outside VakıfBank and the Group are; General Manager of the General Directorate of Foundations, Member of the Board of Directors of the Social Aid Fund Board, Member of the Board of Directors of Supreme Council of Antiquities and Monuments, Member of the Board of Trustees of Recep Tayyip Erdoğan University Foundation, Member of the Board of Trustees of Bezmi Alem University Foundation, Member of the Board of Directors of Kuveyt Türk Katılım Bankası A.Ş., Chairman of the Board of Directors of Press Advertising Institution, and Deputy Chairman of the Board of Directors of Vakıf Katılım Bankası A.Ş.

Member of the Board of Directors Öztürk ORAN's duties outside VakıfBank and the Group; Since 2003, he continues his professional life as Chairman of the Board of Directors in the pharmaceutical companies where he also is a partner. He is a Member of the Board of Directors in Istanbul Chamber of Commerce and in the World Trade Center. He is also the Chairman of the Board of Directors of Vakıf Katılım Bankası A.Ş.

The fourth paragraph of the 60th Article of the Bank's Articles of Incorporation is as follows: "Without getting approval from the General Assembly, Members of the Board of Directors

cannot perform any transactions related to a commercial business that is within the scope of the Bank's field of activity, for their own account or for the account of others, or cannot become unlimited partners in other companies carrying out similar commercial businesses." Within this scope, without getting permission from the General Assembly of the Bank, the Members of the Board of Directors cannot directly or indirectly make any transactions with the Bank on behalf of themselves or others and cannot be executive members in a corporation making transactions with the Bank. Furthermore as per the Banking Law no. 5411, Members of the Board of Directors who assume tasks in the Audit Committee do not have any tasks/duties/positions in the unconsolidated subsidiaries.

5.2 Operating Principles of the Board of Directors

Board of Directors must convene at least twice a month upon the call made by the Chairman or at least two members in line with the necessity of the Bank affairs. However, if there are not any issues on the agenda, the meeting can be postponed only for one time with the approval of the Chairman (Article 53 of the Bank's Articles of Incorporation). Meeting agendas are prepared according to the memorandums sent from the Head Office

departments while various reports the Board of Directors requested from the management and various issues presented by the Board Members are discussed during the meeting. The agenda and relevant files are presented to the members prior to the meeting.

Informational and communication activities for the Members of the Board of Directors of the Bank are carried out by the Board of Directors Administrative Department. In 2016, 44 Board of Directors meetings were held. Members of the Board of Directors did attend the Board Meetings except in cases they had excuses. Decisions were made unanimously. All questions, opinions and objections of the Members during the Board of Directors Meeting are recorded in the meeting minutes. Each Member of the Board of Directors has one right to vote, and members do not have weighted right to vote and/or negative veto right.

At the Board of Directors Meetings, majority of the Members must be present. Decisions are taken by majority of the attending members. In case of equality of votes, the voted issue will be added on the agenda of the next meeting; and will be deemed refused in case of equality for another time in that meeting (54th Article of the Articles of Incorporation of the Bank).

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In the Board of Directors' decisions regarding the Bank's significant related party transactions, approval is required by majority of the Independent Members. In case any such transaction is not approved by the majority of the Independent Members, (i) the situation will be publicly announced within the framework of public disclosure regulations in such a manner that will include sufficient information regarding the transaction; and (ii) the transaction will be presented to the approval of the General Assembly. Board of Directors' decisions that are not made in conformity with the specified principles will not be valid (54th Article of the Articles of Incorporation of the Bank).

An electronic meeting system was established to enable the Members of the Board of Directors of the Bank to attend the meetings and to vote on electronic platform.

Losses incurred by the members of the Board of Directors as a result of their faults during their term of office, are covered under insurance. Employer's Liability Insurance 2016 policy's total value is USD 75,000,000 for each damage within the term of the policy.

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

In order to efficiently and effectively carry out its activities in line with the Banking Law no. 5411, Banking Regulation and Supervision Agency's "Regulation on Corporate Governance Principles in Banks", Capital Markets Board's Corporate Governance Principles and the Articles of Incorporation of the Bank; the Board of Directors has established Audit Committee, Credit Committee, Corporate Governance Committee and Remuneration Committee. All Members of the Audit Committee and the Chairmen of the other committees are Independent Members. Due to the fact that there are no Executive Members except the General Manager, in the Board of Directors, Committee Members are non-executive members. Committees are not entitled to take executive decision.

The Audit Committee is composed of the Independent Members of the Board of Directors; Mehmet Emin ÖZCAN and Sabahattin BİRDAL. The Audit Committee convenes at least once a month on the specified date.

Credit Committee is composed of two permanent members and General Manager. Permanent members are Mehmet Emin ÖZCAN (independent member) and Sabahattin BİRDAL. There are two substitute members for a member who will not attend a meeting. Substitute members are İsmail ALPTEKİN and Dilek YÜKSEL. The Credit Committee generally convenes once every 15 days, and holds an extraordinary meeting in urgent cases. The Committee's meeting date is set according to the number and urgency of the agenda items that are received by the meeting secretary.

The Corporate Governance Committee is composed of the Members of the Board of Directors Öztürk ORAN (Committee Chairman - Independent Member), İsmail ALPTEKİN and Head of International Banking and Investor Relations Mustafa TURAN. The Committee generally convenes once every three months or at least twice in a year on semi-annual basis on a date determined by the Committee Chairman.

The Remuneration Committee is composed of Öztürk ORAN (Committee Chairman - Independent Member), Dr. Adnan ERTEM and Dilek YÜKSEL. Remuneration Committee evaluates the remuneration policy and applications within the scope of risk management and submits the suggestions as a report to the Board of Directors every year. The Committee convenes once every year.

Committees carry out their tasks within the scope of the framework of the working principles specified in the Articles of Incorporation of the Bank. Committees meet at a regularity required by their tasks. All tasks are carried out in writing and necessary records are kept. Furthermore, the procedures and principles practiced by the committees in carrying out their activities are available in the Annual Report. The number of the Members of the Board of Directors of the Bank is "9". However, the number of the Members of the Board of Directors carrying out tasks is "8".

Board Members assume duties in more than one committee since the number of the members of the committees of the Board of Directors is greater than the number of the members of the Board of Directors as stipulated in the principles of the Capital Markets Board Corporate Governance Principles and Banking Regulation and Supervision Agency. Committees are composed of at least 2 members.

5.4 Risk Management and Internal Control Mechanism

The Risk Management Department directly reporting to the Audit Committee is responsible for carrying out activities for defining, measuring, reporting, monitoring and controlling the risks the Bank faces. Furthermore, all departments are considered as a part of the risk management system.

Risk Management activities in the Bank are carried out in conformity with the legal legislation, also international best practices are pursued. Within this scope, risk management strategies were established, as the policies for managing each of the risks were written within the framework of principle of materiality.

A capital structure in conformity with the risk level is closely monitored, as the Bank's resistance against unexpected and negative developments is measured via scenario analysis and stress tests. Besides measuring legal capital requirement, ISEDES (Internal Capital Adequacy and Evaluation Process) activities that include internally evaluating the capital requirement for the risks the Bank faces/will face also carried out, as the results are evaluated by the top management.

Furthermore, Risk Management Department carries out its activities in coordination with the Audit Board and Internal Control Department, within the scope of the "Regulation on Banks' Internal Systems and Internal Capital Adequacy Evaluation Process".

An efficient and effective internal control system was established in order to; I) carry out the activities of the Bank in conformity with the targets, policies and strategies set by the top management and within the framework of the international audit standards and existing legal legislation, and II) make sure that risky transactions are controlled in the Bank. In order to establish, develop and coordinate a healthy internal control system in the Bank and to enable the reliability, integrity of the accounting and financial reporting system, and timely access to information, the Internal Control Department – carrying out its activities under the supervision and control of the Audit Committee – controls the operational procedures for carrying out activities in all domestic and international branches and departments of the Bank, bank's communication channels, information systems, financial reporting systems and business processes.

Within this scope; effectiveness of the internal control system is monitored in financial, operational and other control points with a preventive approach, and the system is improved as measures are taken in a manner that will cover the previously unknown risks or unidentified risks.

Internal Control Department; I) controls the functional classification of tasks, and distribution of duties and responsibilities, for defining, measuring and preventing the Bank's risks, II) presents opinions about existing, changed, cancelled or new established procedures and processes, and about the projects formulated by the Bank's business departments, and evaluates their potential risks and their compliance to Bank's internal policies and guidelines III) determines control points, IV) makes effective controlling and monitoring by increasing the effectiveness of the control activities, establishing and enhancing auto-control mechanisms in processes and procedures, and decreasing operational risks.

The Audit Board Department, performs systematic audits on internal control and risk management systems in conformity with all legal regulations and Bank's directives.

Compliance Department carries out necessary activities in order to ensure compliance with the legal obligations within the scope of "Prevention of Laundering of Proceeds of Crime and Financing of Terrorism", and with the international rules and principles on the same issue.

Within this scope, as per the "Regulation On Program of Compliance with The Obligations Regarding Prevention of Laundering of Proceeds of Crime and Financing of Terrorism", in order to ensure that the Bank's obligations are fulfilled;

- necessary policies and procedures are structured in the issues of identifying the customers, classifying them into risk categories and monitoring them, informing about the suspicious customer transactions and
- controls are made to see if these policies and procedures are implemented or not,
- opinion/approval is given for risky sector/country transactions,
- Financial Crimes Investigation Board (MASAK) is informed about the transactions that are considered suspicious in the necessary investigations and evaluations made within

the framework of a risk based approach about the potentially suspicious transactions (for the Bank) detected within the scope of monitoring and controlling activities or forwarded via channels like branches etc. to the Compliance Department.

In order to make sure that the Bank healthily keeps track of the international sanctions, the ban list covering the sanctions of the international organizations and institutions such as United Nations, European Union, Office of Foreign Assets Control (OFAC) and etc. is used in investigations and controls. The activities of the Compliance Department are carried out in coordination with the business units. Within framework of training activities; in-class and online trainings are regularly given to the Bank personnel in order to constantly increase the awareness and culture within the Bank about "Prevention of Laundering of Proceeds of Crime and Financing of Terrorism".

5.5 Company's Strategic Targets

The general strategies of the Bank are determined in line with the expectations on the economy and sector at the meetings chaired by the General Manager with the participation of the top management. Forecasts regarding the annual projection in line with the strategies and business plans are received from the business units of the Bank and the business plans along with data received from units are evaluated by the management. Consequently, strategies of the Bank, annual projections and business plans are presented by the Strategy Development Department to the approval of the Board of Directors. Approved final projections and strategies are sent to the Bank's Assistant General Managers, and announced to the Bank staff as they are monitored by the relevant units. Information regarding these projections and strategies are assessed at the monthly held "target achievement performance" meetings by the Assets and Liabilities Committee according to the data received from the Performance Evaluation and Career Planning Department. Furthermore, at the periodically held meetings these strategies and projections are reviewed

while target achievement performance and activities are evaluated and necessary actions are taken. Furthermore, in case of having unexpected developments in the sector, the projection is revised if necessary.

5.6 Board of Directors Remuneration

The Chairman, Deputy Chairman and Members of the Board of Directors receive an annual salary that is determined by the General Assembly annually and that is implemented with the approval of the Prime Minister. The issue was specified in 9th item of the minutes of the 62nd Ordinary General Assembly meeting, and the General Assembly minutes were announced on the Bank's website. Fixed and performance based payments to the executives and other personnel are determined and made within the framework of the principles of the Bank's Remuneration Policy. Remuneration Policy is available on the Bank's website.

The third paragraph of the 60th Article of the Articles of Incorporation of the Bank is as follows: "Members of the Board of Directors who are not shareholders and Members of the Board of Directors' relatives who are not shareholders specified in the 393rd Article of the Turkish Commercial Code cannot borrow cash from the Bank. For these persons, the Bank cannot give surety, guarantee and collateral, cannot assume responsibility, and cannot take over their debts." Within this scope, the Bank did not lend any money or extend loans to any of the Members of the Board of Directors. It did not improve the terms for loans or credits that have been given to the Members of the Board of Directors, and neither it extended loans by means of third persons and nor gave any collaterals.

With the aim of complying with the principle no. 4.6.2, the Board of Directors of the Bank established a "Remuneration Policy" within the period and published the policy document in Turkish and English on the website. The policy was submitted for the information of the shareholders at the 2015 Ordinary General Assembly Meeting.

Yours sincerely,



ÖZTÜRK ORAN
Corporate Governance
Committee Chairman



İSMAİL ALPTEKİN
Corporate Governance
Committee Member



MUSTAFA TURAN
Corporate Governance
Committee Member

STATUTORY AUDITOR'S REPORT

To the General Assembly of Shareholders of Türkiye Vakıflar Bankası T.A.O:

This audit report was prepared pursuant to the provision of Article 44 of Türkiye Vakıflar Bankası T.A.O. Articles of Incorporation.

While the Bank is open to public scrutiny, the Bank's external auditing is made routinely by the Court of Accounts and the Banking Regulation and Supervision Agency ("BRSA"), and also by the independent auditor as per the Article 43 of the Bank's Articles of Incorporation.

In the current period, the Bank's assets increased by 16% and reached TL 212,539,905 thousand. The loans, with a significant portion of 70% in the assets, reached TL 147,712,375 thousand, increasing by 19% while the deposits – with a broadened base – reached TL 123,838,377 thousand increasing by 13%. Demand deposits increased by 21% while savings deposits increased by 20% and reached TL 54,150,626 thousand. As a consequence of these growing figures, our Bank's profit increased by 40%, and reached TL 2,703,042 thousand.

In spite of the villainous coup attempt on 15 July, the Bank continued its support to the economy with its strong resources and structure. VakıfBank opened eight new branches while increasing the total number of its branches to 924, and the number of personnel to 15,615. Moreover, in line with the issue on providing continuous training to the employees, it was observed that the employees attended internal on-the-job training sessions as well as domestic and international training programs organized by institutions other than the Bank.

The included financial data related with the annual activities of the Bank was reflected in compliance with the procedures and principles in force within the framework of the Banking Law no. 5411, Turkish Commercial Code no. 6102, Capital Markets Law no. 6362, generally accepted accounting principles, relevant legislation and the Regulation of Internal Systems.

Internal auditing of the Bank: is performed by the Audit Board Department, Internal Audit and Risk Management Departments.

It was concluded that: the Bank had an annual audit plan with regard to the on-site audits conducted in the Bank covering domestic branches, overseas branches, Head Office

departments and consolidated subsidiaries; and these audits were conducted within the framework of the audit standards including the inspection of the operational transactions to carry out the Bank operations, of the Bank's communication channels and information systems, of the financial reporting systems, of the implementations for the business processes and of consistency.

Within the framework of the auditing activities, in general terms and briefly:

Within the scope of the audits conducted on-site; it was concluded that, the internal audit departments, primarily detected the risks the Bank encountered, performed controls related with these risks, determined the fields that necessitate priority, specified the details that had to be taken into account and performed risk assessments;

Furthermore, it was concluded that, after the regularity of the audit was determined, it was submitted to the approval of the Audit Committee;

Upon the starting of the audit process in the branches/departments, the data included in the audit program determined for the branches/departments was in a short time assessed by the auditors conducting the audit and the audit process was systematically conducted on the risky matters and on the fields subject to the audit;

Within the scope of preparing the management statement; Regarding the information systems and banking processes; I) all Bank units carry out activities to increase the effectiveness of systemic or manual control points prepared for reconciliation of their activities; II) findings are communicated to the units, where there is lack of control (if any), to take action for the relevant issues; III) the management statement is prepared in order to provide assurance for the current situation and the activities carried out within this framework, evaluating the effectiveness, adequacy and compliance of the information systems and banking processes in the audit period for the relevant controls; and IV) all fraud is reported during the audit period if the Bank staff at any level ever gets involved in any fraud,

Within the scope of the audits made on the information systems; it was concluded that, taking into account the banking processes as

well, the auditing of the information systems (such as applications, systems, servers, databases) which were used in these processes, was made, taking into consideration the framework of the Cobit processes, during the audit, it was monitored if the information systems and related documentation and their control mechanisms were given to audit company, the procedures regarding the testing and assessment of the controls within the framework of the importance principle of design and operating effectiveness, were monitored during the audit, the actions taken for the findings discovered in consequence of the leak testing, were monitored during the audit,

Within scope of the Regulation Regarding Banks' Procurement of Support Services; Audit and assessment was made to check whether the firms, that provide the Bank with support services, comply with the stipulated terms and conditions,

Within the scope of the consistency controls; it was concluded that; the legislative amendments were monitored and practices were performed to find out whether the Bank complies with these amendments or not; transactions carried out in the Bank were inspected through the programs and controlled in line with the Financial Crimes Investigation Board (MASAK).

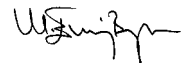
All these issues were shared with the Bank's Senior Management.

As a consequence; it was observed that the Bank's audit mechanisms function efficiently and strict attention was paid to keep any risky and fraudulent transactions under control through the continuous on-site audits performed by the internal control departments as well as on-site and centralized audits performed by the Bank's internal auditors, in addition to the external audits. In 2016, the issues identified by the internal control departments were presented in the Management Statement which was prepared in compliance with the Communiqué of BRSA and submitted to the aforementioned Organization (BRSA) after being approved by the Board of Directors.

Yours sincerely,



YUNUS ARINCI
Audit Member



MEHMET EMİN BAYSA
Audit Member

ASSESSMENT OF THE INTERNAL SYSTEMS AND 2016 OPERATIONS

INTERNAL AUDIT OPERATIONS

The Board of Auditors performs audit activities in order to discover whether or not the operations of the Bank's Head Office departments, domestic and overseas branches, consolidated subsidiaries, information technology (IT) departments are conducted in line with the Banking Law and other legal regulations, together with the internal legislation, strategies, policies, principles and targets of the Bank; regarding the accuracy of the fiscal data, the competency of the implementations for the protection of the assets, the effectiveness of the internal controls and risk management systems; within the framework of the relevant legislation, at the firms which the Bank gets support services from. In addition, inspection and investigation are performed on the illegal and non-complying (with the legislation) transactions of the staff and on the fraud, scam or forgery made by third parties against the Bank.

The Audit Board conducts audit activities as on-site audit, centralized audit, information systems and process audits) with a risk-based auditing approach.

On-site auditing is made at the departments, branches, and consolidated subsidiaries and at the firms which the Bank gets support services from, in line with the Bank's targets and strategies and within the scope of the risk-based annual audit plan prepared considering the resources of the Audit Board.

Within the scope of the centralized auditing; by early detecting the conditions with potential risks in the branches and departments, computer-aided remote auditing techniques (e-auditing techniques) are used for taking measures on time.

Within this framework of the auditing activities on the information systems and the processes; the auditing of the controls on the information systems and the banking processes is made.

In addition, the accuracy of the data used in the Internal Capital Adequacy Evaluation Process Report, the adequacy of the systems and processes and the issue whether the data, systems and processes enable accurate information and analysis or not, are audited by the Head of Audit Board within the framework of the procedures and principles that will be determined.

In consequence of the audits, inspections and investigations made by the Audit Board; proposals are made for the correction of the detected issues, for taking measures in order not to face again with the similar situations, for enhancing the processes and for improving the internal control system, and the actions taken regarding these issues are followed-up.

The Audit Board only provides an advisory service on the issues requested by the Bank and this does not mean these issues are being approved.

The Audit Board makes contributions to the professional development of the auditors via training opportunities provided inside and outside the Bank and supports them to obtain the required certifications. By this means, at the same time, the Department tries to provide the well qualified and educated human resources to the Bank.

INTERNAL CONTROL OPERATIONS

Internal Control: As per the regulation on "Banks' Internal Systems and Internal Capital Adequacy Evaluation Process"; the Internal Control system is structured to make sure that: I) a healthy internal control environment is created and coordinated, II) Bank's assets are protected, III) Bank's activities are carried out effectively and efficiently in conformity with the international audit standards, relevant legislations, policies and rules, IV) the accounting and financial reporting system's reliability and integrity is maintained, and V) information is promptly obtained.

Within the framework of the check points prepared with a risk oriented approach, "on-site" or "centralized" audit activities are regularly carried out in all domestic and overseas branches of the Bank, and in the Head Office departments.

Under the supervision and control of the Audit Committee, activities are carried out and controls are made for the implementation of the operational procedures for carrying out activities, Bank's communication channels, information systems, financial reporting systems and business processes. In order to prevent the risks the Bank's financial and operational activities involve, and to reduce them to acceptable levels, necessary controls have been established.

The Head of Internal Control: I) controls the distribution of duties and responsibilities, and the functional classification of tasks for identifying, measuring, and preventing the Bank's risks, II) establishes auto-control mechanisms in all processes and procedures to be initialized, in a manner that will cover the previously unknown or unidentified risks, III) establishes and enhances systemic controls.

Procedures and guidelines that outline the Internal Control activities are periodically reviewed and updated in line with the laws, regulations, international internal audit standards and emerging needs, and thus activities are carried out to increase the effectiveness of the control activities and minimize operational risks.

In conformity with the targets and strategies of the Bank; changing needs, risks and technological developments are tracked, and necessary adjustments and updates are made to make sure that the internal control system is effective and functional. In this context, activities continue with the aim of increasing the internal control culture in the Bank.

ASSESSMENT OF THE INTERNAL SYSTEMS AND 2016 OPERATIONS

COMPLIANCE DEPARTMENT ACTIVITIES

The Compliance Department directly reporting to the Audit Committee carries out activities in order to fulfill the responsibilities stipulated in the legislation issued by the Financial Crimes Investigation Board (MASAK) within the scope of "Prevention of Laundering of Criminal Proceeds and Terrorism Financing", and to comply with the international principles and rules on the same issue.

Within this scope; as per the Regulation on the Compliance Program regarding the obligations of the "Prevention of Laundering of Criminal Proceeds and Terrorism Financing", in order to ensure that the Bank's obligations are fulfilled; necessary policies and procedures are structured on the issues of identifying the customers, classifying them into risk categories and monitoring them, informing about the suspicious customer transactions and controls are made to see if these policies and procedures are implemented or not, opinion/approval is given for risky sector and country transactions, the Financial Crimes Investigation Board (MASAK) is informed about the transactions that are considered suspicious in consequence of the necessary investigations and evaluations made within the framework of a risk-based approach about the potentially suspicious transactions (for the Bank) detected within the scope of monitoring and controlling activities or forwarded via channels like branches to the Compliance Department.

In order to properly follow the international sanctions, the Bank uses the ban list - composed of the sanction decisions of the international organizations such as the United Nations, European Union, OFAC et al. - in the investigations and controls.

With the compliance activities carried out in the domestic and overseas branches of the Bank regarding "Prevention of Laundering of Criminal Proceeds and Terrorism Financing", coordination of relevant tasks and activities is achieved. Compliance risks - that may arise from the regulations in foreign countries - of the overseas branches that are subject to the compliance program structured by the Bank in line with the legislation of the country where activities are carried out, are monitored by a staff who will control the compliance with these regulations.

While carrying out its activities, the Compliance Department works in coordination with the business units. Within the framework of training activities, the Bank employee is given in-class and online trainings to create awareness on the issue of "Prevention of Laundering of Proceeds of Crime and Financing of Terrorism".

LEGISLATION MONITORING AND EVALUATION ACTIVITIES

Carrying out activities in order to monitor relevant legislative on the banking activities and run the compliance process in an effective and efficient manner.

Regularly monitoring the recent developments in legislation and banking practices related to banking activities, interpreting the impacts of the legislation changes on the banking activities, within this scope, the measures to be taken by the Bank and changes to be made in the Bank's internal legislation and practices are detected and thereafter written information about the issue is given to the relevant departments of the Bank and necessary measures to be taken are requested from them. Controls are made to check if the Bank's practices are in conformity with these regulations. Furthermore, relevant departments are informed about draft regulations related to banking and thus necessary procedures are initiated before the regulations enter into force.

Opinion is presented to make sure there is full and timely compliance with the legislation, and coordination is provided to make sure that the general directives and instructions that will be prepared by the business units are updated. The Bank's new products and services as well as the internal directives are reviewed and evaluated in terms of compliance risk while activities of informing, guiding and supporting the relevant business units are carried out in order to make necessary corrections, changes and take necessary measures.

Furthermore, an employee is assigned to monitor the compliance risks - that may arise from the regulations in foreign countries - in order to achieve the compliance of the overseas branches with the legislation of the countries where they carry out activities.

RISK MANAGEMENT POLICIES

APPLIED BY RISK TYPE

Risk management activities continued also in 2016 in line with the Bank's risk management policies that were prepared in parallel to national legislation and international practices and then approved by the Board of Directors of the Bank.

Risk management practices are carried out through policies, action plans, practice procedures and limits determined, depending on the Bank's risk-return structure, for controlling the quality and level of the Bank's activities. Risk management practices include: identifying, measuring, and reporting incurred risks in unconsolidated and consolidated basis, and determining the total required capital and liquidity adequacy regarding the risk profiles.

Policies and other documents prepared in line with the Banking Regulation and Supervision Agency (BRSA)'s "Regulation on Evaluation Process of Banks' Internal Systems and Internal Capital Adequacy" and "Best Practice Guidelines" periodically reviewed, and updated if necessary. In 2016, a "Model Risk Management Policy Document" was issued in addition to the existing policies, and it was put into practice after being approved by the Board of Directors of the Bank.

The process continued keeping track of the national and international regulations regarding the field of risk management and capital adequacy, as well as the developments in this field. In line with the economic developments and expectations, daily scenario analysis on the capital adequacy ratio and monitoring and analysis activities for the standard ratio of the interest rate risk arising from banking activities, and the liquidity coverage ratio were carried out also

in 2016. The stress test reports issued at the end of each month covering all risk factors, were regularly reported to the Bank's top management.

In line with the "Regulation on Evaluation Process of Banks' Internal Systems and Internal Capital Adequacy" and the relevant "Best Practice Guidelines"; "Internal Capital Adequacy Evaluation Process (ISEDES) Report" was issued and submitted to the Banking Regulation and Supervision Agency in 2016.

Studies to calculate the market risk over the "Value at Risk (VaR)" model, and to improve this model proceeded.

Activities of monitoring, measuring, analyzing, controlling and reporting the financial risks regarding the transactions made by the teams of the Bank's Treasury Unit, continued within the Treasury Reporting and Middle Office Department.

In 2016, VakifBank met the legal liabilities within the scope of the EMIR (European Markets Infrastructure Regulation) - European Market Derivative Products Infrastructure regulations. The Bank's clearing liabilities were communicated via "clearing member" bank to a "central counterparty", and the ones meeting the requirements among the existing transactions in the Bank's portfolio, were cleared within the scope of EMIR provisions. Within the scope of operational risk management, activities of collecting and analyzing the operational were carried out on consolidated basis including the loss data received from the subsidiaries and affiliates. Furthermore, the "Impact Analysis" made on the business processes was also completed.

MARKET RISK

The market risk arising from trading transactions, is measured and monitored using standard methods and internal models in parallel to national and international practices. The management of market risk is performed within the scope of the "Market Risk Management Policy Document".

The market risk measurement results are calculated monthly on an unconsolidated and a consolidated basis by using the standard method under the provisions of the "Regulation on Measurement and Assessment of Capital Adequacy of Banks" and are reported to the Bank's top management and to the Banking Regulation and Supervision Agency. The portfolio, which is used in the calculation, is determined under the Bank's Trading Strategy, Policy and Implementation Procedures Document.

Moreover, VaR (Value at Risk) calculations are made on a daily basis and reported accordingly. "Value at Risk" is calculated through a unilateral 99% confidence interval on daily basis using historical simulation and Monte Carlo simulation. Daily tests are made retrospectively (backtesting) in order to test the reliability and performance of the results of the model. Furthermore, scenario analysis and stress tests supporting the standard method and internal models, are also performed.

Monitored in line with the general limits of the Bank and the early warning signal limit; the limit practices based on the "Value at Risk", are tracked on daily basis in order to limit the market risk.

RISK MANAGEMENT POLICIES APPLIED BY RISK TYPE

INTEREST RATE RISK

Interest rate risk, which the Bank may be exposed to due to maturity mismatch on its balance sheet, is managed pursuant to the Interest Rate Risk Management Policy Document.

The standard ratio of the interest rate risk arising from banking activities is calculated on a monthly basis and reported to the Banking Regulation and Supervision agency. Besides, calculations can be made on a weekly basis in order to keep track of the ratio and take prompt action. Furthermore, gap analysis is made based on the time left for repricing, and reports are issued on the interest rate risk while duration measuring and sensitivity analysis are periodically performed.

LIQUIDITY RISK

The Bank's liquidity risk is managed in accordance with the Liquidity Risk Management Policy Document. The Bank's approach for liquidity risk management is to monitor liquidity risk throughout the day on a continuous basis. To this end, cash inflows and outflows in both Turkish lira and foreign exchange are tried to be kept under control at any moment, long-term cash flow tables are prepared, and scenario analysis and stress tests based on the experiences and expectations are performed in order to determine the Bank's strength against sudden crises.

The Bank's liquidity risk appetite was determined. Within the framework of this appetite, activities for determining liquidity risk limits are sustained.

OPERATIONAL RISK

The management of operational risks is performed in accordance with the "Operational Risk Framework," which was created for the determination and definition of all the significant risks faced by the Bank in comprehensive categories and which is a common dictionary containing examples of these risks, and the Bank's Operational Risk Management Policy Document. The auditing of the operational risks is carried out by Audit Board and the Head of Internal Audit. In the management of operational risk, the Bank collects operational risk loss and potential risk data, which also enable the implementation of the advanced measurement approaches. The operational loss data is analyzed in order to identify the risk factors and the findings were presented to the Bank's executive management.

The process of evaluating the operational risk data on consolidated basis continues, and within this scope, the loss data received from the Bank's subsidiaries and affiliates is regularly collected and saved in the data infrastructure.

The "Impact Analysis" covering the Head Office' departments, to analyze the business processes, and to take necessary measures after identifying the inadequate controls which are not effective, was re-performed on the business processes. Activities to assess processes which are updated via symptom monitoring activities and new established are proceeded.

Risk assessments related to the new products are made within the scope of the "New Product Development Regulation."

Moreover, risk assessments related to the purchase of the support services are made within the scope of the "Support Service Procurement Procedures and the Risk Management Program."

Operational risk measurement results calculated annually on unconsolidated and consolidated basis using the key indicator approach within the framework of the "Regulation on Measurement and Assessment of Capital Adequacy of Banks", are reported to the Bank's top management, and the BRSA.

CREDIT RISK

Credit risk arises from the failure of counterparty to fulfil its obligations, partially or completely, in accordance with contractual requirements. The credit risk definition of the Bank takes the credit risk definition of the Banking Law as a base and comprises the credit risks involved in all products and activities.

Credit risk is managed within the scope of the "Credit Risk Management Policy Document". Furthermore, VakıfBank manages the country risk within the scope of the "Country Risk Management Policy Document", and perceives indirect country risk, central management risk, contagion risk, macroeconomic risk, indirect FX risk, and transfer risk as the main components of the country risk.

The findings being obtained from analyses of the composition and concentration of the Bank's loan portfolio (type of loan, currency, maturity, sector, geographic region, borrower, holding, group, subsidiaries); from the portfolio quality (standard loans, non-performing loans, deferred loans, analysis of the data obtained from the credit rating system); from the portfolio analysis (duration, average maturity, interest rate sensitivity); from country risk and scenario analyses and the studies on possible events of default are reported to the Bank's top management as individual and monthly reports.

Sectoral and geographic concentration limits as well as country risk limits are determined with an aim to define the risks resulting from credit concentrations and to create a well-balanced credit portfolio. These limits are updated taking into consideration the Bank's credit policy and macroeconomic developments.

Credit risk in fair value, measured within the scope of the provisions of the "Regulation on Measurement and Assessment of Capital Adequacy of Banks," is reported to the Bank's top management and the BRSA in unconsolidated and consolidated basis quarterly. The Capital Adequacy Standard Ratio is closely monitored in the Bank, calculated on a daily basis and reported to the top management after the scenario analysis/stress testing is performed.

The ultimate aim of the Bank is to use credit risk internal methods in line with Basel III and international best practices. Within this scope, "Internal Rating Based Approach" activities are carried out within the Bank. Within the scope of "Internal Rating Based Approach" activities, the Credit Risk Control Department and the Head of Intelligence in coordination carry out activities of updating the existing credit rating models, and developing new models. Within the scope of "Internal Rating Based Approach" activities, policies and procedures are updated in a risk based approach. Moreover, due to the importance of using consistent credit rating models with high reliability level, the Credit Risk Control Department periodically analyzes the models' outcomes, and reports them to the Bank's top management.

The Validation Department started its activities: I) to determine, by using accuracy, correctness and consistency measurements, how much the models used throughout the Bank represent the outcomes, II) to measure how strong the models and other components are, and III) primarily, to make qualitative and quantitative validation on the internal credit rating systems used by the Bank. Within this scope, validation reports issued about the models, are presented to the Bank's top management.

COUNTERPARTY CREDIT RISK

Counterparty credit risk is the risk that a counterparty to a mutual transaction, that obligates both parties, will default before the date of final payment of such transaction is due. This risk type is managed pursuant to the "Counterparty Credit Risk Management Policy Document".

Within the framework of the provisions of the "Regulation on Measurement and Assessment of Capital Adequacy of Banks", counterparty credit risk amounts calculated using the fair valuation method, are calculated based on the portfolios in the trading and banking accounts. These amounts are monthly reported on unconsolidated and consolidated basis within the scope of capital adequacy calculations, to the Bank's top management and the BRSA.

The Treasury Reporting and Middle Office Department monitors the compliance with the limits for the counterparty financial corporations the Head of Treasury is authorized, by the Board of Directors of the Bank, to make transactions with. Limits determined as, "Credit Limits" and "Reconciliation Limits", are monitored on real-time basis. The Head of Treasury provides the users with the option to learn the limits before making any transaction with the banks. Warning signals were developed in order not to exceed the limits. All risk amounts reflected in the limits are shared with all relevant users. However, in certain cases, reports on "Warnings Before Exceeding Limits" and "Exceeded Limits" are shared with all users and the Bank's relevant executives.

Activities are carried out within the Bank to ensure that Collateral Management (Treasury Transactions Collateral) can be made on the Treasury Unit Bank Limit Monitoring System. In order to establish a Middle Office Management and its systemic infrastructure within the Bank, and to integrate such system to other systems, the Treasury Control and Reporting Module project was structured on three phases, and the second phase of the project was launched in the end of 2016.

The Treasury Reporting and Middle Office Department's activity reports are presented to the Bank's Audit Committee every six months, and the Committee Members are given information about the control results of the Head of Treasury transactions, and the activities carried out.

CONCENTRATION RISK

Concentration risk arises due to a specific concentration of the Bank's assets, liabilities, and business lines; this risk type is managed pursuant to the "Concentration Risk Management Policy Document".

The Bank establishes concentration limits, which are closely monitored and reported to top management. Limits are controlled on a regular basis and revised if needed, in parallel with economic developments, expectations, and the Bank's objectives and strategies.

TÜRKİYE VAKIFLAR BANKASI
TÜRK ANONİM ORTAKLIĞI

UNCONSOLIDATED FINANCIAL STATEMENTS AND
RELATED DISCLOSURES AT DECEMBER 31, 2016
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

(Convenience Translation of Publicly Announced Unconsolidated
Financial Statements and Independent Auditors' Report Originally
Issued in Turkish, See in Note I. of Section Three)



**CONVENIENCE TRANSLATION INTO ENGLISH OF THE INDEPENDENT AUDITOR'S REPORT
ORIGINALLY PREPARED AND ISSUED IN TURKISH**

To the Board of Directors of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı;

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı ("the Bank") and its subsidiaries (collectively referred to as the "Group") as at 31 December 2016 and the related consolidated statement of income, consolidated income and expense items under shareholders' equity, consolidated statement of changes in shareholders' equity, consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Independent Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our audit was conducted in accordance with the "Regulation on Independent Audit of Banks" published by the BRSA on the Official Gazette No.29314 dated 2 April 2015 and Independent Auditing Standards that are part of Turkish Standards on Auditing published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that ethical requirements are complied with and that the audit is planned and performed to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and its subsidiaries as at 31 December 2016 and the results of its operations and its cash flows for the year then ended in accordance with BRSA Accounting and Reporting Legislation.

Report on Other Responsibilities Arising From Regulatory Requirements

In accordance with subparagraph 4 of Article 402 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 1 January - 31 December 2016 are not in compliance with TCC and provisions of the Bank's articles of association in relation to financial reporting.

In accordance with subparagraph 4 of Article 402 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

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

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



Zeynep Uras, SMMM
Partner

Istanbul, 20 February 2017

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI UNCONSOLIDATED FINANCIAL REPORT AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2016

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The unconsolidated financial report as at and for the year ended December 31, 2016, prepared in accordance with the communiqué of Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks as regulated by Banking Regulation and Supervision Agency, is comprised of the following sections:

- GENERAL INFORMATION ABOUT THE BANK
- UNCONSOLIDATED FINANCIAL STATEMENTS
- ACCOUNTING POLICIES
- INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK
- DISCLOSURES AND FOOTNOTES ON UNCONSOLIDATED FINANCIAL STATEMENTS
- OTHER DISCLOSURES AND FOOTNOTES
- INDEPENDENT AUDITORS' REPORT

The unconsolidated financial statements for the year and related disclosures and footnotes that were independently audited, are prepared in accordance with the Regulation on Accounting Applications for Banks and Safeguarding of Documents, Turkish Accounting Standards, Turkish Financial Reporting Standards and the related statements and guidance and in compliance with the financial records of our Bank. Unless otherwise stated, the accompanying unconsolidated financial report is presented in thousands of Turkish Lira (TL), and has been independently audited.

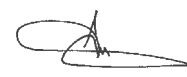
February 20, 2017



RAMAZAN GÜNDÜZ
Chairman of the
Board of Directors



MEHMET EMİN ÖZCAN
Deputy Chairman of the Board
and Audit Committee Member



SABAHATTİN BİRDAL
Board member and
Audit Committee Member



HALİL AYDOĞAN
General Manager and
Board Member



METİN RECEP ZAFER
Assistant General Manager



FERKAN MERDAN
Director of Accounting and
Financial Affairs

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CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

EXPLANATIONS AND NOTES RELATED TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

SECTION ONE GENERAL INFORMATION

I. HISTORY OF THE BANK INCLUDING ITS INCORPORATION DATE, INITIAL LEGAL STATUS, AMENDMENTS TO LEGAL STATUS

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı (“The Bank”) was established to operate as stated in the disclosure V of this section, under the authorization of a special law numbered 6219, called “the Law of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı”, on January 11, 1954 within the framework of the authority granted to The General Directorate of the Foundations of Turkish Republic Prime Ministry (“The General Directorate of the Foundations”). The Bank’s statute has not been changed since its establishment.

II. THE BANK’S SHAREHOLDERS STRUCTURE, MANAGEMENT AND INTERNAL AUDIT, DIRECT AND INDIRECT SHAREHOLDERS, CHANGE IN SHAREHOLDER STRUCTURE DURING THE PERIOD AND INFORMATION ON BANK’S RISK GROUP

The shareholder having control over the shares of the Bank is the General Directorate of the Foundations.

As at December 31, 2016 and December 31, 2015, the Bank’s paid-in capital is TL 2,500,000, divided into 250,000,000,000 shares with each has a nominal value of Kr 1.

The Bank’s shareholders structure as at December 31, 2016 is as stated below:

Shareholders	Number of Shares – 100 unit	Nominal Value of the Shares – Thousands of TL	Share Percentage (%)
Registered foundations represented by the General Directorate of the Foundations (Group A)	1,075,058,640	1,075,058	43.00
Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (Group C)	402,552,666	402,553	16.10
Registered foundations represented by the General Directorate of the Foundations (Group B)	386,224,785	386,225	15.45
Other appendant foundations (Group B)	2,823,304	2,823	0.11
Other registered foundations (Group B)	1,448,543	1,448	0.06
Other real persons and legal entities (Group C)	1,532,626	1,533	0.06
Publicly traded (Group D)	630,359,436	630,360	25.22
Total	2,500,000,000	2,500,000	100.00

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

EXPLANATIONS AND NOTES RELATED TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

III. INFORMATION ON THE CHAIRMAN AND MEMBERS OF THE BOARD OF DIRECTORS, AUDIT COMMITTEE MEMBERS, GENERAL MANAGER, ASSISTANT GENERAL MANAGERS AND THEIR SHARES IN THE BANK

Name and Surname	Responsibility	Date of Appointment	Education	Experience in Banking and Management
Board of Directors				
Ramazan GÜNDÜZ	Chairman	March 29, 2013	University	38 years
Mehmet Emin ÖZCAN	Deputy Chairman	March 29, 2013	University	33 years
Halil AYDOĞAN	Member - General Manager	March 29, 2013	University	39 years
İsmail ALPTEKİN	Member	April 6, 2009	University	18 years
Dr.Adnan ERTEM	Member	October 28, 2010	PHD	28 years
Sabahattin BİRDAL	Member	March 31, 2014	University	39 years
Öztürk ORAN	Member	April 30, 2014	University	41 years
Dilek YÜKSEL	Member	March 29, 2016	University	4 years
Audit Committee				
Mehmet Emin ÖZCAN	Member	April 4, 2014	University	33 years
Sabahattin BİRDAL	Member	April 4, 2014	University	39 years
Auditor				
Yunus ARINCI	Auditor	March 19, 2010	Master	19 years
Mehmet Emin BAYSA	Auditor	March 29, 2016	Master	15 years
Assistant General Managers				
Metin Recep ZAFER	Accounting and Financial Affairs, Treasury and Foreign Operations, Banking Operations, Consumer Coordination Attendant, Application Development Departments, System Management, IT Operations and Support, IT Process Management and Compliance Directorate, Project Management Directorate, Information Security Directorate, IT Services Planning Department	June 13, 2006	PHD	21 years
Hasan ECESÖY	Treasury, International Relations and Investor Relations, Coordination of Foreign Branches	June 18, 2010	PHD	23 years
Serdar SATOĞLU	Private Banking, Associates	July 2, 2010	PHD	21 years
Osman DEMREN	Commercial and Corporate Loans, Consumer and SME Loans, Intelligence	April 6, 2011	Master	26 years
Muhammet Lütfü ÇELEBİ	Commercial and Corporate Banking, SME Banking, Cash Management Affairs, Corporate Branches	October 23, 2013	University	21 years
Mustafa SAYDAM	Human Resources, Support Services, Distribution Channels	October 28, 2013	University	23 years
Mehmet Emin KARAAĞAÇ	Loans and Follow-up, Legal Affairs	November 8, 2013	University	27 years
Yakup ŞİMŞEK	Retail Banking, Payment Systems, Payment System Operations, Insurance Banking	September 7, 2016	University	20 years

At the resolution of the 62nd Ordinary Meeting of the General Assembly dated March 29, 2016, Şeref AKSAÇ who was a member of Board of Directors and Mehmet HALTAŞ who was a member of audit committee have left their position. Based on the decision taken at the same meeting Dilek YÜKSEL has been assigned to member of Board of Directors and Mehmet Emin BAYSA has been assigned to audit committee member.

In the Ordinary General Assembly meeting of the Parent Bank held on August 25, 2016, duty of Yakup ŞİMŞEK (Head of Cash Management Transactions) has appointed for the Executive Vice President.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

EXPLANATIONS AND NOTES RELATED TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

In the Ordinary General Assembly meeting of the Parent Bank held on September 8, 2016, duty of Ali Engin EROĞLU (Executive Vice President) has left his position.

İsmail ALPTEKİN, member of the Board of Directors, holds 59 unquoted shares of Group C of the Bank. The remaining members of the top management listed above do not hold any unquoted shares of the Bank.

IV. INFORMATION ON THE BANK’S QUALIFIED SHAREHOLDERS

Name Surname/ Title	Share Amount (Nominal)	Share Percentage	Paid Shares (Nominal)	Unpaid Shares
Registered foundations represented by the General Directorate of the Foundations (Group A)	1,075,058	43.00	1,075,058	-
Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (Group C)	402,553	16.10	402,553	-
Registered foundations represented by the General Directorate of the Foundations (Group B)	386,225	15.45	386,225	-

The shareholder holding control over the Bank is the General Directorate of the Foundations and Appendant foundations represented by the General Directorate of the Foundations having 58.45% of the Bank’s outstanding shares. Another organization holding qualified share in the Bank is Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı, having 16.10% of outstanding shares of the Bank.

V. INFORMATION ABOUT THE SERVICES AND NATURE OF ACTIVITIES OF THE BANK

The Bank was established under the authorization of special law numbered 6219, called “the Law of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı”, on January 11, 1954 within the framework of the authority granted to The General Directorate of the Foundations. Operational activities of the Bank as stated at its Articles of Association are as follows:

- Lending loans by granting securities and real estates as collateral,
- Establishing or participating in all kinds of insurance corporations already established,
- Trading real estates,
- Servicing all banking operations and services,
- Operating real estates and participating in industrial sectors for corporations handed over by foundations and General Directorate of the Foundations in line with conditions stipulated by agreements if signed.
- The Bank is established to render banking services to the foundations and carry out cashier transactions of the General Directorate of Foundations in compliance with the agreements signed by General Directorate of the Foundations.

As at December 31, 2016, the Bank has 921 domestic, 3 foreign, in total 924 branches (December 31, 2015: 917 domestic, 3 foreign, in total 920 branches). As at December 31, 2016, the Bank has 15,615 employees (December 31, 2015: 15,410 employees).

VI. CURRENT OR LIKELY ACTUAL OR LEGAL BARRIERS TO IMMEDIATE TRANSFER OF EQUITY OR REPAYMENT OF DEBTS BETWEEN BANK AND ITS SUBSIDIARIES

None.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

AS AT DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

SECTION TWO

UNCONSOLIDATED FINANCIAL STATEMENTS

ASSETS	Notes	Audited Current Period December 31, 2016			Audited Prior Period December 31, 2015		
		TL	FC	Total	TL	FC	Total
I. CASH AND BALANCES WITH THE CENTRAL BANK	V-I-1	4,409,130	19,956,167	24,365,297	2,133,980	19,350,809	21,484,789
II. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Net)	V-I-2	1,478,068	133,112	1,611,180	739,339	146,128	885,467
2.1 Financial assets held for trading purpose		1,478,068	133,112	1,611,180	739,339	146,128	885,467
2.1.1 Debt securities issued by the governments		-	-	-	-	-	-
2.1.2 Equity securities		-	-	-	-	-	-
2.1.3 Derivative financial assets held for trading purpose	V-I-2	1,477,867	133,112	1,610,979	739,339	146,128	885,467
2.1.4 Other securities		201	-	201	-	-	-
2.2 Financial assets designated at fair value through profit or loss		-	-	-	-	-	-
2.2.1 Debt securities issued by the governments		-	-	-	-	-	-
2.2.2 Equity securities		-	-	-	-	-	-
2.2.3 Loans		-	-	-	-	-	-
2.2.4 Other securities		-	-	-	-	-	-
III. BANKS	V-I-3	37,570	3,852,752	3,890,322	370,201	4,864,065	5,234,266
IV. RECEIVABLES FROM INTERBANK MONEY MARKETS		-	-	-	-	-	-
4.1 Interbank money market placements		-	-	-	-	-	-
4.2 Istanbul Stock Exchange money market placements		-	-	-	-	-	-
4.3 Receivables from reverse repurchase agreements		-	-	-	-	-	-
V. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Net)	V-I-4	12,588,929	5,230,128	17,819,057	12,100,346	4,673,623	16,773,969
5.1 Equity securities		15	27,595	27,610	15	79,238	79,253
5.2 Debt securities issued by the governments		12,588,914	5,202,533	17,791,447	12,100,331	4,594,385	16,694,716
5.3 Other securities		-	-	-	-	-	-
VI. LOANS AND RECEIVABLES	V-I-5	100,121,757	47,590,618	147,712,375	88,430,947	35,349,706	123,780,653
6.1 Performing loans and receivables		99,028,374	47,590,618	146,618,992	87,624,772	35,349,706	122,974,478
6.1.1 Loans provided to risk group	V-VII-1	36,595	295,669	332,264	86,394	60,304	146,698
6.1.2 Debt securities issued by the governments		-	-	-	-	-	-
6.1.3 Other		98,991,779	47,294,949	146,286,728	87,538,378	35,289,402	122,827,780
6.2 Loans under follow-up		6,413,503	-	6,413,503	4,850,213	-	4,850,213
6.3 Specific provisions (-)		5,320,120	-	5,320,120	4,044,038	-	4,044,038
VII. FACTORING RECEIVABLES		-	-	-	-	-	-
VIII. HELD-TO-MATURITY INVESTMENT SECURITIES (Net)	V-I-6	8,039,914	140,621	8,180,535	7,546,748	130,981	7,677,729
8.1 Debt securities issued by the governments		8,039,914	-	8,039,914	7,546,748	-	7,546,748
8.2 Other securities		-	140,621	140,621	-	130,981	130,981
IX. INVESTMENTS IN ASSOCIATES (Net)	V-I-7	299,478	-	299,478	270,290	-	270,290
9.1 Associates, consolidated per equity method		-	-	-	-	-	-
9.2 Unconsolidated associates		299,478	-	299,478	270,290	-	270,290
9.2.1 Financial associates		288,078	-	288,078	258,890	-	258,890
9.2.2 Non-Financial associates		11,400	-	11,400	11,400	-	11,400
X. INVESTMENTS IN SUBSIDIARIES (Net)	V-I-8	1,363,012	434,112	1,797,124	1,170,175	434,144	1,604,319
10.1 Unconsolidated financial subsidiaries		1,094,116	434,112	1,528,228	916,026	434,144	1,350,170
10.2 Unconsolidated non-financial subsidiaries		268,896	-	268,896	254,149	-	254,149
XI. INVESTMENTS IN JOINT-VENTURES (Net)	V-I-9	-	-	-	-	-	-
11.1 joint-ventures, consolidated per equity method		-	-	-	-	-	-
11.2 Unconsolidated joint-ventures		-	-	-	-	-	-
11.2.1 Financial joint-ventures		-	-	-	-	-	-
11.2.2 Non-Financial joint-ventures		-	-	-	-	-	-
XII. LEASE RECEIVABLES	V-I-10	-	-	-	-	-	-
12.1 Finance lease receivables		-	-	-	-	-	-
12.2 Operational lease receivables		-	-	-	-	-	-
12.3 Other		-	-	-	-	-	-
12.4 Unearned income (-)		-	-	-	-	-	-
XIII. DERIVATIVE FINANCIAL ASSETS HELD FOR RISK MANAGEMENT PURPOSE	V-I-11	-	-	-	-	-	-
13.1 Fair value hedges		-	-	-	-	-	-
13.2 Cash flow hedges		-	-	-	-	-	-
13.3 Hedges of net investment in foreign operations		-	-	-	-	-	-
XIV. TANGIBLE ASSETS (Net)	V-I-12	1,401,949	7,926	1,409,875	1,378,858	4,292	1,383,150
XV. INTANGIBLE ASSETS (Net)	V-I-13	193,866	-	193,866	171,277	-	171,277
15.1 Goodwill		-	-	-	-	-	-
15.2 Other intangibles		193,866	-	193,866	171,277	-	171,277
XVI. INVESTMENT PROPERTIES (Net)	V-I-14	-	-	-	-	-	-
XVII. TAX ASSETS		83,109	-	83,109	15,421	-	15,421
17.1 Current tax assets		-	-	-	-	-	-
17.2 Deferred tax assets	V-I-15	83,109	-	83,109	15,421	-	15,421
XVIII. ASSETS HELD FOR SALE AND ASSETS RELATED TO THE DISCONTINUED OPERATIONS (Net)	V-I-16	1,227,867	-	1,227,867	994,964	-	994,964
18.1 Assets held for sale		1,227,867	-	1,227,867	994,964	-	994,964
18.2 Assets related to the discontinued operations		-	-	-	-	-	-
XIX. OTHER ASSETS	V-I-17	1,685,657	2,264,163	3,949,820	1,638,950	1,031,880	2,670,830
TOTAL ASSETS		132,930,306	79,609,599	212,539,905	116,961,496	65,985,628	182,947,124

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

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

UNCONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

AS AT DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

LIABILITIES AND EQUITY	Notes	Audited Current Period December 31, 2016			Audited Prior Period December 31, 2015		
		TL	FC	Total	TL	FC	Total
I. DEPOSITS	V-II-1	86,113,201	37,725,176	123,838,377	76,470,518	33,452,016	109,922,534
1.1 Deposits of the risk group	V-VII-1	1,984,546	212,599	2,197,145	1,625,019	185,477	1,810,496
1.2 Other deposits		84,128,655	37,512,577	121,641,232	74,845,499	33,266,539	108,112,038
II. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING PURPOSE	V-II-2	954,633	189,070	1,143,703	139,504	150,085	289,589
III. FUNDS BORROWED	V-II-3	671,898	23,521,872	24,193,770	332,783	18,223,214	18,555,997
IV. INTERBANK MONEY MARKET		11,172,470	1,722,864	12,895,334	9,340,604	3,403,437	12,744,041
4.1 Interbank money market takings		2,501,180	-	2,501,180	1,150,343	-	1,150,343
4.2 Istanbul Stock Exchange money market takings		-	-	-	-	-	-
4.3 Obligations under repurchase agreements		8,671,290	1,722,864	10,394,154	8,190,261	3,403,437	11,593,698
V. SECURITIES ISSUED (Net)	V-II-3	3,268,595	11,439,150	14,707,745	3,128,044	7,419,715	10,547,759
5.1 Bills		3,268,595	-	3,268,595	3,128,044	-	3,128,044
5.2 Asset backed securities		-	-	-	-	-	-
5.3 Bonds		-	11,439,150	11,439,150	-	7,419,715	7,419,715
VI. FUNDS		3,319	-	3,319	4,228	-	4,228
6.1 Funds against borrower's note		-	-	-	-	-	-
6.2 Other		3,319	-	3,319	4,228	-	4,228
VII. MISCELLANEOUS PAYABLES		4,381,317	781,677	5,162,994	3,539,365	620,852	4,160,217
VIII. OTHER EXTERNAL RESOURCES PAYABLE	V-II-4	677,086	1,999,105	2,676,191	601,292	1,770,238	2,371,530
IX. FACTORING PAYABLES		-	-	-	-	-	-
X. LEASE PAYABLES	V-II-5	-	-	-	-	-	-
10.1 Finance lease payables		-	-	-	-	-	-
10.2 Operational lease payables		-	-	-	-	-	-
10.3 Other		-	-	-	-	-	-
10.4 Deferred finance leasing expenses (-)		-	-	-	-	-	-
XI. DERIVATIVE FINANCIAL LIABILITIES HELD FOR RISK MANAGEMENT PURPOSE	V-II-6	-	-	-	-	-	-
11.1 Fair value hedges		-	-	-	-	-	-
11.2 Cash flow hedges		-	-	-	-	-	-
11.3 Hedges of net investment in foreign operations		-	-	-	-	-	-
XII. PROVISIONS	V-II-7	3,205,470	18,622	3,224,092	2,906,753	17,019	2,923,772
12.1 General provisions	V-II-7	2,153,773	13,670	2,167,443	1,944,150	13,453	1,957,603
12.2 Restructuring reserves		-	-	-	-	-	-
12.3 Reserve for employee benefits		710,171	-	710,171	674,894	-	674,894
12.4 Insurance technical provisions (Net)		-	-	-	-	-	-
12.5 Other provisions	V-II-7	341,526	4,952	346,478	287,709	3,566	291,275
XIII. TAX LIABILITIES	V-II-8	422,131	2,325	424,456	488,757	1,678	490,435
13.1 Current tax liabilities		422,131	2,325	424,456	488,757	1,678	490,435
13.2 Deferred tax liabilities	V-I-15	-	-	-	-	-	-
XIV. PAYABLES FOR ASSETS HELD FOR SALE AND ASSETS RELATED TO DISCONTINUED OPERATIONS	V-II-9	-	-	-	-	-	-
14.1 Payables related to the assets held for sale		-	-	-	-	-	-
14.2 Payables related to the discontinued operations		-	-	-	-	-	-
XV. SUBORDINATED LOANS	V-II-10	-	5,031,213	5,031,213	-	4,169,474	4,169,474
XVI. EQUITY		19,035,854	202,857	19,238,711	16,336,411	431,137	16,767,548
16.1 Paid-in capital	V-II-11	2,500,000	-	2,500,000	2,500,000	-	2,500,000
16.2 Capital reserves		2,070,365	202,857	2,273,222	1,972,304	431,137	2,403,441
16.2.1 Share premium		723,918	-	723,918	723,918	-	723,918
16.2.2 Share cancellation profits		-	-	-	-	-	-
16.2.3 Valuation differences of the marketable securities	V-II-11	495,171	202,857	698,028	399,276	431,137	830,413
16.2.4 Revaluation surplus on tangible assets		829,895	-	829,895	830,149	-	830,149
16.2.5 Revaluation surplus on intangible assets		-	-	-	-	-	-
16.2.6 Revaluation surplus on investment properties		-	-	-	-	-	-
16.2.7 Bonus shares of associates, subsidiaries and joint-ventures		69,222	-	69,222	69,222	-	69,222
16.2.8 Hedging reserves (effective portion)		-	-	-	-	-	-
16.2.9 Revaluation surplus on assets held for sale and assets related to the discontinued operations		-	-	-	-	-	-
16.2.10 Other capital reserves		(47,841)	-	(47,841)	(50,261)	-	(50,261)
16.3 Profit reserves		11,762,447	-	11,762,447	9,933,998	-	9,933,998
16.3.1 Legal reserves		1,367,022	-	1,367,022	1,174,010	-	1,174,010
16.3.2 Status reserves		-	-	-	-	-	-
16.3.3 Extraordinary reserves		9,964,966	-	9,964,966	8,329,529	-	8,329,529
16.3.4 Other profit reserves		430,459	-	430,459	430,459	-	430,459
16.4 Profit or loss		2,703,042	-	2,703,042	1,930,109	-	1,930,109
16.4.1 Prior years' profit/loss		-	-	-	-	-	-
16.4.2 Current period's profit/loss		2,703,042	-	2,703,042	1,930,109	-	1,930,109
TOTAL LIABILITIES AND EQUITY		129,905,974	82,633,931	212,539,905	113,288,259	69,658,865	182,947,124

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

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

UNCONSOLIDATED OFF-BALANCE SHEET ITEMS

AS AT DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Notes	Audited Current Period December 31, 2016			Audited Prior Period December 31, 2015		
		TL	FC	Total	TL	FC	Total
A. OFF-BALANCE SHEET COMMITMENTS AND CONTINGENCIES (I+II+III)		71,071,210	75,396,231	146,467,441	54,047,046	63,505,765	117,552,811
I. GUARANTEES AND SURETIES	V-III-2-4	26,743,456	13,704,968	40,448,424	22,083,837	10,984,524	33,068,361
1.1 Letters of guarantee		26,687,992	5,626,758	32,314,750	21,980,769	4,810,034	26,790,803
1.1.1 Guarantees subject to State Tender Law		3,203,501	2,571,209	5,774,710	2,542,809	2,199,589	4,742,398
1.1.2 Guarantees given for foreign trade operations		1,059,516	-	1,059,516	1,030,530	-	1,030,530
1.1.3 Other letters of guarantee		22,424,975	3,055,549	25,480,524	18,407,430	2,610,445	21,017,875
1.2 Bank acceptances		53,702	1,143,484	1,197,186	86,762	1,389,251	1,476,013
1.2.1 Import letter of acceptance		-	395,874	395,874	1,590	189,471	191,061
1.2.2 Other bank acceptances		53,702	747,610	801,312	85,172	1,199,780	1,284,952
1.3 Letters of credit		1,762	6,911,368	6,913,130	16,306	4,772,403	4,788,709
1.3.1 Documentary letters of credit		1,762	6,911,368	6,913,130	16,306	4,772,403	4,788,709
1.3.2 Other letters of credit		-	-	-	-	-	-
1.4 Guaranteed pre-financings		-	2,796	2,796	-	2,314	2,314
1.5 Endorsements		-	-	-	-	-	-
1.5.1 Endorsements to the Central Bank of The Republic of Turkey		-	-	-	-	-	-
1.5.2 Other endorsements		-	-	-	-	-	-
1.6 Marketable securities underwriting commitments		-	-	-	-	-	-
1.7 Factoring related guarantees		-	-	-	-	-	-
1.8 Other guarantees		-	16,890	16,890	-	10,522	10,522
1.9 Other sureties		-	3,672	3,672	-	-	-
II. COMMITMENTS		26,475,216	12,535,618	39,010,834	21,439,019	13,120,948	34,559,967
2.1 Irrevocable commitments		23,451,047	1,502,055	24,953,102	19,031,959	3,730,953	22,762,912
2.1.1 Asset purchase commitments	V-III-1	1,362,697	1,502,055	2,864,752	112,420	3,730,953	3,843,373
2.1.2 Deposit purchase and sales commitments		-	-	-	-	-	-
2.1.3 Share capital commitments to associates and subsidiaries	V-III-1	-	-	-	-	-	-
2.1.4 Loan granting commitments	V-III-1	9,817,555	-	9,817,555	8,482,816	-	8,482,816
2.1.5 Securities issuance brokerage commitments		-	-	-	-	-	-
2.1.6 Commitments for reserve deposit requirements		-	-	-	-	-	-
2.1.7 Commitments for cheque payments	V-III-1	2,154,102	-	2,154,102	1,805,569	-	1,805,569
2.1.8 Tax and fund obligations on export commitments		-	-	-	-	-	-
2.1.9 Commitments for credit card limits	V-III-1	8,682,835	-	8,682,835	7,399,361	-	7,399,361
2.1.10 Commitments for credit card and banking operations promotions		300,108	-	300,108	196,037	-	196,037
2.1.11 Receivables from "short" sale commitments on securities		-	-	-	-	-	-
2.1.12 Payables from "short" sale commitments on securities		-	-	-	-	-	-
2.1.13 Other irrevocable commitments		1,133,750	-	1,133,750	1,035,756	-	1,035,756
2.2 Revocable commitments		3,024,169	11,033,563	14,057,732	2,407,060	9,389,995	11,797,055
2.2.1 Revocable loan granting commitments		3,024,169	11,033,563	14,057,732	2,407,060	9,389,995	11,797,055
2.2.2 Other revocable commitments		-	-	-	-	-	-
III. DERIVATIVE FINANCIAL INSTRUMENTS	V-III-5	17,852,538	49,155,645	67,008,183	10,524,190	39,400,293	49,924,483
3.1 Derivative financial instruments held for risk management		-	-	-	-	-	-
3.1.1 Fair value hedges		-	-	-	-	-	-
3.1.2 Cash flow hedges		-	-	-	-	-	-
3.1.3 Net foreign investment hedges		-	-	-	-	-	-
3.2 Trading derivatives		17,852,538	49,155,645	67,008,183	10,524,190	39,400,293	49,924,483
3.2.1 Forward foreign currency purchases/sales		489,310	1,120,684	1,609,994	211,514	257,246	468,760
3.2.1.1 Forward foreign currency purchases		244,982	560,368	805,350	106,014	128,693	234,707
3.2.1.2 Forward foreign currency sales		244,328	560,316	804,644	105,500	128,553	234,053
3.2.2 Currency and interest rate swaps		16,314,487	37,172,783	53,487,270	9,442,940	30,544,698	39,987,638
3.2.2.1 Currency swaps-purchases		8,539,652	11,631,406	20,171,058	4,382,013	12,050,672	16,432,685
3.2.2.2 Currency swaps-sales		6,324,835	9,924,553	16,249,388	4,160,927	6,080,268	10,241,195
3.2.2.3 Interest rate swaps-purchases		725,000	7,808,412	8,533,412	450,000	6,206,879	6,656,879
3.2.2.4 Interest rate swaps-sales		725,000	7,808,412	8,533,412	450,000	6,206,879	6,656,879
3.2.3 Currency, interest rate and security options		142,676	730,632	873,308	258,134	255,396	513,530
3.2.3.1 Currency call options		121,124	306,804	427,928	65,004	185,976	250,980
3.2.3.2 Currency put options		21,552	423,828	445,380	193,130	69,420	262,550
3.2.3.3 Interest rate call options		-	-	-	-	-	-
3.2.3.4 Interest rate put options		-	-	-	-	-	-
3.2.3.5 Security call options		-	-	-	-	-	-
3.2.3.6 Security put options		-	-	-	-	-	-
3.2.4 Currency futures		-	-	-	-	-	-
3.2.4.1 Currency futures-purchases		-	-	-	-	-	-
3.2.4.2 Currency futures-sales		-	-	-	-	-	-
3.2.5 Interest rate futures		-	-	-	-	-	-
3.2.5.1 Interest rate futures-purchases		-	-	-	-	-	-
3.2.5.2 Interest rate futures-sales		-	-	-	-	-	-
3.2.6 Other		906,065	10,131,546	11,037,611	611,602	8,342,953	8,954,555
B. CUSTODY AND PLEDGED ITEMS (IV+V+VI)		1,043,040,320	580,201,858	1,623,242,178	899,689,613	421,931,972	1,321,621,585
IV. ITEMS HELD IN CUSTODY		54,374,804	4,027,246	58,402,050	74,007,877	3,193,339	77,201,216
4.1 Customers' securities held		-	-	-	-	28,306	28,306
4.2 Investment securities held in custody		43,319,878	147,806	43,467,684	63,189,794	118,086	63,307,880
4.3 Checks received for collection		9,130,796	2,502,025	11,632,821	8,967,543	2,282,378	11,249,921
4.4 Commercial notes received for collection		941,776	410,946	1,352,722	1,065,285	310,417	1,375,702
4.5 Other assets received for collection		2,152	141	2,293	2,152	116	2,268
4.6 Assets received through public offering		-	-	-	-	-	-
4.7 Other items under custody		309	66,081	66,390	309	48,883	49,192
4.8 Custodians		979,893	900,247	1,880,140	782,794	405,153	1,187,947
V. PLEDGED ITEMS		280,652,246	104,200,492	384,852,738	235,391,497	82,272,386	317,663,883
5.1 Securities		495,249	16,366	511,615	435,193	14,171	449,364
5.2 Guarantee notes		767,038	544,996	1,312,034	792,339	429,076	1,221,415
5.3 Commodities		31,750,967	775,907	32,526,874	28,164,121	681,732	28,845,853
5.4 Warranties		-	-	-	-	-	-
5.5 Real estates		230,129,196	86,340,346	316,469,542	191,738,765	67,309,165	259,047,930
5.6 Other pledged items		16,959,461	16,365,309	33,324,770	13,657,901	13,683,601	27,341,502
5.7 Pledged items-depository		550,335	157,568	707,903	603,178	154,641	757,819
VI. CONFIRMED BILLS OF EXCHANGE AND SURETIES		708,013,270	471,974,120	1,179,987,390	590,290,239	336,466,247	926,756,486
TOTAL OFF-BALANCE SHEET ITEMS (A+B)		1,114,111,530	655,598,089	1,769,709,619	953,736,659	485,437,737	1,439,174,396

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

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

UNCONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Notes	Audited Current Period January 1, 2016- December 31, 2016	Audited Prior Period January 1, 2015- December 31, 2015
I. INTEREST INCOME		16,557,626	13,630,050
1.1 Interest income from loans	V-IV-1	14,211,917	11,529,678
1.2 Interest income from reserve deposits		111,798	38,684
1.3 Interest income from banks	V-IV-1	25,032	10,622
1.4 Interest income from money market transactions		-	-
1.5 Interest income from securities portfolio	V-IV-1	2,204,418	2,049,544
1.5.1 Trading financial assets		-	-
1.5.2 Financial assets designated at fair value through profit or loss		-	-
1.5.3 Available-for-sale financial assets		1,496,674	1,393,700
1.5.4 Held-to-maturity investments		707,744	655,844
1.6 Finance lease income		-	-
1.7 Other interest income		4,461	1,522
II. INTEREST EXPENSE		9,590,985	8,143,569
2.1 Interest expense on deposits	V-IV-2	7,213,909	6,131,010
2.2 Interest expense on funds borrowed	V-IV-2	385,750	260,836
2.3 Interest expense on money market transactions		992,840	881,816
2.4 Interest expense on securities issued	V-IV-2	680,296	596,952
2.5 Other interest expenses		318,190	272,955
III. NET INTEREST INCOME (I - II)		6,966,641	5,486,481
IV. NET FEES AND COMMISSIONS INCOME		980,883	921,084
4.1 Fees and commissions received		1,530,415	1,403,631
4.1.1 Non-cash loans		230,650	186,862
4.1.2 Others		1,299,765	1,216,769
4.2 Fees and commissions paid		549,532	482,547
4.2.1 Non-cash loans		67	166
4.2.2 Others		549,465	482,381
V. DIVIDEND INCOME	V-IV-3	91,753	62,219
VI. TRADING INCOME/LOSSES (Net)	V-IV-4	483,813	99,474
6.1 Trading account income/losses	V-IV-4	21,836	46,127
6.2 Income/losses from derivative financial instruments	V-IV-4	357,841	(13,176)
6.3 Foreign exchange gains/losses	V-IV-4	104,136	66,523
VII. OTHER OPERATING INCOME	V-IV-5	954,031	1,048,278
VIII. TOTAL OPERATING PROFIT (III+IV+V+VI+VII)		9,477,121	7,617,536
IX. PROVISION FOR LOSSES ON LOANS AND OTHER RECEIVABLES (-)	V-IV-6	2,246,514	1,537,060
X. OTHER OPERATING EXPENSES (-)	V-IV-7	3,835,083	3,610,183
XI. NET OPERATING PROFIT/LOSS (VIII-IX-X)		3,395,524	2,470,293
XII. INCOME RESULTED FROM MERGERS		-	-
XIII. INCOME/LOSS FROM INVESTMENTS UNDER EQUITY ACCOUNTING		-	-
XIV. GAIN/LOSS ON NET MONETARY POSITION		-	-
XV. INCOME/LOSS FROM CONTINUING OPERATIONS BEFORE TAXES (XI+XII+XIII+XIV)		3,395,524	2,470,293
XVI. CONTINUING OPERATIONS PROVISION FOR TAXES	V-IV-11	(692,482)	(540,184)
16.1 Current tax charges		(712,424)	(404,310)
16.2 Deferred tax credits		19,942	(135,874)
XVII. NET INCOME/LOSS AFTER TAXES FROM CONTINUING OPERATIONS (XV-XVI)	V-IV-12	2,703,042	1,930,109
XVIII. INCOME FROM DISCONTINUED OPERATIONS		-	-
18.1 Income from investment properties		-	-
18.2 Income from sales of subsidiaries, affiliates and joint-ventures		-	-
18.3 Other income from discontinued activities		-	-
XIX. EXPENSES FROM DISCONTINUED OPERATIONS		-	-
19.1 Investment property expenses		-	-
19.2 Losses from sales of subsidiaries, affiliates and joint ventures		-	-
19.3 Other expenses from discontinued activities		-	-
XX. INCOME/LOSS FROM DISCONTINUED OPERATIONS BEFORE TAXES		-	-
XXI. DISCONTINUED OPERATIONS PROVISION FOR TAXES		-	-
21.1 Current tax charge		-	-
21.2 Deferred tax charge		-	-
XXII. NET INCOME/LOSS AFRET TAXES FROM DISCONTINUED OPERATIONS		-	-
XXIII. NET PROFIT/LOSS (XVII+XXII)	V-IV-12	2,703,042	1,930,109
Profit/Loss per 100 shares (full TL)	III-XXIV	1.0812	0.7720

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

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

UNCONSOLIDATED STATEMENT OF PROFIT AND LOSS ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Audited Current Period January 1, 2016- December 31, 2016	Audited Prior Period January 1, 2015- December 31, 2015
GAINS AND LOSSES RECOGNIZED IN EQUITY		
I. VALUATION DIFFERENCES OF AVAILABLE FOR SALE FINANCIAL ASSETS RECOGNIZED IN VALUATION DIFFERENCES OF MARKETABLE SECURITIES	(238,688)	(567,255)
II. REVALUATION SURPLUS ON TANGIBLE ASSETS	(2,017)	577,256
III. REVALUATION SURPLUS ON INTANGIBLE ASSETS	-	-
IV. CURRENCY TRANSLATION DIFFERENCES	-	-
V. GAINS/(LOSSES) FROM CASH FLOW HEDGES (Effective Portion of Fair Value Changes)	-	-
VI. GAINS/(LOSSES) FROM NET FOREIGN INVESTMENT HEDGES (Effective portion)	-	-
VII. EFFECTS OF CHANGES IN ACCOUNTING POLICIES AND ERRORS	-	-
VIII. OTHER GAINS AND LOSSES RECOGNIZED IN EQUITY IN ACCORDANCE WITH TAS	60,089	76,831
IX. DEFERRED TAXES DUE TO VALUATION DIFFERENCES	48,737	78,857
X. NET GAINS/LOSSES RECOGNIZED DIRECTLY IN EQUITY (I+II+...+IX)	(131,879)	165,689
XI. CURRENT PERIOD'S PROFIT/(LOSS)	2,703,042	1,930,109
11.1 Change in fair value of securities (transfers to the statement of income)	(5,861)	35,471
11.2 Gains/Losses recognized in the statement of income due to reclassification of cash flow hedges	-	-
11.3 Gains/Losses recognized in the statement of income due to reclassification of net foreign investment hedges	-	-
11.4 Others	2,708,903	1,894,638
XII. TOTAL GAINS AND LOSSES RECOGNIZED DURING THE PERIOD (X+XI)	2,571,163	2,095,798

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

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE
TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Audited	Notes	Paid-in Capital	Adjustments to Paid-in Capital	Share Premium	Share Cancellation	Share Profits	Legal Reserves	Status Reserves	Extraordinary Reserves	Other Reserves	Current Period Net Profit/(Loss)	Prior Period Net Profit/(Loss)	Valuation Differences of the Assets and Liabilities	Revaluation Surplus on Tangible, Intangible Assets and Investment Property	Bonus Shares of Associates, Subsidiaries and Joint Ventures	Hedging Reserves	Revaluation Surp. On Assets Held for Sale and Assets of Discount. Op.s	Shareholders' Equity before Minority Interest	Minority Shareholders' Interest	Total Shareholders' Equity
Prior Period – December 31, 2015																				
I.	Balances at the beginning of the period	2,500,000	-	723,918	-	-	1,012,796	-	7,214,708	235,227	-	1,753,273	1,216,969	45,637	69,222	-	-	14,771,750	-	14,771,750
II.	Corrections made according to TAS 8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1.	The effect of corrections of error	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2.	The effect of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III.	Adjusted beginning balance (I+II)	2,500,000	-	723,918	-	-	1,012,796	-	7,214,708	235,227	-	1,753,273	1,216,969	45,637	69,222	-	-	14,771,750	-	14,771,750
Changes during the period																				
IV.	Mergers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V.	Associates, Subsidiaries and "Available-for-sale" securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VI.	Hedges for risk management	-	-	-	-	-	-	-	-	-	-	-	(386,556)	-	-	-	-	(386,556)	-	(386,556)
6.1	Net cash flow hedges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6.2	Net foreign investment hedges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII.	Revaluation surplus on tangible assets	-	-	-	-	-	-	-	-	-	-	-	-	548,390	-	-	-	548,390	-	548,390
VIII.	Revaluation surplus on intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX.	Bonus shares of associates, subsidiaries and joint-ventures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X.	Translation differences	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI.	Changes resulted from disposal of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII.	Changes resulted from reclassifications of the assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII.	Effect of change in equities of associates on the Bank's equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV.	Capital increase	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.1	Cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.2	Internal sources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV.	Share issuance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI.	Share cancellation profits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVII.	Capital reserves from inflation adjustments to paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVIII.	Other	-	-	-	-	-	-	-	-	3,855	-	-	-	-	-	-	-	3,855	-	3,855
XIX.	Current period's net profit/loss	-	-	-	-	-	-	-	-	1,930,109	-	1,930,109	-	-	-	-	-	1,930,109	-	1,930,109
XX.	Profit distribution	-	-	-	-	-	161,214	-	1,114,821	141,116	(1,753,273)	-	236,122	-	-	-	-	(100,000)	-	(100,000)
20.1	Dividends	-	-	-	-	-	-	-	-	-	(100,000)	-	-	-	-	-	-	(100,000)	-	(100,000)
20.2	Transferred to reserves	-	-	-	-	-	161,214	-	1,114,821	141,116	(1,653,273)	-	236,122	-	-	-	-	-	-	-
20.3	Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balances at the end of the period																				
		2,500,000	-	723,918	-	-	1,174,010	-	8,329,529	380,198	1,930,109	-	830,413	830,149	69,222	-	-	16,767,548	-	16,767,548

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

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Audited	Notes	Paid-in Capital	Adjustments from Inflation	Share Cancellation Premium	Share Profits	Legal Reserves	Status Reserves	Extraordinary Reserves	Other Reserves	Current Period Net Profit/ (Loss)	Prior Period Net Profit/ (Loss)	Valuation Differences of the Marketable Securities	Revaluation Surplus on Tangible, Intangible Assets and Investment Property	Bonus Shares of Associates, Subsidiaries and Joint Ventures	Hedging Reserves	Revaluation Surp. On Assets Held for Sale and Assets of Discount. Ops	Shareholders' Equity Before Minority Interest	Minority Interest	Total Shareholders' Equity
Current Period - December 31, 2016																			
I.	Balances at the beginning of the period	2,500,000	-	723,918	-	1,174,010	-	8,329,529	380,198	-	1,930,109	830,413	830,149	69,222	-	-	16,767,548	-	16,767,548
Changes during the period																			
II.	Mergers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III.	Associates, Subsidiaries and "Available-for-sale" securities	-	-	-	-	-	-	-	-	-	-	(132,385)	-	-	-	-	(132,385)	-	(132,385)
IV.	Hedges for risk management	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.1	Net cash flow hedges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.2	Net foreign investment hedges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V.	Revaluation surplus on tangible assets	-	-	-	-	-	-	-	-	-	-	-	(1,914)	-	-	-	(1,914)	-	(1,914)
VI.	Revaluation surplus on intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII.	Bonus shares of associates, subsidiaries and joint-ventures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII.	Translation differences	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX.	Changes resulted from disposal of the assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X.	Changes resulted from reclassifications of the assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI.	Effect of change in equities of associates on the Bank's equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII.	Capital increase	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.1	Cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.2	Internal sources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII.	Share issuance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV.	Share cancellation profits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV.	Capital reserves from inflation adjustments to paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI.	Other	-	-	-	-	-	-	-	2,420	-	-	-	-	-	-	-	2,420	-	2,420
XVII.	Current period's net profit/loss	-	-	-	-	-	-	-	-	2,703,042	-	-	-	-	-	-	2,703,042	-	2,703,042
XVIII.	Profit distribution	-	-	-	-	193,012	-	1,635,437	-	(1,930,109)	-	-	1,660	-	-	-	(100,000)	-	(100,000)
18.1	Dividends	-	-	-	-	-	-	-	-	(100,000)	-	-	-	-	-	-	(100,000)	-	(100,000)
18.2	Transferred to reserves	-	-	-	-	193,012	-	1,635,437	-	(1,830,109)	-	-	1,660	-	-	-	(100,000)	-	(100,000)
18.3	Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balances at the end of the period																			
		2,500,000	-	723,918	-	1,367,022	-	9,964,966	382,618	2,703,042	-	698,028	829,895	69,222	-	-	19,238,711	-	19,238,711

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

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

UNCONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Notes	Audited Current Period December 31, 2016	Audited Prior Period December 31, 2015
A. CASH FLOWS FROM BANKING OPERATIONS			
1.1		3,714,415	2,731,346
1.1.1		15,258,012	12,803,948
1.1.2		(9,442,454)	(7,982,534)
1.1.3		14,819	36,072
1.1.4		1,530,415	1,403,631
1.1.5		114,334	92,949
1.1.6		1,156,863	1,010,359
1.1.7		(1,723,337)	(1,567,534)
1.1.8		(926,251)	(675,074)
1.1.9	VI-1	(2,267,986)	(2,390,471)
1.2		(4,599,505)	(3,130,897)
1.2.1		(201)	619
1.2.2		-	-
1.2.3		1,371,941	(2,251,770)
1.2.4		(25,683,142)	(20,095,511)
1.2.5		(102,153)	(195,002)
1.2.6		(469,244)	720,842
1.2.7		14,322,656	17,370,140
1.2.8		5,604,676	3,621,335
1.2.9		-	-
1.2.10	VI-1	355,962	(2,301,550)
I.		(885,090)	(399,551)
B. CASH FLOWS FROM INVESTING ACTIVITIES			
II.		(1,137,408)	(1,544,382)
2.1		(76,155)	-
2.2		-	-
2.3		(232,811)	(738,506)
2.4		458,440	582,358
2.5		(6,473,075)	(4,213,523)
2.6		5,430,885	3,355,028
2.7		(1,873,688)	(1,610,704)
2.8		1,673,758	1,129,187
2.9	VI-1	(44,762)	(48,222)
C. CASH FLOWS FROM FINANCING ACTIVITIES			
III.		4,836,498	1,949,710
3.1		14,111,686	9,872,371
3.2		(9,175,188)	(7,822,661)
3.3		-	-
3.4		(100,000)	(100,000)
3.5		-	-
3.6		-	-
IV.	VI-1	94,345	12,178
V.		2,908,345	17,955
VI.	VI-4	8,200,424	8,182,469
VII.	VI-4	11,108,769	8,200,424

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

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

UNCONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION

FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Notes	Current Period December 31, 2016	Prior Period December 31, 2015
I. DISTRIBUTION OF CURRENT YEAR PROFIT			
1.1 CURRENT YEAR'S PROFIT		3,395,524	2,470,293
1.2 TAXES PAYABLE AND LEGAL DUTIES		(692,482)	(540,184)
1.2.1 Corporate tax (income tax)	V-IV-11	(712,424)	(404,310)
1.2.2 Withholding tax		-	-
1.2.3 Other taxes and duties ^(*)	V-IV-11	19,942	(135,874)
A. NET PROFIT FOR THE YEAR		2,703,042	1,930,109
1.3 DEFERED TAX INCOME TRANSFERRED TO OTHER RESERVES	V-IV-11	-	-
B. NET PROFIT FOR THE YEAR AFTER DEFERRED TAX INCOME		2,703,042	1,930,109
1.4 ACCUMULATED LOSSES		-	-
1.5 FIRST LEGAL RESERVES	V-V-5	-	(96,506)
1.6 OTHER STATUTORY RESERVES	V-V-5	-	(96,506)
C. NET PROFIT AVAILABLE FOR DISTRIBUTION ^(*)		-	1,737,097
1.7 FIRST DIVIDEND TO SHAREHOLDERS		-	100,000
1.7.1 To owners of ordinary shares		-	100,000
1.7.2 To owners of privileged shares		-	-
1.7.3 To owners of redeemed shares		-	-
1.7.4 To profit sharing bonds		-	-
1.7.5 To holders of profit and loss sharing certificates		-	-
1.8 DIVIDENDS TO PERSONNEL ^(*)		-	-
1.9 DIVIDENDS TO BOARD OF DIRECTORS		-	-
1.10 SECOND DIVIDEND TO SHAREHOLDERS		-	-
1.10.1 To owners of ordinary shares		-	-
1.10.2 To owners of privileged shares		-	-
1.10.3 To owners of redeemed shares		-	-
1.10.4 To profit sharing bonds		-	-
1.10.5 To holders of profit and loss sharing certificates		-	-
1.11 SECOND LEGAL RESERVES		-	-
1.12 STATUS RESERVES		-	-
1.13 EXTRAORDINARY RESERVES	V-V-5	-	1,635,437
1.14 OTHER RESERVES		-	-
1.15 SPECIAL FUNDS	V-V-5	-	1,660
II. DISTRIBUTION FROM RESERVES		-	-
2.1 DISTRIBUTION OF 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 redeemed 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 (Per 100 shares)		1.0812	0.7720
3.2 TO OWNERS OF ORDINARY SHARES (%)		108.12	77.20
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 (Per 100 shares)		-	-
4.2 TO OWNERS OF ORDINARY SHARES (%)		-	-
4.3 TO OWNERS OF PRIVILEGED SHARES		-	-
4.4 TO OWNERS OF PRIVILEGED SHARES (%)		-	-

^(*) As of the report date, distributable net profit of the period is not shown as any decision regarding the 2016 profit distribution is not taken.

^(**) The amount shown in other taxes and legal liabilities is deferred income/expense tax, and deferred tax income is not subject to profit distribution.

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

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

EXPLANATIONS AND NOTES RELATED TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

SECTION THREE

ACCOUNTING POLICIES

I. BASIS OF PRESENTATION

The unconsolidated financial statements are prepared within the scope of the “Regulation on Accounting Applications for Banks and Safeguarding of Documents” related with Banking Act numbered 5411 published in the Official Gazette no.26333 dated November 1, 2006 and in accordance with the regulations, communiques, interpretations and legislations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency (“BRSA”), and in case where a specific regulation is not made by BRSA, Turkish Accounting Standards “TAS” and Turkish Financial Reporting Standards (“TFRS”) and related appendices (together referred as BRSA Accounting and Reporting Legislation). The format and content of the publicly announced unconsolidated financial statements and notes to these statements have been prepared in accordance with the “Communiqué on Publicly Announced Financial Statements, Explanations and Notes to These Financial Statements” and “Communiqué on Disclosures about Risk Management to be Announced to Public by Banks” and amendments to this Communiqué.

The preparation of financial statements requires the use of certain critical estimates on assets and liabilities reported as of balance sheet date or amount of contingent assets and liabilities explained and amount of income and expenses occurred in related period. Although these estimates rely on the management’s best judgment, actual results can vary from these estimates. Judgments and estimates are explained in related notes.

The accounting policies and valuation principles applied in the preparation of these financial statements are explained in detail below.

The amendments to TAS and TFRS, effective from January 1, 2016, have no material impact on the Bank’s accounting policies, financial position and performance. The amendments to TAS and TFRS, except for TFRS 9 Financial Instruments (Version 2014), which have been published but not came into force as of financial statement date, will have no impact on the accounting policies, financial condition and performance of the Bank. The Bank assesses the impact of TFRS 9 Financial Instruments standard.

Additional paragraph for convenience translation to English

The differences between accounting principles, as described in the preceding paragraphs, and the accounting principles generally accepted in countries, in which the accompanying unconsolidated financial statements are to be distributed, and International Financial Reporting Standards (“IFRS”), may have significant influence on the accompanying unconsolidated financial statements. Accordingly, the accompanying unconsolidated financial statements are not intended to present the financial position and results of operations in accordance with the accounting principles generally accepted in such countries and IFRS.

II. STRATEGY FOR THE USE OF FINANCIAL INSTRUMENTS AND INFORMATION ON FOREIGN CURRENCY TRANSACTIONS

Strategy for the use of financial instruments

Core operations of the Bank, are based on retail banking, corporate banking, private banking, foreign exchange operations, money market operations, investment security transactions, and international banking in accordance with the requirements of its economic development while utilizing foundation resources. As a result of the nature of its operations, the Bank intensively utilizes financial instruments. The Bank accepts deposits consisting various maturities as the main source of funding with deposits being in high return as well as carefully utilizing them in high quality financial activities.

The most important fund sources of the Bank other than the deposits are its equity and medium and long-term borrowings obtained from foreign financial institutions. The Bank pursues an effective asset-liability management strategy by securing balance between funding resources and investments so as to reduce risks and increase returns. Accordingly, the Bank gives great significance to long-term placements bearing higher interest rates.

It is essential to consider the maturity structure of assets and liabilities in liquidity management. The essence of asset liability management is the keep to liquidity risk, exchange risk, and credit risk within reasonable limits; while enhancing profitability and strengthening the shareholders’ equity.

Investments in marketable securities and lending loans generate higher return than the average rate of return of the Bank’s operating activities on the basis of maturity structures and market conditions. When bank placements are considered, they have short term maturity in terms of liquidity management and have lower return. The Bank can take various positions on short-term foreign exchange risk, interest rate risk and market risk in money and capital markets, by considering market conditions, within specified limits set by regulations. The Bank hedges itself and controls its position against the foreign exchange risk being exposed due to foreign currency available-for-sale investments, investments in other portfolios and other foreign currency transactions by various derivative transactions and setting the equilibrium between foreign currency denominated assets and liabilities.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

EXPLANATIONS AND NOTES RELATED TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

Within the legal limitations and the regulations of the bank’s internal control, the foreign currency position is being followed, the foreign currency position is established according to the basket equilibrium that is determined by taking into account current market conditions.

In order to avoid interest rate risk, assets and liabilities having fixed and floating interest rates are kept in balance, taking the maturity structure into consideration.

Information on foreign currency transactions

Foreign currency transactions are recorded in TL which is the functional currency of the Bank. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Turkish Lira by using the prevailing exchange. Non-monetary foreign currency items which are recorded at fair value are valued at historical foreign exchange rates. Foreign exchange gain/loss amounts due to conversion of monetary items or collection or payments foreign currency denominated transactions are recognized in income statement.

Foreign exchange differences resulting from amortized costs of foreign currency denominated available-for-sale financial assets are recognized in the statement of income whilst foreign exchange differences resulting from unrealized gains and losses are presented in “valuation differences of marketable securities” under equity.

If the net investments in associates and subsidiaries operating in foreign countries are measured at cost, they are reported as translated into TL by using the foreign exchange rate at the date of transaction. If related associates and subsidiaries are measured at fair value, they are reported as translated into TL by the rates prevailing at the date of the determination of the fair value.

As of September 30, 2016 reporting period, the Bank started the fair value risk hedging strategy in order to avoid currency risk due to the share of Vakıfbank International AG’s 67.5 million Euros that is represented in paid-in capital. The 68.5 million Euros of the nominal amount of 500 million Euros of the securities issued by the Bank on May 4, 2016 with a maturity date of May 4, 2021 has been declared as the hedging instrument. In the subject process, the fair value changes that are related to the hedged investments abroad are recognized in the income statements as long as the hedge is effective. In this context, the foreign exchange differences recognized in the income statement as at September 30, 2016 is TL 11,041. The effectiveness of the process is the degree of offset of the amount of changes in the hedged items’ fair values that may be associated with the foreign exchange risks by the hedging instrument.

As of December 31, 2016, it was identified that the evaluations that were made about the process to protect from the fair value risk were effective. Efficiency testing, which is consistent with the Bank’s risk strategies, is conducted using the “Dollar off-set method” in the protection from risk process. According to this method, hedging compares the change in value of protection subject from risk with the change in value of protection tool from risk and calculates the relation with the effectiveness ratio of the hedge. The calculated effectiveness ratio is being evaluated within the TAS 39 Financial Instruments: Recognition and Measurement standards and hedge accounting principles are being applied. The bank documents the hedging strategies along with risk management goals. Hedge accounting ends when protection subject from risk ends or being sold or effectiveness test results are not effective anymore.

III. INFORMATION OF ASSOCIATES AND SUBSIDIARIES

Subsidiaries are the entities that the Bank has the power to govern the financial and operating policies of those so as to obtain benefits from its activities. Subsidiaries are accounted in accordance with TAS 39 Financial Instruments: Recognition and Measurement in the unconsolidated financial statements. Subsidiaries, which are traded in an active market or whose fair value can be reliably measured, are recorded at fair value.

Associates are accounted in accordance with TAS 39 Financial Instruments: Recognition and Measurement in the unconsolidated financial statements. Associates, which are traded in an active market or whose fair value can be reliably measured, are recorded at their fair values. Associates which are not traded in an active market and whose fair values cannot be reliably set are reflected in financial statements with their costs after deducting impairment losses, if any.

IV. INFORMATION ON FORWARDS, OPTIONS AND OTHER DERIVATIVE TRANSACTIONS

The derivative transactions mainly consist of currency and interest rate swaps, precious metals swaps, foreign currency forward contracts and currency options. The Bank has classified its derivative transactions, mentioned above, as “trading purpose” in accordance with the TAS 39 – Financial Instruments: Recognition and Measurement.

Derivatives are initially recorded at their purchase costs. The notional amounts of derivative transactions are recorded in off-balance sheet accounts based on their contractual amounts.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

EXPLANATIONS AND NOTES RELATED TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

Subsequent to initial recognition derivative transactions are measured at their fair value and, if the fair value is positive, it is recorded in the balance sheet under “Derivative financial assets held for trading purpose” or if the fair value is negative, it is recorded in the balance sheet under “Derivative financial liabilities held for trading purpose”. As the result of related measurements to fair value changes of derivative transactions are recognized in the statement of income.

V. INFORMATION ON INTEREST INCOME AND EXPENSES

Interest income and expense are recognized according to the effective interest method based on accrual basis. According to the TAS 39 - Financial Instruments: Recognition and Measurement, effective interest rate is the rate that discounts the expected cash flows of financial assets or liabilities during their lifetimes to their carrying values. Effective interest rate is calculated when a financial asset or a liability is initially recorded with transactions costs and is not modified thereafter.

In accordance with Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables, the accrued interest income on non-performing loans are reversed and subsequently recognized as interest income only when collected.

VI. INFORMATION ON FEES AND COMMISSIONS

Banking service income is recorded as income when they are collected. Other fee and commission income are transferred to profit/loss accounts according to the principle of periodicity on the basis of accrual using the principle of the effective interest method. Fee and commission expenses are recorded as expense at the time they are paid.

VII. INFORMATION ON FINANCIAL ASSETS AND FOOTNOTES

A financial asset is any asset that is cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity.

Financial assets except for measured at fair value through profit or loss are recognized initially with their transaction costs that are directly attributable to the acquisition or issue of the financial asset. Purchase and sale transactions of securities are accounted at settlement dates.

According to TAS 39 – Financial Instruments: Recognition and Measurement, financial assets are classified in four categories; as financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, and loans and receivables.

Financial assets at fair value through profit or loss

The financial assets included in this group are, “Trading financial assets” and “Financial assets at fair value through profit or loss classified as financial assets” as it is divided into two separate titles.

Financial assets held for trading 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.

Financial assets at fair value through profit or loss classified as financial assets are financial assets which are not acquired for trading, however during initial recognition with transaction costs and classified as fair value through profit or loss. Such an asset is not present in our Bank’s portfolio.

Both assets are measured at their fair values and gain/loss arising is recorded in the statement of income. Interest income earned on financial assets and the difference between their acquisition costs and fair values are recorded as interest income in the statement of income. The gains/losses in case of disposal of such securities before their maturities are recorded under trading income/losses in the statement of income.

Available-for-sale financial assets

Available-for-sale financial assets are the financial assets other than loans and receivables, held-to-maturity investments and financial assets at fair value through profit or loss. Available-for-sale financial assets are initially recorded at cost and subsequently measured at their fair values. However, assets that are not traded in an active market are measured by valuation techniques, including recent market transactions in similar financial instruments, adjusted for factors unique to the instrument being valued; or discounted cash flow techniques for the assets which do not have a fixed maturity. Unrecognized gains or losses derived from the difference between their fair values and the discounted values are recorded in “Valuation differences of the marketable securities” under the shareholders’ equity. In case of disposal of such assets, the valuation differences under shareholder’s equity are transferred directly to the statement of income.

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Held to maturity investments

Held to maturity investments are the financial assets with fixed maturities and pre-determined payment schedules that the Bank has the intent and ability to hold until maturity, excluding loans and receivables. Held-to-maturity investments are measured at amortized cost using effective interest method after deducting impairments, if any.

Financial assets classified as held to maturity investment however sold before its' maturity or reclassified, are not allowed to be classified as held to maturity investment for two years with respect to TAS 39 rules. There are no financial assets in the Bank's portfolio contradictory to the standard.

Held-to-maturity investments, subsequent to initial recognition, are measured at amortized cost using effective interest method after deducting impairments, if any.

Loans and receivables

Loans and receivables are the financial assets raised by the Bank providing money, commodity and services to debtors. Loans are financial assets with fixed or determinable payments, which are not quoted in an active market and not classified as a securities.

Loans are initially recognized with their purchase and carried at their amortized costs using the internal rate of return at the subsequent recognition.

Foreign currency ("FC") granted loans are recognized in original currency and is subject to evaluation with the buying rate of Turkish Lira. Foreign currency indexed loans, are converted to Turkish Lira ("TL") at the rate of the opening date and in the following periods, according to changes in period exchange rate on the income statement in the foreign exchange gains / losses are recorded in the accounts.

VIII. INFORMATION ON IMPAIRMENT OF FINANCIAL ASSETS

A financial asset or group of financial assets, can be considered as impaired only if one or multiple events (damage/loss event) occur and in the conclusion of the impact to related financial asset or financial assets estimation in a reliable manner to the estimated future cash flows after its initial recognition. In such a situation, the financial asset is exposed to impairment and impairment loss occurs. The matters of determination of impairment and provision must be considered within the scope of TAS 36 - Impairment of Assets.

In circumstances of impairment in financial assets at fair value through profit/loss or in financial assets available for sale, the impairment should be recognized under "Impairment Losses on Securities" account.

In case of impairment losses on investment securities held-to-maturity occurs related loss amount to be discounted at the original effective interest rate of the asset's estimated future cash flows are measured as the difference between the present value and the book value of the asset through to be recognized as loss of the said difference amount book value is reduced.

If there is an objective evidence that certain loans will not be collected, for such loans; the Bank provides specific and general allowances for loan and other receivables classified in accordance with the Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables published on the Official Gazette no. 26333 dated November 1, 2006 and the amendments to this regulation.

20% specific provision for non-performing loans for Third Group and 100% specific provision for non-performing loans for Fourth and Fifth Group used to be reserved on condition of not being less than the minimum required rates specified within the related Regulation, 50% specific provision is reserved for the non-performing loans that are transferred to Fourth Group according to changes in accounting policy about specific provisions of non-performing loans that are transferred to Fourth Group as of September 30, 2015 accounting period.

IX. INFORMATION ON OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and liabilities are reported in the balance sheet as net amount in the cases of the Bank's right and right to sanction to finalize and have the intention to receive/pay related financial asset or liability over the recognized amount or have the right to finalize the related asset and liability simultaneously.

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X. INFORMATION ON SALES AND REPURCHASE AGREEMENTS AND SECURITIES LENDING

Securities sold under repurchase agreements ("repo") are classified under "Held for trading purpose", "Available for sale" and/or "Held-to-maturity" portfolios according to their holding purposes in the Bank's portfolio, and they are valued based on the revaluation principles of the related portfolios. Funds received through repurchase agreements are classified separately under liability accounts and the related interest expenses are accounted on an accrual basis of balance sheet date.

Securities purchased under resale agreements ("reverse repo") are classified in balance sheet under "Money Market Takings" separately. The income accrual is calculated for the securities purchased under resale agreements via the difference between buying and selling prices on the balance sheet date.

XI. INFORMATION ON ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS AND RELATED LIABILITIES

Tangible assets acquired in consideration of receivables are accounted for in accordance with the requirements of the Communiqué on "Methods, Principles for Purchase and Sale of Precious Metal and Sale of Goods and Immovables obtained in Return of Receivables" published in the Official Gazette numbered 26333 and dated November 1, 2006 and these assets are subject to revaluation by no means.

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

The Bank has no discontinued operations.

XII. INFORMATION ON GOODWILL AND OTHER INTANGIBLE ASSETS

As at the balance sheet date, there is no goodwill on financial statements.

The Bank's intangible assets consist of software. Intangible assets are initially recorded at their costs in compliance with the TAS 38 - *Intangible Assets*.

The costs of the intangible assets purchased before December 31, 2004 are restated from the purchasing dates to December 31, 2004, the date the hyperinflationary period is considered to be ended. The intangible assets purchased after this date are recorded at their historical costs. The intangible assets are amortized based on straight line amortization.

If there is objective evidence of impairment, the asset's recoverable amount is estimated in accordance with the TAS 36 - *Impairment of Assets* and if the recoverable amount is less than the carrying value of the related asset, a provision for impairment loss is made.

Estimated useful lives of the Bank's intangible assets are 3-15 years, and amortization rates are between 6.67% and 33.33%.

XIII. INFORMATION ON TANGIBLE ASSETS

The costs of the tangible assets purchased before December 31, 2004 are restated from the purchasing dates to December 31, 2004, the date the hyperinflationary period is considered to be ended. In subsequent periods no inflation adjustment is made for tangible assets, and costs which are restated as of December 31, 2004 are considered as their historical costs. Tangible assets purchased after January 1, 2005 were recorded at their historical costs after foreign exchange differences and financial expenses are deducted if any. The Bank decided to pursue the properties for use according to their fair values in terms of separating the land and buildings within the context of TAS 16 "Turkish Accounting Standard on Property, Plant and Equipment" after the change in the accounting policy as of September 30, 2015.

Gains and losses arising from the disposal of the tangible assets are calculated as the difference between the net book value and the net sales price and recognized in the income statement of the period.

Maintenance costs of tangible fixed assets are capitalized if they extend the economic useful life of related assets. Other maintenance costs are expensed.

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There are no restrictions such as pledges, mortgages or any other restriction on tangible assets. Depreciation rates and estimated useful lives are:

Tangible assets	Estimated useful life (Years)	Depreciation Rate (%)
Buildings	50	2
Office equipment, furniture and fixture, and motor vehicles	5-10	10-20
Assets obtained through finance leases	4-5	20-25

There are no changes in the accounting estimates that are expected to have an impact in the current or subsequent periods.

At each reporting date, the Bank evaluates whether there is objective evidence of impairment on its assets. If there is an objective evidence of impairment, the asset's recoverable amount is estimated in accordance with the TAS 36 - *Impairment of Assets* and if the recoverable amount is less than the carrying value of the related asset, a provision for impairment loss is made.

XIV. INFORMATION ON LEASING ACTIVITIES

Leasing activities

Risks and benefits on leasing activities that belongs to lessee is termed TAS 17- Leasing activities that belongs to financial leasing.

- Finance leasing activities as the lessee

Tangible assets acquired by way of finance leasing are recognized in tangible assets and the obligations under finance leases arising from the lease contracts are presented under "Finance Lease Payables" account in the financial statements. In the determination of the related assets and liabilities, the lower of the fair value of the leased asset and the present value of leasing payments is considered. Financial costs of leasing agreements are expanded in lease periods at a fixed interest rate.

If there is an impairment in the value of the assets obtained through financial lease and in the expected future benefits, the leased assets are valued with net realizable value. Provision for losses is calculated for decrease of the value of the assets that is obtained by this way. Depreciation for assets obtained through financial lease, is calculated in the same manner as tangible assets.

- Finance leasing transactions as lessor

The Bank does not perform as a lessor on leasing transactions.

Operational leases

Operational leasing is defined as activities except financial leasing. Transactions regarding operational lease agreements are accounted on an accrual basis in accordance with the terms of the related contracts.

XV. INFORMATION ON PROVISIONS, CONTINGENT LIABILITIES AND ASSETS

Provisions other than the specific and general provisions set for loans and other receivables and provisory liabilities are accounted in accordance with TAS 37 "Turkish Accounting Standard on Provisions, Contingent Liabilities and Contingent Assets Corresponding".

In the financial statements, a provision is made for an existing commitment resulted from past events if it is probable that the commitment will be settled and a reliable estimate can be made of the amount of the obligation. Provisions are calculated based on the best estimates of management on the expenses to incur as at the balance sheet date and, if material, such expenses are discounted for their present values. If the amount is not reliably estimated and there is no probability of cash outflow from the Bank to settle the liability, the related liability is considered as "contingent" and disclosed in the notes to the financial statements.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of unplanned or unexpected one or more uncertain future events not wholly within the control of 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 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. If an inflow of economic benefits has become probable, the Bank discloses the contingent asset.

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XVI. INFORMATION ON OBLIGATIONS OF THE BANK CONCERNING EMPLOYEE RIGHTS

Reserve for employee termination benefits

In accordance with existing Turkish Labor Law, the Bank is required to make lump-sum termination indemnities to each employee who has completed one year of service with the Bank and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. The computation of the liability is based upon the retirement pay ceiling announced by the Government. The applicable ceiling amount as at December 31, 2016 is TL 4,297 (full TL) (December 31, 2015: TL 3,828 (full TL)).

The Bank reserved for employee severance indemnities in the accompanying unconsolidated financial statements using actuarial method in compliance with the TAS 19 – Employee Benefits.

As at December 31, 2016 and December 31, 2015, the major actuarial assumptions used in the calculation of the total liability are as follows:

	Current Period	Prior Period
Discount Rate	11.10%	10.20%
Estimated Inflation Rate	7.80%	7.10%
Increase in Real Wage Rate	8.80%	8.10%

Other benefits to employees

The Bank has provided provision for undiscounted short-term employee benefits earned during the financial period (unused vacations, premium and dividend) as per services rendered in compliance with TAS 19 in the accompanying unconsolidated financial statements.

According to TAS 19, actuarial gains and losses have been accounted in “Other Capital Reserves” shown under Equity associated with The Statement of Gains and Losses Recognized in Equity for the respective reporting periods.

Pension fund

The employees of the Bank are the members of “Türkiye Vakıflar Bankası Türk Anonim Ortaklığı Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı” (“the Fund”) established on May 15, 1957 as per the temporary article no. 20 of the Social Security Law no. 506.

As part of Social Security Law’s 506 numbered, temporary article no.20, monthly income or salary is eligible for whose disabled with fund’s associates, senility and death insurance is subjected according to the first paragraph of the temporary article no. 23 which states the Banks should transfer pension funds to the Social Security Institution within three years after the issue date of the Banking Law no.5411, issued in the November 1, 2005 dated and 25983 numbered Official Gazette, has been cancelled by the Constitutional Court’s March 22, 2007 dated and 2007/33 numbered decision. Reasoned ruling of the Constitutional Court has been issued on December 15, 2007 in the Official Gazette no. 26731. The reason for the cancellation decision by Constitutional Court was stated as possible future losses on acquired rights of Fund members.

Following the publication of the ruling, the Turkish Parliament started to work on new legal arrangements and the Social Security Law no. 5754 (“the Law”) has been approved on April 17, 2008. The Law is enacted by the approval of the President of Turkey and issued on the May 8, 2008 dated and 26870 numbered Official Gazette.

In accordance with the temporary article no. 20 of the Article no. 73 of the Law;

The discounted liability for each fund in terms of the persons transferred as at the transfer date, including the contributors left the fund, should be calculated by the assumptions below:

- The technical interest rate to be used for the actuarial calculation is 9.80%
- Income and expenditures in respect to fund’s insurance division are considered in the calculation of discounted liability.

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Law requires the transfer to be completed in three years beginning from January 1, 2008. The three year period has expired on May 8, 2011; however, it has been extended to May 8, 2013 with the decision of Council of Ministers published in Official Gazette dated April 9, 2011. Before the expiration date, with the decision of Council of Ministers published in Official Gazette dated May 3, 2013, the period for transferring banks, insurance and reinsurance firms, board of trade, exchanges or participants, monthly salary paid individuals and beneficiaries of the funds that are constructed for their personnel to Social Security Institution in the scope of the temporary article no. 20 of the Social Security Law no. 506 published in Official Gazette dated April 30, 2014 extended for one year. The Council of Ministers has been lastly authorized to determine the transfer date 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 numbered 29335.

The employer of pension fund participants will continue to pay the non-transferable social rights, which are already disclosed in the article of association of the pension fund, to the pension participants and their right owners, even though the salary payment obligation has been transferred to the Social Security Foundation.

The technical financial statements of the Fund are audited by the certified actuary according to the "Actuaries Regulation" which is issued as per the Article no. 21 of the 5684 numbered Insurance Law. As per the actuarial report dated December 31, 2016 in compliance with the principles explained above, there is no technical or actual deficit determined which requires provision against as at December 31, 2016.

XVII. INFORMATION ON TAXATION

Corporate tax

Corporate tax rate is 20% in Turkey according to Article 32 of the Corporate Taxes Law No. 5520. This rate is applied to total income of the Bank adjusted for certain disallowable expenses, exempt income and any other allowances.

Dividends paid to the resident institutions and the institutions working through local offices or representatives are not subject to withholding tax. Except for the dividend payments to these institutions, the withholding tax rate on the dividend payments is 15%. In applying the withholding tax rates on dividend payments to the nonresident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

75% of the associate shares that hold at least 2 years and profits from property sales are exceptional from corporate taxes if there is a capital increase according to Corporate Tax Law or it is hold for a 5 years on special fund account. The Bank follows these profits in "Revaluation surplus on tangible assets" under the equity.

75% revenue of the sales from the firms that follows up for their debts and their guarantors' and mortgagor' properties, associate shares, founder shares, redeemed shares and privileges are exceptional from the corporate taxes.

Advance tax that is calculated 20% of the profit from the quarterly period has to be paid on 17th in the two months followed which is declared on 14th of the same month. Advance tax which is paid during the year is to be set off on corporate taxes that calculates on corporate tax return. Taxes paid is to collect in cash or is to set off on other financial debts.

According to tax legislation, financial losses which are not exceed over 5 years can be deducted from profit of the company. Losses can not be set off from retained earnings.

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There is no practice about reaching an agreement with laws in Turkey. Corporate taxes are paid on 25th of the fourth month that is followed from the end of the accounting period. Firms that allowed to analyze taxes, can examine the accounting records and change the amount if there is a wrong transaction.

Corporation tax legislation for the foreign branches

Bahrain (Manama)

Bahrain branch is non taxable because there is no corporate tax practice in that country. Bahrain branch' income is added to headquarters income and it is taxed in Turkey according to Law No. 5520 on Corporate Tax Laws published in the Official Gazette dated June 5, 2012, numbered B.07.1.GIB.4.99.16.02-KVK-5/1-b-128.

North Iraq (Erbil)

Erbil branch is taxable according to the country's law legislation. Declaration of financial records and their tax payments are differ from cities that are related to centralized government and cities that are related to North Iraq. On the other hand, North Iraq tax administrations can impute taxes rather than the designated rates.

USA (New York)

New York branch is taxable according to state law legislation and country law legislation. Double Tax Treaty Agreements is stated for being taxed in Turkey.

Banking and Insurance Transaction Tax

Banking and insurance transaction tax is arranged by the Law No. 6802 on Expenditure Taxes Law. Excluding the banks' and insurance companies' transactions according to Law No. 3226 on Leasing Law Legislation which is dated 10.6.1985, the collecting money in cash or by approximation is subject to banking and insurance transaction tax. Those amounts are up to 5% banking and insurance transaction tax according to Law No. 6802 on Expenditure Taxes Law's 33. Notice and Article No. 98/11591.

Deferred taxes

According to the TAS 12 - Income Taxes; deferred tax assets and liabilities are recognized, on all taxable temporary differences arising between the carrying values of assets and liabilities in the financial statements and their corresponding balances considered in the calculation of the tax base, and initial recognition of assets and liabilities which affect neither accounting nor taxable profit. The delayed tax debt or assets is determined by calculating the "taxable temporary differences " between the assets' and debts' book values versus the values on the legal tax base accounts . According to tax legislation, differences that do not affect the financial or commercial profit of the assets or liabilities at the acquisition date are excluded from these calculations.

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According to the BRSA DZM 2/13/1-a-3 notice dated December 8, 2004;

- There is no deferred tax assets on general provision.
- Deferred tax income is not considered on distribution on profit.

Deferred taxes' book value is revised in every balance sheet date. Deferred tax book value can be reduced if there is improbable to create revenue.

The deferred tax assets and liabilities are reported as net in the financial statements only if the Bank has legal right to present the net value of current year tax assets and current year tax liabilities and the deferred tax assets and deferred tax liabilities are income taxes of the same taxable entity.

In case valuation differences resulting from the subsequent measurement of the items are recognized in the statement of income, then the related current and or deferred tax effects are also recognized in the statement of income. On the other hand, if valuation differences are recognized in shareholders' equity, then the related current or deferred tax effects are also recognized directly in the shareholders' equity.

Transfer Pricing

In Turkey, the transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of "disguised profit distribution via transfer pricing". The General Communiqué on disguised profit distribution via Transfer Pricing, dated November 18, 2007 sets details about implementation.

Pursuant to the relevant Communiqué, if a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

XVIII. INFORMATION ON CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash includes cash effectives, cash in transit, purchased cheques and demand deposits including balances with the Central Bank of The Republic of Turkey (CBRT) and cash equivalents include interbank money market placements and time deposits at banks with original maturity periods of less than three months.

XIX. ADDITIONAL INFORMATION ON BORROWINGS

The Bank provides funding resources such as syndication and securitization transactions in case of need. In the current period, the Bank has started to obtain funds through domestic and international bonds since August 2011.

These transactions are initially recognized at acquisition costs at the transaction date and are subsequently measured at amortized cost using effective interest method.

The bank is not hedging about debt instruments.

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XX. INFORMATION ON ISSUANCE OF EQUITY SECURITIES

The shares of the Bank having nominal value of TL 322,000,000 (full TL), representing the 25.18% of the Bank's outstanding shares, was publicly offered at a price between TL 5.13-5.40 for each share having a nominal value of TL 1 on November 2005, and TL 1,172,347 was recorded as "Share Premiums" in shareholders' equity. TL 448,429 of this amount has been utilized in capital increase on December 19, 2006.

XXI. INFORMATION ON CONFIRMED BILLS OF EXCHANGE AND ACCEPTANCES

Confirmed bills of exchange and acceptances are realized simultaneously with the customer payments and recorded in off-balance sheet accounts as possible debt and commitment, if any. As at the balance sheet date, there are no acceptances recorded as liability in return for assets.

XXII. INFORMATION ON GOVERNMENT INCENTIVES

As at December 31, 2016 and December 31, 2015, the Bank does not have any government incentives.

XXIII. INFORMATION ON SEGMENT REPORTING

An operating segment is a component of an entity:

- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
- Whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- For which discrete financial information is available.

Segment reporting was selected as a fundamental section reporting method considering Bank's risk and return structure and key sources. It is disclosed in Section 4 Note X.

XXIV. OTHER MATTERS

Earnings per shares

Earnings per share has been calculated by dividing the net profit for the year to weighted average of outstanding shares. In Turkey, the companies may perform capital increase ("Bonus Shares") from retained earnings. In earning per share computation bonus shares are treated as issued shares.

As at and for the year ended December 31, 2016, earnings per 100 shares are full TL 1.0812 (December 31, 2015: full TL 0.7720).

Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Shareholders, top executives and board members are accepted as related party personally, with their families and companies according to TAS 24 - Related Party Disclosures Standard. Transactions made with related parties are disclosed in Section 5 Note VII.

Classifications

None.

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SECTION FOUR

INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT

I. INFORMATION ON EQUITY ITEMS

Calculation of Equity and Capital Adequacy Standard Ratio are calculated according to "Regulation on Bank's Capital Adequacy Assessment of the Measurement", "Communique on Credit Risk Mitigation", "BRSA Regulation on Bank's Shareholder Equity", "Regulations on Systemically Important Banks", "Regulation on Capital Conservation and Cyclical Capital Buffer". As of December 31, 2016 Bank's capital adequacy ratio is 14.16% (December 31, 2015: 14.52%).

	Current Period December 31, 2016	Amount as per the regulation before 1/1/2014 ^(c)
COMMON EQUITY TIER I CAPITAL		
Paid-in capital to be entitled for compensation after all creditors	2,500,000	
Share Premium	723,918	
Reserves	11,762,447	
Income recognized under equity in accordance with TAS	1,771,737	
Profit	2,703,042	
Current Period's Profit	2,703,042	
Prior Period's Profit	-	
Bonus shares from associates, subsidiaries and joint-ventures not accounted in current period's profit	69,222	
Common Equity Tier 1 Capital Before Deductions	19,530,366	
Deductions from Common Equity Tier 1 Capital		
Valuation adjustments calculated as per the (i) item of first paragraph of Article 9	-	-
Net loss for the prior year losses and uncovered portion of the total reserves and losses that are recognized under equity in accordance with TAS	291,655	-
Leasehold Improvements on Operational Leases	158,292	-
Goodwill netted with deferred tax liability	-	-
Other intangible assets netted with deferred tax liabilities except mortgage servicing rights	116,320	193,866
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-
Differences are not recognized at the fair value of assets and liabilities subject to hedge of cash flow risk	-	-
Communique Related to Principles of the amount credit risk calculated with the Internal Ratings Based Approach, total expected loss amount exceeds the total provision	-	-
Gains arising from securitization transactions	-	-
Unrealized gains and losses due to changes in own credit risk on fair valued liabilities	-	-
Defined-benefit pension fund net assets	-	-
Direct and indirect investments of the Bank in its own Common Equity	-	-
Excess amount expressed in the law (Article 56 4th paragraph)	-	-
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions (amount above 10% threshold) of Tier 1 Capital	-	-
Mortgage servicing rights (amount above 10% threshold) of Tier 1 Capital	-	-
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-
Amounts exceeding 15% of Tier 1 Capital according to Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (2nd article temporary second paragraph)	-	-
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-
Amounts related to mortgage servicing rights	-	-
Excess amount of deferred tax assets from temporary differences	-	-
Other Items Determined by BRSA	-	-
The amount to be deducted from common equity tier 1 capital	-	
Total regulatory adjustments to Common equity Tier 1	566,267	
Common Equity Tier 1 capital (CET1)	18,964,099	
Additional Tier 1 capital: instruments	-	
Premiums that are not included in Common Equity Tier 1 capital	-	
Bank's borrowing instruments and related issuance premium	-	

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TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Current Period December 31, 2016	Amount as per the regulation before 1/1/2014 ^(C)
Bank's borrowing instruments and related issuance premium (Temporary Article 4)	-	-
Additional Tier 1 Capital before deductions	-	-
Deductions from Additional Tier 1 Capital	-	-
Bank's direct or indirect investment in Tier 1 Capital	-	-
Investments of Bank to Banks that invest in Bank's additional equity and components of equity issued by financial institutions with compatible with Article 7	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10%	-	-
Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital	-	-
Other Items Determined by BRSA	-	-
Transition from the Core Capital to Continue to deduce Components		
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 (-)	77,546	-
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 (-)	-	-
The amount to be deducted from Additional Tier 1 Capital (-)	-	-
Total Deductions from Additional Tier 1 Capital	-	-
Total Additional Tier 1 Capital	-	-
Total Tier 1 Capital (Tier 1 Capital=Common Equity+Additional Tier 1 Capital)	18,886,553	-
TIER 2 CAPITAL	-	-
Bank's borrowing instruments and related issuance premium	2,729,287	-
Bank's borrowing instruments and related issuance premium (Temporary Article 4)	977,288	-
Provisions (Article 8 of the Regulation on the Equity of Banks)	1,905,134	-
Tier 2 Capital Before Deductions	4,634,421	-
Deductions From Tier 2 Capital	-	-
Bank's direct or indirect investment in Tier 2 Capital (-)	-	-
Investments of Bank to Banks that invest on Bank's Tier 2 and components of equity issued by Financial Institutions with the conditions declared in Article 8	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% threshold of Common Equity Tier 1 Capital (-)	-	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Core Capital and Tier 2 Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier 1 Capital	-	-
Other Items Determined by BRSA (-)	-	-
Total Deductions From Tier 2 Capital	-	-
Tier 2 Capital	4,634,421	-
Total Capital (The sum of Tier 1 Capital and Tier 2 Capital)	23,520,974	-
The sum of Tier 1 Capital and Tier 2 Capital (Total Capital)	-	-
Loan granted to Customer against the Articles 50 and 51 of the Banking Law	-	-
Net Book Values of Immovables Exceeding 50% of the Equity and of Assets Acquired against Overdue Receivables and Held for Sale as per the Article 57 of the Banking Law but Retained More Than Five Years (-)	112,142	-
Other items to be defined by the BRSA (-)	1,166	-
In transition from Total Core Capital and Supplementary Capital (the capital) to Continue to Download Components		
Portion of the total of net long positions of investments made in Common Equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank not to be deducted from the Common Equity, Additional Tier 1 Capital, Tier 2 Capital as per the 1st clause of the Provisional Article 2 of the Regulation on the Equity of Banks	-	-
Portion of the total of net long positions of direct or indirect investments made in Additional Tier 1 and Tier 2 Capital items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank not to be deducted from the Additional Tier 1 Capital and Tier 2 Capital as per the 1st clause of the Provisional Article 2 of the Regulation on the Equity of Banks	-	-
Portion of the total of net long positions of investments made in Common Equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital, deferred tax assets based on temporary differences and mortgage servicing rights not deducted from Common Equity as per the 1st and 2nd Paragraph of the 2nd clause of the Provisional Article 2 of the Regulation on the Equity of Banks	-	-
TOTAL CAPITAL		
Total Capital	23,407,666	-
Total Risk Weighted Amounts	165,312,386	-
Capital Adequacy Ratios		
Core Capital Adequacy Ratio (%)	11.47	-
Tier 1 Capital Adequacy Ratio (%)	11.42	-
Capital Adequacy Ratio (%)	14.16	-

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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Current Period December 31, 2016	Amount as per the regulation before 1/1/2014 ^(*)
BUFFERS		
Total buffer requirement	0.627	-
Capital conservation buffer requirement (%)	0.625	-
Bank specific counter-cyclical buffer requirement (%)	0.002	-
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 (%)	6.97	-
Amounts below deduction thresholds		
Amounts arising from the net long positions of investments made in Total Capital items of banks and financial institutions where the Bank owns 10% or less of the issued common share capital	-	-
Amounts arising from the net long positions of investments made in Tier 1 Capital items of banks and financial institutions where the Bank owns 10% or more of the issued common share capital	-	-
Mortgage servicing rights	-	-
Deferred tax assets arising from temporary differences (net of related tax liability)	-	-
Limits related to provisions considered in Tier 2 calculation		
General provisions for standard based receivables (before tenthousandtwentyfive limitation)	2,167,443	-
Up to 1.25% of total risk-weighted amount of general reserves for receivables where the standard approach used	1,905,134	-
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	-	-
Debt instruments subjected to Article 4 (to be implemented between January 1, 2018 and January 1, 2022)		
Upper limit for Additional Tier 1 Capital subjected to temporary Article 4	-	-
Amounts Excess the Limits of Additional Tier 1 Capital subjected to temporary Article 4	-	-
Upper limit for Additional Tier 2 Capital subjected to temporary Article 4	-	-
Amounts Excess the Limits of Additional Tier 2 Capital subjected to temporary Article 4	-	-

^(*) Represents the amounts taken into consideration according to transition clauses.

Summary information related to capital adequacy ratio

	Prior Period
Capital Requirement for Credit Risk (Value at Credit Risk*0.08) (CRCR)	10,807,979
Capital Requirement for Market Risk (MRCR)	99,515
Capital Requirement for Operational Risk (ORCR) ^(*)	879,185
Shareholders' Equity	21,398,645
Tier I Capital/((CRCR+MRCR+ORCR) *12.5*100)	14.52
Tier I Capital/((CRCR+MRCR+ORCR) *12.5*100)	11.19
Common Equity Tier I Capital/((CRCR+MRCR+ORCR) *12.5*100)	11.26

^(*) Equity and capital adequacy ratio calculation is changed in accordance with the "Regulation on the Amendment to the Regulation of Bank's Shareholder Equity" which came into force as of March 31, 2016. Prior period information is calculated within the framework of abolished regulations.

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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Prior Period
COMMON EQUITY TIER I CAPITAL	
Paid-in Capital to be Entitled for Compensation After All Creditors	2,500,000
Share Premium	723,918
Share Cancellation Profits	-
Reserves	9,933,998
Other Comprehensive Income according to TAS	1,925,054
Profit	1,930,109
Current Period Profit	1,930,109
Previous Period Profit	-
General Reserves for Possible Losses	-
Bonus Shares from Associates, Subsidiaries, and Joint-Ventures not Accounted in Current Period's Profit	69,222
Common Equity Tier I Capital Before Deductions	17,082,301
Deductions from Common Equity Tier I Capital	
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted Under Equity According to TAS(-)	314,753
Leasehold Improvements on Operational Leases(-)	103,893
Goodwill and Other Intangible Assets and Related Deferred Taxes(-)	68,511
Net Deferred Tax Asset/Liability (-)	-
Shares Obtained Against Article 56, Paragraph 4 of the Banking Law(-)	-
Direct and Indirect Investments of the Bank on Its Own Tier I Capital (-)	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions Where the Bank Owns 10% or less of Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions Where the Bank Owns 10% or More of Issued Share Capital Exceeding the 10% Threshold of Above Tier I Capital (-)	-
Mortgage Servicing Rights Exceeding the 10% Threshold of Tier I Capital (-)	-
Net Deferred Tax Assets Arising from Temporary Differences Exceeding the 10% Threshold of Tier I Capital (-)	-
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 Unconsolidated Banks and Financial Institutions Where the Bank Owns 10% or More Than the Issued Share Capital not Deducted from Tier I Capital(-)	-
Mortgage Servicing Rights not Deducted (-)	-
Excess Amount Arising from Deferred Tax Assets from Temporary Differences (-)	-
Other Items to be Defined by the BRSA (-)	-
Deductions from Tier I Capital in Cases Where There Are No Adequate Additional Tier I or Tier II Capitals (-)	-
Total Deductions from Common Equity Tier I Capital	487,157
Total Common Equity Tier I Capital	16,595,144
ADDITIONAL CORE CAPITAL	
Preferred Stock not Included in Tier I Capital and the Related Share Premiums	-
Debt Instruments and the Related Issuance Defined by the BRSA (Issued or Obtained after 01.01.2014)	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued or Obtained before 01.01.2014)	-
Additional Core Capital before Deductions	-
Deductions from Additional Core Capital	
Direct and Indirect Investments of the Bank on Its Own Additional Core Capital (-)	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions Where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of Above Tier I Capital (-)	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions Where the Bank Owns More of 10% of the Issued Share Capital (-)	-
Other items to be Defined by the BRSA (-)	-
The Amount to be Deducted from Additional Tier 1 Capital (-)	-

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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Prior Period
Total Deductions from Additional Core Capital	-
Total Additional Core Capital	-
Deductions from Core Capital	102,766
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 (-)	102,766
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 (-)	-
Total Core Capital	16,492,378
TIER II CAPITAL	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued or Obtained after 1.1.2014)	1,450,446
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued or Obtained before 1.1.2014)	1,905,885
Pledged Assets of the Shareholders to be Used for the Bank's Capital Increases	-
General Provisions	1,688,747
Tier II Capital before Deductions	5,045,078
Deductions from Tier II Capital	
Direct and Indirect Investments of the Bank on Its Own Tier II Capital (-)	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions Where the Bank Owns 10% or Less of the Issued Share Capital Exceeding the 10% or More of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-)	-
The Total of Net Long Positions of the Direct or Indirect Investments in Additional Core Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions Where the Bank Owns 10% or More of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-)	-
Other Items to be Defined by the BRSA (-)	-
Total Deductions from Tier II Capital	-
Total Tier II Capital	5,045,078
CAPITAL	21,537,456
Loans Granted Against the Articles 50 and 51 of the Banking Law (-)	-
Net Book Values of Movables and Immovable 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 (-)	138,557
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 (-)	-
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 BRSA (-)	254
The Portion of Total of Net Long Positions of the Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or Less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital 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 Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or More Than 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 Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions Where the Bank Owns 10% or More of the Issued Capital, of the Net Deferred Tax Assets Arising from Temporary Differences and of the Mortgage Servicing Rights not Deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation (-)	-
EQUITY	21,398,645
Amounts Lower than Excesses as per Deduction Rules	
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions Where the Bank Owns 10% or Less of the Issued Share Capital	-
Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions Where the Bank Owns More Than 10% or Less of the Tier I Capital	-
Remaining Mortgage Servicing Rights	-
Net Deferred Tax Assets arising from Temporary Differences	15,421

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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Information on instruments to be included in equity calculation:

Issuer	T.Vakıflar Bankası T.A.O.
Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	XS0849728190/ US90015NAB91
XS1175854923/ US90015WAC73	
Governing law(s) of the instrument	Debt Instrument Communiqué numbered CMB-II-31.1
BRSA regulation on bank's shareholder equity	
Regulatory treatment	
Subject to 10% deduction as of 1/1/2015	XS0849728190/ US90015NAB91 is subject to deduction.
XS1175854923/ US90015WAC73 is not subject to deduction.	
Eligible at solo/group/group&solo	Available
Instrument type	Bond Issuance Possessing Subordinated Loan Conditions (Tier II Capital)
Amount recognized in regulatory capital (Currency in million, as of most recent reporting date)	2,729
Par value of instrument (in million)	4,921
Accounting classification	347011 - Subordinated Liabilities
Original date of issuance	XS0849728190/ US90015NAB91 November 1, 2012
XS1175854923/ US90015WAC73 February 2, 2015	
Perpetual or dated	XS0849728190/ US90015NAB91 Dated (10 years) Maturity Date: November 1, 2022
XS1175854923/ US90015WAC73 Dated (10 years) Maturity Date: February 3, 2025	
Issue date	XS0849728190/ US90015NAB91 November 1, 2012
XS1175854923/ US90015WAC73 February 2, 2015	
Issuer call subject to prior supervisory approval	Yes
Call option dates, conditioned call dates and call amount	XS0849728190/ US90015NAB91 Not available
XS1175854923/ US90015WAC73 early call date at February 3, 2020 is available.	
Subsequent call dates, if applicable	XS0849728190/ US90015NAB91 Not available
XS1175854923/ US90015WAC73 only one call option is available.	
Coupons / dividends*	
Fixed or floating dividend/coupon	Fixed/Interest payment once in six month, principal payment at the maturity date
Coupon rate and any related index	XS0849728190/ US90015NAB91 6% fixed interest rate
XS1175854923/ US90015WAC73 6.875% fixed interest rate	
Existence of a dividend stopper	Nil
Fully discretionary, partially discretionary or mandatory	Nil
Existence of step up or other incentive to redeem	Nil
Noncumulative or cumulative	Noncumulative
Convertible or non-convertible	
If convertible, conversion trigger (s)	Nil
If convertible, fully or partially	Nil
If convertible, conversion rate	Nil
If convertible, mandatory or optional conversion	Nil
If convertible, specify instrument type convertible into	Nil
If convertible, specify issuer of instrument it converts into	Nil
Write-down feature	
If write-down, write-down trigger(s)	XS0849728190/ US90015NAB91 Not available.
XS1175854923/ US90015WAC73 available Revoking the business activity of Bank according to 71 clause of 5411 numbered Banking Law or liquidation proceedings to Savings Deposit Insurance Fund are the triggering	
If write-down, full or partial	XS0849728190/ US90015NAB91 not available
XS1175854923/ US90015WAC73 has full or partial write down feature.	
If write-down, permanent or temporary	XS0849728190/ US90015NAB91 not available
XS1175854923/ US90015WAC73 has permanent write down feature.	
If temporary write-down, description of write-up mechanism	XS0849728190/ US90015NAB91 not available
XS1175854923/ US90015WAC73 has no write-up mechanism.	
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Before debt instruments included in Tier II Capital after deposit and other receivables
Whether conditions which stands in article of 7 and 8 of Banks' shareholder equity law are possessed or not	Possess Article 8
According to article 7 and 8 of Banks' shareholders equity law that are not possessed	Not Possess Article 7

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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Reconciliation of capital items to balance sheet:

	December 31, 2016
Shareholders' equity	19,238,711
Leasehold improvements on operational leases	(158,292)
Goodwill and intangible assets	(116,320)
General provision (1.25% of the amount that subject to credit risk)	1,905,134
Subordinated debt	2,729,287
Deductions from shareholders' equity	(190,854)
Capital	23,407,666

II. CREDIT RISK

Credit risk is defined as the counterparty's possibility of failing to fulfil its obligations on the terms set by the agreement. Credit risk means risks and losses that may occur if the counterparty fails to comply with the agreement's requirements and cannot perform its obligations partially or completely on the terms set. It covers the possible risks arising from futures and option agreements and other agreements alike and the credit risks arising from credit transactions that have been defined by the Banking Law.

In compliance with the articles 51 and 54 set forth in Banking Law and ancillary regulation, credit limits are set by the Bank for the financial position and credit requirements of customers within the authorization limits assigned for branches, regional directorates, lending departments, assistant general manager responsible of lending, general manager, credit committee and board of directors and credits are given regarding these limits in order to limit credit risk in lending facilities.

Credit limits are determined separately for the individual customer, company, group of companies, risk groups on a product basis. In accordance with the related Lending Policy, several criteria are used in the course of determining these credit limits. Customers should have a long-standing and a successful business past, a high commercial morality, possess a good financial position and a high morality, the nature of their business should be appropriate to use the credit, possess their commercial operations in an affirmative and a balanced manner, have experience and specialization in their profession, be able to adopt themselves to the economic conditions, to be accredited on the market, have sufficient equity capital, possess the ability to create funds with their operations and finance their placement costs. Also the sector and the geographical position of customers, where they operate and other factors that may affect their operations are considered in the evaluation process of loans. Apart from ordinary intelligence operations, the financial position of the customer is mainly analyzed based on the balance sheets and the income statements provided by the loan customer, the documents received in accordance with the related regulation for their state of accounts and other related documents. Credit limits are subject to revision regarding the overall economic developments and the changes in the financial information and operations of the customers.

Collaterals for the credit limits are determined on a customer basis in order to ensure bank placements and their liquidity. The amount and type of the collateral are determined regarding the creditworthiness of the credit users. The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees.

The Bank has risk control limits for derivative transaction (futures, options, etc.) positions, which effects credit risk and market risk.

For credit risk management purposes, Risk Management Department operates in

- the determination of credit risk policies in coordination with the Bank's other units,
- the determination and monitoring of the distribution of concentration limits with respect to sector, geography and credit type,
- the contribution to the formation of rating and scoring systems,
- the submit to the Board of Directors and the senior management of not only credit risk management reports about credit portfolio's distribution (borrower, sector, geographical region), credit quality (impaired loans, credit risk ratings) and credit concentration but also scenario analysis reports, stress tests and other analyses,
- the studies regarding the formation of advanced credit risk measurement approaches.

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Credit risk is defined and managed for all cash and non-cash agreements and transactions, which carry counterparty risk. Loans with renegotiated terms are followed in accordance with Bank’s credit risk management and follow-up principles. The financial position and trading operations of related customers are continuously analyzed and principal and interest payments, scheduled in renegotiation agreement, are strictly controlled by related departments. In the framework of Bank’s risk management concept, long term commitments are accepted more risky than short term commitments.

Besides, risk limits defined for long term commitments and collaterals that should be taken against long term commitments are handled in a wider range compared to short term commitments.

Indemnified non-cash loans are regarded as the same risk weight with the loans that are past due and unpaid.

Banking operations and lending activities carried in foreign countries are not exposed to material credit risks, due to related countries’ financial conditions, customers and their operations.

The Bank classifies its past due and impaired receivables as shown below in accordance with the “Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables and Provisions to be Set Aside”.

- for which recovery of principal and interest or both delays from their terms or due dates are more than ninety days but not more than one hundred eighty days are classified as “Group Three- Loans and Other Receivables With Limited Recovery”,
- for which recovery of principal and interest or both delays from their terms or due dates are more than one hundred and eighty days but not more one year are classified as “Group Four- Loans and Other Receivables With Suspicious Recovery”,
- for which recovery of principal and interest or both delays from their terms or due dates are more than one year are classified as “Group Five - Loans and Other Receivables Having the Nature of Loss”,

Regardless of the guarantees and pledges received, the Bank provides 20% provision for the Loans and Other Receivables classified in Group Three, by September 30, 2015, 50% provision for the Loans and Other Receivables classified in Group Four and 100% in Group Five. The provision amount is recognized in profit and loss statement of the period.

The Bank’s largest 100 cash loan customers compose 27.22% of the total cash loan portfolio (December 31, 2015: 24.60%).

The Bank’s largest 100 non-cash loan customers compose 56.13% of the total non-cash loan portfolio (December 31, 2015: 54.95%).

The Bank’s largest 100 cash loan customers compose 18.78% of total assets of the Bank and the Bank’s largest 100 non-cash loan customers compose 15.50% of total off-balance sheet items (December 31, 2015: 16.53% and 15.46%).

The Bank’s largest 200 cash loan customers compose 33.48% of the total cash loan portfolio (December 31, 2015: 30.24%).

The Bank’s largest 200 non-cash loan customers compose 68.50% of the total non-cash loan portfolio (December 31, 2015: 67.04%).

The Bank’s largest 200 cash loan customers compose 23.10% of total assets of the Bank and the Bank’s largest 200 non-cash loan customers compose 18.92% of total off-balance sheet items (December 31, 2015: 20.33% and 18.86%).

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The general provision for credit risk amounts to TL 2,167,443 (December 31, 2015: TL 1,957,603).

Risk Classifications:	Current Period Risk Amount^(*)	Average Risk Amount^(*)
Claims on sovereigns and Central Banks	57,284,685	61,840,339
Claims on regional governments or local authorities	4,754,398	4,084,408
Claims on administrative bodies and other non-commercial undertakings	1,310,984	1,482,636
Claims on multilateral development banks	5	128
Claims on international organizations	-	-
Claims on banks and intermediary institutions	15,606,113	12,947,340
Claims on corporate	69,787,149	64,539,017
Claims included in the regulatory retail portfolios	45,724,723	40,231,116
Claims secured by residential property	43,946,760	39,721,096
Past due loans	1,093,383	972,687
Higher risk categories decided by the Agency	288,697	2,027,588
Marketable securities secured by mortgages	-	-
Securitization exposures	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-
Undertakings for collective investments in mutual funds	-	5
Stock Investments	2,124,212	1,481,117
Other claims	6,149,265	6,090,464

^(*) Before reducing the credit risk, the rate of the post credit conversion is given.

^(**) Average risk amount is calculated based on the arithmetic average of the monthly risk amounts after conversion for January-December 2016 period.

Risk Classifications:	Prior Period Risk Amount^(*)	Average Risk Amount^(*)
Claims on sovereigns and Central Banks	56,190,457	56,978,857
Claims on regional governments or local authorities	3,701,273	3,248,031
Claims on administrative bodies and other non-commercial undertakings	1,082,396	1,081,897
Claims on multilateral development banks	218	36
Claims on international organizations	-	-
Claims on banks and intermediary institutions	9,413,986	11,402,422
Claims on corporate	58,507,417	57,111,324
Claims included in the regulatory retail portfolios	28,712,395	28,196,225
Claims secured by residential property	39,642,054	36,961,615
Past due loans	806,175	503,524
Higher risk categories decided by the Agency	11,283,082	11,158,293
Marketable securities secured by mortgages	-	-
Securitization exposures	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-
Undertakings for collective investments in mutual funds	-	548
Other claims	7,481,758	6,208,621

^(*) Before reducing the credit risk, the rate of the post credit conversion is given.

^(**) Average risk amount is calculated based on the arithmetic average of the monthly risk amounts after conversion for January-December 2015 period.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE
TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
EXPLANATIONS AND NOTES RELATED TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

Risk profile according to the geographical concentration ^(*)

Current Period	Claims on sovereigns and Central Banks	Claims on regional governments or local authorities	Claims on administrative bodies and other non-commercial undertakings	Claims on multilateral development banks	Claims on international organizations	Claims on banks and intermediary institutions	Claims on corporates	Claims included in the regulatory retail portfolios	Claims secured by residential property	Past due loans	Higher risk categories decided by the Board	Secured by mortgages	Securitization positions	Intermediary institutions	Undertakings for collective investments in mutual funds	Stock investments	Other receivables	Total
Domestic	54,506,834	4,754,398	1,310,984	5	-	5,814,771	67,946,762	45,723,028	43,898,829	1,093,383	83,109	-	-	-	-	27,610	6,149,265	231,308,978
EU countries	-	-	-	-	-	8,194,793	32	-	-	-	-	-	-	-	-	-	-	8,194,825
OECD countries ⁽¹⁾	-	-	-	-	-	13,085	-	-	-	-	-	-	-	-	-	-	-	13,085
Off-shore banking regions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
USA, Canada	2,777,851	-	-	-	-	1,511,754	1,748,377	1,695	47,931	-	-	-	-	-	-	-	-	6,087,608
Other countries	-	-	-	-	-	71,710	91,978	-	-	-	205,588	-	-	-	-	-	-	369,276
Investment and associates, subsidiaries and joint ventures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,096,602	-	2,096,602
Undistributed Assets/Liabilities ⁽²⁾	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	57,284,685	4,754,398	1,310,984	5	-	15,606,113	69,787,149	45,724,723	43,946,760	1,093,383	288,697	-	-	-	-	2,124,212	6,149,265	248,070,374

⁽¹⁾ OECD countries except from EU countries, USA, Canada.
⁽²⁾ The assets and liabilities that can not be distributed according to a consistent base.
^(*) Risk amounts are given before credit risk mitigation, after multiplied by credit risk conversion ratio.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI EXPLANATIONS AND NOTES RELATED TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Risk profile according to the geographical concentration ^(***)

Prior Period	Claims on sovereigns and Central Banks	Claims on regional governments or local authorities	Claims on administrative bodies and other non-commercial undertakings	Claims on multilateral development banks	Claims on international organizations	Claims on banks and intermediary institutions	Claims on corporates	Claims included in the regulatory retail portfolios	Claims secured by residential property	Past due loans	Higher risk categories decided by the Board	Secured by mortgages	Securitization positions	Intermediary institutions	Undertakings on for collective investments in mutual funds	Stock investments	Other receivables	Total
Domestic	52,485,415	3,693,576	1,082,396	2	-	2,264,806	56,874,497	28,675,380	39,615,204	806,175	11,165,364	-	-	-	-	-	5,607,149	202,269,964
EU countries	-	-	216	-	-	6,063,150	-	-	-	-	-	-	-	-	-	-	-	6,063,366
OECD countries ^(†)	-	-	-	-	-	1,133	-	-	-	-	-	-	-	-	-	-	-	1,133
Off-shore banking regions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
USA, Canada	3,627,192	7,697	-	-	-	951,702	1,501,050	37,015	26,850	-	-	-	-	-	-	-	-	6,151,506
Other countries	77,850	-	-	-	-	133,195	131,870	-	-	-	117,718	-	-	-	-	-	-	460,633
Investment and associates, subsidiaries and joint ventures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,874,609	1,874,609
Undistributed Assets/Liabilities ^(††)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	56,190,457	3,701,273	1,082,396	218	-	9,413,986	58,507,417	28,712,395	39,642,054	806,175	11,283,082	-	-	-	-	-	7,481,758	216,821,211

^(†) OECD countries except from EU countries, USA, Canada.

^(††) The assets and liabilities that can not be distributed according to a consistent base.

^(***) Risk amounts are given before credit risk mitigation, after multiplied by credit risk conversion ratio.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

EXPLANATIONS AND NOTES RELATED TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Risk profile according to sectors and counterparties (*)

Current Period	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	TL	FC	Total
Agricultural	2,235	54	207,563	-	-	-	1,140,397	628,586	667,275	-	-	-	-	-	-	-	-	1,874,122	771,988	2,646,110
<i>Farming and raising livestock</i>	<i>1,762</i>	<i>54</i>	<i>207,563</i>	-	-	-	<i>839,819</i>	<i>570,802</i>	<i>628,684</i>	-	-	-	-	-	-	-	-	<i>1,745,073</i>	<i>503,611</i>	<i>2,248,684</i>
<i>Forestry</i>	<i>471</i>	-	-	-	-	-	<i>258,641</i>	<i>29,458</i>	<i>19,454</i>	-	-	-	-	-	-	-	-	<i>80,550</i>	<i>227,474</i>	<i>308,024</i>
<i>Fishing</i>	<i>2</i>	-	-	-	-	-	<i>41,937</i>	<i>28,326</i>	<i>19,137</i>	-	-	-	-	-	-	-	-	<i>48,499</i>	<i>40,903</i>	<i>89,402</i>
Manufacturing	5,917	570	171,838	-	-	-	30,027,301	4,011,585	5,229,920	-	-	-	-	-	-	-	-	13,824,770	25,622,361	39,447,131
<i>Mining</i>	<i>707</i>	-	<i>6,712</i>	-	-	-	<i>1,335,027</i>	<i>156,918</i>	<i>211,494</i>	-	-	-	-	-	-	-	-	<i>487,832</i>	<i>1,223,026</i>	<i>1,710,858</i>
<i>Production</i>	<i>5,210</i>	<i>23</i>	<i>49,004</i>	-	-	-	<i>19,839,469</i>	<i>3,721,968</i>	<i>4,890,928</i>	-	-	-	-	-	-	-	-	<i>11,425,080</i>	<i>17,081,522</i>	<i>28,506,602</i>
<i>Electric, Gas, Water</i>	-	<i>547</i>	<i>116,122</i>	-	-	-	<i>8,852,805</i>	<i>132,699</i>	<i>127,498</i>	-	-	-	-	-	-	-	-	<i>1,911,858</i>	<i>7,317,813</i>	<i>9,229,671</i>
Construction	434	105	73,780	-	-	-	10,284,903	2,626,315	5,891,522	-	-	-	-	-	-	-	-	10,986,335	7,890,724	18,877,059
Services	34,861,036	4,624,122	700,689	-	-	-	15,605,640	22,800,714	12,764,923	15,372,178	-	-	-	-	-	27,610	-	64,892,821	42,069,679	106,962,500
<i>Wholesale and retail trade</i>	<i>184,370</i>	<i>583</i>	<i>43</i>	-	-	-	<i>8,480,102</i>	<i>7,441,861</i>	<i>8,473,191</i>	-	-	-	-	-	-	-	-	<i>18,799,413</i>	<i>5,780,737</i>	<i>24,580,150</i>
<i>Hotel, Food and Beverage Services</i>	<i>2,282</i>	<i>17</i>	<i>64</i>	-	-	-	<i>2,364,966</i>	<i>498,907</i>	<i>3,130,880</i>	-	-	-	-	-	-	-	-	<i>1,372,446</i>	<i>4,624,670</i>	<i>5,997,116</i>
<i>Transportation and Telecommunication</i>	<i>283</i>	<i>7,555</i>	<i>365,545</i>	-	-	-	<i>7,648,521</i>	<i>4,174,378</i>	<i>1,476,312</i>	-	-	-	-	-	-	-	-	<i>6,056,650</i>	<i>7,615,944</i>	<i>13,672,594</i>
<i>Financial Institutions</i>	<i>34,446,465</i>	<i>7</i>	<i>1,010</i>	-	-	-	<i>15,605,640</i>	<i>3,098,274</i>	<i>50,347</i>	<i>1,086,383</i>	-	-	-	-	-	<i>27,610</i>	-	<i>31,936,658</i>	<i>22,584,666</i>	<i>54,521,324</i>
<i>Real Estate and renting services</i>	-	-	-	-	-	-	<i>275,182</i>	<i>133,166</i>	<i>489,797</i>	-	-	-	-	-	-	-	-	<i>398,126</i>	<i>500,023</i>	<i>898,149</i>
<i>Self-employment services</i>	<i>480</i>	<i>1,254</i>	<i>16,839</i>	-	-	-	<i>424</i>	<i>68</i>	-	-	-	-	-	-	-	-	-	<i>19,065</i>	-	<i>19,065</i>
<i>Education services</i>	<i>51,275</i>	<i>32</i>	<i>1,026</i>	-	-	-	<i>365,576</i>	<i>100,796</i>	<i>292,437</i>	-	-	-	-	-	-	-	-	<i>774,076</i>	<i>37,066</i>	<i>811,142</i>
<i>Health and social services</i>	<i>175,881</i>	<i>4,614,674</i>	<i>316,158</i>	-	-	-	<i>567,669</i>	<i>365,400</i>	<i>423,178</i>	-	-	-	-	-	-	-	-	<i>5,536,387</i>	<i>926,573</i>	<i>6,462,960</i>
Other	22,415,063	129,547	157,114	5	-	473	5,533,834	25,693,314	16,785,865	1,093,383	83,109	-	-	-	-	2,096,602	6,149,265	55,493,437	24,644,137	80,137,574
Total	57,284,685	4,754,398	1,310,984	5	-	15,606,113	69,787,149	45,724,723	43,946,760	1,093,383	288,697	-	-	-	-	2,124,212	6,149,265	147,071,485	100,998,889	248,070,374

(*) Risk amounts are given before credit risk mitigation, after multiplied by credit risk conversion ratio.

- 1-Claims on sovereigns and Central Banks
- 2-Claims on regional governments or local authorities
- 3-Claims on administrative bodies and other non-commercial undertakings
- 4-Claims on multilateral development banks
- 5-Claims on international organizations
- 6-Claims on banks and intermediary institutions
- 7-Claims on corporates
- 8-Claims included in the regulatory retail portfolios
- 9-Claims secured by residential property
- 10-Past due loans
- 11-Higher risk categories decided by the Board
- 12-Secured by mortgages
- 13-Securitization positions
- 14-Short-term claims and short term corporate claims on banks and intermediary institutions
- 15-Undertakings for collective investments in mutual funds
- 16-Stock investments
- 17-Other receivables

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI EXPLANATIONS AND NOTES RELATED TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Risk profile according to sectors and counterparties (*)

Prior Period	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	TL	FC	Total	
Agricultural	2,415	105	26,352	-	-	1,034,594	439,998	705,330	-	59,685	-	-	-	-	-	-	1,745,859	522,620	2,268,479	
<i>Farming and raising livestock</i>	2,018	105	26,352	-	-	716,272	395,678	647,325	-	59,637	-	-	-	-	-	-	1,610,229	237,158	1,847,387	
<i>Forestry</i>	394	-	-	-	-	281,846	22,702	32,854	-	-	39	-	-	-	-	-	81,642	256,193	337,835	
<i>Fishing</i>	3	-	-	-	-	36,476	21,618	25,151	-	-	9	-	-	-	-	-	53,988	29,269	83,257	
Manufacturing	1,045	740	193,617	-	-	24,949,102	2,623,726	5,560,093	-	6,130	-	-	-	-	-	-	12,342,475	20,991,978	33,334,453	
<i>Mining</i>	-	-	3,673	-	-	1,129,091	91,198	196,693	-	-	216	-	-	-	-	-	446,410	974,461	1,420,871	
<i>Production</i>	980	30	97,208	-	-	16,760,236	2,487,187	5,194,456	-	5,794	-	-	-	-	-	-	10,474,961	14,070,930	24,545,891	
<i>Electric Gas, Water</i>	65	710	92,736	-	-	7,059,775	45,341	168,944	-	-	120	-	-	-	-	-	1,421,104	5,946,587	7,367,691	
Construction	38	226	354	-	-	8,221,628	1,509,264	5,041,111	-	3,381	-	-	-	-	-	-	8,643,345	6,132,657	14,776,002	
Services	36,310,619	3,634,970	634,288	216	-	9,413,986	18,404,525	9,966,610	13,806,939	-	147,885	-	-	-	-	-	79,253	59,036,822	33,362,469	92,399,291
<i>Wholesale and retail trade</i>	4,975	3,765	98,715	-	-	6,943,554	5,617,739	8,146,349	-	18,612	-	-	-	-	-	-	15,999,111	4,834,598	20,833,709	
<i>Hotel, Food and Beverage Services</i>	14	1,026	622	-	-	1,761,395	295,384	2,560,578	-	2,137	-	-	-	-	-	-	1,206,465	3,414,691	4,621,156	
<i>Transportation and Telecommunication</i>	54	8,501	34,502	-	-	5,754,094	3,646,731	1,758,500	-	6,977	-	-	-	-	-	-	5,983,473	5,225,886	11,209,359	
<i>Financial institutions</i>	36,137,086	11	100,192	216	-	9,413,986	2,850,082	35,139	465,128	-	117,937	-	-	-	-	-	79,253	30,545,128	18,653,902	49,199,030
<i>Real Estate and renting services</i>	-	-	4	-	-	303,987	86,614	183,413	-	-	449	-	-	-	-	-	392,409	182,058	574,467	
<i>Self-employment services</i>	159	724	2,444	-	-	288	-	-	-	-	-	-	-	-	-	-	3,615	-	3,615	
<i>Education services</i>	4,995	48	8,889	-	-	127,201	67,764	272,888	-	258	-	-	-	-	-	-	430,342	51,701	482,043	
<i>Health and social services</i>	163,336	3,620,895	388,920	-	-	663,924	217,239	420,083	-	1,515	-	-	-	-	-	-	4,476,279	999,633	5,475,912	
Other	19,876,340	65,232	227,785	2	-	5,897,568	14,172,797	14,528,581	806,175	11,066,001	-	-	-	-	-	-	7,402,505	50,478,546	74,042,986	
Total	56,190,457	3,701,273	1,082,396	218	-	9,413,986	58,507,417	28,712,395	39,642,054	806,175	11,283,082	-	-	-	-	-	7,481,758	132,247,047	84,574,164	216,821,211

(*) Risk amounts are given before credit risk mitigation, after multiplied by credit risk conversion ratio.

- 1-Claims on sovereigns and Central Banks
- 2-Claims on regional governments or local authorities
- 3-Claims on administrative bodies and other non-commercial undertakings
- 4-Claims on multilateral development banks
- 5-Claims on international organizations
- 6-Claims on banks and intermediary institutions
- 7-Claims on corporates
- 8-Claims included in the regulatory retail portfolios
- 9-Claims secured by residential property
- 10-Past due loans
- 11-Higher risk categories decided by the Board
- 12-Secured by mortgages
- 13-Securitization positions
- 14-Short-term claims and short term corporate claims on banks and intermediary institutions
- 15-Undertakings for collective investments in mutual funds
- 16-Other receivables

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

EXPLANATIONS AND NOTES RELATED TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Distribution of maturity risk factors according to their outstanding maturities ^(*)

Risk Classifications-Current Period	According to their outstanding maturities				
	1 month	1-3 months	3-6 months	6-12 months	over 1 year
Claims on sovereigns and Central Banks	5,152,323	225,795	409,148	1,583,377	49,914,042
Claims on regional governments or local authorities	1,782	21,645	28,086	388,267	4,314,618
Claims on administrative bodies and other non-commercial undertakings	42,633	278,512	9,991	64,845	915,003
Claims on multilateral development banks	-	-	-	-	5
Claims on international organizations	-	-	-	-	-
Claims on banks and intermediary institutions	5,786,026	1,671,798	269,398	481,624	7,397,267
Claims on corporate	2,015,469	3,296,230	5,939,490	9,868,195	48,667,765
Claims included in the regulatory retail portfolios	716,137	1,483,217	2,596,991	6,293,038	34,635,340
Claims secured by residential property	672,308	1,262,277	2,192,724	5,051,029	34,768,422
Past due loans	-	-	-	-	1,093,383
Higher risk categories decided by the Agency	-	300	-	-	288,397
Marketable securities secured by mortgages	-	-	-	-	-
Securitization exposures	-	-	-	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-	-	-	-
Undertakings for collective investments in mutual funds	-	-	-	-	-
Stock Investments	-	-	-	-	2,124,212
Other claims	-	-	-	-	6,149,265
Total	14,386,678	8,239,774	11,445,828	23,730,375	190,267,719

^(*) Risk amounts are given before credit risk mitigation, after multiplied by credit risk conversion ratio.

Distribution of maturity risk factors according to their outstanding maturities ^(*)

Risk Classifications-Prior Period	According to their outstanding maturities				
	1 month	1-3 months	3-6 months	6-12 months	over 1 year
Claims on sovereigns and Central Banks	7,538,323	151,346	399,825	1,811,782	46,289,181
Claims on regional governments or local authorities	9,103	15,418	85,821	145,517	3,445,414
Claims on administrative bodies and other non-commercial undertakings	32,724	38,442	89,225	21,979	900,026
Claims on multilateral development banks	-	-	-	216	2
Claims on international organizations	-	-	-	-	-
Claims on banks and intermediary institutions	4,886,750	826,432	548,154	71,677	3,080,973
Claims on corporate	2,736,080	3,853,483	5,294,896	8,925,453	37,697,505
Claims included in the regulatory retail portfolios	472,970	1,069,498	1,896,582	4,251,740	21,021,605
Claims secured by residential property	729,855	1,249,282	2,168,805	4,718,668	30,775,444
Past due loans	-	-	-	-	806,175
Higher risk categories decided by the Agency	-	-	-	14,009	11,269,073
Marketable securities secured by mortgages	-	-	-	-	-
Securitization exposures	-	-	-	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-	-	-	-
Undertakings for collective investments in mutual funds	-	-	-	-	-
Other claims	-	-	-	-	7,481,758
Total	16,405,805	7,203,901	10,483,308	19,961,041	162,767,156

^(*) Risk amounts are given before credit risk mitigation, after multiplied by credit risk conversion ratio.

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Risk balances according to risk weights

Risk Weights

Current Period	0%	10%	20%	35%	50%	75%	100%	150%	200%	250%	1250%	Deductions from the shareholders' equity
Pre-Amount of Credit Risk Mitigation	32,055,602	-	9,195,120	21,214,639	55,183,682	45,724,723	84,407,911	205,588	-	83,109	-	465,466
Amount after Credit Risk Mitigation	39,236,688	-	3,636,014	21,214,639	57,187,435	45,433,669	81,073,232	205,588	-	83,109	-	465,466

Risk Weights

Prior Period	0%	10%	20%	50%	75%	100%	150%	200%	250%	1250%	Deductions from the shareholders' equity
Pre-Amount of Credit Risk Mitigation	51,653,484	-	9,995,432	44,482,520	27,755,671	71,651,022	3,666,757	7,571,232	45,093	-	413,981
Amount after Credit Risk Mitigation	55,276,308	-	7,773,090	45,591,407	27,561,064	69,352,260	3,660,714	7,561,275	45,093	-	413,981

Credit rating of the credit rating agency, related to the Bank's Capital Adequacy Assessment of the Measurement is listed in Appendix 1 which corresponds to the credit quality step that is given in the table below.

Ratings Matched

	Credit Quality Rank	Fitch Ratings
	1	Between AAA and AA-
	2	Between A+ and A-
	3	Between BBB+ and BBB-
	4	Between BB+ and BB-
	5	Between B+ and B-
	6	CCC+ and below
	1	Between F1+ and F1
	2	F2
	3	F3
	4	F3 and below
	5	-
	6	-

Long Term Credit Ratings

Short Term Credit Ratings

Information According to Sectors and Counterparties

Current Period	Loans			
	Impaired ^(*)	Past Due ^(**)	Value Adjustments ^(***)	Provisions
Agricultural	116,924	56,562	1,580	99,522
<i>Farming and raising livestock</i>	106,265	51,912	1,424	90,495
<i>Forestry</i>	7,848	3,064	91	6,997
<i>Fishing</i>	2,811	1,586	65	2,030
Manufacturing	1,112,305	572,232	15,267	983,726
<i>Mining</i>	41,038	69,885	1,436	36,879
<i>Production</i>	1,060,170	490,172	13,644	937,638
<i>Electric, Gas, Water</i>	11,097	12,175	187	9,209
Construction	599,481	235,419	8,541	526,093
Services	1,739,620	2,237,522	49,129	1,452,901
<i>Wholesale and retail trade</i>	1,229,957	607,124	18,008	1,014,712
<i>Hotel, Food and Beverage Services</i>	81,173	97,034	2,808	62,466
<i>Transportation and telecommunication</i>	229,301	1,228,172	20,804	195,486
<i>Financial Institutions</i>	5,635	1,950	58	4,791
<i>Real estate and renting services</i>	9,400	32,707	1,104	7,794
<i>Self-employment services</i>	112,056	183,281	3,788	103,965
<i>Education services</i>	16,788	20,255	721	13,270
<i>Health and social services</i>	55,310	66,999	1,838	50,417
Other	2,845,173	3,215,435	232,451	2,257,878
Total	6,413,503	6,317,170	306,968	5,320,120

(*) Impaired loans are composed of group three, four and five loans.

(**) Past due loans and other receivables consist of loans and other receivables that are past due up to ninety days.

(***) Value adjustments represents general provisions of non-performing loans.

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Prior Period	Loans			
	Impaired ^(*)	Past Due ^(**)	Value Adjustments ^(***)	Provisions
Agricultural	87,877	63,490	1,082	80,444
<i>Farming and raising livestock</i>	77,331	57,860	995	70,949
<i>Forestry</i>	8,408	3,188	75	7,669
<i>Fishing</i>	2,138	2,442	12	1,826
Manufacturing	948,135	263,507	6,344	831,505
<i>Mining</i>	100,016	7,731	63	63,998
<i>Production</i>	842,374	250,811	6,197	762,493
<i>Electric, Gas, Water</i>	5,745	4,965	84	5,014
Construction	527,749	214,734	4,877	460,814
Services	1,477,456	1,344,869	26,214	1,259,443
<i>Wholesale and retail trade</i>	958,068	596,895	12,883	810,598
<i>Hotel, Food and Beverage Services</i>	53,562	82,970	1,283	39,021
<i>Transportation and telecommunication</i>	303,162	448,813	8,132	265,365
<i>Financial Institutions</i>	4,482	4,873	89	4,315
<i>Real estate and renting services</i>	11,426	21,350	311	9,007
<i>Self-employment services</i>	117,833	145,031	2,792	104,951
<i>Education services</i>	6,353	17,877	333	5,782
<i>Health and social services</i>	22,570	27,060	391	20,404
Other	1,808,996	2,797,820	74,248	1,411,832
Total	4,850,213	4,684,420	112,765	4,044,038

(*) Impaired loans are composed of group three, four and five loans.

(**) Past due loans and other receivables consist of loans and other receivables that are past due up to ninety days.

(***) Value adjustments represents general provisions of non-performing loans.

Information on Changes in Value Adjustments and Credit Provisions

Current Period	Provisions amounts		The cancelation of the provisions	Other Adjustments ^(*)	Closing Balance
	The opening Balance	set aside during the period			
Specific Provisions	4,044,038	1,935,699	(665,884)	6,267	5,320,120
General Provisions	1,957,603	213,855	-	(4,015)	2,167,443

(*) Includes effect of currency translations differences and other provisions' classifications.

Current Period	Provisions amounts		The cancelation of the provisions	Other Adjustments ^(*)	Closing Balance
	The opening Balance	set aside during the period			
Specific Provisions	3,734,297	1,030,299	(720,558)	-	4,044,038
General Provisions	1,603,242	354,951	-	(590)	1,957,603

(*) Includes effect of currency translations differences and other provisions' classifications

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Fair value of collateral held against impaired loans

	December 31, 2016	December 31, 2015
Cash collateral ^(*)	-	-
Mortgage	2,484,686	1,739,554
Promissory note ^(*)	-	-
Others ^(**)	3,928,817	3,110,659
Total	6,413,503	4,850,213

^(*) As a policy, it is aimed to utilize from cash collateral or liquidate promissory note for an impaired loan collateralized by cash collateral or promissory note to cover the credit risk. Hence, cash collateral and promissory note are shown as zero in the table above.

^(**) Sureties obtained for impaired loans are presented in this row to the extent that the amount does not exceed the amount of impaired loans.

The detail of collateral held against performing cash and non-cash loans by the Bank

Cash loans	December 31, 2016	December 31, 2015
Secured Loans:	113,223,472	94,156,701
Secured by mortgages	43,001,264	38,328,569
Secured by cash collateral	974,445	833,255
Guarantees issued by financial institutions	357,875	505,509
Secured by government institutions or government securities	2,420,844	1,459,632
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	66,469,044	53,029,736
Unsecured Loans	33,395,520	28,817,777
Total performing loans	146,618,992	122,974,478

Non-cash loans	December 31, 2016	December 31, 2015
Secured Loans:	16,831,079	14,299,777
Secured by mortgages	2,105,139	2,983,589
Secured by cash collateral	126,564	243,589
Guarantees issued by financial institutions	240,422	229,287
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	14,358,954	10,843,312
Unsecured Loans	23,617,345	18,768,584
Total non-cash loans	40,448,424	33,068,361

Exposures subject to countercyclical capital buffer

Country	RWA Calculations for Private Sector Loans		Total
	in Banking Book	RWA calculations for Trading Book	
Turkey	131,496,703	221,843	131,718,546
United States	2,133,393	1	2,133,394
England	918,231	94,879	1,013,110
France	630,245	4,993	635,238
Iraq	400,361	-	400,361
Switzerland	245,149	153	245,303
Netherlands	94,423	-	94,423
Germany	34,316	273	34,588
Austria	21,172	-	21,172
Albania	15,201	-	15,201
Other	2,709,410	-	2,709,410
Total	138,698,604	322,142	139,020,746

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III. FOREIGN CURRENCY EXCHANGE RISK

Foreign exchange risk that the Bank exposed to, estimation of effects of exposures, and the limits set by the Board of Directors of the Bank for the positions being monitored on a daily basis

The Standard Method which is also used in the legal reporting is used in measuring the currency risk of the Bank.

All of the foreign currency assets and liabilities and the forward foreign-currency transactions are taken into consideration in calculating the capital obligation for the currency risk. The net long and short positions are calculated in Turkish Lira equivalent of the each currency. The position with the biggest absolute value is determined as the base amount for the capital obligation and the capital obligation is calculated at that amount.

The magnitude of hedging foreign currency debt instruments and net investment in foreign operations by using derivatives

As at December 31, 2016 and December 31, 2015 the Bank does not have derivative financial instruments held for risk management.

Foreign exchange risk management policy

Risk policy of the Bank is based on the transactions within the limits and keeping the currency position well-balanced.

In the light of the national legislations and international applications, the Bank has established a foreign currency risk management policy that enables the Bank to take position between lower and upper limits determined in respect of the current equity profile. Speculative position is not held by the Bank.

The Bank’s effective exchange rates at the date of balance sheet and for the last five working days of the period announced by the Bank in TL are as follows:

	US Dollar	Euro
The Bank’s foreign currency purchase rate at the balance sheet date	3.5150	3.7048
Foreign currency purchase rates for the days before balance sheet date;		
Day 1	3.4800	3.6387
Day 2	3.4600	3.6233
Day 3	3.4500	3.6011
Day 4	3.4600	3.6199
Day 5	3.4500	3.6039
	US Dollar	Euro
Last 30-days arithmetical average rate	3.4158	3.6065

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Information on currency risk

Current Period	Euro	US Dollar	Other FC	Total
Assets:				
Cash and balances with the Central Bank of The Republic of Turkey	4,696,269	10,784,980	4,474,918	19,956,167
Banks	357,116	3,343,376	152,260	3,852,752
Financial assets at fair value through profit or loss ⁽¹⁾	115	112,463	-	112,578
Interbank money market placements	-	-	-	-
Available-for-sale financial assets	873,342	4,356,786	-	5,230,128
Loans and receivables ⁽²⁾	19,460,247	32,531,882	92,309	52,084,438
Associates, subsidiaries and joint-ventures	434,112	-	-	434,112
Held-to-maturity investments	-	140,621	-	140,621
Derivative financial assets held for risk management purpose	-	-	-	-
Tangible assets	-	7,926	-	7,926
Intangible assets	-	-	-	-
Other assets ⁽³⁾	533,761	1,654,090	17	2,187,868
Total assets	26,354,962	52,932,124	4,719,504	84,006,590
Liabilities:				
Bank deposits	243,147	3,234,993	151,579	3,629,719
Foreign currency deposits	13,227,353	19,626,543	1,241,561	34,095,457
Interbank money market takings	-	1,722,864	-	1,722,864
Other funding	8,608,302	14,911,398	2,172	23,521,872
Securities issued	3,830,141	7,609,009	-	11,439,150
Miscellaneous payables	649,916	90,923	40,838	781,677
Derivative financial liabilities held for risk	-	-	-	-
Other liabilities ^{(1) (4)}	115,162	6,932,715	355	7,048,232
Total liabilities	26,674,021	54,128,445	1,436,505	82,238,971
Net 'on balance sheet' position	(319,059)	(1,196,321)	3,282,999	1,767,619
Net 'off-balance sheet' position	343,259	3,068,001	(3,282,690)	128,570
Derivative assets ⁽⁶⁾	3,404,136	21,698,055	290,944	25,393,135
Derivative liabilities ⁽⁶⁾	3,060,877	18,630,054	3,573,634	25,264,565
Non-cash loans ⁽⁵⁾	4,075,023	9,339,767	290,178	13,704,968
Prior Period	Euro	US Dollar	Other FC	Total
Total assets	16,729,564	48,320,696	4,455,279	69,505,539
Total liabilities	21,515,163	46,753,502	865,489	69,134,154
Net 'on balance sheet' position	(4,785,599)	1,567,194	3,589,790	371,385
Net 'off-balance sheet' position	5,449,875	(441,420)	(3,577,895)	1,430,560
Derivative assets ⁽⁶⁾	7,542,857	12,701,193	2,036,853	22,280,903
Derivative liabilities ⁽⁶⁾	2,092,982	13,142,613	5,614,748	20,850,343
Non-cash loans ⁽⁵⁾	3,006,375	7,731,618	246,531	10,984,524

⁽¹⁾ Derivative financial assets amounting to TL 20,534 (December 31, 2015: TL (51,275)) and liabilities amounting to TL 33,606 (December 31, 2015: TL (12,881)) resulting from changes in foreign exchange rates are not included.

⁽²⁾ Foreign currency indexed loans amounting to TL 4,493,820 (December 31, 2015: TL 3,530,360) which are presented in TL column in the balance sheet are included in the table above.

⁽³⁾ Prepaid expenses amounting to TL 76,295 (December 31, 2015: TL 61,724) is not included.

⁽⁴⁾ Unearned revenues amounting to TL 158,497 (December 31, 2015: TL 106,455) and equities amounting to TL 202,857 (December 31, 2015: TL 431,137) are not included.

⁽⁵⁾ Non-cash loans are not taken into consideration in the calculation of the net 'off-balance sheet' position.

⁽⁶⁾ Asset purchase commitments amounting to TL 918,356 (December 31, 2015: TL 1,835,888) and asset sales commitments amounting to TL 583,699 (December 31, 2015: TL 1,895,065) are included.

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Exposure to currency risk

10 percent depreciation of the TL against the following currencies as at and for the year ended December 31, 2016 and 2015 would have effect on equity and profit or loss (without tax effects) by the amounts shown below.

This analysis assumes that all other variables, in particular interest rates, remain constant.

	December 31, 2016		December 31, 2015	
	Profit or loss	Equity (*)	Profit or loss	Equity (*)
US Dollar	186,375	186,375	112,148	112,148
Euro	(40,991)	(40,991)	23,013	23,013
Other currencies	31	31	1,190	1,190
Total, net(**)	145,415	145,415	136,351	136,351

(*) Equity effect also includes profit or loss effect of 10% devaluation of TL against related currencies.

(**) Associates, subsidiaries, joint ventures, tangible and intangible assets are not included to the analysis.

10 percent appreciation of the TL against the following currencies as at and for the year ended December 31, 2016 and 2015 would have effect on equity and profit or loss (without tax effects) by the amounts shown below.

	December 31, 2016		December 31, 2015	
	Profit or loss	Equity (*)	Profit or loss	Equity (*)
US Dollar	(186,375)	(186,375)	(110,822)	(110,822)
Euro	40,991	40,991	(23,013)	(23,013)
Other currencies	(31)	(31)	(1,064)	(1,064)
Total, net(**)	(145,415)	(145,415)	(134,899)	(134,899)

(*) Equity effect also includes profit or loss effect of 10% revaluation of TL against related currencies.

(**) Associates, subsidiaries, joint ventures, tangible and intangible assets are not included to the analysis.

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IV. INTEREST RATE RISK

Interest sensitivity of assets, liabilities and off-balance sheet items is evaluated during the weekly Assets-Liabilities Committee meetings taking into account the developments in market conditions.

Bank's interest rate risk is measured by the standard method.

Measurements for standard method are carried out monthly using the maturity ladder table.

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 and balances with CBRT	13,369,291	-	-	-	-	10,996,006	24,365,297
Banks	2,753,824	307,863	22,306	-	-	806,329	3,890,322
Financial assets at fair value through profit/loss	531,009	601,147	22,021	372,093	84,709	201	1,611,180
Interbank money market placements	-	-	-	-	-	-	-
Available-for-sale financial assets	2,895,405	2,103,852	4,371,742	5,781,463	2,638,985	27,610	17,819,057
Loans and receivables	47,139,973	34,356,861	33,175,198	21,061,924	10,885,036	1,093,383	147,712,375
Held-to-maturity investments	674,843	1,937,819	4,047,247	1,287,620	233,006	-	8,180,535
Other assets ^(*)	9,528	1,648	9,541	1,029	-	8,939,393	8,961,139
Total assets	67,373,873	39,309,190	41,648,055	28,504,129	13,841,736	21,862,922	212,539,905
Liabilities:							
Bank deposits	4,344,954	455,862	94,424	-	-	236,382	5,131,622
Other deposits	66,462,963	20,624,829	7,383,419	37,889	-	24,197,655	118,706,755
Interbank money market takings	11,349,237	1,031,916	-	449,439	64,742	-	12,895,334
Miscellaneous payables	-	-	-	-	-	5,162,994	5,162,994
Securities issued	538,113	1,528,432	3,599,819	9,041,381	-	-	14,707,745
Funds borrowed	3,933,704	8,899,174	8,633,401	1,102,037	1,625,454	-	24,193,770
Other liabilities ^(**)	518,727	184,455	263,038	1,439,164	3,772,851	25,563,450	31,741,685
Total liabilities	87,147,698	32,724,668	19,974,101	12,069,910	5,463,047	55,160,481	212,539,905
On balance sheet long position	-	6,584,522	21,673,954	16,434,219	8,378,689	-	53,071,384
On balance sheet short position	(19,773,825)	-	-	-	-	(33,297,559)	(53,071,384)
Off-balance sheet long position	2,073,148	3,048,601	-	-	-	-	5,121,749
Off-balance sheet short position	-	-	(522,353)	(3,391,353)	(210,900)	-	(4,124,606)
Net Position	(17,700,677)	9,633,123	21,151,601	13,042,866	8,167,789	(33,297,559)	997,143

^(*) Subsidiaries, associates and tangible and intangible assets, and deferred tax are stated in non-interest bearing column.

^(**) Equity is included in non-interest bearing column in other liabilities line.

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Prior Period	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Non-Interest Bearing	Total
Assets:							
Cash and balances with CBRT	12,781,073	-	-	-	-	8,703,716	21,484,789
Banks	4,848,363	77,170	-	-	-	308,733	5,234,266
Financial assets at fair value through profit/loss	368,553	361,605	4,068	82,838	68,403	-	885,467
Interbank money market placements	-	-	-	-	-	-	-
Available-for-sale financial assets	2,379,177	2,467,096	4,688,228	5,082,470	2,077,745	79,253	16,773,969
Loans and receivables	42,177,039	26,147,770	26,070,684	18,329,170	10,249,815	806,175	123,780,653
Held-to-maturity investments	1,010,446	1,774,694	3,360,520	1,301,192	230,877	-	7,677,729
Other assets ⁽¹⁾	14,341	304	2,856	26,777	289	7,065,684	7,110,251
Total assets	63,578,992	30,828,639	34,126,356	24,822,447	12,627,129	16,963,561	182,947,124
Liabilities:							
Bank deposits	4,509,576	555,665	151,903	-	-	385,739	5,602,883
Other deposits	58,717,429	19,396,268	6,282,049	31,684	-	19,892,221	104,319,651
Interbank money market takings	11,133,014	1,148,950	-	397,450	64,627	-	12,744,041
Miscellaneous payables	-	-	-	-	-	4,160,217	4,160,217
Securities issued	1,179,387	1,235,096	2,114,466	6,018,810	-	-	10,547,759
Fund borrowed	3,369,498	7,405,733	4,832,221	554,645	2,393,900	-	18,555,997
Other liabilities ⁽²⁾	45,764	92,325	231,607	903,262	3,190,333	22,553,285	27,016,576
Total liabilities	78,954,668	29,834,037	13,612,246	7,905,851	5,648,860	46,991,462	182,947,124
On balance sheet long position	-	994,602	20,514,110	16,916,596	6,978,269	-	45,403,577
On balance sheet short position	(15,375,676)	-	-	-	-	(30,027,901)	(45,403,577)
Off-balance sheet long position	1,207,068	2,297,615	-	-	-	-	3,504,683
Off-balance sheet short position	-	-	(315,011)	(1,725,656)	(902,100)	-	(2,942,767)
Net Position	(14,168,608)	3,292,217	20,199,099	15,190,940	6,076,169	(30,027,901)	561,916

⁽¹⁾ Subsidiaries, associates and tangible and intangible assets are stated in non-interest bearing column.

⁽²⁾ Equity is included in non-interest bearing column in other liabilities line.

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Average interest rates applied to monetary financial instruments ^(*):

Current Period	Euro	US Dollar	Yen	TL
	%	%	%	%
Assets:				
Cash and balance with CBRT	-	0.75	-	3.31
Banks	-	1.01	-	10.87
Financial assets at fair value through profit/loss	-	-	-	-
Interbank money market placements	-	-	-	-
Available-for-sale financial assets	5.23	6.58	-	9.49
Loans and receivables	4.28	4.99	-	12.34
Held-to-maturity investments	-	2.68	-	9.65
Liabilities:				
Bank deposits	0.21	1.18	-	10.87
Other deposits	1.38	2.84	-	9.17
Interbank money market takings	-	1.75	-	8.26
Miscellaneous payables	-	-	-	-
Securities issued	2.90	4.88	-	9.53
Funds borrowed	0.96	2.48	-	10.22
Prior Period				
	Euro	US Dollar	Yen	TL
	%	%	%	%
Assets:				
Cash and balance with CBRT	-	0.49	-	3.81
Banks	0.10	0.36	-	11.27
Financial assets at fair value through profit/loss	-	-	-	-
Interbank money market placements	-	-	-	-
Available-for-sale financial assets	5.25	6.76	-	9.69
Loans and receivables	4.03	4.89	-	12.39
Held-to-maturity investments	-	3.59	-	10.02
Liabilities:				
Bank deposits	0.71	0.67	-	13.07
Other deposits	1.73	2.07	-	10.77
Interbank money market takings	-	1.08	-	8.42
Miscellaneous payables	-	-	-	-
Securities issued	2.72	4.44	0.93	10.93
Funds borrowed	0.90	1.79	-	9.92

^(*) The rates above are calculated over financial instruments with interest rates.

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V.STOCK POSITION RISKS

Stock position risks arising from banking book items

Information on separations of risks according to objectives including their relation with gains presented in equity and strategically reasons, accounting techniques and general information about valuation methods with the related assumptions and factors that affect the valuation and significant changes

The accounting applications regarding to share investment that qualifications in associate and subsidiary of are disclosed in Section 3 Note III.

If carrying value is substantially different from fair value and for publicly traded shares if market value is substantially different from fair value, the comparison with the market prices are shown in the table below:

Current Period	Comparison		
	Carrying Value	Fair Value ^(*)	Market Value ^(*)
Stock Investments			
Stocks quoted in exchange^(*)	652,998	652,998	652,998
1.Stocks Investments Group A	652,998	652,998	652,998
2.Stock Investments Group B	-	-	-
3.Stock Investment Group C	-	-	-
Stocks unquoted in exchange^(**)	1,471,214	1,386,964	-

^(*) The values of stocks traded in Stock Exchange are included to both columns assuming the market value is approximate to fair value.

^(**) The values of stocks unquoted in exchange are determined according to valuation reports prepared by independent valuation companies.

Prior Period	Comparison		
	Carrying Value	Fair Value ^(*)	Market Value ^(*)
Stock Investments			
Stocks quoted in exchange^(*)	548,852	548,852	548,852
1.Stocks Investments Group A	548,852	548,852	548,852
2.Stock Investments Group B	-	-	-
3.Stock Investment Group C	-	-	-
Stocks unquoted in exchange^(**)	1,405,010	1,273,616	-

^(*) The values of stocks traded in Stock Exchange are included to both columns assuming the market value is approximate to fair value.

^(**) The values of stocks unquoted in exchange are determined according to valuation reports prepared by independent valuation companies.

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Total unearned gain or loss, total revaluation surplus and values included to principal and supplementary capital

Total unearned gain or loss, total appraisal surplus and values included to principal and supplementary capital are given in the below table:

Portfolio-Current Period	Realized Gain/Loss in Current Period	Revaluation Surplus		Unrealized Gain and Loss	
		Total (*)	Included in Supplementary Capital	Total (*)	Included in Supplementary Capital
1. Private Capital Investments	-	-	-	-	-
2. Publicly Traded Stocks	-	-	-	85,226	85,226
3. Other Stocks	-	828,877	828,877	-	-
4. Total	-	828,877	828,877	85,226	85,226

(*) Amounts are presented including the effect of deferred tax.

Portfolio-Prior Period	Realized Gain/Loss in Current Period	Revaluation Surplus		Unrealized Gain and Loss	
		Total (*)	Included in Supplementary Capital	Total (*)	Included in Supplementary Capital
1. Private Capital Investments	-	-	-	-	-
2. Publicly Traded Stocks	-	-	-	97,259	97,259
3. Other Stocks	-	837,276	837,276	-	-
4. Total	-	837,276	837,276	97,259	97,259

(*) Amounts are presented including the effect of deferred tax.

Explanations on Equity Shares Risk Arising from Banking Book

Portfolio-Current Period	Carrying Value	Total RWA	Minimum Capital Requirement
1.Private Equity Investments	-	-	-
2.Quoted	652,998	652,998	52,240
3.Other Stocks	1,471,214	1,471,214	117,697
4. Total	2,124,212	2,124,212	169,937

Portfolio-Prior Period	Carrying Value	Total RWA	Minimum Capital Requirement
1.Private Equity Investments	-	-	-
2.Quoted	548,852	548,852	43,908
3.Other Stocks	1,405,010	1,405,010	112,401
4. Total	1,953,862	1,953,862	156,309

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VI. LIQUIDITY RISK AND LIQUIDITY COVERAGE RATIO

Liquidity risk is defined as the risk of not fulfilling payment liabilities on time as a result of not having adequate cash or cash inflow to meet the cash outflow properly due to imbalance in cash flows of the bank. The framework of liquidity risk of the bank is specified with Liquidity Risk Management Document. In the framework of liquidity risk management, policies regarding liquidity risk management are written down by Risk Management Department and fundamental principles, analyses regarding measurement and monitoring risk, basic rudiments on early warning indicators, liquidity buffer and limits are included.

The Bank is managing liquidity risk according to risk capacity and the Bank’s risk appetite in the range envisioned by the regulations. Liquidity risk management approach is in general based on the principle of monitoring in-day liquidity risk. The Bank monitors the net liquidity position and liquidity requirements continuously and facing the future. The Bank takes precautions to increase diversity in fund sources to increase effectiveness and durability in liquidity risk management. On market basis and specific to the Bank (in consideration of market and funding liquidity) scenario and susceptibility analyses are performed and assumptions based on these analyses are reviewed regularly. It is aimed to protect the optimum liquidity level that can meet short – term liquidity needs not to remain inactive and maintain profitability – risk balance.

Liquidity management in the Bank is carried out under Treasury Department in regard to the Bank’s strategic goals and projections, decisions taken in Asset/Liability Committee, treasury policies, limits defined under market circumstances, Bank’s balance sheet and income goals and strategies defined to meet these goals. Daily, weekly, and monthly cash flow statements are prepared in accordance with principles of profitability and prudence in the Bank’s liquidity management. Cash flow statements are evaluated and the Bank’s liquidity is managed in line with Treasury Department policies, daily TL and FC liquidity position Bank balance sheet and income goals.

Scenarios about where to make replacement funding in case of high amount outflows in daily liquidity management are made regularly, effects of probable outflows on liquidity level and legal ratios are evaluated and liquidity management is carried out by taking necessary actions.

The Bank makes use of liquidity gap analysis reports and liquidity stress tests in the internal measurement of liquidity risk. In Liquidity gap analysis and liquidity stress scenarios, the Bank’s compensation level of net cash outflows which are more likely to happen in short term are presented. Measurements regarding liquidity risk are performed by Risk Management Department and measurement results are reported regularly to performer units responsible of management of the related risk and top management and the Board of Directors.

It is taken as a basis that the Bank consistently monitors TL and FC liquidity positions and funding strategies. Necessary precautions are taken in line with liquidity needs by following stress circumstances. “Liquidity Emergency Action Plan” which is an important part of liquidity risk management of our Bank, consists of early warning indicators which play an important role in monitoring increases in liquidity risk and the prevention of a possible crisis, action plans to prevent a possible crisis and to be applied during a crisis. Furthermore, to fulfill our banks reserve deposits liability that it has to allocate in the presence of CBRT, alternative fund sources to provide liquidity that is needed in various stress circumstances and under which circumstances to apply these sources, precautions to minimize time maturity mismatch and provide necessary funds on time, how the mechanism is going to operate in cases of crisis and stress is included in the plan.

The Bank’s Foreign Currency (FC) and total (TL+FC) liquidity coverage ratio (LCR) averages for current period. The highest value and the lowest value occurred in this period are given below:

Liquidity Coverage Ratio	TL+FC		FC	
	DATE	RATIO (%)	DATE	RATIO (%)
The lowest value	09.12.2016	96.82	30.12.2016	116.89
The highest value	21.10.2016	108.44	04.11.2016	174.19

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Liquidity Coverage Ratio

Current Period	Total unweighted value *		Total weighted value*	
	TL+FC	FC	TL+FC	FC
HIGH QUALITY LIQUID ASSETS				
1 Total High Quality Liquid Assets (HQLA)			30,911,865	17,187,025
CASH OUTFLOWS				
2 Retail deposits and deposits from small business customers, of which:	56,094,081	18,064,063	4,674,027	1,806,406
3 Stable deposits	18,707,617	-	935,381	-
4 Less stable deposits	37,386,464	18,064,063	3,738,646	1,806,406
5 Unsecured wholesale funding, of which:	62,416,947	15,846,190	24,240,183	7,659,013
6 Operational deposits	42,745,940	8,687,042	10,686,485	2,171,760
7 Non-operational deposits	10,454,745	5,701,889	6,886,996	4,064,477
8 Unsecured debt	9,216,262	1,457,259	6,666,702	1,422,776
9 Secured wholesale funding			-	-
10 Additional requirements of which:	11,436,793	10,467,385	11,436,793	10,467,385
11 Outflows related to derivative exposures and other collateral requirements	11,436,793	10,467,385	11,436,793	10,467,385
12 Outflows related to loss of funding on debt products	-	-	-	-
13 Credit and liquidity facilities	-	-	-	-
14 Other contractual funding obligations	16,068,573	15,621,541	803,429	781,077
15 Other contingent funding obligations	44,619,198	11,874,367	6,579,804	1,116,914
16 TOTAL CASH OUTFLOWS			47,734,236	21,830,795
CASH INFLOWS				
17 Secured lending	-	-	-	-
18 Inflows from fully performing exposures	11,938,083	5,431,272	8,394,971	4,704,964
19 Other cash inflows	9,183,453	4,946,269	9,183,453	4,946,269
20 TOTAL CASH INFLOWS	21,121,536	10,377,541	17,578,424	9,651,233
			Upper Limit Applied Values	
21 TOTAL HQLA			30,911,865	17,187,025
22 TOTAL NET CASH OUTFLOWS			30,155,812	12,179,562
23 LIQUIDITY COVERAGE RATIO (%)			102.69	143.21

(*) Simple arithmetic average, calculated for the last three months, of the values calculated by taking weekly simple arithmetic average.

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Prior Period	Total unweighted value *		Total weighted value*	
	TL+FC	FC	TL+FC	FC
HIGH QUALITY LIQUID ASSETS				
1	Total High Quality Liquid Assets (HQLA)		28,685,961	19,080,631
CASH OUTFLOWS				
2	Retail deposits and deposits from small business customers, of which:			
	47,000,587	17,301,374	3,731,637	1,507,532
3	Stable deposits		968,422	222,605
4	Less stable deposits		2,763,215	1,284,927
5	Unsecured wholesale funding, of which:			
6	Operational deposits		9,769,455	2,140,752
7	Non-operational deposits		8,043,800	4,884,740
8	Unsecured debt		6,264,309	2,105,138
9	Secured wholesale funding		-	-
10	Additional requirements of which:			
11	Outflows related to derivative exposures and other collateral requirements		12,161,941	10,353,586
12	Outflows related to loss of funding on debt products		-	-
13	Credit and liquidity facilities		-	-
14	Other contractual funding obligations		584,635	559,860
15	Other contingent funding obligations		6,408,586	1,602,636
16	TOTAL CASH OUTFLOWS		46,964,363	23,154,244
CASH INFLOWS				
17	Secured lending		-	-
18	Inflows from fully performing exposures		9,415,639	6,073,582
19	Other cash inflows		10,364,930	7,662,569
20	TOTAL CASH INFLOWS		19,780,569	13,736,151
			Upper Limit Applied Values	
21	TOTAL HQLA		28,685,961	19,080,631
22	TOTAL NET CASH OUTFLOWS		27,183,794	9,418,093
23	LIQUIDITY COVERAGE RATIO (%)		105.53	202.60

* Simple arithmetic average, calculated for the last three months, of the values calculated by taking weekly simple arithmetic average.

With the "Liquidity Coverage Rate" which is prepared under the framework of "Regulations Regarding Banks' Calculations of Liquidity Coverage Rate" published by BRSA, the balance between banks' net cash outflows and high quality liquid asset stock.

Bank's high quality liquid asset stock consists of cash and debt instruments issued by CBRT and Republic of Turkey Undersecretariat of Treasury.

Whereas the Banks' important fund sources are deposits, funds obtained from other financial institutions, marketable securities issued and funds obtained from repo transactions.

Derivatives transactions with 30 or less days to maturity are included into liquidity coverage calculation with cash outflows created by the transactions as of the calculated liquidity coverage rate. In case of a liability resulting from derivatives transactions and security fulfillment liability resulting from other liabilities, actions are taken accordingly to the related regulation.

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Maturity analysis of assets and liabilities according to remaining maturities

Current Period	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Undistributed ^(*)	Total
Assets:								
Cash and balance with CBRT	24,365,297	-	-	-	-	-	-	24,365,297
Banks	3,488,671	71,482	307,863	22,306	-	-	-	3,890,322
Financial assets at fair value through profit/loss	201	34,292	12,143	401,338	1,070,493	92,713	-	1,611,180
Interbank money market placements	-	-	-	-	-	-	-	-
Available-for-sale financial assets	-	677,535	215,072	1,846,497	8,831,274	6,221,069	27,610	17,819,057
Loans and receivables	-	12,575,901	5,268,530	30,613,044	62,734,890	35,426,627	1,093,383	147,712,375
Held-to-maturity investments	-	674,843	52,727	-	3,733,430	3,719,535	-	8,180,535
Other assets	2,209	1,148,212	1,648	9,541	84,138	-	7,715,391	8,961,139
Total assets	27,856,378	15,182,265	5,857,983	32,892,726	76,454,225	45,459,944	8,836,384	212,539,905
Liabilities:								
Bank deposits	236,382	4,344,954	455,862	94,424	-	-	-	5,131,622
Other deposits	24,197,655	66,462,963	20,624,829	7,383,419	37,889	-	-	118,706,755
Funds borrowed	-	230,110	887,026	10,921,434	6,124,930	6,030,270	-	24,193,770
Interbank money market takings	-	11,349,237	1,031,916	-	449,439	64,742	-	12,895,334
Securities issued	-	538,113	1,528,432	3,235,918	9,405,282	-	-	14,707,745
Miscellaneous payables	-	4,010,273	79,315	-	-	-	1,073,406	5,162,994
Other liabilities	-	1,154,902	235,817	27,241	466,873	5,093,401	24,763,451	31,741,685
Total liabilities	24,434,037	88,090,552	24,843,197	21,662,436	16,484,413	11,188,413	25,836,857	212,539,905
Liquidity gap	3,422,341	(72,908,287)	(18,985,214)	11,230,290	59,969,812	34,271,531	(17,000,473)	-
Net Off Balance Sheet								
Position	-	(474,036)	(2,839)	423,666	933,313	652,787	-	1,532,891
Receivables from Derivative Financial Instruments	-	8,574,724	4,360,190	2,799,556	12,736,387	5,799,680	-	34,270,537
Payables from Derivative Financial Instruments	-	9,048,760	4,363,029	2,375,890	11,803,074	5,146,893	-	32,737,646
Non-cash Loans	3,594,694	1,317,799	23,409,999	6,456,303	4,800,854	868,775	-	40,448,424
Prior Period								
	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Undistributed ^(*)	Total
Total assets	25,422,750	15,036,713	4,496,759	26,883,402	63,886,607	40,286,125	6,934,768	182,947,124
Total liabilities	20,277,960	79,732,057	23,375,688	17,727,452	9,736,178	9,556,749	22,541,040	182,947,124
Liquidity gap	5,144,790	(64,695,344)	(18,878,929)	9,155,950	54,150,429	30,729,376	(15,606,272)	-
Net Off Balance Sheet								
Position	-	37,789	(15,679)	79,335	496,019	374,145	-	971,609
Receivables from Derivative Financial Instruments	-	10,214,707	3,472,683	1,297,251	5,540,752	4,922,653	-	25,448,046
Payables from Derivative Financial Instruments	-	10,176,918	3,488,362	1,217,916	5,044,733	4,548,508	-	24,476,437
Non-cash Loans	2,663,320	951,139	19,396,626	5,498,569	4,034,068	524,639	-	33,068,361

^(*) Certain assets on the balance sheet that are necessary for the banking operations but not convertible into cash in short period such as tangible assets, intangible assets, associates, subsidiaries, miscellaneous receivables and shareholder's equity in the liabilities have been included in the "Undistributed" column.

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Residual contractual maturities of the financial liabilities

Current Period	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Bank deposits	5,131,622	5,141,393	236,382	4,350,077	459,456	95,478	-	-
Other deposits	118,706,755	119,246,907	24,197,655	66,625,143	20,826,563	7,558,475	39,071	-
Funds borrowed	24,193,770	26,893,798	-	230,644	891,367	11,094,371	7,131,178	7,546,238
Money market takings	12,895,334	13,025,681	-	11,353,745	1,033,461	-	548,086	90,389
Issued Securities (Net)	14,707,745	15,921,674	-	540,447	1,550,520	3,309,738	10,520,969	-
Miscellaneous payables	5,162,994	5,162,994	1,073,406	4,010,273	79,315	-	-	-
Other liabilities	8,462,117	10,482,436	1,908,339	878,821	87,442	27,241	466,873	7,113,720
Total	189,260,337	195,874,883	27,415,782	87,989,150	24,928,124	22,085,303	18,706,177	14,750,347
Non-Cash Loans	40,448,424	40,448,424	3,594,694	1,317,799	23,409,999	6,456,303	4,800,854	868,775

Prior Period	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Bank deposits	5,602,883	5,617,785	385,739	4,514,733	562,204	155,109	-	-
Other deposits	104,319,651	104,839,904	19,892,221	58,890,679	19,594,638	6,429,529	32,837	-
Funds borrowed	18,555,997	20,025,703	-	299,282	704,682	9,491,948	3,333,188	6,196,603
Money market takings	12,744,041	12,759,688	-	11,143,452	1,151,513	-	399,406	65,317
Issued Securities (Net)	10,547,759	11,297,272	-	1,185,490	1,246,388	1,897,286	6,968,108	-
Miscellaneous payables	4,160,217	4,160,217	834,101	3,258,356	67,760	-	-	-
Other liabilities	6,530,395	8,450,423	1,711,193	377,119	37,965	39,193	83,026	6,201,927
Total	162,460,943	167,150,992	22,823,254	79,669,111	23,365,150	18,013,065	10,816,565	12,463,847
Non-Cash Loans	33,068,361	33,068,361	2,663,320	951,139	19,396,626	5,498,569	4,034,068	524,639

This table shows the undiscounted cash flows on the Bank's financial liabilities on the basis of their earliest possible contractual maturity. Therefore, the gross nominal outflows in the table above vary from the carrying amounts of the relevant financial liabilities reflected in the financial statements.

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VII. LEVERAGE RATIO

Information on Issues that Cause Differences between Current Period and Previous Period Leverage Ratios

The Bank's unconsolidated leverage rate which is calculated due to "Regulation on Banks' Measurement and Evaluation of Leverage Level" actualized as 7.13%. Increase in balance sheet assets and Tier I Capital transactions resulted in change in comparison with previous period (December 31, 2015: 6.81%) leverage rate. The Regulation adjudicated minimum leverage rate as 3%.

Leverage ratio common disclosure template

	On-balance sheet exposures	Current Period ^(*)	Prior Period ^(*)
1	On-balance sheet items (excluding derivatives and SFTs; including collateral)	209,429,643	182,236,355
2	Assets deducted in determining Basel III Tier 1 capital	(312,844)	(568,612)
3	Total on-balance sheet exposures (excluding derivatives and SFTs)	209,116,799	181,667,743
	Derivative exposures		
4	Replacement cost	1,388,332	956,386
5	Add-on amount	647,688	365,598
6	Total derivative exposures	2,036,020	1,321,984
	Securities financing transaction exposures		
7	Gross SFT assets (with no recognition of accounting netting)	653,843	779,859
8	Agent transaction exposures	-	-
9	Total securities financing transaction exposures	653,843	779,859
	Other off-balance sheet exposures		
10	Off-balance sheet exposures with gross nominal amount	47,738,380	53,969,900
11	Adjustment amount off-balance sheet exposures with credit conversion factor	2,804,179	1,025,968
12	Total off-balance sheet exposures	50,542,559	54,995,868
	Capital and total exposures		
13	Tier 1 capital	18,677,993	16,253,544
14	Total exposures	262,349,221	238,765,454
	Leverage ratio		
15	Leverage ratio	7.13	6.81

^(*) Calculated by using three month average of balances in Leverage Rate Notification table.

VIII. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

	Carrying Value		Fair Value	
	Current Period	Prior Period	Current Period	Prior Period
Financial Assets:				
Receivables from Interbank Money Markets	-	-	-	-
Banks	3,890,322	5,234,266	3,890,322	5,234,266
Available-for-Sale Financial Assets	17,819,057	16,773,969	17,819,057	16,773,969
Held-to-Maturity Investments	8,180,535	7,677,729	7,992,774	7,496,076
Loans	147,712,375	123,780,653	147,807,948	125,203,508
Financial Liabilities:				
Bank Deposits	5,131,622	5,602,883	5,131,622	5,602,883
Other Deposits	118,706,755	104,319,651	118,363,783	103,957,669
Funds Borrowed	24,193,770	18,555,997	24,986,292	18,837,415
Securities Issued	14,707,745	10,547,759	14,572,326	10,471,257
Subordinated Loans	5,031,213	4,169,474	4,677,751	4,169,474
Miscellaneous Payables	5,162,994	4,160,217	5,162,994	4,160,217

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Fair values of available-for-sale financial assets and held-to-maturity investments are derived from market prices or in case of absence of such prices they are derived from prices of other marketable securities, whose interest rate, maturity date and other conditions are similar to securities held.

Fair value of loans are calculated by discounting future cash flows with the use of current market interest rates.

Fair value of funds borrowed with fixed interest rate are calculated by discounting cash flows with current market interest rates. Fair value of funds borrowed with floating interest rate is calculated according to repricing period by discounting cash flows with current market rates.

Fair value of other assets and liabilities is calculated by adding accumulated acquisition costs and the sum of the interest accrual.

Classification of Fair Value Measurement

IFRS 7 - Financial Instruments requires the classification of fair value measurements into a fair value hierarchy by reference to the observability and significance of the inputs used in measuring fair value of financial instruments measured at fair value to be disclosed. This classification basically relies on whether the relevant inputs are observable or not. Observable inputs refer to the use of market data obtained from independent sources, whereas unobservable inputs refer to the use of predictions and assumptions about the market made by the Bank. This distinction brings about a fair value measurement classification generally as follows:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);

Level 3: Fair value measurements using inputs for the assets or liability that are not based on observable market data (unobservable inputs).

Classification requires using observable market data if possible.

The classification of fair value measurements of financial assets and liabilities measured at fair value is as follows:

December 31, 2016	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss:				
Financial assets held for trading purpose:	201	1,610,979	-	1,611,180
Derivative financial assets held for trading purpose	-	1,610,979	-	1,610,979
Investment fund participation certificates	201	-	-	201
Available-for-sale financial assets	15,661,669	2,157,373	15	17,819,057
Debt securities	15,661,669	2,129,778	-	17,791,447
Equity securities	-	27,595	15	27,610
Investments in associates and subsidiaries	652,998	-	1,386,964 ^(*)	2,039,962
Total Financial Assets	16,314,868	3,768,352	1,386,979	21,470,199
Financial liabilities at fair value through profit/loss:				
Derivative financial liabilities held for trading purpose	-	(1,143,703)	-	(1,143,703)
Total Financial Liabilities	-	(1,143,703)	-	(1,143,703)

^(*) This amount consist of fair value of the affiliates and subsidiaries determined by independent valuation companies.

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December 31, 2015	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss:				
Financial assets held for trading purpose:	-	885,467	-	885,467
Derivative financial assets held for trading purpose	-	885,467	-	885,467
Available-for-sale financial assets	13,800,761	2,893,955	79,238 ^(*)	16,773,954
Debt securities	13,800,761	2,893,955	79,238	16,773,954
Investments in associates and subsidiaries	548,852	-	1,273,616 ^(*)	1,822,468
Total Financial Assets	14,349,613	3,779,422	1,352,854	19,481,889
Financial liabilities at fair value through profit/loss:				
Derivative financial liabilities held for trading purpose	-	(289,589)	-	(289,589)
Total Financial Liabilities	-	(289,589)	-	(289,589)

^(*) This amount consist of fair value of the affiliates and subsidiaries determined by independent valuation companies.

^(*) TL 79,238 which is classified under financial assets available-for-sale and which is in the third level is composed of securities issued share in capital.

The reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy as at and for the year ended December 31, 2016 is as follows:

	Level 3 Current Period	Level 3 Prior Period
Balance at the beginning of the year	1,352,854	1,053,475
Total gains or losses for the year recognized in profit or loss	-	-
Total gains or losses for the year recognized under equity	34,125	299,379
Balance at the end of the year	1,386,979	1,352,854

IX. TRANSACTIONS CARRIED OUT ON BEHALF OF CUSTOMERS, ITEMS HELD IN TRUST

The Bank provides buying, selling and custody services and management and advisory services in financial matters for its customers. The Bank is not involved in trust activities.

X. SEGMENT REPORTING

The Bank operates in corporate, commercial, small business, retail and investment banking. Accordingly, the banking products served to customers are; time and demand deposit, accumulating account, repos, debtors current loans, spot loans, foreign currency indexed loans, consumer loans, automobile and housing loans, working capital loans, discounted bills, overdraft facilities, gold loans, foreign currency loans, Eximbank loans, pre-export loans, ECA covered financing, letters of guarantee, letters of credit, export factoring, acceptance credits, draft facilities, forfaiting, leasing, insurance, forward, futures, salary payments, investment account, cheques, safety boxes, bill payments, tax collections, payment orders.

The Bank provides service packages to its corporate, commercial and retail customers including deposit, loans, foreign trade transactions, investment products, cash management, leasing, factoring, insurance, credit cards, and other banking products. A customer-oriented branch network was built in order to serve customers' needs effectively and efficiently.

Additionally, the Bank provides "small business" banking service to enterprises in retail and service sectors. Products include overdraft accounts, POS machines, credit cards, cheque books, TL and foreign currency deposits, investment accounts, internet banking and call-center, debit card, and bill payment.

Retail banking customers form a wide-spread and sustainable deposit base for the Bank. Individual customers' needs are met by diversified consumer banking products through branches and alternative delivery channels.

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Major financial statement items according to business lines:

Current Period	Retail Banking	Corporate Banking	Investment Banking	Other	Total Operations
OPERATING INCOME/ EXPENSES					
Interest Income	4,959,598	8,079,808	3,513,759	4,461	16,557,626
<i>Interest income from loans</i>	4,959,598	8,079,808	1,172,511	-	14,211,917
<i>Interest income from reserve deposits</i>	-	-	111,798	-	111,798
<i>Interest income from securities portfolio</i>	-	-	2,204,418	-	2,204,418
<i>Interest income from banks</i>	-	-	25,032	-	25,032
<i>Interest income from money market transactions</i>	-	-	-	-	-
<i>Finance Lease Income</i>	-	-	-	-	-
<i>Other interest income</i>	-	-	-	4,461	4,461
Interest Expense	3,387,868	3,618,235	2,541,301	43,581	9,590,985
<i>Interest expense on deposits</i>	3,387,868	3,605,822	220,219	-	7,213,909
<i>Interest expense on funds borrowed</i>	-	12,413	373,337	-	385,750
<i>Interest expense on money market transactions</i>	-	-	992,840	-	992,840
<i>Interest expense on securities issued</i>	-	-	680,296	-	680,296
<i>Other interest expenses</i>	-	-	274,609	43,581	318,190
Net Interest Income	1,571,730	4,461,573	972,458	(39,120)	6,966,641
Net Fees and Commissions Income	425,547	478,927	76,409	-	980,883
Trading Income/ Losses (Net)	-	-	483,813	-	483,813
Dividend Income	-	-	91,753	-	91,753
Other Income (*)	-	-	-	954,031	954,031
Provision For Losses on Loans and Other Receivables	431,235	1,570,736	30,688	213,855	2,246,514
Other Expenses (**)	-	-	-	3,835,083	3,835,083
Profit Before Taxes	1,566,042	3,369,764	1,593,745	(3,134,027)	3,395,524
Provision for taxes	-	-	-	(692,482)	(692,482)
Net Profit/ Loss	1,566,042	3,369,764	1,593,745	(3,826,509)	2,703,042
SEGMENT ASSETS					
Securities Portfolio	-	-	25,999,793	-	25,999,793
Derivative Financial Assets Held for Trading Purpose	-	-	1,610,979	-	1,610,979
Banks and Receivables From Money Markets	-	-	3,890,322	-	3,890,322
Investments in Associates and Subsidiaries	-	-	2,096,602	-	2,096,602
Loans and Receivables	41,424,553	82,471,067	23,816,755	-	147,712,375
Other Assets	-	-	24,223,603	7,006,231	31,229,834
TOTAL ASSETS	41,424,553	82,471,067	81,638,054	7,006,231	212,539,905
SEGMENT LIABILITIES					
Deposits	54,150,626	64,556,129	5,131,622	-	123,838,377
Derivative Financial Liabilities Held for Trading Purpose	-	-	1,143,703	-	1,143,703
Interbank Money Market Takings	-	-	12,895,334	-	12,895,334
Funds Borrowed	-	662,429	23,531,341	-	24,193,770
Securities Issued	-	-	14,707,745	-	14,707,745
Other Liabilities	-	-	5,774,949	7,098,768	12,873,717
Provisions and Tax Liabilities	-	-	-	3,648,548	3,648,548
Equity	-	-	-	19,238,711	19,238,711
TOTAL LIABILITIES AND EQUITY	54,150,626	65,218,558	63,184,694	29,986,027	212,539,905

(*) TL 665,884 amount of TL 954,031 shown in other income line consists of rejecting reserves from previous periods, TL 164,709 of income from sale of Bank's assets, TL 40,316 from communications income and remaining, TL 923 from leasing income, TL 82,199 of other income.

(**) TL 1,488,861 amount of TL 3,835,083 shown in other expenses line consists of personnel expenses, TL 1,560,004 of other operating expenses, TL 172,096 of depreciation expenses, TL 147,970 of dividend reserves expenses to be given to personnel, TL 138,469 of Savings Deposit Insurance Fund (SDIF) expenses, TL 130,750 of taxes and funds expenses, and the remaining TL 196,933 of other expenses.

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Prior Period	Retail Banking	Corporate Banking	Investment Banking	Other	Total Operations
OPERATING INCOME/ EXPENSES					
Interest Income	4,218,690	6,496,941	2,912,897	1,522	13,630,050
<i>Interest income from loans</i>	4,218,690	6,496,941	814,047	-	11,529,678
<i>Interest Income from reserve deposits</i>	-	-	38,684	-	38,684
<i>Interest income from securities portfolio</i>	-	-	2,049,544	-	2,049,544
<i>Interest income from banks</i>	-	-	10,622	-	10,622
<i>Interest income from money market transactions</i>	-	-	-	-	-
<i>Finance Lease Income</i>	-	-	-	-	-
<i>Other interest income</i>	-	-	-	1,522	1,522
Interest Expense	2,517,946	3,434,680	2,159,815	31,128	8,143,569
<i>Interest expense on deposits</i>	2,517,946	3,424,053	189,011	-	6,131,010
<i>Interest expense on funds borrowed</i>	-	10,627	250,209	-	260,836
<i>Interest expense on money market transactions</i>	-	-	881,816	-	881,816
<i>Interest expense on securities issued</i>	-	-	596,952	-	596,952
<i>Other interest expenses</i>	-	-	241,827	31,128	272,955
Net Interest Income	1,700,744	3,062,261	753,082	(29,606)	5,486,481
Net Fees and Commissions Income	396,068	431,202	93,814	-	921,084
Trading Income/ Losses (Net)	-	-	99,474	-	99,474
Dividend Income	-	-	62,219	-	62,219
Other Income ^(*)	-	-	-	1,048,278	1,048,278
Provision For Losses on Loans and Other Receivables	738,488	415,514	28,107	354,951	1,537,060
Other Expenses ^(**)	-	-	-	3,610,183	3,610,183
Profit Before Taxes	1,358,324	3,077,949	980,482	(2,946,462)	2,470,293
Provision for taxes	-	-	-	(540,184)	(540,184)
Net Profit/ Loss	1,358,324	3,077,949	980,482	(3,486,646)	1,930,109
SEGMENT ASSETS					
Securities Portfolio	-	-	24,451,698	-	24,451,698
Derivative Financial Assets Held for Trading Purpose	-	-	885,467	-	885,467
Banks and Receivables From Money Markets	-	-	5,234,266	-	5,234,266
Investments in Associates and Subsidiaries	-	-	1,874,609	-	1,874,609
Loans and Receivables	36,849,266	69,990,429	16,940,958	-	123,780,653
Other Assets	-	-	20,379,948	6,340,483	26,720,431
TOTAL ASSETS	36,849,266	69,990,429	69,766,946	6,340,483	182,947,124
SEGMENT LIABILITIES					
Deposits	45,072,299	59,247,352	5,602,883	-	109,922,534
Derivative Financial Liabilities Held for Trading Purpose	-	-	289,589	-	289,589
Interbank Money Market Takings	-	-	12,744,041	-	12,744,041
Funds Borrowed	-	371,535	18,184,462	-	18,555,997
Securities Issued	-	-	10,547,759	-	10,547,759
Other Liabilities	-	-	4,759,494	5,945,955	10,705,449
Provisions and Tax Liabilities	-	-	-	3,414,207	3,414,207
Equity	-	-	-	16,767,548	16,767,548
TOTAL LIABILITIES AND EQUITY	45,072,299	59,618,887	52,128,228	26,127,710	182,947,124

^(*) TL 760,611 amount of TL 1,048,278 shown in other income line consists of rejecting reserves from previous periods, TL 108,405 of income from sale of Bank's assets, TL 50,723 from communications income, TL 1,308 from leasing income and remaining TL 127,231 of other income.

^(**) TL 1,380,439 amount of TL 3,610,183 shown in other expenses line consists of personnel expenses, TL 1,363,500 of other operating expenses, TL 157,738 of depreciation expenses, TL 144,017 of dividend reserves expenses to be given to personnel, TL 115,916 of Savings Deposit Insurance Fund (SDIF) expenses, TL 114,138 of taxes and funds expenses, and the remaining TL 334,435 of other expenses.

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XI. INFORMATION ON RISK MANAGEMENT

The footnotes and related explanations published in the Official Gazette No. 29511 dated October 23, 2015 and prepared in accordance with the “Explanations Communique on Explanations to the Public Regarding Banks Risk Management” entered into force as of March 31, 2016 are given in this section. Since the Bank uses a standardized approach to capital adequacy calculations, there is no disclosure within the scope of the internal rating-based approach.

1. Information on Risk Management and Overview of Risk Weighted Amounts

a) Risk Management Strategy

The bank manages assets and values which are entrusted to it effectively and efficiently in order to increase the constant contribution to customers, shareholders and the society. The bank adopted the forward looking risk based approach in all activities undertaken by creating assets in a high quality and managing obligations well. Generating the systems and processes of risk management and observation of its effectiveness are structured in the responsibility of Board of Directors. Current risk profile of the bank defines the all the internal and external important risks arises from the operating environment, the regulatory or economic environment. These risks defined on the console and non-console level are managed with policies and implementation procedures approved by the Bank’s Board of Directors. To achieve this, Risk Management Department working under the Audit Committee, Inspection Board Department and Internal Control Department are working in coordination with all the departments at the same time.

The improvement of risk culture in parallel with changes in economic conjectures and risk perception is considered as an important factor by the Bank and it aims to ensure the risk awareness and sensitivity in actions to be taken.

Risk management strategy of the bank is basically to avoid legal risks and risks which are unlikely to occur but have a huge impact, to take measures to minimize the risks (to reduce risks) that may arise due to the nature of banking activities, to purchase protection, insurance or techniques such as credit derivatives in order to transfer risks to the third parties (transfer of risk) and the acceptance of risks that are unlikely to occur and have small impact.

Within the scope of the general principles and principles observed by the Bank in the context of risk management, the internal capital adequacy assessment process (ISEDES) is established in parallel with the budgeting process to determine the internal capital targets consistent with the risk profile and the activity environment and the effects of scenario outcomes on Bank projections is evaluated. As a part of risk appetite structure, risk limits are set and over-limit exemptions and early warning levels are observed/followed. The risks may arise from the new products and services and effects of these risks are analyzed. For the quantification of quantifiable risks and the qualitative evaluation of non-quantifiable. Effective and applicable systems which are compatible with the Bank’s product range and fields of activity are developed.

In response to the sudden and unexpected changes in the macroeconomic indicators and Bank’s specific circumstances, the risks the can be exposed to such as income/expenditure effect, capital loss, economic value change , liquidity adequacy are presented by various reports and stress tests conducted daily ,weekly, monthly and annually. These reports and stress tests play an active role in the process of making decisions in the context of risk based approach. Risks subject to stress tests contains all the risks related to bank’s risk group (on the balance sheet – off the balance sheet).These risks are subject to stress test applications independently , and can be subject to stress test applications in an integrated way taking into account interactions between them.

Risks which are subject to stress test applications can be evaluated on portfolio and activities basis, consolidated and non – consolidated basis, at specific and general levels. Specific stress test applications are performed with sensitivity and scenario analysis specific to particular portfolio and activity. General stress test applications are established to ensure that bank’s risks are seen in an integrated perspective. Relations between risks are taken into account by the correlation effect and relations between portfolios are considered with diversification effect. Furthermore in addition to stress tests, reverse stress tests that enable us to evaluate which risk factors and which risk concentrations causes significant loss indicators designed from the outset are conducted.

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b) Risk weighted amounts

	Risk Weighted Amount		Minimum Capital Requirements
	Current Period	Prior Period ^(**)	Current Period
1 Credit Risk (excluding counterparty credit risk) ^(*)	150,079,012	141,396,904	12,006,321
2 Standardized approach	150,079,012	141,396,904	12,006,321
3 Internal rating based approach	-	-	-
4 Counterparty Credit Risk	2,123,897	2,522,407	169,911
5 Standardized approach for counterparty credit risk	2,123,897	2,522,407	169,911
6 Internal model method	-	-	-
7 Equity position in banking book under basic risk weighting or internal rating based	-	-	-
8 Equity investments in funds – look-through approach	-	-	-
9 Equity investments in funds – mandate-based approach	-	-	-
10 Equity investments in funds – 1250% weighted risk approach	-	-	-
11 Settlement Risk	-	-	-
12 Securitization positions in banking accounts	-	-	-
13 IRB ratings-based approach	-	-	-
14 IRB Supervisory formula approach	-	-	-
15 SA/simplified supervisory formula approach	-	-	-
16 Market risk	611,455	536,690	48,916
17 Standardized approach	611,455	536,690	48,916
18 Internal model approaches	-	-	-
19 Operational Risk	12,290,249	12,290,249	983,220
20 Basic Indicator Approach	12,290,249	12,290,249	983,220
21 Standardized approach	-	-	-
22 Advanced measurement approach	-	-	-
23 The amounts below the thresholds for deduction from capital (subject to a 250% risk weight)	207,773	161,660	16,622
24 Floor adjustment	-	-	-
25 Total (1+4+7+8+9+10+11+12+16+19+23+24)	165,312,386	156,907,910	13,224,990

^(*) Except for the amount of the discount threshold under equity.

^(**) Prior period amounts include risk weighted amounts as of September 30, 2016 reporting period, consistent with the related communiqué.

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2. Linkages between Financial Statements and Regulatory Exposures

a) Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories:

	Carrying values of items (according to TAS)					
	Carrying values as reported in published financial statements	Subject to credit risk	Subject to counterparty credit risk	Subject to the securitization	Subject to market risk	Not subject to capital requirements or subject to deduction from capital
Assets						
Cash and balances at central bank	24,365,297	24,365,297	-	-	-	-
Financial assets held for trading	1,611,180	-	1,611,180	-	45,496	-
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
Banks	3,890,322	3,890,322	-	-	-	-
Receivables from money markets	-	-	-	-	-	-
Available for sale financial assets (net)	17,819,057	17,455,016	5,888,625	-	364,041	-
Loans and receivables	147,712,375	147,711,209	-	-	-	1,166
Factoring receivables	-	-	-	-	-	-
Held to maturity investments (net)	8,180,535	8,180,535	5,323,555	-	-	-
Investments in associates (net)	299,478	299,478	-	-	-	-
Investments in subsidiaries (net)	1,797,124	1,797,124	-	-	-	-
Investments in joint ventures (net)	-	-	-	-	-	-
Leasing receivables	-	-	-	-	-	-
Derivative financial assets held for hedges	-	-	-	-	-	-
Tangible assets (net)	1,409,875	1,251,583	-	-	-	158,292
Intangible assets (net)	193,866	-	-	-	-	193,866
Investment properties (net)	-	-	-	-	-	-
Tax assets	83,109	83,109	-	-	-	-
Non-current assets and disposal groups classified as						
held for sale (net)	1,227,867	1,115,725	-	-	-	112,142
Other assets	3,949,820	3,949,820	-	-	-	-
Total assets	212,539,905	210,099,218	12,823,360	-	409,537	465,466
Liabilities						
Deposits	123,838,377	-	-	-	-	123,838,377
Derivative financial liabilities held for trading	1,143,703	-	1,143,703	-	45,295	1,143,703
Loans	24,193,770	-	-	-	-	24,193,770
Debt to money markets	12,895,334	-	12,895,334	-	-	12,895,334
Debt securities in issue	14,707,745	-	-	-	-	-
Funds	3,319	-	-	-	-	3,319
Various debts	5,162,994	-	-	-	-	5,162,994
Other liabilities	2,676,191	-	-	-	-	2,676,191
Factoring debts	-	-	-	-	-	-
Debts from leasing transactions	-	-	-	-	-	-
Derivative financial liabilities held for hedges	-	-	-	-	-	-
Provisions	3,224,092	-	-	-	-	3,224,092
Tax liability	424,456	-	-	-	-	424,456
Liabilities included in disposal groups classified as held						
for sale (net)	-	-	-	-	-	-
Subordinated debts	5,031,213	-	-	-	-	5,031,213
Equity	19,238,711	-	-	-	-	19,238,711
Total liabilities	212,539,905	-	14,039,037	-	45,295	197,832,160

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

	Total	Items subject to credit risk	Items subject to securitization	Items subject to counterparty credit risk	Items subject to market risk
1 Asset carrying value amount under scope of regulatory consolidation	212,074,439	210,099,218	-	12,823,360	409,537
2 Liabilities carrying value amount under regulatory scope of consolidation	14,707,745	-	-	14,039,037	(45,295)
3 Total net amount under regulatory scope of consolidation	197,366,694	210,099,218	-	(1,215,677)	364,242
4 Off-balance sheet amounts	114,291,533	22,195,365	-	2,222,070	-
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 due to prudential filters	-	(3,898,133)	-	-	-
9 Differences due to risk reduction	-	-	-	769,248	-
10 Exposure amounts considered for regulatory	-	228,396,450	-	2,991,318	364,242

c) Explanations of differences between accounting and regulatory exposure amounts

There is no significant difference between the amounts assessed pursuant to TAS and the risk amounts used within the scope of capital adequacy reported on the financial statements.

3. Credit Risk Explanations

a) General Information on Credit Risk

If the counterparty does not partially or completely fulfil its obligations in accordance with contract, the credit risk is exposed. Bank's definition of credit risk contains the credit risk in all products and activities based on the credit definition of law of banking.

In accordance with the articles 51 and 54 of banking law and in compliance with legal legislation in order to restrict the credit risk in the crediting operations; branches, regional directorates, general directorate crediting units, deputy general manager responsible for credits, general manager, credit committee and board of directors determine the credit limits for counterparties within the framework of lending authority limits and provide credits within these limits.

Credit limits are set separately for each individual customer, company, group of companies. When credit limits are set, in accordance with the credit policy, customers whose credit limits are allocated should have a long and successful commercial background, good commercial ethics, high financial structure and morality, are able to use their business subjects as liquid, have positive and balanced commercial activities, experience and expertise, have understanding and structure to attune to economic justifications, have a good reputation, adequate equity, have the ability to create funds after the operation activities and to meet the expenses of placement by values created. Various criterions such as sectors and geographical regions are assessed. Evaluation of customer's financial structure, in addition to normal intelligence studies, is based on balance sheets and income statement provided by companies with credits, account status documents obtained in accordance with relevant legislation and other information and documents.

It is possible to revise the determined credit limits as a result of assessment of general economic developments and the observation of changes in customer's financial information and businesses. Type and the amount of the assurance that is determined according to the situation of companies to be loaned are provided on the customer basis in order for ensure security and liquidity of bank's placement.

Crediting activities are one of the basic and extensive fields of activities. The bank can provide all kind of crediting activities with its experience, competitiveness, variety of product and services. Parallel to this, it has a wide range of organization, regulation (legislation/documentation) and system infrastructure for the marketing, allocation and monitoring process of credit.

While establishing infrastructure, it is also supervised that all activities can be performed on a risk basis, in addition to providing the highest level of efficiency in the processes of the credits.

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Credit management is not the single function within the bank and it is not restricted to the only one unit and responsibility area. Credit management is a process carried out together with different units and employees with different roles, authorities and responsibilities.

Credit facility functions are mainly carried out by the consecration units and in addition to the transactions done by the business units announced by the head of the Credit Management Department, relevant policy, strategy and framework documents are constituted by taking account of the international implementations and domestic regulations in order to ensure the effective and healthy management of the credit risk. The basic principles and principles of the policy, strategy and framework documents and the identification, measurement, monitoring and reporting of risk within the scope of risk management are determined. In the management of the credit risk, it is essential to consider all risk categories that may lead to capital requirements. In this subjected process, allocation units, intelligence units and risk management units are playing an active role.

The Risk Management Department continues its activities to assess, analyze and report on the credit risk in line with the policy document and measurement results and to determine the effect of the Bank on the capital requirement.

Within the results of the studies made in this context, it is possible to establish better portfolios with lower potential asset classes (credit types and/or counterparties) by sharing them with the bank’s top management and the units managing the loan portfolios, trying to be a guide in these matters.

Sectoral, geographical concentration limits and country risk limits have been determined in order to identify the risks to be created by credit concentration and to establish a balanced credit portfolio, these limits are updated considering the Bank’s credit policy and economic changes.

The eventual aim of the Bank is using credit risk inherent management methods in accordance with Basel III and best international implementations. In this context, studies of IRB (Internal Ratings Based Approach) are carried out. Within the scope of IRB studies, politics and procedures are updated as risk-focused. In addition, the work involves the correctness, precision and consistency of the models, which are used by the Bank, and the ratios of them in determining these criteria, measuring the general coherence of the other parts of the models, and basically, the work is continued in terms of qualitative and quantitative validation (verification) of the Bank’s inner credit rating systems.

Credit quality of assets

	Gross carrying values of (according to TAS)		Allowances/ impairments	Net values
	Defaulted exposures	Non-defaulted exposures		
1 Loans	6,413,503	146,619,289	5,320,417	147,712,375
2 Debt Securities	-	26,219,504	247,522	25,971,982
3 Off-balance sheet exposures	165,159	65,401,526	59,816	65,506,869
4 Total	6,578,662	238,240,319	5,627,755	239,191,226

Changes in stock of defaulted loans and debt securities ^(*)

1 Defaulted loans and debt securities at end of the previous reporting period	4,850,213
2 Loans and debt securities that have defaulted since the last reporting period	2,919,386
3 Returned to non-defaulted status	(553,660)
4 Amounts written off	-
5 Other changes	(802,436)
6 Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5) Definitions	6,413,503

^(*) Provisions for non-cash loans that are not indemnified and not converted into cash are not included.

Additional disclosure related to the credit quality of assets:

The Bank classifies loans and other receivables in accordance with the “Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables” and other regulations. When loans that are followed under the groups except Group I mentioned in this regulation are classified as past due items, general provision is calculated for Group II, and special provision is calculated for loans followed under Group III, IV and Group V.

According to the above mentioned “Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables” Minimum provision rates to Loans classified is 20% to loans on Group III, 50% to loans on Group IV and 100% to loans on Group V.

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Restructuring that can be applied for performing or non-performing receivables is done by changing the terms of the loan contract or by partially or completely refinancing the loan due to the financial difficulties that the borrower is facing or is likely to encounter in the payments

Breakdown of receivables in terms of geographic regions, sectors and remaining maturities

Breakdown of loan receivables by geographical area Geographical area	Credit receivables/ risks)
Domestic	139,359,552
European Union Countries	-
OECD Countries (*)	-
Off-Shore Banking Regions	-
USA, Canada	1,756,636
Other	5,502,804
Total	146,618,992

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

Breakdown of loan receivables by sector

Cash Loans	Cash Loans	Impaired Loans	Provisions
Agricultural	1,878,400	116,924	99,522
Farming and raising livestock	1,509,662	106,265	90,495
Forestry	286,476	7,848	6,997
Fishing	82,262	2,811	2,030
Manufacturing	26,254,073	1,112,305	983,726
Mining and Quarrying	1,004,707	41,038	36,879
Production	19,649,526	1,060,170	937,638
Electricity, Gas, Water	5,599,840	11,097	9,209
Construction	16,846,159	599,481	526,093
Services	44,711,065	1,739,620	1,452,901
Wholesale and Retail Trade	18,617,008	1,229,957	1,014,712
Accommodation and Dining	5,361,779	81,173	62,466
Transportation and Telecommunication	10,268,765	229,301	195,486
Financial Institutions	2,959,544	5,635	4,791
Real Estate and Rental Services	2,558,545	9,400	7,794
Professional Services	3,403,072	112,056	103,965
Educational Services	691,346	16,788	13,270
Health and Social Services	851,006	55,310	50,417
Other	56,929,295	2,845,173	2,257,878
Total	146,618,992	6,413,503	5,320,120

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Breakdown by outstanding maturity

	Up to 1 Month	1 – 3 Months	3 – 12 Months	1 – 5 Years	5 Years and Over	Total
Loans	12,575,901	5,268,530	30,613,044	62,734,890	35,426,627	146,618,992

Amounts of provision allocated receivables (According to the definition used by the Bank in accounting) based on geographical area and sector and amounts deducted from the assets with the related provisions

Geographical area	Loan Receivables (Risks)	Provision
Domestic	6,412,988	5,319,644
European Union Countries	-	-
OECD Countries (*)	-	-
Off-Shore Banking Regions	-	-
USA, Canada	65	50
Other	450	426
Total	6,413,503	5,320,120

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

Aging analysis for overdue receivables

	Total
31-60 days overdue	1,171,545
61-90 days overdue	889,662

(*) Loan receivables with overdue loans are taken into consideration.

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

	Changes Made to Extend Payment Plan
Loans restructured from Standard Loans and Other Receivables	1,473,046
Loans restructured from Loans under Follow-up and Other Receivables	1,511,482
Loans restructured from Non-Performing Loans	392,162

b) Credit Risk Mitigation

Qualitative disclosure on credit risk mitigation techniques

Credit risk mitigation techniques in the Bank are evaluated within the scope of the "Policy Document on Credit Risk Management". Within the scope of "Communiqué on Credit Risk Mitigation", simple financial guarantee method is used for financial guarantees. Cash and cash equivalents and guarantees are used to mitigate credit risk.

Policies regarding the valuation of financial collateral and the appraisal of the valuations and policies and procedures for the valuation of real estate established for the collateral of mortgage-backed loans, which are an asset class, have been established. These policies and procedures have been prepared in accordance with the "Communiqué on Credit Risk Mitigation" and cover the minimum requirements for collateral valuation and management.

The Bank receives collaterals such as mortgages, sureties/guarantees and financial collaterals for the loans given.

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Credit risk mitigation techniques

	Exposures unsecured of (according to TAS)	Exposures secured by collateral	Exposures secured by collateral, of which secured amount	Exposures secured by financial guarantees	Financial guarantees, of which secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which secured amount
1 Loans	92,786,791	54,925,584	46,872,614	3,076,521	2,649,313	-	-
2 Debt Securities	25,971,982	-	-	-	-	-	-
3 Total	118,758,773	54,925,584	46,872,614	3,076,521	2,649,313	-	-
4 Of which defaulted	6,413,503	-	-	-	-	-	-

c) Credit risk under standardized approach

Qualitative disclosures on banks' use of external credit ratings under the standardized approach for credit risk

The external rating grades of the counterparties of Fitch Ratings international rating agencies are used in determining the risk weights for the risk classes specified in Article 6 of the Regulation on Measurement and Evaluation of Banks' Capital Adequacy. Fitch Ratings is used as an international rating agency to determine the risk weights of risk classes to be received from central government or central banks and from banks and intermediary institutions.

When an international rating is taken into account for the entire risk category of central government or central banks, the centralized and central banks that are not rated by the Fitch Ratings international rating agency are based on the country risk classification issued by the Organization for Economic Co-operation and Development (OECD).

The following table shows that the rating scale of the credit rating agency corresponds to the credit quality levels reported in the annex of the Regulation on the Measurement and Evaluation of Banks' Capital Adequacy.

Ratings Matched	Credit Quality Rank	Fitch Ratings
Long Term Credit Ratings	1	Between AAA and AA-
	2	Between A+ and A-
	3	Between BBB+ and BBB-
	4	Between BB+ and BB-
	5	Between B+ and B-
	6	CCC+ and below
Short Term Credit Ratings	1	Between F1+ and F1
	2	F2
	3	F3
	4	F3 and below
	5	-
	6	-

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Credit risk exposure and credit risk mitigation effects

Risk classes	Exposures before credit conversion factor and CRM			Exposures post-credit conversion factor and CRM			RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1 Exposures to central governments or central banks	50,736,755	492,584	53,157,599	241,211	13,513,323	25.3.1%		
2 Exposures to regional governments or local authorities	4,596,673	344,708	4,941,381	156,470	2,345,713	49.35%		
3 Exposures to public sector entities	625,954	1,373,402	625,954	667,205	1,288,571	99.65%		
4 Exposures to multilateral development banks	5	-	5	-	-	-		
5 Exposures to international organizations	-	-	-	-	-	-		
6 Exposures to institutions and banks	3,333,183	1,748,404	3,333,184	989,208	1,814,921	41.99%		
7 Exposures to corporates	55,502,287	49,396,629	53,081,444	16,492,054	67,858,666	97.54%		
8 Retail exposures	42,983,144	20,892,607	42,983,144	2,703,720	34,063,507	74.56%		
9 Exposures secured by residential property	20,926,182	703,497	20,926,182	288,457	7,425,124	35.00%		
10 Exposures secured by commercial real estate	22,075,082	1,401,642	22,075,082	657,040	14,085,290	61.96%		
11 Past-due loans	1,093,383	-	1,093,383	-	1,093,383	100.00%		
12 Higher-risk categories by the Agency Board	288,697	-	288,697	-	516,154	178.79%		
13 Exposures in the form of covered bonds	-	-	-	-	-	-		
14 Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-		
15 Exposures in the form of units or shares in collective investment undertakings	6,149,265	-	6,149,265	-	4,157,923	67.62%		
16 Other receivables	2,124,212	-	2,124,212	-	2,124,210	100.00%		
17 Investments in equities	-	-	-	-	-	-		
18 Total	210,434,822	76,353,473	210,434,824	22,195,365	150,286,785	64.60%		

Exposures by asset classes and risk weights

Asset classes/ Risk weight	35% secured by real estate				Total risk Amount (After CCF and CRM)
	0%	10%	20%	35%	
1 Exposures to central governments or central banks	26,372,164	-	-	27,026,646	53,398,810
2 Exposures to regional governments or local authorities	10,108	-	86,015	4,657,020	4,753,143
3 Exposures to public sector entities	4,060	-	660	1,288,439	1,293,159
4 Exposures to multilateral development banks	5	-	-	-	5
5 Exposures to international organizations	-	-	-	-	-
6 Exposures to institutions	1,793	-	1,195,014	3,099,334	4,322,392
7 Exposures to corporates	399,141	-	394,561	2,000,084	69,573,498
8 Retail exposures	-	-	-	45,686,864	45,686,864
9 Exposures secured by residential property	-	-	-	21,214,639	21,214,639
10 Exposures secured by commercial real estate	-	-	-	17,293,665	22,732,122
11 Past-due loans	-	-	-	1,093,383	1,093,383
12 Higher-risk categories by the Agency Board	-	-	-	-	-
13 Exposures in the form of covered bonds	-	-	-	205,588	288,697
14 Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-
15 Exposures in the form of units or shares in collective investment undertakings	-	-	-	-	-
16 Investments in equities	1,797,559	-	-	2,124,212	2,124,212
17 Other assets	242,229	-	-	4,109,477	6,149,265
18 Total	28,584,830	1,918,479	21,214,639	54,076,749	83,109

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4. Counterparty Credit Risk Explanations

Qualitative disclosure on counterparty credit risk

The counterparty credit risk that may be incurred by the counterparty that is a party to a transaction that is liable to both parties due to default before the final payment in the cash flow is managed within the Bank's "Counterparty Credit Risk Management Policy Document". The counterparty credit risk amounts calculated using the "Fair Value Valuation Method" within the scope of the "Communiqué on Credit Risk Mitigation" are calculated on the basis of the portfolios in the trading accounts and banking accounts, and these amounts are used within the scope of capital adequacy calculations. Various scenarios and stress tests are applied to the counterparty credit risk.

Processes related to counterparty credit risk management activities have been written down. In the direction of the policy document and measurement results, activities of evaluating, analyzing and reporting the counterparty credit risk and determining the effect of the capital requirement of the bank are being continued.

In addition to the measurement activities, sensitivity and scenario analysis are used to evaluate the resistance of the Bank to the changes that may be experienced in risk factors against economic developments. Monthly stress test reports include analyzes of counterparty credit risk. The distributions of positions subject to counterparty credit risk calculation, the ratings of these counterparties from independent rating agencies and transaction concentration are regularly monitored by the Risk Management Department. The Risk Management Department monitors the level of concentration in terms of the counterparty of derivative transactions. The collateral process of derivative transactions, repo, marketable securities transactions etc. with foreign banks is covered with ISDA and ISMA contracts and the collateral agreements regarding the mutual rights and obligations for the transactions between the two parties.

Treasury transactions are valued on a daily basis over the market prices taking into account these contracts and rules from the beginning to the closing of the transaction and the difference between the favorable and unfavorable values of the transactions against the market prices cause the settlement call movements by agreeing with the related banks. In compliance with the limitations of the bank which exposed to counterparty risk, the Bank follows the limit follow up system. Limits, which are defined as loan limits and compromise limits in the system, are monitored instantaneously.

The Bank has fulfilled its statutory obligations under EMIR (European Markets Infrastructure Regulation). The clearing member of the bank has been transmitted to the "counterparty" via a bank and transactions that provide conditions within the existing transactions in the portfolio have started to be cleared under the conditions of EMIR.

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Counterparty credit risk (CCR) approach analysis

	Replacement cost	Potential future exposure	EEPE (Effective Expected Positive Exposure)	Alpha used for Computing regulatory exposure at default	Exposure at default post CRM	RWA
1 Standardized Approach - CCR (for derivatives)	1,598,350	623,720			2,222,070	1,094,707
2 Internal Model Method (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)			-	-	-	-
3 Simple Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					769,248	183,239
4 Comprehensive Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					-	-
5 Value-at-Risk (VaR) for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions					-	-
6 Total						1,277,946

Capital requirement for credit valuation adjustment (CVA)

	EAD post CRM	RWA
Total portfolios subject to the Advanced CVA capital obligation	-	-
1 (i) VaR component (including the 3x multiplier)		-
2 (ii) Stressed VaR component (including the 3x multiplier)		-
3 All portfolios subject to the Standardized CVA capital obligation	2,222,070	845,628
4 Total subject to the CVA capital obligation	2,222,070	845,628

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Standardized approach CCR exposures by risk class and risk weights

Risk Classes / Risk Weights	0%	10%	20%	35% Secured by real estate	50%	75%	100%	150%	Others	Total credit exposure (*)
Claims from central governments and central banks	3,885,875	-	-	-	-	-	-	-	-	-
Claims from regional and local governments	1,216	-	38	-	-	-	-	-	-	8
Claims from administration and non-commercial entity	16,486	-	-	-	-	-	1,339	-	-	1,339
Claims from multilateral development banks	-	-	-	-	-	-	-	-	-	-
Claims from international organizations	-	-	-	-	-	-	-	-	-	-
Claims from institutions	6,537,261	-	1,635,775	-	3,110,686	-	-	-	-	1,882,498
Corporates	1,689	-	-	-	-	-	211,962	-	-	211,962
Retail portfolios	406	-	-	-	-	37,453	-	-	-	28,089
Claims on landed real estate	-	-	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	-	-	-	-
Claims which are determined as high risk by the board of BRSA	-	-	-	-	-	-	-	-	-	-
Mortgage securities	-	-	-	-	-	-	-	-	-	-
Securitization positions	-	-	-	-	-	-	-	-	-	-
Claims from corporates, banks and financial intermediaries which have short term credit rating	-	-	-	-	-	-	-	-	-	-
Investments which are qualified as collective investment institutions	-	-	-	-	-	-	-	-	-	-
Stock investment	-	-	-	-	-	-	-	-	-	-
Other claims	-	-	-	-	-	-	-	-	-	-
Other assets (**)	-	-	-	-	-	-	-	-	-	-
Total	10,442,933	-	1,635,813	-	3,110,686	37,453	213,301	-	-	2,123,896

(*) Total credit risk: The amount related to capital adequacy calculation after counterparty credit risk measurement techniques are applied.

(**) Other assets: The counterparty reported in the counterparty risks includes amounts not included in the credit risk.

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TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

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Collaterals for counterparty credit risk

	Collateral for derivative transactions				Collateral for other transactions	
	Fair value of collateral received		Fair value of collateral given		Fair value of collateral received	Fair value of collateral given
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash-domestic currency	-	-	-	-	-	-
Cash-foreign currency	-	-	-	-	5,462,076	-
Domestic sovereign debts	-	-	-	-	-	-
Other sovereign debts	-	-	-	-	-	-
Government agency debts	-	-	-	-	-	-
Corporate debts	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	-	-	-	5,462,076	-

Loan Derivatives

	Protection bought	Protection sold
Nominals		
Single-name credit default swaps	165,000	246,050
Index credit default swaps	-	-
Total return swaps	-	-
Credit options	-	-
Other credit derivatives	-	-
Total Nominals	165,000	246,050
Fair Values		
Positive fair values (asset)	11,131	-
Negative fair values (liability)	-	24,801

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Central counterparty risks

	Exposure at default (post-CRM)	RWA
1 Exposure to Qualified Central Counterparties (QCCPs) (total)		323
2 Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	16,124	323
3 (i) OTC Derivatives	16,124	323
4 (ii) Exchange-traded Derivatives	-	-
5 (iii) Securities financing transactions	-	-
6 (iv) Netting sets where cross-product netting has been approved	-	-
7 Segregated initial margin	-	-
8 Non-segregated initial margin	-	-
9 Pre-funded default fund contributions	-	-
10 Unfunded default fund contributions	-	-
11 Exposures to non-QCCPs (total)		-
12 Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which)	-	-
13 (i) OTC Derivatives	-	-
14 (ii) Exchange-traded Derivatives	-	-
15 (iii) Securities financing transactions	-	-
16 (iv) Netting sets where cross-product netting has been approved	-	-
17 Segregated initial margin	-	-
18 Non-segregated initial margin	-	-
19 Pre-funded default fund contributions	-	-
20 Unfunded default fund contributions	-	-

5. Explanations on Securitizations

None.

6. Explanations on Market Risk

Qualitative disclosure requirements related to market risk

As a result of fluctuations in the financial market, the Bank is exposed to market risk, depending on the exchange rates, interest rates and changes in the market prices of the shares.

In order to evaluate the market risk, liquidity risk, interest risk or condensation risk that Bank is facing or could face, with the policies and limitations that are lineup for to control the risks there is "Market Risk Management Directorate" and it carries out the market risk management. In this extent, this Directorate design the risk measurement models, measurement results and getting regular reports from the other analyzes and give notices from the report of the analyzes to the necessary departments.

Market risks get measured and monitored with the internal models that are parallel to international applications. This market risk management process continues by including buying and selling balance sheet both internally and externally, meeting the legal necessities, being able to analyze the all risks that can be caused from buying-selling activities and by identifying the market risk that can be caused by all portfolios.

Risk management of the Bank is important in order to be understood by the all management stages and be able to get an opportunity to manage risk. In addition to that, it is similarly important to handle the loss that might cause when a risk occurs. Therefore measurements must cover the evaluations for the fund needs near the size of the risk and evaluations of the conditions that caused it. By using the methods of scenario and stress test, it is possible to see risk levels and needs of funds that can be generated from different circumstances and risky conditions.

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In addition to the results of market risk measurements using standard method, which calculated in monthly periods, other daily risk dependencies can be also calculated by using internal model. Only by using the 99% of trust range, other measurements that are subject to risk can be daily calculated by using the historical stimulation and Monte Carlo stimulation. There are daily back testings occurred in order to examine the trustworthiness and performance of the model results. Besides, there are also scenario analyzes and stress tests are happening in order to backing up the standard method and internal models. In addition to this, in order to limit the market risks, daily limit implementation and limit implementation in accordance with the early warning system can be monitored on daily basis.

Market Risk- Standardized approach

	RWA
Outright products	
1 Interest rate risk (general and specific)	261,767
2 Stock risk (general and specific)	400
3 Foreign exchange risk	348,988
4 Commodity risk	-
Options	
5 Simplified approach	-
6 Delta-plus method	300
7 Scenario approach	-
8 Securitization	-
9 Total	611,455

7. Explanations on Operational Risk

The “Basic Indicator Method” that is mentioned in “Regulation on Measurement and Assessment of Capital Adequacy of Banks” Communiqué published in the Official Gazette no. 29511 on 23 October 2015 is used in the operational risk calculation of the Bank. Under the scope of the calculation, the value found by multiplying the average of the fifteen percent of the year-end gross income amounts realized by the Bank over the last three years by twelve and half is considered as the operational risk.

Annual gross revenue is calculated by deducting profit/loss derived from the sale of available-for-sale assets and held-to-maturity securities, extraordinary income and indemnity insurance gains from the total of net interest income and non-interest income.

Current Period	31 December 2014	31 December 2015	31 December 2016	Total/Positive GI year number	Ratio (%)	Total
Gross income	6,159,500	6,232,883	7,272,016	6,554,800	15	983,220
Amount subject to Operational Risk (Amount*12,5)						12,290,249

8. Interest Rate Risk Related to Banking Book

Bank has evaluated to Interest rate risk arising from on-balance sheet and off-balance sheet positions in banking accounts in accordance with “Regulation on Measurement and Evaluation of Interest Rate Risk in Banking Accounts with Standard Shock Method” performs and reports on these measurement based results and analyzes on weekly and monthly periods. In addition, in the Asset-Liability Management Committee meetings, the sensitivity of the active, passive and off-balance sheet items to the interest rate is evaluated taking into consideration the market developments.

In line with the management of interest rate risk arising from banking accounts; Scenario analysis, gap analysis to date of re-pricing, behavioral analysis, core demand deposit level, duration and maturity mismatch metrics, option risk, base risk and yield curve risk components are followed together.

Currency	Applied Shock (+/- x basis points)	Gains/Losses	Gains / Shareholders' Equity Losses/ Shareholders' Equity
1 TRY	500/(400)	(2,210,943)/2,186,994	(9.45%)/9.34%
2 EURO	200/(200)	388,955/1,240	1.66%/0.01%
3 USD	200/(200)	603,486/(601,248)	2.58%/(2.57%)
Total (for negative shocks)	-	1,586,986	6.78%
Total (for positive shocks)	-	(1,218,502)	(5.21%)

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SECTION FIVE DISCLOSURE AND FOOTNOTES ON UNCONSOLIDATED FINANCIAL STATEMENTS

I. INFORMATION AND DISCLOSURES RELATED TO ASSETS

1. Cash and balances with Central Bank

	Current Period		Prior Period	
	TL	FC	TL	FC
Cash	1,281,047	504,949	1,157,743	277,106
CBRT ^(*)	2,892,154	19,433,355	778,712	19,055,634
Other	235,929	17,863	197,525	18,069
Total	4,409,130	19,956,167	2,133,980	19,350,809

^(*) TL 14,977,543 (December 31, 2015: TL 18,422,690) of the foreign currency deposit at Central Bank of The Republic of Turkey consists of foreign currency reserve deposits.

In accordance with "Announcement on Reserve Deposits" of CBRT numbered 2013/15, all banks operating in Turkey shall provide a reserve rate ranging from 4% to 10.5% (December 31, 2015: ranging from 5% to 11.5%). For foreign currency liabilities, all banks shall provide a reserve rate ranging from 4.5% to 24.5% in US Dollar or Euro (December 31, 2015: ranging from 5% to 25%).

According to 2014-72 numbered and October 21, 2014 dated announcement of Central Bank of the Republic of Turkey, interest has been started to be paid for Turkish Lira reserve deposit beginning from November 2014.

According to 2015-35 numbered and May 2, 2015 dated announcement of Central Bank of Republic of Turkey, interest has started to be paid for US Dollar denominated reserve deposits beginning from May 2015.

Balances with the Central Bank of The Republic of Turkey

	Current Period		Prior Period	
	TL	FC	TL	FC
Unrestricted Demand Deposits	2,861,879	2,647,870	760,146	632,944
Unrestricted Time Deposits	-	-	-	-
Restricted Time Deposits	-	1,807,942	105	-
Reserve Deposits	30,275	14,977,543	18,461	18,422,690
Total	2,892,154	19,433,355	778,712	19,055,634

2. Further information on financial assets at fair value through profit/loss

Financial assets at fair value through profit/loss given as collateral or blocked

None.

Trading securities subject to repurchase agreements

None.

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Positive differences on derivative financial assets held for trading purpose

	Current Period		Prior Period	
	TL	FC	TL	FC
Forward Transactions	18,625	4,254	2,087	624
Swap Transactions	1,459,135	128,530	737,149	145,264
Futures	-	-	-	-
Options	107	328	103	240
Other	-	-	-	-
Total	1,477,867	133,112	739,339	146,128

3. Information on banks

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks				
Domestic	22,355	155,746	370,201	269,123
Foreign	15,215	3,697,006	-	4,594,942
Foreign Head Offices and Branches	-	-	-	-
Total	37,570	3,852,752	370,201	4,864,065

Due from foreign banks

	Unrestricted Balance		Restricted Balances ^(**)	
	Current Period	Prior Period	Current Period	Prior Period
EU Countries	343,932	133,356	-	-
USA, Canada	2,746,877	3,674,762	308,742	77,170
OECD Countries ^(*)	89,546	590,452	-	-
Off-shore Banking Regions	90	88	-	-
Others	223,034	119,114	-	-
Total	3,403,479	4,517,772	308,742	77,170

^(*) OECD countries except from EU countries, USA, Canada.

^(**) Restricted balances that occur from securitization loans and other common banking activities

4. Information on available-for-sale financial assets

Available-for-sale financial assets given as collateral or blocked

	Current Period		Prior Period	
	TL	FC	TL	FC
Share Certificates	-	-	-	-
Bonds, Treasury Bills and Similar Marketable Securities	1,882,699	2,051,546	1,571,646	1,516,438
Other	-	-	-	-
Total	1,882,699	2,051,546	1,571,646	1,516,438

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EXPLANATIONS AND NOTES RELATED TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Available-for-sale financial assets subject to repurchase agreements

	Current Period		Prior Period	
	TL	FC	TL	FC
Government Bonds	3,775,304	-	3,621,980	-
Treasury Bills	-	-	-	-
Other Debt Securities	-	2,113,320	-	2,647,350
Bonds Issued or Guaranteed by Banks	-	-	-	-
Asset Backed Securities	-	-	-	-
Total	3,775,304	2,113,320	3,621,980	2,647,350

Information on available-for-sale financial assets

	Current Period	Prior Period
Debt securities	18,032,192	16,870,435
Quoted on a Stock Exchange	18,032,192	16,870,435
Unquoted	-	-
Equity securities	27,610	79,253
Quoted on a Stock Exchange	-	-
Unquoted	27,610	79,253
Provision for impairment on available-for-sale financial assets (-)	240,745	175,719
Total	17,819,057	16,773,969

5. Information on loans

Information on all types of loans and advances given to shareholders and employees of the Bank

	Current Period		Prior Period	
	Cash	Non-Cash	Cash	Non-Cash
Direct loans provided to the shareholders	-	31,720	-	28,550
Legal entities	-	31,720	-	28,550
Real persons	-	-	-	-
Indirect loans provided to the shareholders	-	-	-	-
Loans provided to the employees	117,056	-	102,886	-
Total	117,056	31,720	102,886	28,550

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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Information about loans classified in the first and second group and other receivables and loans that have been restructured or rescheduled

Cash Loan	Standard loans and other receivables			Loans and other receivables under close monitoring		
	Loans and other receivables	Agreement conditions modified		Loans and other receivables	Agreement conditions modified	
		Payment plan extensions	Other		Payment plan extensions	Other
Non-specialized loans	138,214,710	1,473,046	-	5,419,037	1,511,482	-
Loans given to enterprises	41,168,166	807,393	-	1,711,000	1,109,638	-
Export loans	5,260,079	-	-	287,483	49,334	-
Import loans	-	-	-	-	-	-
Loans given to financial sector	3,032,433	-	-	4,875	-	-
Consumer loans	34,552,670	273,354	-	1,511,270	214,216	-
Credit cards	5,576,319	-	-	303,582	94,251	-
Other	48,625,043	392,299	-	1,600,827	44,043	-
Specialized lending	717	-	-	-	-	-
Other receivables	-	-	-	-	-	-
Total	138,215,427	1,473,046	-	5,419,037	1,511,482	-

Information related to the changes in the payment plans of loans and other receivables:

Number of modifications to extend payment plans	Standard Loans and Other Receivables ^(*)	Loans and other receivables under close monitoring ^(*)
	Extended for 1 or 2 times	1,473,046
Extended for 3, 4 or 5 times	-	-
Extended for more than 5 times	-	-

Extended period of time	Standard Loans and Other Receivables ^(*)	Loans and other receivables under close monitoring ^(*)
	0-6 Months	6,768
6 - 12 Months	9,781	12,283
1-2 Years	44,284	74,260
2-5 Years	1,185,501	991,589
5 Years and Over	226,712	89,915

^(*) The a and b paragraph of the 4th article of the 5th paragraph is the loan balances within in the scope of the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette no 27947 dated May 28, 2011.

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Maturity analysis of cash loans

Cash loans	Performing Loans and Other Receivables		Loans under Follow-Up and Other Receivables	
	Loans and Other Receivables	Restructured or Rescheduled Loans and Other Receivables	Loans and Other Receivables	Restructured or Rescheduled Loans and Other Receivables
Short-term Loans and Other Receivables	37,340,596	8,627	2,148,865	216,717
Loans	37,340,596	8,627	2,148,865	216,717
Specialization loans	-	-	-	-
Other Receivables	-	-	-	-
Medium, Long-term Loans and Other Receivables	100,874,831	1,464,419	3,270,172	1,294,765
Loans	100,874,114	1,464,419	3,270,172	1,294,765
Specialization loans	717	-	-	-
Other Receivables	-	-	-	-

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Consumer loans, retail credit cards, personnel loans and personnel credit cards

	Short-Term	Medium and Long-Term	Total
Consumer Loans – TL	435,289	33,910,437	34,345,726
Housing Loans	9,769	16,973,350	16,983,119
Automobile Loans	4,568	407,802	412,370
General Purpose Loans	420,952	16,529,285	16,950,237
Other	-	-	-
Consumer Loans – FC indexed	-	-	-
Housing Loans	-	-	-
Automobile Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Consumer Loans – FC	-	-	-
Housing Loans	-	-	-
Automobile Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Retail Credit Cards – TL	4,309,521	98,976	4,408,497
With Installment	1,939,141	90,057	2,029,198
Without Installment	2,370,380	8,919	2,379,299
Retail Credit Cards – FC	11,814	-	11,814
With Installment	-	-	-
Without Installment	11,814	-	11,814
Personnel Loans – TL	3,607	48,173	51,780
Housing Loan	-	-	-
Automobile Loans	-	-	-
General Purpose Loans	3,607	48,173	51,780
Other	-	-	-
Personnel Loans – FC indexed	-	-	-
Housing Loans	-	-	-
Automobile Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Personnel Loans – FC	-	-	-
Housing Loans	-	-	-
Automobile Loans	-	-	-
General Purpose Loans	-	-	-
Other	-	-	-
Personnel Credit Cards – TL	64,461	459	64,920
With Installment	25,745	430	26,175
Without Installment	38,716	29	38,745
Personnel Credit Cards – FC	356	-	356
With Installment	-	-	-
Without Installment	356	-	356
Overdraft Checking Accounts – TL (Real persons)	2,153,837	-	2,153,837
Overdraft Checking Accounts – FC (Real persons)	167	-	167
Total	6,979,052	34,058,045	41,037,097

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Installment based commercial loans and corporate credit cards

	Short-Term	Medium and Long-Term	Total
Installment-based Commercial Loans-TL	1,108,714	25,693,806	26,802,520
Real Estate Loans	2,604	921,104	923,708
Automobile Loans	72,188	1,545,597	1,617,785
General Purpose Loans	1,033,922	23,227,105	24,261,027
Other	-	-	-
Installment-based Commercial Loans-FC indexed	28,251	1,448,225	1,476,476
Real Estate Loans	-	-	-
Automobile Loans	-	23,316	23,316
General Purpose Loans	28,251	1,424,909	1,453,160
Other	-	-	-
Installment-based Commercial Loans-FC	5,368	6,981,560	6,986,928
Real Estate Loans	-	-	-
Automobile Loans	-	-	-
General Purpose Loans	5,368	6,981,560	6,986,928
Other	-	-	-
Corporate Credit Cards-TL	1,487,374	292	1,487,666
With Installment	388,896	292	389,188
Without Installment	1,098,478	-	1,098,478
Corporate Credit Cards-FC	899	-	899
With Installment	-	-	-
Without Installment	899	-	899
Overdraft Checking Accounts-TL (Corporate)	1,041,146	-	1,041,146
Overdraft Checking Accounts-FC (Corporate)	-	-	-
Total	3,671,752	34,123,883	37,795,635

Allocation of loan customers

	Current Period	Prior Period
Public Sector	2,526,793	962,508
Private Sector	144,092,199	122,011,970
Total	146,618,992	122,974,478

Allocation of domestic and overseas loans

	Current Period	Prior Period
Domestic Loans	146,192,697	122,622,462
Foreign Loans	426,295	352,016
Total	146,618,992	122,974,478

Loans to associates and subsidiaries

	Current Period	Prior Period
Direct Loans Provided to the Subsidiaries and Associates	294,757	145,876
Indirect Loans Provided to the Subsidiaries and Associates	-	-
Total	294,757	145,876

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Specific provisions for loans

	Current Period	Prior Period
Loans and Receivables with Limited Collectability	384,497	96,407
Loans and Receivables with Doubtful Collectability	551,246	386,298
Uncollectible Loans and Receivables	4,384,377	3,561,333
Total	5,320,120	4,044,038

Information on non-performing loans (Net)

Information on non-performing loans and other receivables restructured or rescheduled

	Group III Loans and receivables with limited collectability	Group IV Loans and receivables with doubtful collectability	Group V Uncollectible loans and receivables
Current period	137,005	176,551	78,606
(Gross amounts before the specific reserves)	-	-	-
Loans and other receivables which are restructured	-	-	-
Rescheduled loans and other receivables	137,005	176,551	78,606
Prior period	51,611	88,881	59,591
(Gross amounts before the specific reserves)	-	-	-
Loans and other receivables which are restructured	-	-	-
Rescheduled loans and other receivables	51,611	88,881	59,591

Movements in non-performing loan groups

	Group III Loans and receivables with limited collectability	Group IV Loans and receivables with doubtful collectability	Group V Uncollectible loans and receivables
Balance at the beginning of the period	482,035	772,154	3,596,024
Additions (+)	2,845,119	19,296	54,971
Transfers from other categories of loans under follow-up (+)	-	2,100,561	1,473,554
Transfers to other categories of loans under follow-up (-) ^(*)	2,105,931	1,515,665	151,752
Collections (-)	294,113	274,330	588,420
Write-offs (-)	-	-	-
<i>Corporate and commercial loans</i>	-	-	-
<i>Retail loans</i>	-	-	-
<i>Credit cards</i>	-	-	-
<i>Other</i>	-	-	-
Balance at the end of the period	927,110	1,102,016	4,384,377
Specific provision (-) ^(**)	384,497	551,246	4,384,377
Net balance	542,613	550,770	-

^(*) Loans that are transferred from restructured loans to non-performing loans and from non-performing loans to restructured loans are presented in the Transfers from and to other categories of loans under follow-up lines.

^(**) For the loans amounting to TL 248,844 in the third group, provision amounting to 199,075 TL is provided instead of 20% which is the minimum rate stated in the related regulation and 100% provision is provided.

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Uncollectible loans and receivables are collected by liquidation of collaterals and legal follow-up.

Information on non-performing loans and other receivables in foreign currencies

	Group III	Group IV	Group V
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Current Period			
Balance at the end of the period	57,993	12,646	223,454
Specific provision (-)	50,675	6,323	223,454
Net balance on balance sheet	7,318	6,323	-
Prior Period			
Balance at the end of the period	15,261	88,082	198,835
Specific provision (-)	3,052	44,041	198,835
Net balance on balance sheet	12,209	44,041	-

Non-performing foreign currency denominated loans are followed in TL accounts.

Loan customer concentration of gross and net amounts of non-performing loans

	Group III	Group IV	Group V
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Current Period (Net)			
Consumer and Commercial Loans (Gross)	926,977	1,092,516	4,292,536
Specific Provision (-)	384,470	546,496	4,292,536
Consumer and Commercial Loans (Net)	542,507	546,020	-
Banks (Gross)	-	-	1,551
Specific Provision (-)	-	-	1,551
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	133	9,500	90,290
Specific Provision (-)	27	4,750	90,290
Other Loans and Receivables (Net)	106	4,750	-
Prior Period (Net)	385,628	385,856	34,691
Consumer and Commercial Loans (Gross)	475,614	762,956	3,523,032
Specific Provision (-)	95,123	381,699	3,488,341
Consumer and Commercial Loans (Net)	380,491	381,257	34,691
Banks (Gross)	-	-	1,551
Specific Provision (-)	-	-	1,551
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	6,421	9,198	71,441
Specific Provision (-)	1,284	4,599	71,441
Other Loans and Receivables (Net)	5,137	4,599	-

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6. Information on held-to-maturity investments

Held-to-maturity debt securities issued by the governments

	Current Period		Prior Period	
	TL	FC	TL	FC
Government Bonds	8,039,914	-	7,546,748	-
Treasury Bills	-	-	-	-
Other Securities Issued by the Governments	-	-	-	-
Total	8,039,914	-	7,546,748	-

Information on held-to-maturity investment securities

	Current Period	Prior Period
Debt Securities	8,187,293	7,683,950
Quoted at Stock Exchanges	8,046,672	7,552,969
Unquoted at Stock Exchanges	140,621	130,981
Impairment Losses (-)	6,758	6,221
Total	8,180,535	7,677,729

The movement table of the held-to-maturity investments

	Current Period	Prior Period
Balances at the beginning of the period	7,677,729	6,854,593
Foreign currency differences on monetary assets	7,371	44,702
Purchases during the period	1,873,688	1,610,704
Transfers to available for sale portfolio	-	-
Disposals through sales/redemptions	(1,673,758)	(1,129,187)
Change in Impairment losses	(537)	(366)
Change in amortized costs of the securities ⁽¹⁾	296,042	297,283
Balances at the end of the period	8,180,535	7,677,729

⁽¹⁾ Changes in amortized costs of the marketable securities also include rediscount differences in marketable securities.

Information on held-to-maturity investments

Current Period	Cost		Carrying Value	
	TL	FC	TL	FC
Collateralized/blocked investment securities	556,248	140,600	576,573	140,621
Investments subject to repurchase agreements	4,680,338	-	5,323,556	-
Held for structural position	-	-	-	-
Receivable from security borrowing markets	-	-	-	-
Collateral for security borrowing markets	-	-	-	-
Other ⁽¹⁾	1,821,464	-	2,139,785	-
Total	7,058,050	140,600	8,039,914	140,621

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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Prior Period	Cost		Carrying Value	
	TL	FC	TL	FC
Collateralized/blocked investment securities	495,970	130,950	527,655	130,981
Investments subject to repurchase agreements	5,428,798	-	6,050,350	-
Held for structural position	-	-	-	-
Receivable from security borrowing markets	-	-	-	-
Collateral for security borrowing markets	-	-	-	-
Other ⁽¹⁾	935,631	-	968,743	-
Total	6,860,399	130,950	7,546,748	130,981

⁽¹⁾ The securities held as free that are not subject to collateral/blockage or other transactions are presented in the "Other" line.

7. Information on investments in associates

Information on investments in associates

Associate	Address (City/ Country)	Bank's Share - If Different, Voting Rights (%)	Bank's Risk Group Share (%)
1 Kibris Vakıflar Bankası Ltd. ⁽¹⁾	Nicosia/ NCTR	15.00	15.00
2 Türkiye Sınai Kalkınma Bankası A.Ş.	Istanbul/ Turkey	8.38	8.38
3 Roketsan Roket Sanayi ve Ticaret A.Ş. ⁽¹⁾	Ankara/ Turkey	9.93	9.93
4 Bankalararası Kart Merkezi A.Ş.	Istanbul/ Turkey	9.70	9.70
5 KKB Kredi Kayıt Bürosu A.Ş. ⁽¹⁾	Istanbul/ Turkey	9.09	9.09
6 Güçbirliği Holding A.Ş.	Izmir/ Turkey	0.07	0.07
7 İzmir Enternasyonel Otelcilik A.Ş.	Istanbul/ Turkey	5.00	5.00
8 İstanbul Takas ve Saklama Bankası A.Ş. ⁽¹⁾	Istanbul/ Turkey	4.37	4.37
9 Kredi Garanti Fonu A.Ş. ⁽¹⁾	Ankara/ Turkey	1.69	1.69
10 Tasfiye Halinde World Vakıf UBB Ltd.	Nicosia/ NCTR	82.00	85.33

	Total Assets	Equity Tangible Assets	Interest Income	Income on Securities Portfolio	Current Period Profit/Loss	Prior Period Profit/Loss	Company's Fair Value	
1	857,279	85,887	6,521	51,689	2,679	3,640	5,285	-
2	24,875,486	3,143,053	793,595	1,056,021	357,490	443,431	407,231	2,897,829
3	3,378,510	905,733	559,578	10,028	-	128,591	(50,090)	-
4	80,262	39,897	50,021	1,068	-	10,403	3,869	-
5	185,448	129,647	135,578	2,817	-	16,458	26,782	-
6	141,180	(35,523)	87,993	623	-	(3,360)	(17,521)	-
7	102,529	(30,230)	87,135	7	-	(30,601)	(18,136)	-
8	7,494,521	994,440	103,049	216,309	5,881	162,178	132,453	-
9	324,489	298,991	7,563	12,390	-	17,738	19,899	-
10	1,631	(104,975)	-	13,833	-	(8,988)	(7,452)	-

⁽¹⁾ The financial statement information provided for these associates is taken from the financial statements dated September 30, 2016.

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Movement table of investments in associates

	Current Period	Prior Period
Balance at the beginning of the period	270,290	305,469
Movements during the period	29,188	(35,179)
Transfers	-	-
Acquisitions and capital increases	-	-
Bonus shares received	29,632	21,453
Income/loss from investments under equity accounting	-	-
Sales and liquidations	-	-
Fair value changes	(444)	(56,632)
Impairment losses	-	-
Balance at the end of the period	299,478	270,290
Capital commitments	-	-
Share percentage at the end of the period (%)	-	-

In the current period, subsequent to the approval of the decision to increase the paid-in capital of Kıbrıs Vakıflar Bankası LTD. from TL 40,000 to TL 70,000 in the Extraordinary General Meeting of the Company dated May 12, 2016. The share of the Bank amounting to TL 4,500 is presented in the movement table of investments in associates as bonus shares received.

In the current period, subsequent to the approval of the decision to increase the paid-in capital of Türkiye Sınai Kalkınma Bankası A.Ş. from TL 1,750,000 to TL 2,050,000 in the Ordinary Meeting of General Assembly of the Company dated March 24, 2016, the share of the Bank amounting to TL 25,132 is presented in the movement table of investments in associates as bonus shares received.

In the prior period, subsequent to the approval of the decision to increase the paid-in capital of Türkiye Sınai Kalkınma Bankası A.Ş. from TL 1,500,000 to TL 1,750,000 in the Ordinary Meeting of General Assembly of the Company dated March 26, 2015, the share of the Bank amounting to TL 20,944 is presented in the movement table of investments in associates as bonus shares received.

In the prior period, subsequent to the approval of the decision of the capital of Kredi Garanti Fonu A.Ş. in the Ordinary Meeting of General Assembly of the Company dated March 31, 2015, an associate of the Bank, has been increased from TL 240,000 to TL 278,439, TL 29,000 is paid from company's own resources and TL 9,439 is paid cash by two new shareholders and registered to commercial register on April 10, 2015. After the capital increase, Bank's current nominal share has been increased from TL 4,211 to TL 4,719 by a bonus increase of TL 509 and Bank's share percentage will be decreased from 1.75% to 1.69% after the involvement of two shareholders as at April 10, 2015. The share of the Bank amounting to TL 509 is presented as bonus shares received in the movement table of investments in associates.

The title of World Vakıf Off Shore Banking Ltd, a subsidiary of the Bank, was changed as World Vakıf UBB. Ltd. on February 4, 2009. Pursuant to the March 4, 2010 dated and 764 numbered decision of Board of Directors of Central Bank of Turkish Republic of Northern Cyprus, the official authorization of World Vakıf UBB Ltd., operating in NCTR, is abrogated due to incompliance with the 7th and 9th articles of 41/2008 numbered Law of International Banking Units. According to May 24, 2010 dated decision of the Nicosia Local Court, World Vakıf UBB Ltd. will be liquidated and NCTR Company Registrar is appointed to carry out liquidation process. In year 2010, due to loss of control over Company, World Vakıf UBB Ltd. has been reclassified as "Investments in associates". The liquidation process of World Vakıf UBB Ltd, an associate of the Bank, has been carried out by NCTR Collecting and Liquidation Office. The application of the company for cancellation of the liquidation has been rejected and the decision of liquidation has been agreed on August 27, 2013. Thus, the company's title has been changed as "World Vakıf UBB Ltd in Liquidation".

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Sectoral distribution of investments in financial associates

	Current Period	Prior Period
Banks	283,359	254,171
Insurance companies	-	-
Factoring companies	-	-
Leasing companies	-	-
Finance companies	-	-
Other associates	4,719	4,719
Total	288,078	258,890

Quoted associates

	Current Period	Prior Period
Quoted at domestic stock exchanges	242,838	218,150
Quoted at international stock exchanges	-	-
Total	242,838	218,150

Investments in associates disposed during the period

There are no associates disposed in the current period.

Investments in associates acquired during the period

There are no associates disposed in the current period.

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI 31 ARALIK 2016 TARİHİ İTİBARIYLA HAZIRLANAN YIL SONU KONSOLİDE OLMAYAN FİNANSAL TABLOLARA İLİŞKİN AÇIKLAMA VE DİPNOTLAR

(Tutarlar aksi belirtilmedikçe Bin Türk Lirası [“TL”] olarak ifade edilmiştir.)

8. Investments in subsidiaries

Information on significant subsidiaries

	Vakıfbank International AG		Vakıf Finansal Kiralama A.Ş.		Vakıf Yatırım Menkul Değerler A.Ş.		Vakıf Faktoring A.Ş.		Vakıf Güneş Sigorta A.Ş.		Vakıf Emeklilik A.Ş.		Vakıf Yönetimi A.Ş.		Vakıf Gayrimenkul Yat. Ort. A.Ş.		Vakıf Menkul Kıymet Yat. Ort. A.Ş.		
Paid in Capital	114,483	87,000	87,000	35,000	22,400	270,000	26,500	12,000	213,000	20,000	-	-	246,731	-	-	-	-	-	-
Share Premium	-	-	-	-	-	655	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Capital Reserves	-	255	(271)	28,882	28,882	(2,011)	6,881	56	21,619	62	-	-	-	-	-	-	-	-	-
Securities Value Increase Fund	27,447	3,470	66,346	347	347	275,328	468	-	-	-	-	-	-	-	-	-	-	-	-
Tangible Assets' Value Increase From Revaluation	-	17,517	-	-	-	204,865	50,005	-	547	-	-	-	-	-	-	-	-	-	-
Associates And Subsidiaries Bonus Shares	-	-	-	-	-	59	191	-	-	-	-	-	-	-	-	-	-	-	-
Legal Reserves	9,279	5,110	5,644	5,824	5,824	17,179	18,385	965	6,390	395	-	-	-	-	-	-	-	-	-
Extraordinary Reserves	-	33,398	7,368	48,296	48,296	19,246	68,476	1,577	97,360	-	-	-	-	-	-	-	-	-	-
Other Profit Reserves	241,123	-	2,308	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit/Loss	131,119	23,281	3,981	16,097	16,097	(436,362)	134,798	6,855	16,418	(3,008)	-	-	-	-	-	-	-	-	-
Prior Period's Profit/Loss	106,801	-	(4,587)	-	-	(384,215)	82,533	-	1,015	(2,771)	-	-	-	-	-	-	-	-	-
Current Period's Profit/Loss	24,318	23,281	8,568	16,097	16,097	(52,147)	52,265	6,855	15,403	(237)	-	-	-	-	-	-	-	-	-
Minority Rights	-	70	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Core Capital	523,451	170,101	120,376	121,846	121,846	348,959	305,704	21,453	602,065	17,449	-	-	-	-	-	-	-	-	-
SUPPLEMENTARY CAPITAL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CAPITAL	523,451	170,101	120,376	121,846	121,846	348,959	305,704	21,453	602,065	17,449	-	-	-	-	-	-	-	-	-
NET AVAILABLE EQUITY	523,451	170,101	120,376	121,846	121,846	348,959	305,704	21,453	602,065	17,449	-	-	-	-	-	-	-	-	-

Reviewed BRSA financial statements as of September 30, 2016 are considered.

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Vakıf Yatırım Menkul Değerler A.Ş., a subsidiary of the Bank, calculates capital adequacy in accordance with Serial V, No: 34 numbered "Communiqué on Capital and Capital Adequacy of Intermediary Firms" of CMB every six month. Güneş Sigorta A.Ş. ve Vakıf Emeklilik A.Ş. that operate in insurance business calculate capital adequacy in accordance with "Communiqué on Capital Adequacy Measurement and Assessment for Insurance, Reinsurance and Pension Firms" published by Republic of Turkey Undersecretariat of Treasury every six month. According to the calculations at December 31, 2016, there is no capital requirement for the subsidiaries mentioned.

Information on investments in subsidiaries

Subsidiary	Address (City / Country)	Bank's Share - If Different, Voting Rights (%)	Bank's Risk Group Share (%)
1 Güneş Sigorta A.Ş.	Istanbul/ Turkey	48.20	48.20
2 Vakıf Emeklilik A.Ş.	Istanbul/ Turkey	53.90	79.74
3 Vakıf Faktoring A.Ş.	Istanbul/ Turkey	78.39	88.70
4 Vakıf Finansal Kiralama A.Ş.	Istanbul/ Turkey	58.71	66.26
5 Vakıf Yatırım Menkul Değerler A.Ş.	Istanbul/ Turkey	99.00	99.48
6 Vakıfbank International AG	Vienna/ Austria	90.00	90.00
7 Vakıf Portföy Yönetimi A.Ş.	Istanbul/ Turkey	100.00	100.00
8 Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş.	Istanbul/ Turkey	22.89	34.57
9 Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş.	Istanbul/ Turkey	38.70	40.87
10 Vakıf Enerji ve Madencilik A.Ş. (*)	Ankara/ Turkey	65.50	85.53
11 Taksim Otelcilik A.Ş.	Istanbul/ Turkey	51.00	51.69
12 Vakıf Pazarlama Sanayi ve Ticaret A.Ş. (**)	Istanbul/ Turkey	69.33	76.20
13 Vakıf Gayrimenkul Değerleme A.Ş.	Ankara/ Turkey	54.29	58.73

	Total Assets	Equity	Tangible Assets	Interest Income	Income on Securities Portfolio	Current Period Profit/(Loss)	Prior Period Profit/(Loss)	Company's Fair Value
1	1,756,036	433,195	565,250	45,783	2,905	(50,762)	(162,569)	282,966
2	5,130,134	237,764	111,658	24,811	104	38,512	25,890	800,926
3	919,199	118,651	2,784	77,923	-	12,943	10,116	95,035
4	1,686,534	170,103	22,015	110,521	-	23,284	23,637	134,594
5	437,066	120,375	1,573	18,653	142	8,568	(5,459)	106,298
6	3,513,385	493,263	1,462	75,410	19,780	23,544	8,957	482,346
7	22,510	21,453	110	2,077	66	6,855	3,302	72,525
8	18,131	17,448	34	295	1,211	(237)	(281)	22,483
9	1,029,304	864,983	609,650	29,080	-	42,425	74,144	489,932
10	25,406	5,916	1,042	388	-	280	(1,745)	14,466
11	366,961	354,338	234,212	6,517	-	504	9,112	400,560
12	51,313	42,516	723	3,351	57	3,587	3,861	58,797
13	31,687	26,423	304	2,401	-	1,269	829	26,471

(*) The financial statement information provided for these subsidiaries is from the financial statements dated September 30, 2016.

(**) The financial statement information provided for these subsidiaries is taken from the financial statements as of June 30, 2016.

(***) The financial statement information provided for these subsidiaries is taken from the financial statements as of December 31, 2015.

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Movement table of investments in subsidiaries

	Current Period	Prior Period
Balance at the beginning of the period	1,604,319	1,431,513
Movements during the period	192,805	172,806
Transfers	-	-
Acquisitions and capital increases	76,155	-
Bonus shares received	24,858	4,605
Dividends from current year profit	(1,694)	(26,186)
Sales and liquidations	-	-
Fair value changes	87,159	163,959
Impairment losses	6,327	30,428
Balance at the end of the period	1,797,124	1,604,319
Capital commitments	-	-
Share percentage at the end of the period (%)	-	-

Methods to measure investments in subsidiaries

	Current Period	Prior Period
Measured at cost	-	-
Measured at fair value	1,797,124	1,604,319
Equity method of accounting	-	-
Total	1,797,124	1,604,319

Sectoral distribution of investments in financial subsidiaries

	Current Period	Prior Period
Insurance companies	434,112	434,144
Banks	568,089	480,532
Factoring companies	74,498	62,163
Leasing companies	79,019	45,681
Finance companies	-	-
Other financial subsidiaries	372,510	327,650
Total	1,528,228	1,350,170

Quoted subsidiaries

	Current Period	Prior Period
Quoted at domestic stock exchanges	410,160	330,703
Quoted at international stock exchanges	-	-
Total	410,160	330,703

Investments in subsidiaries disposed during the period

There is no disposal in subsidiaries in the current period.

Investments in subsidiaries acquired during the current period

In the current period, within the registered capital ceiling of TL 300,000 of Güneş Sigorta A.Ş., the paid-in capital increased from TL 150,000 to TL 270,000 by increasing TL 120,000. In this context, our fair value was fully used in the capital increase of the Company and our Bank's current nominal share was TL 43,619. In addition, TL 32,536 has been paid for the premiums not used by other shareholders (from the shares offered to the public on the BİAŞ share market) for the nominal 32.000.000 shares purchased from the prices formed in the BİST Primary Market. Total share capital of the Bank amounting to TL 76,155 is included in Purchases in the movement table of subsidiaries. After the capital increase, our nominal share of TL 54,524 in the capital of Güneş Sigorta A.Ş. has increased to TL 130,143 and our share of 36.35% has increased to 48.20%.

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TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

In the current period, subsequent to the approval of the decision to increase the paid-in capital of Vakıf Portföy Yönetimi A.Ş. from TL 3,000 to TL 12,000 by a bonus increase of TL 9,000. After the capital increase, Bank's current nominal share has been increased from TL 3,000 to TL 12,000 by bonus increase of 9,000 and Bank's share percentage has been remained the same 100.00%. The share of the Bank amounting to TL 9,000 is presented as bonus shares received in the movement table of investments in subsidiaries.

In the current period, subsequent to approval of the decision to increase the paid-in capital of Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. from TL 205,400 to TL 213,000 by a bonus increase of TL 7,600 in the Ordinary Meeting of General Assembly of the Company dated April 15, 2016. After the capital increase, Bank's current nominal share has been increased from TL 79,495 to TL 82,436 by bonus increase of 2,941 and Bank's share percentage has been remained the same 38.70%. The share of the Bank amounting to TL 2,941 is presented as bonus shares received in the movement table of investments in subsidiaries.

In the current period, subsequent to approval of the decision to increase the paid-in capital of Vakıf Finansal Kiralama A.Ş. from TL 65,000 to TL 87,000 by a bonus increase of TL 22,000 in the Ordinary Meeting of General Assembly of the Company dated April 12, 2016. After the capital increase, Bank's current nominal share has been increased from TL 38,163 to TL 51,080 by bonus increase of 12,917 and Bank's share percentage has been remained the same 58.71%. The share of the Bank amounting to TL 12,917 is presented as bonus shares received in the movement table of investments in subsidiaries.

In the prior period, the title of Vakıf Finans Faktoring Hizmetleri A.Ş. has been changed to Vakıf Faktoring A.Ş., the aforementioned change of title has been registered on April 13, 2015.

In the prior period, subsequent to the approval of the decision to increase the paid-in capital of Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. from TL 203,320 to TL 205,400 by a bonus increase of TL 2,080 in the Ordinary Meeting of General Assembly of the Company dated March 31, 2015. After the capital increase, Bank's current nominal share has been increased from TL 78,690 to TL 79,495 by bonus increase of TL 805 and Bank's share percentage has been remained the same 38.70%. The share of the Bank amounting to TL 805 is presented as bonus shares received in the movement table of investments in subsidiaries.

In the prior period, in total full TL 12 nominal share of Vakıf Portföy A.Ş. has been purchased by Bank from other real person shareholders and Bank has signed share transfer contract with real person shareholders on February 11, 2015. Thus, Bank's nominal share has been increased from full TL 2,999,988 to full TL 3,000,000. Bank's share percentage has been increased from 99.99% to 100.00%.

In the prior period, subsequent to the approval of the decision to increase the paid-in capital of Vakıf Gayrimenkul Değerleme A.Ş. from TL 7,000 to TL 14,000 by a bonus increase of TL 7,000 in the Ordinary Meeting of General Assembly of the Company dated March 20, 2015. After the capital increase, Bank's current nominal share has been increased from TL 3,800 to TL 7,600 by TL 3,800 and Bank's share percentage has been remained the same 54.29%. The share of the Bank amounting to TL 3,800 is presented as bonus shares received in the movement table of investments in subsidiaries.

9. Investments in joint-ventures

None.

10. Information on finance lease receivables (net)

None.

11. Information on hedging purpose derivatives

Positive differences on derivative financial instruments held for risk management purposes

None.

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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

12. Information on tangible assets

	Real Estates	Leased Tangible Assets	Vehicles	Other Tangible Assets	Total
Balance at the end of the prior year:					
Cost	936,264	124,710	35,238	1,096,702	2,192,914
Accumulated depreciation(-)	1,585	119,117	30,898	651,689	803,289
Impairment (-)	6,475	-	-	-	6,475
Net book value	928,204	5,593	4,340	445,013	1,383,150
Balance at the end of the current year:					
Net book value at the beginning of the current year	928,204	5,593	4,340	445,013	1,383,150
Additions	56,332	-	2,839	165,598	224,769
Cost of the disposals	70,699	12,820	10,130	4,615	98,264
Depreciation of the disposals	12	12,165	9,732	3,343	25,252
Depreciation of the current year (-)	4,970	2,070	1,952	120,426	129,418
Impairment (-)	(244)	-	-	-	(244)
Net exchange differences from Foreign Branches	-	-	(20)	4,162	4,142
Cost at the end of the current year	921,897	111,890	27,927	1,261,847	2,323,561
Accumulated depreciation at the end of the year (-)	6,543	109,022	23,118	768,772	907,455
Impairment (-)	6,231	-	-	-	6,231
Net book value at the end of the current year	909,123	2,868	4,809	493,075	1,409,875

13. Information on intangible assets

Bank's intangible assets consist of computer softwares and licences. The estimated useful life of intangible assets is five years. Intangible assets are amortized on a straight-line basis over the estimated useful lives. The Bank divides the extinction share of intangible assets according to inflation adjusted values.

There is not any intangible asset that is important for fullest extend of financial statements.

The Bank does not have any intangible asset that is collateral or acquired by government promotion and has a limitation on usage.

The Bank did not declared a commitment to purchase intangible assets.

14. Information on investment properties

None.

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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

15. Information on deferred tax assets

As at December 31, 2016 and December 31, 2015, items generating deferred tax assets or liabilities are listed below:

	Current period	Prior Period
Deferred tax assets:	256,814	232,350
Provision for employee termination benefits and unused vacations	93,202	87,096
Other provisions	50,864	45,287
Valuation differences of associates and subsidiaries	23,456	23,456
Valuation differences of financial assets and liabilities	81,386	67,439
BRSA - Tax Code depreciation differences	5,986	7,252
Other	1,920	1,820
Deferred tax liabilities:	(173,705)	(216,929)
Valuation differences of financial assets and liabilities	(96,100)	(127,392)
Valuation differences of associates and subsidiaries	(48,843)	(60,671)
Valuation differences of properties	(28,762)	(28,866)
Deferred tax assets/(liabilities), net	83,109	15,421

The deferred tax asset / liability schedule as of December 31, 2016 and December 31, 2015 is as follows:

	Current Period	Prior Period
As of 1 January	15,421	72,437
Deferred tax income/loss	19,942	(135,874)
Deferred tax that is accounted under Equity	48,737	78,858
Exchange differences	(991)	-
Deferred tax asset/(Liability)	83,109	15,421

The reconciliation of the deferred tax on the assets directly related to the equity is as follows:

	Current period	Prior Period
Securities available for sale	47,738	113,451
Associates and subsidiaries	1,500	(4,764)
Tangible assets	104	(28,866)
Actuarial gains and losses	(605)	(963)
Total	48,737	78,858

16. Information on assets held for sale and assets related to the discontinued operations

As at December 31, 2016 assets held for sale and assets related to the discontinued operations amount to TL 1,227,867 (December 31, 2015: TL 994,964).

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17. Information on other assets

As at December 31, 2016 and December 31, 2015 other assets are as follows:

	Current period	Prior Period
Receivables from credit card payments	988,257	923,489
Guarantees given for derivative financial instruments	1,876,321	501,035
Prepaid expenses	507,866	578,292
Receivables from term sale of assets	21,746	44,567
Guarantees given for repurchase agreements	-	143,978
Other	555,630	479,469
Total	3,949,820	2,670,830

II. INFORMATION AND DISCLOSURES RELATED TO LIABILITIES

1. Information on maturity profile of deposits

Current Period	Demand	7 Days Notice	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1 Year and Over	Accumulating Deposit Accounts	Total
Saving Deposits	5,705,688	-	1,680,889	25,414,440	1,642,146	289,813	164,353	268	34,897,597
Foreign Currency Deposits	5,046,499	-	2,673,873	18,808,024	1,720,217	844,659	3,991,576	-	33,084,848
Residents in Turkey	4,817,098	-	2,667,484	18,521,686	1,479,501	544,129	943,203	-	28,973,101
Residents Abroad	229,401	-	6,389	286,338	240,716	300,530	3,048,373	-	4,111,747
Public Sector Deposits	5,358,931	-	5,219,406	6,965,059	768,349	2,589,066	115,942	-	21,016,753
Commercial Deposits	2,906,967	-	6,121,194	7,400,536	1,488,185	312,555	9,300	-	18,238,737
Other	4,168,961	-	1,901,192	3,401,011	881,451	85,146	20,450	-	10,458,211
Precious Metal Deposits	1,010,609	-	-	-	-	-	-	-	1,010,609
Bank Deposits	236,382	-	3,302,157	1,395,631	98,703	23,363	75,386	-	5,131,622
Central Bank	1,117	-	-	-	-	-	-	-	1,117
Domestic Banks	10,240	-	2,934,648	913,292	98,703	2,144	4,323	-	3,963,350
Foreign Banks	162,049	-	156,451	288,852	-	21,219	71,063	-	699,634
Participation Banks	62,976	-	211,058	193,487	-	-	-	-	467,521
Other	-	-	-	-	-	-	-	-	-
Total	24,434,037	-	20,898,711	63,384,701	6,599,051	4,144,602	4,377,007	268	123,838,377

Prior Period	Demand	7 Days Notice	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1 Year and Over	Accumulating Deposit Accounts	Total
Saving Deposits	4,424,092	-	471,519	22,041,396	1,027,318	255,301	124,971	-	28,344,597
Foreign Currency Deposits	4,121,923	-	3,451,462	15,829,234	1,474,397	912,706	3,462,272	-	29,251,994
Residents in Turkey	3,850,977	-	3,448,531	15,546,772	1,235,166	611,274	942,705	-	25,635,425
Residents Abroad	270,946	-	2,931	282,462	239,231	301,432	2,519,567	-	3,616,569
Public Sector Deposits	4,504,470	-	4,869,059	6,958,081	843,503	1,879,924	205,243	-	19,260,280
Commercial Deposits	2,464,867	-	3,737,839	11,417,347	161,445	50,949	1,336	-	17,833,783
Other	3,751,277	-	1,772,094	3,170,500	242,340	41,669	25,525	-	9,003,405
Precious Metal Deposits	625,592	-	-	-	-	-	-	-	625,592
Bank Deposits	385,739	-	3,804,547	918,327	230,210	118,489	145,571	-	5,602,883
Central Bank	1,116	-	-	-	-	-	-	-	1,116
Domestic Banks	6,477	-	3,645,258	553,924	212,223	-	-	-	4,417,882
Foreign Banks	223,598	-	159,289	364,403	17,987	118,489	145,571	-	1,029,337
Participation Banks	154,548	-	-	-	-	-	-	-	154,548
Other	-	-	-	-	-	-	-	-	-
Total	20,277,960	-	18,106,520	60,334,885	3,979,213	3,259,038	3,964,918	-	109,922,534

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

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Information on saving deposits insured by Saving Deposit Insurance Fund and the total amounts of the deposits exceeding the insurance coverage limit

	Covered by Deposit Insurance Fund		Exceeding the Deposit Insurance Limit	
	Current Period	Prior Period	Current Period	Prior Period
Saving Deposits	19,306,192	15,480,662	15,591,405	12,863,935
Foreign Currency Saving Deposits	5,092,943	4,788,666	14,160,086	11,939,036
Other Saving Deposits	-	-	-	-
Foreign Branches' Deposits Under Foreign Insurance Coverage	-	-	-	-
Off-Shore Deposits Under Foreign Insurance Coverage	-	-	-	-
Total	24,399,135	20,269,328	29,751,491	24,802,971

Saving deposits out of insurance coverage limits

	Current Period	Prior Period
Deposits and other accounts at foreign branches	37,431	24,839
Deposits and other accounts, which belong to controlling shareholders, their parents, wives/husbands, and children	-	-
Deposits and other accounts, which belong to Board of Director members, chairman, general manager, his/her assistants, their parents, wives/husbands, and children	4,957	5,438
Deposits and other accounts under scope of TCC law 5237 article no 282, dated 26/9/2004	-	-
Deposits in Deposit Banks of Turkey, which are solely established for off-shore banking	-	-

2. Information on derivative financial liabilities held for trading purpose

Negative differences related to the derivative financial liabilities held for trading purpose

	Current Period		Prior Period	
	TL	FC	TL	FC
Forward Transactions	18,011	4,202	1,508	594
Swap Transactions	898,463	184,541	109,384	149,252
Futures	-	-	-	-
Options	38,159	327	28,612	239
Other	-	-	-	-
Total	954,633	189,070	139,504	150,085

3. Information on banks and other financial institutions

	Current Period		Prior Period	
	TL	FC	TL	FC
Central Bank of The Republic of Turkey	-	-	-	-
Domestic Bank and Institutions	100,256	557,124	101,625	269,158
Foreign Banks, Institutions and Funds	571,642	22,964,748	231,158	17,954,056
Total	671,898	23,521,872	332,783	18,223,214

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

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Maturity information of funds borrowed

	Current period		Prior period	
	TL	FC	TL	FC
Short-term ^(*)	97,160	2,275,319	101,813	2,020,325
Medium and Long term ^(*)	574,738	21,246,553	230,970	16,202,889
Total	671,898	23,521,872	332,783	18,223,214

^(*) Maturity profile of funds borrowed is prepared in accordance to their original maturities.

Funds borrowed comprise syndication and securitization loans bearing various interest rates and maturities and account for 12.52% ((December 31, 2015: 11.17%) of the Bank's liabilities. There is no risk concentration on funding sources of the Bank.

On April 17, 2015, Vakıfbank has obtained syndicated loan amounting to US Dollar 204 million and Euro 763 million with interest rates of US Libor + 0.80% and Euribor + 0.80% at a maturity of 367 days, with the participation of 35 banks, Wells Fargo Bank N.A., London Branch acting as coordinator and agent bank. On April 20, 2016, the loan has been renewed with a new syndicated loan amounting to US Dollar 207 million and Euro 631.5 million with the interest rate of US Libor + 0.85% and Euribor + 0.75% at a maturity of 367 days with participation of 30 banks, Wells Fargo Bank, London Branch and National Bank of Abu Dhabi PJSC acting as coordinator and agent bank.

On September 22, 2014, Vakıfbank has obtained syndicated loan amounting to US Dollar 168.5 million and Euro 528.75 million with interest rates of US Libor + 0.90% and Euribor + 0.90% at a maturity of one year, with the participation of 26 banks, ING Bank, London Branch acting as coordinator and agent bank. On September 14, 2015, the loan has been renewed with a new syndicated loan amounting to US Dollar 168.5 million and Euro 679.5 million with the interest rate of US Libor + 0.75% and Euribor + 0.75% at a maturity of one year with participation of 30 banks, ING Bank, London Branch acting as coordinator and agent bank. On September 26, 2016, the loan has been renewed with a new syndicated loan amounting to 224.5 million US Dollar and 544 million Euros with the interest rate of US Libor + 1.10% and Euribor + 1.00% at a maturity of 367 days with participation of 22 banks, ING Bank, London Branch and National Bank of Abu Dhabi PJSC acting as coordinator and ING Bank, London Branch acting as agent bank.

On December 19, 2014, the Bank has obtained securitization loan at the amount of US Dollar 928.6 million related to foreign transfers and treasury transactions in Euro and US Dollar. Loan amounting to US Dollar 500 million has been obtained related to foreign transfers at a maturity of five years and loan at the amount of US Dollar 428.6 million has been obtained related to treasury transactions at a maturity of seven years in seven different segments in total.

The loan obtained from European Bank for Reconstruction and Development (EBRD) amounting to US Dollar 125 million in 2014-A segment in order to finance medium term loans including to meet the needs of agricultural enterprises and support woman entrepreneurs. 2014-B segment of the loan has been obtained from Wells Fargo Bank, N.A., 2014-C segment of the loan has been obtained from Raiffeisen Bank International AG, 2014-D segment of the loan has been obtained from Standard Chartered Bank, 2014-E segment of the loan has been obtained from Societe Generale, 2014-G segment of the loan has been obtained from Bank of America, N.A. and 2014-F segment of the loan related to treasury transactions has been obtained from JP Morgan Securities plc. in the scope of programme.

On 4 October 2016, the Bank carried out a securitization transaction in the amount of USD 890 million equivalent in Euros and US Dollars based on foreign money transfers and treasury transactions as part of the securitization program. A total of US \$ 310 million was provided for 5 years and US \$ 535 million based on treasury financing transactions was provided with 7 years maturity, based on foreign delegations of the loan provided in seven separate segments. Within the program, 2016-A segment was collected from SMBC, 2016-B segment from Wells Fargo Bank, 2016-C segment from Credit Suisse, 2016-D segment from Standard Chartered Bank, 2016-E segment from EBRD, 2016-F segment from JP Morgan and 2016-G segment from ING Bank. EBRD participated in the securitization loan with the TurSEFF II and TurSEFF III projects. As of December 31, 2016, the sum of the securitization loans amounted to USD 1,544 million and EUR 260 million.

Information on securities issued

Within the context of Global Medium Term Notes (GMTN), the Bank has issued Turkey's first Eurobond apart from Republic of Turkey Undersecretariat of Treasury. The bond has been issued in GMTN programme on June 17, 2014 has a nominal value of 500 million Euros, maturity date on June 17, 2019 with fixed rate, 5 years maturity and annually coupon paid with 3.65% return and coupon rate 3.50%.

Within the context of Global Medium Term Notes (GMTN), the Bank has issued Eurobond. The bond has been issued in GMTN programme on October 27, 2016 has a nominal value of US Dolar 500 million, maturity date on October 27, 2021 with fixed rate, 5 years maturity and semi-annually coupon paid and coupon rate 5.50%.

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The context of Global Medium Term Notes (GMTN), the Bank has issued 222 private placements with 17 different banks from 2013 June on .This private placements have issued several currencies as of (US Dollar, Euro, Swiss Franc and Japanese Yen) and the maturities are 3 months, 6 months, 1 year and 2 years. Bank has issued 4,692 million US Dollar private placements as of the date of December 31, 2016. The total private placements are 73.4 million US Dollar as of the same date on.

The bank has issued Turkey's first Euro covered bond on May 4, 2016. The bond has been issued on May 4, 2016 has nominal value of 500 million Euros, maturity date on May 4, 2021 with fixed rate, 5 years maturity and annually interest paid with coupon rate 2.375% and 2.578% return.

Current Period	TL		FC	
	Short Term	Medium-Long Term	Short Term	Medium-Long Term
Nominal	3,333,301	-	152,903	11,188,895
Cost	3,214,945	-	152,903	11,107,606
Net Book Value	3,268,595	-	154,695	11,284,455

Prior Period	TL		FC	
	Short Term	Medium-Long Term	Short Term	Medium-Long Term
Nominal	3,197,582	-	946,566	6,418,184
Cost	3,068,550	-	946,565	6,371,968
Net Book Value	3,128,044	-	949,615	6,470,100

4. Components of "other external resources payable" in the financials that comprise at least 20% of the account, if the account exceeds 10% of total liabilities and equity excluding off-balance sheet commitments

Other external resources payable in the financials do not exceed 10% of total liabilities and equity.

5. Information on lease payables (net)

Obligations under financial leasing

None.

6. Information on derivative financial liabilities held for risk management purpose

Negative fair values of hedging purpose derivatives

None.

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7. Information on provisions

Information on general provisions

	Current Period	Prior period
Provisions for loans and receivables in Group I	1,796,316	1,606,200
-Additional provision for loans with extended payment plans	50,986	26,422
Provisions for loans and receivables in Group II	222,879	231,853
-Additional provision for loans with extended payment plans	33,725	21,057
Provisions for non-cash loans	124,718	106,422
Other	23,530	13,128
Total	2,167,443	1,957,603

Information on employee rights

According to the TAS-19 Judgments of benefits that are provided to employees, bank accounts and calculate provision to obligations of severance pay and allowance rights.

As of December 31, 2016, TL 374,691 (December 31, 2015: TL 350,227) provision for severance pay and TL 91,322 (December 31, 2015 TL 85,253) provision for unused vacation are stated in financial statements under employee rights provision.

The movement of the retirement pay provision during the period is as below:

	Current Period	Previous Period
Opening balance	350,227	328,246
Current service cost	40,672	31,541
Previous service cost	-	-
Interest cost	33,177	25,920
Paid compensation	(48,357)	(30,875)
Payment/Reduction of benefits/Layoff accordingly composed loss/(gain)	1,996	214
Actuary loss/(gain)	(3,024)	(4,819)
Closing balance	374,691	350,227

Provision for currency exchange loss on foreign currency indexed loans

	Current Period	Prior Period
Provision for currency exchange gain/loss on foreign currency indexed loans	297	17,160

The Bank has recorded provision amounting to TL 297 (December 31, 2015: TL 17,160) for foreign exchange losses on principal amounts of foreign currency indexed loans and reflected the related foreign exchange loss amount in the financial statements by offsetting from related loans.

Provisions for non-cash loans that are not indemnified and not converted into cash

As of December 31, 2016, Bank has recorded TL 59,816 (December 31, 2015: TL 40,930) as provisions for non-cash loans that are not indemnified or converted into cash.

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Information on other provisions exceeding 10% of total provisions

	Current Period	Prior period
Provisions for credits	184,880	182,585
Specific provisions for non-cash loans	59,816	40,930
Provision for cheques	66,959	47,020
Provisions for lawsuits against the Bank	4,755	4,755
Provisions for credit card promotions	9,595	9,100
Other provisions	20,473	6,885
Total	346,478	291,275

Information on provision for probable risks

None.

8. Taxation

Current taxes

Tax provision

As at and for the year ended December 31, 2016, the tax provision was amounted to TL 724,953 (December 31, 2015: TL 403,602). As at December 31, 2016, corporate tax liabilities of the Bank was amounted to TL 576,578 (December 31, 2015: TL 171,734), after deducting prepaid taxes paid during temporary tax periods amounted to TL 148,375 (December 31, 2015: TL 231,868).

Information on taxes payable

	Current Year	Prior Year
Corporate taxes payable	148,375	231,868
Taxation on securities	151,546	151,721
Capital gains tax on property	2,655	2,451
Taxes on foreign exchange transactions	-	-
Banking and Insurance Transaction Tax (BITT)	91,205	76,418
Value added tax payable	3,616	3,754
Other	24,814	22,168
Total	422,211	488,380

Information on premiums payable

	Current Year	Prior Year
Social security premiums- employee share	-	-
Social security premiums- employer share	-	-
Bank pension fund premium- employee share	-	-
Bank pension fund premium- employer share	-	-
Pension fund membership fees and provisions- employee share	-	-
Pension fund membership fees and provisions- employer share	-	-
Unemployment insurance- employee share	748	685
Unemployment insurance- employer share	1,497	1,370
Other	-	-
Total	2,245	2,055

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TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Information on deferred tax liabilities

Information on deferred tax liabilities is presented in disclosure 15 of information and disclosures related to assets.

9. Information on payables for assets held for resale and tangible assets related to discounted activities

None.

10. Information on subordinated loans

The Bank has issued bond having the secondary subordinated loan quality to be sold to non-resident natural and legal persons. The bond has been issued at the nominal value of US Dollar 500 million with the maturity of 10 years and 6.0% coupon rate. In addition to the bond issued on November 1, 2012, on December 3, 2012 the Bank has realized second tranche at nominal value of US Dollar 400 million, has the same due date and maturity of 10 years and 5.5% coupon rate.

The Bank has issued secondary subordinated loan (Tier II bond) as at January 2015 which contains Basel-III criteria. In this context, the bond has been issued at the nominal value of US Dollar 500 million with the maturity date of February 3, 2025 and early call option date of February 3, 2020. The bond has fixed interest, 10 years and one day maturity, two times interest payment in a year with coupon rate of 6.875% and issue yield of 6.95%.

Stated bonds' total balance sheet value is TL 5,031,213 as of December 31, 2016 (December 31, 2015: TL 4,169,474).

11. Information on equity

Paid-in capital

	Current Period	Prior Period
Common Stock	2,500,000	2,500,000
Preferred Stock	-	-

Paid-in capital of the Bank amounted to TL 2,500,000 is divided into groups comprised of 43.0% Group (A), 15.6% Group (B), 16.2% Group (C) and 25.2% Group (D).

Board of Directors' members; one member appointed by the Prime Minister representing The General Directorate of the Foundations (Group A), three members representing Group (A), one member representing Group (B), and two members representing Group (C); among the nominees shown by the majority of each group, and one member among the nominees offered by the shareholders at the General Assembly are selected. Preference of Group (D) is primarily taken into account in the selection of the last mentioned member.

Paid-in capital amount, explanation as to whether the registered share capital system is applicable at bank; if so the amount of registered share capital

Capital System	Paid-in Capital	Ceiling per Registered Share Capital
Registered capital system	2,500,000	10,000,000

At the resolutions of Board of Directors dated January 2, 2015 and 61st Ordinary Meeting of the General Assembly dated March 30, 2015, Bank's ceiling per registered share capital has been increased from TL 5,000,000 to TL 10,000,000.

Information on share capital increases and their sources; other information on any increase in capital shares during the current period

There is no share capital increase in the current and prior period.

Information on share capital increases from revaluation funds

None.

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Capital commitments for current financial year and following period

None.

Prior period indicators of the Bank's income, profitability and liquidity; and possible effects of the predictions on equity, considering the ambiguity of the indicators

No negative impact of the predictions on the Bank's equity is expected in the future.

Information on the privileges given to stocks representing the capital

None.

Valuation differences of the marketable securities

	Current Period		Prior Period	
	TL	FC	TL	FC
Associates, subsidiaries and joint ventures	658,258	174,877	571,129	191,529
Fair value differences of available-for-sale securities	(243,814)	27,980	(264,492)	239,608
Foreign exchange differences	80,727	-	92,639	-
Total	495,171	202,857	399,276	431,137

III. INFORMATION AND DISCLOSURES RELATED TO OFF-BALANCE SHEET ITEMS

1. Disclosures related to other contingent liabilities

Type and amount of irrevocable commitments

	Current Period	Prior period
Commitments for credit card limits	8,682,835	7,399,361
Loan granting commitments	9,817,555	8,482,816
Commitments for cheque payments	2,154,102	1,805,569
Asset purchase sale commitments	2,864,752	3,843,373
Other	1,433,858	1,231,793
Total	24,953,102	22,762,912

Type and amount of possible losses from off-balance sheet items including those referred to below

Guarantees, bills of exchange and acceptances and other letters of credit which can be counted as financial collateral

The Bank provided specific provision amounting to TL 165,159 (December 31, 2015: TL 97,721) for unliquidated non-cash loans recorded under off-balance sheet items, amounting to TL 59,816 (December 31, 2015: TL 40,930).

Final guarantees, provisional guarantees, sureties and similar transactions

	Current Period	Prior Period
Final letters of guarantee	11,547,141	9,289,202
Letters of guarantee for advances	4,843,148	3,438,136
Letters of guarantee given to custom offices	1,059,516	1,030,530
Provisional letters of guarantee	994,372	935,981
Other letters of guarantee	13,870,573	12,096,954
Total	32,314,750	26,790,803

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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

2. Non-cash loans

	Current Period	Prior Period
Non-cash loans given for cash loan risks	2,788,811	2,899,661
<i>With original maturity of 1 year or less</i>	1,126,734	1,176,515
<i>With original maturity of more than 1 year</i>	1,662,077	1,723,146
Other non-cash loans	37,659,613	30,168,700
Total	40,448,424	33,068,361

3. Sectoral risk concentrations of non-cash loans

	Current Period				Prior Period			
	TL	%	FC	%	TL	%	FC	%
Agricultural	81,809	0.30	382,403	2.79	87,249	0.40	132,021	1.20
Farming and Cattle	69,203	0.26	378,930	2.76	82,686	0.37	132,021	1.20
Forestry	11,601	0.04	3,473	0.03	3,528	0.02		
Fishing	1,005	0.00	-	0.00	1,035	0.01		
Manufacturing	10,907,710	40.79	7,157,290	52.22	9,811,692	44.43	5,696,876	51.86
Mining	1,157,275	4.33	144,199	1.05	1,252,878	5.67	106,628	0.97
Production	6,697,549	25.04	6,606,838	48.21	5,526,001	25.03	5,309,883	48.34
Electric, gas and water	3,052,886	11.42	406,253	2.96	3,032,813	13.73	280,365	2.55
Construction	4,216,428	15.77	2,323,864	16.96	3,374,531	15.28	2,224,897	20.25
Services	9,412,571	35.20	2,601,267	18.98	8,030,112	36.36	2,516,870	22.92
Wholesale and retail trade	4,056,016	15.17	1,556,748	11.36	3,444,760	15.60	1,584,498	14.42
Hotel, food and beverage Services	112,775	0.42	378	0.00	110,961	0.50	1,218	0.01
Transportation and telecommunication	1,330,694	4.98	876,095	6.39	1,172,317	5.31	736,976	6.71
Financial institutions	2,492,659	9.32	66,272	0.48	2,090,603	9.47	32,774	0.30
Real estate and renting Services	358,074	1.34	28,456	0.21	325,256	1.47	33,663	0.31
Self-employment services	700,053	2.62	66,033	0.48	610,338	2.76	110,414	1.01
Education services	18,627	0.07	1,588	0.01	23,752	0.11	4,018	0.04
Health and social services	343,673	1.28	5,697	0.05	252,125	1.14	13,309	0.12
Other	2,124,938	7.94	1,240,144	9.05	780,253	3.53	413,860	3.77
Total	26,743,456	100.00	13,704,968	100.00	22,083,837	100.00	10,984,524	100.00

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4. Information on the first and second group of non-cash loans

Current Period	Group I		Group II	
	TL	FC	TL	FC
Letters of Guarantee	26,226,670	5,579,150	308,947	45,257
Confirmed Bills of Exchange and Acceptances	53,702	1,142,668	-	272
Letters of Credit	1,762	6,887,315	-	16,960
Endorsements	-	-	-	-
Purchase Guarantees for Securities Issued	-	-	-	-
Factoring Guarantees	-	-	-	-
Other Guarantees and Sureties	-	20,562	-	-
Non-Cash Loans	26,282,134	13,629,695	308,947	62,489

Prior Period	Group I		Group II	
	TL	FC	TL	FC
Letters of Guarantee	21,714,478	4,787,077	173,386	20,949
Confirmed Bills of Exchange and Acceptances	86,762	1,388,757	-	-
Letters of Credit	16,306	4,761,086	-	11,317
Endorsements	-	-	-	-
Purchase Guarantees for Securities Issued	-	-	-	-
Factoring Guarantees	-	-	-	-
Other Guarantees and Sureties	-	10,522	-	-
Non-Cash Loans	21,817,546	10,947,442	173,386	32,266

5. Information on derivative transactions

	Current Period	Prior Period
Trading Derivatives		
Foreign Currency Related Derivative Transactions (I)	38,903,748	27,656,170
Currency Forwards	1,609,994	468,760
Currency Swaps	36,420,446	26,673,880
Currency Futures	-	-
Currency Options	873,308	513,530
Interest Rate Derivative Transactions (II)	17,066,824	13,313,758
Interest Rate Forwards	-	-
Interest Rate Swaps	17,066,824	13,313,758
Interest Rate Futures	-	-
Interest Rate Options	-	-
Other Trading Derivatives (III)	11,037,611	8,954,555
A. Total Trading Derivatives (I+II+III)	67,008,183	49,924,483
Hedging Derivatives	-	-
Fair Value Hedges	-	-
air Value Hedges	-	-
Cash Flow Hedges	-	-
Hedges for Foreign Currency Investments	-	-
B. Total Hedging Derivatives	-	-
Derivative Transactions (A+B)	67,008,183	49,924,483

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	December 31, 2016					
	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Total
Currency swaps:						
Purchase	8,008,041	3,889,096	58,635	333,432	-	12,289,204
Sale	5,835,336	3,065,253	57,519	406,566	-	9,364,674
Currency forwards:						
Purchase	88,457	240,192	436,920	39,781	-	805,350
Sale	88,411	240,137	436,440	39,656	-	804,644
Cross currency interest rate swaps:						
Purchase	-	-	826,025	7,055,829	-	7,881,854
Sale	-	-	434,479	6,450,235	-	6,884,714
Interest rate swaps:						
Purchase	-	-	1,231,927	3,384,843	3,916,642	8,533,412
Sale	-	-	1,231,927	3,384,842	3,916,643	8,533,412
Options:						
Purchase	407,926	20,002	-	-	-	427,928
Sale	424,764	20,616	-	-	-	445,380
Other trading derivatives:						
Purchase	70,300	210,900	246,049	1,922,502	1,883,038	4,332,789
Sale	2,700,249	1,037,023	215,525	1,521,775	1,230,250	6,704,822
Total purchases	8,574,724	4,360,190	2,799,556	12,736,387	5,799,680	34,270,537
Total sales	9,048,760	4,363,029	2,375,890	11,803,074	5,146,893	32,737,646
Total	17,623,484	8,723,219	5,175,446	24,539,461	10,946,573	67,008,183

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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	December 31, 2015					Total
	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	
Currency swaps:						
Purchase	9,964,069	3,399,460	150,372	-	-	13,513,901
Sale	4,319,332	3,414,782	150,222	-	-	7,884,336
Currency forwards:						
Purchase	21,330	60,137	107,684	45,556	-	234,707
Sale	21,304	60,054	107,359	45,336	-	234,053
Cross currency interest rate swaps:						
Purchase	-	-	186,709	2,732,075	-	2,918,784
Sale	-	-	120,583	2,236,276	-	2,356,859
Interest rate swaps:						
Purchase	-	-	218,250	2,763,121	3,675,508	6,656,879
Sale	-	-	218,250	2,763,121	3,675,508	6,656,879
Options:						
Purchase	229,308	13,086	8,586	-	-	250,980
Sale	239,124	13,526	9,900	-	-	262,550
Other trading derivatives:						
Purchase	-	-	625,650	-	1,247,145	1,872,795
Sale	5,597,158	-	611,602	-	873,000	7,081,760
Total purchases	10,214,707	3,472,683	1,297,251	5,540,752	4,922,653	25,448,046
Total sales	10,176,918	3,488,362	1,217,916	5,044,733	4,548,508	24,476,437
Total	20,391,625	6,961,045	2,515,167	10,585,485	9,471,161	49,924,483

6. Contingent assets and liabilities

Bank allocates TL 4,755 as provision for lawsuits against the Bank (December 31, 2015: TL 4,755).

7. Services rendered on behalf of third parties

The Bank acts as an investment agent for banking transactions on behalf of its customers and provides custody services. Such transactions are followed under off-balance sheet accounts. The Bank's custody services and banking transactions on behalf of individuals and corporate customers does not present a material portion.

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IV. INFORMATION ON DISCLOSURES RELATED TO THE STATEMENT OF INCOME

1. Interest income

Information on interest income received from loans

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-term Loans	4,374,026	179,314	3,425,129	131,968
Medium and Long-Term Loans	7,546,973	1,842,032	6,371,936	1,461,460
Non-performing Loans	269,572	-	139,185	-
Premiums Received from Resource Utilization Support Fund	-	-	-	-
Total	12,190,571	2,021,346	9,936,250	1,593,428

Information on interest income received from banks

	Current Period		Prior Period	
	TL	FC	TL	FC
Central Bank of The Republic of Turkey	-	198	-	-
Domestic Banks	867	1,368	1,321	622
Foreign Banks	15	22,584	47	8,632
Foreign Head Office and Branches	-	-	-	-
Total	882	24,150	1,368	9,254

Information on interest income received from marketable securities portfolio

	Current Period		Prior Period	
	TL	FC	TL	FC
Financial assets held for trading	-	-	-	-
Financial assets where fair value change is reflected to income statement	-	-	-	-
Financial assets available for sale	1,225,597	271,077	1,158,632	235,068
Investments held to maturity	706,281	1,463	655,344	500
Total	1,931,878	272,540	1,813,976	235,568

Information on interest income received from associates and subsidiaries

	Current Period	Prior Period
Interest Received from Associates and Subsidiaries	11,011	8,340

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2. Interest expense

Interest expense on funds borrowed

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks	55,610	285,523	25,887	206,469
Central Bank of The Republic of Turkey	-	-	-	-
Domestic Banks	6,481	5,931	7,526	3,084
Foreign Banks	49,129	279,592	18,361	203,385
Foreign Head Offices and Branches	-	-	-	-
Other Institutions	-	44,617	-	28,480
Total	55,610	330,140	25,887	234,949

Interest expense paid to associates and subsidiaries

	Current Period	Prior Period
Interest Paid to Associates and Subsidiaries	78,418	74,166

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Interest expense on securities issued

Interest paid to securities issued as at for the year ended December 31, 2016 is TL 680,296 (December 31, 2015: TL 596,952).

Maturity structure of the interest expense on deposits

Current Period	Time Deposits						Cumulative deposit	Total
	Demand Deposits	Up to 1 Month	Up to 3 Months	Up to 6 Months	Up to 1 Year	More than 1 Year		
TL								
Interbank deposits	-	50,936	124,957	-	5,449	12,337	-	193,679
Saving deposits	-	60,356	2,763,745	172,556	29,617	12,540	-	3,038,814
Public sector deposits	22,342	356,076	662,052	62,623	179,128	21,863	-	1,304,084
Commercial deposits	89	416,043	988,249	140,868	15,856	450	-	1,561,555
Other deposits	4	89,305	324,753	91,558	7,164	1,849	-	514,633
Deposits with 7 days notification	-	-	-	-	-	-	-	-
Total	22,435	972,716	4,863,756	467,605	237,214	49,039	-	6,612,765
FC								
Foreign currency deposits	19,011	25,772	410,652	31,102	16,223	73,236	-	575,996
Interbank deposits	663	1,730	12,364	2,147	1,184	7,060	-	25,148
Deposits with 7 days notification	-	-	-	-	-	-	-	-
Precious metal deposits	-	-	-	-	-	-	-	-
Total	19,674	27,502	423,016	33,249	17,407	80,296	-	601,144
Grand Total	42,109	1,000,218	5,286,772	500,854	254,621	129,335	0	7,213,909
Prior Period								
Time Deposits								
	Demand Deposits	Up to 1 Month	Up to 3 Months	Up to 6 Months	Up to 1 Year	More than 1 Year	Cumulative deposit	Total
TL								
Interbank deposits	-	76,403	51,103	46,028	-	-	-	173,534
Saving deposits	-	41,192	2,043,895	111,066	26,299	10,482	-	2,232,934
Public sector deposits	13,522	261,548	637,109	60,262	251,165	15,948	-	1,239,554
Commercial deposits	118	408,690	1,096,447	46,670	14,516	423	-	1,566,864
Other deposits	1	80,376	305,671	27,244	7,628	1,488	-	422,408
Deposits with 7 days notification	-	-	-	-	-	-	-	-
Total	13,641	868,209	4,134,225	291,270	299,608	28,341	-	5,635,294
FC								
Foreign currency deposits	17,486	37,718	300,390	33,219	18,235	73,191	-	480,239
Interbank deposits	96	93	2,503	308	12,111	366	-	15,477
Deposits with 7 days notification	-	-	-	-	-	-	-	-
Precious metal deposits	-	-	-	-	-	-	-	-
Total	17,582	37,811	302,893	33,527	30,346	73,557	-	495,716
Grand Total	31,223	906,020	4,437,118	324,797	329,954	101,898	-	6,131,010

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EXPLANATIONS AND NOTES RELATED TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

3. Dividend Income

	Current Period	Prior Period
Trading Purpose Financial Assets	-	-
Financial Assets at Fair Value through Profit or Loss	-	-
Available-for-Sale Financial Assets	22,443	89
Associates and Subsidiaries	69,310	62,130
Total	91,753	62,219

4. Information on trading income/losses

	Current Period	Prior Period
Income	5,974,847	3,696,157
Income from capital market operations	85,057	70,988
Income from derivative financial instruments	3,363,168	1,588,784
Foreign exchange gains	2,526,622	2,036,385
Losses	(5,491,034)	(3,596,683)
Loss from capital market operations	(63,221)	(24,861)
Loss from derivative financial instruments	(3,005,327)	(1,601,960)
Foreign exchange loss	(2,422,486)	(1,969,862)
Net trading profit/loss	483,813	99,474

Net income arising from changes in foreign exchange rates that relate to the Bank's foreign exchange rate based derivative financial instruments is amounting to TL 349,745 as at and for the year ended December 31, 2016 (December 31, 2015: TL 15,809 net loss).

5. Information on other operating income

	Current Period	Prior Period
Income from reversal of specific provisions for loans	665,884	760,611
Communication income	40,316	50,723
Gain on sale of the Bank's assets ^(*)	164,709	108,405
Rent income	923	1,308
Other income	82,199	127,231
Total	954,031	1,048,278

^(*) The Bank's share of TL 63,687 cash payment due to the Visa Europe Ltd.'s transfer to the Visa Inc. which operates in the same business has been presented in the Gain on sale of the Bank's assets line on the information on other operating income table.

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6. Provision expenses for losses on loans and other receivables

	Current Period	Prior Period
Specific provisions on loans and other receivables	1,935,699	1,030,298
<i>Loans and receivables in Group III</i>	717,481	335,522
<i>Loans and receivables in Group IV</i>	526,966	448,415
<i>Loans and receivables in Group V</i>	691,252	246,361
Non-performing commissions and other receivables	-	-
General provision expenses	213,855	354,951
Provision for possible losses	-	-
Impairment losses on securities:	4,682	3,443
<i>Trading securities</i>	-	-
<i>Investment securities available-for-sale</i>	4,682	3,443
Impairment losses from associates, subsidiaries, joint ventures, and marketable securities held to maturity :	25,297	24,337
<i>Associates</i>	-	-
<i>Subsidiaries</i>	-	-
<i>Joint ventures</i>	-	-
<i>Investment securities held-to-maturity</i>	25,297	24,337
Other ^(*)	66,981	124,031
Total	2,246,514	1,537,060

^(*) Other provision expenses amounting to TL 66,981 (December 31, 2015: TL 124,031) is comprised of provision for non-cash loans that are not indemnified or converted into cash and provision for cheques amounting to TL 44,085 (December 31, 2015: TL 41,616) and provision expenses related to retail loans amounting to TL 22,896 (December 31, 2015: TL 82,415)

7. Information on other operating expenses

	Current Period	Prior Period
Personnel Costs	1,488,861	1,380,439
Reserve for Employee Termination Benefits	27,488	26,800
Deficit Provision for Pension Funds	-	-
Impairment Losses on Tangible Assets	-	6,475
Depreciation Expenses on Tangible Assets	130,200	124,911
Impairment Losses on Intangible Assets	-	-
Amortization Expenses on Intangible Assets	22,173	17,536
Impairment Losses on Assets to be Disposed	5,278	4,998
Depreciation Expenses on Assets to be Disposed	19,723	15,291
Impairment Losses on Assets Held for Sale	-	-
Other Operating Expenses	1,560,004	1,363,500
<i>Operational lease expenses</i>	224,714	206,955
<i>Repair and maintenance expenses</i>	47,576	37,476
<i>Advertisement expenses</i>	78,123	74,575
<i>Other expenses</i>	1,209,591	1,044,494
Loss on sale of assets	3,351	1,153
Other ^(*)	578,005	669,080
Total	3,835,083	3,610,183

^(*) Other operating expenses amounting to TL 578,005 (December 31, 2015: TL 669,080) is comprised of provision expenses for dividends to the personnel amounting to TL 147,970 (December 31, 2015: TL 144,017), tax, fees and funds expenses amounting to TL 130,750 (December 31, 2015: TL 114,138), "Saving Deposits Insurance Fund" expenses amounting to TL 138,469 (December 31, 2015: TL 115,916) and other operating expenses amounting to TL 160,816 (December 31, 2015: TL 295,009).

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

EXPLANATIONS AND NOTES RELATED TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

8. Information on income/loss from discontinued and continuing operations

The Bank has no discontinued operations. Information and detailed tables on profit before tax from continuing operations are presented in disclosures 1-7 in this section.

9. Information on tax provision from discontinued and continuing operations

The Bank has no discontinued operations. Information on provision for taxes on income from continuing operations is presented in disclosure 11 in this section.

10. Information on net profit/loss from discontinued and continuing operations

The Bank has no discontinued operations. Information on net profit/loss from continuing operations is presented in disclosures 1-13 in this section.

11. Provision for taxes

Current period taxation benefit or charge and deferred tax benefit or charge

In the current period, the Bank has recorded a tax charge of TL 712,424 (December 31, 2015: TL 404,310) from the net taxable profit calculated in accordance the laws and regulations in effect.

Deferred tax benefit of the Bank is detailed in the table below.

Deferred tax charge arising from temporary differences, tax losses and unused tax credits

Sources of deferred tax benefit/charge	Current Period	Prior Period
Arising from Origination / (Reversal) of Deductible Temporary Differences	28,861	(59,941)
Arising from (Origination)/ Reversal of Taxable Temporary Differences	(8,919)	(75,933)
Arising from Origination / (Reversal) of Tax Losses	-	-
Arising from Tax Rate Change	-	-
Total	19,942	(135,874)

The table of the tax provision reconciliation for the years December 31, 2016 and December 31, 2015 is as below.

	Current Period	Prior Period
Profit before tax	3,395,524	2,470,293
Additions	1,090,863	1,016,472
Reductions	(172,535)	(966,793)
Other	(694,457)	(505,999)
Basis	3,619,395	2,013,973
Corporate tax rate	20%	20%
Tax calculated	723,879	402,795
Other corrections	(31,397)	137,389
Tax expense	692,482	540,184

12. Information on net profit and loss

The nature and amount of certain income and expense items from ordinary operations is disclosed if the disclosure for nature, amount and repetition rate of such items is required for the complete understanding of the Bank's performance for the period

The Bank has earned TL 16,557,626 interest income, TL 980,883 net fees and commissions income and incurred TL 9,590,985 interest expenses, from ordinary banking transactions (December 31, 2015: TL 13,630,050 interest income, TL 8,143,569 interest expenses, TL 921,084 net fees and commissions income).

Any changes in estimations that might have a material effect on current and subsequent period results

None.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

EXPLANATIONS AND NOTES RELATED TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

13. Information related to the 20% of the sub-accounts belonging to components of other items in the statement of income exceeding 10% of the group total

Banks’ other commissions income mainly consists of credit card fee and commissions, transfer commissions and insurance commissions.

Banks’ other commissions expense mainly consists of credit card fee and commissions and commissions given for foreign banks credits.

V. INFORMATION AND DISCLOSURES RELATED TO STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY

1. Information on increases of revaluation of available-for-sale investments

Movement tables related to revaluation differences of available-for-sale investments where valuation differences arising from the fair value measurement of available-for-sale assets, subsidiaries and affiliates are recorded are as follows:

Valuation Differences of Marketable Securities	Current Period	Prior Period
Valuation differences at the beginning of the year	(24,884)	428,920
Fair value changes in the current year	(231,362)	(611,594)
Valuation differences transferred to the statement of income	(7,326)	44,339
Effect of deferred and corporate taxes	47,738	113,451
Valuation differences at the end of the year	(215,834)	(24,884)

Valuation Difference of the Subsidiaries and Affiliates	Current Period	Prior Period
Valuation differences at the beginning of the year	855,297	788,049
Fair value changes in the current year	57,065	72,012
Valuation differences transferred to the statement of income	-	-
Effect of deferred and corporate taxes	1,500	(4,764)
Valuation differences at the end of the year	913,862	855,297

2. Information on increases in cash flow hedges

None.

3. Reconciliation of the beginning and end of the year balances of foreign exchange differences

None.

4. Information on differences in shareholders’ equity accounts due to inflation accounting

In compliance with BRSA’s Circular on April 28, 2005 on ceasing the inflation accounting application, the balances resulted from the inflation accounting application as at December 31, 2004 and booked according to the Uniform Chart of Accounts and the related Articles, are transferred to the main accounts that were subject to the inflation accounting adjustments except for “capital reserves from inflation adjustments”. The balance of “capital reserves from inflation adjustments” account is transferred to “other capital reserves” account. In 2006, the Bank has increased its paid in capital through “other capital reserves” by TL 605,763.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

EXPLANATIONS AND NOTES RELATED TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

5. Information on profit distribution

As per the resolution of 62nd Annual General Assembly held on March 29, 2016, the net profit of the year 2015 which amounts to TL 1,930,109 after deferred tax income deducted is decided to be distributed as legal reserves amounting to TL 193,012, extraordinary reserves amounting to TL 1,635,437, special funds amounting to TL 1,660 and dividends to equity holders of the Bank amounting to TL 100,000.

6. Information on decreases of revaluation of available-for-sale investments

Revaluation differences of available-for-sale investments has resulted with decrease in the current year. Detailed information about the decreases is explained above in Note 1.

VI. INFORMATION AND DISCLOSURES ON STATEMENT OF CASH FLOWS

1. Disclosures for "other" items in statement of cash flows and effect of change in foreign currency rates cash and cash equivalents

"Other" item under the "operating profit before changes in operating assets and liabilities" amounting to TL (2,267,986) (December 31, 2015: TL (2,390,471)) is comprised of income from capital market transactions and derivative financial instruments and foreign exchange gains for the year ended.

"Net increase/decrease in other liabilities" amounting to TL 355,962 (December 31, 2015: TL (2,301,550)) under "changes in operating assets and liabilities" is mainly comprised of cash inflows from miscellaneous payables and repurchase agreements.

"Other" item under "net cash flow from investing activities" amounting to TL (44,762) (December 31, 2015: TL (48,222)) is comprised of purchases of intangible assets.

When calculating exchange rate effect on cash and cash equivalents, related assets' high turnover rate are taken into consideration. Each exchange rate's arithmetic average of the last five days before the report date and provision of average TL that is calculated from the difference from current period's exchange rate are reflected as an effect of exchange rate change on the cash flow statement. Except for the above-mentioned, banks that have less than three months to maturity are accepted as cash equivalents and average TL provision is calculated by difference between related operation's per term exchange rate and current period's exchange rate. As of December 31, 2016 impact of the exchange rate change on cash and cash equivalents is TL 94,345 (December 31, 2015: TL 12,178).

2. Cash outflows from acquisition of associates, subsidiaries and joint-ventures

There is not any cash flow that is related with Bank's subsidiaries in the current and previous periods.

3. Cash flows from the disposal of associates, subsidiaries and joint-ventures

There is no disposal in associates, subsidiaries and joint-ventures in the current year.

4. Information on cash and cash equivalents

Information on cash and cash equivalents at the beginning of the year

	Prior Period December 31, 2015	Prior Period December 31, 2014
Cash on hand	1,434,849	1,370,759
Cash in TL	1,157,743	1,008,203
Cash in foreign currency	277,106	362,556
Cash equivalents	6,765,575	6,811,710
CBRT	19,834,346	20,440,692
Banks	5,234,266	2,570,620
Receivables from money markets	-	-
Other	215,594	73,528
Loans and advances to banks having maturity of more than 3 months	-	(6,000)
Restricted cash and cash equivalents	(18,518,412)	(16,266,642)
Unrealized foreign exchange rate differences on cash equivalents	(219)	(488)
Total	8,200,424	8,182,469

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Information on cash and cash equivalents at the end of the year

	Current Period December 31, 2016	Prior Period December 31, 2015
Cash on hand	1,785,996	1,434,849
Cash in TL	1,281,047	1,157,743
Cash in foreign currency	504,949	277,106
Cash equivalents	9,322,773	6,765,575
CBRT - Unrestricted demand deposit	22,325,509	19,834,346
Banks	3,890,322	5,234,266
Receivables from money markets	-	-
Other	253,792	215,594
Loans and advances to banks having maturity of more than 3 months	(22,000)	-
Restricted cash and cash equivalents	(17,124,471)	(18,518,412)
Unrealized foreign exchange rate differences on cash equivalents	(379)	(219)
Total	11,108,769	8,200,424

5. Management comment on restricted cash and cash equivalents due to legal requirements or other reasons taking materiality principle into account

Reserve requirements at CBRT amounting to TL 16,815,760 as at December 31, 2016 (December 31, 2015: TL 18,441,256) has not been included in cash and cash equivalents.

Foreign currency bank deposits amounting to TL 308,711 (December 31, 2015: TL 77,156) is blocked and has not been included in cash and cash equivalents due to securitization loans and other ordinary banking operations of the Bank.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

EXPLANATIONS AND NOTES RELATED TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

VII. INFORMATION AND DISCLOSURES RELATED TO THE BANK'S RISK GROUP

1. Information on the volume of transactions with the Bank's risk group, lending and deposits outstanding at period end and income and expenses in the current period

Current Period	Associates, Subsidiaries and Joint-Ventures		Bank's Direct and Indirect Shareholders		Other Components in Risk Group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables						
Balance at the beginning of the period	145,876	955,222	-	28,550	822	15,858
Balance at the end of the period	294,757	1,205,242	-	31,720	37,507	22,446
Interest and commission income	11,011	1,575	-	32	424	105
Prior Period	Associates, Subsidiaries and Joint-Ventures		Bank's Direct and Indirect Shareholders		Other Components in Risk Group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables						
Balance at the beginning of the period	74,105	721,258	-	10,174	6,238	13,087
Balance at the end of the period	145,876	955,222	-	28,550	822	15,858
Interest and commission income	8,340	962	-	29	94	17

Information on deposits held by the Bank's risk group

Bank's Risk Group	Associates, Subsidiaries and Joint-Ventures		Bank's Direct and Indirect Shareholders		Other Components in Risk Group	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
Deposits						
Balance at the beginning of the period	965,832	898,566	740,156	713,966	104,508	115,831
Balance at the end of the period	1,055,694	965,832	977,319	740,156	164,132	104,508
Interest on deposits	78,418	74,166	62,682	45,805	288	1,005

Information on forwards and option agreements and other similar agreements made with the Bank's risk group

Bank's Risk Group	Associates, Subsidiaries and Joint-Ventures		Bank's Direct and Indirect Shareholders		Other Components in Risk Group	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
Held for Trading Transactions						
Purchase balance at the beginning of the period	-	-	-	-	-	-
Sale balance at the beginning of the period	-	-	-	-	-	-
Purchase balance at the end of the period	-	-	-	-	-	-
Sale balance at the end of the period	-	-	-	-	-	-
Total profit/(loss)	49	-	-	-	-	-

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

EXPLANATIONS AND NOTES RELATED TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

2. Disclosures of transactions with the Bank's risk group

Relations with entities in the risk group and controlled by the Bank regardless of the nature of relationship among the parties

Transactions with the risk group are made on an arms-length basis; terms are set according to the market conditions and in compliance with the Banking Law.

In addition to the structure of the relationship, type of transaction, amount, and share in total transaction volume, amount of significant items, and share in all items, pricing policy and other

Pricing policy and other conditions of transactions with the risk group of the Bank are determined and applied on arm's length basis. The ratio of cash and non-cash loans given to the Bank's risk group to total cash and non-cash loans are 0.23% (December 31, 2015: 0.12%) and 3.11% (December 31, 2015: 3.02%) respectively.

Current Period	Amount	Compared to financial statement amount (%)
Cash loans	332,264	0.23%
Non-cash loans	1,259,408	3.11%
Deposits	2,197,145	1.77%
Forward and option agreements	-	-

Prior Period	Amount	Compared to financial statement amount (%)
Cash loans	146,698	0.12%
Non-cash loans	999,630	3.02%
Deposits	1,810,496	1.65%
Forward and option agreements	-	-

VIII. INFORMATION ON DOMESTIC, FOREIGN AND OFF-SHORE BRANCHES OR INVESTMENTS AND FOREIGN REPRESENTATIVE OFFICES

Domestic and foreign branches and representative offices

	Number of Branches	Number of Employees		Total Assets	Capital
Domestic Branches ^(*)	921	15,574			
			Country		
Foreign Representative Offices					
Foreign Branches	1	22	USA	5,066,689	57,998
	1	15	Iraq	242,071	24,605
Off-shore Branches	1	4	Bahrain	12,040,864	-

^(*) Free zone branches in Turkey is included to domestic branches.

Opening or closing of domestic and foreign branches and representative offices and significant changes in organizational structure

During 2016, 8 new domestic branches (2015: 27 domestic branches) have been opened and 4 branches have been closed (2015: None).

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

EXPLANATIONS AND NOTES RELATED TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

SECTION SIX OTHER DISCLOSURES

I. OTHER DISCLOSURES ON THE BANK'S ACTIVITY

As per the resolution of 62nd Annual General Assembly held on March 29, 2016, the net profit of year 2015 has been decided to be distributed as follows:

	Profit Distribution Table of Year 2015
Bank's unconsolidated profit in its statutory financial statements	1,930,109
Net profit of the year subject to distribution	1,930,109
Legal reserves	193,012
<i>First Legal Reserves</i>	96,506
<i>Reserves allocated according to banking law and articles of association.</i>	96,506
Net profit of the year subject to distribution	1,737,097
Gain on sale of immovable and shares of associates and subsidiaries	1,660
Extraordinary reserves	1,635,437
Dividends to shareholders	100,000

II. INFORMATION ON THE BANK'S RATING GIVEN BY INTERNATIONAL CREDIT RATING INSTITUTIONS

February 2017 ^(*)	Fitch Ratings
Long Term Foreign Currency	BB+
Short Term Foreign Currency	B
Foreign Currency Outlook	Stable
Long Term Local Currency	BBB-
Short Term Local Currency	F3
Local Currency Outlook	Stable
National Long Term	AAA (tur)
National Outlook	Stable
Support	3
Support Rating Floor	BB+
Viability Note	bb+
October 2016 ^(*)	Moody's Investors' Service
Baseline Credit Assessment	ba2
Local Currency Deposit Rating	Ba1/NP
Local Currency Outlook	Stable
Foreign Currency Deposit Rating	Ba2/NP
Foreign Currency Outlook	Stable
February 2017 ^(*)	Standard&Poors
Foreign Currency Counterparty Credit Rating	BB/B
Foreign Currency Outlook	Negative
Local Currency Counterparty Credit Rating	BB/B
Local Currency Outlook	Negative
Turkey National Scale	trAA- / trA-1

^(*) Dates represent last report dates.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED UNCONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

EXPLANATIONS AND NOTES RELATED TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

III. SIGNIFICANT EVENTS AND MATTERS SUBSEQUENT TO BALANCE SHEET DATE THAT ARE NOT RESULTED

Vakıfbank bonds of which value date are January 20, 2017 have been issued and offered to public through book-building totally 400 million (Full TL) on January 16-17-18, 2017, amounting TL 300 million (Full TL) with 126 days maturity and maturity date of which is May 26, 2017, amounting TL 100 million (Full TL) with 217 days maturity and maturity date of which is August 25, 2017.

Vakıfbank bond with the ISIN Code TRQVKFB51735 which has 11.2893% annual compound interest, 10.8962% simple interest and issue price was TL 96,375 with amounting TL 313,381,865 (Full TL) with 126 days maturity and maturity date of which is May 26, 2017.

Vakıfbank bond with the ISIN Code TRQVKFB81716 which has 11.3701% annual compound interest, 11.1210% simple interest and issue price was TL 93,798 with amounting TL 20,354,023 (Full TL) with 217 days maturity and maturity date of which is August 25, 2017.

In 2012, the Bank carried out the sale of bond issued abroad with a maturity of 2022 maturities of US \$ 900 million. Regulations and amendments made within the scope of BRSA's Regulation on Equities of Banks have made it possible to comply with Basel III regulations in the capital adequacy calculations of banks as contributions capital. In this context, the effect on the capital of the Bank which has issued Basel II compliant subordinated loan provisions issued in 2012 has decreased.

In this context, the operational process of the swap transaction of bonds with a total nominal value of USD 227,605,000 which issued abroad, with the new Basel III compliant conditions, was completed on 13 February 2017 and the redemption date of the bonds to be exchanged was determined as November 1, 2027, with a maturity of 10 years (recall option in 2022) and coupon rate as 8.00%.

SECTION SEVEN

I. INDEPENDENT AUDITORS' AUDIT REPORT

1. Information on independent auditor's report

The Bank's unconsolidated financial statements and footnotes as at and for year ended December 31, 2016 have been audited by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. It was noted in their audited report dated February 20, 2016 that nothing material has come to their attention that caused them to believe that the accompanying unconsolidated financial statements do not give a true and fair view of the Bank's financial position and results of its operations.

II. EXPLANATIONS AND FOOTNOTES PREPARED BY INDEPENDENT AUDITOR

There are no significant issues and necessary disclosures and footnotes related to the activities of the Bank that are not mentioned in the above sections.

TÜRKİYE VAKIFLAR BANKASI
TÜRK ANONİM ORTAKLIĞI

CONSOLIDATED FINANCIAL STATEMENTS AND
RELATED DISCLOSURES AT DECEMBER 31, 2016
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

(Convenience Translation of Publicly Announced Consolidated
Financial Statements and Independent Auditors' Report
Originally Issued in Turkish, See in Note I. of Section Three)



**CONVENIENCE TRANSLATION INTO ENGLISH OF THE
INDEPENDENT AUDITOR'S REPORT
ORIGINALLY PREPARED AND ISSUED IN TURKISH**

To the Board of Directors of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı;

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı ("the Bank") and its subsidiaries (collectively referred to as the "Group") as at 31 December 2016 and the related consolidated statement of income, consolidated income and expense items under shareholders' equity, consolidated statement of changes in shareholders' equity, consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Independent Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our audit was conducted in accordance with the "Regulation on Independent Audit of Banks" published by the BRSA on the Official Gazette No.29314 dated 2 April 2015 and Independent Auditing Standards that are part of Turkish Standards on Auditing published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that ethical requirements are complied with and that the audit is planned and performed to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and its subsidiaries as at 31 December 2016 and the results of its operations and its cash flows for the year then ended in accordance with BRSA Accounting and Reporting Legislation.

Report on Other Responsibilities Arising From Regulatory Requirements

In accordance with subparagraph 4 of Article 402 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 1 January - 31 December 2016 are not in compliance with TCC and provisions of the Bank's articles of association in relation to financial reporting.

In accordance with subparagraph 4 of Article 402 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

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

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



Zeynep Uras, SMMM
Partner

Istanbul, 20 February 2017

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI CONSOLIDATED FINANCIAL REPORT AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2016

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The consolidated financial report as at and for the year ended December 31, 2016 prepared in accordance with the communiqué of Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks as regulated by Banking Regulation and Supervision Agency, is comprised of the following sections:

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

The subsidiaries and associates included in the consolidated financial report are as follows:

SUBSIDIARIES	ASSOCIATES	JOINT-VENTURES
Güneş Sigorta A.Ş.	Kıbrıs Vakıflar Bankası Ltd.	-
Vakıf Emeklilik A.Ş.	Türkiye Sınai Kalkınma Bankası A.Ş.	-
Vakıf Faktoring A.Ş.	-	-
Vakıf Finansal Kiralama A.Ş.	-	-
Vakıf Portföy Yönetimi A.Ş.	-	-
Vakıf Yatırım Menkul Değerler A.Ş.	-	-
Vakıfbank International AG	-	-
Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş.	-	-
Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş.	-	-

The consolidated financial statements for the year and related disclosures and footnotes that were subject to limited review, are prepared in accordance with the Regulation on Accounting Applications for Banks and Safeguarding of Documents, Turkish Accounting Standards, Turkish Financial Reporting Standards and the related statements and guidance and in compliance with the financial records of our Bank. Unless otherwise stated, the accompanying consolidated financial report is presented in thousands of Turkish Lira (TL), and has been subjected to limited review.

20 February 2017



RAMAZAN GÜNDÜZ
Chairman of the
Board of Directors



MEHMET EMİN ÖZCAN
Deputy Chairman of the Board
and Audit Committee Member



SABAHATTİN BİRDAL
Board member and
Audit Committee Member



HALİL AYDOĞAN
General Manager and
Board Member



METİN RECEP ZAFER
Assistant General Manager



FERKAN MERDAN
Director of Accounting and
Financial Affairs

The authorized contact person for questions on this financial report:

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CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS FINANCIAL SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

SECTION ONE GENERAL INFORMATION

I. HISTORY OF THE PARENT BANK INCLUDING ITS INCORPORATION DATE, INITIAL LEGAL STATUS, AMENDMENTS TO LEGAL STATUS

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı (“The Bank” or “The Parent Bank”) was established to operate as stated in the disclosure V of this section, under the authorization of a special law numbered 6219, called “the Law of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı”, on 11 January 1954 within the framework of the authority granted to The General Directorate of the Foundations of Turkish Republic Prime Ministry (“The General Directorate of the Foundations”). The Bank’s statute has not been changed since its establishment.

II. THE PARENT BANK’S SHAREHOLDERS STRUCTURE, MANAGEMENT AND INTERNAL AUDIT, DIRECT AND INDIRECT SHAREHOLDERS, CHANGE IN SHAREHOLDER STRUCTURE DURING THE PERIOD AND INFORMATION ON BANK’S RISK GROUP

The shareholder having control over the shares of The Parent Bank is the General Directorate of the Foundations.

As at December 31, 2016 and December 31, 2015, The Bank’s paid-in capital is TL 2,500,000 divided into 250,000,000,000 shares with each has a nominal value of Kr 1.

The Parent Bank’s shareholders structure as at December 31, 2016 is stated below:

Shareholders	Number of Shares (100 unit)	Nominal Value of the Shares – Thousands of TL	Share Percentage (%)
Registered foundations represented by the General Directorate of the Foundations (Group A)	1,075,058,640	1,075,058	43.00
Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (Group C)	402,552,666	402,553	16.10
Registered foundations represented by the General Directorate of the Foundations (Group B)	386,224,785	386,225	15.45
Other appendant foundations (Group B)	2,823,304	2,823	0.11
Other registered foundations (Group B)	1,448,543	1,448	0.06
Other real persons and legal entities (Group C)	1,532,626	1,533	0.06
Publicly traded (Group D)	630,359,436	630,360	25.22
Total	2,500,000,000	2,500,000	100.00

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS FINANCIAL SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

III. INFORMATION ON THE PARENT BANK'S CHAIRMAN AND MEMBERS OF THE BOARD OF DIRECTORS, AUDIT COMMITTEE MEMBERS, GENERAL MANAGER, ASSISTANT GENERAL MANAGERS AND THEIR SHARES IN THE BANK

Name and Surname	Responsibility	Date of Appointment	Education	Experience in Banking and Management
Board of Directors				
Ramazan GÜNDÜZ	Chairman	March 29, 2013	University	38 years
Mehmet Emin ÖZCAN	Deputy Chairman	March 29, 2013	University	33 years
Halil AYDOĞAN	Member – General Manager	March 29, 2013	University	39 years
İsmail ALPTEKİN	Member	April 6, 2009	University	18 years
Dr.Adnan ERTEM	Member	October 28, 2010	PHD	28 years
Sabahattin BİRDAL	Member	March 31, 2014	University	39 years
Öztürk ORAN	Member	April 30, 2014	University	41 years
Dilek YÜKSEL	Member	March 29, 2016	University	4 years
Audit Committee				
Mehmet Emin ÖZCAN	Member	April 4, 2014	University	33 years
Sabahattin BİRDAL	Member	April 4, 2014	University	39 years
Auditor				
Yunus ARINCI	Auditor	March 19, 2010	Master	19 years
Mehmet Emin BAYSA	Auditor	March 29, 2016	Master	15 years
Assistant Managers				
Metin Recep ZAFER	Accounting and Financial Affairs, Treasury and Foreign Operations, Banking Operations, Consumer Coordination Attendant, Application Development Departments, System Management, IT Operations and Support, IT Demand Management Directorate, IT Business Development, Project Management Directorate, Information Security, IT Process Management and Compliance Directorate 13 June 2006		PHD	21 years
Hasan ECESOY	Treasury, International Relations and Investor Relations, Coordination of Foreign Branches 18 June 2010		PHD	23 years
Serdar SATOĞLU	Private Banking, Associates	2 July 2010	PHD	21 years
Osman DEMREN	Commercial and Corporate Loans, Consumer and SME Loans, Intelligence	6 April 2011	Master	26 years
Muhammet Lütfü ÇELEBİ	Commercial and Corporate Banking, SME Banking, Cash Management Affairs, Corporate Branches	23 October 2013	University	21 years
Mustafa SAYDAM	Human Resources, Support Services, Distribution Channels	28 October 2013	University	23 years
Mehmet Emin KARAAĞAÇ	Loans and Follow-up, Legal Affairs	8 November 2013	University	27 years
Yakup ŞİMŞEK	Retail Banking, Payment Systems, Payment System Operations, Insurance Banking	7 September 2016	University	20 years

At the resolution of the 62nd Ordinary Meeting of the General Assembly dated 29 March 2016, Şeref AKSAÇ who was a member of Board of Directors and Mehmet HALTAŞ who was a member of audit committee have left their position. Based on the decision taken at the same meeting Dilek YÜKSEL has been assigned to member of Board of Directors and Mehmet Emin BAYSA has been assigned to audit committee member.

In the Ordinary General Assembly meeting of the Parent Bank held on August 25, 2016, duty of Yakup ŞİMŞEK (Head of Cash Management Transactions) has appointed for the Executive Vice President.

In the Ordinary General Assembly meeting of the Parent Bank held on September 8, 2016, duty of Ali Engin EROĞLU(Executive Vice President) has left his position.

İsmail ALPTEKİN, member of the Board of Directors, holds 59 unquoted shares of Group C of the Parent Bank. The remaining members of the top management listed above do not hold any unquoted shares of the Parent Bank.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS FINANCIAL SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

IV. INFORMATION ON THE PARENT BANK'S QUALIFIED SHAREHOLDERS

Shareholders	Nominal Value of Shares	Share Percentage	Paid Shares (Nominal)	Unpaid Shares
Registered foundations represented by the General Directorate of the Foundations (Group A)	1,075,058	43.00	1,075,058	-
Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (Group C)	402,553	16.10	402,553	-
Registered foundations represented by the General Directorate of the Foundations (Group B)	386,225	15.45	386,225	-

The shareholder holding control over the Parent Bank is the General Directorate of the Foundations and Appendant foundations represented by the General Directorate of the Foundations having 58.45% of the Bank's outstanding shares. Another organization holding qualified share in the Parent Bank is Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı, having 16.10% of outstanding shares of the Bank.

V. INFORMATION ABOUT THE SERVICES AND NATURE OF ACTIVITIES OF THE PARENT BANK

The Parent Bank was established under the authorization of special law numbered 6219, called "The Law of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı", on 11 January 1954 within the framework of the authority granted to The General Directorate of the Foundations. Operational activities of the Bank as stated at its Articles of Association are as follows:

- Lending loans by granting securities and real estates as collateral,
- Establishing or participating in all kinds of insurance corporations already established,
- Trading real estates,
- Servicing all banking operations and services,
- Operating real estates and participating in industrial sectors for corporations handed over by foundations and General Directorate of the Foundations in line with conditions stipulated by agreements if signed.
- The Bank is established to render banking services to the foundations and carry out cashier transactions of the General Directorate of Foundations in compliance with the agreements signed by General Directorate of the Foundations.

The Parent Bank and its consolidated subsidiaries are called as "The Group" in the report.

As at December 31, 2016, The Parent Bank has 921 domestic, 3 foreign, in total 924 branches (December 31, 2015: 917 domestic, 3 foreign, in total 920branches). As at December 31, 2016, The Parent Bank has 15,615 employees (December 31, 2015: 15,410 employees).

VI. DIFFERENCES BETWEEN THE COMMUNIQUE ON PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS OF BANKS AND TURKISH ACCOUNTING STANDARDS AND SHORT EXPLANATION ABOUT THE INSTITUTIONS SUBJECT TO LINE-BY-LINE METHOD OR PROPORTIONAL CONSOLIDATION AND INSTITUTIONS WHICH ARE DEDUCTED FROM EQUITY OR NOT INCLUDED IN THESE THREE METHODS

As at and for the year ended December 31, 2016, the financial statements of T. Vakıflar Bankası T.A.O., Vakıfbank International AG, Vakıf Finansal Kiralama A.Ş., Güneş Sigorta A.Ş., Vakıf Emeklilik A.Ş., Vakıf Faktoring A.Ş., Vakıf Yatırım Menkul Değerler A.Ş., Vakıf Portföy Yönetimi A.Ş., Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. and Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş. have been included in the consolidated financial statements of the Group.

As at and for the year ended December 31, 2016, the financial statements of Kıbrıs Vakıflar Bankası Ltd. and Türkiye Sınai Kalkınma Bankası A.Ş. have been consolidated per equity method in the consolidated financial statements of the Group.

İstanbul Takas ve Saklama Bankası A.Ş. and Kredi Garanti Fonu A.Ş. are excluded from the scope of consolidation according to the Communiqué on Preparation of Consolidated Financial Statements. Since Bankalararası Kart Merkezi A.Ş., Kredi Kayıt Bürosu A.Ş., Roketsan Roket Sanayi ve Ticaret A.Ş., Güçbirliği Holding A.Ş. and İzmir Enternasyonal A.Ş. are not financial associates; these associates have not been consolidated. These associates have been accounted for as per TAS-39 in the consolidated financial statements.

Vakıf Enerji ve Madencilik A.Ş., Taksim Otelcilik A.Ş., Vakıf Pazarlama Sanayi ve Ticaret A.Ş. and Vakıf Gayrimenkul Değerleme A.Ş. have not been consolidated since they are not among the financial subsidiaries of the Bank. Therefore, the subsidiaries whose fair value can be reliably measured are reflected in the consolidated financial statements at their fair values.

VII. CURRENT OR LIKELY ACTUAL OR LEGAL BARRIERS TO IMMEDIATE TRANSFER OF EQUITY OR REPAYMENT OF DEBTS BETWEEN THE PARENT BANK AND ITS SUBSIDIARIES

None.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS FINANCIAL SUBSIDIARIES CONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) AS AT DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

SECTION TWO CONSOLIDATED FINANCIAL STATEMENTS

ASSETS	Notes	Audited Current Period December 31, 2016			Audited Prior Period December 31, 2015		
		TL	FC	Total	TL	FC	Total
I. CASH AND BALANCES WITH THE CENTRAL BANK	V-I-1	4,409,164	19,960,151	24,369,315	2,134,017	19,355,897	21,489,914
II. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Net)	V-I-2	1,644,899	144,334	1,789,233	840,168	155,694	995,862
2.1 Financial assets held for trading purpose		1,644,899	144,334	1,789,233	840,168	155,694	995,862
2.1.1 Debt securities issued by the governments		206	10,647	10,853	312	9,566	9,878
2.1.2 Equity securities		2,095	-	2,095	1,832	-	1,832
2.1.3 Derivative financial assets held for trading purpose	V-I-2	1,473,865	133,687	1,607,552	739,339	146,128	885,467
2.1.4 Other securities		168,733	-	168,733	98,685	-	98,685
2.2 Financial assets designated at fair value through profit or loss		-	-	-	-	-	-
2.2.1 Debt securities issued by the governments		-	-	-	-	-	-
2.2.2 Equity securities		-	-	-	-	-	-
2.2.3 Other securities		-	-	-	-	-	-
2.2.4 Loans		-	-	-	-	-	-
III. BANKS	V-I-3	1,195,786	4,079,703	5,275,489	1,185,799	4,990,220	6,176,019
IV. RECEIVABLES FROM INTERBANK MONEY MARKETS		5,232	-	5,232	6,699	-	6,699
4.1 Interbank money market placements		-	-	-	-	-	-
4.2 Istanbul Stock Exchange money market placements		3,428	-	3,428	3,310	-	3,310
4.3 Receivables from reverse repurchase agreements		1,804	-	1,804	3,389	-	3,389
V. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Net)	V-I-4	12,588,929	6,030,151	18,619,080	12,100,346	5,235,765	17,336,111
5.1 Equity securities		15	27,595	27,610	15	79,238	79,253
5.2 Debt securities issued by the governments		12,588,914	5,719,498	18,308,412	12,100,331	5,028,990	17,129,321
5.3 Other securities		-	283,058	283,058	-	127,537	127,537
VI. LOANS AND RECEIVABLES	V-I-5	100,166,610	49,408,659	149,575,269	88,452,140	37,507,539	125,959,679
6.1 Performing loans and receivables		99,001,801	49,402,693	148,404,494	87,548,356	37,502,389	125,050,745
6.1.1 Loans provided to risk group	V-VII-1	581	36,936	37,517	1,071	822	1,893
6.1.2 Debt securities issued by the governments		-	-	-	-	-	-
6.1.3 Other		99,001,220	49,365,757	148,366,977	87,547,285	37,501,567	125,048,852
6.2 Loans under follow-up		6,626,073	77,310	6,703,383	5,071,771	66,342	5,138,113
6.3 Specific provisions (-)	V-I-5	5,461,264	71,344	5,532,608	4,167,987	61,192	4,229,179
VII. FACTORING RECEIVABLES		1,171,659	219,055	1,390,714	622,754	94,973	717,727
VIII. HELD-TO-MATURITY INVESTMENT SECURITIES (Net)	V-I-6	8,039,914	140,621	8,180,535	7,546,748	130,981	7,677,729
8.1 Debt securities issued by the governments		8,039,914	-	8,039,914	7,546,748	-	7,546,748
8.2 Other securities		-	140,621	140,621	-	130,981	130,981
IX. INVESTMENTS IN ASSOCIATES (Net)	V-I-7	336,229	3	336,232	295,332	3	295,335
9.1 Associates, consolidated per equity method		275,765	-	275,765	245,549	-	245,549
9.2 Unconsolidated associates		60,464	3	60,467	49,783	3	49,786
9.2.1 Financial associates		48,111	-	48,111	37,434	-	37,434
9.2.2 Non-financial associates		12,353	3	12,356	12,349	3	12,352
X. INVESTMENTS IN SUBSIDIARIES (Net)	V-I-8	286,698	-	286,698	271,017	-	271,017
10.1 Unconsolidated financial subsidiaries		-	-	-	-	-	-
10.2 Unconsolidated non-financial subsidiaries		286,698	-	286,698	271,017	-	271,017
XI. INVESTMENTS IN JOINT-VENTURES (Net)	V-I-9	-	-	-	-	-	-
11.1 Joint-ventures, consolidated per equity method		-	-	-	-	-	-
11.2 Unconsolidated joint-ventures		-	-	-	-	-	-
11.2.1 Financial joint-ventures		-	-	-	-	-	-
11.2.2 Non-financial joint-ventures		-	-	-	-	-	-
XII. LEASE RECEIVABLES	V-I-10	364,209	1,182,200	1,546,409	318,359	1,007,466	1,325,825
12.1 Finance lease receivables		465,056	1,323,625	1,788,681	401,084	1,134,987	1,536,071
12.2 Operational lease receivables		-	-	-	-	-	-
12.3 Other		-	-	-	-	-	-
12.4 Unearned income (-)		100,847	141,425	242,272	82,725	127,521	210,246
XIII. DERIVATIVE FINANCIAL ASSETS HELD FOR RISK MANAGEMENT PURPOSE	V-I-11	-	-	-	-	-	-
13.1 Fair value hedges		-	-	-	-	-	-
13.2 Cash flow hedges		-	-	-	-	-	-
13.3 Hedges of net investment in foreign operations		-	-	-	-	-	-
XIV. TANGIBLE ASSETS (Net)	V-I-12	1,693,745	9,358	1,703,103	1,648,900	5,218	1,654,118
XV. INTANGIBLE ASSETS (Net)	V-I-13	230,242	23	230,265	201,506	31	201,537
15.1 Goodwill		-	-	-	-	-	-
15.2 Other intangibles		230,242	23	230,265	201,506	31	201,537
XVI. INVESTMENT PROPERTIES (Net)	V-I-14	354,385	-	354,385	287,726	-	287,726
XVII. TAX ASSETS	V-I-15	197,922	-	197,922	139,972	2,944	142,916
17.1 Current tax assets	V-I-15	835	-	835	787	2,944	3,731
17.2 Deferred tax assets	V-I-15	197,087	-	197,087	139,185	-	139,185
XVIII. ASSETS HELD FOR SALE AND ASSETS RELATED TO THE DISCONTINUED OPERATIONS (Net)	V-I-16	1,228,102	-	1,228,102	994,991	-	994,991
18.1 Assets held for sale		1,228,102	-	1,228,102	994,991	-	994,991
18.2 Assets related to the discontinued operations		-	-	-	-	-	-
XIX. OTHER ASSETS	V-I-17	3,110,515	2,472,502	5,583,017	2,789,299	1,263,054	4,052,353
TOTAL ASSETS		137,024,240	83,646,760	220,671,000	119,835,773	69,749,785	189,585,558

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 NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS FINANCIAL SUBSIDIARIES CONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) AS AT DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

LIABILITIES AND EQUITY	Notes	Audited Current Period December 31, 2016			Audited Prior Period December 31, 2015		
		TL	FC	Total	TL	FC	Total
I. DEPOSITS	V-II-1	85,815,420	40,443,889	126,259,309	76,054,788	35,955,209	112,009,997
1.1 Deposits of risk group	V-VII-1	1,686,765	116,088	1,802,853	1,209,289	110,608	1,319,897
1.2 Other deposits		84,128,655	40,327,801	124,456,456	74,845,499	35,844,601	110,690,100
II. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING PURPOSE	V-II-2	955,019	199,405	1,154,424	153,177	151,175	304,352
III. FUNDS BORROWED	V-II-3	1,720,814	24,578,616	26,299,430	932,351	19,262,696	20,195,047
IV. INTERBANK MONEY MARKET		11,450,137	1,794,134	13,244,271	9,423,761	3,403,437	12,827,198
4.1 Interbank money market takings		2,501,180	-	2,501,180	1,150,343	-	1,150,343
4.2 Istanbul Stock Exchange money market takings		277,667	-	277,667	83,157	-	83,157
4.3 Obligations under repurchase agreements		8,671,290	1,794,134	10,465,424	8,190,261	3,403,437	11,593,698
V. SECURITIES ISSUED (Net)	V-II-3	3,373,519	11,309,305	14,682,824	3,257,620	7,389,088	10,646,708
5.1 Bills		3,373,519	-	3,373,519	3,257,620	-	3,257,620
5.2 Asset backed securities		-	-	-	-	-	-
5.3 Bonds		-	11,309,305	11,309,305	-	7,389,088	7,389,088
VI. FUNDS		3,319	-	3,319	4,228	-	4,228
6.1 Funds against borrower's note		-	-	-	-	-	-
6.2 Other		3,319	-	3,319	4,228	-	4,228
VII. MISCELLANEOUS PAYABLES		4,622,676	920,879	5,543,555	3,647,401	750,360	4,397,761
VIII. OTHER EXTERNAL RESOURCES PAYABLE	V-II-4	747,599	2,018,132	2,765,731	662,279	1,783,682	2,445,961
IX. FACTORING PAYABLES		77	4	81	-	5	5
X. LEASE PAYABLES (Net)	V-II-5	-	-	-	-	-	-
10.1 Finance lease payables		-	-	-	-	-	-
10.2 Operational lease payables		-	-	-	-	-	-
10.3 Other		-	-	-	-	-	-
10.4 Deferred finance leasing expenses (-)		-	-	-	-	-	-
XI. DERIVATIVE FINANCIAL LIABILITIES HELD FOR RISK MANAGEMENT PURPOSE	V-II-6	-	-	-	-	-	-
11.1 Fair value hedges		-	-	-	-	-	-
11.2 Cash flow hedges		-	-	-	-	-	-
11.3 Hedges of net investment in foreign operations		-	-	-	-	-	-
XII. PROVISIONS	V-II-7	5,562,513	43,584	5,606,097	5,025,269	31,277	5,056,546
12.1 General provisions	V-II-7	2,153,773	13,670	2,167,443	1,944,150	13,453	1,957,603
12.2 Restructuring reserves		-	-	-	-	-	-
12.3 Reserve for employee benefits	V-II-7	736,608	1,791	738,399	700,635	1,544	702,179
12.4 Insurance technical provisions (Net)	V-II-7	2,304,345	14,000	2,318,345	2,082,428	9,127	2,091,555
12.5 Other provisions	V-II-7	367,787	14,123	381,910	298,056	7,153	305,209
XIII. TAX LIABILITIES	V-II-8	477,830	11,957	489,787	531,561	7,888	539,449
13.1 Current tax liabilities		463,916	2,847	466,763	514,681	1,678	516,359
13.2 Deferred tax liabilities	V-I-15	13,914	9,110	23,024	16,880	6,210	23,090
XIV. PAYABLES FOR ASSETS HELD FOR SALE AND ASSETS RELATED TO DISCONTINUED OPERATIONS (Net)	V-II-9	-	-	-	-	-	-
14.1 Payables related to the assets held for sale		-	-	-	-	-	-
14.2 Payables related to the discontinued operations		-	-	-	-	-	-
XV. SUBORDINATED LOANS	V-II-10	-	5,014,700	5,014,700	-	4,155,551	4,155,551
XVI. EQUITY		19,154,003	453,469	19,607,472	16,437,456	565,299	17,002,755
16.1 Paid-in capital	V-II-11	2,500,000	-	2,500,000	2,500,000	-	2,500,000
16.2 Capital reserves		1,494,226	50,440	1,544,666	1,390,356	257,405	1,647,761
16.2.1 Share premium		727,780	-	727,780	727,780	-	727,780
16.2.2 Share cancellation profits		-	-	-	-	-	-
16.2.3 Valuation differences of the marketable securities	V-II-11	(181,609)	50,440	(131,169)	(227,394)	257,405	30,011
16.2.4 Revaluation surplus on tangible assets		997,197	-	997,197	940,657	-	940,657
16.2.5 Revaluation surplus on intangible assets		-	-	-	-	-	-
16.2.6 Revaluation surplus on investment properties		-	-	-	-	-	-
16.2.7 Bonus shares of associates, subsidiaries and joint-ventures		3,683	-	3,683	3,683	-	3,683
16.2.8 Hedging reserves (effective portion)		-	-	-	-	-	-
16.2.9 Revaluation surplus on assets held for sale and assets related to the discontinued operations		-	-	-	-	-	-
16.2.10 Other capital reserves		(52,825)	-	(52,825)	(54,370)	-	(54,370)
16.3 Profit reserves		12,025,037	234,296	12,259,333	10,163,563	170,099	10,333,662
16.3.1 Legal reserves		1,428,436	8,351	1,436,787	1,228,224	7,942	1,236,166
16.3.2 Status reserves		6,337	-	6,337	6,337	-	6,337
16.3.3 Extraordinary reserves		10,151,977	4,598	10,156,575	8,475,454	4,594	8,480,048
16.3.4 Other profit reserves		438,287	221,347	659,634	453,548	157,563	611,111
16.4 Profit or loss		2,660,885	115,059	2,775,944	1,921,411	94,530	2,015,941
16.4.1 Prior years' profit/loss		(107,147)	93,173	(13,974)	(34,277)	101,630	67,353
16.4.2 Current period's profit/loss		2,768,032	21,886	2,789,918	1,955,688	(7,100)	1,948,588
16.5 Non-controlling interest		473,855	53,674	527,529	462,126	43,265	505,391
TOTAL LIABILITIES AND EQUITY		133,882,926	86,788,074	220,671,000	116,129,891	73,455,667	189,585,558

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 NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS FINANCIAL SUBSIDIARIES CONSOLIDATED OFF-BALANCE SHEET AS AT DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Notes	Audited Current Period December 31, 2016			Audited Prior Period December 31, 2015		
		TL	FC	TOTAL	TL	FC	TOTAL
A. OFF-BALANCE SHEET COMMITMENTS AND CONTINGENCIES (I+II+III)		71,979,483	76,304,502	148,283,985	54,303,859	64,173,751	118,477,610
I. GUARANTEES AND SURETIES	V-III-2	26,946,124	13,714,227	40,660,351	22,126,363	10,993,538	33,119,901
1.1 Letters of guarantee	V-III-1	26,687,992	5,628,335	32,316,327	21,980,769	4,816,824	26,797,593
1.1.1 Guarantees subject to State Tender Law		3,203,501	2,571,209	5,774,710	2,542,809	2,199,589	4,742,398
1.1.2 Guarantees given for foreign trade operations		1,059,516	-	1,059,516	1,030,530	-	1,030,530
1.1.3 Other letters of guarantee		22,424,975	3,057,126	25,482,101	18,407,430	2,617,235	21,024,665
1.2 Bank acceptances		53,702	1,143,484	1,197,186	86,762	1,389,251	1,476,013
1.2.1 Import letter of acceptance		-	395,874	395,874	1,590	189,471	191,061
1.2.2 Other bank acceptances		53,702	747,610	801,312	85,172	1,199,780	1,284,952
1.3 Letters of credit		1,762	6,911,368	6,913,130	16,306	4,772,403	4,788,709
1.3.1 Documentary letters of credit		1,762	6,911,368	6,913,130	16,306	4,772,403	4,788,709
1.3.2 Other letters of credit		-	-	-	-	-	-
1.4 Guaranteed pre-financings		-	2,796	2,796	-	2,314	2,314
1.5 Endorsements		-	-	-	-	-	-
1.5.1 Endorsements to the Central Bank of Republic of Turkey		-	-	-	-	-	-
1.5.2 Other endorsements		-	-	-	-	-	-
1.6 Marketable securities underwriting commitments		-	-	-	-	-	-
1.7 Factoring related guarantees		202,668	7,682	210,350	42,526	2,224	44,750
1.8 Other guarantees		-	16,890	16,890	-	10,522	10,522
1.9 Other sureties		-	3,672	3,672	-	-	-
II. COMMITMENTS		27,151,229	12,692,995	39,844,224	21,560,921	13,287,107	34,848,028
2.1 Irrevocable commitments		24,078,084	1,659,432	25,737,516	19,153,861	3,897,112	23,050,973
2.1.1 Asset purchase commitments	V-III-1	1,362,697	1,502,055	2,864,752	112,420	3,730,953	3,843,373
2.1.2 Deposit purchase and sales commitments		-	-	-	-	-	-
2.1.3 Share capital commitments to associates and subsidiaries	V-III-1	-	-	-	-	-	-
2.1.4 Loan granting commitments	V-III-1	9,817,555	34,042	9,851,597	8,482,816	11,931	8,494,747
2.1.5 Securities issuance brokerage commitments		-	-	-	-	-	-
2.1.6 Commitments for reserve deposit requirements		-	-	-	-	-	-
2.1.7 Commitments for cheque payments	V-III-1	2,154,102	-	2,154,102	1,805,569	-	1,805,569
2.1.8 Tax and fund obligations on export commitments		-	-	-	-	-	-
2.1.9 Commitments for credit card limits	V-III-1	8,682,835	-	8,682,835	7,399,361	-	7,399,361
2.1.10 Commitments for credit card and banking operations promotions		300,108	-	300,108	196,037	-	196,037
2.1.11 Receivables from "short" sale commitments on securities		-	-	-	-	-	-
2.1.12 Payables from "short" sale commitments on securities		-	-	-	-	-	-
2.1.13 Other irrevocable commitments		1,760,787	123,335	1,884,122	1,157,658	154,228	1,311,886
2.2 Revocable commitments		3,073,145	11,033,563	14,106,708	2,407,060	9,389,995	11,797,055
2.2.1 Revocable loan granting commitments		3,024,169	11,033,563	14,057,732	2,407,060	9,389,995	11,797,055
2.2.2 Other revocable commitments		48,976	-	48,976	-	-	-
III. DERIVATIVE FINANCIAL INSTRUMENTS	V-III-5	17,882,130	49,897,280	67,779,410	10,616,575	39,893,106	50,509,681
3.1 Derivative financial instruments held for risk management		-	-	-	-	-	-
3.1.1 Fair value hedges		-	-	-	-	-	-
3.1.2 Cash flow hedges		-	-	-	-	-	-
3.1.3 Net foreign investment hedges		-	-	-	-	-	-
3.2 Trading derivatives		17,882,130	49,897,280	67,779,410	10,616,575	39,893,106	50,509,681
3.2.1 Forward foreign currency purchases/sales		492,117	1,123,868	1,615,985	211,514	257,246	468,760
3.2.1.1 Forward foreign currency purchases		247,789	560,368	808,157	106,014	128,693	234,707
3.2.2.2 Forward foreign currency sales		244,328	563,500	807,828	105,500	128,553	234,053
3.2.2 Currency and interest rate swaps		16,341,272	37,911,234	54,252,506	9,535,325	31,037,511	40,572,836
3.2.2.1 Currency swaps-purchases		8,566,437	11,982,601	20,549,038	4,474,398	12,245,882	16,720,280
3.2.2.2 Currency swaps-sales		6,324,835	10,311,809	16,636,644	4,160,927	6,377,871	10,538,798
3.2.2.3 Interest rate swaps-purchases		725,000	7,808,412	8,533,412	450,000	6,206,879	6,656,879
3.2.2.4 Interest rate swaps-sales		725,000	7,808,412	8,533,412	450,000	6,206,879	6,656,879
3.2.3 Currency, interest rate and security options		142,676	730,632	873,308	258,134	255,396	513,530
3.2.3.1 Currency call options		121,124	306,804	427,928	65,004	185,976	250,980
3.2.3.2 Currency put options		21,552	423,828	445,380	193,130	69,420	262,550
3.2.3.3 Interest rate call options		-	-	-	-	-	-
3.2.3.4 Interest rate put options		-	-	-	-	-	-
3.2.3.5 Security call options		-	-	-	-	-	-
3.2.3.6 Security put options		-	-	-	-	-	-
3.2.4 Currency futures		-	-	-	-	-	-
3.2.4.1 Currency futures-purchases		-	-	-	-	-	-
3.2.4.2 Currency futures-sales		-	-	-	-	-	-
3.2.5 Interest rate futures		-	-	-	-	-	-
3.2.5.1 Interest rate futures-purchases		-	-	-	-	-	-
3.2.5.2 Interest rate futures-sales		-	-	-	-	-	-
3.2.6 Other		906,065	10,131,546	11,037,611	611,602	8,342,953	8,954,555
B. CUSTODY AND PLEDGED ITEMS (IV+V+VI)		1,045,090,768	580,650,674	1,625,741,442	900,903,931	422,152,366	1,323,056,297
IV. ITEMS HELD IN CUSTODY		56,357,991	4,476,062	60,834,053	75,156,434	3,413,733	78,570,167
4.1 Customers' securities held		796,204	-	796,204	682,348	28,306	710,654
4.2 Investment securities held in custody		43,543,703	147,806	43,691,509	63,234,788	118,086	63,352,874
4.3 Checks received for collection		9,441,126	2,589,510	12,030,636	9,151,798	2,345,788	11,497,586
4.4 Commercial notes received for collection		1,535,349	751,302	2,286,651	1,265,535	450,126	1,715,661
4.5 Other assets received for collection		2,152	141	2,293	2,152	116	2,268
4.6 Assets received through public offering		-	-	-	-	-	-
4.7 Other items under custody		49,414	87,056	136,470	24,796	66,158	90,954
4.8 Custodians		990,043	900,247	1,890,290	795,017	405,153	1,200,170
V. PLEDGED ITEMS		280,719,507	104,200,492	384,919,999	235,457,258	82,272,386	317,729,644
5.1 Securities		495,623	16,366	511,989	435,618	14,171	449,789
5.2 Guarantee notes		767,642	544,996	1,312,638	793,282	429,076	1,222,358
5.3 Commodities		31,750,967	775,907	32,526,874	28,164,121	681,732	28,845,853
5.4 Warranties		-	-	-	-	-	-
5.5 Real estates		230,190,866	86,340,346	316,531,212	191,799,623	67,309,165	259,108,788
5.6 Other pledged items		16,964,074	16,365,309	33,329,383	13,661,436	13,683,601	27,345,037
5.7 Pledged items-depository		550,335	157,568	707,903	603,178	154,641	757,819
VI. CONFIRMED BILLS OF EXCHANGE AND SURETIES		708,013,270	471,974,120	1,179,987,390	590,290,239	336,466,247	926,756,486
TOTAL OFF-BALANCE SHEET ITEMS (A+B)		1,117,070,251	656,955,176	1,774,025,427	955,207,790	486,326,117	1,441,533,907

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 NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND IT UNCONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Notes	Audited Current Period January 1, 2016- December 31, 2016	Audited Prior Period January 1, 2015- December 31, 2015
I. INTEREST INCOME		16,964,189	13,973,432
1.1 Interest income from loans	V-IV-1	14,268,928	11,598,337
1.2 Interest income from reserve deposits		111,798	38,684
1.3 Interest income from banks	V-IV-1	121,181	78,724
1.4 Interest income from money market transactions		600	1,633
1.5 Interest income from securities portfolio	V-IV-1	2,230,139	2,072,208
1.5.1 Trading financial assets		8,946	6,775
1.5.2 Financial assets designated at fair value through profit or loss		-	-
1.5.3 Available-for-sale financial assets		1,513,449	1,409,589
1.5.4 Held-to-maturity investments		707,744	655,844
1.6 Finance lease income		110,201	102,526
1.7 Other interest income		121,342	81,320
II. INTEREST EXPENSE		9,727,956	8,238,164
2.1 Interest expense on deposits	V-IV-2	7,194,767	6,115,699
2.2 Interest expense on funds borrowed	V-IV-2	508,116	362,500
2.3 Interest expense on money market transactions		1,007,022	886,728
2.4 Interest expense on securities issued	V-IV-2	691,897	595,176
2.5 Other interest expenses		326,154	278,061
III. NET INTEREST INCOME (I - II)		7,236,233	5,735,268
IV. NET FEES AND COMMISSIONS INCOME		912,483	870,329
4.1 Fees and commissions received		1,458,702	1,351,513
4.1.1 Non-cash loans		229,775	186,784
4.1.2 Others		1,228,927	1,164,729
4.2 Fees and commissions paid		546,219	481,184
4.2.1 Non-cash loans		1,916	1,148
4.2.2 Others		544,303	480,036
V. DIVIDEND INCOME	V-IV-3	61,736	37,169
VI. TRADING INCOME/LOSSES (Net)	V-IV-4	505,038	139,931
6.1 Trading account income/losses		24,051	46,761
6.2 Income/losses from derivative financial instruments		354,798	(29,129)
6.3 Foreign exchange gains/losses		126,189	122,299
VII. OTHER OPERATING INCOME	V-IV-5	2,004,336	2,036,648
VIII. TOTAL OPERATING PROFIT (III+IV+V+VI+VII)		10,719,826	8,819,345
IX. PROVISION FOR LOSSES ON LOANS AND OTHER RECEIVABLES (-)	V-IV-6	2,333,609	1,635,860
X. OTHER OPERATING EXPENSES (-)	V-IV-7	4,906,704	4,817,078
XI. NET OPERATING PROFIT/LOSS (VIII-IX-X)		3,479,513	2,366,407
XII. INCOME RESULTED FROM MERGERS		-	-
XIII. INCOME/LOSS FROM INVESTMENTS UNDER EQUITY ACCOUNTING		37,267	34,617
XIV. GAIN/LOSS ON NET MONETARY POSITION		-	-
XV. INCOME/LOSS FROM CONTINUING OPERATIONS BEFORE TAXES (XI+...+XIV)	V-IV-8	3,516,780	2,401,024
XVI. CONTINUING OPERATIONS PROVISION FOR TAXES	V-IV-9	(724,334)	(527,111)
16.1 Current tax charges	V-IV-11	(741,888)	(417,396)
16.2 Deferred tax credits	V-IV-11	17,554	(109,715)
XVII. NET INCOME/LOSS AFTER TAXES FROM CONTINUING OPERATIONS (XV±XVI)	V-IV-10	2,792,446	1,873,913
XVIII. INCOME FROM DISCONTINUED OPERATIONS		-	-
18.1 Income from investment properties		-	-
18.2 Income from sales of subsidiaries, affiliates and joint-ventures		-	-
18.3 Other income from discontinued activities		-	-
XIX. EXPENSES FROM DISCONTINUED OPERATIONS(-)		-	-
19.1 Investment property expenses		-	-
19.2 Losses from sales of subsidiaries, affiliates and joint ventures		-	-
19.3 Other expenses from discontinued activities		-	-
XX. INCOME/LOSS FROM DISCONTINUED OPERATIONS BEFORE TAXES(XVIII-XIX)		-	-
XXI. DISCONTINUED OPERATIONS PROVISION FOR TAXES(±)		-	-
21.1 Current tax charge		-	-
21.2 Deferred tax charge		-	-
XXII. NET INCOME/LOSS AFTER TAXES FROM DISCONTINUED OPERATIONS(XX±XXI)		-	-
XXIII. NET PROFIT/LOSS (XVI+XXII)	V-IV-12	2,792,446	1,873,913
23.1. Equity holders of the Bank		2,789,918	1,948,588
23.2. Non-controlling interest(-)	V-IV-13	2,528	(74,675)
Earnings per 100 Share (full TL)	III-XXV	1.1160	0.7794

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 NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS FINANCIAL SUBSIDIARIES CONSOLIDATED STATEMENT OF PROFIT AND LOSS ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Audited Current Period January 1, 2016- December 31, 2016	Audited Prior Period January 1, 2015- December 31, 2015
GAINS AND LOSSES RECOGNIZED IN EQUITY		
I. VALUATION DIFFERENCES OF AVAILABLE FOR SALE FINANCIAL ASSETS RECOGNIZED IN VALUATION DIFFERENCES OF MARKETABLE SECURITIES	(234,289)	(585,086)
II. REVALUATION SURPLUS ON TANGIBLE ASSETS	16,708	791,080
III. REVALUATION SURPLUS ON INTANGIBLE ASSETS	-	-
IV. CURRENCY TRANSLATION DIFFERENCES	59,217	42,762
V. GAINS/(LOSSES) FROM CASH FLOW HEDGES (Effective Portion of Fair Value Changes)	-	-
VI. GAINS/(LOSSES) FROM NET FOREIGN INVESTMENT HEDGES (Effective portion)	-	-
VII. EFFECTS OF CHANGES IN ACCOUNTING POLICIES AND ERRORS	-	-
VIII. OTHER GAINS AND LOSSES RECOGNIZED IN EQUITY IN ACCORDANCE WITH TAS	31,515	(49,238)
IX. DEFERRED TAXES DUE TO VALUATION DIFFERENCES	44,360	70,314
X. NET GAINS/LOSSES RECOGNIZED DIRECTLY IN EQUITY (I+II+...+IX)	(82,489)	269,832
XI. CURRENT PERIOD'S PROFIT/(LOSS)	2,792,446	1,873,913
11.1 Change in fair value of securities (transfers to the statement of income)	(5,576)	36,105
11.2 Gains/Losses recognized in the statement of income due to reclassification of cash flow hedges	-	-
11.3 Gains/Losses recognized in the statement of income due to reclassification of net foreign investment hedges	-	-
11.4 Others	2,798,022	1,837,808
XII. TOTAL GAINS AND LOSSES RECOGNIZED DURING THE PERIOD (X+XI)	2,709,957	2,143,745

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 NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS FINANCIAL SUBSIDIARIES CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Audited	Notes	Paid-in Capital	Capital Reserves from Inflation Adjustments to Paid-in Capital	Share Premium	Share Cancellation Profits	Legal Reserves	Status Reserves	Extraordinary Reserves	Other Reserves	Current Period Net Profit/ (Loss)	Prior Period Net Profit/ (Loss)	Valuation Differences of the Marketable Securities	Revaluation Surplus on Tangible, Intangible Assets and Investment Property	Bonus Shares of Associates, Subsidiaries and Joint Ventures	Hedging Reserves	Revaluation Surp. On Assets Held for Sale and Assets of Discount. Op.s	Shareholders' Equity before Minority Interest	Minority Interest	Total Shareholders' Equity	
I.	Prior Period - December 31, 2015																			
	Balances at the beginning of the period	2,500,000	-	727,780	-	1,069,245	6,337	7,346,127	372,881	-	1,873,992	521,530	52,864	3,683	-	-	14,474,439	486,084	14,960,523	
II.	Corrections made according to TAS 8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1.	The effect of corrections of error	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2.	The effect of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III.	Adjusted beginning balance (H1)	2,500,000	-	727,780	-	1,069,245	6,337	7,346,127	372,881	-	1,873,992	521,530	52,864	3,683	-	-	14,474,439	486,084	14,960,523	
IV.	Changes during the period																			
	Mergers	-	-	-	-	-	-	-	-	-	-	(479,644)	-	-	-	-	(479,644)	459	(479,185)	
V.	Associates, Subsidiaries and "Available-for-sale" securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
VI.	Hedges for risk management	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
6.1	Net cash flow hedges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
6.2	Net foreign investment hedges	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
VII.	Revaluation surplus on tangible assets	-	-	-	-	-	-	-	-	-	(638)	653,011	-	-	-	-	652,373	91,356	743,729	
VIII.	Revaluation surplus on intangible assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
IX.	Bonus shares of associates, subsidiaries and joint-ventures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
X.	Translation differences	-	-	-	-	-	-	-	38,486	-	-	-	-	-	-	-	38,486	4,276	42,762	
XI.	Changes resulted from disposal of assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XII.	Changes resulted from reclassifications of the assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XIII.	Effect of change in equities of associates on the Bank's equity	-	-	-	-	-	-	-	-	-	(26,975)	(11,875)	-	-	-	-	(38,850)	-	(38,850)	
XIV.	Capital increase	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
14.1	Cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
14.2	Internal sources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XV.	Share issuance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XVI.	Share cancellation profits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XVII.	Capital reserves from inflation adjustments to paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
XVIII.	Other	-	-	-	-	-	-	11	1,961	-	-	-	-	-	-	-	1,972	(596)	1,376	
XIX.	Current period's net profit/loss	-	-	-	-	-	-	-	-	1,948,588	-	-	-	-	-	-	1,948,588	(74,675)	1,873,913	
XX.	Profit distribution	-	-	-	-	166,921	-	1,133,910	143,413	(1,779,026)	-	234,782	-	-	-	-	(100,000)	(1,513)	(101,513)	
20.1	Dividends	-	-	-	-	-	-	-	-	(100,000)	-	-	-	-	-	-	(100,000)	(1,513)	(101,513)	
20.2	Transferred to reserves	-	-	-	-	166,921	-	1,133,910	143,413	(1,679,026)	-	234,782	-	-	-	-	(100,000)	(1,513)	(101,513)	
20.3	Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Balances at the end of the period	2,500,000	-	727,780	-	1,236,166	6,337	8,480,048	556,741	1,948,588	67,353	30,011	940,657	3,683	-	-	16,497,364	505,391	17,002,755	

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 NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

Audited	Notes	Paid in Capital	Capital Reserves from Inflation Adjustments to Paid in Capital	Share Premium	Share Cancellation Profits	Legal Reserves	Status Reserves	Extra-ordinary Reserves	Other Profit Reserves	Current Year's Net Profit/(Loss)	Prior Period's Net Profit/(Loss)	Valuation Differences of the Marketable Securities	Revaluation Surplus on Tangible, Intangible Assets and Investment Property	Bonus Shares of Associates, Subsidiaries and Joint Ventures	Hedging Reserves	Revaluation Surp.On Assets Held for Sale and Assets of Discount. Op.s.	Shareholders' Equity before Minority Interest	Non-controlling Shareholders' Interest	Total Shareholders' Equity
		2,500,000	-	727,780	-	1,236,166	6,337	8,480,048	556,741	-	2,015,941	30,011	940,657	3,683	-	-	16,497,364	505,391	17,002,755
Changes during the period																			
II. Mergers																			
III. Valuation differences of the marketable securities																			
IV. Hedging reserves																			
4.1 Cash flow hedges																			
4.2 Net investment hedges																			
V. Revaluation surplus on tangible assets																			
VI. Revaluation surplus on intangible assets																			
VII. Bonus shares of associates, subsidiaries and joint-ventures																			
VIII. Translation differences																			
IX. Changes resulted from disposal of the assets																			
X. Changes resulted from reclassifications of the assets																			
XI. Effect of change in equities of associates on the Group's equity																			
XII. Capital increase																			
12.1 Cash																			
12.2 Internal sources																			
XIII. Share issuance																			
XIV. Share cancellation profits																			
XV. Capital reserves from inflation adjustments to paid-in capital																			
XVI. Other																			
XVII. Current period's net profit/loss																			
XVIII. Profit distribution																			
18.1 Dividends																			
18.2 Transferred to reserves																			
18.3 Other																			
Balances at the end of the period																			
		2,500,000	-	727,780	-	1,436,787	6,337	10,156,575	606,809	2,789,918	(13,974)	(131,169)	997,197	3,683	-	-	19,079,943	527,529	19,607,472

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 NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI ITS FINANCIAL SUBSIDIARIES CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Notes	Audited Current Period December 31, 2016	Audited Prior Period December 31, 2015
A. CASH FLOWS FROM BANKING OPERATIONS			
1.1 Operating profit before changes in operating assets and liabilities		4,169,924	3,238,846
1.1.1 Interests received		15,649,451	13,135,951
1.1.2 Interests paid		(9,579,425)	(8,073,427)
1.1.3 Dividends received		10,225	5,483
1.1.4 Fee and commissions received		1,458,702	1,351,513
1.1.5 Other income		1,155,052	1,106,645
1.1.6 Collections from previously written-off loans and other receivables	V-I-5	1,203,154	1,018,600
1.1.7 Payments to personnel and service suppliers		(1,886,447)	(1,715,096)
1.1.8 Taxes paid		(950,946)	(691,055)
1.1.9 Other	V-VI-1	(2,889,842)	(2,899,768)
1.2 Changes in operating assets and liabilities		(4,359,432)	(3,851,919)
1.2.1 Net (increase) decrease in financial assets held for trading purpose		(68,142)	(42,630)
1.2.2 Net (increase) decrease in financial assets valued at fair value through profit or loss		-	-
1.2.3 Net (increase) decrease in due from banks and other financial institutions		1,386,426	(2,341,828)
1.2.4 Net (increase) decrease in loans		(26,315,387)	(20,944,190)
1.2.5 Net (increase) decrease in other assets		(353,827)	(433,611)
1.2.6 Net increase (decrease) in bank deposits		(469,133)	722,756
1.2.7 Net increase (decrease) in other deposits		14,656,938	17,810,595
1.2.8 Net increase (decrease) in funds borrowed		6,024,640	3,813,977
1.2.9 Net increase (decrease) in matured payables		-	-
1.2.10 Net increase (decrease) in other liabilities	V-VI-1	779,053	(2,436,988)
I. Net cash flow from banking operations		(189,508)	(613,073)
B. CASH FLOWS FROM INVESTING ACTIVITIES			
II. Net cash flow from investing activities		(1,212,616)	(1,615,919)
2.1 Cash paid for purchase of associates, subsidiaries and joint-ventures		-	-
2.2 Proceeds from disposal of associates, subsidiaries and joint-ventures		-	-
2.3 Cash paid for purchase of tangible assets		(248,621)	(858,423)
2.4 Proceeds from disposal of tangible assets		462,653	580,786
2.5 Cash paid for purchase of available-for-sale financial assets		(6,636,883)	(4,215,603)
2.6 Proceeds from disposal of available-for-sale financial assets		5,466,684	3,410,191
2.7 Cash paid for purchase of held-to-maturity investments		(1,873,688)	(1,610,704)
2.8 Proceeds from disposal of held-to-maturity investments		1,673,758	1,129,187
2.9 Other	V-VI-1	(56,519)	(51,353)
C. CASH FLOWS FROM FINANCING ACTIVITIES			
III. Net cash flow from financing activities		4,712,885	2,125,686
3.1 Cash obtained from funds borrowed and securities issued		13,644,312	9,840,198
3.2 Cash used for repayment of funds borrowed and securities issued		(8,831,100)	(7,612,999)
3.3 Equity instruments issued		-	-
3.4 Dividends paid		(100,327)	(101,513)
3.5 Repayments for finance leases		-	-
3.6 Other		-	-
IV. Effect of change in foreign exchange rates on cash and cash equivalents	V-VI-1	53,516	(30,472)
V. Net (decrease) / increase in cash and cash equivalents		3,364,277	(133,778)
VI. Cash and cash equivalents at the beginning of the period	V-VI-4	9,057,127	9,190,905
VII. Cash and cash equivalents at the end of the period	V-VI-4	12,421,404	9,057,127

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 NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS FINANCIAL SUBSIDIARIES CONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Notes	Current Period December 31, 2016	Prior Period December 31, 2015
I. DISTRIBUTION OF CURRENT YEAR PROFIT^(*)			
1.1 CURRENT YEAR'S PROFIT		3,395,524	2,470,293
1.2 TAXES AND LEGAL DUTIES PAYABLE		(692,482)	(540,184)
1.2.1 Corporate tax (income tax)	V-IV-11	(712,424)	(404,310)
1.2.2 Withholding tax		-	-
1.2.3 Other taxes and duties (**)	V-IV-11	19,942	(135,874)
A. NET PROFIT FOR THE YEAR		2,703,042	1,930,109
1.3 DEFERRED TAX INCOME TRANSFERRED TO OTHER RESERVES	V-IV-11	-	-
B. NET PROFIT FOR THE YEAR AFTER DEFERRED TAX INCOME		2,703,042	1,930,109
1.4 ACCUMULATED LOSSES		-	-
1.5 FIRST LEGAL RESERVES	V-V-5	-	(96,506)
1.6 OTHER STATUTORY RESERVES	V-V-5	-	(96,506)
C. NET PROFIT AVAILABLE FOR DISTRIBUTION^(*)		-	1,737,097
1.7 FIRST DIVIDEND TO SHAREHOLDERS		-	100,000
1.7.1 To owners of ordinary shares		-	100,000
1.7.2 To owners of privileged shares		-	-
1.7.3 To owners of redeemed shares		-	-
1.7.4 To profit sharing bonds		-	-
1.7.5 To holders of profit and loss sharing certificates		-	-
1.8 DIVIDENDS TO PERSONNEL		-	-
1.9 DIVIDENDS TO BOARD OF DIRECTORS		-	-
1.10 SECOND DIVIDEND TO SHAREHOLDERS		-	-
1.10.1 To owners of ordinary shares		-	-
1.10.2 To owners of privileged shares		-	-
1.10.3 To owners of redeemed shares		-	-
1.10.4 To profit sharing bonds		-	-
1.10.5 To holders of profit and loss sharing certificates		-	-
1.11 SECOND LEGAL RESERVES		-	-
1.12 STATUS RESERVES		-	-
1.13 EXTRAORDINARY RESERVES	V-V-5	-	1,635,437
1.14 OTHER RESERVES		-	-
1.15 SPECIAL FUNDS	V-V-5	-	1,660
II. DISTRIBUTION FROM RESERVES		-	-
2.1 DISTRIBUTION OF 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 redeemed 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 (Earning per 100 shares)		1.0812	0.7720
3.2 TO OWNERS OF ORDINARY SHARES (%)		108.12	77.20
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 (%)		-	-

(*) As of the report date, distributable net profit of the period is not shown as any decision regarding the 2016 profit distribution is not taken.

(**) The amount shown in other taxes and legal liabilities is deferred income/expense tax, and deferred tax income is not subject to profit distribution.

(***) The profit distribution is based on the non-consolidated financial statements of the Parent Bank.

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 NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS FINANCIAL SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

SECTION THREE ACCOUNTING POLICIES

I. BASIS OF PRESENTATION

The consolidated financial statements are prepared within the scope of the “Regulation on Accounting Applications for Banks and Safeguarding of Documents” related with Banking Act numbered 5411 published in the Official Gazette no.26333 dated November 1, 2006 and in accordance with the regulations, communiques, interpretations and legislations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency (“BRSA”), and in case where a specific regulation is not made by BRSA, Turkish Accounting Standards “TAS” and Turkish Financial Reporting Standards (“TFRS”) and related appendices (together referred as BRSA Accounting and Reporting Legislation). The format and content of the publicly announced consolidated financial statements and notes to these statements have been prepared in accordance with the “Communiqué on Publicly Announced Financial Statements, Explanations and Notes to These Financial Statements” and “Communiqué on Disclosures about Risk Management to be Announced to Public by Banks” and amendments to this Communiqué.

The preparation of financial statements requires the use of certain critical estimates on assets and liabilities reported as of balance sheet date or amount of contingent assets and liabilities explained and amount of income and expenses occurred in related period. Although these estimates rely on the management’s best judgment, actual results can vary from these estimates. Judgments and estimates are explained in related notes.

The accounting policies and valuation principles applied in the preparation of these financial statements are explained in detail below.

The amendments to TAS and TFRS, effective from 1 January 2016, have no material impact on the Group’s accounting policies, financial position and performance. The amendments to TAS and TFRS, except for TFRS 9 Financial Instruments (2014 Version), which have been published but not came into force as of financial statement date, will have no impact on the accounting policies, financial condition and performance of the Parent Bank. The Group assesses the impact of TFRS 9 Financial Instruments standard.

Additional paragraph for convenience translation to English

The effects or differences between accounting principles, as described in the preceding paragraphs, and the 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. STRATEGY FOR THE USE OF FINANCIAL INSTRUMENTS AND INFORMATION ON FOREIGN CURRENCY TRANSACTIONS

Strategy for the use of financial instruments

The Parent Bank’s core operations are based on retail banking, corporate banking, private banking, foreign exchange operations, money market operations, investment security transactions, and international banking in accordance with the requirements of its economic development while utilizing foundation resources. As a result of the nature of its operations, the Parent Bank intensively utilizes financial instruments. The Parent Bank accepts deposits consisting various maturities as the main source of funding with deposits being in high return as well as carefully utilizing them in high quality financial activities.

The most important fund sources of the Parent Bank other than the deposits are its equity and medium and long-term borrowings obtained from foreign financial institutions. The Parent Bank pursues an effective asset-liability management strategy by securing balance between funding resources and investments so as to reduce risks and increase returns. Accordingly, the Parent Bank attaches great significance to long-term placements bearing higher interest rates.

It is essential to consider the maturity structure of assets and liabilities in liquidity management. The essence of asset liability management is the keep the liquidity risk, exchange rate risk and credit risk within reasonable limits; while enhancing profitability and strengthening the Parent Bank’s shareholders’ equity.

Investments in marketable securities and lending loans generate higher return than the average rate of return of the Bank’s operating activities on the basis of maturity structures and market conditions. When bank placements are considered, they have short term maturity in terms of liquidity management and have lower return. The Bank can take various positions on short-term foreign exchange risk, interest rate risk and market risk in money and capital markets, by considering market conditions, within specified limits set by regulations. The Parent Bank hedges itself and controls its position against the foreign exchange risk being exposed due to foreign currency available-for-sale investments, investments in other portfolios and other foreign currency transactions by various derivative transactions and setting the equilibrium between foreign currency denominated assets and liabilities.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS FINANCIAL SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Within the legal limitations and the regulations of The Parent Bank's internal control, the foreign currency position is being followed, the foreign currency position is established according to the basket equilibrium that is determined by taking into account current market conditions.

In order to avoid interest rate risk, assets and liabilities having fixed and floating interest rates are kept in balance, taking the maturity structure into consideration.

Information on foreign currency transactions

Foreign currency transactions are recorded in TL which is the functional currency of the Parent Bank. Monetary assets and liabilities denominated in foreign currencies at the balance sheet, are translated into Turkish Lira by using the foreign exchange rates effective at the balance sheet date. Non-monetary foreign currency items which are recorded at fair value are valued at historical foreign exchange rates. Foreign exchange gain/loss amounts due to conversion of monetary items or collection or payments foreign currency denominated transactions are recognized in income statement.

Foreign exchange differences resulting from amortized costs of foreign currency denominated available-for-sale financial assets are recognized in the statement of income whilst foreign exchange differences resulting from unrealized gains and losses are presented in "Valuation differences of marketable securities" under equity.

If the net investments in associates and subsidiaries operating in foreign countries are measured at cost, they are reported as translated into TL by using the foreign exchange rate at the date of transaction. If related associates and subsidiaries are measured at fair value, net foreign operations are reported as translated into TL by the rates prevailing at the date of the determination of the fair value.

As of September 30, 2016 reporting period, the Bank started the fair value risk hedging strategy in order to avoid currency risk due to the share of Vakıfbank International AG's 67.5 million Euros that is represented in paid-in capital. The 68.5 million Euros of the nominal amount of 500 million Euros of the securities issued by the Bank on May 4, 2016 with a maturity date of May 4, 2021 has been declared as the hedging instrument. In the subject process, the fair value changes that are related to the hedged investments abroad are recognized in the income statements as long as the hedge is effective. In this context, the foreign exchange differences recognized in the income statement as of 30 September 2016 is TL 11,041. The effectiveness of the process is the degree of offset of the amount of changes in the hedged items' fair values that may be associated with the foreign exchange risks by the hedging instrument.

As of December 31, 2016, it was identified that the evaluations that were made about the process to protect from the fair value risk were effective. Efficiency testing, which is consistent with the Bank's risk strategies, is conducted using the "Dollar off-set method" in the protection from risk process. According to this method, hedging compares the change in value of protection subject from risk with the change in value of protection tool from risk and calculates the relation with the effectiveness ratio of the hedge. The calculated effectiveness ratio is being evaluated within the TAS-39 Financial Instruments: Recognition and Measurement standards and hedge accounting principles are being applied. The bank documents the hedging strategies along with risk management goals. Hedge accounting ends when protection subject from risk ends or being sold or effectiveness test results are not effective anymore.

III. INFORMATION ON ASSOCIATES THAT ARE CONSOLIDATED AND SUBSIDIARIES THAT ARE ACCOUNTED ACCORDING TO EQUITY METHOD

Consolidated subsidiaries

As at and for the year ended December 31, 2016, the financial statements of T. Vakıflar Bankası T.A.O, Vakıfbank International AG, Vakıf Finansal Kiralama A.Ş., Güneş Sigorta A.Ş., Vakıf Emeklilik A.Ş., Vakıf Faktoring A.Ş., Vakıf Yatırım Menkul Değerler A.Ş., Vakıf Portföy Yönetimi A.Ş., Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. and Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş. have been included in the consolidated financial statements of the Group.

Vakıfbank International AG, was established in 1999 to operate in the banking sector in foreign countries, in line with the Bank's globalization policy. Its head office is in Vienna.

Vakıf Finansal Kiralama A.Ş., was established in 1988 to enter into finance lease operations and related transactions and contracts. Its head office is in Istanbul.

Güneş Sigorta A.Ş. was established under the leadership of the Bank and Toprak Mahsulleri Ofisi (TMO) in 1957. The Company has been operating in nearly all non-life insurance branches like fire, accident, transportation, engineering, agriculture, health, forensic protection, and loan insurance. Its head office is in Istanbul.

Vakıf Emeklilik A.Ş. was established under the name Güneş Hayat Sigorta A.Ş. in 1991. In 2003 the Company has taken conversion permission from Republic of Turkey Undersecretariat of Treasury and started to operate in private pension system. Its head office is in Istanbul.

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Vakıf Faktoring A.Ş. was established in 1998 to perform factoring transactions and any kind of financing transactions. Factoring, the main operation of the Company, is a financing method that includes the trade receivables of production, distribution and service companies to be sold to intermediary institutions. Its head office is in Istanbul.

Vakıf Yatırım Menkul Değerler A.Ş. was established in 1996 to provide service to investors through making capital market transactions, issuance of capital market tools, commitment of repurchase and sales, and purchase (repo) and sales (reverse repo) of marketable securities, operating as a member of stock exchange, investment consultancy, and portfolio management. Its head office is in Istanbul.

Vakıf Portföy Yönetimi A.Ş. operates in investment fund management, portfolio management and pension fund management. Its head office is in Istanbul.

Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. was established as the first real estate investment partnership in finance sector under the adjudication of Capital Markets Law in 1996. The Company's main operation is in line with the scope in the Capital Markets Board's regulations relating to real estate investment trusts like, real estates, capital market tools based on real estates, real estate projects and investment on capital market tools. Its head office is in Istanbul.

Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş. was established in 1991 in Istanbul. The main operation of the Company is to invest on a portfolio including marketable debt securities, equity securities without having managerial power in the partnerships whose securities have been acquired; gold and other precious metals traded in national and international stock exchange markets or active markets other than stock exchange markets, in accordance with the principles and regulations promulgated by Capital Markets Board. Its head office is in Istanbul.

Pursuant to the 4 March 2010 dated and 764 numbered decision of Board of Directors of Central Bank of Turkish Republic of Northern Cyprus, the official authorisation of World Vakıf UBB Ltd., a subsidiary which was subject to consolidation in previous periods, is abrogated due to incompliance with the 7th and 9th articles of 41/2008 numbered Law of International Banking Units. World Vakıf UBB Ltd. will be liquidated according to 24 May 2010 dated decision of the Nicosia Local Court. Therefore, the financial statements of the company have not been consolidated as at December 31, 2016 and 31 December 2015 but until the liquidation decision date its accumulated previous years' loss has been included in the accompanying consolidated financial statements.

The liquidation process of World Vakıf Off UBB Ltd., an associate of the Parent Bank, has been carried out by NCTR Collecting and Liquidation Office. The application of the company for cancellation of the liquidation has been rejected and the decision of liquidation has been agreed. Thus, the company's name has been changed as "World Vakıf UBB Ltd. in Liquidation".

As per the resolution of the Board of Directors of the Parent Bank held on 8 September 2011, it has been decided to merge Vakıf Sistem Pazarlama Yazılım Servis Güvenlik Temizlik Ticaret ve Sanayi A.Ş. with Vakıf Pazarlama Ticaret A.Ş. with dissolution of Vakıf Sistem Pazarlama Yazılım Servis Güvenlik Temizlik Ticaret ve Sanayi A.Ş. without liquidation, in accordance with Mülga Law No: 6762, article 451 of Turkish Commercial Code. Since Vakıf Pazarlama ve Ticaret A.Ş. is not a financial subsidiary anymore, its financial statements have not been consolidated as at December 31, 2016 and 31 December 2015, but its equity until the merger date has been included in the accompanying consolidated financial statements.

Investments in associates consolidated per equity method

As at and for the year ended December 31, 2016, the financial statements of Kıbrıs Vakıflar Bankası Ltd and Türkiye Sınai Kalkınma Bankası A.Ş. have been consolidated per equity method in the consolidated financial statements of the Group.

Kıbrıs Vakıflar Bankası Ltd. was established in 1982 in Turkish Republic of Northern Cyprus, mainly to encourage the credit cards issued by the Bank, and increase foreign exchange inflow, and carry on retail and commercial banking operations. Its head office is in Lefkosa.

Türkiye Sınai Kalkınma Bankası A.Ş. was established in 1950 to support investments in all economic sectors. Its head office is in Istanbul.

In cases where the accounting policies for the preparation of the financial statements of Financial Subsidiaries are different than those of the Parent Bank, the differences have been adjusted to the accounting policies of the Parent Bank, taking the materiality principle into account. The financial statements of local Financial Subsidiaries, and foreign Financial Subsidiaries preparing their financial statements according to the principles of the countries which they are located in, have been adjusted in accordance with Reporting Standards as at the related reporting dates. Inter-company balances and transactions, and any unrealized gains and losses arising from inter-company transactions, are eliminated in preparing these consolidated financial statements.

IV. INFORMATION ON FORWARDS, OPTIONS AND OTHER DERIVATIVE TRANSACTIONS

The derivative transactions of the Group mainly consist of currency and interest rate swaps, precious metal swaps, foreign currency forward contracts and currency options. The Group has classified its derivative transactions as "trading purpose derivatives" in accordance with the TAS 39 – Financial Instruments: Recognition and Measurement.

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Derivatives are initially recorded at their purchase costs. The notional amounts of derivative transactions are recorded in off-balance sheet accounts based on their contractual amounts.

Subsequently, the derivative transactions are measured at their fair values and the changes in fair values are recorded in the balance sheet under “Derivative financial assets held for trading purpose” or “Derivative financial liabilities held for trading purpose”. The subsequent fair value changes of derivative transactions is recorded in the consolidated statement of income.

V. INFORMATION ON INTEREST INCOME AND EXPENSES

Banking activities

Interest income and expense are recognized according to the effective interest method based on accrual basis. According to the TAS 39 - Financial Instruments: Recognition and Measurement, effective interest rate is the rate that discounts the expected cash flows of financial assets or liabilities during their lifetimes to their carrying values. Effective interest rate is calculated when a financial asset or a liability is initially recorded with transactions costs and is not modified thereafter.

In accordance with Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables, the accrued interest income on non-performing loans are reversed and subsequently recognized as interest income only when collected.

Finance leasing activities

The total of minimum rent amounts are recorded at finance lease receivables account in gross amounts comprising the principal amounts and interests. The interest, the difference between the total of rent amounts and the cost of the fixed assets, is recorded at unearned income account. As the rents are collected, finance lease receivables account is decreased by the rent amount; and the interest component is recorded in the consolidated statement of income as interest income.

Factoring operations

Factoring receivables are initially recorded at their historical costs less transaction costs. They are amortized using the effective interest method, taking their historical costs and future cash flows into account and the amortized amounts are recognized as “other interest income” in the consolidated statement of income.

VI. INFORMATION ON FEES AND COMMISSIONS

Banking services income is recorded as income when it is collected. Other fee and commission income is transferred to profit/loss accounts according to time period principle on the basis of accrual using the principle of the effective interest method. Fee and commission expenses are recorded as expense at the time they are paid.

VII. INFORMATION ON FINANCIAL ASSETS

A financial asset is any asset that is cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

Financial assets except for measured at fair value through profit or loss are recognized initially with their transaction costs that are directly attributable to the acquisition or issue of the financial asset while purchase and sale transactions of securities are accounted at settlement dates.

According to TAS 39 – Financial Instruments: Recognition and Measurement, financial assets are classified in four categories; as financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, and loans and receivables.

Financial assets at fair value through profit or loss

The financial assets included in this group are divided into two separate titles as “Financial assets held for trading” and “Financial assets classified as financial assets at fair value through profit or loss”.

Financial assets held for trading 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.

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Financial assets classified as financial assets at fair value through profit or loss are financial assets which are not acquired for trading, however during initial recognition classified as financial assets at fair value through profit or loss including transaction costs. Such an asset is not present in the Group’s portfolio.

Both assets are measured at their fair values and gain/loss arising is recorded in the statement of income. Interest income earned on financial assets and the difference between their acquisition costs and fair values are recorded as interest income in the statement of income. The gains/losses in case of disposal of such securities before their maturities are recorded under trading income/losses in the statement of income.

Available-for-sale financial assets

Available-for-sale financial assets are the financial assets other than loans and receivables, held-to-maturity investments and financial assets at fair value through profit or loss. Available-for-sale financial assets are initially recorded at cost and subsequently measured at their fair values. However, assets that are not traded in an active market are measured by valuation techniques, including recent market transactions in similar financial instruments, adjusted for factors unique to the instrument being valued; or discounted cash flow techniques for the assets which do not have a fixed maturity. Unrecognized gains or losses derived from the difference between their fair values and the discounted values are recorded in “Valuation differences of the marketable securities” under the shareholders’ equity. In case of disposal of such assets, the valuation differences under shareholder’s equity are transferred directly to the statement of income.

Held to maturity investments

Held to maturity investments are the financial assets with fixed maturities and pre-determined payment schedules that the Group has the intent and ability to hold until maturity, excluding loans and receivables.

Financial assets classified as held to maturity investment however sold before its’ maturity or reclassified, are not allowed to be classified as held to maturity investment for two years with respect to TAS 39 rules. There are no financial assets in the Bank’s portfolio contradictory to the standard.

Held-to-maturity investments, subsequent to initial recognition, are measured at amortized cost using effective interest method after deducting impairments, if any.

Loans and receivables

Loans and receivables are the financial assets raised by the Group providing money, commodity and services to debtors. Loans are financial assets with fixed or determinable payments, which are not quoted in an active market and not classified as a securities.

Loans and receivables are initially recognized with their purchase and carried at their amortized costs using the effective interest method at the subsequent recognition.

Foreign currency (“FC”) granted loans are recognized in original currency and is subject to evaluation with the buying rate of Turkish Lira. Foreign currency indexed loans, are converted to Turkish Lira (“TL”) at the rate of the opening date and in the following periods, according to changes in period exchange rate on the income statement in the foreign exchange gains / losses are recorded in the accounts.

VIII. INFORMATION ON IMPAIRMENT OF FINANCIAL ASSETS

A financial asset or group of financial assets, can be considered as impaired only if one or multiple events (damage/loss event) occur and in the conclusion of the impact to related financial asset or financial assets estimation in a reliable manner to the estimated future cash flows after its initial recognition. In such a situation, the financial asset is exposed to impairment and impairment loss occurs. The matters of determination of impairment and provision must be considered within the scope of TAS 36 - Impairment of Assets.

In circumstances of impairment in financial assets at fair value through profit/loss or in financial assets available for sale, the impairment should be recognized under “Impairment Losses on Securities” account.

In case of impairment losses on investment securities held-to-maturity occurs related loss amount to be discounted at the original effective interest rate of the asset’s estimated future cash flows are measured as the difference between the present value and the book value of the asset through to be recognized as loss of the said difference amount book value is reduced.

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If there is an objective evidence that certain loans will not be collected, for such loans; the Bank provides specific and general allowances for loan and other receivables classified in accordance with the Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables published on the Official Gazette no. 26333 dated 1 November 2006 and the amendments to this regulation.

20% specific provision for non-performing loans for Third Group and 100% specific provision for non-performing loans for Fourth and Fifth Group used to be reserved on condition of not being less than the minimum required rates specified within the related Regulation, 50% specific provision is reserved for the non-performing loans that are transferred to Fourth Group according to changes in accounting policy about specific provisions of non-performing loans that are transferred to Fourth Group as of 30 September 2015 accounting period.

IX. INFORMATION ON OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and liabilities are reported in the balance sheet as net amount in the cases of the Bank’s right and right to sanction to finalize and have the intention to receive/pay related financial asset or liability over the recognized amount or have the right to finalize the related asset and liability simultaneously.

X. INFORMATION ON SALES AND REPURCHASE AGREEMENTS AND SECURITIES LENDING

Securities sold under repurchase agreements (“repo”) are classified under “held for trading purpose”, “available for sale” and/or “held-to-maturity” portfolios according to their holding purposes in the Group’s portfolio, and they are valued based on the revaluation principles of the related portfolios. Funds received through repurchase agreements are classified separately under liability accounts and the related interest expenses are accounted on an accrual basis of balance sheet date.

Securities purchased under resale agreements (“reverse repo”) are classified in balance sheet under “Receivables from Money Markets” separately. The income accrual is calculated for the securities purchased under resale agreements via the difference between buying and selling prices on the balance sheet date.

XI. INFORMATION ON ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Tangible assets acquired in consideration of receivables are accounted for in accordance with the requirements of the Communiqué on “Methods, Principles for Purchase and Sale of Precious Metal and Sale of Goods and Immovables obtained in Return of Receivables” published in the Official Gazette numbered 26333 and dated 1 November 2006 and these assets are subject to revaluation by no means.

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.

The Group has no discontinued operations.

XII. INFORMATION ON GOODWILL AND OTHER INTANGIBLE ASSETS

As at the balance sheet date, the Group has no goodwill.

The Group’s intangible assets consist of software. Intangible assets are initially recorded at their costs in compliance with the TAS 38 - Intangible Assets.

The costs of the intangible assets purchased before 31 December 2004 are restated from the purchasing dates to 31 December 2004, the date the hyperinflationary period is considered to be ended. The intangible assets purchased after this date are recorded at their historical costs. The intangible assets are amortized on their restated costs based on straight line amortization.

If there is objective evidence of impairment, the asset’s recoverable amount is estimated in accordance with the TAS 36 - Impairment of Assets and if the recoverable amount is less than the carrying value of the related asset, a provision for impairment loss is made.

Estimated useful lives of the Group’s intangible assets are 3-15 years, and amortization rates are between 6.67% and 33.33%.

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XIII. INFORMATION ON TANGIBLE ASSETS

The costs of the tangible assets purchased before 31 December 2004 are restated from the purchasing dates to 31 December 2004, the date the hyperinflationary period is considered to be ended. In subsequent periods no inflation adjustment is made for tangible assets, and costs which are restated as of 31 December 2004 are considered as their historical costs. Tangible assets purchased after 1 January 2005 were recorded at their historical costs after foreign exchange differences and financial expenses are deducted if any. The Group decided to pursue the properties for use according to their fair values in terms of separating the land and buildings within the context of TAS 16 “Turkish Accounting Standard on Property, Plant and Equipment” after the change in the accounting policy as of 30 September 2015.

Gains and losses arising from the disposal of the tangible assets are calculated as the difference between the net book value and the net sales price and is recognized in the income statement of the period.

Maintenance costs of tangible fixed assets are capitalized if they extend the economic useful life of related assets. Other maintenance costs are recognized as expense.

There are no restrictions such as pledges, mortgages or any other restriction on tangible assets.

Depreciation rates of tangible assets and estimated useful lives are:

Tangible assets	Estimated useful life (years)	Depreciation rate (%)
Buildings	50	%2
Office equipment, furniture and fixture, and motor vehicles	5-10	%10-%20
Assets obtained through finance leases	4-5	%20-%25

There are no changes in the accounting estimates that are expected to have an impact in the current or subsequent periods.

At each reporting date, the Group evaluates whether there is objective evidence of impairment on its assets. If there is an objective evidence of impairment, the asset’s recoverable amount is estimated in accordance with the TAS 36 - Impairment of Assets and if the recoverable amount is less than the carrying value of the related asset, a provision for impairment loss is made.

XIV. INFORMATION ON INVESTMENT PROPERTIES

Investment property is a property held either to earn rental income or for capital appreciation or for both. Group holds investment property with respect to the consolidated real estate investment and insurance firms’ activities.

Investment properties are initially recorded at their acquisition costs including transaction costs.

Investment properties, following the initial recording, are measured by acquisition cost method (deducting accumulated depreciation and if it is present, provisions for impairment from acquisition cost).

XV. INFORMATION ON LEASING ACTIVITIES

Leasing activities

Risks and benefits on leasing activities that belongs to leasee is termed TAS 17- Leasing activities that belongs to financial leasing.

- Finance leasing activities as the lessee

Tangible assets acquired by way of finance leasing are recognized in tangible assets and the obligations under finance leases arising from the lease contracts are presented under “Finance Lease Payables” account in the financial statements. In the determination of the related assets and liabilities, the lower of the fair value of the leased asset and the present value of leasing payments is considered. Financial costs of leasing agreements are expanded in lease periods at a fixed interest rate.

If there is an impairment in the value of the assets obtained through financial lease and in the expected future benefits, the leased assets are valued with net realizable value. Provision for losses is calculated for decrease of the value of the assets that is obtained by this way. Depreciation for assets obtained through financial lease, is calculated in the same manner as tangible assets.

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- Finance leasing transactions as lessor

The rent amounts at the beginning of the finance leasing activities are recorded at “finance lease receivables” account in gross amounts comprising the principal amounts and interests. The interest, the difference between the total of rent amounts and the cost of the fixed assets, is recorded at “unearned income” account. As the rents are collected, “finance lease receivables” account is decreased by the rent amount; and the interest component is recorded at consolidated income statement as interest income.

Operational leases

Operational leasing is defined as activities except from financial leasing. Operational leasing payments are recognized in equal payments as expense under income statement during the leasing period.

XVI. INFORMATION ON PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Provisions other than the specific and general provisions set for loans and other receivables and provisory liabilities are accounted in accordance with TAS 37 “Turkish Accounting Standard on Provisions, Contingent Liabilities and Contingent Assets Corresponding”.

In the financial statements, a provision is made for an existing commitment resulted from past events if it is probable that the commitment will be settled and a reliable estimate can be made of the amount of the obligation. Provisions are calculated based on the best estimates of management on the expenses to incur as at the balance sheet date and, if material, such expenses are discounted for their present values. If the amount is not reliably estimated and there is no probability of cash outflow from the Group to settle the liability, the related liability is considered as “contingent” and disclosed in the notes to the financial statements.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of unplanned or unexpected one or more uncertain future events not wholly within the control of the Group. 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 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. If an inflow of economic benefits has become probable, the Group discloses the contingent asset.

XVII. INFORMATION ON OBLIGATIONS OF THE GROUP CONCERNING EMPLOYEE RIGHTS

Reserve for employee termination benefits

In accordance with existing Turkish Labor Law, the Group is required to make lump-sum termination indemnities to each employee who has completed one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. The computation of the liability is based upon the retirement pay ceiling announced by the Government. The applicable ceiling amount as at December 31, 2016 is TL 4,297 (full TL) (December 31, 2015: TL 3,828 (full TL)).

The Group reserved for employee severance indemnities in the accompanying consolidated financial statements using actuarial method in compliance with the TAS 19 – Employee Benefits.

As at December 31, 2016 and December 31, 2015, the major actuarial assumptions used in the calculation of the total liability are as follows:

	Current Period	Prior Period
Discount Rate	11.10%	10.20%
Estimated Inflation Rate	7.80%	7.10%
Increase in Real Wage Rate	8.80%	8.10%

Other benefits to employees

The Group has provided provision for undiscounted other employee benefits earned during the financial period (unused vacations, premium and dividend) as per services rendered in compliance with TAS 19 in the accompanying consolidated financial statements.

The Group has provided provision for vacation that employees did not use until the relevant accounting period.

According to TAS 19, actuarial gains and losses have been accounted in “Other Capital Reserves” shown under Equity associated with The Statement of Gains and Losses Recognized in Equity for the respective reporting periods.

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Pension fund

The employees of the Parent Bank are the members of “Türkiye Vakıflar Bankası Türk Anonim Ortaklığı Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı” (“the Fund”) established on 15 May 1957 as per the temporary article no. 20 of the Social Security Law no. 506.

As part of Social Security Law’s 506 numbered, temporary article no.23, monthly income or salary is eligible for whose disabled with fund’s associates, senility and death insurance is subjected according to the first paragraph of the temporary article no. 23 which states the Banks should transfer pension funds to the Social Security Institution within three years after the 1 November 2005 dated and 25983 numbered Official Gazette, has been cancelled by the Constitutional Court’s 22 March 2007 dated and 2007/33 numbered decision. Reasoned ruling of the Constitutional Court has been issued on 15 December 2007 in the Official Gazette no. 26731. The reason for the cancellation decision by Constitutional Court was stated as possible future losses on acquired rights of Fund members.

Following the publication of the ruling, the Turkish Parliament started to work on new legal arrangements and the Social Security Law no. 5754 (“the Law”) has been approved on 17 April 2008. The Law is enacted by the approval of the President of Turkey and issued on the 8 May 2008 dated and 26870 numbered Official Gazette.

In accordance with the temporary article no. 20 of the Article no. 73 of the Law;

The discounted liability for each fund in terms of the persons transferred as at the transfer date, including the contributors left the fund, should be calculated by the assumptions below,

- a) The technical interest rate to be used for the actuarial calculation is 9.80%.
- b) Income and expenditures in respect to fund’s insurance division are considered in the calculation of discounted liability.

Law requires the transfer to be completed in three years beginning from 1 January 2008. The three year period has expired on 8 May 2011; however, it has been extended to 8 May 2013 with the decision of Council of Ministers published in Official Gazette dated 9 April 2011. Before the expiration date, with the decision of Council of Ministers published in Official Gazette dated 3 May 2013, the period for transferring banks, insurance and reinsurance firms, board of trade, exchanges or participants, monthly salary paid individuals and beneficiaries of the funds that are constructed for their personnel to Social Security Institution in the scope of the temporary article no. 20 of the Social Security Law no. 506 published in Official Gazette dated 30 April 2014 extended for one year. The Council of Ministers has been lastly authorized to determine the transfer date in accordance with the last amendment in the first paragraph of the 20th provisional article of Law No.5510 implemented by the Law No. 6645 on Amendment of the Occupational Health and Safety Law and Other Laws and Decree Laws published in the Official Gazette dated 23 April 2015 numbered 29335.

The employer of pension fund participants will continue to pay the non-transferable social rights, which are already disclosed in the article of association of the pension fund, to the pension participants and their right owners, even though the salary payment obligation has been transferred to the Social Security Institution.

The technical financial statements of the Fund are audited by the certified actuary according to the “Actuaries Regulation” which is issued as per the Article no. 21 of the 5684 numbered Insurance Law. As per the actuarial report regarding December 31, 2016 in compliance with the principles explained above, there is no technical or actual deficit determined which requires provision against as at December 31, 2016.

XVIII. INFORMATION ON TAXATION

Corporate tax

Corporate tax rate is 20% in Turkey according to Article 32 of the Corporate Taxes Law No. 5520. This rate is applied to total income of the Bank adjusted for certain disallowable expenses, exempt income and any other allowances.

Dividends paid to the resident institutions and the institutions working through local offices or representatives are not subject to withholding tax. Except for the dividend payments to these institutions, the withholding tax rate on the dividend payments is 15%. In applying the withholding tax rates on dividend payments to the nonresident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

75% of the associate shares that hold at least 2 years and profits from property sales are exceptional from corporate taxes if there is a capital increase according to Corporate Tax Law or it is hold for a 5 years on special fund account. The Bank follows these profits in “Revaluation surplus on tangible assets” under the equity.

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75% revenue of the sales from the firms that follows up for their debts and their guarantors' and mortgagor' properties, associate shares, founder shares, redeemed shares and privileges are exceptional from the corporate taxes.

Advance tax that is calculated 20% of the profit from the quarterly period has to be paid on 17th in the two months followed which is declared on 14th of the same month. Advance tax which is paid during the year is to be set off on corporate taxes that calculates on corporate tax return. Taxes paid is to collect in cash or is to set off on other financial debts.

According to tax legislation, financial losses which are not exceed over 5 years can be deducted from profit of the company. Losses cannot be set off from retained earnings.

There is no practice about reaching an agreement with laws in Turkey. Corporate taxes are paid on 25th of the fourth month that is followed form the end of the accounting period. Firms that allowed to analyze taxes, can examine the accounting records and change the amount if there is a wrong transaction.

Corporation tax legislation for the foreign branches

Bahrain (Manama)

The Parent Bank's branch that is operating in Bahrain is nontaxable because there is no corporate tax practice in that country. Bahrain Branch's income is added to headquarters income and it is taxed in Turkey according to Law No. 5520 on Corporate Tax Laws published in the Official Gazette dated 05 June 2012, numbered B.07.1.GİB.4.99.16.02-KVK-5/1-b-128.

North Iraq (Erbil)

The Parent Bank's branch that is operating in Erbil is taxable according to the country's law legislation. Declaration of financial records and their tax payments are differ from cities that are related to centralized government and cities that are related to North Iraq. On the other hand, North Iraq tax administrations can impute taxes rather than the designated rates.

USA (New York)

The Parent Bank's branch that is operating in New York is taxable according to state law legislation and country law legislation. Double Tax Treaty Agreements is stated for being taxed in Turkey.

Banking and Insurance Transaction Tax

Banking and insurance transaction tax is arranged by the Law No. 6802 on Expenditure Taxes Law. Excluding the banks' and insurance companies' transactions according to Law No. 3226 on Leasing Law Legislation which is dated 10.6.1985, the collecting money in cash or by approximation is subject to banking and insurance transaction tax. Those amounts are up to 5% banking and insurance transaction tax according to Law No. 6802 on Expenditure Taxes Law's 33. Notice and Article No. 98/11591.

Deferred taxes

According to the TAS 12 - Income Taxes; deferred tax assets and liabilities are recognized, on all taxable temporary differences arising between the carrying values of assets and liabilities in the financial statements and their corresponding balances considered in the calculation of the tax base, and initial recognition of assets and liabilities which affect neither accounting nor taxable profit. The delayed tax debt or assets is determined by calculating the "taxable temporary differences " between the assets' and debts' book values versus the values on the legal tax base accounts . According to tax legislation, differences that do not affect the financial or commercial profit of the assets or liabilities at the acquisition date are excluded from these calculations.

According to 8 December 2004 BRSA DZM 2/13/1-a-3 notice;

- There are no deferred tax assets on general provision
- Deferred tax income is not considered on distribution on profit.

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Deferred taxes’ book value is revised in every balance sheet date. Deferred tax book value can be reduced if there is improbable to create revenue.

The deferred tax assets and liabilities are reported as net in the financial statements only if the Bank has legal right to present the net value of current year tax assets and current year tax liabilities and the deferred tax assets and deferred tax liabilities are income taxes of the same taxable entity.

In case valuation differences resulting from the subsequent measurement of the items are recognized in the statement of income, then the related current and or deferred tax effects are also recognized in the statement of income. On the other hand, if valuation differences are recognized in shareholders’ equity, then the related current or deferred tax effects are also recognized directly in the shareholders’ equity.

Transfer Pricing

In Turkey, the transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with heading of “disguised profit distribution via transfer pricing”. The General Communiqué on disguised profit distribution via Transfer Pricing, dated 18 November 2007 sets details about implementation.

Pursuant to the relevant Communiqué, if a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm’s length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

XIX. INFORMATION ON CASH AND CASH EQUIVALENT

For the purposes of the cash flow statement, cash includes cash effectives, cash in transit, purchased cheques and demand deposits including balances with the Central Bank of Turkey (CBRT); and cash equivalents include interbank money market placements and time deposits at banks with original maturity periods of less than three months.

XX. ADDITIONAL INFORMATION ON BORROWINGS

The Parent Bank obtains funding resources such as syndication and securitization transactions in case of need. In the current period, the Parent Bank has started to obtain funds through domestic and international bonds and bills. The Parent Bank has started to obtain funds through domestic and international bonds since August 2011.

These transactions are initially recognized at acquisition costs at the transaction date and are subsequently measured at amortized cost using effective interest method.

The group is not hedging about debt instruments.

XXI. INFORMATION ON ISSUANCE OF EQUITY SECURITIES

The shares of the Parent Bank having nominal value of TL 322,000,000 (full TL), representing the 25.18% of the Bank’s outstanding shares, was publicly offered at a price between TL 5.13-5.40 for each share having a nominal value of TL 1 on November 2005, and TL 1,172,347 was recorded as “Share Premiums” in shareholders’ equity. TL 448,429 of this amount has been utilized in capital increase on 19 December 2006.

XXII. INFORMATION ON CONFIRMED BILLS OF EXCHANGE AND ACCEPTANCES

Confirmed bills of exchange and acceptances are realized simultaneously with the customer payments and recorded in off-balance sheet accounts as possible debt and commitment, if any. As at the balance sheet date, there are no acceptances recorded as liability in return for assets.

XXIII. INFORMATION ON GOVERNMENT INCENTIVES

As at December 31, 2016, Vakıf Finansal Kiralama A.Ş., a consolidated subsidiary of the Group, has unused investment incentives amounting to TL 199,946 (December 31, 2015: TL 220,278).

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XXIV. INFORMATION ON SEGMENT REPORTING

An operating segment is a component of an entity:

- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
- Whose operating results are regularly reviewed by the entity’s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- For which discrete financial information is available.

Segment reporting was selected as a fundamental section reporting method considering Bank’s risk and return structure and key sources which is disclosed in Section 4 Note X.

XXV. OTHER MATTERS

Earnings per shares

Earnings per share has been calculated by dividing the net profit for the period to weighted average of outstanding shares. In Turkey, the companies may perform capital increase (“Bonus Shares”) from retained earnings. In earning per share computation bonus shares are treated as issued shares.

As at and for the year ended December 31, 2016, earnings per 100 shares are full TL 1.1160 (December 31, 2015: full TL 0.7794).

Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Shareholders, top executives and board members are accepted as related party personally, with their families and companies according to TAS 24 - Related Party Disclosures Standard. Transactions made with related parties are disclosed in Section 5 Note V.

Classifications

None.

Insurance operations

Written Premiums: Written premiums represent premiums on policies written during the year net of taxes and premiums of the cancelled policies produced in previous years. Written premiums, after deduction of premiums ceded to reinsurance companies are recorded under other operating income in the accompanying consolidated statement of income.

Reserve for unearned premiums: Reserve for unearned premiums represents the proportions of the premiums written in a period that relate to the period of risk subsequent to the balance sheet date, without deductions of commission or any other expense. Reserve for unearned premiums is calculated for all contracts except for the insurance contracts for which the Group provides mathematical reserve. Reserve for unearned premiums is also calculated for the annual premiums of the annually renewed long-term insurance contracts. Reserve for unearned premiums is presented under “insurance technical provisions” in the accompanying consolidated financial statements.

Reserve for outstanding claims: Accounts for outstanding claim reserve for ultimate cost of the claims incurred, but not paid in the current or previous periods or, for the estimated ultimate cost if the cost is not certain yet, and for the incurred but not reported claims. Claim provisions are accounted for based on reports of experts or initial assessments of policyholders and experts, and in the calculations related to the claim reserves, claim recoveries, salvage and similar gains are not deducted. The difference between the outstanding claim reserve that is accrued and determined on account and the amount that is calculated by using the actuarial chain ladder method, of which the content and implementation fundamentals are determined on the Legislation for Technical Provision and the “Circular on Outstanding Claim Reserve” numbered. 2014/16 and dated 5 December 2014 and is effective from 1 January 2015, is accounted as incurred but not reported claims reserve. The calculation of incurred but not reported outstanding claim reserve considering best estimations of the Company’s actuary has been calculated in the line with the related regulation.

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Mathematical provisions: Mathematical provisions are the provisions recorded against the liabilities of the Group to the beneficiaries of long-term life and individual accident policies based on actuarial assumptions. Mathematical provisions consist of actuarial mathematical provisions and profit sharing reserves.

Actuarial mathematical provisions are calculated as the difference between the net present values of premiums written in return of the risk covered by the Group and the liabilities to policyholders for long-term insurance contracts based on the basis of actuarial mortality assumptions as approved by the Republic of Turkey Prime Ministry Under secretariat of Treasury, which are applicable for Turkish insurance companies. Mathematical provision also includes the saving portion of the provisions for saving life product.

Profit sharing reserves are the reserves provided against income obtained from asset backing saving life insurance contracts. These contracts entitle the beneficiaries of those contracts to a minimum guaranteed crediting rate per annum or, when higher, a bonus rate declared by the Group from the eligible surplus available to date. Mathematical provisions are presented under “insurance technical provisions” in the accompanying consolidated financial statements.

Deferred acquisition cost and deferred commission income: Commissions given to the intermediaries and other acquisition costs that vary with and are related to securing new contracts and renewing existing insurance contracts are capitalized as deferred acquisition cost. Deferred acquisition costs are amortized on a straight-line basis over the life of the contracts. Commission income obtained from the premiums ceded to reinsurance firms are also deferred and amortized on a straight-line basis over the life of the contracts.

Liability adequacy test: At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing this test, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any inadequacy is immediately charged to the statement of income by establishing an unexpired risk provision under “insurance technical provisions” in the accompanying consolidated financial statements.

If the result of the test is that a loss is required to be recognized, the first step is to reduce any intangible item arising from business combinations related to insurance. If there is still a loss remaining, then the deferred acquisition cost is reduced to the extent that expense loadings are considered not recoverable. Finally, if there is a still remaining amount of loss, this should be booked as an addition to the reserve for premium deficiency.

Individual pension business

Individual pension system receivables presented under ‘other assets’ in the accompanying consolidated financial statements consists of ‘receivables from the clearing house on behalf of the participants’. Pension funds are the mutual funds that the individual pension companies invest in, by the contributions of the participants. Shares of the participants are kept at the clearing house on behalf of the participants.

‘Receivables from the clearing house on behalf of the participants’ is the receivable from the clearing house on pension fund basis against the contributions of the participants. The same amount is also recorded as payables to participants for the funds acquired against their contributions under the ‘individual pension system payables’.

In addition to the ‘payables to participants’ account, mentioned in the previous paragraph, individual pension system payables also includes participants’ temporary accounts, and payables to individual pension agencies. The temporary account of participants includes the contributions of participants that have not yet been invested. Individual pension system payables are presented under other liabilities and provisions in the accompanying consolidated financial statements.

Fees received from individual pension business consist of investment management fees, fees levied on contributions and entrance fees. Fees received from individual pension business are recognized in other income in the accompanying consolidated statement of comprehensive income.

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SECTION FOUR INFORMATION RELATED TO CONSOLIDATED FINANCIAL POSITION AND RISK MANAGEMENT

I. INFORMATION ON CONSOLIDATED EQUITY ITEMS

Calculation of Equity and Capital Adequacy Standard Ratio are calculated according to "Regulation on Bank's Capital Adequacy Assessment of the Measurement", "Communique on Credit Risk Mitigation", "BRSA Regulation on Bank's Shareholder Equity", "Regulations on Systemically Important Banks", "Regulation on Capital Conservation and Cyclical Capital Buffer". As of December 31, 2016 Group's capital adequacy ratio is 13.88% (December 31, 2015: 14.21%).

Information about the consolidated shareholder equity items

	Current Period December 31, 2016	Amount as per the regulation before 1/1/2014 ^(*)
COMMON EQUITY TIER I CAPITAL		
Paid-in capital to be entitled for compensation after all creditors	2,500,000	-
Share Premium	727,780	-
Reserves	12,259,333	-
Income recognized under equity in accordance with TAS	866,028	-
Profit	2,775,944	-
Current Period's Profit	2,789,918	-
Prior Period's Profit	(13,974)	-
Bonus shares from associates, subsidiaries and joint-ventures not accounted in current period's profit	3,683	-
Minority shares	521,476	-
Common Equity Tier 1 Capital Before Deductions	19,654,244	-
Deductions from Common Equity Tier 1 Capital	-	-
Valuation adjustments calculated as per the (i) item of first paragraph of Article 98(-)	-	-
Net loss for the prior year losses and uncovered portion of the total reserves and losses that are recognized under equity in accordance with TAS(-)	52,825	-
Leasehold Improvements on Operational Leases (-)	162,121	-
Goodwill netted with deferred tax liability(-)	-	-
Other intangible assets netted with deferred tax liabilities except mortgage servicing rights(-)	138,159	230,265
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability) (-)	-	-
Differences are not recognized at the fair value of assets and liabilities subject to hedge of cash flow risk(-)	-	-
Communiqué Related to Principles of the amount credit risk calculated with the Internal Ratings Based(-) Approach, total expected loss amount exceeds the total provision(-)	-	-
Gains arising from securitization transactions(-)	-	-
Unrealized gains and losses due to changes in own credit risk on fair valued liabilities(-)	-	-
Defined-benefit pension fund net assets	-	-
Direct and indirect investments of the Bank in its own Common Equity(-)	-	-
Excess amount expressed in the law (Article 56 4th paragraph) (-)	-	-
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)(-)	-	-
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions (amount above 10% threshold) of Tier 1 Capital(-)	-	-
Mortgage servicing rights (amount above 10% threshold) of Tier 1 Capital(-)	-	-
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)(-)	-	-
Amounts exceeding 15% of Tier 1 Capital according to Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (2nd article temporary second paragraph)(-)	-	-
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)(-)	-	-
Amounts related to mortgage servicing rights(-)	-	-
Excess amount of deferred tax assets from temporary differences(-)	-	-
Other Items Determined by BRSA(-)	-	-
The amount to be deducted from common equity tier 1 capital(-)	-	-
Total regulatory adjustments to Common equity Tier 1	353,105	-
Common Equity Tier 1 capital (CET1)	19,301,139	-

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	Current Period December 31, 2016	Amount as per the regulation before 1/1/2014 ^(*)
Additional Tier 1 capital: instruments	-	-
Premiums that are not included in Common Equity Tier 1 capital	-	-
Bank's borrowing instruments and related issuance premium	-	-
Bank's borrowing instruments and related issuance premium (Temporary Article 4)	-	-
Third parties' share in the Additional Tier I capital -	-	-
Third parties' share in the Additional Tier I capital (Temporary Article 3)	-	-
Additional Tier 1 Capital before deductions	-	-
Deductions from Additional Tier 1 Capital	-	-
Bank's a direct or indirect investment in Tier 1 Capital(-)	-	-
Investments of Bank to Banks that invest in Bank's additional equity and components of equity issued by financial institutions with compatible with Article 7	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of Common Equity Tier 1 Capital	-	-
Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital	-	-
Other Items Determined by BRSA	-	-
Transition from the Core Capital to Continue to deduce Components	92,106	-
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 (-)	-	-
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 (-)	-	-
The amount to be deducted from Additional Tier 1 Capital (-)	-	-
Total Deductions from Additional Tier 1 capital	-	-
Total Additional Tier 1 capital (AT1)	-	-
Total Tier 1 Capital (Tier 1 Capital=Common Equity+Additional Tier 1 Capital)	19,209,033	-
TIER 2 CAPITAL	-	-
Bank's borrowing instruments and related issuance premium	2,723,659	-
Bank's borrowing instruments and related issuance premium (Temporary Article 4)	977,288	-
Third parties' share in the Tier II Capital	-	-
Third parties' share in the Tier II Capital (Temporary Article 3)	6,053	-
Provisions (Article 8 of the Regulation on the Equity of Banks)	1,983,272	-
Tier 2 Capital Before Deductions	4,712,984	-
Deductions From Tier 2 Capital	-	-
Bank's direct or indirect investment in Tier 2 Capital (-)	-	-
Investments of Bank to Banks that invest on Bank's Tier 2 and components of equity issued by Financial Institutions with the conditions declared in Article 8	-	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% threshold of Common Equity Tier 1 Capital (-)	-	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Core Capital and Tier 2 Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier 1 Capital	-	-
Other Items Determined by BRSA (-)	-	-
Total Deductions From Tier 2 Capital	-	-
Tier 2 Capital	4,712,984	-
Total Capital (The sum of Tier 1 Capital and Tier 2 Capital)	23,922,017	-
The sum of Tier 1 Capital and Tier 2 Capital (Total Capital)	-	-
Loan granted to Customer against the Articles 50 and 51 of the Banking Law	-	-
Net Book Values of Immovables Exceeding 50% of the Equity and of Assets Acquired against Overdue Receivables and Held for Sale as per the Article 57 of the Banking Law but Retained More Than Five Years (-)	112,142	-
Other items to be defined by the BRSA (-)	1,166	-

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	Current Period December 31, 2016	Amount as per the regulation before 1/1/2014 ^(c)
In transition from Total Core Capital and Supplementary Capital (the capital) to Continue to Download Components		
Portion of the total of net long positions of direct or indirect investments made in Additional Tier 1 and Tier 2 Capital items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank not to be deducted from the Additional Tier 1 Capital and Tier 2 Capital as per the 1st clause of the Provisional Article 2 of the Regulation on the Equity of Banks	-	-
Portion of the total of net long positions of investments made in Common Equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital, deferred tax assets based on temporary differences and mortgage servicing rights not deducted from Common Equity as per the 1st and 2nd Paragraph of the 2nd clause of the Provisional Article 2 of the Regulation on the Equity of Banks	-	-
TOTAL CAPITAL		
Total Capital	23,808,709	-
Total Risk Weighted Amounts	171,540,121	-
CAPITAL ADEQUACY RATIOS		
Consolidated Core Capital Adequacy Ratio (%)	11.25	-
Consolidated Tier 1 Capital Adequacy Ratio (%)	11.20	-
Consolidated Capital Adequacy Ratio (%)	13.88	-
BUFFERS		
Total buffer requirement	0.627	-
Capital conservation buffer requirement (%)	0.625	-
Bank specific counter-cyclical buffer requirement (%)	0.002	-
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 (%)	6.75	-
Amounts below deduction thresholds		
Amounts arising from the net long positions of investments made in Total Capital items of banks and financial institutions where the Bank owns 10% or less of the issued common share capital	-	-
Amounts arising from the net long positions of investments made in Tier 1 Capital items of banks and financial institutions where the Bank owns 10% or more of the issued common share capital	-	-
Mortgage servicing rights	-	-
Deferred tax assets arising from temporary differences (net of related tax liability)	-	-
Limits related to provisions considered in Tier 2 calculation		
General provisions for standard based receivables (before tenthousandtwentyfive limitation)	2,167,443	-
Up to 1.25% of total risk-weighted amount of general reserves for receivables where the standard approach used	1,983,272	-
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	-	-
Debt instruments subjected to Article 4 (to be implemented between 1 January 2018 and 1 January 2022)		
Upper limit for Additional Tier 1 Capital subjected to temporary Article 4	-	-
Amounts Excess the Limits of Additional Tier 1 Capital subjected to temporary Article 4	-	-
Upper limit for Additional Tier 2 Capital subjected to temporary Article 4	-	-
Amounts Excess the Limits of Additional Tier 2 Capital subjected to temporary Article 4	-	-

^(c) Represents the amounts taken into consideration according to transition clauses.

Summary information related to consolidated capital adequacy ratio

	Prior Period
Capital Requirement for Credit Risk (Value at Credit Risk*0.08) (CRCR)	11,200,599
Capital Requirement for Market Risk (MRCR)	116,352
Capital Requirement for Operational Risk (ORCR) ^(c)	876,010
Shareholders' Equity	21,651,824
Shareholders' Equity/((CRCR+MRCR+ORCR) *12.5)*100	14.21
Tier I Capital/((CRCR+MRCR+ORCR) *12.5)*100	10.95
Common Equity Tier I Capital/((CRCR+MRCR+ORCR)*12.5)*100	11.03

^(c) Equity and capital adequacy ratio calculation is changed in accordance with the "Regulation on the Amendment to the Regulation of Bank's Shareholder Equity" which came into force as of 31 March 2016. Prior period information is calculated within the framework of abolished regulations.

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Information about the consolidated shareholder equity items

	Prior Period
COMMON EQUITY TIER I CAPITAL	
Paid-in Capital to be Entitled for Compensation after all Creditors	2,500,000
Share Premium	727,780
Share Cancellation Profits	-
Reserves	10,333,662
Other Comprehensive Income according to TAS	970,668
Profit	2,015,941
Current Period Profit	1,948,588
Previous Period Profit	67,353
General Reserves for Possible Losses	-
Bonus shares from Associates, Subsidiaries, and Joint-Ventures not Accounted in Current Period's Profit	3,683
Minority Shares	500,271
Common Equity Tier I Capital Before Deductions	17,052,005
Deductions from Common Equity Tier I Capital	
Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS(-)	54,370
Leasehold Improvements on Operational Leases(-)	106,676
Goodwill and Other Intangible Assets and Related Deferred Taxes(-)	80,615
Net Deferred Tax Asset/Liability (-)	-
Shares Obtained against Article 56, Paragraph 4 of the Banking Law(-)	-
Direct and Indirect Investments of the Bank on its own Tier I Capital (-)	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
Mortgage Servicing Rights Exceeding the 10% Threshold of Tier I Capital (-)	-
Net Deferred Tax Assets arising from Temporary Differences Exceeding the 10% Threshold of Tier I Capital (-)	-
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 Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more than the Issued Share Capital not deducted from Tier I Capital(-)	-
Mortgage Servicing Rights not deducted (-)	-
Excess Amount arising from Deferred Tax Assets from Temporary Differences (-)	-
Other items to be Defined by the BRSA (-)	-
Deductions from Tier I Capital in cases where there are no adequate Additional Tier I or Tier II Capitals (-)	-
Total Deductions from Common Equity Tier I Capital	241,661
Total Common Equity Tier I Capital	16,810,344
ADDITIONAL CORE CAPITAL	
Preferred Stock not Included in Tier I Capital and the Related Share Premiums	-
Debt Instruments and the Related Issuance Defined by the BRSA (Issued or Obtained after 01.01.2014)	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued or Obtained before 01.01.2014)	-
Shares in the Additional Core Capital of Third Parties	-
Additional Core Capital before Deductions	-
Deductions from Additional Core Capital	
Direct and Indirect Investments of the Bank on its own Additional Core Capital (-)	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more of 10% of the Issued Share Capital (-)	-
Other items to be Defined by the BRSA (-)	-
The amount to be deducted from Additional Tier I Capital (-)	-

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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

	Prior Period
Total Deductions from Additional Core Capital	-
Total Additional Core Capital	-
Deductions from Core Capital	-
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 (-)	120,922
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 (-)	-
Total Core Capital	16,689,422
TIER II CAPITAL	
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued or Obtained after 1.1.2014)	1,450,446
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued or Obtained before 1.1.2014)	1,895,553
Pledged Assets of the Shareholders to be used for the Bank's Capital Increases	-
General Provisions	1,750,094
Shares in the capital contribution of third parties	5,120
Tier II Capital before Deductions	5,101,213
Deductions from Tier II Capital	
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-)	-
The Total of Net Long Positions of the Direct or Indirect Investments in Additional Core Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-)	-
Other items to be Defined by the BRSA (-)	-
Total Deductions from Tier II Capital	-
Total Tier II Capital	5,101,213
CAPITAL	21,790,635
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	-
Net Book Values of Movables and Immovable 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 (-)	138,557
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 (-)	-
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 BRSA (-)	254
The Portion of Total of Net Long Positions of the Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital 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 Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more than 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 Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Capital, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation (-)	-
EQUITY	21,651,824
Amounts lower than Excesses as per Deduction Rules	-
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital	-
Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% or less of the Tier I Capital	-
Remaining Mortgage Servicing Rights	-
Net Deferred Tax Assets arising from Temporary Differences	139,185

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Information about the debt instruments included in the consolidated equity calculation:

Issuer	T.Vakıflar Bankası T.A.O.
Unique identifier (e.g. CUSIP, ISIN, etc.)	XS0849728190/ US90015NAB91
XS1175854923/ US90015WAC73	
Governing law(s) of the instrument	Debt Instrument Communique numbered CMB-II-31.1 BRSA regulation on bank's shareholder equity
Regulatory treatment	
Subject to 10% deduction as of 1/1/2015	XS0849728190/ US90015NAB91 is subject to deduction.XS1175854923/ US90015WAC73 is not subject to deduction.
Eligible at unconsolidated/consolidated/consolidated&unconsolidated	Available
Instrument type	Bond Issuance Possessing Subordinated Loan Conditions (Tier II Capital)
Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date)	2,724
Par value of instrument	4,903
Accounting classification	347011 - Subordinated Liabilities
Original date of issuance	XS0849728190/ US90015NAB91 November 1, 2012 XS1175854923/ US90015WAC73 February 2, 2015
Perpetual or dated	XS0849728190/ US90015NAB91 Dated (10 years) Maturity Date: November 1, 2022 XS1175854923/ US90015WAC73 Dated (10 years) Maturity Date: February 3, 2025
Issue date	XS0849728190/ US90015NAB91 November 1, 2012 XS1175854923/ US90015WAC73 February 2, 2015
Issuer call subject to prior supervisory approval	Yes
Call option dates, conditioned call dates and call amount	XS0849728190/ US90015NAB91 Not available XS1175854923/ US90015WAC73 early call date at February 3, 2020 is available.
Subsequent call dates, if applicable	XS0849728190/ US90015NAB91 Not available XS1175854923/ US90015WAC73 only one call option is available.
Coupons / dividends	
Fixed or floating dividend/coupon	Fixed/Interest payment once in six month, principal payment at the maturity date
Coupon rate and any related index	XS0849728190/ US90015NAB91 6% fixed interest rate XS1175854923/ US90015WAC73 6.875% fixed interest rate
Existence of a dividend stopper	Nil
Fully discretionary, partially discretionary or mandatory	Nil
Existence of step up or other incentive to redeem	Nil
Noncumulative or cumulative	Noncumulative
Convertible or non-convertible	
If convertible, conversion trigger (s)	Nil
If convertible, fully or partially	Nil
If convertible, conversion rate	Nil
If convertible, mandatory or optional conversion	Nil
If convertible, specify instrument type convertible into	Nil
If convertible, specify issuer of instrument it converts into	Nil
Write-down feature	
If write-down, write-down trigger(s)	XS0849728190/ US90015NAB91 Not available. XS1175854923/ US90015WAC73 available Revoking the business activity of Bank according to 71 clause of 5411 numbered Banking Law or liquidation proceedings to Savings Deposit Insurance Fund are the triggering
If write-down, full or partial	XS0849728190/ US90015NAB91 not available XS1175854923/ US90015WAC73 has full or partial write down feature.
If write-down, permanent or temporary	XS0849728190/ US90015NAB91 not available XS1175854923/ US90015WAC73 has permanent write down feature.
If temporary write-down, description of write-up mechanism	XS0849728190/ US90015NAB91 not available XS1175854923/ US90015WAC73 has no write-up mechanism.
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Before debt instruments included in Tier II Capital after deposit and other receivables
Whether conditions which stands in article of 7 and 8 of Banks' shareholder equity law are possessed or not	Possess Article 8
According to article 7 and 8 of Banks' shareholders' equity law that are not possessed	Not Possess Article 7

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TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI

EXPLANATIONS AND NOTES RELATED TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Reconciliation of capital items to balance sheet:

	December 31, 2016
Shareholders' equity	19,607,472
Leasehold improvements on operational leases	(162,121)
Goodwill and intangible assets	(138,159)
General provision (1.25% of the amount that subject to credit risk)	1,983,272
Subordinated debt	2,723,659
Deductions from shareholders' equity	(205,414)
Capital	23,808,709

II. CONSOLIDATED CREDIT RISK

Credit risk is defined as the counterparty's possibility of failing to fulfil its obligations on the terms set by the agreement. Credit risk means risks and losses that may occur if the counterparty fails to comply with the agreement's requirements and cannot perform its obligations partially or completely on the terms set. It covers the possible risks arising from futures and option agreements and other agreements alike and the credit risks arising from credit transactions that have been defined by the Banking Law.

In compliance with the articles 51 and 54 set forth in Banking Law and ancillary regulation, credit limits are set by The Parent Bank for the financial position and credit requirements of customers within the authorization limits assigned for branches, regional directorates, lending departments, assistant general manager responsible of lending, general manager, credit committee and board of directors and credits are given regarding these limits in order to limit credit risk in lending facilities.

Credit limits are determined separately for the individual customer, company, group of companies, risk groups on a product basis. In accordance with the related Lending Policy, several criteria are used in the course of determining these credit limits. Customers should have a long-standing and a successful business past, a high commercial morality, possess a good financial position and a high morality, the nature of their business should be appropriate to use the credit, possess their commercial operations in an affirmative and a balanced manner, have experience and specialization in their profession, be able to adopt themselves to the economic conditions, to be accredited on the market, have sufficient equity capital, possess the ability to create funds with their operations and finance their placement costs. Also the sector and the geographical position of customers, where they operate and other factors that may affect their operations are considered in the evaluation process of loans. Apart from ordinary intelligence operations, the financial position of the customer is mainly analyzed based on the balance sheets and the income statements provided by the loan customer, the documents received in accordance with the related regulation for their state of accounts and other related documents. Credit limits are subject to revision regarding the overall economic developments and the changes in the financial information and operations of the customers.

Collaterals for the credit limits are determined on a customer basis in order to ensure bank placements and their liquidity. The amount and type of the collateral are determined regarding the creditworthiness of the credit users. The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees.

The Group has risk control limits for derivative transaction (futures, options, etc.) positions, which effects credit risk and market risk.

For credit risk management purposes, Risk Management Department operates in

- The determination of credit risk policies in coordination with the Bank's other units,
- The determination and monitoring of the distribution of concentration limits with respect to sector, geography and credit type,
- The contribution to the formation of rating and scoring systems, •The submit to the Board of Directors and the senior management of not only credit risk management reports about credit portfolio's distribution (borrower, sector, geographical region), credit quality (impaired loans, credit risk ratings) and credit concentration but also scenario analysis reports, stress tests and other analyses,
- The studies regarding the formation of advanced credit risk measurement approaches.

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Credit risk is defined and managed for all cash and non-cash agreements and transactions, which carry counterparty risk. Loans with renegotiated terms are followed in accordance with Bank's credit risk management and follow-up principles. The financial position and trading operations of related customers are continuously analyzed and principal and interest payments, scheduled in renegotiation agreement, are strictly controlled by related departments. In the framework of Bank's risk management concept, long term commitments are accepted more risky than short term commitments. Besides, risk limits defined for long term commitments and collaterals that should be taken against long term commitments are handled in a wider range compared to short term commitments.

Indemnified non-cash loans are regarded as the same risk weight with the loans that are pastdue and unpaid.

Banking operations and lending activities carried in foreign countries are not exposed to material credit risks, due to related countries' financial conditions, customers and their operations.

The Group classifies its past due and impaired receivables as shown below in accordance with the "Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables and Provisions to be Set Aside".

- For which recovery of principal and interest or both delays from their terms or due dates are more than ninety days but not more than one hundred eighty days are classified as "Group Three- Loans and Other Receivables With Limited Recovery",
- For which recovery of principal and interest or both delays from their terms or due dates are more than one hundred and eighty days but not more one year are classified as "Group Four- Loans and Other Receivables With Suspicious Recovery",
- For which recovery of principal and interest or both delays from their terms or due dates are more than one year are classified as "Group Five - Loans and Other Receivables Having the Nature of Loss",

Regardless of the guarantees and pledges received, the Group provides 20% provision for the Loans and Other Receivables classified in Group Three, by 30 September 2015, 50% provision for the Loans and Other Receivables classified in Group Four and 100% in Group Five. The provision amount is recognized in profit and loss statement of the period.

The Group's largest 100 cash loan customers compose 26.83% of the total cash loan portfolio (December 31, 2015: 24.19%).

The Group's largest 100 non-cash loan customers compose 55.78% of the total non-cash loan portfolio (December 31, 2015: 54.84%).

The Group's largest 100 cash loan customers compose 18.04% of total assets of the Group and the Group's largest 100 non-cash loan customers compose 15.30% of total off-balance sheet items (December 31, 2015: 15.96% and 15.33%).

The Group's largest 200 cash loan customers compose 32.99% of the total cash loan portfolio (December 31, 2015: 29.74%).

The Group's largest 200 non-cash loan customers compose 67.94% of the total non-cash loan portfolio (December 31, 2015: 66.75%).

The Group's largest 200 cash loan customers compose 22.19% of total assets of the Group and the Bank's largest 200 non-cash loan customers compose 18.63% of total off-balance sheet items (December 31, 2015: 19.62% and 18.66%).

The general provision for credit risk amounts to TL 2,167,443 (December 31, 2015: TL 1,957,603).

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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Risk Classifications:	Current Period Risk Amount^(*)	Average Risk Amount^(*)(**)
Claims on sovereigns and Central Banks	58,031,079	61,716,668
Claims on regional governments or local authorities	4,754,757	4,084,721
Claims on administrative bodies and other non-commercial undertakings	1,321,061	1,499,245
Claims on multilateral development banks	3,705	436
Claims on international organizations	-	-
Claims on banks and intermediary institutions	17,387,089	13,984,837
Claims on corporate	75,239,181	68,943,308
Claims included in the regulatory retail portfolios	45,732,251	40,238,614
Claims secured by residential property	43,946,760	39,721,096
Past due loans	1,170,775	1,050,056
Higher risk categories decided by the Agency	402,675	2,140,556
Marketable securities secured by mortgages	-	-
Securitization exposures	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-
Undertakings for collective investments in mutual funds	-	5
Stock Investments	650,567	576,735
Other claims	7,538,274	6,986,070

^(*) Average risk amount is calculated based on the arithmetic average of the monthly risk amounts after conversion for January-December 2016 period.

^(**) Before reducing the credit risk, the rate of the post credit conversion is given.

Risk Classifications:	Prior Period Risk Amount^(*)	Average Risk Amount^(*)(**)
Claims on sovereigns and Central Banks	57,024,024	57,630,354
Claims on regional governments or local authorities	3,701,832	3,256,170
Claims on administrative bodies and other non-commercial undertakings	1,110,567	1,084,244
Claims on multilateral development banks	219	36
Claims on international organizations	-	-
Claims on banks and intermediary institutions	10,498,291	12,197,625
Claims on corporate	62,902,098	60,633,093
Claims included in the regulatory retail portfolios	28,722,154	28,205,081
Claims secured by residential property	39,642,054	36,961,615
Past due loans	908,934	578,050
Higher risk categories decided by the Agency	11,406,846	11,243,906
Marketable securities secured by mortgages	-	-
Securitization exposures	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-
Undertakings for collective investments in mutual funds	-	548
Other claims	7,429,686	5,998,450

^(*) Average risk amount is calculated based on the arithmetic average of the monthly risk amounts after conversion for January-December 2015 period.

^(**) Before reducing the credit risk, the rate of the post credit conversion is given.

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Risk profile according to the geographical concentration ^(*)**

Current Period	Claims on sovereigns and central banks	Claims on governments or local authorities	Claims on regional governments	Claims on administrative bodies and other non-commercial undertakings	Claims on multilateral development banks	Claims on international organizations	Claims on banks and intermediary institutions	Claims on corporates	Claims included in the regulatory retail portfolios	Claims secured by residential property	Past due loans	Higher risk categories decided by the Board	Secured by mortgages	Securitization positions	Short-term claims and corporate claims on banks and intermediary institutions	Undertakings for collective investments in mutual funds	Stock investments	Other receivables	Total
Domestic	54,800,963	4,754,757	-	1,310,984	3,705	-	7,196,080	71,454,598	45,723,566	43,898,829	1,164,809	197,087	-	-	-	-	27,637	6,648,036	237,181,051
EU countries	448,596	-	-	10,077	-	-	8,551,401	1,944,141	6,990	-	5,966	-	-	-	-	-	-	17,972	10,985,143
OECD countries ^(*)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13,085
Off-shore banking regions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
USA, Canada	2,781,520	-	-	-	-	-	1,536,287	1,748,377	1,695	47,931	-	-	-	-	-	-	-	-	6,115,810
Other countries	-	-	-	-	-	-	90,236	92,065	-	-	-	205,588	-	-	-	-	-	-	387,889
Investment and associates, subsidiaries and joint ventures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	622,930	-	622,930
Undistributed Assets/Liabilities ^(**)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	872,266	872,266
Total	58,031,079	4,754,757	1,321,061	3,705	-	17,387,089	75,239,181	45,732,251	43,946,760	1,170,775	402,675	-	-	-	650,567	7,538,274	256,178,174	-	-

^(*) EU countries, OECD countries except USA and Canada.

^(**) The assets and liabilities that can not be distributed according to a consistent base.

^(***) Risk amounts are given before credit risk mitigation, after multiplied by credit risk conversion ratio.

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Risk profile according to the geographical concentration (*)**

Prior Period	Claims on sovereigns and Central Banks	Claims on regional governments or local authorities	Claims on administrative bodies and other non-commercial undertakings	Claims on multilateral development banks	Claims on international organizations	Claims on banks and intermediary institutions	Claims on corporates	Claims included in the regulatory portfolios	Claims secured by residential property	Past due loans	Higher risk categories decided by the Board	Secured by mortgages	Securitization positions	Short-term claims and short term corporate claims on banks and intermediary institutions	Undertakings for collective investments in mutual funds	Other receivables	Total
Domestic	52,902,940	3,694,135	1,110,567	2	-	3,378,158	61,135,851	28,675,914	39,615,204	903,784	11,289,128	-	-	-	-	6,278,985	208,984,668
EU countries	416,042	-	-	217	-	6,034,103	130,649	9,225	-	5,150	-	-	-	-	-	24,052	6,619,438
OECD countries (*)	-	-	-	-	-	1,133	5	-	-	-	-	-	-	-	-	-	1,138
Off-shore banking regions	-	-	-	-	-	-	916	-	-	-	-	-	-	-	-	-	916
USA, Canada	3,627,192	7,697	-	-	-	951,702	1,501,066	37,015	26,850	-	-	-	-	-	-	-	6,151,522
Other countries	77,850	-	-	-	-	133,195	133,611	-	-	-	117,718	-	-	-	-	-	462,374
Investment and associates, subsidiaries and joint ventures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	496,774	496,774
Undistributed Assets/ Liabilities(**)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	629,875	629,875
Total	57,024,024	3,701,832	1,110,567	219	-	10,498,291	62,902,098	28,722,154	39,642,054	908,934	11,406,846	-	-	-	-	7,429,686	223,346,705

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

(**) The assets and liabilities that can not be distributed according to a consistent base.

(***) Risk amounts are given before credit risk mitigation, after multiplied by credit risk conversion ratio.

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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Risk profile according to sectors and counterparties (*)

Current period	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	TL	FC	Total
Agricultural	2,306	54	207,563	-	-	-	1,265,696	628,586	667,275	-	-	-	-	-	-	-	-	1,925,166	846,314	2,771,480
<i>Farming and raising livestock</i>	1,833	54	207,563	-	-	-	961,861	570,802	628,685	-	-	-	-	-	-	-	-	1,792,861	577,937	2,370,798
<i>Forestry</i>	471	-	-	-	-	-	258,674	29,458	19,454	-	-	-	-	-	-	-	-	80,584	227,473	308,057
<i>Fishing</i>	2	-	-	-	-	-	45,161	28,326	19,136	-	-	-	-	-	-	-	-	51,721	40,904	92,625
Manufacturing	5,917	570	171,838	-	-	-	32,036,896	4,011,586	5,229,920	-	-	-	-	-	-	-	-	14,872,642	26,584,085	41,456,727
<i>Mining</i>	707	-	6,712	-	-	-	1,406,125	156,918	211,494	-	-	-	-	-	-	-	-	558,930	1,223,026	1,781,956
<i>Production</i>	5,210	23	49,004	-	-	-	21,506,151	3,721,968	4,890,928	-	-	-	-	-	-	-	-	12,288,286	17,884,998	30,173,284
<i>Electric, Gas, Water</i>	-	547	116,122	-	-	-	9,124,620	132,700	127,498	-	-	-	-	-	-	-	-	2,025,426	7,476,061	9,501,487
Construction	434	105	73,780	-	-	-	10,681,069	2,626,315	5,891,523	-	-	-	-	-	-	-	-	11,263,498	8,009,728	19,273,226
Services	34,903,667	4,624,121	700,690	3,700	-	17,386,596	24,649,122	12,764,924	15,372,177	-	205,588	-	-	-	-	27,610	-	66,896,612	43,741,583	110,638,195
<i>Wholesale and retail trade</i>	184,370	583	43	-	-	-	8,817,625	7,441,861	8,473,190	-	-	-	-	-	-	-	-	19,003,181	5,914,491	24,917,672
<i>Hotel, Food and Beverage Services</i>	2,282	17	64	-	-	-	2,450,566	498,907	3,130,880	-	-	-	-	-	-	-	-	1,455,534	4,627,182	6,082,716
<i>Transportation and Telecommunication</i>	283	7,554	365,546	-	-	-	8,323,167	4,174,378	1,476,312	-	-	-	-	-	-	-	-	6,498,613	7,848,627	14,347,240
<i>Financial Institutions</i>	34,488,078	7	1,010	3,700	-	17,386,596	3,611,257	50,347	1,086,383	-	205,588	-	-	-	-	27,610	-	33,038,141	23,822,435	56,860,576
<i>Real Estate and renting services</i>	-	-	-	-	-	-	374,326	133,167	489,797	-	-	-	-	-	-	-	-	432,085	565,209	997,294
<i>Self-employment services</i>	480	1,254	16,839	-	-	-	20,133	68	-	-	-	-	-	-	-	-	-	38,774	-	38,774
<i>Education services</i>	51,276	32	1,026	-	-	-	445,396	100,796	292,437	-	-	-	-	-	-	-	-	853,897	37,066	890,963
<i>Health and social services</i>	176,898	4,614,674	316,158	-	-	-	606,652	365,400	423,178	-	-	-	-	-	-	-	-	5,576,387	926,573	6,502,960
Other	23,118,755	129,907	167,190	5	-	493	6,606,398	25,700,840	16,785,865	1,170,775	197,087	-	-	-	-	622,957	7,538,274	56,420,395	25,618,151	82,038,546
Total	58,031,079	4,754,757	1,321,061	3,705	-	17,387,089	75,239,181	45,732,251	43,946,760	1,170,775	402,675	-	-	-	-	650,567	7,538,274	151,378,313	104,799,861	256,178,174

(*) Risk amounts are given before credit risk mitigation, after multiplied by credit risk conversion ratio.

- 1- Claims on sovereigns and central banks
- 2- Claims on regional governments or local authorities
- 3- Claims on administrative bodies and other non-commercial undertakings
- 4- Claims on multilateral development banks
- 5- Claims on international organizations
- 6- Claims on banks and intermediary institutions
- 7- Claims on corporates
- 8- Claims included in the regulatory retail portfolios
- 9- Claims secured by residential property
- 10- Past due loans
- 11- Higher risk categories decided by the Board
- 12- Secured by mortgages
- 13- Securitization positions
- 14- Short-term claims and short term corporate claims on banks and intermediary institutions
- 15- Undertakings for collective investments in mutual funds
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Risk profile according to sectors and counterparties (*)

Prior Period	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	TL	FC	Total	
Agricultural	2,414	105	26,352	-	-	-	1,161,728	439,998	705,331	-	59,684	-	-	-	-	-	1,785,630	609,982	2,395,612	
Farming and raising livestock	2,018	105	26,352	-	-	-	842,919	395,678	647,326	-	59,636	-	-	-	-	-	1,649,514	324,520	1,974,034	
Forestry	393	-	-	-	-	-	281,910	22,702	32,854	-	39	-	-	-	-	-	81,705	256,193	337,898	
Fishing	3	-	-	-	-	-	36,899	21,618	25,151	-	9	-	-	-	-	-	54,411	29,269	83,680	
Manufacturing	1,045	740	193,618	-	-	-	26,412,474	2,623,725	5,560,093	-	6,131	-	-	-	-	-	13,123,768	21,674,058	34,797,826	
Mining	-	-	3,674	-	-	-	1,163,960	91,198	196,693	-	216	-	-	-	-	-	481,280	974,461	1,455,741	
Production	980	30	97,208	-	-	-	17,893,764	2,487,186	5,194,457	-	5,795	-	-	-	-	-	11,060,452	14,618,968	25,679,420	
Electric, Gas, Water	65	710	92,736	-	-	-	7,354,750	45,341	168,943	-	120	-	-	-	-	-	1,582,036	6,080,629	7,662,665	
Construction	42	225	353	-	-	-	8,574,498	1,509,265	5,041,111	-	3,379	-	-	-	-	-	8,895,159	6,233,714	15,128,873	
Services	36,818,658	3,634,972	634,288	217	-	10,498,291	20,067,827	9,966,610	13,806,938	-	147,886	-	-	-	-	-	79,253	60,468,962	35,185,978	95,654,940
Wholesale and retail trade	4,975	3,765	98,714	-	-	-	7,372,177	5,617,739	8,146,349	-	18,612	-	-	-	-	-	16,275,415	4,986,916	21,262,331	
Hotel, Food and Beverage Services	14	1,027	622	-	-	-	1,838,986	295,384	2,560,578	-	2,136	-	-	-	-	-	1,281,778	3,416,969	4,698,747	
Transportation and Telecommunication	54	8,502	34,503	-	-	-	6,057,655	3,646,731	1,758,499	-	6,977	-	-	-	-	-	6,123,706	5,389,215	11,512,921	
Financial institutions	36,645,125	11	100,192	217	-	10,498,291	3,389,360	35,139	465,128	-	117,938	-	-	-	-	-	79,253	31,281,611	20,049,043	51,330,654
Real Estate and renting services	-	-	4	-	-	-	452,479	86,614	183,413	-	449	-	-	-	-	-	431,092	291,867	722,959	
Self-employment services	159	724	2,444	-	-	-	7,679	-	-	-	-	-	-	-	-	-	11,006	-	11,006	
Education services	4,995	48	8,889	-	-	-	216,735	67,764	272,888	-	258	-	-	-	-	-	519,242	52,335	571,577	
Health and social services	163,336	3,620,895	388,920	-	-	-	732,756	217,239	420,083	-	1,516	-	-	-	-	-	4,545,112	999,633	5,544,745	
Other	20,201,865	65,790	255,956	2	-	-	6,685,571	14,182,556	14,528,581	908,934	11,189,766	-	-	-	-	-	7,350,433	51,393,140	23,976,314	75,369,454
Total	57,024,024	3,701,832	1,110,567	219	-	10,498,291	62,902,098	28,772,154	39,642,054	908,934	11,406,846	-	-	-	-	-	7,429,686	135,666,659	87,680,046	223,346,705

(*) Risk amounts are given before credit risk mitigation, after multiplied by credit risk conversion ratio.

- 1- Claims on sovereigns and Central Banks
- 2- Claims on regional governments or local authorities
- 3- Claims on administrative bodies and other non-commercial undertakings
- 4- Claims on multilateral development banks
- 5- Claims on international organizations
- 6- Claims on banks and intermediary institutions
- 7- Claims on corporates
- 8- Claims included in the regulatory retail portfolios
- 9- Claims secured by residential property
- 10- Past due loans
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- 12- Secured by mortgages
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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Distribution of maturity risk factors according to their outstanding maturities ^(*)

Risk Classifications-Current Period	According to their outstanding maturities				
	1 month	1-3 month	3-6 month	6-12 month	1 year and over
Claims on sovereigns and Central Banks	5,378,866	225,795	409,148	1,583,377	50,433,893
Claims on regional governments or local authorities	1,782	21,645	28,086	388,627	4,314,617
Claims on administrative bodies and other non-commercial undertakings	42,633	278,512	9,991	64,845	925,080
Claims on multilateral development banks	-	-	-	-	3,705
Claims on international organizations	-	-	-	-	-
Claims on banks and intermediary institutions	6,646,906	2,506,413	270,739	481,645	7,481,386
Claims on corporate	2,748,096	3,463,594	6,864,871	11,067,646	51,094,974
Claims included in the regulatory retail portfolios	717,876	1,483,285	2,597,138	6,293,548	34,640,404
Claims secured by residential property	672,308	1,262,278	2,192,723	5,051,028	34,768,423
Past due loans	-	-	-	-	1,170,775
Higher risk categories decided by the Agency	-	300	-	-	402,375
Marketable securities secured by mortgages	-	-	-	-	-
Securitization exposures	-	-	-	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-	-	-	-
Undertakings for collective investments in mutual funds	-	-	-	-	-
Stock investments	3	-	-	-	650,564
Other claims	17,974	-	-	-	7,520,300
Total	16,226,444	9,241,822	12,372,696	24,930,716	193,406,496

^(*) Risk amounts are given before credit risk mitigation, after multiplied by credit risk conversion ratio.

Distribution of maturity risk factors according to their outstanding maturities ^(*)

Risk Classifications-Prior Period	According to their outstanding maturities				
	1 month	1-3 month	3-6 month	6-12 month	1 year and over
Claims on sovereigns and Central Banks	7,936,470	151,346	399,825	1,811,781	46,724,602
Claims on regional governments or local authorities	9,104	15,419	85,821	146,074	3,445,414
Claims on administrative bodies and other non-commercial undertakings	32,724	38,442	89,225	37,776	912,400
Claims on multilateral development banks	-	-	-	217	2
Claims on international organizations	-	-	-	-	-
Claims on banks and intermediary institutions	5,565,126	973,107	719,948	71,678	3,168,432
Claims on corporate	2,766,479	4,100,994	6,104,668	10,372,218	39,557,739
Claims included in the regulatory retail portfolios	475,513	1,069,575	1,896,600	4,252,175	21,028,291
Claims secured by residential property	729,855	1,249,282	2,168,805	4,718,668	30,775,444
Past due loans	-	-	-	-	908,934
Higher risk categories decided by the Agency	-	-	-	14,009	11,392,837
Marketable securities secured by mortgages	-	-	-	-	-
Securitization exposures	-	-	-	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-	-	-	-
Undertakings for collective investments in mutual funds	-	-	-	-	-
Other claims	24,052	-	-	-	7,405,634
Total	17,539,323	7,598,165	11,464,892	21,424,596	165,319,729

^(*) Risk amounts are given before credit risk mitigation, after multiplied by credit risk conversion ratio.

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Risk balances according to risk weights

Risk Weights Current Period	0%	10%	20%	35%	50%	75%	100%	150%	200%	250%	1250%	Deductions from the shareholders' equity
Pre-Amount of Credit Risk Mitigation	32,700,554	-	9,993,765	21,214,639	56,561,380	45,732,250	89,572,911	205,588	-	197,087	-	505,694
Amount after Credit Risk Mitigation	39,936,159	-	4,432,856	21,214,639	58,565,139	45,441,195	86,185,511	205,588	-	197,087	-	505,694

Risk Weights Prior Period	0%	10%	20%	35%	50%	75%	100%	150%	200%	250%	1250%	Deductions from the shareholders' equity
Pre-Amount of Credit Risk Mitigation	52,398,384	-	10,754,016	-	45,380,875	27,765,430	75,641,154	3,666,757	7,571,232	168,857	-	447,024
Amount after Credit Risk Mitigation	56,021,211	-	8,531,672	-	46,489,761	27,570,823	73,342,392	3,660,714	7,561,275	168,857	-	447,024

Credit rating of the credit rating agency, related to the Bank's Capital Adequacy Assessment of the Measurement is listed in Appendix 1 which corresponds to the credit quality step that is given in the table below.

Ratings Matched	Credit Quality Rank	Fitch Ratings
Long Term Credit Ratings	1	AAA between AA-
	2	A+ between A-
	3	BBB+ between BBB-
	4	BB+ between BB-
	5	B+ between B-
	6	CCC+ and below
Short Term Credit Ratings	1	F1+ between F1
	2	F2
	3	F3
	4	F3 and below
	5	-
	6	-

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Information According to Sectors and Counterparties

Current Period	Loans			Provisions
	Impaired ^(*)	Past Due ^(**)	Value Adjustments ^(***)	
Agricultural	127,068	56,562	1,580	107,103
<i>Farming and raising livestock</i>	116,360	51,912	1,424	98,027
<i>Forestry</i>	7,897	3,064	91	7,046
<i>Fishing</i>	2,811	1,586	65	2,030
Manufacturing	1,251,018	572,232	15,267	1,067,661
<i>Mining</i>	61,077	69,885	1,436	49,541
<i>Production</i>	1,178,844	490,172	13,644	1,008,911
<i>Electric, Gas, Water</i>	11,097	12,175	187	9,209
Construction	618,199	235,419	8,541	534,429
Services	1,854,467	2,237,522	49,129	1,559,932
<i>Wholesale and retail trade</i>	1,237,429	607,124	18,008	1,020,355
<i>Hotel, Food and Beverage Services</i>	137,051	97,034	2,808	117,059
<i>Transportation and telecommunication</i>	230,134	1,228,172	20,804	196,319
<i>Financial Institutions</i>	13,331	1,950	58	12,487
<i>Real estate and renting services</i>	45,269	32,707	1,104	42,390
<i>Self-employment services</i>	113,724	183,281	3,788	104,510
<i>Education services</i>	20,923	20,255	721	15,099
<i>Health and social services</i>	56,606	66,999	1,838	51,713
Other	2,852,631	3,215,435	232,451	2,263,483
Total	6,703,383	6,317,170	306,968	5,532,608

(*) Impaired loans are composed of group three, four and five loans.

(**) Past due loans and other receivables consist of loans and other receivables that are past due up to ninety days.

(***) Value adjustments represents general provisions of non-performing loans.

Prior Period	Loans			Provisions
	Impaired ^(*)	Past Due ^(**)	Value Adjustments ^(***)	
Agricultural	97,854	63,490	1,082	84,031
<i>Farming and raising livestock</i>	87,308	57,860	995	74,536
<i>Forestry</i>	8,408	3,188	75	7,669
<i>Fishing</i>	2,138	2,442	12	1,826
Manufacturing	1,092,095	263,507	6,344	899,226
<i>Mining</i>	139,744	7,731	63	73,788
<i>Production</i>	946,606	250,811	6,197	820,424
<i>Electric, Gas, Water</i>	5,745	4,965	84	5,014
Construction	538,816	214,734	4,877	463,489
Services	1,592,010	1,344,869	26,214	1,362,549
<i>Wholesale and retail trade</i>	969,437	596,895	12,883	818,176
<i>Hotel, Food and Beverage Services</i>	101,335	82,970	1,283	86,187
<i>Transportation and telecommunication</i>	311,208	448,813	8,132	271,145
<i>Financial Institutions</i>	10,448	4,873	89	10,281
<i>Real estate and renting services</i>	46,858	21,350	311	42,251
<i>Self-employment services</i>	119,204	145,031	2,792	105,315
<i>Education services</i>	8,723	17,877	333	7,744
<i>Health and social services</i>	24,797	27,060	391	21,450
Other	1,817,338	2,797,820	74,248	1,419,884
Total	5,138,113	4,684,420	112,765	4,229,179

(*) Impaired loans are composed of group three, four and five loans.

(**) Past due loans and other receivables consist of loans and other receivables that are past due up to ninety days.

(***) Value adjustments represents general provisions of non-performing loans.

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Current Period	The opening Balance	Provisions amounts set aside during the period	The cancellation of the provisions	Other Adjustments ^(*)	Closing Balance
Specific provisions	4,229,179	1,963,013	(668,315)	8,731	5,532,608
General provisions	1,957,603	213,855	-	(4,015)	2,167,443

^(*) Includes effect of currency translations differences and other provisions' classifications.

Prior Period	The opening Balance	Provisions amounts set aside during the period	The cancellation of the provisions	Other Adjustments ^(*)	Closing Balance
Specific provisions	3,861,308	1,085,809	(723,382)	5,444	4,229,179
General provisions	1,603,242	354,951	-	(590)	1,957,603

^(*) Includes effect of currency translations differences and other provisions' classifications

Fair value of collateral held against impaired loans

	December 31, 2016	December 31, 2015
Cash collateral ^(*)	-	-
Mortgage	2,551,197	1,796,132
Promissory note ^(*)	-	-
Others ^(**)	4,152,186	3,341,981
Total	6,703,383	5,138,113

^(*) As a policy, it is aimed to utilize from cash collateral or liquidate promissory note for an impaired loan collateralized by cash collateral or promissory note to cover the credit risk. Hence, cash collateral and promissory note are shown as zero in the table above.

^(**) Sureties obtained for impaired loans are presented in this row to the extent that the amount does not exceed the amount of impaired loans.

The detail of collateral held against performing cash and non-cash loans by the Group

Cash loans	December 31, 2016	December 31, 2015
Secured Loans:	114,150,134	94,650,837
Secured by mortgages	43,031,980	38,466,325
Secured by cash collateral	976,854	852,010
Guarantees issued by financial institutions	581,869	770,042
Secured by government institutions or government securities	2,420,844	1,459,632
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	67,138,587	53,102,828
Unsecured Loans	37,191,483	32,443,460
Total performing loans	151,341,617	127,094,297

Non-cash loans	December 31, 2016	December 31, 2015
Secured Loans:	16,831,486	14,300,378
Secured by mortgages	2,105,139	2,983,905
Secured by cash collateral	126,971	243,874
Guarantees issued by financial institutions	240,422	229,287
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	14,358,954	10,843,312
Unsecured Loans	23,828,865	18,819,523
Total non-cash loans	40,660,351	33,119,901

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Exposures subject to countercyclical capital buffer

Country of ultimate risk	RAV Calculated for Private sector credit exposures in banking book	RAV Calculated for Risk Weighted Equivalent trading book	Total
Turkey	137,360,356	221,843	137,582,199
ABD	2,136,618	1	2,136,619
England	1,588,910	-	1,588,910
France	922,499	94,879	1,017,377
Iraq	632,187	4,993	637,180
Switzerland	400,361	-	400,361
Holland	245,176	153	245,330
Germany	173,084	273	173,357
Austria	94,428	-	94,428
Albania	15,201	-	15,201
Other	3,182,771	-	3,182,771
Total	146,751,591	322,142	147,073,733

III. CONSOLIDATED FOREIGN CURRENCY EXCHANGE RISK

Foreign exchange risk that the Parent Bank is exposed to, estimation of effects of exposures, and the limits set by the Board of Directors of the Parent Bank for the positions monitored on a daily basis

The Standard Method which is also used in the legal reporting is used in measuring the currency risk of The Parent Bank.

The Parent Bank's and all consolidated financial subsidiaries' foreign currency assets and liabilities and the forward foreign-currency transactions are taken into consideration in calculating the capital obligation for the consolidated currency risk. The net long and short positions are calculated in Turkish Lira equivalent of the each currency. The position with the biggest absolute value is determined as the base amount for the capital obligation. The capital obligation is calculated at that amount.

The magnitude of hedging foreign currency debt instruments and net investment in foreign operations by using derivatives

As at December 31, 2016 and December 31, 2015, the Group does not have derivative financial instruments held for risk management purpose.

Foreign exchange risk management policy

Risk policy of the Parent Bank is based on the transactions within the limits and keeping the currency position well-balanced.

In the light of the national legislations and international applications, the Parent Bank has established a foreign currency risk management policy that enables the Group to take position between lower and upper limits determined in respect of the current equity profile. Speculative position is not held by the Parent Bank.

The effective exchange rates at the date of balance sheet and for the last five working days of the period announced by the Parent Bank in TL are as follows:

	US Dollar	Euro
The Bank's foreign currency purchase rate at the balance sheet date	3.5150	3.7048
Foreign currency purchase rates for the days before balance sheet date;		
Day 1	3.4800	3.6387
Day 2	3.4600	3.6233
Day 3	3.4500	3.6011
Day 4	3.4600	3.6199
Day 5	3.4500	3.6039
Last 30-days arithmetical average rate	3.4158	3.6065

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Information on currency risk

Current Period	Euro	US Dollar	Other FC	Total
Assets:				
Cash and balances with the Central Bank of Republic of Turkey	4,700,206	10,785,020	4,474,925	19,960,151
Banks	589,629	3,336,694	153,380	4,079,703
Financial assets at fair value through profit or loss ⁽¹⁾	5,549	117,676	-	123,225
Interbank money market placements	-	-	-	-
Available-for-sale financial assets	1,459,496	4,570,655	-	6,030,151
Loans and receivables ⁽²⁾	21,285,184	32,524,986	92,309	53,902,479
Associates, subsidiaries and joint-ventures	3	-	-	3
Held-to-maturity investments	-	140,621	-	140,621
Derivative financial assets held for risk management purpose	-	-	-	-
Tangible assets	1,432	7,926	-	9,358
Intangible assets	23	-	-	23
Other assets ^{(3) (4)}	1,601,653	2,341,842	427	3,943,922
Total assets	29,643,175	53,825,420	4,721,041	88,189,636
Liabilities:				
Bank deposits	187,729	3,234,981	151,579	3,574,289
Foreign currency deposits	16,022,572	19,605,975	1,241,053	36,869,600
Interbank money market takings	18,524	1,775,610	-	1,794,134
Funds borrowed	9,370,767	15,205,677	2,172	24,578,616
Securities issued	3,740,911	7,568,394	-	11,309,305
Miscellaneous payables	680,817	197,050	43,012	920,879
Derivative financial liabilities held for risk management purpose	-	-	-	-
Other liabilities ^{(1) (5)}	133,110	6,935,405	435	7,068,950
Total liabilities	30,154,430	54,523,092	1,438,251	86,115,773
Net 'on balance sheet' position	(511,255)	(697,672)	3,282,790	2,073,863
Net 'off-balance sheet' position	665,383	2,658,591	(3,282,690)	41,284
Derivative assets ⁽⁶⁾	3,755,331	21,698,055	290,944	25,744,330
Derivative liabilities ⁽⁶⁾	3,089,948	19,039,464	3,573,634	25,703,046
Non-cash loans ⁽⁷⁾	4,082,706	9,339,955	291,566	13,714,227
Prior Period				
	Euro	US Dollar	Other FC	Total
Total assets	19,692,433	49,208,308	4,456,999	73,357,740
Total liabilities	24,672,940	47,245,439	866,994	72,785,373
Net 'on balance sheet' position	(4,980,507)	1,962,869	3,590,005	572,367
Net 'off-balance sheet' position	5,576,216	(670,154)	(3,577,895)	1,328,167
Derivative assets ⁽⁶⁾	7,738,067	12,701,193	2,036,853	22,476,113
Derivative liabilities ⁽⁶⁾	2,161,851	13,371,347	5,614,748	21,147,946
Non-cash loans ⁽⁷⁾	3,015,389	7,731,618	246,531	10,993,538

⁽¹⁾ Derivative financial assets amounting to TL 21,109 (December 31, 2015: TL (51,275)) and liabilities amounting to TL 43,941 (December 31, 2015: TL (11,791)) resulting from changes in foreign exchange rates are not included.

⁽²⁾ Foreign currency indexed loans amounting to TL 4,493,820 (December 31, 2015: TL 3,555,465) presented in TL in the financial statements are included in the above table.

⁽³⁾ Foreign currency indexed factoring receivables amounted to TL 150,892 (December 31, 2015: TL 67,225) presented in TL column in the accompanying consolidated balance sheet are included.

⁽⁴⁾ Prepaid expenses amounting to TL 80,727 (December 31, 2015: TL 66,010) are not included.

⁽⁵⁾ Unearned income amounting to TL 165,259 (December 31, 2015: TL 110,576), deferred tax liabilities amounting to TL 9,632 (December 31, 2015: 6,210) and equity amounting to TL 453,469 TL (December 31, 2015: TL 565,299) are not included.

⁽⁶⁾ Asset purchase commitments amounting to TL 918,356 (December 31, 2015: TL 1,835,888), asset sales commitments amounting to TL 583,699 (December 31, 2015: TL 1,895,065) are included.

⁽⁷⁾ Non-cash loans are not taken into consideration in the calculation of the net 'off-balance sheet' position.

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Exposure to currency risk

10 percent depreciation of the TL against the following currencies as at and for the year ended December 31, 2016 and 2015 would have effect on consolidated equity and the consolidated statement of income (without tax effects) by the amounts shown in the table below.

This analysis assumes that all other variables, in particular interest rates, remain constant.

	December 31, 2016		December 31, 2015	
	Profit or loss	Equity ^(*)	Profit or loss	Equity ^(*)
US Dollar	195,299	195,299	128,842	128,842
Euro	15,267	15,267	27,552	41,688
Other currencies	10	10	1,211	1,211
Total, net ^(**)	210,576	210,576	157,605	171,741

^(*) Equity effect also includes profit or loss effect of 10% devaluation of TL against related currencies.

^(**) Associates, subsidiaries, joint ventures, tangible and intangible assets are not included to the analysis.

10 percent appreciation of the TL against the following currencies as at and for the year ended December 31, 2016 and 2015 would have effect on consolidated equity and consolidated statement of income (without tax effects) by the amounts shown in the table below.

	December 31, 2016		December 31, 2015	
	Profit or loss	Equity ^(*)	Profit or loss	Equity ^(*)
US Dollar	(195,299)	(195,299)	(127,517)	(127,517)
Euro	(15,267)	(15,267)	(27,552)	(41,688)
Other currencies	(10)	(10)	(1,085)	(1,085)
Total, net ^(**)	(210,576)	(210,576)	(156,154)	(170,290)

^(*) Equity effect also includes profit or loss effect of 10% revaluation of TL against related currencies.

^(**) Associates, subsidiaries, joint ventures, tangible and intangible assets are not included to the analysis.

IV. CONSOLIDATED INTEREST RATE RISK

Interest sensitivity of assets, liabilities and off-balance sheet items is evaluated during the weekly Assets-Liabilities Committee meetings taking into account the developments in market conditions.

The Parent Bank's interest rate risk is measured by the standard method.

Measurements for standard method are carried out monthly using the maturity ladder table.

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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 and balances with CBRT	13,369,312	-	-	-	-	11,000,003	24,369,315
Banks	3,465,261	885,101	22,306	-	-	902,821	5,275,489
Financial assets at fair value through profit/loss	550,409	678,810	76,648	383,420	89,850	10,096	1,789,233
Interbank money market placements	5,232	-	-	-	-	-	5,232
Available-for-sale financial assets	2,906,630	2,178,457	4,371,742	6,072,648	3,061,993	27,610	18,619,080
Loans and receivables	47,370,846	35,356,537	33,735,670	21,033,750	10,885,036	1,193,430	149,575,269
Held-to-maturity investments	674,843	1,937,819	4,047,247	1,287,620	233,006	-	8,180,535
Other assets ⁽¹⁾	199,340	426,206	569,072	1,561,618	154,733	9,945,878	12,856,847
Total assets	68,541,873	41,462,930	42,822,685	30,339,056	14,424,618	23,079,838	220,671,000
Liabilities:							
Bank deposits	4,281,972	455,862	94,424	-	-	243,643	5,075,901
Other deposits	66,828,991	20,852,159	8,411,150	933,657	15,737	24,141,714	121,183,408
Interbank money market takings	11,591,451	1,138,639	-	449,439	64,742	-	13,244,271
Miscellaneous payables	-	-	-	-	-	5,543,555	5,543,555
Securities issued	538,113	1,709,240	3,417,189	9,018,282	-	-	14,682,824
Funds borrowed	4,357,895	9,253,336	9,288,468	1,759,274	1,640,457	-	26,299,430
Other liabilities ⁽²⁾	524,040	189,450	262,393	1,435,505	3,761,055	28,469,168	34,641,611
Total liabilities	88,122,462	33,598,686	21,473,624	13,596,157	5,481,991	58,398,080	220,671,000
On balance sheet long position	-	7,864,244	21,349,061	16,742,899	8,942,627	-	54,898,831
On balance sheet short position	(19,580,589)	-	-	-	-	(35,318,242)	(54,898,831)
Off-balance sheet long position	2,073,148	3,048,601	-	-	-	-	5,121,749
Off-balance sheet short position	-	-	(522,353)	(3,391,353)	(210,900)	-	(4,124,606)
Net position	(17,507,441)	10,912,845	20,826,708	13,351,546	8,731,727	(35,318,242)	997,143

⁽¹⁾ Subsidiaries, associates and tangible and intangible assets, and deferred tax are included in "non-interest bearing" column.

⁽²⁾ Equity is included in "non-interest" bearing column in other liabilities line.

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 and balances with CBRT	12,781,090	-	-	-	-	8,708,824	21,489,914
Banks	5,475,827	194,049	61,644	-	-	444,499	6,176,019
Financial assets at fair value through profit/loss	391,852	421,683	6,030	87,765	73,042	15,490	995,862
Interbank money market placements	6,699	-	-	-	-	-	6,699
Available-for-sale financial assets	2,388,751	2,496,529	4,703,040	5,237,102	2,431,436	79,253	17,336,111
Loans and receivables	42,202,253	26,571,644	26,825,084	19,169,977	10,281,787	908,934	125,959,679
Held-to-maturity investments	1,010,446	1,774,694	3,360,520	1,301,192	230,877	-	7,677,729
Other assets ⁽¹⁾	104,786	295,650	311,063	1,119,520	227,377	7,885,149	9,943,545
Total assets	64,361,704	31,754,249	35,267,381	26,915,556	13,244,519	18,042,149	189,585,558
Liabilities:							
Bank deposits	4,477,914	555,665	151,903	-	-	392,993	5,578,475
Other deposits	58,747,568	19,744,450	7,262,399	777,354	16,558	19,883,193	106,431,522
Interbank money market takings	11,216,171	1,148,950	-	397,450	64,627	-	12,827,198
Miscellaneous payables	-	-	-	-	-	4,397,761	4,397,761
Securities issued	1,179,387	1,235,096	2,244,042	5,988,183	-	-	10,646,708
Funds borrowed	3,683,934	7,684,616	5,500,813	929,920	2,395,764	-	20,195,047
Other liabilities ⁽²⁾	45,764	92,326	245,280	903,262	3,176,408	25,045,807	29,508,847
Total liabilities	79,350,738	30,461,103	15,404,437	8,996,169	5,653,357	49,719,754	189,585,558
On balance sheet long position	-	1,293,146	19,862,944	17,919,387	7,591,162	-	46,666,639
On balance sheet short position	(14,989,034)	-	-	-	-	(31,677,605)	(46,666,639)
Off-balance sheet long position	1,207,068	2,297,615	-	-	-	-	3,504,683
Off-balance sheet short position	-	-	(315,011)	(1,725,656)	(902,100)	-	(2,942,767)
Net position	(13,781,966)	3,590,761	19,547,933	16,193,731	6,689,062	(31,677,605)	561,916

⁽¹⁾ Subsidiaries, associates and tangible and intangible assets are stated in "non-interest bearing" column.

⁽²⁾ Equity is included in "non-interest bearing" column in other liabilities line.

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Average interest rates applied to monetary financial instruments ^(*):

Current Period	Euro	US Dollar	Yen	TL
	%	%	%	%
Assets:				
Cash and balance with CBRT	-	0.75	-	3.31
Banks	0.19	1.02	-	11.49
Financial assets at fair value through profit/loss	5.50	5.89	-	10.91
Interbank money market placements	-	-	-	9.81
Available-for-sale financial assets	2.52	4.51	-	9.49
Loans and receivables	4.24	4.99	-	12.34
Held-to-maturity investments	-	2.68	-	9.65
Liabilities:				
Bank deposits	0.21	1.18	-	10.87
Other deposits	1.37	2.84	-	9.17
Interbank money market takings	-	1.77	-	8.32
Miscellaneous payables	-	-	-	-
Securities issued	2.90	4.88	-	9.60
Funds borrowed	3.15	3.71	-	11.80
Prior Period				
	Euro	US Dollar	Yen	TL
	%	%	%	%
Assets:				
Cash and balance with CBRT	-	0.49	-	3.81
Banks	0.22	0.36	-	12.38
Financial assets at fair value through profit/loss	5.50	11.78	-	11.39
Interbank money market placements	-	-	-	11.65
Available-for-sale financial assets	4.43	6.70	-	9.69
Loans and receivables	3.77	4.69	-	12.10
Held-to-maturity investments	-	3.59	-	10.02
Liabilities:				
Bank deposits	3.99	0.67	-	13.07
Other deposits	1.73	2.07	-	10.77
Interbank money market takings	-	1.08	-	8.46
Miscellaneous payables	-	-	-	-
Securities issued	2.72	4.44	0.93	10.93
Funds borrowed	1.07	1.87	-	11.83

^(*) The rates above are calculated over financial instruments with interest rates.

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V. CONSOLIDATED STOCK POSITION RISK

Stock position risks arising from banking book items

Information on separations of risks according to objectives including their relation with gains presented in equity and strategically reasons, accounting techniques and general information about valuation methods with the related assumptions and factors that affect the valuation and significant changes

The accounting applications regarding to share investment that qualifications in associate and subsidiary of are disclosed in Section 3 Note III.

If carrying value is substantially different from fair value and for publicly traded shares if market value is substantially different from fair value, the comparison with the market prices are shown in the table below:

Current Period	Comparison		
	Carrying Value	Fair Value ^(*)	Market Value ^(*)
Stock Investments			
Stocks quoted in exchange^(*)	263,309	263,309	263,309
1.Stocks Investments Group A	263,309	263,309	263,309
2.Stock Investments Group B	-	-	-
3.Stock Investments Group C	-	-	-
Stocks unquoted in exchange^(**)	387,231	298,705	-

^(*) The values of stocks traded in Stock Exchange are included to both columns assuming the market value is approximate to fair value.

^(**) The values of stocks unquoted in exchange are determined according to valuation reports prepared by independent valuation companies.

Prior Period	Comparison		
	Carrying Value	Fair Value ^(*)	Market Value ^(*)
Stock Investments			
Stocks quoted in exchange^(*)	233,212	233,212	233,212
1.Stocks Investments Group A	233,212	233,212	233,212
2.Stock Investments Group B	-	-	-
3.Stock Investments Group C	-	-	-
Stocks unquoted in exchange^(**)	412,393	271,913	-

^(*) The values of stocks traded in Stock Exchange are included to both columns assuming the market value is approximate to fair value.

^(**) The values of stocks unquoted in exchange are determined according to valuation reports prepared by independent valuation companies.

Total unearned gain or loss, total revaluation surplus and values included to principal and supplementary capital

Total unrealized gain or loss, total appraisal surplus and values included to principal and supplementary capital are given in the below table:

Portfolio-Current Period	Revaluation Surplus			Unrealized Gain and Loss		
	Realized Gain/ Loss in Current Period	Total ^(*)	Included in Supplementary Capital	Total ^(*)	Included in Core Capital	Included in Supplementary Capital
1. Private Capital Investments	-	-	-	-	-	-
2. Publicly Traded Stocks	-	-	-	-	-	-
3. Other Stocks	-	64,288	64,288	-	-	-
4. Total	-	64,288	64,288	-	-	-

^(*) Amounts are presented including the effect of deferred tax.

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Portfolio-Prior Period	Revaluation Surplus			Unrealized Gain and Loss		
	Realized Gain/ Loss in Current Period	Total (*)	Included in Core Capital	Total (*)	Included in Core Capital	Included in Supplementary Capital
1. Private Capital Investments	-	-	-	-	-	-
2. Publicly Traded Stocks	-	-	-	-	-	-
3. Other Stocks	-	118,580	118,580	-	-	-
4. Total	-	118,580	118,580	-	-	-

(*) Amounts are presented including the effect of deferred tax.

Explanations on Equity Shares Risk Arising from Banking Book

Portfolio-Current Period	Carrying Value	Total RWA	Minimum Capital Requirement
1.Private Equity Investments	-	-	-
2.Quoted	263,309	263,309	21,065
3.Other Stocks	387,231	387,231	30,978
4. Total	650,540	650,540	52,043

Portfolio-Prior Period	Carrying Value	Total RWA	Minimum Capital Requirement
1.Private Equity Investments	-	-	-
2.Quoted	233,212	233,212	18,657
3.Other Stocks	412,393	412,393	32,991
4. Total	645,605	645,605	51,648

VI. CONSOLIDATED LIQUIDITY RISK AND LIQUIDITY COVERAGE RATIO

Liquidity risk is defined as the risk of not fulfilling payment liabilities on time as a result of not having adequate cash or cash inflow to meet the cash outflow properly due to imbalance in cash flows of the bank. The framework of liquidity risk of the Parent Bank is specified with Liquidity Risk Management Document. In the framework of liquidity risk management, policies regarding liquidity risk management are written down by Risk Management Department and fundamental principles, analyses regarding measurement and monitoring risk, basic rudiments on early warning indicators, liquidity buffer and limits are included.

The Parent Bank is managing liquidity risk according to risk capacity and the Bank's risk appetite in the range envisioned by the regulations. Liquidity risk management approach is in general based on the principle of monitoring in-day liquidity risk. The Bank monitors the net liquidity position and liquidity requirements continuously and facing the future. The Bank takes precautions to increase diversity in fund sources to increase effectiveness and durability in liquidity risk management. On market basis and specific to the Bank (in consideration of market and funding liquidity) scenario and susceptibility analyses are performed and assumptions based on these analyses are reviewed regularly. It is aimed to protect the optimum liquidity level that can meet short – term liquidity needs not to remain inactive and maintain profitability – risk balance.

In addition to the structure described concerning the Parent Bank's liquidity risk management, various systems and processes are also available subsidiaries and associates. These systems and processes are designed in a way compatible with the generally accepted approach concerning liquidation risk management and legal regulations that each subsidiary and associate is subject to be. Besides the established structures and arrangements are able to execute liquidation risk management of subsidiaries and associates effectively within the organization, it is expected that these established structures and arrangements are also contribute to the integrated liquidity risk management structure with the Parent Bank's all associates.

Liquidity management in the Parent Bank is carried out under Treasury Department in regard to the Parent Bank's strategic goals and projections, decisions taken in Asset/Liability Committee, treasury policies, limits defined under market circumstances, the Parent Bank's balance sheet and income goals and strategies defined to meet these goals. Daily, weekly, and monthly cash flow statements are prepared in accordance with principles of profitability and prudence in the Parent Bank's liquidity management. Cash flow statements are evaluated and the Parent Bank's liquidity is managed in line with Treasury Department policies, daily TL and FC liquidity position Bank balance sheet and income goals.

Scenarios about where to make replacement funding in case of high amount outflows in daily liquidity management are made regularly, effects of probable outflows on liquidity level and legal ratios are evaluated and liquidity management is carried out by taking necessary actions.

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The Parent Bank makes use of liquidity gap analysis reports and liquidity stress tests in the internal measurement of liquidity risk. In Liquidity gap analysis and liquidity stress scenarios, the Bank's compensation level of net cash outflows which are more likely to happen in short term are presented. Measurements regarding liquidity risk are performed by Risk Management Department and measurement results are reported regularly to performer units responsible of management of the related risk and top management and the Board of Directors.

It is taken as a basis that the Group consistently monitors TL and FC liquidity positions and funding strategies. Necessary precautions are taken in line with liquidity needs by following stress circumstances. "Liquidity Emergency Action Plan" which is an important part of liquidity risk management of the Bank, consists of early warning indicators which play an important role in monitoring increases in liquidity risk and the prevention of a possible crisis, action plans to prevent a possible crisis and to be applied during a crisis. Furthermore, to fulfill the banks reserve deposits liability that it has to allocate in the presence of CBRT, alternative fund sources to provide liquidity that is needed in various stress circumstances and under which circumstances to apply these sources, precautions to minimize time maturity mismatch and provide necessary funds on time, how the mechanism is going to operate in cases of crisis and stress is included in the plan.

The Group's Foreign Currency and total liquidity coverage ratio averages for current period. The highest value and the lowest value occurred in this period are given below:

Liquidity Coverage Ratio	TL+FC		FC	
	DATE	RATIO (%)	DATE	RATIO (%)
The lowest value	December 2016	100.72	December 2016	110.36
The highest value	October 2016	107.48	October 2016	160.67

Liquidity Coverage Ratio

Current Period	Total unweighted value *		Total weighted value*	
	TL+FC	FC	TL+FC	FC
HIGH QUALITY LIQUID ASSETS				
1 Total High Quality Liquid Assets (HQLA)			31,327,045	17,494,256
CASH OUTFLOWS				
2 Retail deposits and deposits from small business customers, of which:	56,398,533	18,755,224	4,709,780	1,875,523
3 Stable deposits	18,601,460	-	930,073	-
4 Less stable deposits	37,797,073	18,755,224	3,779,707	1,875,523
5 Unsecured wholesale funding, of which:	63,466,793	16,531,060	25,468,933	8,024,537
6 Operational deposits	43,127,499	9,221,613	10,781,875	2,305,403
7 Non-operational deposits	10,385,173	5,745,212	6,992,999	4,191,277
8 Unsecured debt	9,954,121	1,564,235	7,694,059	1,527,857
9 Secured wholesale funding			-	-
10 Additional requirements of which:	12,074,577	11,213,463	12,074,577	11,213,463
11 Outflows related to derivative exposures and other collateral requirements	12,074,577	11,213,463	12,074,577	11,213,463
12 Outflows related to loss of funding on debt products	-	-	-	-
13 Credit and liquidity facilities	-	-	-	-
14 Other contractual funding obligations	16,675,067	16,238,733	833,753	811,937
15 Other contingent funding obligations	44,925,526	11,988,692	6,590,564	1,095,508
16 TOTAL CASH OUTFLOWS			49,677,607	23,020,968
CASH INFLOWS				
17 Secured lending	-	-	-	-
18 Inflows from fully performing exposures	13,757,171	5,596,651	9,870,634	4,837,408
19 Other cash inflows	9,441,176	5,175,370	9,441,176	5,175,370
20 TOTAL CASH INFLOWS	23,198,347	10,772,021	19,311,810	10,012,778
			Upper Limit Applied Values	
21 TOTAL HQLA			31,327,045	17,494,256
22 TOTAL NET CASH OUTFLOWS			30,365,797	13,008,190
23 LIQUIDITY COVERAGE RATIO (%)			103.26	136.98

* Simple arithmetic average, calculated for the last three months, of the values calculated by taking monthly simple arithmetic average.

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Prior Period	Total unweighted value *		Total weighted value*	
	TL+FC	FC	TL+FC	FC
HIGH QUALITY LIQUID ASSETS				
1	Total High Quality Liquid Assets (HQLA)		28,842,274	19,291,743
CASH OUTFLOWS				
2	Retail deposits and deposits from small business customers, of which:		47,209,327	17,527,659
3	Stable deposits		19,416,047	4,525,463
4	Less stable deposits		27,793,280	13,002,196
5	Unsecured wholesale funding, of which:		47,583,503	13,101,636
6	Operational deposits		8,708,614	2,794,066
7	Non-operational deposits		31,958,453	8,125,734
8	Unsecured debt		6,916,436	2,181,836
9	Secured wholesale funding		-	-
10	Additional requirements of which:		11,935,341	10,289,600
11	Outflows related to derivative exposures and other collateral requirements		11,935,341	10,289,600
12	Outflows related to loss of funding on debt products		-	-
13	Credit and liquidity facilities		-	-
14	Other contractual funding obligations		12,634,258	12,132,366
15	Other contingent funding obligations		41,024,707	12,600,559
16	TOTAL CASH OUTFLOWS		46,928,010	23,028,987
CASH INFLOWS				
17	Secured lending		-	-
18	Inflows from fully performing exposures		12,252,177	5,859,220
19	Other cash inflows		10,114,577	7,424,636
20	TOTAL CASH INFLOWS		22,366,754	13,283,856
			Upper Limit Applied Values	
21	TOTAL HQLA		28,842,274	19,291,743
22	TOTAL NET CASH OUTFLOWS		28,058,288	10,447,378
23	LIQUIDITY COVERAGE RATIO (%)		102.79	184.66

¹⁾ Simple arithmetic average, calculated for the last three months, of the values calculated by taking monthly simple arithmetic average.

With the "Liquidity Coverage Rate" which is prepared under the framework of "Regulations Regarding Banks' Calculations of Liquidity Coverage Rate" published by BRSA, the balance between banks' net cash outflows and high quality liquid asset stock

The Group's high quality liquid asset stock consists of cash and debt instruments issued by CBRT and Republic of Turkey Undersecretariat of Treasury.

Whereas the Group's important fund sources are deposits, funds obtained from other financial institutions, marketable securities issued and funds obtained from repo transactions.

Derivatives transactions with 30 or less days to maturity are included into liquidity coverage calculation with cash outflows created by the transactions as of the calculated liquidity coverage rate. In case of a liability resulting from derivatives transactions and security fulfillment liability resulting from other liabilities, actions are taken accordingly to the related regulation.

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Maturity analysis of assets and liabilities according to remaining maturities:

Current Period	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Undistributed ^(*)	Total
Assets:								
Cash and balance with CBRT	24,369,315	-	-	-	-	-	-	24,369,315
Banks	3,560,499	807,583	885,101	22,306	-	-	-	5,275,489
Financial assets at fair value through profit/loss	10,096	53,413	88,608	456,671	1,082,591	97,854	-	1,789,233
Interbank money market placements	-	5,232	-	-	-	-	-	5,232
Available-for-sale financial assets	-	677,535	270,855	1,846,497	9,133,684	6,662,899	27,610	18,619,080
Loans and receivables	9,441	12,646,753	5,498,653	30,852,055	63,969,529	35,428,484	1,170,354	149,575,269
Held-to-maturity investments	-	674,843	52,727	-	3,733,430	3,719,535	-	8,180,535
Other assets	88,436	1,446,477	532,701	754,268	1,771,081	154,769	8,109,115	12,856,847
Total assets	28,037,787	16,311,836	7,328,645	33,931,797	79,690,315	46,063,541	9,307,079	220,671,000
Liabilities:								
Bank deposits	243,644	4,281,971	455,862	94,424	-	-	-	5,075,901
Other deposits	24,600,347	66,313,388	20,647,664	7,844,839	1,737,563	39,607	-	121,183,408
Funds borrowed	-	687,887	1,261,151	11,536,861	6,754,426	6,059,105	-	26,299,430
Interbank money market takings	-	11,591,451	1,138,639	-	449,439	64,742	-	13,244,271
Securities issued	-	538,113	1,709,240	3,143,948	9,291,523	-	-	14,682,824
Miscellaneous payables	-	4,061,654	174,010	89,602	2,039	-	1,216,250	5,543,555
Other liabilities	95,873	1,339,050	899,680	1,085,675	862,078	5,104,683	25,254,572	34,641,611
Total liabilities	24,939,864	88,813,514	26,286,246	23,795,349	19,097,068	11,268,137	26,470,822	220,671,000
Liquidity gap	3,097,923	(72,501,678)	(18,957,601)	10,136,448	60,593,247	34,795,404	(17,163,743)	-
Net Off Balance Sheet								
Position	-	(479,339)	(6,902)	423,379	933,313	652,787	-	1,523,238
Receivables from Derivative Financial Instruments	-	8,668,204	4,637,320	2,809,733	12,736,387	5,799,680	-	34,651,324
Payables from Derivative Financial Instruments	-	9,147,543	4,644,222	2,386,354	11,803,074	5,146,893	-	33,128,086
Non-cash Loans	3,594,694	1,317,799	23,411,576	6,463,985	5,003,522	868,775	-	40,660,351
Prior Period								
Total assets	25,646,221	15,865,730	5,191,847	28,101,282	66,535,678	40,925,182	7,319,618	189,585,558
Total liabilities	20,635,409	79,801,335	23,867,969	19,737,147	10,985,905	9,583,788	24,974,005	189,585,558
Liquidity gap	5,010,812	(63,935,605)	(18,676,122)	8,364,135	55,549,773	31,341,394	(17,654,387)	-
Net Off Balance Sheet								
Position	-	36,402	(15,382)	70,417	496,019	374,145	-	961,601
Receivables from Derivative Financial Instruments	-	10,288,932	3,593,668	1,389,636	5,540,752	4,922,653	-	25,735,641
Payables from Derivative Financial Instruments	-	10,252,530	3,609,050	1,319,219	5,044,733	4,548,508	-	24,774,040
Non-cash Loans	2,663,320	951,139	19,403,416	5,498,569	4,078,818	524,639	-	33,119,901

^(*) Certain assets on the balance sheet that are necessary for the banking operations but not convertible into cash in short period such as tangible assets, intangible assets, associates, subsidiaries, miscellaneous receivables and shareholder's equity in the liabilities have been included in the "Undistributed" column.

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Residual contractual maturities of financial liabilities ^(*)

Current period	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Bank deposits	5,075,901	5,085,671	243,644	4,287,093	459,456	95,478	-	-
Other deposits	121,183,408	122,125,718	24,600,347	66,481,532	20,858,252	8,055,182	2,052,190	78,215
Funds borrowed	26,299,430	29,135,873	-	689,930	1,278,907	11,742,778	7,845,281	7,578,977
Money market takings	13,244,271	13,376,729	-	11,596,992	1,141,262	-	548,086	90,389
Issued Securities (Net)	14,682,824	15,769,709	-	540,447	1,733,134	3,211,213	10,284,915	-
Miscellaneous payables	5,543,555	5,543,555	1,216,250	4,061,654	174,010	89,602	2,039	-
Other liabilities	8,480,070	10,486,315	1,931,584	884,634	92,437	27,654	466,873	7,083,133
Total	194,509,459	201,523,570	27,991,825	88,542,282	25,737,458	23,221,907	21,199,384	14,830,714
Non-Cash Loans	40,660,351	40,660,351	3,594,694	1,317,799	23,411,576	6,463,985	5,003,522	868,775

Prior period	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Bank deposits	5,578,475	5,593,377	392,993	4,483,071	562,204	155,109	-	-
Other deposits	106,431,522	107,036,149	20,242,411	58,628,018	19,787,960	7,396,999	954,597	26,164
Funds borrowed	20,195,047	21,775,455	-	619,943	977,891	10,192,539	3,767,715	6,217,367
Money market takings	12,827,198	12,843,308	-	11,227,072	1,151,513	-	399,406	65,317
Issued Securities (Net)	10,646,708	11,398,974	-	1,185,490	1,246,388	2,031,028	6,936,068	-
Miscellaneous payables	4,397,761	4,397,761	821,687	3,197,707	107,686	266,215	4,466	-
Other liabilities	6,546,168	8,465,570	1,726,125	378,507	37,667	52,867	83,027	6,187,377
Total	166,622,879	171,510,594	23,183,216	79,719,808	23,871,309	20,094,757	12,145,279	12,496,225
Non-Cash Loans	33,119,901	33,119,901	2,663,320	951,139	19,403,416	5,498,569	4,078,818	524,639

This table shows the undiscounted cash flows on the Group's financial liabilities on the basis of their earliest possible contractual maturity. Therefore, the gross nominal outflows in the table above vary from the carrying amounts of the relevant financial liabilities reflected in the consolidated financial statements.

VII. CONSOLIDATED LEVERAGE RATIO

Information on Issues that Cause Differences between Current Period and Previous Period Leverage Ratios

The Group's consolidated leverage rate which is calculated due to "Regulation on Banks' Measurement and Evaluation of Leverage Level" actualised as 6.71%. Increase in balance sheet assets and off-balance sheet transactions resulted in change on leverage rate compared to previous period (December 31, 2015: 6.72%). The Regulation adjudicated minimum leverage rate as 3%.

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Summary comparison table of the total risk amount and the total asset amount in the consolidated financial statements prepared as per TAS

	Current Period	Prior Period
Total asset amount in the consolidated financial statements prepared as per TAS ⁽¹⁾	198,555,907	188,113,759
The difference between the total asset amount in the consolidated financial statements prepared as per TAS and the asset amount in the consolidated financial statements prepared as per the Communiqué on the Preparation of the Consolidated Financial Statements of Banks ⁽¹⁾	(1,639,489)	(1,471,799)
The difference between the derivative financial instruments and the loan derivatives amount in the consolidated financial statements prepared as per the Communiqué on the Preparation of the Consolidated Financial Statements of Banks and the risk amounts ⁽²⁾	(1,620,419)	(1,339,299)
The difference between the financial transactions with securities or goods warranty amounts in the consolidated financial statements prepared as per the Communiqué on the Preparation of the Consolidated Financial Statements of Banks and the risk amounts ⁽²⁾	13,914,719	11,531,134
The difference between the off-balance sheet transactions amount in the consolidated financial statements prepared as per the Communiqué on the Preparation of the Consolidated Financial Statements of Banks and the risk amounts ⁽²⁾	10,234,984	9,316,429
Other differences between the amount in the consolidated financial statements prepared as per the Communiqué on the Preparation of the Consolidated Financial Statements of Banks and the risk amounts ⁽²⁾	(84,572,910)	(75,852,096)
Total risk amount	261,537,348	245,588,552

⁽¹⁾ The amounts represent 30 June 2016 and 31 December 2015 balances of consolidated financial statements prepared as per the sixth paragraph of Article 5 of the Communiqué on the Preparation of the Consolidated Financial Statements of Banks.

⁽²⁾ The balances in the table represent the average of three months.

Leverage ratio common disclosure template

	Current Period ⁽¹⁾	Prior Period ⁽¹⁾
On-balance sheet exposures		
1. On-balance sheet items (excluding derivatives and SFTs; including collateral)	216,824,485	188,355,835
2. Assets deducted in determining Basel III Tier 1 capital	(314,602)	(357,384)
3. Total on-balance sheet exposures (excluding derivatives and SFTs)	216,509,883	187,998,451
Derivative exposures		
4. Replacement cost	1,384,507	958,702
5. Add-on amount	649,441	380,597
6. Total derivative exposures	2,033,948	1,339,299
Securities financing transaction exposures		
7. Gross SFT assets (with no recognition of accounting netting)	653,844	779,920
8. Agent transaction exposures	-	-
9. Total securities financing transaction exposures	653,844	779,920
Other off-balance sheet exposures		
10. Off-balance sheet exposures with gross nominal amount	63,161,241	54,444,913
11. Adjustment amount off-balance sheet exposures with credit conversion factor	1,350,160	1,025,968
12. Total off-balance sheet exposures	64,511,401	55,470,881
Capital and total exposures		
13. Tier 1 capital	19,017,854	16,514,311
14. Total exposures	283,709,076	245,588,551
Leverage ratio		
15. Leverage ratio	6.71	6.72

⁽¹⁾ Calculated by using three month average of balances in Leverage Rate Notification table.

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VIII. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

	Carrying Value		Fair Value	
	Current Period	Prior Period	Current Period	Prior Period
Financial Assets:				
Receivables from Interbank Money Markets	5,232	6,699	5,232	6,699
Banks	5,275,489	6,176,019	5,275,489	6,176,019
Available-for-Sale Financial Assets	18,619,080	17,336,111	18,619,080	17,336,111
Held-to-Maturity Investments	8,180,535	7,677,729	7,992,774	7,496,076
Loans	149,575,269	125,959,679	149,812,100	127,521,403
Financial Leasing Receivables	1,546,409	1,325,825	1,546,409	1,325,825
Factoring Receivables	1,390,714	717,727	1,390,714	717,727
Financial Liabilities:				
Bank Deposits	5,075,901	5,578,475	5,139,171	5,610,321
Other Deposits	121,183,408	106,431,522	121,240,772	106,428,225
Funds Borrowed	26,299,430	20,195,047	27,221,894	20,508,451
Securities Issued	14,682,824	10,646,708	14,898,154	10,569,723
Subordinated Loans	5,014,700	4,155,551	4,694,264	4,155,551
Miscellaneous Payables	5,543,555	4,397,761	5,543,555	4,397,761

Fair values of available-for-sale financial assets and held-to-maturity investments are derived from market prices or in case of absence of such prices they are derived from prices of other marketable securities, whose interest rate, maturity date and other conditions are similar to securities held.

Fair value of loans are calculated by discounting future cash flows with the use of current market interest rates.

Fair value of funds borrowed with fixed interest rate are calculated by discounting cash flows with current market interest rates. Fair value of funds borrowed with floating interest rate is calculated according to repricing period by discounting cash flows with current market rates.

Fair value of other assets and liabilities is calculated by adding accumulated acquisition costs and the sum of the interest accrual.

Classification of Fair Value Measurement

IFRS 7 - Financial Instruments requires the classification of fair value measurements into a fair value hierarchy by reference to the observability and significance of the inputs used in measuring fair value of financial instruments measured at fair value to be disclosed. This classification basically relies on whether the relevant inputs are observable or not. Observable inputs refer to the use of market data obtained from independent sources, whereas unobservable inputs refer to the use of predictions and assumptions about the market made by the Company. This distinction brings about a fair value measurement classification generally as follows:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);

Level 3: Fair value measurements using inputs for the assets or liability that are not based on observable market data (unobservable inputs).

Classification requires using observable market data if possible.

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The classification of fair value measurements of financial assets and liabilities measured at fair value is as follows:

December 31, 2016	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss:				
Financial assets held for trading purpose:	182,264	1,606,969	-	1,789,233
Debt securities	171,585	-	-	171,585
Derivative financial assets held for trading purpose	583	1,606,969	-	1,607,552
Investment funds	8,001	-	-	8,001
Equity securities	2,095	-	-	2,095
Available-for-sale financial assets	16,071,306	2,547,759	15	18,619,080
Equity securities	-	27,595	15	27,610
Debt securities	16,071,306	2,520,164	-	18,591,470
Investments in associates and subsidiaries ⁽¹⁾	-	-	298,705	298,705
Total Financial Assets	16,253,570	4,154,728	298,720	20,707,018
Financial liabilities at fair value through profit/loss:				
Derivative financial liabilities held for trading purpose	-	(1,154,424)	-	(1,154,424)
Total Financial Liabilities	-	(1,154,424)	-	(1,154,424)
December 31, 2015	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss:				
Financial assets held for trading purpose:	84,684	911,178	-	995,862
Debt securities	69,685	25,711	-	95,396
Derivative financial assets held for trading purpose	-	885,467	-	885,467
Investment funds	13,167	-	-	13,167
Equity securities	1,832	-	-	1,832
Available-for-sale financial assets	14,322,018	2,934,840	79,253	17,336,111
Equity securities	-	-	79,253	79,253
Debt securities	14,322,018	2,934,840	-	17,256,858
Investments in associates and subsidiaries ⁽¹⁾	-	-	271,913	271,913
Total Financial Assets	14,406,702	3,846,018	351,166	18,603,886
Financial liabilities at fair value through profit/loss:				
Derivative financial liabilities held for trading purpose	-	(304,352)	-	(304,352)
Total Financial Liabilities	-	(304,352)	-	(304,352)

⁽¹⁾ This amount consist of fair value of the affiliates and subsidiaries determined by independent valuation companies.

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The reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy as at and for the year ended December 31, 2016 is as follows:

	Level 3 Current Period	Level 3 Prior Period
Balance at the beginning of the year	351,166	259,823
Total gains or losses for the year recognized in profit or loss	-	-
Total gains or losses for the year recognized under equity	(52,466)	91,343
Balance at the end of the year	298,720	351,166

IX. TRANSACTIONS CARRIED OUT ON BEHALF OF CUSTOMERS, ITEMS HELD IN TRUST

The Parent Bank provides buying, selling and custody services and management and advisory services in financial matters for its customers. The Group is not involved in trust activities.

X. CONSOLIDATED SEGMENT REPORTING

The Parent Bank operates in corporate, commercial, small business, retail and investment banking. Accordingly, the banking products served to customers are; time and demand deposit, accumulating account, repos, overdraft facilities, spot loans, foreign currency indexed loans, consumer loans, automobile and housing loans, working capital loans, discounted bills, overdraft facilities, gold loans, foreign currency loans, Eximbank loans, pre-export loans, ECA covered financing, letters of guarantee, letters of credit, export factoring, acceptance credits, draft facilities, forfaiting, leasing, insurance, forward, futures, salary payments, investment account, cheques, safety boxes, bill payments, tax collections, payment orders.

The Parent Bank provides service packages to its corporate, commercial and retail customers including deposit, loans, foreign trade transactions, investment products, cash management, leasing, factoring, insurance, credit cards, and other banking products. A customer-oriented branch network has been built in order to serve customers’ needs effectively and efficiently.

Additionally, the Parent Bank provides “small business” banking service to enterprises in retail and service sectors. Products include overdraft accounts, POS machines, credit cards, cheque books, TL and foreign currency deposits, investment accounts, internet banking and call-center, debit card, and bill payment.

Retail banking customers form a wide-spread and sustainable deposit base for the Parent Bank. Individual customers’ needs are met by diversified consumer banking products through branches and alternative delivery channels.

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Major financial statement items according to business lines:

Current Period	Retail Banking	Corporate Banking	Investment Banking	Other	Total Operations
OPERATING INCOME/ EXPENSES					
Interest Income	4,959,825	8,323,574	3,667,054	13,736	16,964,189
Interest income from loans	4,959,825	8,105,767	1,203,336	-	14,268,928
Interest income from reserve deposits	-	-	111,798	-	111,798
Interest income from securities portfolio	-	-	2,230,139	-	2,230,139
Interest income from banks	-	-	121,181	-	121,181
Interest income from money market transactions	-	-	600	-	600
Finance lease income	-	110,201	-	-	110,201
Other interest income	-	107,606	-	13,736	121,342
Interest Expense	3,387,865	3,631,947	2,655,536	52,608	9,727,956
Interest expense on deposits	3,387,865	3,552,149	254,753	-	7,194,767
Interest expense on funds borrowed	-	79,798	428,318	-	508,116
Interest expense on money market transactions	-	-	1,007,022	-	1,007,022
Interest expense on securities issued	-	-	691,897	-	691,897
Other interest expenses	-	-	273,546	52,608	326,154
Net Interest Income	1,571,960	4,691,627	1,011,518	(38,872)	7,236,233
Net Fees and Commissions Income	425,547	410,527	76,409	-	912,483
Trading Income/ Losses (Net)	-	-	505,038	-	505,038
Dividend Income	-	-	61,736	-	61,736
Other Income ⁽¹⁾	-	-	-	2,004,336	2,004,336
Provision For Losses on Loans and Other Receivables	431,238	1,657,372	30,432	214,567	2,333,609
Other Expenses ⁽²⁾	-	-	-	4,906,704	4,906,704
Income/Loss From Investments Under Equity Accounting	-	-	37,267	-	37,267
Profit Before Taxes	1,566,269	3,444,782	1,661,536	(3,155,807)	3,516,780
Provision for taxes	-	-	-	(724,334)	(724,334)
Net Profit/ Loss	1,566,269	3,444,782	1,661,536	(3,880,141)	2,792,446
SEGMENT ASSETS					
Securities Portfolio	-	-	26,981,296	-	26,981,296
Derivative Financial Assets Held for Trading Purpose	-	-	1,607,552	-	1,607,552
Banks and Receivables From Money Markets	-	-	5,280,721	-	5,280,721
Investments in Associates and Subsidiaries	-	-	622,930	-	622,930
Loans and Receivables	41,432,801	83,828,729	24,313,739	-	149,575,269
Other Assets	-	2,937,123	24,223,603	9,442,506	36,603,232
TOTAL ASSETS	41,432,801	86,765,852	83,029,841	9,442,506	220,671,000
SEGMENT LIABILITIES					
Deposits	54,570,012	66,613,397	5,075,900	-	126,259,309
Derivative Financial Liabilities Held for Trading Purpose	-	-	1,154,424	-	1,154,424
Interbank Money Market Takings	-	-	13,244,271	-	13,244,271
Funds Borrowed	-	662,429	25,637,001	-	26,299,430
Securities Issued	-	-	14,682,824	-	14,682,824
Other Liabilities	-	81	5,758,436	7,568,869	13,327,386
Provisions and Tax Liabilities	-	-	-	6,095,884	6,095,884
Equity	-	-	-	19,607,472	19,607,472
TOTAL LIABILITIES AND EQUITY	54,570,012	67,275,907	65,552,856	33,272,225	220,671,000

⁽¹⁾ TL 892,467 amount of TL 2,004,336 shown in other income consist of acquired insurance premiums, TL 668,315 of income from reversal of the specific provisions for loans from prior periods, TL 165,307 of income from the sale of Group's assets, TL 40,316 from communications income, TL 987 of leasing income, TL 78,307 of income from private pension activities and the remaining TL 158,637 of other operating income.

⁽²⁾ TL 1,663,884 amount of TL 4,906,704 shown in other expenses line consists of personnel expenses, TL 1,984,578 of other operating expenses, TL 186,400 of depreciation expenses, TL 147,970 of dividend reserves expenses to be given to personnel, TL 138,469 of Savings Deposit Insurance Fund (SDIF) expenses, TL 141,588 of taxes and funds expenses, TL 47,034 pension compensations, TL 79,694 from cumulative/noncumulative commission expenses, TL 240,428 from production commission expenses and the remaining TL 266,259 of other expenses.

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Prior Period	Retail Banking	Corporate Banking	Investment Banking	Other	Total Operations
OPERATING INCOME/ EXPENSES					
Interest Income	4,219,010	6,709,281	3,034,890	10,251	13,973,432
<i>Interest income from loans</i>	<i>4,219,010</i>	<i>6,535,686</i>	<i>843,641</i>	-	<i>11,598,337</i>
<i>Interest income from reserve deposits</i>	-	-	<i>38,684</i>	-	<i>38,684</i>
<i>Interest income from securities portfolio</i>	-	-	<i>2,072,208</i>	-	<i>2,072,208</i>
<i>Interest income from banks</i>	-	-	<i>78,724</i>	-	<i>78,724</i>
<i>Interest income from money market transactions</i>	-	-	<i>1,633</i>	-	<i>1,633</i>
<i>Finance lease income</i>	-	<i>102,526</i>	-	-	<i>102,526</i>
<i>Other interest income</i>	-	<i>71,069</i>	-	<i>10,251</i>	<i>81,320</i>
Interest Expense	2,558,344	3,428,744	2,214,157	36,919	8,238,164
<i>Interest expense on deposits</i>	<i>2,558,344</i>	<i>3,367,161</i>	<i>190,194</i>	-	<i>6,115,699</i>
<i>Interest expense on funds borrowed</i>	-	<i>61,583</i>	<i>300,917</i>	-	<i>362,500</i>
<i>Interest expense on money market transactions</i>	-	-	<i>886,728</i>	-	<i>886,728</i>
<i>Interest expense on securities issued</i>	-	-	<i>595,176</i>	-	<i>595,176</i>
<i>Other interest expenses</i>	-	-	<i>241,142</i>	<i>36,919</i>	<i>278,061</i>
Net Interest Income	1,660,666	3,280,537	820,733	(26,668)	5,735,268
Net Fees and Commissions Income	396,068	380,447	93,814	-	870,329
Trading Income/ Losses (Net)	-	-	139,931	-	139,931
Dividend Income	-	-	37,169	-	37,169
Other Income ^(*)	-	-	-	2,036,648	2,036,648
Provision For Losses on Loans and Other Receivables	738,638	501,235	40,709	355,278	1,635,860
Other Expenses ^(**)	-	-	-	4,817,078	4,817,078
Income/Loss From Investments Under Equity Accounting	-	-	34,617	-	34,617
Profit Before Taxes	1,318,096	3,159,749	1,085,555	(3,162,376)	2,401,024
Provision for taxes	-	-	-	(527,111)	(527,111)
Net Profit/ Loss	1,318,096	3,159,749	1,085,555	(3,689,487)	1,873,913
SEGMENT ASSETS					
Securities Portfolio	-	-	25,124,235	-	25,124,235
Derivative Financial Assets Held for Trading Purpose	-	-	885,467	-	885,467
Banks and Receivables From Money Markets	-	-	6,182,718	-	6,182,718
Investments in Associates and Subsidiaries	-	-	566,352	-	566,352
Loans and Receivables	36,859,220	71,577,442	17,523,017	-	125,959,679
Other Assets	-	2,043,552	20,379,948	8,443,607	30,867,107
TOTAL ASSETS	36,859,220	73,620,994	70,661,737	8,443,607	189,585,558
SEGMENT LIABILITIES					
Deposits	47,588,682	58,842,840	5,578,475	-	112,009,997
Derivative Financial Liabilities Held for Trading Purpose	-	-	304,352	-	304,352
Interbank Money Market Takings	-	-	12,827,198	-	12,827,198
Funds Borrowed	-	371,535	19,823,512	-	20,195,047
Securities Issued	-	-	10,646,708	-	10,646,708
Other Liabilities	-	5	4,745,571	6,257,930	11,003,506
Provisions and Tax Liabilities	-	-	-	5,595,995	5,595,995
Equity	-	-	-	17,002,755	17,002,755
TOTAL LIABILITIES AND EQUITY	47,588,682	59,214,380	53,925,816	28,856,680	189,585,558

^(*) TL 763,294 amount of TL 2,036,648 of income from reversal of the specific provisions for loans from prior periods, TL 767,881 of acquired insurance premiums, TL 109,681 of income from the sale of Group's assets, TL 50,723 of communications income, TL 64,583 of income from private pension activities, TL 80,490 of leasing income and the remaining TL 199,996 of other operating income.

^(**) TL 1,539,206 amount of TL 4,817,078 shown in other expenses line consists of personnel expenses, TL 2,046,075 of other operating expenses, TL 169,811 of depreciation expenses, TL 144,017 of dividend reserves expenses to be given to personnel, TL 115,916 of Savings Deposit Insurance Fund (SDIF) expenses, TL 125,706 of taxes and funds expenses, TL 46,802 pension compensations, TL 8,119 from cumulative/noncumulative commission expenses, TL 239,952 from production commission expenses and the remaining TL 381,474 of other expenses.

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XI. INFORMATION ON RISK MANAGEMENT

1. Information on Risk Management and Overview of Risk Weighted Amounts

The footnotes and related explanations published in the Official Gazette No. 29511 dated October 23, 2015 and prepared in accordance with the "Explanations Communique on Explanations to the Public Regarding Banks Risk Management" entered into force as of March 31, 2016 are given in this section. Since the Group uses a standardized approach to capital adequacy calculations, there is no disclosure within the scope of the internal rating-based approach.

a) Risk Management Strategy of the Group

The Group manages assets and values which are entrusted to it effectively and efficiently in order to increase the constant contribution to customers, shareholders and the society. The Group adopted the forward looking risk based approach in all activities undertaken by creating assets in a high quality and managing obligations well. The improvement of risk culture in parallel with changes in economic conjectures and risk perception is considered as an important factor by the Group and it aims to ensure the risk awareness and sensitivity in actions to be taken.

Risk management strategy of the Group is basically to avoid legal risks and risks which are unlikely to occur but have a huge impact, to take measures to minimize the risks (to reduce risks) that may arise due to the nature of banking activities, to purchase protection, insurance or techniques such as credit derivatives in order to transfer risks to the third parties (transfer of risk) and the acceptance of risks that are unlikely to occur and have small impact.

Within the scope of the general principles and principles observed by the Group in the context of risk management, the internal capital adequacy assessment process (ISEDES) is established in parallel with the budgeting process to determine the internal capital targets consistent with the risk profile and the activity environment and the effects of scenario outcomes on the Group projections is evaluated. As a part of risk appetite structure, risk limits are set and over-limit exemptions and early warning levels are observed/followed. The risks may arise from the new products and services and effects of these risks are analyzed. For the quantification of quantifiable risks and the qualitative evaluation of non-quantifiable. Effective and applicable systems which are compatible with the Group's product range and fields of activity are developed.

In response to the sudden and unexpected changes in the macroeconomic indicators and the Group's specific circumstances, the risks the can be exposed to such as income/expenditure effect, capital loss, economic value change , liquidity adequacy are presented by various reports and stress tests conducted daily ,weekly, monthly and annually. These reports and stress tests play an active role in the process of making decisions in the context of risk based approach. Risks subject to stress tests contains all the risks related to the Group's risk group (on the consolidated balance sheet – off the consolidated balance sheet).These risks are subject to stress test applications independently , and can be subject to stress test applications in an integrated way taking into account interactions between them.

Risks which are subject to stress test applications can be evaluated on portfolio and activities basis, consolidated and non-consolidated basis, at specific and general levels. Specific stress test applications are performed with sensitivity and scenario analysis specific to particular portfolio and activity. General stress test applications are established to ensure that Group's risks are seen in an integrated perspective. Relations between risks are taken into account by the correlation effect and relations between portfolios are considered with diversification effect. Furthermore in addition to stress tests, reverse stress tests that enable us to evaluate which risk factors and which risk concentrations causes significant loss indicators designed from the outset are conducted.

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b) Risk weighted amounts

	Risk Weighted Amount		Minimum Capital Requirements
	Current Period	Prior Period ^(**)	Current Period
1 Credit Risk (excluding counterparty credit risk) ^(*)	156,045,237	146,138,635	12,483,619
2 Standardised approach	156,045,237	146,138,635	12,483,619
3 Internal rating based approach	-	-	-
4 Counterparty Credit Risk	2,123,816	2,585,067	169,905
5 Standardised approach for counterparty credit risk	2,123,816	2,585,067	169,905
6 Internal model method	-	-	-
7 Equity position in banking book under basic risk weighting or internal rating based	-	-	-
8 Equity investments in funds – look-through approach	-	-	-
9 Equity investments in funds – mandate-based approach	-	-	-
10 Equity investments in funds – 1250% weighted risk approach	-	-	-
11 Settlement Risk	-	-	-
12 Securitization positions in banking accounts	-	-	-
13 IRB ratings-based approach	-	-	-
14 IRB Supervisory formula approach	-	-	-
15 SA/simplified supervisory formula approach	-	-	-
16 Market risk	632,989	755,615	50,639
17 Standardised approach	632,989	755,615	50,639
18 Internal model approaches	-	-	-
19 Operational Risk	12,245,361	12,245,361	979,629
20 Basic Indicator Approach	12,245,361	12,245,361	979,629
21 Standardised approach	-	-	-
22 Advanced measurement approach	-	-	-
23 The amounts below the thresholds for deduction from capital (subject to a 250% risk weight)	492,718	427,870	39,418
24 Floor adjustment	-	-	-
25 Total (1+4+7+8+9+10+11+12+16+19+23+24)	171,540,121	162,152,548	13,723,210

^(*) Except for the amount of the discount threshold under the equity.

^(**) Prior period amounts include risk weighted amounts as of September 30, 2016 reporting period, consistent with the related communiqué.

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2. Linkages between Financial statements and Regulatory Exposures

a) Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

	Carrying values of items (according to TAS)					Not subject to capital requirements or subject to deduction from capital
	Carrying values as reported in published financial statements	Subject to credit risk	Subject to counterparty credit risk	Subject to the securitization	Subject to market risk	
Assets						
Cash and balances at central bank	24,369,315	24,369,315	-	-	-	-
Financial assets held for trading	1,789,233	-	1,789,233	-	57,814	-
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
Banks	5,275,489	5,275,489	-	-	-	-
Receivables from money markets	5,232	5,232	-	-	-	-
Available for sale financial assets (net)	18,619,080	18,083,454	5,960,349	-	535,626	-
Loans and receivables	149,575,269	149,574,103	-	-	-	1,166
Factoring receivables	1,390,714	-	-	-	-	-
Held to maturity investments (net)	8,180,535	8,180,535	5,323,555	-	-	-
Investments in associates (net)	336,232	336,232	-	-	-	-
Investments in subsidiaries (net)	286,698	286,698	-	-	-	-
Investments in joint ventures (net)	-	-	-	-	-	-
Leasing receivables	1,546,409	-	-	-	-	-
Derivative financial assets held for hedges	-	-	-	-	-	-
Tangible assets (net)	1,703,103	1,540,982	-	-	-	162,121
Intangible assets (net)	230,265	-	-	-	-	230,265
Investment properties (net)	354,385	-	-	-	-	-
Tax assets	197,922	197,922	-	-	-	-
Non-current assets and disposal groups classified as held for sale (net)	1,228,102	1,115,960	-	-	-	112,142
Other assets	5,583,017	5,583,017	-	-	-	-
Total assets	220,671,000	214,548,939	13,073,137	-	593,440	505,694

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	Carrying values of items (according to TAS)					Not subject to capital requirements or subject to deduction from capital
	Carrying values as reported in published financial statements	Subject to credit risk	Subject to counterparty credit risk	Subject to the securitization	Subject to market risk	
Liabilities						
Deposits	126,259,309	-	-	-	-	126,259,309
Derivative financial liabilities held for trading	1,154,424	-	1,154,424	-	45,403	1,154,424
Loans	26,299,430	-	-	-	-	26,299,430
Debt to money markets	13,244,271	-	13,244,271	-	-	13,244,271
Debt securities in issue	14,682,824	-	-	-	-	-
Funds	3,319	-	-	-	-	3,319
Various debts	5,543,555	-	-	-	-	5,543,555
Other liabilities	2,765,731	-	-	-	-	2,765,731
Factoring debts	81	-	-	-	-	-
Debts from leasing transactions	-	-	-	-	-	-
Derivative financial liabilities held for hedges	-	-	-	-	-	-
Provisions	5,606,097	-	-	-	-	5,606,097
Tax liability	489,787	-	-	-	-	489,787
Liabilities included in disposal groups classified as held for sale (net)	-	-	-	-	-	-
Subordinated debts	5,014,700	-	-	-	-	5,014,700
Equity	19,607,472	-	-	-	-	19,607,472
Total liabilities	220,671,000	-	14,398,695	-	45,403	205,988,095

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

	Total	Items subject to credit risk	Items subject to securitisation	Items subject to counterparty credit risk	Items subject to market risk
1 Asset carrying value amount under scope of regulatory consolidation	220,165,306	214,548,939	-	13,073,137	593,440
2 Liabilities carrying value amount under regulatory scope of consolidation	14,682,905	-	-	14,398,695	(45,403)
3 Total net amount under regulatory scope of consolidation	205,482,401	214,548,939	-	(1,325,558)	548,037
4 Off-balance sheet amounts	114,819,263	22,688,894	-	2,225,820	548,037
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 due to prudential filters	-	(3,898,133)	-	-	-
9 Differences due to risk reduction	-	-	-	769,791	-
10 Exposure amounts considered for regulatory	334,984,569	233,339,701	-	30,467,443	548,037

c) Explanations of differences between accounting and regulatory exposure amounts

There is no significant difference between the amounts assessed pursuant to TAS and the risk amounts used within the scope of capital adequacy reported on the financial statements.

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3. Credit Risk Explanations

a) General Information on Credit Risk

If the counterparty does not partially or completely fulfil its obligations in accordance with contract, the credit risk is exposed. The Group's definition of credit risk contains the credit risk in all products and activities based on the credit definition of law of banking.

The Parent Bank's branches, regional directorates, general directorate crediting units, deputy general manager responsible for credits, general manager, credit committee and board of directors determine the credit limits for counterparties within the framework of lending authority limits and provide credits within these limits in accordance with the articles 51 and 54 of banking law and in compliance with legal legislation in order to restrict the credit risk in the crediting operations.

Credit limits are set separately for each individual customer, company, group of companies. When credit limits are set, in accordance with the credit policy, customers whose credit limits are allocated should have a long and successful commercial background, good commercial ethics, high financial structure and morality, are able to use their business subjects as liquid, have positive and balanced commercial activities, experience and expertise, have understanding and structure to attune to economic justifications, have a good reputation, adequate equity, have the ability to create funds after the operation activities and to meet the expenses of placement by values created. Various criterions such as sectors and geographical regions are assessed. Evaluation of customer's financial structure, in addition to normal intelligence studies, is based on balance sheets and income statement provided by companies with credits, account status documents obtained in accordance with relevant legislation and other information and documents.

It is possible to revise the determined credit limits as a result of assessment of general economic developments and the observation of changes in customer's financial information and businesses. Type and the amount of the assurance that is determined according to the situation of companies to be loaned are provided on the customer basis in order for ensure security and liquidity of the Parent Bank's placement.

Crediting activities are one of the basic and extensive fields of activities. The Parent Bank can provide all kind of crediting activities with its experience, competitiveness, variety of product and services. Parallel to this, it has a wide range of organization, regulation (legislation/documentation) and system infrastructure for the marketing, allocation and monitoring process of credit.

While establishing infrastructure, it is also supervised that all activities can be performed on a risk basis, in addition to providing the highest level of efficiency in the processes of the credits.

Credit management is not the single function within the Parent Bank and it is not restricted to the only one unit and responsibility area. Credit management is a process carried out together with different units and employees with different roles, authorities and responsibilities.

The Risk Management Department continues its activities to assess, analyze and report on the credit risk in line with the policy document and measurement results and to determine the effect of the Group on the capital requirement.

Within the results of the studies made in this context, it is possible to establish better portfolios with lower potential asset classes (credit types and/or counterparties) by sharing them with the Parent Bank's top management and the units managing the loan portfolios, trying to be a guide in these matters.

The eventual aim of the Parent Bank is using credit risk inherent management methods in accordance with Basel III and best international implementations. In this context, studies of IRB (Internal Ratings Based Approach) are carried out. Within the scope of IRB studies, politics and procedures are updated as risk-focused.

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Credit Quality of Assets

Gross carrying values of (according to TAS)		Defaulted Exposures		Allowances / Impairment	Net Values
1	Loans	6,703,383	151,341,617	5,532,608	152,512,392
2	Debt Securities	-	27,067,730	295,725	26,772,005
3	Off-balance sheet exposure	165,159	66,397,867	59,816	66,503,210
4	Total	6,868,542	244,807,214	5,888,149	245,787,607

Changes in Stock of Defaulted Loans and Debt Securities ^(*)

1	Defaulted Loans and debt securities at 31 December 2015	5,138,113
2	Loans and debt securities that have defaulted since the last reporting period	2,957,373
3	Returned to non-defaulted status	(599,952)
4	Amounts written-off	(1,341)
5	Other Changes	(790,810)
6	Defaulted Loans and debt securities at 30 June 2016 (1+2-3-4+5)	6,703,383

^(*) Indemnified non-cash loans of the firms which are followed under “Non-performing Loans” accounts are not included in the table

Additional disclosure related to the credit quality of assets

The Parent Bank classifies loans and other receivables in accordance with the “Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables” and other regulations. When loans that are followed under the groups except Group I mentioned in this regulation are classified as past due items, general provision is calculated for Group II, and special provision is calculated for loans followed under Group III, IV and Group V.

According to the above mentioned “Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables” Minimum provision rates to Loans classified is 20% to loans on Group III, 50% to loans on Group IV and 100% to loans on Group V.

Restructuring that can be applied for performing or non-performing receivables is done by changing the terms of the loan contract or by partially or completely refinancing the loan due to the financial difficulties that the borrower is facing or is likely to encounter in the payments.

Breakdown of loan receivables by geographical area

Geographical area	Credit receivables/risks)
Domestic	143,862,151
European Union Countries	210,585
OECD Countries ^(*)	-
Off-Shore Banking Regions	-
USA, Canada	1,756,636
Other	5,512,245
Total	151,341,617

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

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Breakdown of loan receivables by sector

Cash Loans	Cash Loans	Impaired Loans	Provisions
Agricultural	2,081,056	127,068	107,103
Farming and raising livestock	1,706,877	116,360	98,027
Forestry	286,722	7,897	7,046
Fishing	87,457	2,811	2,030
Manufacturing	28,480,421	1,251,018	1,067,661
Mining and Quarrying	1,050,381	61,077	49,541
Production	21,545,525	1,178,844	1,008,911
Electricity, Gas, Water	5,884,515	11,097	9,209
Construction	17,293,281	618,199	534,429
Services	46,173,055	1,854,467	1,559,932
Wholesale and Retail Trade	18,670,707	1,237,429	1,020,355
Accommodation and Dining	5,446,964	137,051	117,059
Transportation and Telecommunication	10,695,260	230,134	196,319
Financial Institutions	3,556,915	13,331	12,487
Real Estate and Rental Services	2,619,317	45,269	42,390
Professional Services	3,457,610	113,724	104,510
Educational Services	813,640	20,923	15,099
Health and Social Services	912,642	56,606	51,713
Other	57,313,804	2,852,631	2,263,483
Total	151,341,617	6,703,383	5,532,608

Breakdown by outstanding maturity

	Demand	Up to 1Month	1 – 3 Months	3 – 12 Months	1 – 5 Years	5 Years and Over	Total
Loans	9,441	12,646,753	5,498,653	30,852,055	63,969,529	35,428,484	148,404,915

Amounts of provision allocated receivables (According to the definition used by the Bank in accounting) based on geographical area and sector and amounts deducted from the assets with the related provisions

Geographical area	Loans Receivables(Risks)	Provisions
Domestic	6,625,558	5,460,788
European Union Countries	70,100	64,134
OECD Countries ⁽¹⁾	-	-
Off-Shore Banking Regions	-	-
USA, Canada	65	50
Other	7,660	7,636
Total	6,703,383	5,532,608

⁽¹⁾ OECD Countries other than EU countries, USA and Canada.

Aging analysis for overdue receivables

	Current Period
31-60 days overdue	1,171,545
61-90 days overdue	889,662

⁽¹⁾ Loan receivables with overdue loans are taken into consideration.

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

	Total
Loans restructured from Standard Loans and Other Receivables	1,473,046
Loans restructured from Loans under Follow-up and Other Receivables	1,534,582
Loans restructured from Non-Performing Loans	392,162

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b) Credit Risk Mitigation

Qualitative disclosure on credit risk mitigation techniques

Credit risk mitigation techniques in the Parent Bank are evaluated within the scope of the “Policy Document on Credit Risk Management”. Within the scope of “Communiqué on Credit Risk Mitigation”, simple financial guarantee method is used for financial guarantees. Cash and cash equivalents and guarantees are used to mitigate credit risk.

Policies regarding the valuation of financial collateral and the appraisal of the valuations and policies and procedures for the valuation of real estate established for the collateral of mortgage-backed loans, which are an asset class, have been established. These policies and procedures have been prepared in accordance with the “Communiqué on Credit Risk Mitigation” and cover the minimum requirements for collateral valuation and management.

The Parent Bank receives collaterals such as mortgages, sureties/guarantees and financial collaterals for the loans given.

Credit Risk Mitigation Techniques

	Exposures unsecured: carrying amount	Exposures secured by collaterals	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1 Loans	97,586,808	54,925,584	46,872,614	3,076,521	2,649,313	-	-
2 Debt Securities	26,772,005	-	-	-	-	-	-
3 Total	124,358,813	54,925,584	46,872,614	3,076,521	2,649,313	-	-
4 Of Which Defaulted	6,703,383	-	-	-	-	-	-

c) Credit risk under standardised approach

Qualitative disclosures on banks’ use of external credit ratings under the standardised approach for credit risk

The external rating grades of the counterparties of Fitch Ratings international rating agencies are used in determining the risk weights for the risk classes specified in Article 6 of the Regulation on Measurement and Evaluation of Banks’ Capital Adequacy. Fitch Ratings is used as an international rating agency to determine the risk weights of risk classes to be received from central government or central banks and from banks and intermediary institutions.

When an international rating is taken into account for the entire risk category of central government or central banks, the centralized and central banks that are not rated by the Fitch Ratings international rating agency are based on the country risk classification issued by the Organization for Economic Co-operation and Development (OECD).

The following table shows that the rating scale of the credit rating agency corresponds to the credit quality levels reported in the annex of the Regulation on the Measurement and Evaluation of Banks’ Capital Adequacy.

Ratings Matched	Credit Quality Rank	Fitch Ratings
Long Term Credit Ratings	1	Between AAA and AA-
	2	Between A+ and A-
	3	Between BBB+ and BBB-
	4	Between BB+ and BB-
	5	Between B+ and B-
	6	CCC+ and below
Short Term Credit Ratings	1	Between F1+ and F1
	2	F2
	3	F3
	4	F3 and below
	5	-
	6	-

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Credit Risk Exposure and Credit Risk Mitigation (CRM) Effects

Asset classes	Exposures before Credit Conversion Factors and CRM			Exposures post-Credit Conversion Factors and CRM			RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	Conversion amount	On-balance sheet amount	Off-balance sheet amount	Conversion amount	RWA	RWA density
1 Exposures to central governments or central banks	51,462,827	492,584	-	53,883,670	241,211	-	13,566,988	25%
2 Exposures to regional governments or local authorities	4,597,033	344,708	-	4,597,033	156,470	-	2,345,893	49%
3 Exposures to public sector entities	636,031	1,373,402	-	636,031	667,205	-	1,298,648	100%
4 Exposures to multilateral development banks	3,705	-	-	3,705	-	-	-	0%
5 Exposures to international organizations	-	-	-	-	-	-	-	0%
6 Exposures to institutions	5,149,430	1,682,800	-	5,149,432	956,406	-	2,486,006	41%
7 Exposures to corporates	60,375,270	50,259,565	-	57,954,425	17,018,385	-	73,095,869	97%
8 Retail exposures	42,990,135	20,892,607	-	42,990,135	2,703,720	-	34,068,749	75%
9 Exposures secured by residential property	20,926,182	703,497	-	20,926,182	288,457	-	7,425,123	35%
10 Exposures secured by commercial real estate	22,075,082	1,401,642	-	22,075,082	657,040	-	14,085,290	62%
11 Past-due loans	1,170,775	-	-	1,170,775	-	-	1,170,775	100%
12 Higher-risk categories by the Agency Board	402,675	-	-	402,675	-	-	801,099	199%
13 Exposures in the form of covered bonds	-	-	-	-	-	-	-	0%
14 Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	0%
15 Exposures in the form of units or shares in collective investment undertakings (CIUs)	7,538,274	-	-	7,538,274	-	-	5,542,948	74%
16 Stock investments	650,567	-	-	650,567	-	-	650,567	100%
17 Other assets	-	-	-	-	-	-	-	-
18 Total	217,977,986	77,150,805	-	217,977,986	22,688,894	-	156,537,955	65%

Exposures by asset classes and risk weights

Asset Classes/ Risk Weight*	35% (secured by real estate)						Other Risk Weights	Total credit risk exposure amount (After CCF and CRM)
	0%	10%	20%	50%	75%	100%		
1 Exposures to central governments or central banks	26,990,907	-	-	27,133,972	-	2	-	54,124,881
2 Exposures to regional governments or local authorities	10,109	86,015	-	4,657,379	-	-	-	4,753,503
3 Exposures to public sector entities	4,060	-	660	-	-	1,298,516	-	1,303,236
4 Exposures to multilateral development banks	3,705	-	-	-	-	-	-	3,705
5 Exposures to international organizations	-	-	-	-	-	-	-	-
6 Exposures to institutions	1,792	1,994,366	-	4,045,095	-	64,585	-	6,105,838
7 Exposures to corporates	399,141	394,561	-	2,324,302	71,854,806	-	-	74,972,810
8 Retail exposures	-	-	-	-	45,693,855	-	-	45,693,855
9 Exposures secured by residential property	-	-	21,214,639	-	-	-	-	21,214,639
10 Exposures secured by commercial real estate	-	-	-	17,293,665	-	5,438,457	-	22,732,122
11 Past-due loans	-	-	-	-	-	1,170,775	-	1,170,775
12 Higher Risk categories by the Agency Board	-	-	-	-	-	205,588	-	402,675
13 Exposures in the form of covered bonds	-	-	-	-	-	-	-	-
14 Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-
15 Exposures in the form of units or shares in collective investment undertakings (CIUs)	-	-	-	-	-	-	-	-
16 Stock investments	-	-	-	-	-	650,567	-	650,567
17 Other assets	1,801,543	-	242,229	-	-	5,494,502	-	7,538,274
18 Total	29,211,257	-	2,717,831	55,454,413	45,693,855	85,972,210	205,588	240,666,880

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4. Counterparty Credit Risk Explanations

Qualitative disclosure on counterparty credit risk

The counterparty credit risk that may be incurred by the counterparty that is a party to a transaction that is liable to both parties due to default before the final payment in the cash flow is managed within the Parent Bank’s “Counterparty Credit Risk Management Policy Document”. The counterparty credit risk amounts calculated using the “Fair Value Valuation Method” within the scope of the “Communiqué on Credit Risk Mitigation” are calculated on the basis of the portfolios in the trading accounts and banking accounts, and these amounts are used within the scope of capital adequacy calculations. Various scenarios and stress tests are applied to the counterparty credit risk.

Processes related to counterparty credit risk management activities have been written down. In the direction of the policy document and measurement results, activities of evaluating, analyzing and reporting the counterparty credit risk and determining the effect of the capital requirement of the Parent Bank and Group are being continued.

In addition to the measurement activities, sensitivity and scenario analysis are used to evaluate the resistance of the Group to the changes that may be experienced in risk factors against economic developments. Monthly unconsolidated stress test reports include analyzes of counterparty credit risk. The distributions of positions subject to counterparty credit risk calculation, the ratings of these counterparties from independent rating agencies and transaction concentration are regularly monitored by the Risk Management Department. The Risk Management Department of the Parent Bank monitors the level of concentration in terms of the counterparty of derivative transactions. The collateral process of derivative transactions, repo, marketable securities transactions etc. with foreign banks is covered with ISDA and ISMA contracts and the collateral agreements regarding the mutual rights and obligations for the transactions between the two parties.

Treasury transactions are valued on a daily basis over the market prices taking into account these contracts and rules from the beginning to the closing of the transaction and the difference between the favorable and unfavorable values of the transactions against the market prices cause the settlement call movements by agreeing with the related banks. In compliance with the limitations of the bank which exposed to counterparty risk, the Bank follows the limit follow up system. Limits, which are defined as loan limits and compromise limits in the system, are monitored instantaneously.

The Bank has fulfilled its statutory obligations under EMIR (European Markets Infrastructure Regulation). The clearing member of the bank has been transmitted to the “counterparty” via a bank and transactions that provide conditions within the existing transactions in the portfolio have started to be cleared under the conditions of EMIR.

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Counterparty credit risk (CCR) approach analysis

	Replacement cost	Potential future exposure	EEPE (Effective Expected Positive Exposure)	Alpha used for Computing regulatory exposure at default	Exposure at default post CRM	RWA
1	1,598,356	627,528	-	-	2,225,884	1,095,500
2						
3					769,791	183,644
4						
5						
6						
Total						1,279,144

Capital requirement for credit valuation adjustment (CVA)

	EAD post CRM	RWA
Total portfolios subject to the Advanced CVA capital obligation	-	-
1 (i) VaR component (including the 3xmultiplier)	-	-
2 (ii) Stressed VaR component (including the 3xmultiplier)	-	-
3 All portfolios subject to the Standardised CVA capital obligation	2,219,529	844,350
4 Total subject to the CVA capital obligation	2,219,529	844,350

Counterparty Credit Risk (CCR) Exposures by Regulatory Portfolio and Risk Weights

Risk Classes / Risk Weights	0%	10%	20%	%35 Secured by real estate	50%	75%	100%	150%	Other	Total Credit Exposures ^(*)
Claims from central governments and central banks	3,906,197	-	-	-	-	-	-	-	-	8
Claims from regional and local governments	1,216	-	38	-	-	-	-	-	-	1,339
Claims from administration and non-commercial entity	16,486	-	-	-	-	-	1,339	-	-	-
Claims from multilateral development banks	-	-	-	-	-	-	-	-	-	-
Claims from international organizations	-	-	-	-	-	-	-	-	-	-
Claims from institutions	6,537,261	-	1,633,264	-	3,110,725	-	211,962	-	-	1,882,015
Corporates	54,409	-	-	-	-	-	-	-	-	211,962
Retail portfolios	406	-	-	-	-	37,989	-	-	-	28,492
Claims on landed real estate	-	-	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	-	-	-	-
Claims which are determined as high risk by the board of BRSA	-	-	-	-	-	-	-	-	-	-
Mortgage securities	-	-	-	-	-	-	-	-	-	-
Securitization positions	-	-	-	-	-	-	-	-	-	-
Claims from corporates, banks and financial intermediaries which have short term credit rating	-	-	-	-	-	-	-	-	-	-
Investments which are qualified as collective investment institutions	-	-	-	-	-	-	-	-	-	-
Stock investment	-	-	-	-	-	-	-	-	-	-
Other claims	-	-	-	-	-	-	-	-	-	-
Other assets ^(**)	-	-	-	-	-	-	-	-	-	-
Total	10,515,975	-	1,633,302	-	3,110,725	37,989	213,301	-	-	2,123,816

^(*) Total credit exposure: the amount relevant for the capital requirements calculation, having applied CRM techniques.

^(**) Other assets: the amounts excludes exposures to Central Counterparty, which are reported in Counterparty Credit Risk.

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Collaterals for CCR

	Collateral for derivative transactions				Collateral for other transactions	
	Fair value of collateral received		Fair value of collateral given		Fair value of collateral received	Fair value of collateral given
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash-domestic currency	-	-	-	-	-	-
Cash-foreign currency	-	-	-	-	5,533,270	-
Domestic sovereign debts	-	-	-	-	-	1,804
Other sovereign debts	-	-	-	-	-	-
Government agency debts	-	-	-	-	-	-
Corporate debts	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	-	-	-	5,533,270	1,804

Loan Derivatives

	Protection bought	Protection sold
Notionals		
Single-name credit default swaps	165,000	246,050
Index credit default swaps	-	-
Total return swaps	-	-
Credit options	-	-
Other credit derivatives	-	-
Total Notionals	165,000	246,050
Fair Values		
Positive fair values (asset)	11,131	-
Negative fair values (liability)	-	24,801

Central counterparty risks

	Exposure at default (post-CRM)	RWA
1 Exposure to Qualified Central Counterparties (QCCPs) (total)		323
2 Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	16,124	323
3 (i) OTC Derivatives	16,124	323
4 (ii) Exchange-traded Derivatives	-	-
5 (iii) Securities financing transactions	-	-
6 (iv) Netting sets where cross-product netting has been approved	-	-
7 Segregated initial margin	-	-
8 Non-segregated initial margin	-	-
9 Pre-funded default fund contributions	-	-
10 Unfunded default fund contributions	-	-
11 Exposures to non-QCCPs (total)		-
12 Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which)	-	-
13 (i) OTC Derivatives	-	-
14 (ii) Exchange-traded Derivatives	-	-
15 (iii) Securities financing transactions	-	-
16 (iv) Netting sets where cross-product netting has been approved	-	-
17 Segregated initial margin	-	-
18 Non-segregated initial margin	-	-
19 Pre-funded default fund contributions	-	-
20 Unfunded default fund contributions	-	-

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5. Explanations on Securitizations

None.

6. Explanations on Market Risk

Qualitative disclosure requirements related to market risk

As a result of fluctuations in the financial market, the Group is exposed to market risk, depending on the exchange rates, interest rates and changes in the market prices of the shares.

Market risks get measured and monitored with the internal models that are parallel to international applications. This market risk management process continues by including buying and selling balance sheet both internally and externally, meeting the legal necessities, being able to analyze the all risks that can be cause from the buying-selling activities and by identifying the all risk that can be caused by market portfolios.

Risk management of the Parent Bank is important in order to be understood by the all management stages and be able to get an opportunity to manage risk. In addition to that, it is similarly important to handle the loss that might cause when a risk occurs. Therefore measurements must cover the evaluations for the fund needs near the size of the risk and evaluations of the conditions that caused it. By using the methods of scenario and stress test, it is possible to see risk levels and needs of funds that can be generated from different circumstances and risky conditions.

In addition to the results of market risk measurements using standard method, which calculated in monthly periods, other daily risk dependencies can be also calculated by using internal model. There are daily back testings occurred in order to examine the trustworthiness and performance of the model results. Besides, there are also scenario analyzes and stress tests are happening in order to backing up the standard method and internal models. In addition to this, in order to limit the market risks, daily limit implementation and limit implementation in accordance with the early warning system can be monitored on daily basis.

Market Risk- Standardised approach

	RWA
Outright products	
1 Interest rate risk (general and specific)	305,400
2 Stock risk (general and specific)	20,127
3 Foreign exchange risk	307,162
4 Commodity risk	-
Options	
5 Simplified approach	-
6 Delta-plus method	300
7 Scenario approach	-
8 Securitisation	-
9 Total	632,989

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7. Explanations on Operational Risk

The “Basic Indicator Method” that is mentioned in “Regulation on Measurement and Assessment of Capital Adequacy of Banks” Communiqué published in the Official Gazette no. 29511 on 23 October 2015 and entered into force as of July 1, 2012, is used in the operational risk calculation of the Group. The amount subject to the operational risk as of 31 December 2016 is calculated once a year by using the gross income of the Bank in 2013, 2014 and 2015.

Annual gross revenue is calculated by deduction of profit/loss derived from the sale of available-for-sale assets and held-to maturity securities, extraordinary income and indemnity insurance gains from the total of net interest income and non-interest income.

Current Period	December 31, 2014	December 31, 2015	December 31, 2016	Total/Positive GI year number	Ratio (%)	Total
Gross income	5,893,893	6,411,206	7,287,478	6,530,859	15	979,629
Amount subject to Operational Risk (Amount*12,5)	-	-	-	-	-	12,245,361

8. Interest Rate Risk Related to Banking Book

The Parent Bank has evaluated to interest rate risk arising from on-balance sheet and off-balance sheet positions in banking accounts in accordance within accordance with “Regulation on Measurement and Evaluation of Interest Rate Risk in Banking Accounts with Standard Shock Method” performs and reports on these measurement based results and analyzes on weekly and monthly periods. In addition, in the Asset-Liability Management Committee meetings, the sensitivity of the active, passive and off-balance sheet items to the interest rate is evaluated taking into consideration the market developments.

In line with the management of interest rate risk arising from banking accounts; Scenario analysis, gap analysis to date of re-pricing, behavioral analysis, core demand deposit level, duration and maturity mismatch metrics, option risk, base risk and yield curve risk components are followed together.

Currency	Applied Shock (+/- x basis points)	Gains/Losses	Gains / Shareholders' Equity Losses/ Shareholders' Equity
1 TRY	500/(400)	(2,210,943)/2,186,994	(9.45%)/9.34%
2 EURO	200/(200)	388,955/1,240	1.66%/0.01%
3 USD	200/(200)	603,486/(601,248)	2.58%/(2.57%)
Total (for negative shocks)	-	1,586,986	6.78%
Total (for positive shocks)	-	(1,218,502)	(5.21%)

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SECTION FIVE DISCLOSURE AND FOOTNOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

I. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED ASSETS

1. Information on cash and balances with the Central Bank

	Current Period		Prior Period	
	TL	FC	TL	FC
Cash	1,281,060	508,933	1,157,778	282,194
Central Bank of Republic of Turkey ^(*)	2,892,154	19,433,355	778,712	19,055,634
Other	235,950	17,863	197,527	18,069
Total	4,409,164	19,960,151	2,134,017	19,355,897

^(*) TL 14,977,543 (December 31, 2015: TL 18,422,690) of the foreign currency deposit at Central Bank of Republic of Turkey consists of foreign currency reserve deposits.

In accordance with "Announcement on Reserve Deposits" of CBRT numbered 2013/15, all banks operating in Turkey shall provide a reserve rate ranging from 4.0% to 10.5% (December 31, 2015: ranging from 5.0% to 11.5%). For foreign currency liabilities, all banks shall provide a reserve rate ranging from 4.5% to 24.5% in US Dollar or Euro (December 31, 2015: ranging from 5.0% to 25.0%).

According to 2014-72 numbered and 21 October 2014 dated announcement of Central Bank of the Republic of Turkey, interest has been started to be paid for Turkish Lira reserve deposit beginning from November 2014.

According to 2015-35 numbered and 2 May 2015 dated announcement of Central Bank of Republic of Turkey, interest has started to be paid for US Dollar denominated reserve deposits beginning from May 2015.

Balances with the Central Bank of Republic of Turkey

	Current Period		Prior Period	
	TL	FC	TL	FC
Unrestricted demand deposits	2,861,879	2,647,870	760,146	632,944
Unrestricted time deposits	-	-	-	-
Restricted time deposits	-	1,807,942	105	-
Reserve Deposits	30,275	14,977,543	18,461	18,422,690
Total	2,892,154	19,433,355	778,712	19,055,634

2. Further information on classified as financial assets at fair value through profit/loss

Financial assets at fair value through profit/loss given as collateral or blocked

	Current Period		Prior Period	
	TL	FC	TL	FC
Equity shares	-	-	-	-
Bonds, treasury bills and similar marketable securities	68,526	10,647	52,723	-
Other	-	-	-	-
Total	68,526	10,647	52,723	-

Trading securities subject to repurchase agreements

None.

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Positive differences on derivative financial assets held for trading purpose

	Current Period		Prior Period	
	TL	FC	TL	FC
Forward transactions	18,625	4,254	2,087	624
Swap transactions	1,455,133	129,105	737,149	145,264
Futures	-	-	-	-
Options	107	328	103	240
Other	-	-	-	-
Total	1,473,865	133,687	739,339	146,128

3. Information on banks

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks	1,195,786	4,079,703	1,185,799	4,990,220
Domestic	1,180,083	301,055	1,185,057	322,562
Foreign	15,703	3,778,648	742	4,667,658
Foreign Head Offices and Branches	-	-	-	-
Total	1,195,786	4,079,703	1,185,799	4,990,220

Due from foreign banks

	Unrestricted Balance		Restricted Balances ^(**)	
	Current Period	Prior Period	Current Period	Prior Period
EU Countries	418,643	201,714	-	-
USA, Canada	2,753,327	3,678,985	308,742	77,170
OECD Countries ^(*)	89,546	590,452	-	-
Off-shore Banking Regions	1,059	785	-	1
Others	223,034	119,131	-	162
Total	3,485,609	4,591,067	308,742	77,333

^(*) EU countries, OECD countries except USA and Canada.

^(**) Restricted balances that occur from securitisation loans and other common banking activities

4. Information on available-for-sale financial assets

Available-for-sale financial assets given as collateral or blocked

	Current Period		Prior Period	
	TL	FC	TL	FC
Equity shares	-	-	-	-
Bonds, treasury bills and similar marketable securities	1,882,699	2,051,546	1,571,646	1,516,438
Other	-	-	-	-
Total	1,882,699	2,051,546	1,571,646	1,516,438

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Available-for-sale financial assets subject to repurchase agreements

	Current Period		Prior Period	
	TL	FC	TL	FC
Government bonds	3,775,304	-	3,621,980	-
Treasury bills	-	-	-	-
Other debt securities	-	2,113,320	-	2,647,350
Bonds issued or guaranteed by banks	-	-	-	-
Asset backed securities	-	-	-	-
Total	3,775,304	2,113,320	3,621,980	2,647,350

Information on available-for-sale financial assets

	Current Period	Prior Period
Debt securities	18,832,215	17,432,577
Quoted on a Stock Exchange	18,832,215	17,432,577
Unquoted	-	-
Equity securities	27,610	79,253
Quoted on a Stock Exchange	-	-
Unquoted	27,610	79,253
Provisions for impairment losses (-)	240,745	175,719
Total	18,619,080	17,336,111

5. Information on loans

Information on all types of loans and advances given to shareholders and employees of the Parent Bank

	Current Period		Prior Period	
	Cash	Non-Cash	Cash	Non-Cash
Direct loans provided to the shareholders	-	31,720	-	28,550
Legal entities	-	31,720	-	28,550
Real persons	-	-	-	-
Indirect loans provided to the shareholders	-	-	-	-
Loans provided to the employees	117,544	41	103,366	13
Total	117,544	31,761	103,366	28,563

Information about loans classified in the first and second group and other receivables and loans that have been restructured or rescheduled

Cash Loans	Standard loans and other receivables			Loans and other receivables under close monitoring		
	Agreement conditions modified			Agreement conditions modified		
	Loans and other receivables	Payment plan extensions	Other	Loans and other receivables	Payment plan extensions	Other
Non-specialized loans	139,967,671	1,473,046	-	5,419,037	1,534,582	-
Loans given to enterprises	42,428,085	807,393	-	1,711,000	1,131,062	-
Export loans	5,260,079	-	-	287,483	49,334	-
Import loans	-	-	-	-	-	-
Loans given to financial sector	3,519,976	-	-	4,875	-	-
Consumer loans	34,558,169	273,354	-	1,511,270	215,892	-
Credit cards	5,576,319	-	-	303,582	94,251	-
Other	48,625,043	392,299	-	1,600,827	44,043	-
Specialized lending	717	-	-	-	-	-
Other receivables	9,441	-	-	-	-	-
Total	139,977,829	1,473,046	-	5,419,037	1,534,582	-

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Information related to the changes in the payment plans of loans and other receivables:

<i>Number of modifications to extend payment plans</i>	<i>Standard Loans and Other Receivables ^(*)</i>	<i>Loans and other receivables under close monitoring ^(*)</i>
Extended for 1 or 2 times	1,473,046	1,168,269
Extended for 3,4 or 5 times	-	-
Extended for more than 5 times	-	-

<i>Extended period of time</i>	<i>Standard Loans and Other Receivables ^(*)</i>	<i>Loans and other receivables under close monitoring ^(*)</i>
0-6 Months	6,768	222
6-12 Months	9,781	12,283
1-2 Years	44,284	74,260
2-5 Years	1,185,501	991,589
5 Years and Over	226,712	89,915

^(*) The a and b paragraph of the 4th article of the 5th paragraph is the loan balances within the scope of the “Regulation on Accounting Applications for Banks and Safeguarding of Documents” published in the Official Gazette no.27947 dated 28 May 2011.

Maturity analysis of cash loans

	Performing Loans and Other Receivables		Loans under Follow-Up and Other Receivables	
	<i>Loans and Other Receivables</i>	<i>Restructured or Rescheduled Loans and Other Receivables</i>	<i>Loans and Other Receivables</i>	<i>Restructured or Rescheduled Loans and Other Receivables</i>
Cash loans				
Short-term Loans and Other Receivables	38,184,364	8,627	2,148,865	238,926
Loans	38,184,364	8,627	2,148,865	238,926
Specialization loans	-	-	-	-
Other Receivables	-	-	-	-
Medium, Long-term Loans and Other Receivables	101,793,465	1,464,419	3,270,172	1,295,656
Loans	101,783,307	1,464,419	3,270,172	1,295,656
Specialization loans	717	-	-	-
Other Receivables	9,441	-	-	-

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Consumer loans, retail credit cards, personnel loans and personnel credit cards

	Short-Term	Medium and Long-Term	Total
Consumer loans – TL	435,289	33,910,437	34,345,726
Housing loans	9,769	16,973,350	16,983,119
Automobile loans	4,568	407,802	412,370
General purpose loans	420,952	16,529,285	16,950,237
Other	-	-	-
Consumer loans – FC indexed	-	-	-
Housing loans	-	-	-
Automobile loans	-	-	-
General purpose loans	-	-	-
Other	-	-	-
Consumer loans – FC	1,490	5,197	6,687
Housing loans	-	-	-
Automobile loans	-	-	-
General purpose loans	1,490	5,197	6,687
Other	-	-	-
Retail credit cards – TL	4,309,521	98,976	4,408,497
With instalment	1,939,141	90,057	2,029,198
Without instalment	2,370,380	8,919	2,379,299
Retail credit cards – FC	11,814	-	11,814
With instalment	-	-	-
Without instalment	11,814	-	11,814
Personnel loans – TL	3,607	48,173	51,780
Housing loans	-	-	-
Automobile loans	-	-	-
General purpose loans	3,607	48,173	51,780
Other	-	-	-
Personnel loans – FC indexed	-	-	-
Housing loans	-	-	-
Automobile loans	-	-	-
General purpose loans	-	-	-
Other	-	-	-
Personnel loans – FC	488	-	488
Housing loans	-	-	-
Automobile loans	-	-	-
General purpose loans	488	-	488
Other	-	-	-
Personnel credit cards – TL	64,461	459	64,920
With instalment	25,745	430	26,175
Without instalment	38,716	29	38,745
Personnel credit cards – FC	356	-	356
With instalment	-	-	-
Without instalment	356	-	356
Overdraft Checking Accounts – TL (Real person)	2,153,837	-	2,153,837
Overdraft Checking Accounts – FC (Real person)	167	-	167
Total	6,981,030	34,063,242	41,044,272

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Instalment based commercial loans and corporate credit cards

	Short-Term	Medium and Long-Term	Total
Instalment-based commercial loans – TL	1,108,714	25,693,806	26,802,520
Real estate loans	2,604	921,104	923,708
Automobile loans	72,188	1,545,597	1,617,785
General purpose loans	1,033,922	23,227,105	24,261,027
Other	-	-	-
Instalment-based commercial loans – FC indexed	28,251	1,448,225	1,476,476
Real estate loans	-	-	-
Automobile loans	-	23,316	23,316
General purpose loans	28,251	1,424,909	1,453,160
Other	-	-	-
Instalment-based commercial loans – FC	869,367	8,331,644	9,201,011
Real estate loans	-	-	-
Automobile loans	-	-	-
General purpose loans	869,367	8,331,644	9,201,011
Other	-	-	-
Corporate credit cards – TL	1,487,374	292	1,487,666
With instalment	388,896	292	389,188
Without instalment	1,098,478	-	1,098,478
Corporate credit cards – FC	899	-	899
With instalment	-	-	-
Without instalment	899	-	899
Overdraft Checking Accounts – TL (Corporate)	1,041,146	-	1,041,146
Overdraft Checking Accounts – FC (Corporate)	-	-	-
Total	4,535,751	35,473,967	40,009,718

Allocation of loan customers

	Current Period	Prior Period
Public Sector	2,537,136	990,679
Private Sector	145,867,358	124,060,066
Total	148,404,494	125,050,745

Allocation of domestic and overseas loans

	Current Period	Prior Period
Domestic loans	147,783,305	124,574,596
Foreign loans	621,189	476,149
Total	148,404,494	125,050,745

Loans to associates and subsidiaries

	Current Period	Prior Period
Direct loans to associates and subsidiaries	10	1,071
Indirect loans to associates and subsidiaries	-	-
Total	10	1,071

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Specific provisions for loans

Specific Provisions	Current Period	Prior Period
Loans and receivables with limited collectability	389,259	99,970
Loans and receivables with doubtful collectability	553,966	388,461
Uncollectible loans and receivables	4,589,383	3,740,748
Total	5,532,608	4,229,179

Information on non-performing loans (Net)

Information on non-performing loans and other receivables restructured or rescheduled

	Group III Loans and receivables with limited collectability	Group IV Loans and receivables with doubtful collectability	Group V Uncollectible loans and receivables
Current period	137,005	176,551	78,606
(Gross amounts before the specific reserves)	-	-	-
Loans and other receivables which are restructured	-	-	-
Rescheduled loans and other receivables	137,005	176,551	78,606
Prior period	51,611	88,881	59,591
(Gross amounts before the specific reserves)	-	-	-
Loans and other receivables which are restructured	-	-	-
Rescheduled loans and other receivables	51,611	88,881	59,591

Movements in non-performing loan groups

	Group III Loans and receivables with limited collectability	Group IV Loans and receivables with doubtful collectability	Group V Uncollectible loans and receivables
Balance at the beginning of the period	501,060	784,848	3,852,205
Additions (+)	2,864,977	24,217	68,181
Transfers from other categories of loans under follow-up (+)	-	2,100,561	1,501,355
Transfers to other categories of loans under follow-up (-) ^(*)	2,123,723	1,525,674	151,752
Collections (-)	295,618	277,426	630,110
Write-offs (-)	-	-	1,341
<i>Corporate and commercial loans</i>	-	-	-
<i>Retail loans</i>	-	-	-
<i>Credit cards</i>	-	-	-
<i>Other</i>	-	-	1,341
Currency differences	-	-	11,623
Balance at the end of the period	946,696	1,106,526	4,650,161
Specific provisions (-) ^(**)	389,259	553,966	4,589,383
Net balance on balance sheet	557,437	552,560	60,778

^(*) Loans that are transferred from non-performing loans to restructured loans are presented in the transfers to other categories of loans under follow-up lines.

^(**) As of December 31, 2016, the Parent Bank reserved 100% provision within additional TL 199,075 provision rather than 20% for TL 248,844 after the date it was placed in the 3rd Group.

Uncollectible loans and other receivables are collected through liquidation of collaterals and legal follow-up.

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Information on non-performing loans and other receivables in foreign currencies

	Group III	Group IV	Group V
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Current Period			
Balance at the end of the period	64,048	17,087	423,134
Specific provision (-)	52,069	8,807	382,751
Net balance on balance sheet	11,979	8,280	40,383
Prior Period			
Balance at the end of the period	24,405	88,660	380,742
Specific provision (-)	5,902	44,296	340,558
Net balance on balance sheet	18,503	44,364	40,184

Non-performing loans due to foreign currency denominated loans provided by the Parent Bank or domestic financial subsidiaries are followed in TL accounts, while non-performing loans provided by subsidiaries in abroad are followed in foreign currency accounts.

Explanation on Write-off Policy

The Group writes off a loan balance (and any related allowances for impairment losses) when it is concluded that those loans are uncollectible. This conclusion is given after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, charge off decisions generally are based on a product specific past due status.

The gross and net amounts of non-performing loans according to user groups

	Group III	Group IV	Group V
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Current Period (Net)	557,437	552,560	60,778
Consumer and Commercial Loans (Gross)	946,563	1,097,026	4,551,110
Specific Provision (-)	389,232	549,216	4,490,332
Consumer and Commercial Loans (Net)	557,331	547,810	60,778
Banks (Gross)	-	-	8,761
Specific Provision (-)	-	-	8,761
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	133	9,500	90,290
Specific Provision (-)	27	4,750	90,290
Other Loans and Receivables (Net)	106	4,750	-
Prior Period (Net)	401,090	396,387	111,457
Consumer and Commercial Loans (Gross)	494,639	775,650	3,773,247
Specific Provision (-)	98,686	383,862	3,661,790
Consumer and Commercial Loans (Net)	395,953	391,788	111,457
Banks (Gross)	-	-	7,517
Specific Provision (-)	-	-	7,517
Banks (Net)	-	-	-
Other Loans and Receivables (Gross)	6,421	9,198	71,441
Specific Provision (-)	1,284	4,599	71,441
Other Loans and Receivables (Net)	5,137	4,599	-

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6. Information on held-to-maturity investments

Held-to-maturity debt securities issued by the governments

	Current Period		Prior Period	
	TL	FC	TL	FC
Government bonds	8,039,914	-	7,546,748	-
Treasury bills	-	-	-	-
Other securities issued by the governments	-	-	-	-
Total	8,039,914	-	7,546,748	-

Information on held-to-maturity investment securities

	Current Period	Prior Period
Debt Securities	8,187,293	7,683,950
Quoted at stock exchanges	8,046,672	7,552,969
Unquoted at stock exchanges	140,621	130,981
Impairment losses (-)	6,758	6,221
Total	8,180,535	7,677,729

The movement table of the held-to-maturity investments

	Current Period	Prior Period
Balances at the beginning of the period	7,677,729	6,854,593
Foreign currency differences on monetary assets	7,371	44,702
Purchases during the period	1,873,688	1,610,704
Transfers to available for sale portfolio	-	-
Disposals through sales/redemptions	(1,673,758)	(1,129,187)
Impairment losses	(537)	(366)
Change in amortized costs of the securities ⁽¹⁾	296,042	297,283
Balances at the end of the period	8,180,535	7,677,729

⁽¹⁾ Changes in the amortized costs of the marketable securities also include rediscount differences in marketable securities.

Information on held-to-maturity investments

Current Period	Cost		Carrying Value	
	TL	FC	TL	FC
Collateralized/blocked investment securities	556,248	140,600	576,573	140,621
Investments subject to repurchase agreements	4,680,338	-	5,323,556	-
Held for structural position	-	-	-	-
Receivable from security borrowing markets	-	-	-	-
Collateral for security borrowing markets	-	-	-	-
Other ⁽¹⁾	1,821,464	-	2,139,785	-
Total	7,058,050	140,600	8,039,914	140,621
Prior Period	Cost		Carrying Value	
	TL	FC	TL	FC
Collateralized/blocked investment securities	495,970	130,950	527,655	130,981
Investments subject to repurchase agreements	5,428,798	-	6,050,350	-
Held for structural position	-	-	-	-
Receivable from security borrowing markets	-	-	-	-
Collateral for security borrowing markets	-	-	-	-
Other ⁽¹⁾	935,631	-	968,743	-
Total	6,860,399	130,950	7,546,748	130,981

⁽¹⁾ The securities held as free that are not subject to collateral/blockage or other transactions are presented in the "Other" line.

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7. Investments in associates

Unconsolidated investments in associates

Title	Address (City/Country)	Parent Bank's Share - If Different, Voting Rights (%)	Bank Risk Group's Share (%)
1 Roketsan Roket Sanayi ve Ticaret A.Ş. ^(*)	Ankara/Turkey	9.93	9.93
2 Bankalararası Kart Merkezi A.Ş.	İstanbul/Turkey	9.70	9.70
3 KKB Kredi Kayıt Bürosu A.Ş. ^(*)	İstanbul/Turkey	9.09	9.09
4 Güçbirliği Holding A.Ş.	İzmir/Turkey	0.07	0.07
5 İzmir Enternasyonal Otelcilik A.Ş.	İstanbul/Turkey	5.00	5.00
6 İstanbul Takas ve Saklama Bankası A.Ş. ^(*)	İstanbul/Turkey	4.37	4.37
7 Kredi Garanti Fonu A.Ş. ^(*)	Ankara/Turkey	1.69	1.69
8 Tasfiye Halinde World Vakıf UBB Ltd.	Lefkoşa/NCTR	82.00	85.33

	Total Assets	Equity	Tangible Assets	Interest Income	Income on Securities Portfolio	Current Year's Profit/(Loss)	Prior Period's Profit/Loss	Fair Value
1	3,378,510	905,733	559,578	10,028	-	128,591	(50,090)	-
2	80,262	39,897	50,021	1,068	-	10,403	3,869	-
3	185,448	129,647	135,578	2,817	-	16,458	26,782	-
4	141,180	(35,523)	87,993	623	-	(3,360)	(17,521)	-
5	102,529	(30,230)	87,135	7	-	(30,601)	(18,136)	-
6	7,494,521	994,440	103,049	216,309	5,881	162,178	132,453	-
7	324,489	298,991	7,563	12,390	-	17,738	19,899	-
8	1,631	(104,975)	-	13,833	-	(8,988)	(7,452)	-

^(*)The financial statement information provided for these associates is taken from the financial statements dated September 30, 2016.

In the prior period, subsequent to the approval of the decision of the capital of Kredi Garanti Fonu A.Ş. in the Ordinary Meeting of General Assembly of the Company dated 31 March 2015, an associate of the Bank, has been increased from TL 240,000 to TL 278,439, TL 29,000 is paid from company's own resources and TL 9,439 is paid cash by two new shareholders and registered to commercial register on 10 April 2015. After the capital increase, Bank's current nominal share has been increased from TL 4,211 to TL 4,719 by a bonus increase of TL 509 and Bank's share percentage will be decreased from 1.75% to 1.69% after the involvement of two shareholders as at 10 April 2015.

The title of World Vakıf Off Shore Banking Ltd, a subsidiary of the Bank, was changed as World Vakıf UBB. Ltd. on 4 February 2009. Pursuant to the 4 March 2010 dated and 764 numbered decision of Board of Directors of Central Bank of Turkish Republic of Northern Cyprus, the official authorisation of World Vakıf UBB Ltd., operating in NCTR, is abrogated due to incompliance with the 7th and 9th articles of 41/2008 numbered Law of International Banking Units. According to 24 May 2010 dated decision of the Nicosia Local Court, World Vakıf UBB Ltd. will be liquidated and NCTR Company Registrar is appointed to carry out liquidation process. In year 2010, due to loss of control over Company, World Vakıf UBB Ltd. has been reclassified as "Investments in associates". The liquidation process of World Vakıf UBB Ltd, an associate of the Bank, has been carried out by NCTR Collecting and Liquidation Office. The application of the company for cancellation of the liquidation has been rejected and the decision of liquidation has been agreed on 27 August 2013. Thus, the company's title has been changed as "World Vakıf UBB Ltd in Liquidation".

Unconsolidated associates, reasons for not consolidating such investments and accounting treatments applied for such investments:

İstanbul Takas ve Saklama Bankası A.Ş. and Kredi Garanti Fonu A.Ş. have not been consolidated since their total assets and net operating profit/loss) individually or as a whole, do not comprise a material portion within the consolidated totals. Since Bankalararası Kart Merkezi A.Ş., Kredi Kayıt Bürosu A.Ş., Roketsan Roket Sanayi ve Ticaret A.Ş., Güçbirliği Holding A.Ş. and İzmir Enternasyonal A.Ş. are not financial associates; these associates have not been consolidated. These associates have been accounted for as per TAS-39 in the consolidated financial statements.

Consolidated investments in associates

Title	Address (City/Country)	Parent Bank's Share - If Different, Voting Rights (%)	Bank Risk Group's Share (%)
1 Kıbrıs Vakıflar Bankası Ltd. ^(*)	Lefkoşa/NCTR	15.00	15.00
2 Türkiye Sınai Kalkınma Bankası A.Ş.	İstanbul/Turkey	8.38	8.38

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	Total Assets	Equity	Tangible Assets	Interest Income	Income on Securities Portfolio	Current Year's Profit/Loss	Prior Period's Profit/Loss	Fair Value
1	857,279	85,887	6,521	51,689	2,679	3,640	5,285	-
2	24,875,486	3,143,053	793,595	1,056,021	357,490	443,431	407,231	2,897,829

¹⁾ The financial statement information provided for these associates is taken from the financial statements dated September 30, 2016.

In the current period, subsequent to the approval of the decision to increase the paid-in capital of Kıbrıs Vakıflar Bankası LTD. from TL 40,000 to TL 70,000 in the Extraordinary Meeting of the General Assembly of the Company dated 12 May 2016. The share of the Bank amounting to TL 4,500 is presented in the movement table of investments in associates as bonus shares received.

In the current period, subsequent to the approval of the decision to increase the paid-in capital of Türkiye Sınai Kalkınma Bankası AŞ from TL 1,750,000 to TL 2,050,000 in the Ordinary Meeting of General Assembly of the Company dated 24 March 2016, the share of the Bank amounting to TL 25,132 is presented in the movement table of investments in associates as bonus shares received.

In the prior period, subsequent to the approval of the decision to increase the paid-in capital of Türkiye Sınai Kalkınma Bankası AŞ from TL 1,500,000 to TL 1,750,000 in the Ordinary Meeting of General Assembly of the Company dated 26 March 2015, the share of the Bank amounting to TL 20,944 is presented in the movement table of investments in associates as bonus shares received.

Movement of consolidated investments in associates

	Current Period	Prior Period
Balance at the beginning of the period	224,269	259,957
Movements during the period	29,188	(35,688)
Transfers	-	-
Acquisitions	-	-
Bonus shares received	29,632	20,944
Share of current year profit	-	-
Sales/liquidations	-	-
Fair value changes	(444)	(56,632)
Impairment losses	-	-
Balance at the end of the period	253,457	224,269
Capital commitments	-	-
Share percentage at the end of period (%)	-	-

Sectoral distribution of consolidated investments and associates

	Current Period	Prior Period
Banks	253,457	224,269
Insurance companies	-	-
Factoring companies	-	-
Leasing companies	-	-
Financing companies	-	-
Other financial associates	-	-
Total	253,457	224,269

Quoted associates

	Current Period	Prior Period
Quoted at domestic stock exchanges	242,838	218,150
Quoted at international stock exchanges	-	-
Total	242,838	218,150

Investments in associates disposed during the period

There is not any associate disposed by the Parent Bank in the current period.

Investments in associates acquired during the period

There is not any associate acquired by the Parent Bank in the current period.

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8. Investments in subsidiaries

Information on significant subsidiaries

	Vakifbank International	Vakif Finansal Kiralama A.Ş.	Vakif Yatırım Menkul Değerler A.Ş.	Vakif Faktoring A.Ş.	Güneş Sigorta A.Ş.	Vakif Emeklilik A.Ş.	Vakif Portföy Yönetimi A.Ş.	Vakif Gayrimenkul Yat. Ort. A.Ş.	Vakif Menkul Kıymet Yat. Ort. A.Ş.
Paid in Capital	114,483	87,000	35,000	22,400	270,000	26,500	12,000	213,000	20,000
Share Premium	-	-	-	-	655	-	-	246,731	-
Adjustment to paid-in capital	-	255	(271)	28,882	(2,011)	6,881	56	21,619	62
Valuation changes in marketable securities	27,447	3,470	66,346	347	275,328	468	-	-	-
Profit on sale of associates, subsidiaries and buildings	-	17,517	-	-	204,865	50,005	-	547	-
Bonus shares from investment and associates, subsidiaries and joint ventures (business partners)	-	-	-	-	59	191	-	-	-
Legal Reserves	9,279	5,110	5,644	5,824	17,179	18,385	965	6,390	395
Extraordinary Reserves	-	33,398	7,368	48,296	19,246	68,476	1,577	97,360	-
Other Profit Reserves	241,123	-	2,308	-	-	-	-	-	-
Profit/Loss	131,119	23,281	3,981	16,097	(436,362)	134,798	6,855	16,418	(3,008)
Prior Period's Profit/Loss	106,801	-	(4,587)	-	(384,215)	82,533	-	1,015	(2,771)
Current Period's Profit/Loss	24,318	23,281	8,568	16,097	(52,147)	52,265	6,855	15,403	(237)
Minority Rights	-	70	-	-	-	-	-	-	-
Total Core Capital	523,451	170,101	120,376	121,846	348,959	305,704	21,453	602,065	17,449
SUPPLEMENTARY CAPITAL	-	-	-	-	-	-	-	-	-
CAPITAL	523,451	170,101	120,376	121,846	348,959	305,704	21,453	602,065	17,449
NET AVAILABLE EQUITY	523,451	170,101	120,376	121,846	348,959	305,704	21,453	602,065	17,449

Reviewed BRSA financial statements as of December 31, 2016 are considered.

Vakif Yatırım Menkul Değerler A.Ş., which is one of the consolidated subsidiaries of the Parent Bank, calculates capital adequacy in accordance with "Communiqué on Capital and Capital Adequacy of Intermediary Firms" of Capital Markets Board as six months periods. Güneş Sigorta A.Ş. and Vakıf Emeklilik A.Ş., which are the consolidated subsidiaries of the Parent Bank operating in insurance sector, calculate capital adequacy in accordance with "Communiqué on Capital Adequacy Measurement and Assessment for Insurance, Reinsurance and Pension Firms" published by Republic of Turkey Undersecretariat of Treasury as six months periods. According to the calculations at December 31, 2016, there is no capital requirement for the subsidiaries mentioned.

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Unconsolidated investments in subsidiaries

Title	Address (City / Country)	Bank's Share -If Different, Voting Rights (%)	Bank's Risk Group Share (%)
1 Vakif Enerji ve Madencilik AŞ ^(*)	Ankara/Turkey	65.50	85.53
2 Taksim Otelcilik AŞ ^(*)	İstanbul/Turkey	51.00	51.69
3 Vakıf Pazarlama Sanayi ve Ticaret AŞ ^(**)	İstanbul/Turkey	69.33	76.20
4 Vakıf Gayrimenkul Değerleme AŞ ^(*)	Ankara/Turkey	54.29	58.73

	Total Assets	Equity	Tangible Assets	Interest Income	Income on Securities Portfolio	Current Year's Profit/(Loss)	Prior Years' Profit/(Loss)	Fair Value
1	25,406	5,916	1,042	388	-	280	(1,745)	14,466
2	366,961	354,338	234,212	6,517	-	504	9,112	400,560
3	51,313	42,516	723	3,351	57	3,587	3,861	58,797
4	31,687	26,423	304	2,401	-	1,269	829	26,471

^(*) The financial statement information provided for these subsidiaries is from the financial statements dated September 30, 2016.

^(**) The financial statement information provided for these subsidiaries is taken from the financial statements as of June 30, 2016.

^(***) The financial statement information provided for these subsidiaries is taken from the financial statements as of December 31, 2015.

Unconsolidated subsidiaries, reasons for not consolidating such investments and accounting treatments applied for such investments:

Vakıf Enerji ve Madencilik A.Ş., Taksim Otelcilik A.Ş., Vakıf Pazarlama Sanayi ve Ticaret A.Ş. and Vakıf Gayrimenkul Değerleme A.Ş. have not been consolidated since they are not among the financial subsidiaries of the Bank. Therefore, the subsidiaries whose fair value can be reliably measured are reflected in the consolidated financial statements at their fair values.

In the previous period, subsequent to the approval of the decision to increase the paid-in capital of Vakıf Gayrimenkul Değerleme A.Ş. from TL 7,000 to TL 14,000 by a bonus increase of TL 7,000 in the Ordinary Meeting of General Assembly of the Company dated 20 March 2015. After the capital increase, The Parent Bank's current nominal share has been increased from TL 3,800 to TL 7,600 by TL 3,800 and The Parent Bank's share percentage has been remained the same as 54.29%.

Investments in consolidated subsidiaries

Title	Address(City / Country)	Bank's Share - If Different Voting Rights (%)	Bank's Risk Group Share (%)
1 Güneş Sigorta AŞ ^(*)	İstanbul/Turkey	48.20	48.20
2 Vakıf Emeklilik AŞ ^(*)	İstanbul/Turkey	53.90	79.74
3 Vakıf Faktoring AŞ ^(*)	İstanbul/Turkey	78.39	88.70
4 Vakıf Finansal Kiralama AŞ	İstanbul/Turkey	58.71	66.26
5 Vakıf Yatırım Menkul Değerler AŞ	İstanbul/Turkey	99.00	99.48
6 Vakıfbank International AG	Vienna/Austria	90.00	90.00
7 Vakıf Portföy Yönetimi AŞ	İstanbul/Turkey	100.00	100.00
8 Vakıf Menkul Kıymet Yatırım Ortaklığı AŞ ^(**)	İstanbul/Turkey	22.89	34.57
9 Vakıf Gayrimenkul Yatırım Ortaklığı AŞ ^(**)	İstanbul/Turkey	38.70	40.87

	Total Assets	Equity	Tangible Assets	Interest Income	Income on Securities Portfolio	Current Year's Profit / (Loss)	Prior Period's Profit / (Loss)	Fair Value
1	1,756,036	433,195	565,250	45,783	2,905	(50,762)	(162,569)	282,966
2	5,130,134	237,764	111,658	24,811	104	38,512	25,890	800,926
3	919,199	118,651	2,784	77,923	-	12,943	10,116	95,035
4	1,686,534	170,103	22,015	110,521	-	23,284	23,637	134,594
5	437,066	120,375	1,573	18,653	142	8,568	(5,459)	106,298
6	3,513,385	493,263	1,462	75,410	19,780	23,544	8,957	482,346
7	22,510	21,453	110	2,077	66	6,855	3,302	72,525
8	18,131	17,448	34	295	1,211	(237)	(281)	22,483
9	1,029,304	864,983	609,650	29,080	-	42,425	74,144	489,932

^(*) Financial information as at 30 September 2016 has been presented for these subsidiaries.

^(**) Although the Bank has ownership of less than 50% of these subsidiaries, the Bank has power to exercise control over the financial and operating policies of the companies

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Movement table of consolidated investments in subsidiaries in consolidated financial statements

	Current Period	Prior Period
Balance at the beginning of the period	1,350,170	1,187,597
Movements during the period	178,058	162,573
Transfers	-	-
Acquisitions	76,155	-
Bonus shares received	24,858	805
Share of current year profit	(1,314)	(24,557)
Sales and liquidations	-	-
Fair value changes	72,033	198,150
Impairment losses	6,326	(11,825)
Balance at the end of the period	1,528,228	1,350,170
Capital commitments	-	-
Share percentage at the end of the period (%)	-	-

Valuation of consolidated subsidiaries in unconsolidated financial statements

	Current Period	Prior Period
Measured at cost	-	-
Measured at fair value	1,528,228	1,350,170
Equity method of accounting	-	-
Total	1,528,228	1,350,170

Sectoral distribution of consolidated investments in financial subsidiaries

	Current Period	Prior Period
Banks	434,112	434,144
Insurance companies	568,089	480,532
Factoring companies	74,498	62,163
Leasing companies	79,019	45,681
Financing companies	-	-
Other financial subsidiaries	372,510	327,650
Total	1,528,228	1,350,170

Quoted consolidated subsidiaries

	Current Period	Prior Period
Quoted at domestic stock exchanges	410,160	330,703
Quoted at international stock exchanges	-	-
Total	410,160	330,703

Consolidated subsidiaries disposed during the period

There is not any disposal in the consolidated subsidiaries in the current year.

Consolidated investments in subsidiaries acquired during the period

The Parent Bank does not have any subsidiary that are purchased in the current period in the scope of consolidation.

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In the current period, within the registered capital ceiling of TL 300,000 of Güneş Sigorta A.Ş., the paid-in capital increased from TL 150,000 to TL 270,000 by increasing TL 120,000. In this context, our fair value was fully used in the capital increase of the Company and our Bank's current nominal share was TL 43,619. In addition, TL 32,536 has been paid for the premiums not used by other shareholders (from the shares offered to the public on the BİAŞ share market) for the nominal 32.000.000 shares purchased from the prices formed in the BİST Primary Market. Total share capital of the Bank amounting to TL 76,155 is included in Purchases in the movement table of subsidiaries. After the capital increase, our nominal share of TL 54,524 in the capital of Güneş Sigorta A.Ş. has increased to TL 130,143 and our share of 36.35% has increased to 48.20%.

In the current period, Vakıf Portföy Yönetimi A.Ş.'s capital of TL 3,000 was increased by TL 9,000 through a bonus issue, reaching TL 12,000. Following the bonus issue, the Bank's existing nominal share of TL 3,000 was raised to TL 12,000, representing an increase of TL 9,000, with its shareholding percentage remaining the same (100.00%). Capital amounting to TL 9,000, corresponding to the Bank is booked under Bonus Shares Received in the table of movement of investments in associates.

In the current period, subsequent to the approval of the decision to increase the paid-in capital of Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. from TL 205,400 to TL 213,000 by a bonus increase of TL 7,600 in the Ordinary Meeting of General Assembly of the Company dated 15 April 2016. After the capital increase, Bank's current nominal share has been increased from TL 79,495 to TL 82,436 by bonus increase of 2,941 and Bank's share percentage has been remained the same 38.70%. The share of the Bank amounting to TL 2,941 is presented as bonus shares received in the movement table of investments in subsidiaries.

In the current period, subsequent to the approval of the decision to increase the paid-in capital of Vakıf Finansal Kiralama A.Ş. from TL 65,000 to TL 87,000 by a bonus increase of TL 22,000 in the Ordinary Meeting of General Assembly of the Company dated 12 April 2016. After the capital increase, Bank's current nominal share has been increased from TL 38,163 to TL 51,080 by bonus increase of TL 12,917 and Bank's share percentage has been remained the same 58.71%. The share of the Bank amounting to TL 12,917 is presented as bonus shares received in the movement table of investments in subsidiaries.

In the previous period, the title of Vakıf Finans Factoring Hizmetleri A.Ş. has been changed to Vakıf Faktoring A.Ş., the aforementioned change of title has been registered on 13 April 2015.

In the previous period, subsequent to the approval of the decision to increase the paid-in capital of Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. from TL 203,320 to TL 205,400 by a bonus increase of TL 2,080 in the Ordinary Meeting of General Assembly of the Company dated 31 March 2015. After the capital increase, Bank's current nominal share has been increased from TL 78,690 to TL 79,495 by bonus increase of TL 805 and Bank's share percentage has been remained the same 38.70%. The share of the Bank amounting to TL 805 is presented as bonus shares received in the movement table of investments in subsidiaries.

In the previous period, in total full TL 12 nominal share of Vakıf Portföy Yönetimi A.Ş. has been purchased by Bank from other real person shareholders and Bank has signed share transfer contract with real person shareholders on 11 February 2015. Thus, Bank's nominal share has been increased from full TL 2,999,988 to full TL 3,000,000. Bank's share percentage has been increased from 99.99% to 100.00%.

9. Investments in joint-ventures

There is not any investment in joint-ventures of the Group within current and prior period.

10. Information on finance lease receivables (net)

Finance lease receivables disclosed according to remaining maturities

	Current Period		Prior Period	
	Gross	Net	Gross	Net
Less than 1 year	127,815	124,560	82,589	78,324
Between 1-4 years	1,069,370	940,008	782,065	694,895
Longer than 4 years	591,496	481,841	671,417	552,606
Total	1,788,681	1,546,409	1,536,071	1,325,825

Net investments in finance lease receivables

	Current Period	Prior Period
Gross finance lease receivables	1,788,681	1,536,071
Unearned income on finance lease receivables (-)	242,272	210,246
Terminated lease contracts (-)	-	-
Net finance lease receivables	1,546,409	1,325,825

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Finance lease agreements

Sum of the minimum lease payments including interest and principal amounts are stated under the "finance lease receivables" as gross. The difference between the total of rent payments and the cost of the related fixed assets is reflected to the "unearned income" account. If the lease payments are made, the lease principal amount is deducted from the "finance lease receivables" as the interest component of the payment is reflected to interest income on the consolidated statement of income.

11. Information on hedging purpose derivatives

Positive differences on derivative financial instruments held for risk management purposes

None.

12. Information on tangible assets

	Real Estates	Leased Tangible Assets	Vehicles	Other Tangible Assets	Total
Balance at the end of the prior year:					
Cost	1,197,578	130,802	36,781	1,144,069	2,509,230
Accumulated depreciation(-)	6,784	121,896	32,086	687,871	848,637
Impairment(-)	6,475	-	-	-	6,475
Net book value	1,184,319	8,906	4,695	456,198	1,654,118
Balance at the end of the current year:					
Net book value at the beginning of the current year	1,184,319	8,906	4,695	456,198	1,654,118
Additions	70,907	2,749	2,967	177,923	254,546
Cost of the disposals	71,744	12,820	10,588	8,468	103,620
Depreciation of the disposals (-)	2,598	12,165	10,094	7,114	31,971
Depreciation of the current year	7,213	3,491	2,099	125,653	138,456
Impairment (-)	(244)	-	-	-	(244)
Exchange differences related to foreign associates	88	-	(20)	4,232	4,300
Cost at the end of the current year	1,196,829	120,731	29,140	1,317,756	2,664,456
Accumulated depreciation at the end of the year (-)	11,399	113,222	24,091	806,410	955,122
Impairment (-)	6,231	-	-	-	6,231
Net book value at the end of the current year	1,179,199	7,509	5,049	511,346	1,703,103

13. Information on intangible assets

Group's intangible assets consist of computer softwares and licenses. The estimated useful life of intangible assets is five years. Intangible assets are amortized on a straight-line basis through the estimated useful lives over their costs adjusted for inflation for the items purchased before 31 December 2004, over their initial costs for the items purchased after 31 December 2004.

In the current year an intangible asset that presents severity for the financial statements does not exist.

Additionally the Group does not have intangible assets, which are obtained by government incentives, recorded at fair value, have utilisation restrictions or have been pledged.

The Group has not declared a commitment to purchase intangible assets.

14. Information on investment properties

As of December 31, 2016, the Group has investment properties that have book amount of its subsidiaries which are operating in the insurance business is TL 8,877 (December 31, 2015: TL 9,924) and its subsidiaries which are operating in real estate investment business is TL 345,508 (December 31, 2015: TL 277,802).

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15. Information on tax assets

(a) Current tax assets

As at December 31, 2016 the current tax asset of the Group amounts to TL 835 (December 31, 2015: TL 3,731).

(b) Deferred tax assets

Items generating deferred tax assets or liabilities are listed below as at December 31, 2016 and December 31, 2015:

	Current Period	Prior Period
Provision for employee termination benefits and unused vacations	97,828	91,563
Other provisions	93,646	81,175
Valuation differences of associates and subsidiaries	27,488	27,704
Deductible financial losses	26,418	26,418
Investment incentives	4,314	9,697
Valuation differences of financial assets and liabilities	82,263	78,160
Reporting Standards - Tax Code depreciation differences	6,330	7,252
Other differences	16,268	5,209
Deferred tax assets	354,555	327,178
Net-off of the deferred tax assets and liabilities from the same entity	(157,468)	(187,993)
Deferred tax assets, (net)	197,087	139,185
Valuation differences of financial assets and liabilities	119,153	133,654
Valuation difference for associates and subsidiaries	17,511	18,421
Valuation differences of properties	39,593	47,351
Other differences	4,235	11,657
Deferred tax liabilities	180,492	211,083
Net-off of the deferred tax assets and liabilities from the same entity	(157,468)	(187,993)
Deferred tax liabilities, (net)	23,024	23,090

As at December 31, 2016 and December 31, 2015, items generating deferred tax assets or liabilities movement table is listed below:

	Current Period	Previous Period
As of 1 January	116,095	157,751
Deferred tax income/loss	17,554	(109,715)
Deferred tax that is accounted under equity	44,360	70,314
Other	(3,946)	(2,255)
Deferred tax asset/(liability)	174,063	116,095

The reconciliation of the deferred tax on the assets directly related to the equity is as follows as of 31 December 2016 and 31 December 2015:

	Current period	Prior Period
Securities available for sale	48,081	116,514
Associates and subsidiaries	(1,371)	1,638
Tangible assets	(1,911)	(47,351)
Actuarial gains and losses	(439)	(487)
Total	44,360	70,314

16. Information on assets held for sale and assets related to the discontinued operations

As at December 31, 2016, net book value of assets held for sale of the Group is amounting to TL 1,228,102 (December 31, 2015: TL 994,991).

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17. Information on other assets

As at December 31, 2016 and December 31, 2015, the details of other assets are as follows:

	Current Period	Prior Period
Receivables from insurance operations	928,905	1,002,182
Receivables from credit card payments	988,257	923,489
Prepaid expenses	522,306	669,777
Guarantees given for repurchase agreements	-	143,978
Guarantees given for derivative financial instruments	1,876,321	501,035
Receivables from term sale of assets	21,746	44,567
Receivables from reinsurance companies	27,240	23,311
Deferred commission expenses	59,891	68,427
Other	1,158,351	675,587
Total	5,583,017	4,052,353

II. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED LIABILITIES

1. Information on maturity profile of deposits

Current Period	Demand	7 Days Notice	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1 Year and Over	Accumulating Deposit Accounts	Total
Saving deposits	5,705,688	-	1,680,889	25,414,440	1,642,146	289,813	164,353	268	34,897,597
Foreign currency deposits	5,459,945	-	2,646,284	18,828,852	1,782,652	1,397,067	5,744,196	-	35,858,996
Residents in Turkey	4,811,159	-	2,639,895	18,521,686	1,479,501	544,129	943,203	-	28,939,573
Residents in abroad	648,786	-	6,389	307,166	303,151	852,938	4,800,993	-	6,919,423
Public sector deposits	5,358,931	-	5,219,406	6,965,059	768,349	2,589,066	115,942	-	21,016,753
Commercial deposits	2,896,213	-	6,103,794	7,131,196	1,488,185	312,555	9,299	-	17,941,242
Other	4,168,961	-	1,901,192	3,401,011	881,451	85,146	20,450	-	10,458,211
Precious metal deposits	1,010,609	-	-	-	-	-	-	-	1,010,609
Bank deposits	243,644	-	3,239,174	1,395,631	98,703	23,363	75,386	-	5,075,901
Central Bank	1,117	-	-	-	-	-	-	-	1,117
Domestic banks	10,075	-	2,934,647	913,292	98,703	2,144	4,323	-	3,963,184
Foreign banks	169,476	-	93,469	288,852	-	21,219	71,063	-	644,079
Participation banks	62,976	-	211,058	193,487	-	-	-	-	467,521
Other	-	-	-	-	-	-	-	-	-
Total	24,843,991	-	20,790,739	63,136,189	6,661,486	4,697,010	6,129,626	268	126,259,309

Prior Period	Demand	7 Days Notice	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1 Year and Over	Accumulating Deposit Accounts	Total
Saving deposits	4,424,092	-	471,519	22,041,396	1,027,318	255,301	124,971	-	28,344,597
Foreign currency deposits	4,479,182	-	3,412,030	15,859,982	1,497,162	1,127,496	5,403,554	-	31,779,406
Residents in Turkey	3,847,197	-	3,409,099	15,546,772	1,235,166	611,274	942,705	-	25,592,213
Residents in abroad	631,985	-	2,931	313,210	261,996	516,222	4,460,849	-	6,187,193
Public sector deposits	4,504,470	-	4,869,059	6,958,081	843,503	1,879,924	205,243	-	19,260,280
Commercial deposits	2,457,798	-	3,735,859	11,025,533	146,767	50,949	1,336	-	17,418,242
Other	3,751,277	-	1,772,094	3,170,500	242,340	41,669	25,525	-	9,003,405
Precious metal deposits	625,592	-	-	-	-	-	-	-	625,592
Bank deposits	392,993	-	3,804,547	886,665	230,210	118,489	145,571	-	5,578,475
Central Bank	1,116	-	-	-	-	-	-	-	1,116
Domestic banks	6,431	-	3,645,258	553,924	212,223	-	-	-	4,417,836
Foreign banks	230,898	-	159,289	332,741	17,987	118,489	145,571	-	1,004,975
Participation banks	154,548	-	-	-	-	-	-	-	154,548
Other	-	-	-	-	-	-	-	-	-
Total	20,635,404	-	18,065,108	59,942,157	3,987,300	3,473,828	5,906,200	-	112,009,997

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Information on saving deposits insured by Saving Deposit Insurance Fund and the total amounts of the deposits exceeding the insurance coverage limit

	Covered by Deposit Insurance Fund		Exceeding the Deposit Insurance Limit	
	Current Period	Prior Period	Current Period	Prior Period
Saving deposits	19,306,192	15,480,662	15,591,405	12,863,935
Foreign currency saving deposits	5,092,943	4,788,666	14,160,086	11,939,036
Other saving deposits	-	-	-	-
Foreign branches' deposits under foreign insurance coverage	-	-	-	-
Off-Shore deposits under foreign insurance coverage	-	-	-	-
Total	24,399,135	20,269,328	29,751,491	24,802,971

Saving deposits out of insurance coverage limits

	Current Period	Prior Period
Deposits and other accounts at foreign branches	37,431	24,839
Deposits and other accounts, which belong to controlling shareholders, their parents, wives/husbands, and children	-	-
Deposits and other accounts, which belong to Board of Director members, chairman, general manager, his/her assistants, their parents, wives/husbands, and children	4,957	5,438
Deposits and other accounts under scope of TCC law 5237 article no 282, dated 26/9/2004	-	-
Deposits in Deposit Banks of Turkey, which are solely established for off-shore banking	-	-

2. Information on derivative financial liabilities held for trading purpose

Negative differences related to the derivative financial liabilities held for trading purpose

	Current Period		Prior Period	
	TL	FC	TL	FC
Forwards	22,407	4,202	1,508	594
Swaps	894,453	194,876	123,057	150,342
Futures	-	-	-	-
Options	38,159	327	28,612	239
Other	-	-	-	-
Total	955,019	199,405	153,177	151,175

3. Information on banks and other financial institutions

	Current Period		Prior Period	
	TL	FC	TL	FC
Central Bank of Republic of Turkey	-	-	-	-
Domestic banks and institutions	1,081,208	1,023,229	567,038	609,386
Foreign banks, institutions and funds	639,606	23,555,387	365,313	18,653,310
Total	1,720,814	24,578,616	932,351	19,262,696

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Maturity information of funds borrowed

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-term ^(*)	715,655	2,342,821	479,073	2,024,300
Medium and Long-term ^(*)	1,005,159	22,235,795	453,278	17,238,396
Total	1,720,814	24,578,616	932,351	19,262,696

^(*) Maturity profile of funds borrowed has been prepared in accordance with their original maturities.

Funds borrowed comprise syndication and securitization loans bearing various interest rates and maturities and account for 13.08% (December 31, 2015: 11.70%) of the Group's liabilities. There is no risk concentration on funding sources of the Group.

On 17 April 2015, the Parent Bank has obtained syndicated loan amounting to US Dollar 204 million and Euro 763 million with interest rates of US Libor + 0.80% and Euribor + 0.80% at a maturity of 367 days, with the participation of 35 banks, Wells Fargo Bank N.A., London Branch and National Bank of Abu Dhabi PJSC acting as coordinator and agent bank. On 20 April 2016, the loan has been renewed with a new syndicated loan amounting to US Dollar 207 million and Euro 631.5 million with the interest rate of US Libor + 0.85% and Euribor + 0.75% at a maturity of 367 days with participation of 30 banks, Wells Fargo Bank, London Branch acting as coordinator and agent bank.

On 22 September 2014, the Parent Bank has obtained syndicated loan amounting to US Dollar 168.5 million and Euro 528.75 million with interest rates of US Libor + 0.90% and Euribor + 0.90% at a maturity of one year, with the participation of 26 banks, ING Bank, London Branch acting as coordinator and agent bank. On 14 September 2015, the loan has been renewed with a new syndicated loan amounting to US Dollar 168.5 million and Euro 679.5 million with the interest rate of US Libor + 0.75% and Euribor + 0.75% at a maturity of one year with participation of 30 banks, ING Bank, London Branch acting as coordinator and agent bank. On 26 September 2016, the loan has been renewed with a new syndicated loan amounting to 224.5 million US Dollar and 544 million Euros with the interest rate of US Libor + 1.10% and Euribor + 1.00% at a maturity of 367 days with participation of 22 banks, ING Bank, London Branch and National Bank of Abu Dhabi PJSC acting as coordinator and ING Bank, London Branch acting as agent bank.

On 19 December 2014, the Parent Bank has obtained securitization loan at the amount of US Dollar 928.6 million related to foreign transfers and treasury transactions in Euro and US Dollar. Loan amounting to US Dollar 500 million has been obtained related to foreign transfers at a maturity of five years and loan at the amount of US Dollar 428.6 million has been obtained related to treasury transactions at a maturity of seven years in seven different segments in total.

The loan obtained from European Bank for Reconstruction and Development (EBRD) amounting to US Dollar 125 million in 2014-A segment in order to finance medium term loans including to meet the needs of agricultural enterprises and support woman entrepreneurs. 2014-B segment of the loan has been obtained from Wells Fargo Bank, N.A., 2014-C segment of the loan has been obtained from Raiffeisen Bank International AG, 2014-D segment of the loan has been obtained from Standard Chartered Bank, 2014-E segment of the loan has been obtained from Societe Generale, 2014-G segment of the loan has been obtained from Bank of America, N.A. and 2014-F segment of the loan related to treasury transactions has been obtained from JP Morgan Securities plc. in the scope of programme.

On 4 October 2016, the Bank carried out a securitization transaction in the amount of US Dollar 890 million equivalent in Euros and US Dollar based on foreign money transfers and treasury transactions as part of the securitization program. A total of US Dollar 310 million was provided for 5 years and US Dollar 535 million based on treasury financing transactions was provided with 7 years maturity, based on foreign delegations of the loan provided in seven separate segments. Within the program, 2016-A segment was collected from SMBC, 2016-B segment from Wells Fargo Bank, 2016-C segment from Credit Suisse, 2016-D segment from Standard Chartered Bank, 2016-E segment from EBRD, 2016-F segment from JP Morgan and 2016-G segment from ING Bank. EBRD participated in the securitization loan with the TurSEFF II and TurSEFF III projects. As of December 31, 2016, the sum of the securitization loans amounted to US Dollar 1.544 million and EUR 335 million.

Information on securities issued

Within the context of Global Medium Term Notes (GMTN), the Parent Bank has issued Turkey's first Eurobond apart from Republic of Turkey Undersecretariat of Treasury. The bond has been issued in GMTN programme on 17 June 2014 has a nominal value of Euro 500 million, maturity date on 17 June 2019 with fixed rate, 5 years maturity and annually coupon paid with 3.65% return and coupon rate 3.50%.

Within the context of Global Medium Term Notes (GMTN), the Bank has issued Eurobond. The bond has been issued in GMTN programme on October 27, 2016 has a nominal value of US Dollar 500 million, maturity date on October 27, 2021 with fixed rate, 5 years maturity and semi-annually coupon paid and coupon rate 5.50%.

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Within the context of Global Medium Term Notes (GMTN), the Parent Bank has issued 220 private placements with 17 different banks from June 2013 on .These private placements have been issued in several currencies as of (US Dollar, Euro, Swiss Frank and Japanese Yen) and with maturities of are 3-month, 6-month, 1-year and 2-year. The Parent Bank has issued US Dollar 4,663 million US private placements as of December 31, 2016. The total private placement is US Dollar 370 million as of the same date.

The Parent Bank has issued Turkey’s first Euro covered bond on 4 May 2016. The bond has been issued on 4 May 2016 has nominal value of Euro 500 million, maturity date on 4 May 2021 with fixed rate, 5 years maturity and annually interest paid with coupon rate 2.375% and 2.578% return.

Current Period	TL		FC	
	Short Term	Medium-Long Term	Short Term	Medium-Long Term
Nominal	3,437,915	-	152,903	11,060,179
Cost	3,320,629	-	152,903	10,979,708
Net Book Value	3,373,519	-	154,695	11,154,610

Prior Period	TL		FC	
	Short Term	Medium-Long Term	Short Term	Medium-Long Term
Nominal	3,332,669	-	946,566	6,388,240
Cost	3,198,134	-	946,565	6,341,816
Net Book Value	3,257,620	-	949,615	6,439,473

4. Components of “other external resources payable” in the consolidated financials that comprise at least 20% of the account, if the account exceeds 10% of total liabilities and equity excluding off-balance sheet commitments.

Other external resources payable in the consolidated financials do not exceed 10% of total liabilities and equity.

5. Criteria used in the determination of lease instalments in the finance lease contracts, renewal and purchase options, restrictions, and significant burdens imposed on the bank on such contracts

Obligations under finance leases

None.

6. Information on derivative financial liabilities held for risk management purpose

Negative differences related to the derivative financial liabilities held for risk management purpose

None.

7. Information on provisions

Information on general provisions

	Current Period	Prior period
Provisions for loans and receivables in Group I	1,796,316	1,606,200
-Additional provision for loans with extended payment plans	50,986	26,422
Provisions for loans and receivables in Group II	222,879	231,853
-Additional provision for loans with extended payment plans	33,725	21,057
Provisions for non-cash loans	124,718	106,422
Other	23,530	13,128
Total	2,167,443	1,957,603

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Information on employee rights

According to the TAS-19- Judgments of benefits that are provided to employees, bank accounts and calculate provision to obligations of severance pay and allowance rights.

As of December 31, 2016, TL 395,650 (December 31, 2015: TL 369,078) provision for severance pay and TL 98,026 (December 31, 2015: TL 90,553) provision for unused vacation are stated in financial statements under employee rights provision.

Movement of severance pay provision in the period:

	Current Period	Prior Period
Opening balance	369,078	344,858
Current service cost	43,060	33,928
Previous service cost	-	-
Interest cost	35,121	27,396
Paid compensation	(51,300)	(34,984)
Payment/Reduction of benefits/Layoff accordingly composed loss/(gain)	1,637	214
Actuary loss/(gain)	(2,107)	(2,382)
Net foreign exchange differences from foreign subsidiaries	161	48
Closing balance	395,650	369,078

Provision for currency exchange loss on foreign currency indexed loans

	Current Period	Prior Period
Provision for currency exchange loss on foreign currency indexed loans	297	17,160

The Group has recorded provision amounting to TL 297 (December 31, 2015: TL 17,160) for foreign exchange losses on principal amounts of foreign currency indexed loans and reflected the related foreign exchange loss amount in the financial statements by offsetting from related loans.

Provisions for non-cash loans that are not indemnified and not converted into cash

As of December 31, 2016, the Parent Bank has recorded TL 59,816 (December 31, 2015: TL 40,930) as provisions for non-cash loans that are not indemnified or converted into cash.

Information on insurance technical provisions

	Current Period	Prior Period
Unearned Premium Reserves	791,429	715,692
Outstanding Claims Reserves	1,232,257	1,108,017
Life Mathematical Reserves	273,162	265,760
Other	21,497	2,086
Total	2,318,345	2,091,555

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Information on other provisions

Information on other provisions exceeding 10% of total provisions

	Current Period	Prior period
Provisions for credits	184,902	182,585
Specific provisions for non-cash loans	59,816	40,930
Provision for cheques	7,662	9,316
Provisions for lawsuits against the Bank	66,959	47,020
Provisions for credit card promotions	9,595	9,100
Other provisions	52,976	16,258
Total	381,910	305,209

8. Taxation

Current Taxes

As at and for the year ended December 31, 2016, the tax liability of the Group is amounting to TL 157,549 (December 31, 2015: TL 233,004).

Information on taxes payable

	Current Period	Prior Period
Corporate taxes payable	157,549	233,004
Taxation on securities	151,546	151,721
Capital gains tax on property	2,676	2,477
Banking and Insurance Transaction Tax (BITT)	92,730	77,808
Taxes on foreign exchange transactions	-	-
Value added tax payable	5,937	4,879
Other	49,051	41,348
Total	459,489	511,237

Information on premiums payable

	Current Period	Prior Period
Social security premiums- employee share	1,000	811
Social security premiums- employer share	3,689	2,095
Bank pension fund premium- employee share	-	-
Bank pension fund premium- employer share	25	-
Pension fund membership fees and provisions- employee share	-	10
Pension fund membership fees and provisions- employer share	-	-
Unemployment insurance- employee share	763	695
Unemployment insurance- employer share	1,768	1,503
Other	29	8
Total	7,274	5,122

Information on deferred tax liabilities

Information on deferred tax liabilities is presented in disclosure 13 of information and disclosures related to Group's assets.

9. Information on payables for assets held for resale and tangible assets related to discounted activities

None.

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10. Information on subordinated loans

The Parent Bank has issued bond having the secondary subordinated loan quality to be sold to non-resident natural and legal persons. The bond has been issued at the nominal value of US Dollar 500 million with the maturity of 10 years and 6.0% coupon rate. In addition to the bond issued on 1 November 2012, on 3 December 2012 the Bank has realized second tranche at nominal value of US Dollar 400 million, has the same due date and maturity of 10 years and 5.5% coupon rate.

The Parent Bank has issued secondary subordinated loan (Tier II bond) as at January 2015 which contains Basel-III criteria. In this context, the bond has been issued at the nominal value of US Dollar 500 million with the maturity date of 3 February 2025 and early call option date of 3 February 2020. The bond has fixed interest, 10 years and one day maturity, two times interest payment in a year with coupon rate of 6.875% and issue yield of 6.95%.

Stated bonds' total balance sheet value is TL 5,014,700 as of December 31, 2016 (December 31, 2015: TL 4,155,551).

11. Information on shareholders' equity

Paid-in capital

	Current Period	Prior Period
Common stock	2,500,000	2,500,000
Preferred stock	-	-

Paid-in capital of the Parent Bank amounted to TL 2,500,000 is divided into groups comprised of 43.0% Group (A), 15.6 % Group (B), 16.2% Group (C) and 25.2% Group (D).

Board of Directors' members; one member is appointed by the Prime Minister representing The General Directorate of the Foundations (Group A), three members are appointed representing Group (A), one member is appointed representing Group (B), and two members are appointed representing Group (C), and one member is appointed among the nominees offered by the shareholders at the General Assembly. Preference of Group (D) is primarily taken into account in the selection of the last mentioned member.

Paid-in capital amount, explanation as to whether the registered share capital system is applicable at the parent bank; if so the amount of registered share capital

Capital System	Paid-in Capital	Ceiling per Registered Share Capital
Registered capital system	2,500,000	10,000,000

At the resolutions of Board of Directors dated 2 January 2015 and 61st Ordinary Meeting of the General Assembly dated 30 March 2015, the Parent Bank's ceiling per registered share capital has been increased from TL 5,000,000 to TL 10,000,000.

Information on share capital increases and their sources; other information on any increase in capital shares during the current period

There is no share capital increase in the current year and previous year.

Information on share capital increases from revaluation funds

None.

Capital commitments for current financial year and following period and its general purpose and estimated sources that are required for commitments

None

Prior period indicators of the Parent Bank's income, profitability and liquidity; and possible effects of the predictions on equity, considering the ambiguity of the indicators

No negative impact of the predictions on the Bank's equity is expected in the future.

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Information on the privileges given to stocks representing the capital

None.

Valuation differences of the marketable securities

	Current Period		Prior Period	
	TL	FC	TL	FC
Associates, subsidiaries and joint ventures	64,288	-	39,342	-
Fair value differences of available-for-sale securities	(245,897)	50,440	(266,736)	257,405
Foreign exchange differences	-	-	-	-
Total	(181,609)	50,440	(227,394)	257,405

III. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED OFF-BALANCE SHEET ITEMS

1. Disclosures related to other contingent liabilities

Type and amount of consolidated irrevocable commitments

	Current Period	Prior Period
Commitments for credit card limits	8,682,835	7,399,361
Loan granting commitments	9,851,597	8,494,747
Commitments for cheque payments	2,154,102	1,805,569
Asset purchase sale commitments	2,864,752	3,843,373
Other	2,184,230	1,507,923
Total	25,737,516	23,050,973

Type and amount of possible losses from off-balance sheet items

Guarantees, bills of exchange and acceptances and other letters of credit which can be counted as financial collateral

The Parent Bank provided specific provision amounting to TL 165,159 (December 31, 2015: TL 97,721) for non-cash loans that are not indemnified or converted to cash recorded under off-balance sheet items, amounting to TL 59,816 (December 31, 2015: TL 40,930).

Final guarantees, provisional guarantees, sureties and similar transactions

	Current Period	Prior Period
Final letters of guarantee	11,547,141	9,289,202
Letters of guarantee for advances	4,843,148	3,438,136
Letters of guarantee given to custom offices	1,059,516	1,030,530
Provisional letters of guarantee	994,372	935,981
Other letters of guarantee	13,872,150	12,103,744
Total	32,316,327	26,797,593

2. Non-cash loans

	Current Period	Prior Period
Non-cash loans given for cash loan risks	2,788,811	2,899,661
With original maturity of 1 year or less	1,126,734	1,176,515
With original maturity of more than 1 year	1,662,077	1,723,146
Other non-cash loans	37,871,540	30,220,240
Total	40,660,351	33,119,901

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3. Sectoral risk concentrations of non-cash loans

	Current Period				Prior Period			
	TL	%	FC	%	TL	%	FC	%
Agricultural	81,809	0.30	382,403	2.79	87,249	0.39	132,021	1.20
Farming and cattle	69,203	0.26	378,930	2.76	82,686	0.37	132,021	1.20
Forestry	11,601	0.04	3,473	0.03	3,528	0.02	-	-
Fishing	1,005	-	-	-	1,035	-	-	-
Manufacturing	10,907,710	40.35	7,157,290	52.18	9,811,692	44.34	5,696,876	51.82
Mining	1,157,275	4.29	144,199	1.05	1,252,878	5.66	106,628	0.97
Production	6,697,549	24.73	6,606,838	48.17	5,526,001	24.97	5,309,883	48.30
Electric, gas and water	3,052,886	11.33	406,253	2.96	3,032,813	13.71	280,365	2.55
Construction	4,216,428	15.77	2,323,864	16.96	3,374,531	15.25	2,224,897	20.24
Services	9,412,571	34.94	2,602,185	18.97	8,030,112	36.30	2,523,158	22.95
Wholesale and retail trade	4,056,016	15.05	1,556,974	11.35	3,444,760	15.57	1,584,849	14.41
Hotel, food and beverage services	112,775	0.42	663	-	110,961	0.50	1,778	0.02
Transportation and								
Telecommunication	1,330,694	4.94	876,095	6.39	1,172,317	5.30	736,976	6.70
Financial institutions	2,492,659	9.25	66,679	0.49	2,090,603	9.45	38,056	0.35
Real estate and renting services	358,074	1.33	28,456	0.21	325,256	1.47	33,758	0.31
Self-employment services	700,053	2.60	66,033	0.48	610,338	2.76	110,414	1.00
Education services	18,627	0.07	1,588	0.01	23,752	0.11	4,018	0.04
Health and social services	343,673	1.28	5,697	0.04	252,125	1.14	13,309	0.12
Other	2,327,606	8.64	1,248,485	9.10	822,779	3.72	416,586	3.79
Total	26,946,124	100.00	13,714,227	100.00	22,126,363	100.00	10,993,538	100.00

4. Information on the non-cash loans classified as first and second group

Current Period	Group I		Group II	
	TL	FC	TL	FC
Letters of guarantee	26,226,670	5,580,727	308,947	45,257
Confirmed bills of exchange and acceptances	53,702	1,142,668	-	272
Letters of credit	1,762	6,887,315	-	16,960
Endorsements	-	-	-	-
Purchase guarantees for securities issued	-	-	-	-
Factoring guarantees	202,668	7,682	-	-
Other guarantees and sureties	-	20,562	-	-
Total Non-Cash Loans	26,484,802	13,638,954	308,947	62,489

Prior Period	Group I		Group II	
	TL	FC	TL	FC
Letters of guarantee	21,714,478	4,793,867	173,386	20,949
Confirmed bills of exchange and acceptances	86,762	1,388,757	-	-
Letters of credit	16,306	4,761,086	-	11,317
Endorsements	-	-	-	-
Purchase guarantees for securities issued	-	-	-	-
Factoring guarantees	42,526	2,224	-	-
Other guarantees and sureties	-	10,522	-	-
Total Non-Cash Loans	21,860,072	10,956,456	173,386	32,266

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5. Information on derivative transactions

	Current Period	Prior Period
Trading Derivatives		
Foreign Currency Related Derivative Transactions (I)	39,674,975	28,241,368
Currency Forwards	1,615,985	468,760
Currency Swaps	37,185,682	27,259,078
Currency Futures	-	-
Currency Options	873,308	513,530
Interest Rate Derivative Transactions (II)	17,066,824	13,313,758
Interest Rate Forwards	-	-
Interest Rate Swaps	17,066,824	13,313,758
Interest Rate Options	-	-
Securities Call Put Options	-	-
Interest Rate Futures	-	-
Other Trading Derivatives (III)	11,037,611	8,954,555
A. Total Trading Derivatives (I+II+III)	67,779,410	50,509,681
Hedging Derivatives		
Fair Value Hedges	-	-
Cash Flow Hedges	-	-
Hedges for Foreign Currency Investments	-	-
B. Total Hedging Derivatives	-	-
Derivative Transactions (A+B)	67,779,410	50,509,681

31 December 2016

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	Total
Currency swaps:						
Purchase	8,131,383	4,142,976	59,393	333,432	-	12,667,184
Sale	5,967,447	3,320,505	57,412	406,566	-	9,751,930
Currency forwards:						
Purchase	91,264	240,192	436,920	39,781	-	808,157
Sale	91,595	240,137	436,440	39,656	-	807,828
Cross currency interest rate swaps:						
Purchase	-	-	826,025	7,055,829	-	7,881,854
Sale	-	-	434,479	6,450,235	-	6,884,714
Interest rate swaps:						
Purchase	-	-	1,231,927	3,384,843	3,916,642	8,533,412
Sale	-	-	1,231,927	3,384,842	3,916,643	8,533,412
Options:						
Purchase	407,926	20,002	-	-	-	427,928
Sale	424,764	20,616	-	-	-	445,380
Other trading derivatives:						
Purchase	70,300	210,900	246,049	1,922,502	1,883,038	4,332,789
Sale	2,700,249	1,037,023	215,525	1,521,775	1,230,250	6,704,822
Total purchases	8,700,873	4,614,070	2,800,314	12,736,387	5,799,680	34,651,324
Total sales	9,184,055	4,618,281	2,375,783	11,803,074	5,146,893	33,128,086
Total	17,884,928	9,232,351	5,176,097	24,539,461	10,946,573	67,779,410

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	31 December 2015					Total
	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 Years and Over	
Currency swaps:						
Purchase	10,038,294	3,520,445	242,757	-	-	13,801,496
Sale	4,394,944	3,535,470	251,525	-	-	8,181,939
Currency forwards:						
Purchase	21,330	60,137	107,684	45,556	-	234,707
Sale	21,304	60,054	107,359	45,336	-	234,053
Cross currency interest rate swaps:						
Purchase	-	-	186,709	2,732,075	-	2,918,784
Sale	-	-	120,583	2,236,276	-	2,356,859
Interest rate swaps:						
Purchase	-	-	218,250	2,763,121	3,675,508	6,656,879
Sale	-	-	218,250	2,763,121	3,675,508	6,656,879
Options:						
Purchase	229,308	13,086	8,586	-	-	250,980
Sale	239,124	13,526	9,900	-	-	262,550
Other trading derivatives:						
Purchase	-	-	625,650	-	1,247,145	1,872,795
Sale	5,597,158	-	611,602	-	873,000	7,081,760
Total purchases	10,288,932	3,593,668	1,389,636	5,540,752	4,922,653	25,735,641
Total sales	10,252,530	3,609,050	1,319,219	5,044,733	4,548,508	24,774,040
Total	20,541,462	7,202,718	2,708,855	10,585,485	9,471,161	50,509,681

6. Contingent assets and liabilities

Group allocates TL 7,662 as provision for lawsuits against the Group (December 31, 2015: TL 9,316).

7. Services rendered on behalf of third parties

The Parent Bank acts as an investment agent for banking transactions on behalf of its customers and provides custody services. Such transactions are followed under off-balance sheet accounts. The Parent Bank's custody services and banking transactions on behalf of individuals and corporate customers do not present a material portion.

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IV. INFORMATION ON DISCLOSURES RELATED TO THE CONSOLIDATED STATEMENT OF INCOME

1. Interest income

Information on interest income received from loans

	Current Period		Prior Period	
	TL	FC	TL	FC
Short-term loans	4,375,361	207,352	3,425,419	164,210
Medium and long-term loans	7,535,971	1,880,672	6,368,458	1,501,065
Non-performing loans	269,572	-	139,185	-
Premiums received from resource utilization support fund	-	-	-	-
Total	12,180,904	2,088,024	9,933,062	1,665,275

Information on interest income received from banks

	Current Period		Prior Period	
	TL	FC	TL	FC
Central Bank of Republic of Turkey	-	198	-	-
Domestic Banks	95,516	1,851	68,564	881
Foreign Banks	342	23,274	322	8,957
Foreign Head Office and Branches	-	-	-	-
Total	95,858	25,323	68,886	9,838

Information on interest income received from marketable securities portfolio

	Current Period		Prior Period	
	TL	FC	TL	FC
Financial assets held for trading	7,891	1055	5,782	993
Financial assets where fair value change is reflected to income statement	-	-	-	-
Financial assets available for sale	1,225,597	287,852	1,158,698	250,891
Investments held to maturity	706,281	1,463	655,344	500
Total	1,939,769	290,370	1,819,824	252,384

Information on interest income received from associates and subsidiaries

	Current Period	Prior Period
Interest Received from Associates and Subsidiaries	8	2

2. Interest Expense

Interest expense on funds borrowed

	Current Period		Prior Period	
	TL	FC	TL	FC
Banks	134,386	329,113	94,417	239,603
Central Bank of Republic of Turkey	-	-	-	-
Domestic Banks	59,952	19,416	54,053	11,687
Foreign Banks	74,434	309,697	40,364	227,916
Foreign Head Offices and Branches	-	-	-	-
Other Institutions	-	44,617	-	28,480
Total	134,386	373,730	94,417	268,083

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Interest expense paid to associates and subsidiaries

	Current Period	Prior Period
Interests paid to the associates and subsidiaries	24,678	16,091

Interest expense on securities issued

As at and for the year ended at December 31, 2016, interest paid to securities issued is TL 691,897 (December 31, 2015: TL 595,176).

	Current Period		Prior Period	
	TL	FC	TL	FC
Interest expense on securities issued	321,968	369,929	273,381	321,795

Maturity structure of the interest expense on deposits

Current Period	Demand Deposits	Up to 1 Month	Up to 3 Months	Time Deposits			Cumulative deposit	Total
				Up to 6 Months	Up to 1 Year	More than 1 Year		
TL								
Interbank deposits	-	50,936	124,957	-	5,449	12,337	-	193,679
Saving deposits	-	60,356	2,763,745	172,556	29,617	12,540	-	3,038,814
Public sector deposits	22,342	356,076	662,052	62,623	179,128	21,863	-	1,304,084
Commercial deposits	89	412,802	938,081	140,868	15,856	450	-	1,508,146
Other deposits	4	89,305	324,753	91,558	7,164	1,849	-	514,633
Deposits with 7 days notification	-	-	-	-	-	-	-	-
Total	22,435	969,475	4,813,588	467,605	237,214	49,039	-	6,559,356
FC								
Foreign Currency deposits	24,182	25,417	410,909	31,379	19,459	98,917	-	610,263
Interbank deposits	663	1,730	12,364	2,147	1,184	7,060	-	25,148
Deposits with 7 days notification	-	-	-	-	-	-	-	-
Precious metal deposits	-	-	-	-	-	-	-	-
Total	24,845	27,147	423,273	33,526	20,643	105,977	-	635,411
Grand Total	47,280	996,622	5,236,861	501,131	257,857	155,016	-	7,194,767
Prior Period								
TL								
Interbank deposits	-	76,403	51,103	46,028	-	-	-	173,534
Saving deposits	-	41,192	2,043,895	111,066	26,299	10,482	-	2,232,934
Public sector deposits	13,522	261,548	637,109	60,262	251,165	15,948	-	1,239,554
Commercial deposits	118	407,439	1,042,271	44,640	14,516	423	-	1,509,407
Other deposits	1	80,376	305,671	27,244	7,628	1,488	-	422,408
Deposits with 7 days notification	-	-	-	-	-	-	-	-
Total	13,641	866,958	4,080,049	289,240	299,608	28,341	-	5,577,837
FC								
Foreign Currency deposits	23,493	37,718	300,902	33,598	21,808	105,486	-	523,005
Interbank deposits	96	93	1,883	308	12,111	366	-	14,857
Deposits with 7 days notification	-	-	-	-	-	-	-	-
Precious metal deposits	-	-	-	-	-	-	-	-
Total	23,589	37,811	302,785	33,906	33,919	105,852	-	537,862
Grand Total	37,230	904,769	4,382,834	323,146	333,527	134,193	-	6,115,699

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3. Dividend Income

	Current Period	Prior Period
Trading Purpose Financial Assets	73	27
Financial Assets at Fair Value through Profit or Loss	-	-
Available-for-Sale Financial Assets	22,443	89
Others	39,220	37,053
Total	61,736	37,169

4. Information on trading income/losses

	Current Period	Prior Period
Income	9,373,771	6,526,873
Income from capital market operations	3,246,495	2,489,490
Income from derivative financial instruments	3,364,513	1,588,784
Foreign exchange gains	2,762,763	2,448,599
Losses	(8,868,733)	(6,386,942)
Loss from capital market operations	(3,222,444)	(2,442,729)
Loss from derivative financial instruments	(3,009,715)	(1,617,913)
Foreign exchange loss	(2,636,574)	(2,326,300)
Net trading profit/loss	505,038	139,931

Net profit arising from changes in foreign exchange rate that relate to the Group's derivative financial instruments based on foreign exchange rate is TL 345,690 as at and for the year ended December 31, 2016 (December 31, 2015: net loss of TL 31,762).

5. Other operating income

	Current Period	Prior Period
Income from reversal of the specific provisions for loans from prior periods	668,315	763,294
Earned insurance premiums (net of reinsurance share)	892,467	767,881
Communication income	40,316	50,723
Gain on sale of assets ^(*)	165,307	109,681
Income from private pension business	78,307	64,583
Rent income	987	80,490
Other income	158,637	199,996
Total	2,004,336	2,036,648

^(*) Group Bank's share of TL 63,687 cash payment due to the Visa Europe Ltd's transfer to the Visa Inc. which operates in the same business has been presented in the Gain on sale of the Group's assets line on the information on other operating income table.

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6. Provision expenses for losses on loans and other receivables

	Current Period	Prior Period
Specific provisions on loans and other receivables	1,963,013	1,085,809
<i>Loans and receivables in Group III</i>	743,731	339,638
<i>Loans and receivables in Group IV</i>	526,966	449,252
<i>Loans and receivables in Group V</i>	692,316	296,919
Non-performing commissions and other receivables	-	-
General provision expenses	213,855	354,951
Provision for possible losses	-	-
Impairment losses on securities	4,688	3,459
<i>Trading securities</i>	6	16
<i>Investment securities available-for-sale</i>	4,682	3,443
Impairment losses from associates, subsidiaries, joint ventures and marketable securities held to maturity	25,297	24,337
<i>Associates</i>	-	-
<i>Subsidiaries</i>	-	-
<i>Joint ventures</i>	-	-
<i>Investment securities held-to-maturity</i>	25,297	24,337
Other ⁽¹⁾	126,756	167,304
Total	2,333,609	1,635,860

⁽¹⁾ Other provision expenses amounting to TL 126,756 (December 31, 2015: TL 167,304) is comprised of provision for non-cash loans that are not indemnified or converted into cash and provision for cheques amounting to TL 44,085 (December 31, 2015: TL 41,616), other provision expenses related to loans amounting to TL 22,896 (December 31, 2015: TL 82,415) and other provision expenses amounting to TL 59,775 (December 31, 2015: TL 43,273).

7. Other operating expenses

	Current Period	Prior Period
Personnel costs	1,663,884	1,539,206
Reserve for employee termination benefits	30,847	27,419
Provision for deficit in pension funds	-	-
Impairment losses on tangible assets	-	6,475
Depreciation expenses on tangible assets	140,921	133,210
Impairment losses on intangible assets	409	-
Amortization expenses on intangible assets	25,756	20,994
Impairment losses on assets to be disposed	5,278	5,747
Depreciation expenses on assets to be disposed	19,723	15,291
Impairment losses on assets held for sale	-	-
Other operating expenses	1,984,578	2,046,058
<i>Operational lease related expenses</i>	232,514	214,645
<i>Repair and maintenance expenses</i>	52,947	41,636
<i>Advertisement expenses</i>	94,760	82,270
<i>Other expenses</i>	1,604,357	1,707,507
Loss on sale of assets	3,351	1,231
Other ⁽¹⁾	1,031,957	1,021,447
Total	4,906,704	4,817,078

⁽¹⁾ Other operating expenses amounting to TL 1,031,957 (December 31, 2015: TL 1,021,447) is comprised of provision expenses for dividends to the personnel amounting to TL 147,970 (December 31, 2015: TL 144,017), tax, fees and funds expenses amounting to TL 141,588 (December 31, 2015: TL 125,706), Saving Deposits Insurance Fund expenses amounting to TL 138,469 (December 31, 2015: TL 115,916), Compensation pensions amounting to TL 47,034 (December 31, 2015: TL 46,802), cumulative/noncumulative commission expenses amounting to TL 79,694 (December 31, 2015: TL 8,119), production commission expenses to TL 240,676 (December 31, 2015: TL 239,952) and other expenses amounting to TL 236,526 (December 31, 2015: TL 340,935).

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8. Information on income/loss from discontinued and continuing operations

Information and detailed tables on profit before tax from continuing operations are presented in disclosures 1-7 in this section. The Group has no discontinued operations.

9. Information on tax provision from discontinued and continuing operations

Information on provision for taxes on income from continuing operations is presented in disclosure 11 in this section. The Group has no discontinued operations.

10. Information on net profit/loss from discontinued and continuing operations

Information on net profit/loss from continuing operations is presented in disclosures 1-12 in this section. The Group has no discontinued operations.

11. Provision for taxes

Current year taxation benefit or charge and deferred tax benefit or charge

In the current period, the Group recorded a tax provision of TL 709,347 (December 31, 2015: TL 417,396) from the operating profit in accordance with the Corporate Tax Law and other laws and regulations.

Deferred tax charge arising from temporary differences, tax losses and unused tax credits

Sources of deferred tax benefit/charge	Current Period	Prior Period
Arising from Origination/ (Reversal) of Deductible Temporary Differences	26,473	(33,782)
Arising from (Origination)/ Reversal of Taxable Temporary Differences	(8,919)	(75,933)
Arising from Origination/ (Reversal) of Tax Losses	-	-
Arising from Tax Rate Change	-	-
Total	17,554	(109,715)

12. Net profit and loss

The nature and amount of certain income and expense items from ordinary operations is disclosed if the disclosure for nature, amount and repetition rate of such items is required for the complete understanding of the Group's performance for the period

Group has incurred TL 16,964,189 interest income and TL 9,727,956 interest expense, also incurred TL 912,483 amount of net fee and commission income from its ordinary banking operations (December 31, 2015: TL 13,973,432 interest income, TL 8,238,164 interest expense, TL 870,329 net fee and commission income).

Any changes in estimations, that might have a material effect on current and subsequent period, is indicated

None.

13. Income/loss related to non-controlling interest

	Current Period	Prior Period
Income/(losses) related to non-controlling interest	2,528	(74,675)

14. Information related to the sub-accounts which constitute at least 20% of other items, in case of the components of other items in the income statement exceeding 10% of the group total

Other fees and commission income of the Group mainly consist of credit card fees and commissions, money transfer commissions, research fees.

Other fees and commission expenses of the Group mainly consist of credit card fees and commissions, commission paid for funds borrowed from foreign banks.

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V. INFORMATION AND DISCLOSURES RELATED TO STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY

1. Information on increases that occur after revaluation of available-for-sale investments

Movement tables related to revaluation differences of available-for-sale investments where valuation differences arising from the fair value measurement of available-for-sale assets, subsidiaries and affiliates are recorded are as follows:

Valuation Differences of Marketable Securities	Current Period	Prior Period
Valuation differences at the beginning of the year	(9,331)	459,241
Fair value changes in the current year	(227,237)	(630,217)
Valuation differences transferred to the statement of income	(6,970)	45,131
Effect of deferred and corporate taxes	48,081	116,514
Valuation differences at the end of the year	(195,457)	(9,331)

Valuation Difference of the Subsidiaries and Affiliates	Current Period	Prior Period
Valuation differences at the beginning of the year	39,342	62,289
Fair value changes in the current year	26,317	(24,585)
Valuation differences transferred to the statement of income	-	-
Effect of deferred and corporate taxes	(1,371)	1,638
Valuation differences at the end of the year	64,288	39,342

2. Information on increases in cash flow hedges

None.

3. Reconciliation of the beginning and end of the year balances of foreign exchange differences

As of December 31, 2016, foreign currency translation differences of TL 59,217 (December 31, 2015: TL 42,762), which occurred from converting abroad subsidiaries’ financial statements to TL for consolidation purpose, is accounted under other reserves in the enclosed consolidated financial statements.

4. Information on correction differences of shareholders’ equity accounts due to inflation

In compliance with BRSA’s Circular on 28 April 2005 on ceasing the inflation accounting application, the balances resulted from the inflation accounting application as at 31 December 2004 and booked according to the Uniform Chart of Accounts and the related Articles, are transferred to the main accounts that were subject to the inflation accounting adjustments except for “capital reserves from inflation adjustments”. The balance of “capital reserves from inflation adjustments” account is transferred to “other capital reserves” account. In 2006, the Bank has increased its paid in capital through “other capital reserves” by TL 605,763.

5. Information on profit distribution

As per the resolution of 62 Annual General Assembly held on 29 March 2016, the net profit of the year 2015 which amounts to TL 1,930,109 after deferred tax income deducted is decided to be distributed as legal reserves amounting to TL 193,012, extraordinary reserves amounting to TL 1,635,437, special funds amounting to TL 1,660 and dividends to equity holders of the Parent Bank amounting to TL 100,000.

6. Information on decreases of revaluation of available-for-sale investments

Revaluation differences of available-for-sale investments has resulted with increase in the current year. Detailed information about the increases is explained above in Note 1.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS FINANCIAL SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

VI. INFORMATION AND DISCLOSURES ON STATEMENT OF CASH FLOWS

1. Disclosures for "other" items in statement of cash flows and effect of change in foreign currency rates cash and cash equivalents

Other" item under the "operating profit before changes in operating assets and liabilities" amounting to TL (2,889,842) (December 31, 2015: TL (2,899,768)) is comprised of other operating expense in the balance sheet, fees and commission expense, and cash amount of trading profit/loss.

"Net increase/decrease in other liabilities" amounting to TL 779,053 (December 31, 2015: TL (2,436,988)) under "changes in operating assets and liabilities" is mainly comprised of find based cash outflows from repurchase agreements.

"Other" balance under "net cash flow from investing activities" amounting to TL (56,519) (December 31, 2015: TL (51,353)) is comprised of purchases of intangible assets.

When calculating exchange rate effect on cash and cash equivalents, related assets' high turnover rate are taken into consideration. Each exchange rate's arithmetic average of the last five days before the report date and provision of average TL that is calculated from the difference from current period's exchange rate are reflected as an effect of exchange rate change on the cash flow statement. Except for the above-mentioned, banks that have less than three months to maturity are accepted as cash equivalents and average TL provision is calculated by difference between related operation's per term exchange rate and current period's exchange rate. As of December 31, 2016 impact of the exchange rate change on cash and cash equivalents is TL 53,516 (December 31, 2015: TL (30,472)).

2. Cash flows from acquisition of associates, subsidiaries and joint-ventures

There is not any cash flow that is related with Bank's subsidiaries in the current and previous periods.

3. Cash flows from the disposal of associates, subsidiaries and joint-ventures

There is no disposal in associates, subsidiaries and joint-ventures in the current year.

4. Information on cash and cash equivalents

Information on cash and cash equivalents at the beginning of the year

	Prior Period December 31, 2015	Prior Period December 31, 2014
Cash on hand	1,439,972	1,376,838
Cash in TL	1,162,866	1,014,282
Cash in foreign currency	277,106	362,556
Cash equivalents	7,617,155	7,814,067
CBRT	19,834,346	20,440,692
Banks	6,176,019	3,568,508
Receivables from money markets	6,699	9,502
Other	215,596	73,551
Loans and advances to banks having maturity of more than 3 months	(90,084)	(6,045)
Restricted cash and cash equivalents	(18,518,574)	(16,266,786)
Unrealized foreign exchange rate differences on cash equivalents	(6,847)	(5,355)
Total	9,057,127	9,190,905

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS FINANCIAL SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Information on cash and cash equivalents at the end of the year

	Current Period December 31, 2016	Prior Period December 31, 2015
Cash on hand	1,789,993	1,439,972
Cash in TL	1,285,044	1,162,866
Cash in foreign currency	504,949	277,106
Cash equivalents	10,631,411	7,617,155
CBT - Unrestricted demand deposit	22,325,509	19,834,346
Banks	5,275,489	6,176,019
Receivables from money markets	5,232	6,699
Other	253,813	215,596
Loans and advances to banks having maturity of more than 3 months	(97,573)	(90,084)
Restricted cash and cash equivalents	(17,124,659)	(18,518,574)
Unrealized foreign exchange rate differences on cash equivalents	(6,400)	(6,847)
Total	12,421,404	9,057,127

5. Management comment on restricted cash and cash equivalents due to legal requirements or other reasons taking materiality principle into account

Reserve requirements at CBRT amounting to TL 16,815,760 as at December 31, 2016 (December 31, 2015: TL 18,441,256) has not been included in cash and cash equivalents.

Deposits of the Group amounting to TL 308,711 (December 31, 2015: TL 77,318) is blocked due to securitization loans and other ordinary operations of the Group.

VII. INFORMATION AND DISCLOSURES RELATED TO THE PARENT BANK'S RISK GROUP

1. Information on the volume of transactions with the Parent Bank's risk group, lending and deposits outstanding at year end and income and expenses in the current year

Information on loans and other receivables held by Parent Bank's risk group

Current Period	Associates and Subsidiaries and Joint-Ventures		Bank's Direct and Indirect Shareholders		Other Components in Risk Group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables						
Balance at the beginning of the year	1,071	811,349	-	28,550	822	15,858
Balance at the end of the year	10	1,024,338	-	31,720	37,507	22,446
Interest and commission income	8	651	-	32	424	105
Prior Period	Associates and Subsidiaries and Joint-Ventures		Bank's Direct and Indirect Shareholders		Other Components in Risk Group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables						
Balance at the beginning of the year	16	657,200	-	10,174	6,239	13,086
Balance at the end of the year	1,071	811,349	-	28,550	822	15,858
Interest and commission income	2	388	-	29	94	17

Information on deposits held by the Parent Bank's risk group

The Parent Bank's Risk Group	Associates and Subsidiaries and Joint-Ventures		Bank's Direct and Indirect Shareholders		Other Components in Risk Group	
	Current Period	Prior Period	Current Period	Prior Period	Current Period	Prior Period
Deposits						
Balance at the beginning of the year	475,233	187,127	740,156	713,966	104,508	115,831
Balance at the end of the year	661,402	475,233	977,319	740,156	164,132	104,508
Interest on deposits	24,678	16,091	46,267	45,805	288	1,005

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

Information on forwards, options and other derivative transactions held by the Parent Bank's risk group

None.

2. Disclosures of transactions with the Parent Bank's risk group

Relations with entities in the risk group of / or controlled by the Parent Bank regardless of the nature of relationship among the parties

Transactions with the risk group are made on an arms-length basis; terms are set according to the market conditions and in compliance with the Banking Law.

The branches of the Bank are agencies of Güneş Sigorta A.Ş. and Vakıf Emeklilik A.Ş.. Vakıf Yatırım Menkul Değerler A.Ş. engages with the management of the funds established by the Bank.

In addition to the structure of the relationship, type of transaction, amount, and share in total transaction volume, amount of significant items, and share in all items, pricing policy and other

The pricing of transactions with the risk group companies is set in compliance with the market prices. The ratio of cash and non-cash loans extended to the risk group to the overall cash and non-cash loans are 0.025 (December 31, 2015: 0.001) and 2.652 (December 31, 2015: 2.584) respectively.

Current Period	Amount	Compared with the
		Financial Statement
		Amount %
Cash Loans	37,517	0.025
Non-Cash Loans	1,078,504	2.652
Deposits	1,802,853	1.428
Forward and Option Agreements	-	-

Prior Period	Amount	Compared with the
		Financial Statement
		Amount %
Cash Loans	1,893	0.001
Non-Cash Loans	855,757	2.584
Deposits	1,319,897	1.178
Forward and Option Agreements	-	-

VIII. INFORMATION ON DOMESTIC, FOREIGN AND OFF-SHORE BRANCHES OR INVESTMENTS AND FOREIGN REPRESENTATIVE OFFICES OF THE PARENT BANK

Domestic and foreign branches and representative offices

	Number of Branches	Number of Employees		Total Assets	Capital
Domestic Branches ⁽¹⁾	921	15,574			
			Country		
Foreign Representative Offices					
Foreign Branches	1	22	USA	5,066,689	57,998
	1	15	Iraq	242,071	24,605
Off-shore Branches	1	4	Bahrain	12,040,864	-

⁽¹⁾ Free zone branches in Turkey is included to domestic branches.

Opening or closing of domestic and foreign branches and representative offices and significant changes in organizational structure

During 2016, 8 new domestic branches (2015: 27 domestic branches) have been opened and 4 have been closed (2015: None).

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS FINANCIAL SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

SECTION SIX OTHER DISCLOSURES AND FOOTNOTES

I. OTHER DISCLOSURES ON THE PARENT BANK'S ACTIVITY

As per the resolution of 62nd Annual General Assembly held on 29 March 2016, the net profit of year 2015 has been decided to be distributed as follows:

	Profit Distribution Table of Year 2015
Bank's unconsolidated profit in its statutory financial statements	1,930,109
Net profit of the year subject to distribution	1,930,109
Legal reserves	193,012
<i>First Legal Reserves</i>	96,506
<i>Reserves allocated according to banking law and articles of association.</i>	96,506
Net profit of the year subject to distribution	1,737,097
Gain on sale of immovable and shares of associates and subsidiaries	1,660
Extraordinary reserves	1,635,437
Dividends to shareholders	100,000

II. INFORMATION ON THE PARENT BANK'S RATING GIVEN BY INTERNATIONAL CREDIT RATING INSTITUTIONS

February 2017 ^(*)	Fitch Ratings
Long Term Foreign Currency	BB+
Short Term Foreign Currency	B
Foreign Currency Outlook	Stable
Long Term Local Currency	BBB-
Short Term Local Currency	F3
Local Currency Outlook	Stable
National Long Term	AAA (tur)
National Outlook	Stable
Support	3
Support Rating Floor	BB+
Viability Note	bb+
October 2016 ^(*)	Moody's Investors' Service
Baseline Credit Assessment	ba2
Local Currency Deposit Rating	Ba1/NP
Local Currency Outlook	Stable
Foreign Currency Deposit Rating	Ba2/NP
Foreign Currency Outlook	Stable
February 2017 ^(*)	Standard&Poors
Foreign Currency Counterparty Credit Rating	BB/B
Foreign Currency Outlook	Negative
Local Currency Counterparty Credit Rating	BB/B
Local Currency Outlook	Negative
Turkey National Scale	trAA- / trA-1

^(*) Dates represent last report dates.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS FINANCIAL SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2016

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III. SIGNIFICANT EVENTS AND MATTERS SUBSEQUENT TO BALANCE SHEET DATE THAT ARE NOT RESULTED

The Parent Bank bonds of which value date are January 20, 2017 have been issued and offered to public through book-building totally 400 million (Full TL) on January 16-17-18, 2017, amounting TL 300 million (Full TL) with 126 days maturity and maturity date of which is May 26, 2017, amounting TL 100 million (Full TL) with 217 days maturity and maturity date of which is August 25, 2017.

The Parent Bank bond with the ISIN Code TRQVKFB51735 which has 11.2893% annual compound interest, 10.8962% simple interest and issue price was TL 96,375 with amounting TL 313,381,865 (Full TL) with 126 days maturity and maturity date of which is May 26, 2017.

The Parent Bank bond with the ISIN Code TRQVKFB81716 which has 11.3701% annual compound interest, 11.1210% simple interest and issue price was TL 93,798 with amounting TL 20,354,023 (Full TL) with 217 days maturity and maturity date of which is August 25, 2017.

In 2012, the Parent Bank carried out the sale of bond issued abroad with a maturity of 2022 maturities of USD 900 million. Regulations and amendments made within the scope of BRSA's Regulation on Equities of Banks have made it possible to comply with Basel III regulations in the capital adequacy calculations of banks as contributions capital. In this context, the effect on the capital of the Bank which has issued Basel II compliant subordinated loan provisions issued in 2012 has decreased.

In this context, the operational process of the swap transaction of bonds with a total nominal value of USD 227,605,000 which issued abroad, with the new Basel III compliant conditions, was completed on 13 February 2017 and the redemption date of the bonds to be exchanged was determined as November 1, 2027, with a maturity of 10 years (recall option in 2022) and coupon rate as 8.00%.

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE NOTE I. OF SECTION THREE

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(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

SECTION SEVEN INDEPENDENT AUDITORS’ AUDIT REPORT

I. INFORMATION ON INDEPENDENT AUDITORS’ REPORT

The consolidated financial statements and footnotes of the Bank and its financial subsidiaries as at and for the year ended December 31, 2016 have been audited by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ. It was noted in their review report dated 9 August 2016 that nothing material has come to their attention that caused them to believe that the accompanying consolidated financial statements do not give a true and fair view of the Group’s financial position and results of its operations as at and for the year ended December 31, 2016.

II. EXPLANATIONS AND FOOTNOTES PREPARED BY INDEPENDENT AUDITOR

There are no significant issues and necessary disclosures and footnotes related to the activities of the Bank that are not mentioned in the above sections.

EVALUATION OF THE BANK'S FINANCIAL POSITION, PROFITABILITY AND SOLVENCY

Acting with the vision of becoming its region's most preferred bank that creates value, VakıfBank continues its services with its 15,615 employees in its 924 branches as of year-end 2016.

ASSESSMENT ON THE ASSETS

VakıfBank continued the growth in its assets also in 2016 while its assets increased by 16.18% compared to the previous year-end and reached TL 212,540 million. When we examine the structure of the total assets we see that total loans with 68.98% share are the most important item in the assets. In 2016, VakıfBank's performing loans, the fundamental intermediary function in the banking sector, increased by 19.23% and reached TL 146,619 million. Some 72.01% of total performing loans are composed of commercial loans while 27.99% is composed of personal loans. VakıfBank increased its commercial loans by 22.25% while increasing personal loans by 12.09%. When we examine the structure of personal loans, we see that mortgage loans increased by 12.35% while auto loans increased by 11.63%, and general consumer loans increased by 11.63%.

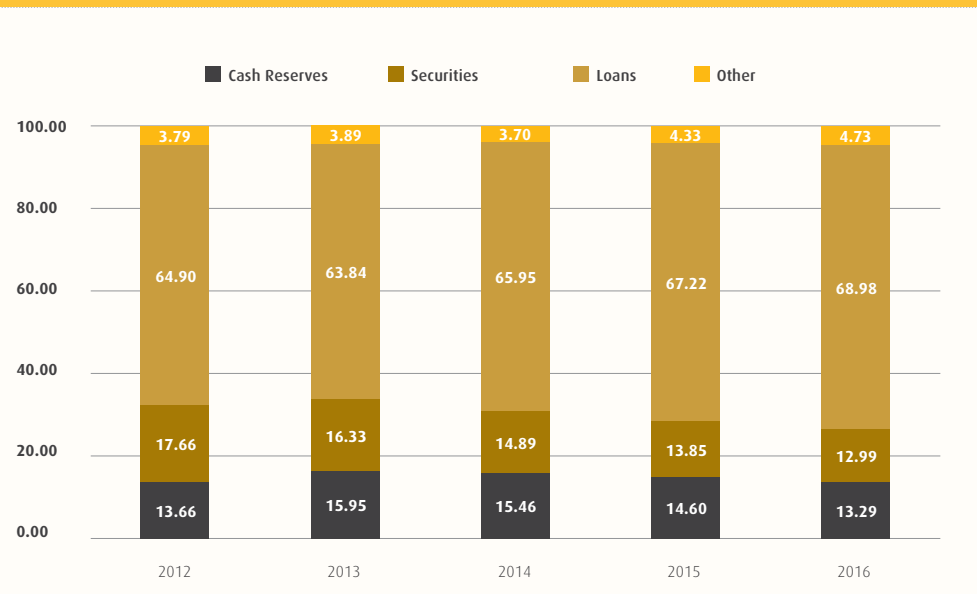
In 2016, VakıfBank's non-performing loans ratio was 4.19%. In the same period, VakıfBank's securities portfolio increased by 8.97% and reached TL 27.611 million. The share of the securities portfolio in the assets is 12.99%.

ASSESSMENT ON THE LIABILITIES

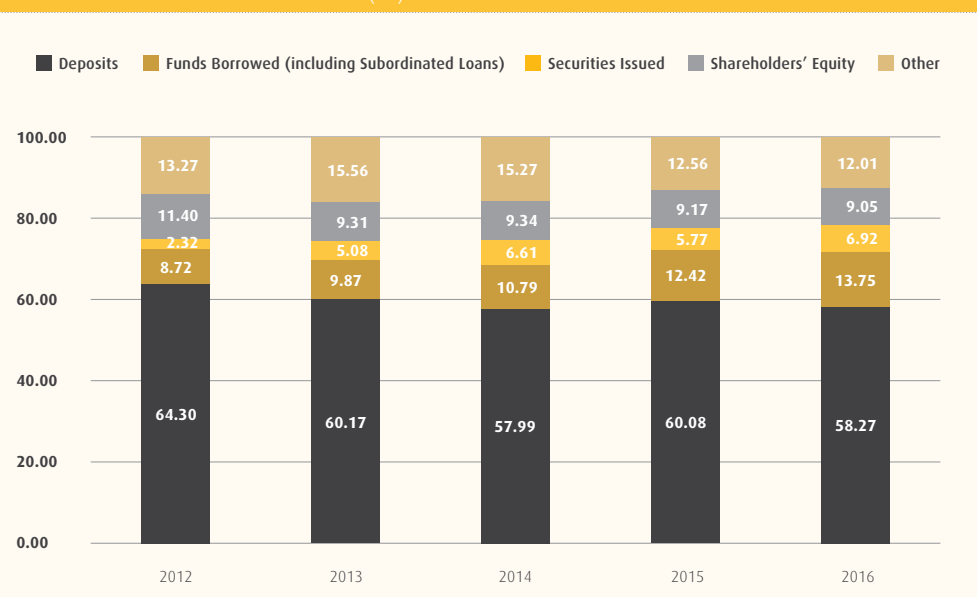
In 2016, while VakıfBank's total liabilities increased by 16.18%, the increase in deposits was 12.66%. The share of deposits in total liabilities amounted to 58.27%. The most important item in the funding structure is deposits amounting to TL 123,838 as of year-end 2016. Some 80.27% of the deposits are term deposits while 19.73% is demand deposits.

Diversifying the sources of funds and performing effective cost management, VakıfBank increased the securities issued to TL 14,708 million. The local and foreign investors' demand for the securities issued by the Bank, made a contribution to the diversification of funding sources and the extension of the maturity structure.

DISTRIBUTION OF ASSETS (%)



DISTRIBUTION OF LIABILITIES (%)



In 2016, VakıfBank’s shareholder’s equity increased by 14.74% compared to the previous year end and reached TL 19,239 million. Moreover, the share of equity in the assets was 9.05%.

ASSESSMENT ON PROFITABILITY

In 2016, VakıfBank’s net period profit reached TL 2,703 million increasing by 40.05% compared to the previous year end. In the same period, VakıfBank’s interest revenue reached TL 16,558 million while the interest expense was TL 9,591 million. Furthermore, VakıfBank’s net interest revenue was TL 6,967 million. Compared to the previous period, the interest revenue increased by 21.48% while the interest expense was increasing by 17.77%. Thus, the ratio of interest revenue to interest expenses was 172.64%.

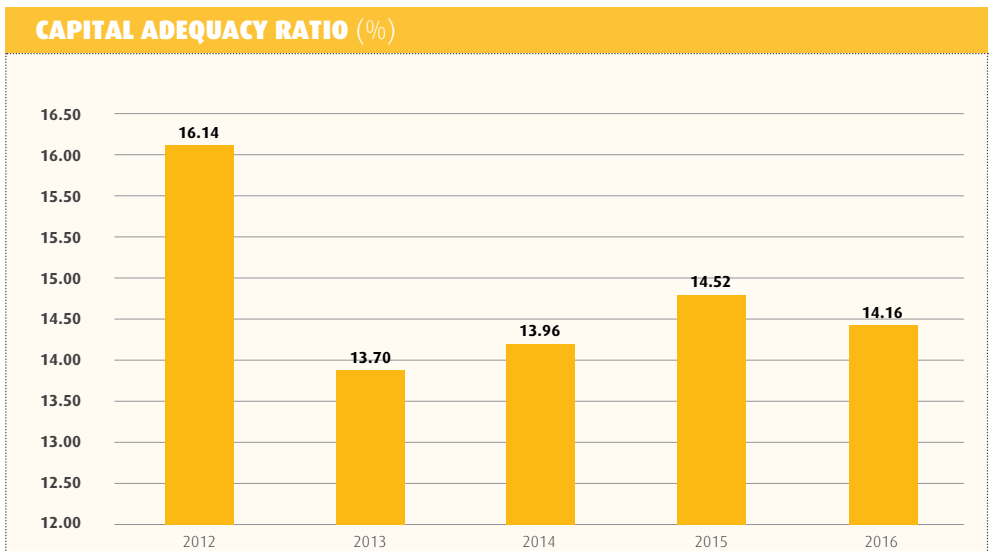
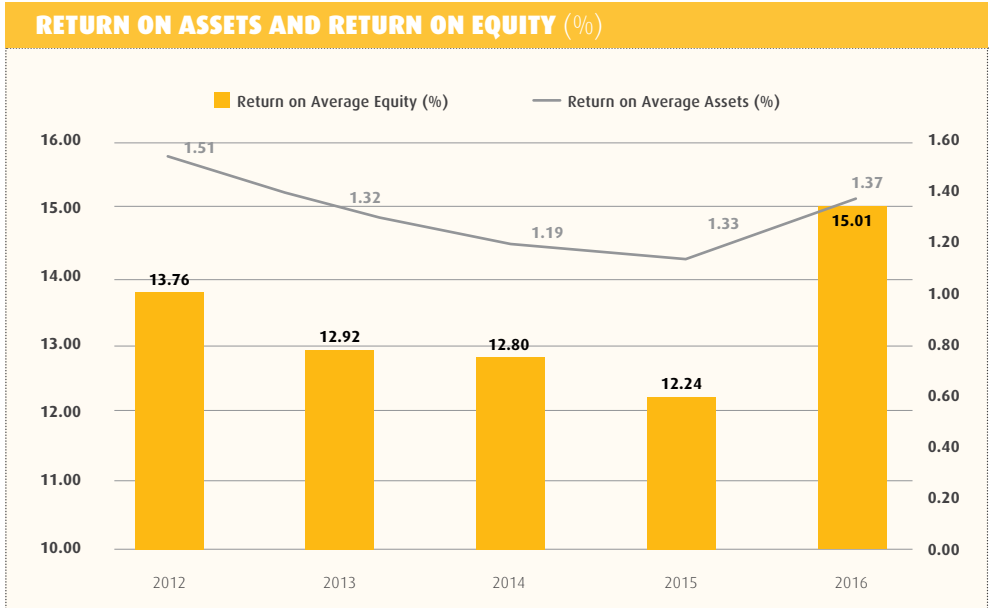
As of year-end 2016, VakıfBank’s return on average equity 15.01% while its return on average assets was 1.37%.

Solvency Ratio

Keeping the share of the interest bearing assets in the total assets at 91.38% in 2016, VakıfBank continued its strong liquidity structure, and maintained its solvency ratio.

Continuing its growth in loans without compromising on risk control, VakıfBank’s capital adequacy ratio, with 14.16%, which was above the legal limits and target ratio, was another indicator of its financial strength. The capital adequacy ratio’s long term progress is given in the chart.

In the upcoming period, VakıfBank will expand its customer base and increase its product diversity while it continues to grow using potential growth opportunities in and outside the country.



INTERNATIONAL CREDIT RATINGS

February 2017 ^(*)	Fitch Ratings
Long-Term Foreign Currency	BB+
Short-Term Foreign Currency	B
Foreign Currency Outlook	Stable
Long-Term Local Currency	BBB-
Short-Term Local Currency	F3
Local Currency Outlook	Stable
National Long-Term Rating	AAA (tur)
National Outlook	Stable
Support Rating	3
Support Rating Floor	BB+
Viability Rating	bb+

October 2016 ^(*)	Moody's Investors' Service
BCA (Baseline Credit Assessment)	ba2
LC Deposit	Ba1/NP
Outlook on LC	Stable
FC Deposit	Ba2/NP
Outlook on FC	Stable

February 2017 ^(*)	Standard&Poors
FC Credit	BB/B
Outlook on FC	Negative
LC Credit	BB/B
Outlook on LC	Negative
National Rating	trAA-/trA-1

^(*) Most recent dates of changes in credit ratings and outlooks.

FIVE-YEAR SUMMARY

FINANCIAL INFORMATION

Assets (TL million)	2012	2013	2014	2015	2016
Cash and banks (including Interbank money markets)	14,282,531	21,607,218	24,455,599	26,719,055	28,255,619
Securities	18,467,315	22,127,692	23,558,085	25,337,165	27,610,772
Loans	67,867,645	86,496,223	104,343,442	122,974,478	146,618,992
Commercial loans	43,606,728	56,008,662	71,492,889	86,363,710	105,581,895
Retail loans	24,260,917	30,487,561	32,850,553	36,610,768	41,037,097
Non-performing loans (net)	265,394	255,994	240,075	806,175	1,093,383
Non-performing loans (gross)	2,724,963	3,531,427	3,974,372	4,850,213	6,413,503
Special provisions (-)	2,459,569	3,275,433	3,734,297	4,044,038	5,320,120
Affiliates and subsidiaries	1,310,272	1,610,993	1,736,982	1,874,609	2,096,602
Tangible fixed assets	1,134,567	658,791	709,000	1,383,150	1,409,875
Other assets	1,051,167	2,014,174	2,215,473	2,670,830	3,949,820
Total assets	104,580,263	135,496,043	158,217,726	182,947,124	212,539,905

Liabilities (TL million)	2012	2013	2014	2015	2016
Deposits	67,242,290	81,532,814	91,756,968	109,922,534	123,838,377
Term deposits	56,331,968	67,855,955	74,944,145	89,644,574	99,404,340
Demand deposits	10,910,322	13,676,859	16,812,823	20,277,960	24,434,037
Interbank money market	8,489,936	14,477,081	16,385,302	12,744,041	12,895,334
Funds borrowed	7,475,483	11,404,812	14,927,048	18,555,997	24,193,770
Subordinated loans	1,639,549	1,974,142	2,138,030	4,169,474	5,031,213
Securities issued	2,430,313	6,884,826	10,457,757	10,547,759	14,707,745
Provisions	1,641,076	2,014,284	2,437,139	2,923,772	3,224,092
Shareholders' equity	11,918,154	12,616,321	14,771,750	16,767,548	19,238,711
Paid-in capital	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000
Profit or loss	1,460,080	1,585,539	1,753,273	1,930,109	2,703,042
Net profit or loss	1,460,080	1,585,539	1,753,273	1,930,109	2,703,042
Total liabilities	104,580,263	135,496,043	158,217,726	182,947,124	212,539,905

FIVE-YEAR SUMMARY

FINANCIAL INFORMATION

Profit / Loss (TL million)	2012	2013	2014	2015	2016
Interest income	8,756,502	9,220,570	11,373,587	13,630,050	16,557,626
Interest expense	4,671,908	4,430,953	6,722,109	8,143,569	9,590,985
Net interest income	4,084,594	4,789,617	4,651,478	5,486,481	6,966,641
Net fee and commission income	447,700	686,511	709,334	921,084	980,883
Dividend income	57,078	54,001	66,288	62,219	91,753
Capital market trading income (net)	249,189	172,623	174,760	46,127	21,836
Foreign exchange gains (net)	111,474	-27,408	99,606	66,523	104,136
Other operating income	624,680	708,320	1,345,534	1,048,278	954,031
Total operating income	5,550,594	6,470,106	6,995,753	7,617,536	9,477,121
Provisions for loans and other receivables (-)	1,404,058	1,857,239	1,671,867	1,537,060	2,246,514
Other operating expenses (-)	2,261,175	2,629,953	3,110,210	3,610,183	3,835,083
Operating profit	1,885,361	1,982,914	2,213,676	2,470,293	3,395,524
Net profit or loss for the period	1,460,080	1,585,539	1,753,273	1,930,109	2,703,042

Key Ratios (%)	2012	2013	2014	2015	2016
Securities / Total Assets	17.66	16.33	14.89	13.85	12.99
Loans / Total Assets	64.90	63.84	65.95	67.22	68.98
Loans / Deposits	100.93	106.09	113.72	111.87	118.40
Retail Loans / Loans	35.75	35.25	31.48	29.77	27.99
Commercial Loans / Loans	64.25	64.75	68.52	70.23	72.01
Non-performing Loans / Total Loans	4.00	4.07	3.80	3.92	4.34
Deposits / Total Liabilities	64.30	60.17	57.99	60.08	58.27
Demand Deposits / Total Deposits	16.23	16.77	18.32	18.45	19.73
Shareholders' Equity / Total Liabilities	11.40	9.31	9.34	9.17	9.05
Funds Borrowed / Total Liabilities	7.15	8.42	9.43	10.14	11.38
Capital Adequacy Ratio	16.14	13.70	13.96	14.52	14.16
Return on Average Assets	1.51	1.32	1.19	1.13	1.37
Return on Average Equity	13.76	12.92	12.80	12.24	15.01

Market Share (%)	2012	2013	2014	2015	2016
Securities Portfolio	6.84	7.72	7.79	7.69	7.85
Loans	8.54	8.26	8.41	8.28	8.45
Commercial Loans	8.25	7.83	8.08	7.85	8.03
Retail Loans	9.12	9.18	9.23	9.51	9.77
Non-Performing Loans (Net)	4.57	3.64	2.52	6.67	8.33
Non-Performing Loans (Gross)	11.64	11.92	10.91	10.20	11.04
Special Provisions (-)	13.98	14.49	13.88	11.40	11.84
Deposits	8.71	8.62	8.72	8.83	8.52
Term Deposits	8.89	8.83	8.77	8.90	8.58
Demand Deposits	7.88	7.72	8.47	8.51	8.27
Total Funds Borrowed	6.05	5.74	6.26	6.57	7.15
Guarantees and Commitments	7.14	6.99	7.46	7.21	7.32
Total Assets	7.63	7.82	7.93	7.76	7.78
Shareholders' Equity	6.55	6.51	6.37	6.39	6.41
Net Profit or Loss	6.21	6.43	7.12	7.41	7.20

