IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBS (AS DEFINED BELOW) UNDER RULE 144A OR (2) PERSONS OTHER THAN U.S. PERSONS (AS DEFINED IN REGULATION S) OUTSIDE OF THE U.S.

IMPORTANT: You must read the following before continuing. The following applies to the Prospectus following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the Bank as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S ("**REGULATION S**") UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND IN PARTICULAR MAY NOT BE FORWARDED TO ANY U.S. PERSON OR TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation of your Representation: In order to be eligible to view this Prospectus or make an investment decision with respect to the securities described herein, investors must be either (1) Qualified Institutional Buyers ("**QIBs**") (within the meaning of Rule 144A ("**Rule 144A**") under the Securities Act) or (2) persons other than U.S. persons (as defined in Regulation S) outside of the U.S. This Prospectus is being sent at your request and by accepting the e-mail and accessing this Prospectus, you shall be deemed to have represented to the Bank that (1) you and any customers you represent are either (a) QIBs or (b) outside of the U.S. and that the electronic mail address that you gave the Bank and to which this e-mail has been delivered is not located in the U.S. and (2) that you consent to delivery of such Prospectus by electronic transmission.

You are reminded that this Prospectus has been delivered to you on the basis that you are a person into whose possession this Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver or disclose the contents of this Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the issuer in such jurisdiction.

This Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently, none of Deutsche Bank AG, London Branch, HSBC Bank plc, ING Bank N.V., London Branch, Merrill Lynch, Pierce, Fenner & Smith Incorporated and UniCredit Bank AG as Joint Lead Managers, or any person who controls any of them, nor any director, officer, employee nor agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus

distributed to you in electronic format and the hard copy version available to you on request from any of the Joint Lead Managers.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

This Prospectus is being distributed only to and directed only at (i) persons who are outside the United Kingdom, (ii) persons who have professional experience in matters relating to investments falling within Article 19(5) of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or (iii) those persons to whom it may otherwise lawfully be distributed (all such persons together being referred to as "**relevant persons**"). This Prospectus is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Prospectus relates is available only to relevant persons and will be engaged in only with relevant persons.

PROSPECTUS

Not for General Distribution in the United States

Yapı ve Kredi Bankası A.Ş.

a Turkish banking institution organised as a joint stock company

U.S.$ 600,000,000 5.750% Notes due 2022

Under its U.S.$11,000,000,000

Global Medium Term Note Programme

Issue Price: 100.000% payable in full in U.S. dollars on the Issue Date

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Yapı ve Kredi Bankası A.Ş., a Turkish banking institution organised as a joint stock company (the "**Bank**" or the "**Issuer**"), is issuing U.S.$600,000,000 5.750% Notes due 2022 (the "**Notes**") under its U.S.$11,000,000,000 Global Medium Term Note Programme. The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), or the securities or "blue sky" laws of any state of the United States of America ("**United States**" or "**U.S.**"), the Republic of Turkey ("**Turkey**"), the United Kingdom or any other jurisdiction, and are being offered: (a) for sale (the "**U.S. Offering**") in the United States to qualified institutional buyers (each a "**QIB**") as defined in, and in reliance upon, Rule 144A ("**Rule 144A**") under the Securities Act and (b) for sale (the "**International Offering**" and, with the U.S. Offering, the "**Offering**") outside the United States to persons other than U.S. persons in reliance upon Regulation S ("**Regulation S**") under the Securities Act. For a description of certain restrictions on sale and transfer of the Notes, see "*Subscription and Sale*" in the Base Prospectus (as defined under "*Documents Incorporated by Reference*) below and "*Transfer Restrictions*" at pages 184 to 186 of this Prospectus (as defined on page (ii) below).

INVESTING IN THE NOTES INVOLVES RISKS. PROSPECTIVE INVESTORS SHOULD CONSIDER THE FACTORS SET FORTH UNDER "*RISK FACTORS*" BEGINNING ON PAGE 1 OF THIS PROSPECTUS AND INCORPORATED BY REFERENCE FROM THE BASE PROSPECTUS (SEE "DOCUMENTS INCORPORATED BY REFERENCE" BELOW).

As described further under "*Use of Proceeds*" on page 36 below, the net proceeds of the Notes will be used by the Issuer for the Issuer's general corporate purposes.

The Notes will bear interest from (and including) 24 February 2017 (the "**Issue Date**") to (but excluding) 24 February 2022 (the "**Maturity Date**") at a fixed rate of 5.750% per annum. Interest will be payable semi-annually in arrear on 24 February and 24 August in each year up to (and including) the Maturity Date; *provided that* if any such date is not a Payment Day (as defined in Condition 7.4), then such payment will be made on the next Payment Day. The Notes initially will be sold to investors at a price equal to 100.000% of the principal amount thereof. For a more detailed description of the Notes, see "*Issue Terms*" herein.

There is currently no public market for the Notes. This Prospectus has been approved by the Central Bank of Ireland as competent authority under Directive 2003/71/EC, (as amended, including by Directive 2010/73/EU) (the "**Prospectus Directive**"). The Central Bank of Ireland only approves this Prospectus as meeting the requirements imposed under Irish and European Union ("**EU**") law pursuant to the Prospectus Directive. Such approval relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC and/or which are to be offered to the public in any Member State of the European Economic Area. Application has been made to the Irish Stock Exchange plc (the "**Irish Stock Exchange**") for the Notes to be admitted to the official list (the "**Official List**") and trading on its regulated market (the "**Main Securities Market**"). This Prospectus constitutes a "Prospectus" for the purposes of the Prospectus Directive as implemented in Ireland by the Prospectus (Directive 2003/71/EC) Regulations 2005 (the "**Prospectus Regulations**"). References in this Prospectus to the Notes being listed (and all related references) shall mean that the Notes have been admitted to the Official List and have been admitted to trading on the Main Securities Market. The Main Securities Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial institutions.

Application has been made to the Capital Markets Board of Turkey (the "**CMB**") in its capacity as competent authority under Law No.6362 of the Republic of Turkey relating to capital markets (the "**Capital Markets Law**") for the approval of the issuance certificate relating to the Notes by the CMB and the issuance and sale of the Notes by the Bank outside Turkey. The Notes cannot be sold outside Turkey before the necessary approvals and an approved issuance certificate in respect of the Notes are obtained from the CMB. The CMB approval relating to the issuance of the Notes based upon which the offering of the Notes will be conducted was obtained by the CMB letter dated 12 May 2016 and the tranche issuance certificate relating to the Notes is expected to be obtained from the CMB on or prior to the Issue Date.

The Notes are expected on issue to be rated BBB- by Fitch Ratings Ltd. ("**Fitch**") and Ba1 by Moody's Deutschland GmbH ("**Moody's**" and together with Fitch, the "**Rating Agencies**"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. As of the date of this Prospectus, each of the Rating Agencies is established in the EU and is registered under Regulation No 1060/2009 (as amended) (the "**CRA Regulation**"). As such, each of the Rating Agencies is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs) in accordance with the CRA Regulation.

All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future Taxes (as defined in Condition 9) imposed or levied by or on behalf of a Relevant Jurisdiction (as defined in Condition 9) other than Taxes withheld relating to FATCA (as defined on page 28 below), unless the withholding or deduction of the Taxes is required by law. In that event, except as provided for in Condition 9, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders (as defined below) after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of such withholding or deduction. The withholding tax rate on interest payments in respect of bonds issued by Turkish entities outside of Turkey varies depending on the original maturity of such bonds as specified under decrees numbered 2010/1182 published on 29 December 2010 and numbered 2011/1854 published on 29 June 2011 (the "**Decrees**"). Pursuant to the Decrees, (i) with respect to bonds with a maturity of less than one year, the withholding tax rate on interest is 10%, (ii) with respect to bonds with a maturity at least of one and less than three years, the withholding tax rate on interest is 7%, (iii) with respect to bonds with a maturity at least of three and less than five years, the withholding tax rate on interest is 3%, and (iv) with respect to bonds with a maturity of five years and more, the withholding tax rate on interest is 0%. Accordingly, the withholding tax rate on interest on the Notes is 0%. See "*Taxation—Certain Turkish Tax Considerations*" in the Base Prospectus.

The Notes are being offered under Rule 144A and under Regulation S by Deutsche Bank AG, London Branch, HSBC Bank plc, ING Bank N.V., London Branch, Merrill Lynch, Pierce, Fenner & Smith Incorporated and UniCredit Bank AG (collectively, the "**Joint Lead Managers**"), subject to their acceptance and right to reject orders in whole or in part. The Notes will initially be represented by global certificates in registered form (the "**Global Certificates**"). The Notes offered and sold in the United States to QIBs in reliance on Rule 144A (the "**Rule 144A Notes**") will be represented by beneficial interests in one or more permanent global certificates in fully registered form without interest coupons (the "**Restricted Global Certificate**") and will be registered in the name of Cede & Co., as nominee for The Depositary Trust Company ("**DTC**") and will be deposited on or about the Issue Date (as defined below) with The Bank of New York Mellon, New York Branch in its capacity as custodian (the "**Custodian**") for DTC. The Notes offered and sold outside the United States to persons other than U.S. persons in reliance on Regulation S (the "**Regulation S Notes**") will be represented by beneficial interests in a single, permanent global certificate in fully registered form without interest coupons, the "**Unrestricted Global Certificate**") and will be registered in the name of The Bank of New York Depository (Nominees) Limited as nominee, and will be deposited on or about the Issue Date with The Bank of New York Mellon, London Branch as common depositary for, and in respect of interests held through, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"). It is expected that the Global Certificates will be delivered against payment therefor in immediately available funds on the Issue Date.

BofA Merrill Lynch	**Deutsche Bank**	**HSBC**	**ING**	**UniCredit Bank**

The date of this Prospectus is 23 February 2017

This prospectus (the "Prospectus") constitutes a prospectus for the purpose of Article 5 of the Prospectus Directive as implemented in Ireland and for the purpose of giving information with regard to the Issuer and the Notes which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and of the rights attaching to the Notes. This Prospectus is to be read in conjunction with all documents (or parts thereof) which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Prospectus shall be read and construed on the basis that such documents (or parts thereof) are incorporated by reference in, and form part of, this Prospectus. Where there is any inconsistency between the Base Prospectus of the Bank dated 30 September 2016 (the "Base Prospectus") relating to the Bank's Global Medium Term Note Programme (the "Programme") and this Prospectus, the language used in this Prospectus shall prevail.

The Issuer, having made all reasonable enquiries, confirms that this Prospectus contains all information which is material with respect to the Issuer and the Notes, that the information contained in this Prospectus is true and accurate in all material respects and is not misleading, that the opinions, predictions and intentions expressed in this Prospectus are honestly held and are not misleading in any material respects and that there are no other facts the omission of which would make this Prospectus or any of such information or the expression of any such opinions, predictions or intentions misleading in any material respect and all reasonable enquiries have been made by the Bank to ascertain such facts and to verify the accuracy of all such information and statements.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Joint Lead Managers to subscribe for or purchase, any Notes. The distribution of this Prospectus and the offer or sale of the Notes in certain jurisdictions is restricted by law. Persons into whose possession this Prospectus may come are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions.

No person has been authorised in connection with the offering of the Notes to give any information or make any representation regarding the Issuer, the Joint Lead Managers or the Notes other than as contained in this Prospectus. Any such representation or information must not be relied upon as having been authorised by the Issuer or the Joint Lead Managers. The delivery of this Prospectus at any time does not imply that there has been no change in the Issuer's affairs or that the information contained in it is correct as at any time subsequent to its date. This Prospectus may only be used for the purpose for which it has been published.

No representation or warranty, express or implied, is made by the Joint Lead Managers as to the accuracy or completeness of the information set forth in this document, and nothing contained in this document is, or shall be relied upon as, a promise or representation, whether as to the past or the future. None of the Joint Lead Managers assumes any responsibility for the accuracy or completeness of the information set forth in this document. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Issuer and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investment.

None of the Issuer or the Joint Lead Managers or any of their respective representatives is making any representation to any offeree or purchaser of the Notes regarding the legality of any investment by such offeree or purchaser under appropriate legal investment or similar laws. Each investor should consult with his own advisors as to the legal, tax, business, financial and related aspects of a purchase of the Notes.

In this Prospectus, the "**Group**" refers to the Bank and its consolidated subsidiaries, unless the context otherwise requires.

Unless otherwise indicated, "**Noteholder**" refers to the registered holder of any Note. "**Beneficial Owner**" refers to an owner of a beneficial interest in any Note.

Unless otherwise indicated, references to "**resident**" herein refer to tax residents of Turkey and references to "**non-resident**" herein refer to persons who are not tax residents of Turkey.

The Notes have not been and will not be registered under the Securities Act or under the securities or "blue sky" laws of any state of the United States or any other U.S. jurisdiction. Each investor, by purchasing a Note (or a beneficial interest therein), agrees that the Notes (or beneficial interests therein) may be reoffered, resold, pledged or otherwise transferred only upon registration under the Securities Act or pursuant to the exemptions therefrom described under "*Transfer Restrictions*". Each investor also will be deemed to have made certain representations and agreements as described therein. Any resale or other transfer, or attempted resale or other attempted transfer that is not made in accordance with the transfer restrictions may subject the transferor and transferee to certain liabilities under applicable securities laws.

Prospective investors must determine the suitability of investment in the Notes in the light of their own circumstances. In particular, prospective investors should:

(a) have sufficient knowledge and experience to make a meaningful evaluation of the Notes and the merits and risks of investing in the Notes;

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on the investor's overall investment portfolio;

(c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the investor's currency;

(d) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(e) be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect the investor's investment and ability to bear the applicable risks.

The issuance of the Notes was approved by the CMB on 12 May 2016 by the CMB letter dated 12 May 2016 and numbered 29833736 105.03.01 E.5742 (the "**CMB Approval**"). In addition, the required tranche issuance certificate relating to the Notes is expected to be obtained from the CMB on or prior to the Issue Date.

Pursuant to the CMB Approval, the offering of the Notes has been authorised by the CMB only for the purpose of the sale of the Notes outside of Turkey in accordance with Article 15(b) of Decree 32 on the Protection of the Value of the Turkish Currency (as amended from time to time, "**Decree 32**"), the Capital Markets Law No. 6362 and Communiqué Serial II, No 31.1 on Debt Instruments.

In addition, the Notes (or beneficial interests therein) have to be offered or sold outside of Turkey. Under the CMB Approval, the CMB has approved the offering of the Notes, *provided that*, following the primary sale of the Notes, no transaction that may be deemed as a sale of the Notes (or beneficial interests therein) in Turkey by way of private placement or public offering may be engaged in. Pursuant to Article 15(d)(ii) of Decree 32, there is no restriction on the purchase or sale of the Notes (or beneficial interests therein) by residents of Turkey offshore on an unsolicited (reverse inquiry) basis in the secondary markets; *provided that* they purchase or sell such Notes (or beneficial interests) in the financial markets outside of Turkey and such sale and purchase is made through licensed banks and/or licensed brokerage institutions authorised pursuant to the BRSA and/or CMB regulations and the purchase price is transferred through licensed banks authorised pursuant to BRSA regulations. Monies paid for purchases of the Notes are not protected by the insurance coverage provided by the Savings Deposit Insurance Fund of Turkey (the "**SDIF**").

In accordance with the Communiqué on Debt Instruments, the Notes are required under Turkish law to be issued in an electronically registered form in the Central Registry Agency (*Merkezi Kayıt Kuruluşu*) (the "**CRA**") and the interests therein recorded in the CRA. However, upon the Issuer's request, the CMB may resolve to exempt the Notes from this requirement if the Notes are to be issued outside of Turkey. Further to the Issuer's submission of an exemption request to the CMB, such exemption has been granted by the CMB to the Issuer in its letter dated 12 May 2016 (No. 29833736 105.03.01 E.5742). As a result, this requirement will

not be applicable to the Notes issued pursuant to the CMB Approval. Notwithstanding such exemption, the Issuer is required to notify the CRA within three Turkish business days from the Issue Date of the amount, issue date, ISIN code, first payment date, maturity date, interest rate, name of the custodian, currency of the Notes and the country of issuance. Except as described in this Prospectus, beneficial interests in the Global Certificates will be represented through accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC, Euroclear and Clearstream, Luxembourg. Except as described in this Prospectus, owners of beneficial interests in the Global Certificates will not be entitled to have the Notes registered in their names, will not receive or be entitled to receive physical delivery of the Notes in definitive form and will not be considered holders of the Notes under the Notes and the Agency Agreement (as defined below).

An application has been made to admit the Notes to listing on the Irish Stock Exchange; however, no assurance can be given that such application will be accepted.

This Prospectus has been filed with and approved by the Central Bank of Ireland as required by the Prospectus Regulations.

All references herein to "**Turkey**" are to the Republic of Turkey, all references to "**Ireland**" are to Ireland (exclusive of Northern Ireland) and all references to a "**Member State**" are to a Member State of the European Economic Area.

In connection with the issue of Notes to be underwritten by the Joint Lead Managers, Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Stabilisation Manager") (or persons acting on behalf of the Stabilisation Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant issue of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the Issue Date and 60 days after the date of the allotment of the relevant Notes. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules. Notwithstanding anything herein to the contrary, the Bank may not (whether through over-allotment or otherwise) issue more Notes than have been approved by the CMB.

Other than the approval of the CMB, the Notes have not been approved or disapproved by any state securities commission or any other U.S., Turkish, United Kingdom, Irish or other regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of this Offering or the accuracy or adequacy of this Prospectus. Any representation to the contrary may be a criminal offence.

The distribution of this Prospectus and the offering of the Notes (and beneficial interests therein) in certain jurisdictions may be restricted by law. Persons that come into possession of this Prospectus are required by the Bank and the Joint Lead Managers to inform themselves about and to observe any such restrictions.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Notes (or any beneficial interest therein) in any jurisdiction in which such offer or solicitation is unlawful. In particular, there are restrictions on the distribution of this Prospectus and the offer and sale of the Notes (and beneficial interests therein) in the United States, Turkey, the United Kingdom, Ireland and other jurisdictions.

RESPONSIBILITY STATEMENT

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect the import of such information.

The Issuer has derived substantially all of the information contained in this Prospectus concerning the Turkish market and its competitors, which may include estimates or approximations, from publicly available information, including press releases and filings made under various securities laws. Unless otherwise indicated, all data relating to the Turkish banking sector in this Prospectus has been obtained from the website of the BRSA at www.bddk.org.tr and the Banks' Association of Turkey's website at www.tbb.org.tr and all data relating to the Turkish economy, including statistical data, has been obtained from TurkStat's website at

www.turkstat.gov.tr, the Central Bank of Turkey (the "**Central Bank**", or "**CBRT**") website at www.tcmb.gov.tr and the Turkish Treasury's website at www.hazine.gov.tr. Data has been downloaded/observed on various days between the months of October 2016 and February 2017 and may be the result of calculations made by the Issuer and therefore may not appear in the exact same form on such websites or elsewhere. Such websites do not form a part of, and are not incorporated into, this Prospectus. Unless otherwise indicated, the sources for statements and data concerning the Issuer and its business are based on best estimates and assumptions of the Issuer's management. Management believes that these assumptions are reasonable and that its estimates have been prepared with due care. The data concerning the Issuer included herein, whether based on external sources or based on the Issuer's management internal research, constitute the best current estimates of the information described.

Any translation of information from Turkish into English for the purpose of inclusion in this Prospectus is direct and accurate.

Where third party information has been used in this Prospectus, the source of such information has been identified. In the case of the presented statistical information, similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. Where information has been sourced from a third party, such publications generally state that the information they contain has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Such data, while believed to be reliable and accurately extracted by the Issuer for the purposes of this Prospectus, has not been independently verified by the Issuer or any other party and you should not place undue reliance on such data included in this Prospectus. As far as the Issuer is aware and able to ascertain from the information published by such third party sources, this information has been accurately reproduced and no facts have been omitted which would render the reproduction of this information inaccurate or misleading.

TURKISH TAX CONSIDERATIONS

All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future Taxes (as defined in Condition 9) other than Taxes withheld relating to FATCA (as defined on page 28 below) imposed or levied by or on behalf of any Relevant Jurisdiction (as defined in Condition 9), unless the withholding or deduction of the Taxes is required by law. In that event, except as provided for in Condition 9, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of such withholding or deduction. The withholding tax rate on interest payments in respect of bonds issued by Turkish entities outside of Turkey varies depending on the original maturity of such bonds as specified under the Decrees. Pursuant to the Decrees, (i) with respect to bonds with a maturity of less than one year, the withholding tax rate on interest is 10%, (ii) with respect to bonds with a maturity at least of one and less than three years, the withholding tax rate on interest is 7%, (iii) with respect to bonds with a maturity at least of three and less than five years, the withholding tax rate on interest is 3%, and (iv) with respect to bonds with a maturity of five years and more, the withholding tax rate on interest is 0%.

FORWARD-LOOKING STATEMENTS

This Prospectus contains statements that may be considered to be "forward-looking statements" as that term is defined in the U.S. Private Securities Litigation Act of 1995. Forward-looking statements appear in a number of places throughout this Prospectus, including, without limitation, under "*Risk Factors*", "*Use of Proceeds*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", "*Business of the Bank*" and elsewhere in this Prospectus, and include, but are not limited to, statements regarding:

- strategy and objectives;
- trends affecting the Bank's results of operations and financial condition;
- asset portfolios;
- loan loss reserve;
- capital adequacy;

- legal proceedings; and
- the Bank's potential exposure to market risk.

The forward-looking statements also may be identified by words such as "believes", "expects", "anticipates", "projects", "intends", "should", "seeks", "estimates", "probability", "risk", "target", "goal", "objective", "future" or similar expressions or variations on such expressions.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements.

The Bank has identified some of the risks inherent in forward-looking statements under "*Risk Factors*" in this Prospectus. Factors that could cause actual results to differ materially from those in forward-looking statements include, among others:

- changes in the Turkish economy;
- changes in the banking and financial markets in Turkey;
- changes in international relations, including any developments in the conflicts in Iraq, Syria or Ukraine;
- changes in the Bank's ownership or other changes in policy by its shareholders;
- changes in applicable laws and regulations, including taxes, or accounting standards or practices;
- the monetary, interest rate and other policies of central banks in Turkey, the EU, the United States and elsewhere;
- changes or volatility in interest rates, foreign exchange rates, asset prices, equity markets, commodity prices, inflation or deflation;
- the effects of competition in the markets in which the Bank operates, which may be influenced by regulation or deregulation;
- changes in consumer spending, saving and borrowing habits in Turkey, including changes in government policies which may influence investment decisions;
- the Bank's ability to hedge certain risks economically;
- the Bank's ability to manage any mismatches between the Bank's interest earning assets and the Bank's interest bearing liabilities;
- the Bank's ability to manage operational risks and prevent security breaches;
- the Bank's ability to grow the Bank's loan portfolio at historical rates;
- the Bank's ability to compete in the Bank's business lines and increase or maintain market share;
- the Bank's ability to control expenses;
- the timely development and acceptance of new products and services and the perceived overall value of these products and services by the Bank's clients;
- the Bank's ability to carry out acquisitions, disposals and any other strategic transactions;
- the Bank's ability to manage liquidity risks and to access financial markets;
- the Bank's success in managing the risks involved in the foregoing, which depends, among other things, on the Bank's ability to anticipate events that cannot be captured by the statistical models the Bank uses; and

- *force majeure* and other events beyond the Bank's control.

There may be other risks, including some risks of which the Bank is unaware, that could adversely affect the Bank's results or the accuracy of forward-looking statements in this Prospectus. Therefore, you should not consider the factors discussed here or under "*Risk Factors*" to be a complete set of all potential risks or uncertainties.

You should not place undue reliance on any forward-looking statements. The Bank does not have any intention or obligation to update forward-looking statements to reflect new information, future events or risks that may cause the forward-looking events the Bank discusses in this Prospectus not to occur or to occur in a manner different from what the Bank expects.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published or are published simultaneously with this Prospectus and have been filed with the Central Bank of Ireland shall be incorporated in, and form part of, this Prospectus:

(a) the sections of the Base Prospectus of the Bank dated 30 September 2016 relating to the Programme, entitled as set out in the table below:

	Page references (inclusive)
Presentation of Financial and Other Information – BRSA Principles and IFRS, Non-GAAP Measures of Financial Performance, Currency Presentation and Exchange Rates, Certain Defined Terms, Conventions and Other Considerations in Relation to the Presentation of Information in this Base Prospectus	(iii) to (vii)
Risk Factors – Risks Related to Turkey	11 to 20
Risk Factors – Risks Related to the Turkish Banking Industry	20 to 25
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which is published on the website of the Irish Stock Exchange at:

http://ise.ie/debt_documents/Base%20Prospectus_66f62162-98f6-4c5a-a80e-76ca11851cc5.pdf;

(b) the convenience translations into English of BRSA consolidated financial statements and related notes of the Group as of and for the year ended 31 December 2016 and the audit report of Güney Bagimsiz Denetim ve Serbest Muhasebeci Mali Müsavirlik A.S (a member firm of Ernst & Young Global Limited) ("**EY**") thereon, which are published on the Bank's website at:

https://www.yapikredi.com.tr/medium/file/31-december-2016-consolidated-financials_31247/download;

(c) the convenience translations into English of BRSA consolidated financial statements and related notes of the Group as of and for the year ended 31 December 2015 and the audit report of EY thereon, which are published on the Bank's website at:

https://www.yapikredi.com.tr/medium/file/31-december-2015-signed_23945/download.aspx;

(d) the convenience translations into English of BRSA consolidated financial statements and related notes of the Group as of and for the year ended 31 December 2014 and the audit report of EY thereon, which are published on the Bank's website at:

http://www.yapikredi.com.tr/medium/file/31-december-2014-signed_19330/download.aspx;

(e) the convenience translations into English of BRSA unconsolidated financial statements and related notes of the Bank as of and for the year ended 31 December 2016 and the audit report of EY thereon, which are published on the Bank's website at:

https://www.yapikredi.com.tr/medium/file/31-december-2016-unconsolidated-financials_31248/download;

(f) the convenience translations into English of BRSA unconsolidated financial statements and related notes of the Bank as of and for the year ended 31 December 2015 and the audit report of EY thereon, which are published on the Bank's website at:

https://www.yapikredi.com.tr/medium/file/31-december-2015-signed_23947/download.aspx; and

(g) the convenience translations into English of BRSA unconsolidated financial statements and related notes of the Bank as of and for the year ended 31 December 2014 and the audit report of EY thereon, which are published on the Bank's website at:

http://www.yapikredi.com.tr/medium/file/31-december-2014-signed_19331/download.aspx.

No other part of the Bank's website forms a part of, or is incorporated into, this Prospectus. Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus. Any information contained in any of the documents specified above which is not incorporated by reference in this Prospectus is either not relevant to investors or is covered elsewhere in this Prospectus.

Printed copies of the documents incorporated by reference will also be available, during usual business hours on any workday (Saturdays, Sundays and public holidays excepted), for inspection at the specified office of the Fiscal Agent and at the registered office of the Issuer.

Following the publication of this Prospectus a supplement may be prepared by the Issuer and approved by the Central Bank of Ireland in accordance with Article 16 of the Prospectus Directive, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Prospectus which is capable of affecting the assessment of the Notes. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise) be deemed to modify or supersede statements contained in this Prospectus or in a document which is incorporated by reference in this Prospectus.

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with resales of the Notes, for as long as the Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer is required to furnish, upon request of a holder of the Notes and a prospective purchaser designated by such holder, the information required to be delivered under Rule 144A(d)(4) if, at the time of such request, the Issuer is neither a reporting company under Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

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RISK FACTORS

An investment in the Notes involves certain risks. Prior to making an investment decision, prospective purchasers of the Notes should carefully read the entire Prospectus. In addition to the other information in this Prospectus, prospective investors should carefully consider, in light of their own financial circumstances and investment objectives, the following risks related to the Group's business, Turkey, the Turkish banking industry and the Notes, together with the sections of "Risk Factors" set out in the Base Prospectus that have been incorporated by reference into this Prospectus, before making an investment in the Notes. In addition, factors that are material for the purpose of assessing the market risks associated with the Notes are also described below. If any of the following risks actually occurs, the market value of the Notes may be adversely affected. The Bank believes that the factors described below represent the principal risks inherent in investing in the Notes, but the Bank does not represent that the statements below regarding the risks of holding any Notes are exhaustive.

Risks Related to the Group's Business

The Group's business, results of operations, financial condition and prospects are affected by general economic conditions in Turkey and internationally

As of 31 December 2016, 97% of the Group's total assets and the majority of the Group's operations were in Turkey. Therefore, the Group's business and results of operations are primarily affected by economic conditions in Turkey, although global trends can also have a direct and significant impact. Global credit and capital markets remain volatile and fragile with uncertainty continuing through 2017, and any deterioration of global economic conditions is likely to have a significant negative impact on the business, financial condition and/or results of operations of the Group. Although the Turkish banking system has so far not required any government bailouts, there can be no assurance that a further economic downturn or financial crisis will not occur or that continued efforts to support the financial markets and banking system will be successful.

Turkey's GDP grew by 5.2% in 2014, 6.1% in 2015 and 2.2% in the first three quarters of 2016, according to TurkStat. Turkey's growth was negatively impacted during 2014 and 2015 by a reduction in global liquidity and a decrease in fund flows to emerging markets, as well as political uncertainty in Turkey and Turkish Central Bank actions. Growth in Turkey slowed in 2016 largely as a result of the continuing political uncertainty following the attempted coup in Turkey in July 2016. See "*—Risks Related to Turkey—Political developments in Turkey may have a material adverse effect on the Group's business, financial condition, results of operations and prospects*". GDP growth in 2016 was primarily driven by government consumption, while private consumption and investment activity slowed following the attempted coup. In addition, volatility in global economic conditions has, and is expected to continue to persist in 2017. See "*—Risks Related to Turkey—Conflict and uncertainty within Turkey or in neighbouring and nearby countries may have a material adverse effect on the Group's business, financial condition, results of operations or prospects*". Any of these developments might cause Turkey's economy to experience macro-economic imbalances, which may in turn impair the Group's business strategies and/or have a material adverse effect on the Group's business, financial condition and/or results of operations. See "*—Risks Related to Turkey—Turkey's economy has been undergoing a significant transformation and remains subject to ongoing structural and macroeconomic risks*" and, for a discussion of certain of the Central Bank's policies, "*—Risks Related to the Turkish Banking Industry—The profitability and profitability growth of Turkish banks, including the Group, in recent periods may not be sustainable as a result of regulatory, competitive and other factors impacting the Turkish banking sector*".

In recent years, the current account deficit to GDP ratio has fluctuated from 4.7% of GDP in 2014 to 3.7% in 2015. The current account deficit has been affected by changing levels of domestic demand and benefitted from lower global oil prices in recent periods, but still remains a significant concern for policy makers as a result of the structural nature of the deficit and may be subject to further intervention, particularly if domestic demand were to significantly increase or if oil prices were to recover. On a 12-month basis, Turkey's current account deficit declined further to US$32.6 billion as of 31 December 2016. Nevertheless, various events including domestic conditions in Turkey (including the impact of Turkish Lira depreciation on import prices), poor economic conditions in Turkey's primary export customers and geopolitical risks may result in an increase in the current account deficit, including due to the possible impact on Turkey's foreign trade and

tourism revenues. See "*—Risks Related to Turkey—Turkey's economy may be impacted by adverse events in other emerging markets*".

In addition, both interest rates and foreign exchange rates have remained volatile since 2014, with varying Central Bank policy responses that have impacted the cost of funding for the Bank and its loan yields and margins. See *"—The Group may be negatively affected by volatility in interest rates"*. In particular, the Turkish Lira has been volatile, with periods of sharp depreciation, which could have a negative impact on asset quality as well as the overall strength of the Turkish economy. See *"—The Group is exposed to foreign exchange and currency risks"*.

Due to the volatility of global conditions in 2016 and to date in 2017, including as a result of, among other factors, expectations regarding slower growth in China and low commodity and oil prices, the U.K. referendum results to exit the EU, and the U.S. election result, monetary policy remains subject to considerable uncertainty. The fluctuations of foreign currency exchange rates and increased volatility of the Turkish Lira might adversely affect the Group's customers and the Turkish economy in general; thus, these might have a negative effect on the value of the Group's assets and/or the Group's business, financial condition and/or results of operations.

As of 31 December 2014, the consumer price index (the "**CPI**") stood at 8.2% and was driven mainly by the foreign exchange pass through from the depreciation of the Turkish Lira and rising food prices. As of 31 December 2015, CPI stood at 8.8%, mainly driven by imported goods and pass-through effect from the depreciation of the Turkish Lira and rising food prices. As of 31 December 2016, CPI was 8.53%, and again the driving force has been the pass-through effect.

Continued uncertainty in the international financial markets, contraction of the global economy and any tightening in credit conditions could adversely impact the Group's business and operating results as a result of:

- decreases in the business activity and deterioration of creditworthiness of companies and individuals;
- impairments on assets and/or collateral as well as increased levels of non-performing loans ("**NPLs**") and amounts of loan impairment charges;
- increases in borrowing costs and reduced, or no, access to capital markets due to unfavourable market conditions and increased competition for deposits leading to declines in the Group's net interest income; and
- decreases in fee and commission income due to a reduction in consumer demand for the Group's loan products or measures implemented by banking regulators.

If any of the above events occur, this could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

There can be no assurance of continued global economic recovery and any further deterioration in global economic or financial conditions could negatively affect Turkey's economy, the availability of funding to the Group and the Group's business, financial condition, results of operations and prospects. If the Turkish economy is negatively affected by reduced economic activity, a devaluation of the Turkish Lira, inflation or an increase in domestic interest rates, this could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Group is subject to credit risk in relation to its borrowers and counterparties

The Group's businesses are subject to inherent risks concerning the credit quality of borrowers and counterparties, which have affected and are expected to continue to affect the value of the Group's assets, particularly if economic conditions in Turkey deteriorate.

Changes in the credit quality of the Group's customers and counterparties, arising from systemic risks and macroeconomic factors in the Turkish and global financial system, can negatively affect the value of the Bank's assets. Increased unemployment, rising inflation, reduced corporate liquidity and profitability, increased corporate insolvencies, the deterioration of the Turkish Lira exchange rate against the U.S. Dollar

and Euro in recent years and the inability of individuals to service their personal debt have negatively affected the Turkish banking sector, including the Bank. According to BRSA statistics, the ratio of NPLs to total loans in the Turkish banking sector has been increasing in recent years, from 2.8% as of 31 December 2014 (Group: 3.4%), to 2.9% as of 31 December 2015 (Group: 3.9%) and 3.2% as of 31 December 2016 (Group: 4.8%). Certain lending segments, which have been an area of focus for the Bank due to relatively better margins, including small medium enterprise ("**SME**") loans, general purpose loans and credit cards generally have higher NPL levels. As of 31 December 2016, the ratio of NPLs to total loans in the credit card segment of the Turkish banking sector was 7.3% (Group: 7.0%) and in the commercial instalment loans segment was 5.3% (no group data available).

The Group's loan portfolio has expanded significantly in recent years, particularly following the Bank's growth strategy, increasing the Group's exposure to credit risk associated with lending, and the Group's loan portfolio includes a significant portion of unseasoned loans. As of 31 December 2016, loans and receivables constituted 65% of the Group's consolidated total assets. The Group's business strategy is strongly focused on the retail segment, as well as on Turkish companies and project finance lending, as these are higher margin generating asset classes. Some of these segments are generally viewed as riskier segments and could place additional pressure on the asset quality of the Group. In particular, negative developments in the Turkish economy, including the expected slowdown of GDP growth in Turkey in 2017, could affect these borrowers more than large corporates, resulting in higher NPL levels and, as a result, higher levels of provisioning. Moreover, negative developments in the Turkish economy, or even expectations regarding potential adverse or uncertain economic conditions, can result in a slowdown in loan collections (particularly for SMEs and consumers) and increase the Bank's credit risk.

As of 31 December 2016, the Group's share of performing loans and receivables in the consumer (including general purpose, auto and mortgage loans) segment was 17%, the credit card segment was 13%, the corporate segment was 64% and the commercial instalment segment was 6%. The Group's highest NPL segments were SMEs and general purpose loans ("**GPLs**").

SMEs, which typically have less financial strength than large companies (and which, as a result, may be more affected by negative developments in the Turkish economy including changes in growth, unemployment and foreign exchange depreciation), are a key component of the Group's current business and growth strategy. The availability of accurate and comprehensive financial information and general credit information on which to base credit decisions is more limited for SMEs than is the case for large corporate clients. Therefore, notwithstanding the credit risk policies and procedures that the Group has in place, the Group may be unable to evaluate correctly the current financial condition of each prospective borrower and to determine their long-term financial viability. If the Group is unable to accurately model the risk associated with its SME borrowers, this could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

On a Bank-only BRSA basis, the Bank's NPL ratio for its SME loan portfolio was 9.9% as of 31 December 2016, compared to 4.9% for the Bank's entire loan portfolio as of 31 December 2016. A significant portion of the Group's non-performing loans date from 2001 and earlier, and were classified as NPLs in the aftermath of the economic crisis in Turkey in 2000-2001 and subsequent reorganisation of state banks. Excluding these legacy NPLs, the Group's NPL ratio would be lower. It is generally accepted that lending to the SME segment represents a relatively higher degree of risk than comparable lending to other groups.

As of 31 December 2016, the Group's NPLs to total loans ratio in the credit cards business increased to 7.0%, compared to 5.9% as of 31 December 2015, due to the challenging operating environment

Moreover, the corporate sector may also be susceptible to additional foreign exchange risk as corporate loans may be denominated in foreign currencies, resulting in additional risk if the Turkish Lira depreciates and such borrowers do not have foreign currency reserves or adequate hedging, particularly if such changes are compounded by macroeconomic factors that particularly impact certain sectors or clients (such as the potential combined impact of Turkish Lira depreciation and global oil price reductions on the energy sector). There can be no assurances that the Group's NPLs will not materially increase in the near to medium term, in particular if there is a deterioration in macroeconomic conditions in Turkey or if the Group is unable to accurately model the risk associated with borrowers to which it extends credit.

In addition, there can be no assurance that the Group will be able to correctly assess the creditworthiness of credit applicants. Moreover, the increase in the Group's loan portfolio (including a significant portion of unseasoned loans) has increased the Group's credit exposure and requires continued and improved monitoring by the Group's management of its lending policies, credit quality and adequacy of provisioning levels through the Group's risk management programme, particularly in its retail segment (including SMEs). There is a centralised credit bureau in Turkey which was established in 1995 to provide exchange of information for the purpose of monitoring and controlling consumer credit information (including credit cards). The credit bureau includes data shared by the Group and its competitors in Turkey. The information compiled at the credit bureau monitors significant trends, both positive and negative. In addition, information from other non-bank entities, such as utility companies, is not included. The Group has used internal rating models (including the Central Bank's sector based information) for corporate and commercial clients since 2009 and internal scorecards (incorporating credit bureau information) for retail customers since 2011. However, the Group is not always independently able to confirm information provided by prospective clients and will require continued and improved monitoring by the Group's management of its lending policies, credit quality and adequacy of provisioning levels through the Group's risk management programme. In 2014, internal application scorecards for retail customers were redeveloped and a new model was launched in February 2015. Additionally, behavioural scorecards for retail customers were re-calibrated in 2014. The Bank plans to upgrade behavioural scorecards for retail customers in late 2017. Any failure of the Group's risk management procedures could also increase the Group's credit risk. See *"—The Group's risk management strategies and internal control capabilities may leave it exposed to unidentified or unanticipated risks"*.

The Group also has a substantial portfolio of derivative financial assets, including currency forwards, currency and interest rate swaps, options, interest rate cap and floor arrangements and credit default swaps. As of 31 December 2016, the Group's total recognised derivatives had a notional value of TL 258,151,757 thousand, and the fair values of the derivative assets and liabilities were TL 4,207,194 thousand and TL 2,667,975 thousand, respectively. The Group is exposed to credit risk with respect to the ability of its counterparties to meet their obligations under these derivative financial assets.

Although the Group records loss provisions in line with regulatory requirements, such provisions may be insufficient for future credit losses, particularly if there are unanticipated negative impacts in the Turkish operating environment. The Group's total loss provisions amounted to TL 1,789,241, or 1.17% (net of collections cost of risk) of gross loans and receivables as of 31 December 2014, TL 2,475,044, or 1.47% (net of collections cost of risk) of gross loans and receivables as of 31 December 2015, and TL 2,682,579, or 1.37% (net of collections cost of risk) of gross loans and receivables as of 31 December 2016. The Group's specific loan loss provisions amounted to TL 1,321,488, or 0.85% (net of collections cost of specific risk) as of 31 December 2014, TL 1,755,646, or 1.01% (net of collections specific cost of risk) as of 31 December 2015 and TL 2,187,865, or 1.11% (net of collections specific cost of risk) as of 31 December 2016. The current level of provisions by the Group may not be sufficient to cover future losses and the Group may have to create significant additional provisions for possible credit losses in the future.

Furthermore, growth in the Group's loan portfolio may lead to an increase in loan to deposit ratios, unless matched by deposit growth. Any failure by the Group to manage the growth of its loan portfolio or the credit quality of its creditors within prudent risk parameters or to monitor and regulate the adequacy of its provisioning levels could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

Exposure to any or all of these credit risks could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank is subject to liquidity and refinancing risk

The Bank is exposed to liquidity risk, arising out of mismatches between the maturities of the Bank's assets and liabilities, which together with increased market volatility and changes in general economic conditions, may contribute to the Bank not being able to meet its net funding requirements at a reasonable cost, or at all. A significant portion of the Group's funding base consists of short term debt and deposits and the Group has a mix of short, medium and long term assets in the form of retail, consumer and corporate loans, mortgages and credit cards, which may result in asset liability maturity gaps and ultimately liquidity problems. As of 31

December 2016, deposits comprised 57.94% of the Group's total liabilities and, of all deposits, 93.20% had maturities of three months or less.

In addition, the Group has increased the portion of its funding raised on the international markets, particularly with respect to longer denominated liabilities given the short term nature of its deposit portfolio, and may need to access additional wholesale funding in the future if deposit growth does not keep pace with growth in lending and to balance the duration gap of its portfolio. As of 31 December 2016, the Bank had a total of TL 30,508,774 thousand of funds borrowed from wholesale sources, of which TL 27,334,892 thousand of other borrowed funds from foreign sources, and TL 18,080,467 thousand of debt securities in issue, in relation to its diversified payment rights securitisation and issued bonds in local currency. In order to cover the maturity mismatch from short term funding and long term lending, the Group has raised longer term funds in the form of syndications, securitisations and other loans, almost all of which are denominated in foreign currency. As of 31 December 2016, the Group's total foreign currency denominated bank deposits and borrowings constituted 78.43% of its consolidated liabilities excluding equity and 6.26% of its assets with maturity of one year or more. The Group may have difficulties extending this type of funding source and such funding may become more difficult and costly in the event of Turkish Lira devaluation.

Withdrawals of deposits could lead to liquidity gaps that the Bank would have to cover, thus incurring additional expenses, and which ultimately may have a material adverse effect on the Bank's business, financial condition and results of operations. In the event of liquidity gaps, access to other funding sources, such as Central Bank repos or the capital markets, may not be available, or may be available only at a higher cost and such funding sources may be less advantageous to the Bank in other respects. The Bank's liquidity risk could be increased by market disruptions or credit downgrades, which may reduce the availability of funding. The Group may also be adversely affected by changes in interest rates. For example, if interest rates increase, the interest on the Group's liabilities (predominantly short-term) may rise more quickly than on its assets, resulting in deteriorating interest margins. Either result could have a material adverse effect on the Bank's financial condition and results of operations. See "—*The Group may be negatively affected by volatility in interest rates*".

There can be no assurance that the Bank will continue to successfully manage its liquidity and the maturity profile of its funding base in the future. Particularly in light of the volatility in the market for emerging market debt, the Bank may have difficulty extending and/or refinancing its existing indebtedness. If the Bank is not able to refinance its debt and other obligations or experiences difficulty in managing its liquidity and the maturity profile of its debt, this could cause a material adverse effect on the Bank's business, financial condition or results of operations.

The Bank is subject to risks in its trading activities

As part of the Bank's treasury operations, it trades various securities and derivatives, including debt, equity, fixed income, currencies and commodities and related derivatives, as both agent and principal, and it derives a portion of its non-interest income from profits earned in such trades. A significant portion of the Bank's trading activities are related to customer transactions and management has put stringent measures in place that seek to limit its ultimate trading exposure.

However, the Bank may still be exposed to a number of risks related to changes in the value of such securities and derivatives, including the risk of unfavourable market price movements relative to its long or short positions, a decline in the market liquidity of the related instruments, volatility in market prices, interest rates or foreign currency exchange rates relating to these positions and the risk that the instruments with which the Bank chooses to hedge certain positions do not track the market value of those positions. If the Bank incurs any losses from these exposures, this could reduce the Bank's income or cause the Bank to suffer losses, either of which could have a material adverse effect on the Bank's business, financial condition and/or results of operations.

Furthermore, an increase in interest rates may reduce the demand for loans from the Group and its ability to originate loans. A decrease in the general level of interest rates may affect the Group through, among other things, increased pre payments on its loan portfolio and increased competition for deposits. In addition, the Group has a portfolio of derivative securities which expose it to fluctuations in interest rates. As of 31 December 2016, total nominal interest rate swap volume (including cross currency interest rate swaps) amounted to TL 100,252,490 thousand, out of which TL 52,672,432 thousand were already under hedge

accounting and thus not affected by interest rate fluctuations. Nominal interest rates are sensitive to many factors beyond the Group's control, including monetary policies pursued by the Turkish government and both domestic and international economic and political conditions.

The Group may be negatively affected by volatility in interest rates

In general, because the Group's assets have a longer maturity and reprice more slowly than its liabilities, the Group may benefit from a lag in the repricing of its assets compared to its liabilities in falling and low interest rate environments. However, in a rising interest rate environment, the Group may be adversely affected by the same repricing lag. This difference could result in an increase in interest expense relative to interest income, reducing margins and the Group's net interest income. In the second half of 2013 and the first half of 2014, for example, interest rates and deposit costs rose faster than loan repricing, which negatively impacted net interest margins. On the contrary, in 2015 the pressure arising from rising deposit costs was offset by the positive impact of upward loan repricing and the Group's loan-deposit spread increased. For a description of the Group's interest rate risk management, see "*Risk Management*".

The years ended 31 December 2016, 2015 and 2014 were characterised by a high degree of volatility in interest rates, as a result of a number of factors, including continued global volatility as well as increased political tension in Turkey, which, among other factors, led Standard and Poor's ("**S&P**") and Moody's to downgrade Turkey's sovereign credit rating. See "*—The Group's business, results of operations, financial condition and prospects are affected by general economic conditions in Turkey and internationally.*" In particular, since 2014, these conditions have had significant impacts on exchange rates, with periods of sharp depreciation and some recovery, which have prompted interest rate actions by the Central Bank. In response to the sharp drop in the Turkish Lira, in January 2014, the Central Bank increased the overnight lending rate from 7.75% to 12%, the one week repo rate from 4.5% to 10% and the overnight borrowing rate from 3.5% to 8%. As a result, deposit costs increased sharply and loan rates also increased, but lagged behind deposit costs due to the maturity mismatch and the Group's net interest income was negatively affected in the first half of 2014. From January 2014 to July 2014, the CBRT cut the one week repo rate gradually by 175 basis points to 8.25%. In 2015, the Central Bank continued the rate cuts, with 75 basis points cut from the one week repo rate and 50 basis points cut from the overnight lending rate. In 2016, the Central Bank did not change the one week repo until November, but in November, the Central Bank increased the rate by 50 basis points, from 7.50% to 8.0%. In terms of overnight lending rate, the Central Bank cut the rate by 250 basis points, from 10.75% to 8.50% between March and September. In November 2016 and January 2017, the Central Bank increased overnight lending rate by 25 basis points and 75 basis points, respectively, to the current 9.25% level, in order to cope with significant deterioration in the Turkish Lira and the resulting pressure on inflation. Additionally, in order to relieve the Turkish Lira volatility, the Central Bank has taken several unorthodox actions. The Central Bank constrained the Interbank Money Market borrowing limit at TL 11 billion, where banks get funding at 8.5%. The Central Bank has not held a one week repo auction, through which it funds the market at its policy rate of 8.0%, aiming to boost the Turkish Lira by reducing the amount of local currency circulating in the market, since 12 January 2017, and most recently, the Central Bank opened a Foreign Exchange Deposit against Turkish Lira Deposit swap market with the aim of enhancing flexibility and instrument diversity.

A further increase in interest rates may reduce the demand for loans from the Group and its ability to originate loans. A decrease in the general level of interest rates may affect the Group through, among other things, increased pre-payments on its loan portfolio and increased competition for deposits. In addition, the Group has a portfolio of derivative securities which expose it to fluctuations in interest rates. As of 31 December 2016, total nominal interest rate swap volume (including cross currency interest rate swaps) amounted to TL 100,252,490 thousand, out of which TL 52,672,432 thousand were already under hedge accounting and thus not affected by interest rate fluctuations. Nominal interest rates are sensitive to many factors beyond the Group's control, including monetary policies pursued by the Turkish government (the "**Government**") and both domestic and international economic and political conditions.

If the Group is unable for any reason to reprice or adjust the rates on its interest earning assets in response to changes in rates on its interest bearing liabilities in an expedited or an effective manner as a result of economic or other reasons, then the Group's interest income margins would be adversely affected, which could in turn have a materially adverse effect on the Bank's results of operations.

The Group's growth strategy subjects it to risks associated with the expansion of operations, including the expansion of its branch network

In recent years, the Group has significantly expanded its business, primarily through organic growth, including an increase in its lending and deposit-taking activity (see "*—The Group is subject to credit risk in relation to its borrowers and counterparties*") and the expansion of its branch network. In particular, as part of its growth strategy, the Group made significant investments in 2014 and 2015 with a total of 60 branch additions during 2014, and 17 during 2015. The Group concluded its investment phase in new branches as of 31 December 2015 and has entered the second phase of its strategy, which is the harvest period. During this phase, the Group has been focusing on improving operational efficiency by leveraging on past investments and increasing digitalisation. In this regard, although the Group's cost/income ratio in 2016 improved to 44% (43% when excluding a one-off administrative fine from the Ministry of Customs and Trade), compared to 49% for 2015. Costs increased by 5% in 2016 (3% when excluding the Customs and Trade fine), compared to 22% in 2015. However, there can be no assurance that these new investments will continue to generate expected returns, and they may have an adverse impact on the Bank's costs if the expansion strategy is not successful.

The Group's loans and receivables may be concentrated among its largest borrowers and in certain industries

As of 31 December 2016, the Group's loans and receivables to its 20 largest borrowers or borrower groups amounted to approximately TL 26,000 million, or 15% of its total loans and receivables, as compared with TL 16,078 million or 11% as of 31 December 2015 and TL 16,206 million or 13% as of 31 December 2014. Any impairment in the ability of one or more of these borrowers or borrower groups to service or repay their obligations to the Group could have a material adverse effect on the Group's financial condition and results of operations. The Banking Act No. 5411, effective from 1 November 2005 (the "**Banking Law**"), restricts the total financial exposure (including extension of credits, issuance of guarantees, etc.) that a bank may have to any one customer or a risk group directly or indirectly to 25% of its equity capital.

As of 31 December 2016, the Bank's top ten sectors accounted for 57% of the Bank's gross cash loans. A downturn in any of these sectors (particularly the construction and energy sectors, which are primary areas of focus for the Bank), individually or in the aggregate, may adversely affect the financial condition of the companies operating in such sectors and may result in, among other things, a decrease of funds that such corporate customers hold on deposit with the Bank, a default on their obligations owed to the Bank or a need for the Bank to increase its provisions in respect of such obligations. Similarly a downturn of any one or more of the Bank's largest customers' financial positions may have similar effects.

The Group's risk management strategies and internal controls may leave it exposed to unidentified or unanticipated risks

In the course of its business activities, the Group is exposed to a variety of risks, including credit risk, market risk, liquidity risk and operational risk. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Risk Management*". Although the Group invests substantial time and effort in risk management strategies and techniques, it may nevertheless fail to manage risk adequately in some circumstances. If circumstances arise that the Group has not identified or anticipated adequately, or if the security of its risk management systems is compromised, then the Group's losses could be greater than expected, which could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Some of the Group's methods of managing risk are based upon its use of historical market behaviour, which, as evidenced by events caused by the global financial crisis, may not always accurately predict future risk exposures, which could therefore be significantly greater than historical measures indicate. For example, assets that are not traded on public trading markets, such as derivative contracts between banks, may be assigned values that the Group calculates using mathematical models and the deterioration of assets like these could lead to losses that the Group has not anticipated. Additionally, higher NPL inflows in 2015 in credit cards and subsequently higher NPL inflows in 2016 in SME led the Group to tighten lending criteria and increase delinquency calls. However, there can be no assurance that such responsive measures will continue to prove effective, particularly if macroeconomic trends continue to deteriorate in Turkey. If the Group's measures to assess and mitigate risk prove insufficient, then the Group may experience material unexpected losses that could have a material adverse effect on the Group's business, financial condition and/or results of operations.

The Group is exposed to foreign exchange and currency risks

A significant portion of the Group's assets and liabilities are denominated in foreign currencies, particularly U.S. dollars and euros. The Bank translates such assets and liabilities, as well as interest earned or paid on such assets and liabilities, and gains/(losses) realised upon the sale of such assets, to Turkish Lira when preparing its financial statements. As a result, the Group's reported income is affected by changes in the value of the Turkish Lira against foreign currencies (primarily the U.S. dollar and euro). The overall effect of exchange rate movements on the Group's results of operations depends on the rate of depreciation or appreciation of the Turkish Lira against its principal trading and financing currencies. On average, however, management currently estimates that a 10% depreciation of the Turkish Lira would result in an average of 40 to 45 bps CET1 and capital adequacy ratio erosion for Turkey's largest banks. In addition, the Group has a portfolio of derivative securities which expose it to fluctuations in the value of the Turkish Lira against foreign currencies. For a description of the Group's risk management strategies, see "*Risk Management*".

Until February 2001, it was the stated policy of the Central Bank to devalue the Turkish Lira against the U.S. dollar in line with inflation. However, in recent years the devaluation of the Turkish Lira has not been consistent with inflation rates. See also "*—The Group may be negatively affected by volatility in interest rates*" for a discussion of the exchange rate impact on interest rates. Annual inflation rates in Turkey (as measured by the Turkish CPI) for 2013 and 2014 were at 7.4% and 8.2%, respectively, with the increase in 2014 due to the foreign exchange pass through from the depreciation of the Turkish Lira and rising food prices. The value of the Turkish currency against the U.S. dollar has been volatile over the last years, having depreciated by 16% in 2013, further depreciating sharply in the first quarter of 2014, before largely stabilising during the remainder of the year, and, in 2015, depreciating by a further 25%, primarily as a result of uncertainties surrounding the political and economic landscape. In 2016, the Turkish Lira depreciated by 21% due to both global and domestic uncertainties. As of 31 December 2015, CPI increased to 8.8% due to the foreign exchange pass-through from the depreciation of the Turkish Lira and rising food prices. As of 31 December 2016, annual CPI was at 8.5%, mainly driven by lower demand and accelerated food prices in the preceding months.

The exchange rate amounted to TL 2.3189 per U.S. dollar as of 31 December 2014, TL 2.9076 per dollar as of 31 December 2015 and TL 3.5192 per dollar as of 31 December 2016.

Although the Group sets stringent limits and performs certain other measures aimed at reducing exchange rate risk, including but not limited to entering into foreign exchange derivative contracts, there is no assurance that such measures will be successful and fluctuations in exchange rates may adversely affect the Bank's business, financial condition and results of operations.

The Group is exposed to volatility in the securities markets

The Group has a substantial portfolio of Government debt securities, which amounted to 10.2% of the Bank's total interest earning assets as of 31 December 2016. The Bank's position in certain Government securities in particular, involves a risk that downward movements in the price of these securities could have a material adverse effect on the Group's business, financial condition and results of operations. The Group has historically generated a significant portion of interest income from its securities portfolio, with interest and similar income derived from the Group's securities portfolio in 2014, 2015 and 2016 accounting for 14.7%, 14.7% and 12.6%, respectively, of its total interest income. Any default by the Government in the payment of

its securities held by the Bank would result in direct loss to the Bank. In addition, a default by the Government in making payments on its treasury bills would have a significant negative impact on the Turkish economy and the Turkish banking system generally. A continued decline in the returns from the Bank's trading and investment securities, continued increased sales of Government securities and/or a decline in the market value of Government securities could lead to a material adverse effect on the Bank's business, financial condition and results of operations.

While the contribution of income from the Group's securities portfolio has been relatively significant over recent years, the Group expects that with declining interest rates, such income will not be as large in coming years. In order to benefit from volatility in interest rates, in 2013 and 2014 the Bank sold a portfolio of Turkish Government bonds in the amount of U.S.$1.3 billion and U.S.$100 million, respectively. The Bank did not undertake any major bond sales during 2016.

The Group's credit ratings may not reflect all risks, and changes to Turkey's credit ratings may affect the Group's ability to obtain funding and have a negative impact on the Group's capital adequacy ratio.

Credit ratings affect the cost and other terms upon which the Group is able to obtain funding. Rating agencies regularly evaluate the Bank and their ratings of the Bank's long-term debt are based on a number of factors, including its financial strength as well as conditions affecting the financial services industry generally. Any ratings of the Bank or the Group may not reflect the potential impact of all risks related to the Notes, the global financial market and the Turkish banking sector, additional factors described in this "Risk Factors" section and any other factors that may affect the value of the Notes. In light of the difficulties in the financial markets, there can also be no assurances that any rating agency will maintain current ratings or outlooks, which could materially adversely affect the trading values of the Notes, the Group's ability to finance its operations and the expected expansion of its business going forward, any of which could materially adversely affect the Group's business, financial conditions, results of operations and prospects.

In addition to any direct losses that the Bank might incur, a default, or the perception of increased risk of default, the possible downgrade in Turkey's credit rating would likely have a significant negative impact on the Turkish banking sector generally and might have a material adverse effect on the Bank's business, financial condition and/or results of operations or rating.

As described under "*Risks Related to Turkey - Political risks related to coup attempt of July 2016*", Turkey's sovereign debt rating was downgraded by Standard & Poor's on 20 July 2016 followed by a downgrade by Moody's on 23 September 2016 to below investment-grade status, which also led to a downgrade of Turkish financial institutions, including the Bank. Turkey's long-term foreign currency debt and its long-term local currency debt are currently rated BBB-, with negative outlook, by Fitch. On 27 January 2017, Standard & Poor's revised the outlook of Turkey from "stable" to "negative" and Fitch downgraded Turkey's sovereign credit rating to sub-investment grade in line with the ratings of Standard & Poor's and Moody's. The Bank calculates its capital adequacy ratio according to the Capital Adequacy Regulation published by the BRSA, which allows the Bank to use only Fitch ratings to calculate the risk-weighted assets for capital adequacy purposes. Management estimates that the Turkish banking sector's capital adequacy ratio is likely to decline by 110 to 120 bps on average after Fitch's rating decision. Potential capital erosion could be even larger for the banking industry were the Turkish Lira to face further depreciation pressures or Turkish Lira bonds were to suffer a significant sell-off, negatively affecting bond prices. Overall, management expects that Turkey's downgrade to below investment grade bond status may have medium-term negative implications on key macroeconomic balances. In particular, as of January 2017, the Bank's management estimates that the downgrade by Fitch has an approximately 100 basis points negative impact on the capital adequacy ratios of the Bank.

These downgrades, and any future or potential downgrades of the Turkish sovereign rating could negatively affect the credit rating agencies' perception of the Bank's rating. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Credit Ratings*". Investors should be aware that a credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by its assigning rating agency at any time.

The Group is controlled by two large shareholders and has business with related parties

The Bank is controlled by Koç Financial Services ("**KFS**"), which is jointly owned by Koç Holding, one of the largest conglomerate groups in Turkey, and UniCredit S.p.A. ("**UniCredit**"), an international financial services group engaged in a wide range of banking, financial and related activities in Europe. KFS owns 81.80% of the Bank's outstanding shares while the balance is held by minority shareholders. Koç Holding and UniCredit each own 50% of the shares of KFS.

The Bank believes that the involvement of Koç Holding and UniCredit has been, and will continue to be, important in the pursuit and implementation of the Bank's strategy, including providing an important source of business for the Group. Although the management of the Bank believes that these transactions are on an arm's length basis and in line with the Banking Law regulations on transactions with related parties, and that adequate controls are in place to limit the impact of the controlling shareholders, there can be no assurance that the interests of the Bank and its related parties will be at all times aligned with the interests of the Noteholders. There can be no assurance that these major shareholders will remain shareholders in the future or that they will continue to provide the Bank with new business in the future or provide financial or other support in the event of future financial turmoil, and there can be no assurance that the Bank's business and results of operations will not be materially adversely affected if the major shareholders cease to control the Bank.

KFS has the power, indirectly through a majority vote at the General Assembly, to direct the election of all of the Bank's directors and determine the outcome of most matters to be decided by shareholders' resolutions. Furthermore, the interests of the controlling shareholders and/or the BRSA may differ from those of the Bank and its creditors. As a result, the controlling shareholders and/or the BRSA may prevent the Bank from making certain decisions, may take certain actions that would benefit them or may take certain actions that fail to protect the interests of the Bank's other constituencies, including investors in the Notes. The Bank's decisions and actions may prioritise the long-term interests of the Group, rather than the interests of the Noteholders. There can be no assurance that the Bank's decisions will not negatively affect the Noteholders.

The Bank is appealing a judgment in the Istanbul Commercial Court and may be subject to legal claims by customers

The Bank is a defendant in a lawsuit filed by a Turkish company with respect to amounts collected by the Bank under an agreement for the transfer of shares in exchange for a profit sharing arrangement following the bankruptcy of the company in 1992. The litigation commenced in 2005. In May 2010, the Istanbul Commercial Court issued a judgment against the Bank in the amount of TL 25 million plus accrued interest. The Bank filed an appeal and in September 2012 the Court of Appeals overturned the decision of the Istanbul Commercial Court on the basis of incomplete review of information relating to the dispute. However, in December 2012, one of the plaintiffs objected to the appellate ruling and asked for the correction of the judgment. The Court of Appeals turned down the objection. The Istanbul Commercial Court complied with the Court of Appeals' decision and reviewed the case, taking into consideration the judgment of the Court of Appeals. In its decision, the Istanbul Commercial Court ruled against the Bank, but it decreased the compensation amount. The Bank filed an appeal against the decision of the Istanbul Commercial Court, and the Court of Appeals reversed the decision. The Bank has not recorded any provisions in its financial statements in respect of this litigation.

Since 2014, the Turkish Banking sector has been impacted by a court decision in 2013 requiring Turkish banks, including the Bank, to repay excess fees charged in prior periods in connection with making certain loans and new branch openings. In 2014 and 2015, the Bank's cost growth has been pressured by this impact. Even though the Bank believes that such fee repayments likely peaked in 2015, the Bank still had budgeted for an increasing trend for 2016. However, results for the full year 2016 showed a substantial declining trend of -61% on a year-over-year basis (2016: TL 81 million versus 2015: TL 206 million).

The Group may suffer a failure or interruption in, or breach of its information systems

The Group relies heavily upon information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or interruptions in its risk management, general ledger, deposit servicing, loan organisation and/or other important systems. If the Group's information systems failed, even for a short period of time, then it could be unable to serve some or all of its customers' needs on a timely basis and could thereby lose business. Likewise, a temporary shutdown of the Bank's information systems could result in costs that are required for information retrieval and verification. In addition, despite its investments in IT infrastructure, failure to update and develop the Group's existing information systems as effectively as its competitors may result in a loss of the competitive advantages that it believes its information systems provide. Although the Group has developed business continuity plans, back-up systems and a disaster recovery centre, and expects to be able to continue its critical operations through branches and digital channels in case of emergency, no assurance can be given that failures will not occur. As part of its two year investment strategy, significant investment has been made for disaster recovery and cyber security infrastructure to minimise any material adverse effect on the Bank's business.

The Group's business may be subject to labour disputes

The Group is exposed to the risk of labour disputes and other industrial actions. In total, as of 31 December 2016, 10,946 of the Bank's employees were members of the Union of Employees working at Banks and Insurance Companies (*Banka ve Sigorta İşçileri Sendikasi*) (the "**Union**"), amounting to approximately 60% of the Bank's employees. The Bank may experience strikes, work stoppages or other industrial actions in the future. Any such action could disrupt operations, possibly for a significant period of time, result in increased wages and benefits or otherwise have a material adverse effect on the Bank's business, financial condition and/or results of operations.

The Group is subject to operational risk

Similar to other financial institutions, the Group is susceptible to, among other things, fraud by employees or outsiders, unauthorised transactions by employees and other operational errors (including clerical or record keeping errors and errors resulting from faulty computer or telecommunications systems). The Group is also subject, from time to time, to service interruptions to third party services such as telecommunications, which are beyond the Group's control. Such interruptions may result in interruption to services to the Group's branches and/or impact customer service. Given the Group's high volume of transactions, errors may be repeated or compounded before they are discovered and rectified. In addition, a number of banking transactions are not fully automated, which may further increase the risk that human error or employee tampering will result in losses that may be difficult for any bank to detect quickly or at all. While the Group maintains a system of controls designed to monitor and control operational risk, there can be no assurance that the Group will not suffer losses from such risks. Losses from the failure of the Group's system of internal controls to discover and rectify such matters could have a material adverse effect on the Bank's business, financial condition and/or results of operations. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Bank or the Group will be unable to comply with its obligations as a company with securities admitted to listing on the Official List and admitted to trading on the Main Securities Market.

The Group is dependent on its senior management and other personnel

The Bank is dependent upon its senior management to implement its strategy and the operation of its day-to-day business. In addition, retail, corporate and other business relationships of members of senior management are important to the conduct of the Bank's business. If members of the Group's senior management were to leave, then the relationships that those employees have and which have benefited the Group may end.

In addition, the Bank's continuing success depends, in part, upon its ability to attract, retain and motivate qualified and experienced banking and management personnel. Any failure to recruit and retain necessary personnel or manage its personnel successfully could have a material adverse effect on the Bank's business, financial condition and/or results of operations.

The Group's consolidated financial statements under BRSA may not provide investors with the same information as financial statements prepared under IFRS

The Group has prepared its financial statements in Turkish Lira and in accordance with BRSA Principles (as defined in "*Presentation of Financial Information and Other Information*"). The Group's BRSA financial statements may not provide investors with the information they would have received if the financial statements were prepared under IFRS. BRSA Principles differ in certain significant respects from IFRS. Potential investors should consult their own professional advisors for an understanding of the differences between IFRS and BRSA Principles and how these differences might affect the financial information in and incorporated by reference into this Prospectus. For more information, see "*Appendix 1—Overview of Significant Differences Between IFRS and BRSA Accounting Principles*".

Risks Related to Turkey

Political developments in Turkey may have a material adverse effect on the Group's business, financial condition, results of operations and prospects

Turkey has been a parliamentary democracy since 1923. Unstable coalition governments have been common, and in the over 90 years since its formation Turkey has had numerous, short-lived governments, with political disagreements frequently resulting in early elections. Furthermore, though its role has diminished in recent years, the Turkish military establishment has historically played a significant role in Turkish government and politics, intervening in the political process. The Justice and Development Party (*Adalet ve Kalkinma Partisi*) (the "**AKP**") has been in power since 2002 and is the first party since 1987 to have a parliamentary majority and has thus been able to govern without reliance upon a coalition partner. The AKP was able to maintain its position in the most recent mayoral elections held in 2011, when it was re-elected with approximately 50% of the votes, and again in March 2014, when it was re-elected with approximately 45.5% of the votes. In August 2014, the previous prime minister was elected as the president with a majority of votes amounting to 51.8% within the whole country. Following this, the former minister of foreign affairs was appointed as prime minister and formed his own cabinet. As a result of the elections held on 7 June 2015, the AKP's position declined due to receiving approximately 41% of the votes. With these elections, the People's Democracy Party (*Halkın Demokratik Partisi*) (the "**HDP**") entered Parliament for the first time. Since none of the parties sustained a majority to establish a council of ministers alone and coalition negotiations among parties failed, a new election was held on 2 November 2015. With this election, the AKP's position was strengthened with approximately 49.9% of the votes, which is sufficient to establish a council of ministers without a coalition. Significant uncertainty remains, however, regarding the economic agenda of the new government (including its impact on the independence of the Central Bank), and failure to continue an orthodox reform plan could significantly impact investors' perceptions of Turkey and its future growth.

Following the November 2015 elections, the AKP announced its intention to replace the existing constitution with a new constitution and to create an executive presidency. On 5 May 2016, the Central Executive Board of the AKP decided to hold an extraordinary convention on 22 May 2016, in which the AKP elected Mr. Binali Yıldırım as the new chairman of the AKP and the new prime minister of Turkey, replacing Mr. Ahmet Davutoğlu. The events surrounding future elections and/or the results of such elections could contribute to the volatility of Turkish financial markets and/or have an adverse effect on investors' perception of Turkey, including with respect to the independence of Turkey's financial institutions.

Turkey has, both historically and recently, experienced controversies between the Government and the military. In 2007, a series of investigations were commenced including military officers, scholars, journalists and others based upon allegations of a planned coup. The Government has also proposed changes to the Constitution affecting the judicial system in Turkey. On 7 July 2010, the Constitutional Court of Turkey passed the majority of the amendments but cancelled several amended provisions when it published its decision in the Official Gazette on 1 August 2010. The remaining sections of the constitutional amendments were subject to a public referendum that was held on 12 September 2010. Pursuant to the final decision of the High Commission on Elections (*Yüksek Seçim Kurulu*) published on 14 September 2010, 57.88% of the votes cast were in favour of the amendments, resulting in their approval by the public.

Since the end of May 2013, Turkey has experienced on-going internal unrest including protests and demonstrations throughout the country against the current Government's policies. The protests started in Istanbul against plans to replace Gezi Park, an urban park in Istanbul's central Taksim Square, with

a commercial development, and they soon spread to Ankara and other major cities in Turkey. These protests resulted in confrontations among protestors and security forces. Since late 2013, Turkish politics have been particularly volatile, commencing with a series of arrests of prominent businessmen and family members of some cabinet ministers (who have since resigned) on suspicion of corruption. While the causes of these events are uncertain, there is speculation that it reflects a division among important elements of the Government, police and judiciary. The Government's responses to these events have included the removal of certain prosecutors and police from their offices and proposals to change the manner in which the police and judicial authorities are supervised by the national Government, which has led to concerns about the separation of powers. Recently, the BRSA's regulatory actions regarding Bank Asya (which resulted in the SDIF taking control of Bank Asya on 3 February 2015) have incurred criticism from a number of Turkish politicians. The BRSA announced it was taking such action due to Bank Asya's violation of a provision of the Banking Law that requires banks to have transparent and open shareholding and organisational structure that does not obstruct the efficient auditing of the bank by the BRSA. On 29 May 2015, the management of Bank Asya was transferred to SDIF through the BRSA's decision. The uncertainty after the election on 7 June 2015 pertaining to government prospects also led to a pick-up in Kurdish insurgence as of mid-July, despite the historical election success of the predominantly Kurdish Party HDP. On 4 November 2016, two joint leaders of the HDP along with some prominent MPs from the HDP were detained, which was followed by a widespread difficulty in reaching social media websites. Political analysts point out that detention of high-profile members of the HDP may lead into a higher risk of instability arising from insurgent activities.

In addition, on 21 January 2017, the Turkish Parliament approved a bill that would, if approved in a referendum expected to be held in April 2017, amend certain articles of the Turkish Constitution to expand the powers of the president to create an executive presidency.. Serious disputes between senior politicians occurred during the process of parliamentary approval and political uncertainty is likely to continue in 2017. The Government has also called for loosening of monetary policy by the Turkish Central Bank, which has been limited to date. The above events, which coincided with the US Federal Reserve's decision to reduce monthly asset purchases and increase interest rates, have contributed to significant declines in the value of the Turkish stock market and the Turkish Lira.

There can be no assurance that the political instability in Turkey will not continue or that the political situation in Turkey will not further deteriorate. Actual or perceived political instability in Turkey or any negative changes in the political environment, including further conflicts between senior politicians in Turkey or the failure of the Government to devise or implement appropriate economic programmes, may individually or in the aggregate adversely affect the Turkish economy and, in turn, the Group's business, financial condition, results of operations and prospects and the value of the Notes. In particular, any perception that the constitutional change to an executive presidency may restrict parliamentary and judicial supervision of executive decisions may also increase political instability or otherwise negatively impact investors' perception of the Turkish political climate, which could result in a number of negative impacts, including deteriorating asset prices and weaker economic activity.

Increased political risks following the coup attempt of July 2016

On 15 July 2016, the Turkish government was subject to an attempted coup by a group within the Turkish army. The Turkish government and the Turkish security forces (including the Turkish army) took control of the situation in a short period of time and the ruling government remained in control. On 20 July 2016, after the failed coup attempt, the Turkish President announced, pursuant to Article 120 of the Turkish Constitution, a nationwide three month state of emergency, which was further extended twice for three months, entitling the government to exercise additional powers. Under Article 120 of the Turkish Constitution, in the event of serious indications of widespread acts of violence aimed at the destruction of the free democratic order, a state of emergency may be declared in one or more regions of, or throughout, the country for a period not exceeding six months. This period may, however, be extended and may be subject to risks that affect the bank's operating environment.

The government has arrested, discharged or otherwise limited, in aggregate, thousands of members of the military, the judiciary and the civil service, restricted media outlets and otherwise taken actions in response to the coup attempt, including expansion of these actions to the business community. There may also be disruptions in the operations of public institutions (such as the BRSA) as teams are reorganised, which may impact operations in the Bank that are dependent on such public institutions. As of early 2017, investigations

with respect to the attempted coup are ongoing. There might be further arrests and actions taken by the government in relation to these investigations, including changes in policies and laws. Any future investigations may include customers of the Bank, which could impact such customers' ability to meet their obligations and may in turn result in an adverse impact on the Bank's loan portfolio. The ongoing investigations following the failed coup attempt and state of emergency have contributed to uncertainty surrounding the Turkish political environment. Despite signs of political unity in the immediate aftermath of the coup attempt, tensions between political parties have recently increased, especially during the parliamentary approval process for constitutional changes and any consolidation of political power due to the potential executive presidency may have a detrimental effect on political checks and balances.

During July 2016, Moody's placed Turkey's sovereign credit rating and the ratings of 17 Turkish banks on review for potential downgrade; S&P downgraded Turkey's sovereign rating and those of five Turkish banks; and Fitch changed Turkey's sovereign rating outlook from "stable" to "negative." Moody's then downgraded Turkey's sovereign rating in September 2016. On 4 November 2016, although S&P affirmed the country's long-term foreign credit rating at BB, it upgraded its outlook for Turkey's sovereign credit rating to "stable" from "negative" on 4 November 2016. On 27 January 2017 it downgraded its outlook for Turkey to "negative" from "stable", citing mainly the sharp depreciation of the Turkish Lira against the U.S. dollar and insufficient monetary policy response, which together pose a serious inflationary risk. In addition, on the same day, Fitch downgraded Turkey's sovereign credit rating to "BB+" from "BBB-", based on the potential adverse effects of the constitutional referendum on checks and balances, the renewal of the state of emergency related to the coup attempt and damaged consumer confidence and tourism sector due to recent terrorist attacks. Although as of the date of this Prospectus, the Bank's operations have not been materially affected, the political and social circumstances surrounding the attempted coup and its aftermath (including rating downgrades of Turkey and the Bank) might have a negative impact on the Turkish economy (including the value of the Turkish Lira, international investors' willingness to invest in Turkey and domestic demand), the institutional and regulatory framework, the Bank's liquidity and/or conditions (financial or otherwise) and/or the value and/or market price of an investment in Notes issued under the Programme.

Conflict and uncertainty within Turkey or in neighbouring and nearby countries may have a material adverse effect on the Group's business, financial condition, results of operations or prospects

Turkey is located in a region that has been subject to on-going political and security concerns, especially in recent years. Political uncertainty within Turkey and in certain neighbouring and nearby countries, such as Iraq, Syria, Iran, Georgia, Cyprus, Egypt, Tunisia and Armenia has historically been one of the potential risks associated with an investment in Turkish securities.

Since December 2010, political instability has increased markedly in a number of countries in the Middle East and North Africa, such as Syria, Iraq, Egypt, Libya, Tunisia, Jordan, Bahrain and Yemen. Tensions have also increased between a number of Middle Eastern states, notably Iran and Saudi Arabia. Unrest in these countries (as well as global tensions with Iran and between Russia and Ukraine) may have political implications in Turkey or otherwise have a negative impact on Turkish economy, including through both financial markets and the real economy.

Political instability in the Middle East was recently exemplified by the internal conflict in Syria and tension between Iran and Israel. Tensions between Syria and Turkey have intensified following the shooting down of a Turkish aircraft by Syrian forces in June 2012 and more recently a mortar attack on the Turkish border town of Akçakale, which killed five civilians. In response to this, on 4 October 2012, the Turkish Government was authorised for a period of one year to send and assign military forces in foreign countries, if deemed necessary, while the United Nations Security Council issued a statement condemning the attack on Akçakale by the Syrian armed forces. On 3 October 2013, the authorisation was extended for an additional year. Similarly, on 2 October 2014, the Government was authorised for a period of one year to send and assign military forces in foreign countries due to terrorist acts conducted by the Islamic State in Iraq and the Levant ("**ISIL**") in Syria and Iraq and the Government also allowed for foreign anti-ISIL military operations to be launched from within Turkish borders.

In May 2013, a terrorist attack was conducted, resulting in the death of approximately 45 people when two cars exploded at the Turkish Syrian border Reyhanli – Hatay Province. Global tensions with Syria continued to rise in the second half of 2013 with leaders of several Western nations, including the U.S., U.K. and France,

calling for military action, although there was widespread domestic and international opposition to such action. In March 2014, Turkey shot down a Syrian combat jet which infringed Turkish airspace despite prior warnings. Turkey has also experienced problems with domestic terrorist and ethnic separatist groups including the People's Congress of Kurdistan, formerly known as PKK.

Since then, the situation in Iraq and Syria has further deteriorated. In June 2014, ISIL and aligned forces began a major offensive in northern Iraq against the Iraqi government, capturing several cities and other territory in this region and oil fields in eastern Syria. In August 2014, the Syrian Observatory for Human Rights reported that ISIL had increased its strength to approximately 50,000 fighters in Syria and 30,000 in Iraq. In August and September 2014, a U.S. led coalition began an anti-ISIL aerial campaign in northern Iraq and Syria. Recent developments in Iraq also raise concerns as Iraq is one of Turkey's largest export markets, ranking third in 2016 according to TurkStat and the Energy Market Regulatory Board (*Enerji Piyasası Düzenleme Kurumu*). At the end of July 2015, Turkey joined the U.S.-led coalition and initiated air strikes against ISIS in Syria and against the People's Congress of Kurdistan, formerly known as PKK in northern Iraq.

In early October 2014, ISIL besieged the Syrian Kurdish town of Kobani and the Government, to date, has not authorised deployment of its military forces to the Syrian-Turkish border to prevent the city from falling under the control of ISIL. As a result, there has been unrest and protests from Kurdish groups within Turkey. As of October 2014, demonstrations over Kobani had resulted in 52 deaths. Kobani was ultimately liberated through the help of Peshmerge forces that infiltrated into the region through Turkey, under Turkey's control. However, Turkey had to join the coalition's fight against ISIL more overtly and aggressively following the bombing of a "help-Kobani" event that resulted in the death of 31 people excluding the suicide bomber. Almost concurrent with this attack were alleged PKK attacks against the Turkish Army and security forces. The truce had virtually ended when a number of high profile sabotages, including kidnappings, were reported in mid-July, thus the level of conflict has been further raised. On 10 October 2015, an explosion took place in Ankara resulting in the deaths of approximately 100 civilians. The responsible party behind this explosion is still unconfirmed.

Although the Bank does not have significant direct exposure with respect to Iraq, many Turkish companies, including many of the Bank's clients, do have such exposure. Therefore, the continuation of this situation and/or its further deterioration could have a material negative impact on the Turkish economy, the business of the Bank's clients and consequently also the Group.

The ongoing conflict in Syria has been the subject of significant international attention and its impact and resolution is difficult to predict. Given Turkey's close proximity to the conflict zone, Turkey has deployed additional troops near the Syrian border since the beginning of the conflict to strengthen its military position. In August 2016, Turkey's military began direct operations in Syria to combat ISIL and the People's Protection Units, a Kurdish separatist group in northern Syria. As a result of such operations, tensions with certain international stakeholders could increase, and Turkey may face increased security risks if terrorists seek to retaliate for increased military actions. Since Turkey continues its struggle against ISIL in an ever more engaged manner, as it is committed to support and indirectly join to the Mosul offensive, the risk of increase in this tension has grown further. Any escalation of political instability or international military intervention in Syria and/or a more aggressive stance by Assad's allies, Russia, Iran, and China against Turkey and opposition supporters may act as a destabilising factor for Turkey. Elevated levels of conflict have arisen in Iraq and Syria as militants of the ISIL seized control of areas in Iraq and Syria, which has caused a significant displacement of people. The high number of refugees within Turkey's borders and foreign intelligence agents infiltrating both refugee camps and local communities remain current threats. Turkey has been one of the countries that have taken a significant number of Syrian refugees, which has had, and might continue to have, a negative economic, political and social impact on Turkey. In March 2016, Turkey signed an agreement with the EU in an effort to control the irregular flow of refugees from Turkey to the EU; *however*, such agreement might not be implemented in accordance with its terms, if at all.

In late 2015, Russian war planes started air strikes in Syria in support of the Syrian government. On 24 November 2015, Turkey shot down a Russian military aircraft near the Syrian border claiming a violation of Turkey's airspace, which has resulted in deterioration in the relationship between Turkey and Russia and led to Russia implementing certain sanctions against Turkey. Russia has become Turkey's second largest trading partner and the largest supplier of natural gas to Turkey. The impact on Turkey's economic

relationship with Russia and geopolitical implications remain uncertain. While the long-term impact of these events on Turkey's economic and geopolitical circumstances is unpredictable, heightened tensions between Turkey and Russia over Syria could materially negatively affect the Turkish economy, including through any negative impact on Turkey's tourism revenues or its access to Russian energy supplies. Any such negative impacts might have a material adverse effect on the Group's business, financial condition and/or results of operations and on the market price of the Notes.

Regional conflicts, terrorist attacks and the threat of future terrorism have had and could continue to have a material adverse effect on Turkey's capital markets, the level of tourism, foreign investment and other elements of the Turkish economy and on the Bank's financial condition and results of operations. Turkey has experienced increasing incidents of terrorist attacks in 2016, both from ISIL and the People's Congress of Kurdistan, formerly known as PKK. On 29 June 2016, a terror attack struck Istanbul's Atatürk International Airport, which resulted in at least 42 people killed and more than 230 injured. On 10 December 2016, 44 people were killed and more than 160 were injured at a result of twin bombings in central Istanbul, whereas the attack was claimed by TAK, a PKK splinter group. On 1 January 2017, 39 people were killed and 69 were injured following a shooting in a nightclub in İstanbul. The attack was linked to ISIL. On 5 January 2017, two people were killed and 11 other were wounded in a terrorist attack in Izmir which was further claimed by TAK. While the Bank's property and business interruption insurance covers damage to insured property directly caused by terrorism, there can be no assurance that such amounts will be sufficient to cover any losses that it may incur. Finally, escalation of the political instability in the Middle East could be a destabilising factor for Turkey (particularly south-eastern Turkey, where terrorist incidents and violence have increased in recent months) and the region as a whole.

The above circumstances have had and could continue to have a material adverse effect on the Turkish economy and the Bank's clients, and in turn have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

In addition, in early 2014, political unrest and demonstrations in Ukraine led to a change in the national government. While the United States and the EU recognised the new government, Russia claimed that the new government was illegitimate and was violating the rights of ethnic Russians living in the Crimean peninsula and elsewhere in Ukraine. Escalating military activities in Ukraine and on its borders, including Russia effectively taking control of Crimea (followed by Crimea's independence vote and absorption by Russia) have combined with Ukraine's very weak economic conditions to create great uncertainty in Ukraine and the global markets. In addition, the United States and the EU have implemented increasingly impactful sanctions against certain Russian entities, persons and sectors, including Russian financial, oil and defence companies, as a result of the conflict. While not directly impacting Turkey's territory, the dispute could negatively affect Turkey's economy, including through its impact on the global economy and the impact it might have on Turkey's access to Russian energy supplies. This, in turn, may have an adverse effect on the Group's business, financial condition, results of operations and prospects.

Turkey's economy may be impacted by adverse events in other emerging markets

Emerging markets such as Turkey are subject to a greater risk of being perceived negatively by investors based upon external events (for example, volatility in the emerging markets, monetary policies in the United States and the Eurozone, continued violence in Syria and Iraq or a slowdown in China's growth) than more-developed markets are, and financial turmoil in any emerging market (or global markets generally) could have a "contagion" effect and disrupt the business environment in Turkey. Moreover, financial turmoil in one or more emerging markets tends to adversely affect stock prices and the prices for debt securities in all emerging market countries as investors move their money to countries that are perceived to be more stable and economically developed. An increase in the perceived risks associated with investing in emerging economies could dampen capital flows to Turkey and adversely affect the Turkish economy. As a result, investors' interest in the Notes (and thus their price) may be subject to fluctuations that may not necessarily be related to economic conditions in Turkey or the financial performance of the Group.

In December 2015, the U.S. Federal Reserve raised the U.S. federal funds rate by 0.25%. While the impact of any future rate increase is uncertain, this initial step towards normalization reduced some volatility, permitting the Turkish Lira and certain other emerging market currencies to appreciate. However, in the fourth quarter of 2016, due to an increase in political risk-perception, the U.S. Dollar appreciated against the Turkish Lira by

17.28% on a nominal basis. An increase in the perceived risks associated with investing in emerging economies could adversely affect the Turkish economy, and the investors' interests in the Notes (and thus their market price) might be subject to fluctuations that might not necessarily be related to economic conditions in Turkey or the financial performance of the Group. While the impact of the recent global financial crisis on Turkey was relatively limited, Turkey has been adversely affected by such contagion effects on a number of occasions in the past, including following the financial crises in 1994 and 2000 to 2001. Similar developments can be expected to affect the Turkish economy in the future, which might, in turn, have an adverse impact on the prices of obligations of Turkish capital markets issuances, including the Notes.

On 23 June 2016, the UK held a referendum to decide whether the UK's membership of the EU would continue. The UK voted in favour of leaving the EU. There are a number of uncertainties in connection with the future of the UK and its relationship with the EU. The negotiation of the UK's exit terms may take a number of years, and is likely to increase volatility in global financial markets as well as in the EU, which is Turkey's principal export market. The situation and consequences of the referendum and impact on markets remain highly uncertain. In addition, any future withdrawal by another Member State from the EU and/or European Monetary Union, any significant changes to the structure of the EU and/or European Monetary Union or any uncertainty as to whether such a withdrawal or change might occur could have a material adverse effect on the Group's business, financial condition, results of operations and prospects. The Group's performance will continue to be influenced by conditions in the global economy. The outlook for the global economy over the near to medium term remains challenging, which also impacts prospects for stabilisation and improvement of economic and financial conditions in Turkey. If the EU economies suffer any growth setback as a result of the UK's departure, that would have an adverse impact on Turkey's exports to EU and on the country's growth performance.

Investors' interest in Turkey may be negatively affected by events in other emerging markets or the global economy in general, which could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Turkey's economy has been undergoing a significant transformation and remains subject to ongoing structural and macroeconomic risks

Since the mid-1980s the Turkish economy has moved from a highly protected state-directed system to a market-oriented free enterprise system. Reforms have, among other things, largely removed price controls and reduced subsidies, reduced the role of the public sector in the economy, emphasised growth in the industrial and service sectors, liberalised foreign trade, reduced tariffs, promoted export growth, eased capital transfer and exchange controls, encouraged foreign investment, strengthened the independence of the Central Bank, led to full convertibility of the Turkish Lira by accepting Article VIII of the International Monetary Fund's (the "**IMF**") Articles of Agreement and overhauled the tax system.

However, the Turkish economy has also experienced a succession of financial crises and severe macroeconomic imbalances. These include substantial budget deficits, significant current account deficits, high rates of inflation and high real rates of interest. These factors have resulted in a substantial depreciation of the Turkish Lira against major foreign currencies, particularly between 1994 and 2001. During the post-2000 crisis era, as Turkey's investment/savings balance had been deteriorated due to high dependence on domestic demand, external imbalances increased Turkey's vulnerability to external shocks and, in mid-2013, when these imbalances were coupled with a rise in political risks and social unrest, the Turkish Lira faced a strong depreciation.

In 2001, Turkey implemented a macroeconomic programme, backed by a U.S.$19.0 billion stand-by agreement with the IMF. The Government signed a further three year stand-by agreement with the IMF in 2005. Although there were negotiations on the conditions of a new stand-by agreement between Turkey and the IMF in 2009, these negotiations were unsuccessful and the Government has refrained from signing a new agreement with the IMF, citing disagreement over issues such as funding for local government.

The structural transformation of the Turkish economy in the immediate aftermath of the 2001 financial crisis ushered in an episode of strong growth. From 2002 through 2007, Turkey's GDP expanded by an average of 6.8% in real terms. This period of strong growth was driven mainly by the private sector, whose consumption and investment expenditures grew by 7.8% and 15.3% annually on average within this period. On the other hand, the public sector's contribution to GDP growth was lower as public consumption and investment

expenditures expanded by 4.2% and 2.4%, respectively on average. Nonetheless, growth momentum began to weaken from early 2007 as pent-up private demand faded and political concerns from the presidential and parliamentary elections weighed on consumer and business confidence. Consequently, real GDP growth weakened to 4.7% in 2007 from 6.9% in 2006. In 2008, due to the slowdown in global economic activity and continuing political tensions in Turkey, real GDP growth was only 0.7%. The economic contraction that began in 2008 deepened in 2009 as domestic demand slumped sharply and GDP declined by 4.8%. Following the decline in 2009, Turkey's GDP grew by 9.2% in 2010, 8.8% in 2011, 2.2% in 2012, 4.2% in 2013, and 2.9% in 2014 according to TurkStat. The Turkish Ministry of Economy and the Central Bank took measures to cool down the economy following high growth in 2011 and 2012 and high current account imbalances and the slowdown was achieved albeit at a rate somewhat lower than intended. In 2012, there was a change in the sources of growth as the contribution of domestic demand was negative while that of external demand was positive. On 12 December 2016, Turkstat changed the method of calculation to determine economic growth in Turkey and revised the figures announced for the previous periods that were calculated in line with the former method. In line with the calculations made with the new method, the GDP contracted by 1.8% in the third quarter of 2016 but grew 2.2% in the first nine months of 2016. The GDP growth for the first quarter and second quarter of 2016 were each revised to 4.5% from 4.7% and 3.1%, respectively, and the GDP growth in full year 2015 is revised to 6.1% from 4.0%.

In 2013, as domestic demand started to rebalance, annual GDP growth reached 4.2%. Private consumption increased faster than private investments, with a contribution of 3.4 percentage points to the GDP growth, while the latter barely exceeded its previous year's performance. The GDP growth in 2014 was primarily driven by an increase in external demand (net exports) and government expenditures which was offset by relatively flat private consumption and a negative contribution of capital formation and a small decline in imports. Turkey's growth is expected to be negatively impacted during 2015 by a reduction in global liquidity and a decrease in fund flows to emerging markets, as well as continuing volatility in the markets.

The Government's current medium-term economic programme, which came into force in September 2013 and runs through 2016, set growth targets of 4.0% for 2014 and 5.0% for 2015 and 2016, as well as a gradual decrease in the net public debt to GDP ratio. As of 31 March 2014, the EU defined general government nominal debt to GDP ratio was 33.5%. Co-operation with the IMF is expected to continue for the immediate future. It is likely that this co-operation will focus on structural reform and other areas envisaged under the medium-term programme.

There can be no assurance that Turkey and the IMF will reach a mutual understanding over new macroeconomic targets and, even if agreed upon, there can be no assurance that any such agreement would help Turkey to remain economically stable during any current or future macroeconomic imbalances or that IMF support for Turkey will continue. Furthermore, there can be no assurance that Turkey will be able to remain economically stable during any periods of renewed global economic weakness. Future negative developments in the Turkish economy could impair the Bank's business strategies and have a material adverse effect on the Bank's business, financial condition and results of operations.

After having successfully completed two stand-by arrangements with the IMF, Turkey paid the last instalment to the IMF in May 2013 and is currently not liable for further payments.

In January 2016, the government announced a three year medium-term economic program from 2016 to 2018. Under this program, the government set growth targets of 4.5% for 2016 and 5.0% for each of 2017 and 2018, as well as a gradual decrease in the net public debt to GDP ratio, according to the Ministry of Development. There can be no assurance that these targets will be reached, that the Turkish government will continue to implement its current and proposed economic and fiscal policies successfully or that the economic growth achieved in recent years will continue considering external and internal circumstances, including the Central Bank's efforts to curtail inflation and simplify monetary policy, the current account deficit and macroeconomic and political factors, such as changes in oil prices and uncertainty related with conflicts in Iraq and Syria (See "*—Conflict and uncertainty within Turkey or in neighbouring and nearby countries may have a material adverse effect on the Group's business, financial condition, results of operations or prospects*").

Any of these developments might cause Turkey's economy to experience macro-economic imbalances, which might impair the Group's business strategies and/or have a material adverse effect on the Group's business,

financial condition and/or results of operations. See "*—Risks Related to the Turkish Banking Industry—The profitability and profitability growth of Turkish banks, including the Group, in recent periods may not be sustainable as a result of regulatory, competitive and other factors impacting the Turkish banking sector*".

Turkey's economy is subject to inflation and risks relating to its current account deficit

In the past, Turkey has experienced high annual rates of inflation. This has historically been considered one of the most significant problems faced by the Turkish economy.

Over the five-year period ended 31 December 2002, the Turkish economy experienced annual inflation averaging approximately 54.4% per year as measured by the CPI. Disinflationary measures were adopted in 2002 and by 2005, the annual CPI had fallen to 7.7%. Although Turkey adopted an open inflation targeting framework in 2006 with binding inflation targets, inflation, as measured by the CPI, remained in the range of 9% to 11% between 2006 and 2008, above the Central Bank's medium-range target of 5%, and was driven by a succession of inflationary shocks such as the depreciation of the Turkish Lira in 2006 and a surge in commodity prices in 2007 and 2008. The annual CPI climbed to 9.5% in 2006 (compared to the target rate of 5%) and, in 2007 and 2008, the annual CPI rates were at 8.4% and 10.1%, respectively. As a result of weak domestic demand and declining energy prices, the annual CPI in 2009 was 6.5%, the lowest level in many years. From 31 December 2009 to 31 March 2010, inflation grew by 3.9%, due to temporary increases in government expenditure and increased taxes. However, as government expenditure was curtailed in the first half of 2010, inflation decreased, and the CPI amounted to 6.4% in 2010 and 6.2% during the first half of 2011, although inflation increased by 10.4% on a year-to-year basis by December 2011, driven by the depreciation of the Turkish Lira. For the year ended 31 December 2012, the CPI decreased to 6.2% in line with a gradual slowdown in economic growth which outpaced expectations, and for the years ended 31 December 2013 and 2014, the CPI was at 7.4% and 8.2%, respectively. Emerging markets experienced volatility in inflationary pressures during the first half of 2013 in line with expectations of fiscal tightening in developed markets, particularly by the United States Federal Reserve. Capital outflows have led to the depreciation of domestic currencies in all emerging markets. On 31 December 2015, CPI stood at 8.8%, mainly driven by imported goods and pass-through effect from the depreciation of the Turkish Lira and rising food prices. The yearly CPI for 2016 was 8.53%.

As an increase in the current account deficit might erode financial stability in Turkey, the Central Bank closely monitors the U.S. Federal Reserve's actions and takes (and has taken) certain actions to maintain price and financial stability. In December 2015, the U.S. Federal Reserve raised the U.S. federal funds rate by 0.25%. While the impact of any future rate increase is uncertain, this initial step towards normalisation reduced some volatility, permitting the Turkish Lira and certain other emerging market currencies to appreciate. In this context, instead of responding to the U.S. Federal Reserve's actions by changing the interest rates, the Central Bank tightened further the liquidity of the Turkish Lira.

Although recent policies have had some success in reducing inflation from its formerly high levels, inflation has increased again in recent years and there can be no assurance that they will continue to be successful in the future, especially given Turkey's substantial current account deficit and global liquidity conditions. If the level of inflation in Turkey were again to fluctuate or increase significantly (for any reason), then the Bank's costs may increase, and, if not accompanied by an increase in interest rates, then its operating and net margins may decrease. Inflationary pressures may also curtail the Bank's ability to access foreign financial markets and may lead to further Government intervention in the economy, including the introduction of Government policies that may adversely affect the overall performance of the Turkish economy. The various impacts of inflation thus may have a material adverse effect on the Bank's business, financial condition and/or results of operations.

Moreover, the size of Turkey's current account deficit could lead to exchange rate adjustments and higher inflation, which could have a material adverse effect on the Bank's business, financial condition and/or results of operations. The current account deficit widened significantly from U.S.$45.4 billion in 2010 (6.2% of GDP) to U.S.$75.1 billion (9.7% of GDP) in 2011, according to the Central Bank. This rapid widening raised concerns regarding financial stability in Turkey, and led to the Central Bank, the BRSA and the Ministry of Finance initiating coordinated measures to lengthen the maturity of deposits, reduce short-term capital inflows and curb domestic demand. The main aim of these measures has been to slow down the widening of the current account deficit by controlling the rate of loan growth. The decline in the current account deficit

experienced in 2012 came to an end in early 2013, with the current account deficit increasing to U.S.$63.6 billion in 2013 due principally to a recovery in domestic demand; *however*, to combat this increase, a package of macro-prudential measures issued by the BRSA to limit domestic demand, the Central Bank's tight monetary policy and increases in taxes, combined with the depreciation of the Turkish Lira and reduced oil prices, contributed to a decrease in the current account deficit to U.S.$43.6 billion and U.S.$32.2 billion in 2014 and 2015, respectively. However the trend of decline has reversed in third quarter of 2016, due to the depreciation of Turkish Lira against the U.S. dollar. On a 12-month basis, Turkey's current account deficit declined further to U.S.$33.7 billion as of November 2016. Although these measures have been beneficial, various events including poor economic conditions in Turkey's primary export customers and geopolitical risks (such as recent tensions between Turkey and Russia), might result in an increase in the current account deficit, including due to the possible impact on Turkey's foreign trade and tourism revenues.

Turkey is an energy-dependent country and recorded U.S.$37.8 billion of energy imports in 2015. In 2015 Turkey's current account deficit reached U.S.$32.2 billion and, as such, energy imports exceeded the country's current account deficit and represented 18.3% of Turkey's total imports during 2015. While falling oil prices in December 2015 and early 2016 have resulted in a positive impact on Turkey's current account deficit, any geopolitical development concerning energy security could have a material impact on Turkey's current account balance. With regard to this, the efforts in northern Iraq to export its oil reserves via Turkish territory might lower Turkey's energy costs; however, in order to export its oil reserves, the regional government in northern Iraq would need to reach an agreement with Iraq's central government. Turkey might also be able to diversify its energy suppliers and lower its energy cost as a result of the interim arrangement between China, France, Russia, the United Kingdom, the United States and Germany and Iran. Nonetheless, both of these approaches are subject to significant political and other risks and may not result in reduced energy costs to Turkey.

The current account deficit still remains a significant concern for policy makers and may be subject to further intervention. Should the Central Bank adopt any additional measures to limit any increase in the current account deficit, such measures would likely reduce economic growth and, in turn, have a material adverse effect on the Bank's business, financial condition and/or results of operations.

The value of the Turkish Lira fluctuates against other currencies

In real terms, the Turkish Lira depreciated by approximately 9.1% as of 31 December 2013, appreciated by 4.7% as of 31 December 2014, and depreciated further by 7.0% as of 31 December 2015, according to the Central Bank's CPI-based Real Effective Exchange Rate Index. As of December 2016, the CPI-based Real Effective Exchange Rate decreased by 5.5%.

In nominal terms, between December 31, 2014 and December 31, 2015, the Turkish Lira depreciated against the U.S. Dollar by 25.4%. In the fourth quarter of 2016, the U.S. Dollar appreciated against the Turkish Lira by 17.28% on a nominal basis. Further macroeconomic uncertainties may result in future volatility in the value of the Turkish Lira, which could in turn adversely impact the Bank's capital adequacy. In particular, the value of the Turkish Lira depreciated against major currencies in 2015 largely due to the increased risk perception in global markets regarding the market's expectation of the U.S. Federal Reserve's increase of the U.S. federal funds rate and the uncertainty resulting from the general elections in Turkey and other political events. See "*—Political developments in Turkey may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.*"

Against these developments, the Central Bank prepared a roadmap to react to a possible rate hike by the U.S. Federal Reserve. The roadmap, which has as its base case a normalization process by the U.S. Federal Reserve, proposes the implementation of tight liquidity for the Turkish Lira, a balanced foreign exchange liquidity and financial sector policies that are supportive of a tighter monetary policy. In December 2015, the U.S. Federal Reserve raised the U.S. federal funds rate by 0.25%. While the impact of any future rate increase is uncertain, this initial step towards normalization reduced some volatility, permitting the Turkish Lira and certain other emerging market currencies to appreciate. In 2016, the Turkish Lira appreciated against the U.S. Dollar. In this context, instead of responding to the U.S. Federal Reserve's actions by changing the interest rates and implementing the roadmap, the Central Bank tightened further the liquidity of the Turkish Lira. Having declined to 7.6% in March 2015, the Central Bank's average funding rate increased to 9.0% in September 2015, before declining to 8.8% as of the end of 2015. The Central Bank's average funding rate

further increased to 9.1% in February 2016, but then subsequently decreased to below 9.0% in March 2016 due to the U.S. Federal Reserve's dovish stance in its March 2016 meeting. The rate subsequently fell below 8.0% at the beginning of August on the back of the Central Bank's interest rate cuts between March 2016 and July 2016. Even though the Turkish Lira appreciated by 2.6% in the first quarter of 2016, due to the uncertainty resulting from the domestic political developments in the second half of the year, there was volatility in the Turkish Lira resulting in a 6.7% depreciation against the U.S. Dollar in November 2016, compared to the 2015 year end value. As of 2016 year end, Turkish Lira depreciated by 21.03% against U.S. Dollar compared to the 2015 year-end value.

Turkey had current account deficits of U.S.$48.0 billion in 2012 (5.6% of GDP), U.S.$63.6 billion in 2013 (6.7% of GDP), U.S.$43.6 billion (4.7% of GDP) in 2014, U.S.$33.7 billion (3.7% of GDP) in 2015 and U.S.$33.8 billion (4.0% of GDP) in the twelve months to 30 November 2016. The increase in 2013 was mainly driven by gold imports, while the recovery in the current account deficit in 2014 stemmed from sluggish domestic demand, lower global oil prices and the recovery on the foreign trade front. The Central Bank's monetary policy aims to create a sustainable balance between external and domestic demand, but it will take time for the effects of the measures taken to be seen and there can be no assurance these policies will continue. Given Turkey's savings and investments structure, it is not possible for Turkey to achieve its targeted growth figures without current account imbalances. Should the current account deficit widen persistently, this may lead to a sudden adjustment in the Turkish Lira with inflationary consequences. If the downturn in the global financial markets continues, this could have an adverse effect on Turkey's debt servicing ability. Although the Turkish Lira has a more stable outlook compared to the 1990s, the exchange rate remains volatile. Any significant further depreciation of the Turkish Lira against the U.S. dollar or other major currencies may adversely affect the financial condition of Turkey as a whole and may have a material adverse effect on the Bank's business, financial condition and/or results of operations.

Certain sectors of the Turkish economy might have been or become overdeveloped, which might result in a negative impact on the Turkish economy.

Certain sectors of the Turkish economy might have been (or might become) overdeveloped, including in particular the construction of luxury residences, shopping centres, office buildings, hotels and other real estate related projects and various renewable energy-related projects. For example, significant growth in the number of hotels is projected to occur over the coming years in anticipation of a continuing growth in international tourism, which might or might not in fact occur in light of geopolitical, economic or other factors. Any such overdevelopment might lead to a rapid decline in prices of these and other properties or the failure of some of these projects. Even if this does not occur, the pace of development of such projects might decline in coming years as developers and project sponsors seek to reduce their risk, which might negatively affect the growth of the Turkish economy. Should any of such events occur, then this could have a material adverse effect on the Group's business, financial condition and/or results of operations.

Turkey is subject to earthquakes

Almost all of Turkey is classified in a high risk earthquake zone by seismologists. Almost 45% of Turkey's population and most of its economic resources are located in a first-degree earthquake risk zone. Turkey has experienced a large number of earthquakes in recent years, some of which have been quite significant in magnitude. In 1999, separate earthquakes measuring 7.5 and 7.2 on the Richter scale struck an area near the city of Izmit, and the city of Düzce, respectively, resulting in the loss of thousands of lives and the destruction of many buildings. These earthquakes resulted in substantial financial costs to Turkey. As recently as October 2011, the eastern part of the country was struck by an earthquake measuring 7.2 on the Richter scale, causing property damage and the loss of several lives. The Bank maintains insurance policies covering earthquake damages and appropriate measures have been taken to minimise the risks associated with potential earthquakes, such as operating a disaster recovery centre in a lower earthquake risk zone for the continuation of its operations. However, in the event of major earthquakes, effects from the direct impact of such events on the Group and its employees, as well as measures that could be taken by the Government (such as the imposition of taxes to raise revenue for rebuilding), may have a material adverse effect on the Group. To finance in part the rebuilding of the areas affected by the large earthquakes of 1999, a package of measures was passed by the Turkish Parliament in November 1999, including a new law that subjected interest earned on domestic treasury securities issued before 1 December 1999 to an additional tax at a rate of 4% to 19% depending upon their maturity. There can be no assurance that Turkey would recover from the negative

economic impact of a major earthquake or that the recent GDP growth rate would be sustainable. A severe earthquake could negatively impact the Turkish economy, which could adversely affect the Turkish banking sector and the Bank's business, financial condition and/or results of operations.

The Turkish government may default on its debts

Turkish banks have traditionally invested a large portion of their assets in securities issued by the Government. As of 31 December 2016, 81% of the Group's securities portfolio was invested in securities issued by the Government (representing 10% of its total assets). The Group's securities to assets ratio was 12% as of 31 December 2016, in comparison with the 13% average for private banks (as of 31 December 2015, the Group's ratio was 13%, with the average for private banks being 14%). In addition to any direct losses that the Group might incur, a default, or the perception of an increased risk of default by the Government in making payments on its securities or the downgrade in Turkey's credit rating would likely have a significant negative impact on the Turkish banking system generally and thus may affect the Bank's business, financial condition and/or results of operations.

Turkey may not accede to the European Union as intended

Turkey has a long-standing relationship with the EU. In 1963, Turkey signed an association agreement with the EU, and a supplementary agreement was signed in 1970 providing for a transitional second stage of Turkey's integration into the EU. Turkey commenced negotiations on its accession to the EU in October 2005 and expects to join the EU at some point in the future. However, Turkey's accession depends on a number of economic and political factors relating to both Turkey and the EU. Although the shared objective of the negotiations is accession, these negotiations are an open ended process, the outcome and timing of which cannot be guaranteed. The EU decided in December 2006 to suspend negotiations in eight out of 35 parts, or "chapters," and not to "close" the other 27 chapters of Turkey's accession negotiations because of Turkey's restrictions with respect to the Greek Cypriot Administration. Although Turkey continues to express a desire to become a member state of the EU, it may not become one for several more years, if at all. Delays or other adverse developments in Turkey's accession to the EU may have a negative effect on Turkey's economy in general, and Turkey's economic performance and credit ratings in particular and could, as a result, have an adverse effect on the Bank's financial position and results of operations.

Risks Related to the Turkish Banking Industry

The Turkish banking system is subject to systemic risks

The Turkish financial sector has gone through major changes as a result of the financial liberalisation programme that started in the early 1980s. The abolition of directed credit policies, the liberalisation of deposit and credit interest rates and liberal exchange rate policies, as well as the adoption of international banking regulations have accelerated the structural transformation of the Turkish banking sector. Since the 1980s, the Turkish banking sector has experienced a significant expansion and development in the number of banks, employment in the sector, diversification of services and technological infrastructure. The significant volatility of the Turkish Lira and foreign exchange markets experienced in 1994, 1998 and in 2001, combined with the short foreign exchange positions held by many Turkish banks at those times, affected the profitability and liquidity of certain Turkish banks. In 2001, this resulted in the collapse of several banks.

Following this crisis, the Government made structural changes to the Turkish banking system to strengthen the private (i.e., non-governmental) banking sector and to allow it to compete more effectively against the state-controlled banks (Türkiye Halk Bankası ("**Halkbank**"), Türkiye Vakiflar Bankası T.A.O. ("**Vakıfbank**") and T.C. Ziraat Bankası ("**Ziraat**")). Notwithstanding these changes, the Turkish banking sector remains subject to volatility.

If the general macro-economic conditions in Turkey and the Turkish banking sector in particular were to suffer another crisis, there can be no assurance that this would not result in further bank failures, reduced liquidity and weaker public confidence in the Turkish banking system. See "*Turkish Regulatory Environment*" in the Prospectus for a further discussion of the Turkish banking regulatory environment.

Increased competition in the Turkish banking sector could have a material adverse effect on the Group

The level of competition in the Turkish banking sector has remained intense in the past several years as a result of the increased presence of public banks in the private sector and foreign bank interest in Turkey. According to the BRSA, as of 30 September 2016, the top seven banking groups in Turkey (including the Bank), three of which are state controlled, held in aggregate, approximately 75% of the Turkish banking sector's total loan portfolio, approximately 74% of total banking assets in Turkey and approximately 78% of total deposits in Turkey. Loan growth in the banking sector in Turkey was 21% during 2015 and 17% in 2016, while deposit growth was 19% and 17%, respectively, according to BRSA weekly data.

In addition to private banks, the Bank also faces competition from state-owned financial institutions, such as HalkBank, Vakıfbank and Ziraat. These government-owned financial institutions historically focused on government and government-related projects but are increasingly focusing on the private sector (including retail and SMEs), thereby increasing competition and pressure on margins. In particular, such government-owned institutions may have access to payroll accounts of state employees, low cost deposits (on which such institutions pay low or no interest) through State Economic Enterprises owned or administered by the Government, which could result in a lower cost of funds that cannot be duplicated by private banks. Such actions by government-owned financial institutions, in addition to ongoing competitive pressures from private financial institutions, have caused net interest margins to decline across the Turkish banking market.

During recent years, foreign banks have shown an increased interest in the banking sector in Turkey. Foreign banks such as BNP Paribas, Industrial and Commercial Bank of China, Burgan Bank, ING, Qatar National Bank, Commercial Bank of Qatar, UniCredit and Sberbank have acquired interests in Turkish banks. In addition, various smaller-size banks such as Odeabank have also established their own franchises. The Bank believes that further entries into the Turkish banking sector by foreign competitors, either directly or in collaboration with existing Turkish banks, could further increase competition in the market. In addition to direct investment, foreign banks are expanding their business presences in Turkey, further increasing competitive pressures. There can be no assurance that further competitive pressures will not result in continued margin compression, which may have a material adverse effect on the Bank's business, financial condition and/or results of operations.

The profitability and profitability growth of Turkish banks, including the Group, in recent periods may not be sustainable as a result of regulatory, competitive and other factors impacting the Turkish banking sector

Since 2012, the Central Bank has granted banks the flexibility to keep up to 60% of their Turkish Lira reserve requirements in foreign currency (following a regulatory change on 1 November 2016, such reserves can only be kept in U.S. dollars), and 30% of their Turkish Lira reserve requirements in gold with the aim of improving its reserves, providing Turkish Lira liquidity to the system and auto-balancing the foreign exchange movements. In addition, on 22 October 2016, the Central Bank has also granted banks the flexibility to keep up to 5% of their Turkish Lira reserve requirements in processed or scrap gold. On 24 November 2016, the Central Bank decreased the foreign currency reserve requirements in all maturity brackets by 0.5% and a further 0.5% on 10 January 2016. On the same day, it announced that starting from 11 January 2017; the lending limit for banks in the Interbank Money Market is decreased to TL 22 billion. The Central Bank has also implemented reserve option coefficients for the calculation of the respective foreign currency and gold amounts. On 17 November 2016, the Central Bank amended these coefficients. This mechanism acts as a stabiliser for currency movements as it provides banks the flexibility to adjust their reserves at the Central Bank depending on their liquidity needs. The banking sector sought to compensate for the resulting increased reserve requirements by increasing loan pricing, although this was limited by the impact of competition. As a result, the overall impact of these actions on the profitability of the banking sector (including the Group) was limited in 2011 and 2012. On 1 February 2013, the BRSA released a draft communiqué on capital base calculation and capital adequacy rules. The consultation period for these draft regulations ended on 1 March 2013. On 5 September 2013, the Equity Regulation and the amendments to the regulation on capital adequacy requirements were published in the Official Gazette numbered 28756. The Equity Regulation and the amendments to the regulation on capital adequacy requirements also entered into force as of 1 January 2014. On 6 August 2014, the BRSA announced that a number of draft regulations, including a guide for stress tests on liquidity and regulation on the calculation of internal capital adequacy, presented for public opinion as part of BRSA's efforts of promulgating Basel III requirements by April 2014, had been finalised and announced in the Official Gazette. On 6 September 2014, an amendment to the Equity Regulation, the draft of which was

presented for public opinion in June 2014, was published in the Official Gazette and entered into force. This amendment introduced certain novelties as to BRSA's authority to write off Tier 1 and Tier 2 debt instruments. On 23 October 2015 and 20 January 2016, the BRSA introduced further amendments to the Equity Regulation mainly relating to the grandfathering regime and capital treatment for certain items with an enforcement date of 31 March 2016. Lastly, on 22 June 2016, the BRSA introduced a further amendment to the Equity Regulation to change the items included in equity calculation with an enforcement date of 1 January 2017 and also published a draft Communiqué on Principles for Debt Instruments to be Included in Equity Calculations by Banks to introduce certain rules in relation to conversion and write-down of debt instruments to be included in additional Tier I or Tier II capital.

In addition to these Equity Regulation Amendments, on 6 September 2014, an amendment to the Regulation on the Measurement and Evaluation of the Capital Adequacy of Banks which was published in the Official Gazette dated 28 June 2012 and numbered 28337 and entered into force on 1 July 2012 (the "**Capital Adequacy Regulation**") was published in the Official Gazette as well as other regulations as to calculation of capital adequacy. The BRSA promulgated a new piece of capital adequacy regulation which was published in the Official Gazette dated 23 October 2015 and numbered 29511 with an enforcement date of 31 March 2016 (the "**2016 Capital Adequacy Regulation**"). This new piece of capital adequacy regulation keeps capital adequacy ratios unchanged but introduces changes to risk-weighted assets. In addition, the BRSA introduced a further amendment to the 2016 Capital Adequacy Regulation which was published in the Official Gazette dated 20 January 2016 and numbered 29599 with an enforcement date of 31 March 2016, the novelties of which mainly relate to the calculation of various risk-weighted assets. On December 9 2016, the BRSA published further amendments on the 2016 Capital Adequacy Regulation, mainly on risk-weighing of mortgages. See "*Turkish Regulatory Environment—2016 Capital Adequacy Regulation*". The Central Bank reduced the monthly cap on individual credit card interest rates from 2.34% in 2012 to 2.22% as of 1 April 2013, to 2.12% as of 1 July 2013, and further to 2.02% as of 1 October 2013, where it remains as of 30 June 2015. On 5 August 2013, the Central Bank introduced caps on commercial credit cards interest rates in line with the caps on individual cards.

On 27 May 2013, the Central Bank has made an amendment in the *Communiqué on Interest Rates of Deposits and Loans and Other Benefits from Lending Transactions*. In this regard, the Central Bank introduced an interest rate cap on overdraft loans. Accordingly, the maximum interest rates charged on overdraft accounts will not exceed that of credit cards.

On 5 June 2013, the draft of the consumer protection law was submitted to the Grand National Assembly (TBMM). The draft regulation was finalised and accordingly published in the Official Gazette as of 28 November 2013 and entered into force within six months following its publication. The regulation's main aim is to increase transparency and comparability between banks so that customers can make more informed decisions. Pursuant to this or other regulations, the Government may impose limits or prohibitions on interest rates, fees and/or commissions charged to customers, including fees associated with credit cards, or otherwise affect payments received by the Group from its customers, which could have a material adverse effect on the Bank's business, financial condition and/or results of operations. This law entitles the BRSA to define and announce the type of fees and/or commissions, the maximum amounts to charge individuals and BRSA input the new regulation limiting mainly fees on cards, individual deposits and loans.

On 8 October 2013, the BRSA additionally introduced new regulations which aim to limit the expansion of individual loans (especially credit card instalments). In addition, a draft regulation on commissions and fees has been published and the final version is awaited, pursuant to which credit card commissions and fees, including cash advance with an instalment fee, late payment notification fee and a card fee for inactive cards with at least 180 days of inactivity, cannot be charged. If adopted, the regulation may have a material adverse effect on the Group's non-interest revenue. Moreover, on 27 September 2016, the BRSA published amendments to the regulation on credit cards, which increased the number of permitted instalments by retail buyers and corporates for the purchase of products and services, electronic goods, health expenditures, plane tickets and tax payments. Additionally, on 27 September 2016, the BRSA also published amendments to the regulation on provisions and classification of loans and receivables, which removed the requirements for the consumer loan provisions calculated according to the ratio of consumer loans to total loans and the ratio of non-performing consumer loans to total consumer loans. On 14 December 2016, the BRSA further amended, and pursuant to a provisional article which is valid until 31 December 2017, loan provisions were further reduced. In 2013, housing loans had been excluded from the calculation of consumer loans by this regulation,

and on 27 September 2016, the consumer loan provision rate for credit cards in Group I (Loans of a Standard Nature and Other Receivables) and Group II (Loans and Other Receivables under Close Monitoring) were reduced from 4% and 8% to 1% and 2%, respectively.

In 2013, the Group's profitability was negatively impacted by the Turkish Competition Board's fine imposed against most Turkish banks. As a result of the investigation of the Turkish Competition Board regarding the violation of the fourth article of the Protection of Competition Law No. 4054, an administrative fine amounting to TL 149,962 thousand was imposed against Yapı ve Kredi Bankası A.Ş., in accordance with the decision of Competition Board numbered 13-13/198,100, dated 8 March 2013. In accordance with Article 17 of the Misdemeanor Law No. 5326, it is possible to pay only 75% of such administrative fine, amounting to TL 112,471 thousand, within thirty days following the notification of the decision. The Bank benefitted from the early payment option and paid TL 112,471 thousand to the relevant directorate of revenues on 14 August 2013. The decision of Turkish Competition Board numbered 13-13/198-100, dated 8 March 2013 has also been appealed before the Second District of Ankara Administrative Court.

Therefore, the Group's profitability may be materially and negatively affected in the short term and possibly in the long term as a result of a number of factors that are generally impacting the Turkish banking sector. If the pressure on net reversals on loans, investment securities and credit related commitments continues, this may have a material adverse effect on the Bank's financial condition and results of operations as well as the Bank's ability to make payments under the Notes. Such factors include increased competition, particularly as it impacts net interest margins (see "*—Risks Related to the Turkish Banking Industry—Increased competition in the Turkish banking sector could have a material adverse effect on the Group*") and the Central Bank and BRSA regulatory actions that seek to limit the growth of Turkish banks through various conventional and unconventional policy measures, including increased reserve requirements, increased general provisioning requirements and higher risk weighting for general purpose loans.

Although the Group will seek to limit the impact of these factors through its strategy of focusing on profitable sectors and clients, rather than solely on overall growth, there is no assurance that the Group's profitability or financial position (including capitalisation levels) will not be materially and adversely impacted as a result of such factors.

International guidelines for banking regulation and implementation in Turkey are subject to ongoing changes

In June 2004, the Basel Committee on Banking Supervision (the "**Basel Committee**") published a report entitled "International Convergence of Capital Measurement and Capital Standards: a Revised Framework," which sets out a new capital adequacy framework (commonly referred to as "**Basel II**") to replace the Basel Capital Accord issued in 1988. Basel II was implemented in Turkey in stages and was fully adopted during the second half of 2012.

The Bank began reporting under Basel II on 1 July 2012 and the implementation of Basel II has reduced the Bank's Tier 1 capital adequacy ratio, which resulted in the Bank taking certain actions to limit the negative impact, including the issuance of subordinated debt, reclassification of held to maturity securities to available for sale securities, re valuation of subsidiaries and risk weighted asset optimisation (the Group's risk-weighted assets grew by 14% in 2016, compared with 21% in 2015). The Bank's capital adequacy ratio (on a Bank-only basis) was 14.2%, 13.8% and 15.0% for the years ended 31 December 2016, 2015 and 2014, respectively. During 2016, changes in exchange rates had -73 bps of negative impact on the capital adequacy ratio, while Tier-2 issuance executed in March 2016 had +70 bps of positive impact. During the year, the capital adequacy ratio was also supported by internal capital generation of +41 bps, bringing the ratio to 14.2%, from its level of 13.8% as of 2015 year-end. The Bank's Tier-1 ratio (on a Bank-only basis) was 10.3%, 10.3% and 10.9% for the years ended 31 December 2016, 2015 and 2014, respectively. The Bank's Common Equity Tier-1 ratio (on a Bank-only basis) was 10.6%, 10.7% and 11.6% for the years ended 31 December 2016, 2015 and 2014, respectively.

On 1 February 2013, the BRSA published draft regulations for the implementation of Basel III in Turkey. The consultation period for these draft regulations ended on 1 March 2013 and the BRSA made a public announcement on 1 July 2013 that Basel III requirements to be adopted with the regulations would be effective as of 1 January 2014. On 5 September 2013, the Equity Regulation and the amendments to the regulation on capital adequacy requirements were published in the Official Gazette numbered 28756. The

Equity Regulation and the amendments to the regulation on capital adequacy requirements were also effective as of 1 January 2014.

On 6 August 2014, the BRSA announced that a number of draft regulations, including a guide for stress tests on liquidity and regulation on the calculation of internal capital adequacy, presented for public opinion as part of BRSA's efforts of promulgating Basel III requirements by April 2014, had been finalised and announced in the Official Gazette. On 6 September 2014, an amendment to the Equity Regulation, the draft of which was presented for public opinion by June 2014, was published in the Official Gazette and entered into force. This amendment introduced certain changes as to BRSA's authority to write off Tier 1 and Tier 2 debt instruments. On 23 October 2015 and 20 January 2016, the BRSA introduced further amendments to the Equity Regulation mainly relating to the grandfathering regime and capital treatment for certain items with an enforcement date of 31 March 2016. Lastly, on 22 June 2016, the BRSA introduced an amendment to the Equity Regulation to change the items taken into account in equity calculation with an enforcement date of 1 January 2017, and also published a draft Communiqué on Principles for Debt Instruments to be Included in Equity Calculations by Banks to introduce certain rules in relation to conversion and write-down of debt instruments to be included in additional Tier I or Tier II capital. In addition to the amendments relating to the Equity Regulation, on 6 September 2014, an amendment to the Capital Adequacy Regulation was published in the Official Gazette and other regulations as to calculation of capital adequacy as part of BRSA's efforts to adopt Basel III requirements. On 23 October 2015, the BRSA promulgated the 2016 Capital Adequacy Regulation with an enforcement date of 31 March 2016. In addition to that the BRSA introduced an amendment to the 2016 Capital Adequacy Regulation which was published in the Official Gazette dated 20 January 2016 and numbered 29599 with an enforcement date of 31 March 2016, the novelties of which mainly relate to the calculation of various risk-weighted assets. On the other hand on 9 December 2016, the BRSA changed SME definition in the Capital Adequacy Regulation. See "*Turkish Regulatory Environment—2016 Capital Adequacy Regulation*".

The BRSA published (a) its decision dated 18 December 2015 No. 6602 regarding the procedures and principles on the calculation, application and announcement of the countercyclical capital buffer and (b) its decision dated 24 December 2015 No. 6619 regarding the determination of the countercyclical capital buffer (together, the "**BRSA Decisions on the Countercyclical Capital Buffer**"). Pursuant to these decisions, the countercyclical capital buffer for Turkish banks' exposures in Turkey has initially been set at 0% of a bank's risk-weighted assets in Turkey (effective as of 1 January 2016); however, such ratio might fluctuate between 0% and 2.5% as announced from time to time by the BRSA. Any increase to the countercyclical capital buffer ratio is to be effective one year after the relevant public announcement, whereas any reduction is to be effective as of the date of the relevant public announcement.

Further new international guidelines for banking regulation may be implemented, enforced or interpreted in a manner that could have an adverse effect on the Group's business, financial condition, cash flows and/or results of operations. In addition, any breach of regulatory guidelines or any failure to adopt adequate responses to their changes could expose the Group to potential liabilities or sanctions and, in turn, have an adverse effect on the Group's business, financial condition, cash flows and/or results of operations.

The Group is subject to changes in regulation, which have in the past and may in the future change rapidly

The Group is subject to a number of banking and other regulations designed to maintain the safety and financial soundness of banks, ensure their compliance with economic and other obligations, and limit their exposure to risk. These regulations include Turkish laws and regulations (and in particular those of the BRSA and the Central Bank), as well as laws and regulations of certain other countries where the Group operates. Banking laws and regulations in Turkey and the manner in which those laws and regulations are applied to the operations of financial institutions are still evolving. Furthermore, as a result of the recent global economic crisis, policy makers in Turkey, the EU and other jurisdictions have enacted or proposed various new laws and regulations and there is uncertainty as to what impact these changes may have. New regulations may be implemented rapidly, without substantial consultation with the industry, which may not allow sufficient time for the Group to adjust its strategy to deal with such changes. New regulations may increase the Group's cost of doing business or limit its activities. Turkish banking regulations rapidly changed in the second half of 2011 and 2012 in response to Turkey's robust domestic growth, driven by higher local demand, which widened the current account deficit and strengthened capital inflows. Most recently, the Central Bank introduced a new monetary policy as a result of slowdowns in domestic growth and debt sustainability

concerns in Europe. The BRSA from time to time promulgates new regulations and guidelines as part of its attempt to adjust the Turkish banking system to Basel requirements. See "—*The profitability and profitability growth of Turkish banks, including the Group, in recent periods may not be sustainable as a result of regulatory, competitive and other factors impacting the Turkish banking sector*".

In the future, new laws or regulations might be adopted, enforced or interpreted in a manner that could have an adverse effect on the Group's business, financial condition, cash flows and/or results of operations. In addition, a breach of regulatory guidelines could expose it to potential liabilities or sanctions. Changes in these regulations may have a material effect on the Group's business and operations. Moreover, any failure to adopt adequate responses to such changes in the regulatory framework may have an adverse effect on the Bank's business, financial condition, cash flows and/or results of operations.

The Group is dependent on its banking and other licences

The banking and other operations performed by the Bank and its subsidiaries require licences by the relevant authorities in each jurisdiction in which they operate. A large majority of the Group's business depends on the Bank's Turkish banking licence from the BRSA. If the Bank loses its general banking licence, then it will be unable to perform any banking operations in Turkey. Although the Bank believes that it and its subsidiaries have the necessary licences for their banking and other operations and that each of the Bank and its subsidiaries are currently in compliance with their existing material licences and reporting obligations, there is no assurance that they will be able to maintain the necessary licences in the future. The loss of a licence, a breach of the terms of any licence or the failure to obtain any further required licences in the future could have a material adverse effect on the Bank's financial condition and/or results of operations. Further description of the applicable regulatory requirements is set out in "*Turkish Regulatory Environment—Audit of Banks*" and "*Turkish Regulatory Environment—Cancellation of Banking Licence*" in the Prospectus.

The Group is subject to risks associated with money laundering and terrorist financing

The Group has implemented internal measures aimed at preventing it from being used as a conduit for money laundering (including illegal cash operations) or terrorist financing. However, such measures, procedures and compliance may not be completely effective. If the Group is associated with money laundering (including illegal cash operations) or terrorist financing, the Bank could suffer serious damage to its reputation, including among its network of correspondent banks in foreign countries, which could affect its ability to maintain existing relationships, attract new business and provide services to its customers. The Group could also become subject to fines, sanctions and/or legal enforcement (including being added to any "blacklists" that would prohibit certain parties from engaging in transactions with the Group), which could materially adversely affect the Bank's business, financial condition and/or results of operations.

Risks Related to the Notes Generally

Set out below is a description of material risks relating to the Notes generally:

Effective Subordination – Claims of Noteholders under the Notes will be subordinated to those of certain other creditors

Under Turkish law, certain obligations of the Bank will rank in preference to the Notes (including, without limitation, liabilities that are preferred by reason of reserve and/or liquidity requirements required by law to be maintained by the Issuer with the Central Bank, claims of individual depositors with the Issuer to the extent of any amount that such depositors are not fully able to recover from the Savings Deposit Insurance Fund of Turkey (the "**SDIF**"), claims that the SDIF may have against the Issuer and claims that the Central Bank may have against the Issuer with respect to certain loans made by it to the Issuer). Any such preferential claims may reduce the amount recoverable by the Noteholders on any dissolution, winding up or liquidation of the Issuer and may result in an investor in the Notes losing all or some of its investment.

The Notes constitute unsecured obligations of the Bank

The Issuer's obligations under the Notes constitute unsecured obligations of the Issuer. Accordingly, any claims against the Issuer under the Notes would be unsecured claims. The ability of the Issuer to pay such claims will depend upon, among other factors, its liquidity, overall financial strength and ability to generate asset flows.

Redemption for Taxation Reasons – The Issuer will have the right to redeem the Notes upon the occurrence of certain changes requiring it to pay withholding taxes in excess of current levels, if any, applicable to interest or other payments on the Notes

The withholding tax rate on interest payments in respect of bonds issued by Turkish legal entities outside of Turkey varies depending upon the original maturity of such bonds as specified under Decree 2009/14592 dated 12 January 2009 which has been amended by Decree No. 2010/1182 dated 20 December 2010 and Decree No. 2011/1854 dated 26 April 2011 (together, the "**Tax Decrees**"). Pursuant to the Tax Decrees: (a) with respect to bonds with a maturity of less than one year, the withholding tax rate on interest is 10%, (b) with respect to bonds with a maturity of at least one and less than three years, the withholding tax rate on interest is 7%, (c) with respect to bonds with a maturity of at least three and less than five years, the withholding tax rate on interest is 3%, and (d) with respect to bonds with a maturity of five years and more, the withholding tax rate on interest is 0%. The Issuer will have the right to redeem the Notes at any time if, upon the occurrence: (i) of a change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 9.1) or (ii) any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after 15 July 2016, on the next Interest Payment Date the Issuer would be required: (A) to pay additional amounts in respect of the Notes as provided or referred to in Condition 9 on account of any Taxes (as defined in Condition 9.1) and (B) to make any withholding or deduction for, or on account of, any Taxes imposed or levied by or on behalf of the Relevant Jurisdiction at a rate in excess of the prevailing applicable rates on 15 July 2016, and such requirement cannot be avoided by the Issuer taking reasonable measures available to it. Upon such a redemption, investors in the Notes might not be able to reinvest the amounts received at a rate that will provide the same rate of return as their investment in the Notes.

This redemption feature is also likely to limit the market value of the Notes at any time when the Issuer has the right to redeem them as provided above, as the market value at such time will generally not rise substantially above the price at which they can be redeemed. This may similarly be true in the period before such time when any relevant change in law or regulation is yet to become effective.

There is no active trading market for the Notes

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although application has been made for the Notes to be admitted to listing on the Official List and trading on the Main Securities Market, there is no assurance that such application will be accepted or that an active trading market will develop. In addition, a small number of investors comprising UniCredit S.p.A. and its subsidiaries and affiliates may purchase an aggregate of up to U.S.$150 million of the Notes offered. The holding and any sale of Notes by these parties may adversely affect the liquidity of the Notes and may also affect the prices of the Notes in the secondary market, particularly if some or all of these holders elect to sell their Notes at the same time. Finally, circumstances may occur in which the interests of such holders may differ from those of the other Noteholders. See "*Subscription and Sale – UniCredit Affiliate Relationship*". Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes.

Transfer Restrictions – Transfers of Notes will be subject to certain restrictions and interests in Global Notes can only be held through DTC, Euroclear and Clearstream, Luxembourg

Although the Notes have been authorised by the CMB pursuant to Decree 32 regarding the Protection of the Value of the Turkish Currency and the Capital Markets Law and related legislation as debt securities to be offered outside of Turkey, the Notes have not been and are not expected to be registered under any applicable state's or other jurisdiction's securities laws, or any applicable state's or other jurisdiction's regulatory authorities. The offering of the Notes (or beneficial interests therein) will be made outside of the United States pursuant to exemptions from the registration requirements of the Securities Act and from other securities laws. Accordingly, reoffers, resales, pledges and other transfers of investments in the Notes may be subject to certain transfer restrictions. Each investor is advised to consult its legal advisers in connection with any such reoffer, resale, pledge or other transfer.

Further to the Communiqué on Debt Instruments, the Notes are required under Turkish law to be issued in an electronically registered form in the Central Registry Agency (*Merkezi Kayıt Kuruluşu*) (the "**CRA**") and the interests therein recorded in the CRA. However, upon the Issuer's request, the CMB may resolve to exempt the Notes from this requirement if the Notes are to be issued outside Turkey. The Issuer has been granted an exemption from this requirement by the CRA under the CMB's letter dated 12 May 2016 and numbered 16/530. Accordingly, this requirement will not be applicable to the Notes.

Because transfers of interests in the Global Notes can be effected only through book entries at DTC, Clearstream, Luxembourg and/or Euroclear (as applicable) for the accounts of their respective participants, the liquidity of any secondary market for investments in the Global Notes may be reduced to the extent that some investors are unwilling to invest in notes held in book-entry form in the name of a participant in DTC, Clearstream, Luxembourg or Euroclear, as applicable. The ability to pledge interests in the Notes (or beneficial interests therein) may be limited due to the lack of a physical certificate. In the event of the insolvency of any of DTC, Euroclear, Clearstream, Luxembourg or any of their respective participants in whose name interests in the Notes are recorded, the ability of beneficial owners to obtain timely or ultimate payment of principal and interest on the Notes may be impaired.

Enforcement of Judgments – Investors may have difficulty enforcing foreign judgments against the Issuer or its management

The Issuer is a public joint stock company organised under the laws of Turkey. Many of the Issuer's directors and executive officers are residents of Turkey and a substantial portion of the assets of the Issuer and such persons are located in Turkey. As a result, it may be difficult for investors to effect service of process upon the Issuer or such persons outside Turkey, or to enforce judgments or arbitral awards obtained against such parties outside Turkey.

Under the International Private and Procedure Law of the Republic of Turkey (Law No. 5718), a judgment of a court established in a country, other than the Republic of Turkey, may not be enforced in Turkish courts in certain circumstances. Although Turkish courts have recognised enforceable judgments of English courts on the basis that there is *de facto* reciprocity between the United Kingdom and Turkey with respect to enforcement of judgments of their respective courts, there is no treaty between the United Kingdom and Turkey setting out the reciprocal enforcement of judgments expressly. For further information, see "*Enforcement of Judgments and Service of Process*".

The Conditions of the Notes (other than Condition 3, which is governed by Turkish law) are governed by English law and the terms are specified with reference to that law as in effect as of the date of this Prospectus. Similarly, the enforcement rights of the Noteholders against the Issuer and its assets in Turkey assume the application of Turkish law as presently in effect. Any possible judicial decision or change to English or Turkish law or administrative practice after the date of this Prospectus may impact the Notes.

The Global Notes are held by or on behalf of DTC, Euroclear and Clearstream, Luxembourg

The Notes will be represented by one or more Global Notes, except in certain limited circumstances described in the Global Notes that may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg or may be deposited with a nominee for DTC. Except in the circumstances described in each Global Note, investors will not be entitled to receive Notes in definitive form. Each of DTC, Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note held through it. While the Notes are represented by a Global Note, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Notes are represented by Global Notes, the Issuer will discharge its payment obligations under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in the Global Notes must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Modification, waivers and substitution

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. As a result, such binding decisions made by majorities of Noteholders may be adverse to the interests of potential investors.

The value of the Notes could be adversely affected by a change in English law or administrative practice

The Conditions of the Notes are based on English law in effect as of the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus and any such change could materially adversely impact the value of any Notes affected by it.

Further notes may be issued without the consent of the Noteholders

The Issuer may from time to time create and issue further notes without the consent of the Noteholders or Couponholders, subject to terms and conditions which are the same as those of existing Notes, or the same except for the amount of the first new payment of interest. Such new notes may be consolidated and form a single series with the existing Notes.

Payments under the Notes may be subject to withholding tax pursuant to the U.S. Foreign Account Tax Compliance Act

If the Notes are significantly modified after the date that is six months after the date on which final U.S. Treasury regulations defining the term "foreign passthru payment" are filed with the U.S. Federal Register (such applicable date the "**Grandfathering Date**"), the Issuer may, under certain circumstances, be required pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder ("**FATCA**") to withhold U.S. tax at a rate of 30% on all or a portion of payments of principal and interest which are treated as "foreign pass thru payments" made on or after the later of 1 January 2019 or the date of publication in the Federal Register of final regulations defining the term "foreign passthru payment" to an investor or any other non U.S. financial institution through which payment on the Notes is made that is not in compliance with FATCA. As of the date of this Prospectus, final U.S. Treasury regulations defining the term "foreign passthru payments" have not been filed with the U.S. Federal Register. If the Issuer creates and issues further Notes after the Grandfathering Date that are consolidated and form a series with Notes outstanding on the Grandfathering Date as permitted by Condition 17, payments on such further Notes may be subject to withholding under FATCA and, should the outstanding Notes and the further Notes be indistinguishable (as would likely be the case in such a "tap" issue), such payments on the outstanding Notes may also become subject to withholding under FATCA, unless such further Notes are issued pursuant to a "qualified reopening" for U.S. federal income tax purposes. The FATCA withholding tax may be triggered if: (i) the Issuer is a foreign financial institution (an "**FFI**," as defined in FATCA), (ii) the Issuer, or any paying agent through which payments on the Notes are made, has agreed to provide the U.S. Internal Revenue Service (the "**IRS**") or other applicable authority with certain information on its account holders (making the Issuer or such paying agent a "**Participating FFI**," as defined in FATCA) and (iii)(a) an investor does not provide information sufficient for the relevant Participating FFI that is making the payment to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States account" of such FFI, or (b) any FFI through or to which payments on the Notes are made is not a Participating FFI or otherwise exempt from FATCA withholding on payments it receives.

The United States has concluded several intergovernmental agreements ("**IGAs**") with other jurisdictions in respect of FATCA. On 29 July 2015, the governments of Turkey and the United States signed an Agreement to Improve International Tax Compliance Through Enhanced Exchange of Information (the "**Turkish IGA**"). Under the Turkish IGA, an entity classified as an FFI that is treated as resident in Turkey is expected to provide the Turkish tax authorities with certain information on U.S. holders of its securities. Information on

U.S. holders will be automatically exchanged with the IRS. The Issuer is an FFI and provided it complies with the requirements of the Turkish IGA and the Turkish legislation implementing the Turkish IGA, it should not be subject to FATCA withholding on any payments it receives and it should not be required to withhold tax on any "foreign passthru payments" that it makes. Although the Issuer may not be required to withhold FATCA taxes in respect of any foreign passthru payments it makes under the Turkish IGA, FATCA withholding may apply in respect of any payments made on the Notes by any paying agent.

The application of FATCA to interest, principal or other amounts paid on or with respect to the Notes is not currently clear. If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Notes as a result of a holder's failure to comply with FATCA, none of the Issuer, any paying agent or any other person would, pursuant to the terms and conditions of the Notes, be required to pay additional amounts as a result of the deduction or withholding of such tax. As a result, investors may receive less interest or principal than expected.

Credit ratings – Credit ratings assigned to the Issuer or the Notes may not reflect all risks associated with an investment in the Notes

One or more independent credit rating agencies may assign credit ratings to the Issuer or the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price.

The Issuer's ratings are subject to event-driven as well as periodic review, and are also significantly affected by Turkish sovereign credit ratings. See "—Risks Related to Turkey". Any change in the credit ratings of the Notes or the Issuer could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.

ADDITIONAL INFORMATION

Turkish Regulatory Environment

The information under the title "Turkish Banking System" on pages 169 to 190 of the Base Prospectus (which is incorporated herein by reference) shall, for purposes of the Notes and this Prospectus only, be deemed to have been revised as follows (with corresponding changes deemed to be made elsewhere in the Base Prospectus):

(a) The third paragraph of the section titled "(e) Loans and Other Receivables Considered as Losses" on page 173 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

Turkish law also requires Turkish banks to provide a general reserve calculated at 1% of the cash loan portfolio *plus* 0.2% of the non-cash loan portfolio (letters of guarantee, acceptance credits, letters of credit undertakings and endorsements) for standard loans defined in Group I above (except for: (a) commercial cash loans defined in Group I above, for which the general reserve is calculated at 0.5% of the total commercial cash loan portfolio, (b) commercial non-cash loans defined in Group I above, for which the general reserve is calculated at 0.1% of the total commercial non-cash commercial loan portfolio, (c) cash and non-cash loans defined in Group I for SMEs and relating to transit trade, export, export sales and deliveries and services, activities resulting in gains of foreign currency and syndicate loans used for the financing of large-scale public tenders, for which the general loan loss reserve is calculated at 0%) and a general reserve calculated at 2.0% of the total cash loan portfolio plus 0.4% of the total non-cash loan portfolio (i.e., letters of guarantee, avals and their sureties and other non-cash loans) for closely-monitored loans defined in Group II above (except for: (i) commercial cash loans, cash loans for SMEs and relating to transit trade, export, export sales and deliveries and services, activities resulting in gains of foreign currency, for which the general loan loss reserve is calculated at 1.0%, and (ii) non-cash loans related to the items stated in (i) above for which the general loan loss reserve is calculated at 0.2%,). The exceptions regarding the loan loss reserve calculation stated above will be applied to the respective loans defined in Group I and Group II until December 31, 2017.

(b) The first sentence "*Furthermore, the banks which the consumer loans constitute 20% of the total loan portfolio and the banks which the illiquid vehicle and housing loans constitute 8% of the consumer loan portfolio excluding vehicle and housing loans (pursuant to the unconsolidated financial data prepared as of the general reserve calculation period) must provide a general reserve calculated at 4% and 8% for outstanding (but not yet due) consumer loans (excluding vehicle and housing loans) under Group I and Group II respectively, during the term of such loans.*" of the sixth paragraph of the section titled "(e) Loans and Other Receivables Considered as Losses" on page 173 of the Base Prospectus is hereby deleted in its entirety.

(c) The following paragraph is inserted at the end of the section titled "Loan Loss Reserves" beginning on page 171 of the Base Prospectus:

On 14 December 2016, the BRSA published amendments to the Regulation on Provisions and Classification of Loans and Receivables, adding new provisional articles related to the restructuring of loans and other receivables and to the delay periods within the state of emergency. The Provisional Article 12 states that (among other things) the loans and other receivables classified as non-performing loans by the banks may be restructured up to two times until 31 December 2017. Such restructured loans may be classified under Group II if: (a) in case of the first restructuring, there is no overdue debt as of the date of the re-classification and the last three payments prior to the date of the re-classification have been made timely and in full, and (b) in case of the second restructuring, there is no overdue debt as of the date of the re-classification and the last six payments prior to the date of the re-classification have been made timely and in full. Loans and other receivables classified under Group II after the restructuring are monitored under "Renewed/Restructured Loans Account." Information regarding renewed/restructured loans and other receivables shall be disclosed in the financial reports that are made publicly available at the end of each year and in the interim periods. Furthermore, the Provisional Article 13 (entered into force retroactively as of 21 July 2016) states that (among other things) the delay periods of payments stipulated for the loans defined in Group II, III, IV and V may be counted as of 21 January 2017 for the obligations of the credit debtors that have been liquidated, assigned to the Directorate General of Foundations or the Treasury or to which the SDIF is assigned as the trustee as per the Decrees Having the Force of Law enforced within the scope of the state of emergency declared across the country by the Decree of the Council of Ministers dated 20 July 2016 and the public officials discharged

within the scope of the state of emergency and the assets of such real persons and legal entities that are subject to injunctions.

(d) The first and second paragraphs of the section titled "New Loan Qualifications and Provisions Regulation" on page 176 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

On 22 June 2016, the BRSA has published the new Regulation on Principles and Procedures Regarding Qualifications of the Loans and Provisions to be Set Aside in relation thereto (the "**2016 Provisioning Regulation**") which will enter into force on 1 January 2018, at which time it will replace the current regulation in order to ensure compliance with the requirements of IFRS and the Financial Sector Assessment Programme, which is a joint programme by the International Monetary Fund and the World Bank. The 2016 Provisioning Regulation requires banks to adopt the IFRS 9 principles (unless an exemption is granted by the BRSA) related to the assessment of credit risk by the end of 2017 and to set aside general provisions in line with such principles. According to the 2016 Provisioning Regulation, the banks will still be required to classify their loans and receivables in groups, but there will be certain changes in the content of the groups.

The provisions to be set aside are varied between the banks that apply Turkish Financial Reporting Standards 9, which is the IFRS 9 compliant financial reporting standards of Turkey ("**TFRS 9**"), and the banks that do not apply TFRS 9. The general provisions to be set aside by the banks which do not apply TFRS 9 will be 1.5% of the standard nature loan cash portfolio; and 3.0% of the closely monitored loan portfolio of the bank. Pursuant to the 2016 Provisioning Regulation, the BRSA is entitled to grant an extension to the banks upon their demand for them to maintain compliance with the IFRS 9 principles.

(e) The third and fourth paragraphs of the section titled "Liquidity Reserve Requirement" on page 180 of the Base Prospectus is hereby deleted in its entirety and replaced by the following:

Pursuant to Communiqué Reserve Requirements numbered 2013/15 and published in the Official Gazette dated 25 December 2013 and numbered 28862 ("**Communiqué Regarding Reserve Requirements**") and as of the date of this Base Prospectus, the reserve requirements regarding foreign currency liabilities vary by category and tenor. Pursuant to the amendments to the Communiqué Regarding Reserve Requirements, published in the Official Gazette dated 29 August 2015 and numbered 29460, and in the Official Gazette dated 9 January 2016 and numbered 29588, the reserve requirements starting from 29 August 2015 and onwards for foreign currency liabilities as set forth below:

Category of Foreign Currency Liabilities	**Required Reserve Ratio**
Demand deposits, notice deposits and private current accounts, and deposits/participation accounts up to one month, up to three months, up to six months and up to one year maturities	12%
Deposits/participation accounts and precious metal deposit accounts with one year and longer maturity and cumulative deposits/participation accounts	8%
Other liabilities up to one year maturity (including one year)	24%
Other liabilities up to two years maturity (including two years)	19%
Other liabilities up to three years maturity (including three years)	14%
Other liabilities up to five years maturity (including five years)	6%
Other liabilities longer than five years maturity	4%
Special fund pools	Ratios for corresponding maturities above

Notwithstanding the above, as of 9 October 2015, the reserve requirements for foreign currency liabilities other than deposits and participation accounts that existed on 28 August 2015 vary by tenor until their maturity, as set forth below:

Tenor of Foreign Currency Liabilities	**Required Reserve Ratio**
Other liabilities up to one year maturity (including one year)	19%
Other liabilities up to two years maturity (including two years)	13%
Other liabilities up to three years maturity (including three years)	7%
Other liabilities up to five years maturity (including five years)	6%
Other liabilities longer than five years maturity	5%
Special fund pools	Ratios for corresponding maturities above

OVERVIEW OF THE BANK

The following overview should be read in conjunction with, and is qualified in its entirety by, the detailed information appearing elsewhere in this Prospectus (including in the Base Prospectus). Prospective investors should see "Risk Factors" *for a discussion of certain factors that should be considered in connection with an investment in the Notes (or beneficial interests therein).*

Overview

Yapı ve Kredi Bankası A.Ş. is a full service bank with its headquarters in Istanbul, Turkey. It was established on 7 July 1944 and is incorporated with limited liability under the Turkish Commercial Code, the Banking Law and the Capital Markets Law for a period of 100 years.

According to BRSA statistics, as of 31 December 2016, the Bank was the fourth largest private bank in Turkey by total assets and ranked third among private banks (fourth among the total sector) in total cash loans (loans other than letters of guarantee, letters of credit and acceptances) with a 10.2% market share (compared with a market share of 10.3% as of 31 December 2015 and 10.2% as of 31 December 2014), and fourth among private banks (fifth among the total sector) in total deposits with a 10.6% market share (compared with a market share of 10.2% as of December 2015 and 10.0% as of 31 December 2014). As of 31 December 2016, the Bank had 936 branches covering all regions of Turkey (including one branch in Bahrain) and served 12.9 million active customers (22.5 million total customers) in Turkey. It maintains market leading positions in key segments and products supported by its strong franchise, large network and leading brand. The Group is organised into three segments; retail banking, corporate and commercial banking, and private banking and wealth management. The Bank's service model is supported by its domestic and international subsidiaries. The Bank's shares are listed on the Borsa Istanbul and its global depositary receipts are listed on the London Stock Exchange.

In addition to its branch network, the Bank offers products and services through a wide array of alternative delivery channels ("ADCs"), including 4,300 ATMs, 96% of which are "advanced" ATMs with cash deposit functionality (the fourth largest ATM network in Turkey with an 8.88% market share according to the Interbank Card Centre), award winning individual and corporate internet banking with 3.3 million customers as of 31 December 2016, a leading position in mobile banking and internet banking with market shares of 12.7% and 16.2%, respectively as of 31 December 2016, as well as four award winning call centres, according to the Turkish Banking Association. See "*Business of the Bank—Distribution—Alternative Channels*". As of 31 December 2016, the Group ranked fourth in the sector, with 19,419 employees (representing a 9.3% market share), of which 18,366 were employees of the Bank. This compares to 19,345 and 18,534 employees as of 31 December 2015 and 31 December 2014, respectively, of which 18,261 and 17,457 were employees of the Bank. The Group increased its number of employees significantly to support its sales activities. Internationally, the Group carries out business through subsidiaries in the Netherlands, Russia, Azerbaijan, Malta and a branch in Bahrain.

The Group had total assets of TL 271.1 billion (U.S.$77.0 billion) as of 31 December 2016, compared with TL 235.3 billion as of 31 December 2015 and TL 195.0 billion as of 31 December 2014.

According to BRSA consolidated financial statements for the year ended 31 December 2016, the Group had operating income of TL 6,708 million (U.S.$2,223 million), compared to TL 5,186 million for the year ended 31 December 2015 and TL 4,607 million for the year ended 31 December 2014. For the period ended 31 December 2016, the Group's cost to income ratio was 44% (43% excluding a one-off administrative fine from the Ministry of Customs and Trade) and operating cost growth was 5% year-over-year (3% excluding the Customs and Trade fine). For the year ended 31 December 2015, the Group's cost to income ratio was 49%, compared to 47% in 2014. As of 31 December 2016, the Group's costs divided by average assets ratio realised at 2.1% versus 2.3% as of 31 December 2015, compared to 2.3% and 2.5% for private banks as of the same dates, respectively. The Group's fees divided by operating costs ratio stood at 56% in 2016 versus 2015, compared to private banks' flat level of 50%. The overall cost increase in 2014 and 2015 was driven by the first phase of the Group's growth related initiatives that was completed in 2015, including the increase in the headcount to support sales activity and network/ATM expansion. The Group continued the second phase of its growth strategy in 2016 and focused on selected profitable growth areas rather than overall expansion of market share. Maintaining its scale through effective customer acquisition, the Group achieved consistently strong revenue growth (more than 15% growth achieved for eight quarters; *i.e.* between 1 January 2015 and

31 December 2016). Supported by digitalisation, the Group was able to eliminate certain costs and achieve strong profitability acceleration. Accordingly, the Group's net income realised at TL 2,933 million and its return on average tangible shareholders' equity (excluding minority interest) was 12.8% for the period ended 31 December 2016, compared with TL 1,909 million and 9.7% for the year ended 31 December 2015 and TL 2,056 million and 12.0% for the year ended 31 December 2014. As of 2016 year-end, the Group's return on average assets ratio was at 1.1%, compared to 0.8% as of 2015 year-end.

Organisation

The Bank's operations are carried out through three main segments: (1) retail banking, which includes the Bank's individual, card payment systems and SME business segments, (2) private banking and wealth management, and (3) corporate and commercial banking. The Bank's service model is supported by its domestic and international subsidiaries.

Principal Shareholder

The Bank's controlling shareholder is KFS which holds an 81.8% stake. The remaining 18.2% of the Bank's shares are publicly traded and held by minority shareholders. KFS is a joint venture between Koç Group and UniCredit Group (Koç Group and UniCredit Group each own 50% of the shares in KFS). Koç Group is one of Turkey's largest conglomerates in terms of turnover and exports, with operations in the energy, automotive, consumer durables and finance sectors. UniCredit Group is a global financial institution with an established presence in 22 European countries and 50 other financial markets.

Key Competitive Advantages

The Group's management believes that the Group has a number of key competitive advantages that enable it to compete effectively in the Turkish banking sector, including:

- Leading market positions in key segments and products;
- Robust and customer-oriented balance sheet;
- Large network and leading brand;
- Strong commitment to risk management;
- Diversified, high quality revenue mix; and
- Strong and committed shareholders.

Strategy

As a fully integrated banking and financial services group, the Bank is working towards its goal of becoming a leader in the finance sector. The Bank's mission is to ensure long-term sustainable growth and value creation for all stakeholders and to become the first choice for customers and employees.

Principles

The Bank's strategy is structured around three main principles:

- healthy and consistent growth;
- strong and sustainable profitability; and
- superior and long-lasting customer satisfaction.

Risk Factors

An investment in the Notes involves certain risks. Prior to making an investment decision, prospective purchasers of the Notes should carefully review "*Risk Factors*" above, which sets out certain political, economic and legal risks, as well as risks relating to the Turkish banking industry, the business of the Group and the Notes themselves.

OVERVIEW OF THE OFFERING OF THE NOTES

The following is an overview of certain information relating to the offering of the Notes, including the principal provisions of the terms and conditions thereof. This overview is indicative only, does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Prospectus (including in the Base Prospectus). See, in particular, "Terms and Conditions of the Notes" in the Base Prospectus. Terms used in this section and not otherwise defined shall have the meanings given to them in the Terms and Conditions of the Notes.

Issue	U.S.$600,000,000 5.750% Notes due 2022.
Interest and Interest Payment Dates	The Notes will bear interest from and including the Issue Date to (but excluding) the Maturity Date, at the rate of 5.750% per annum. Interest will be payable semi-annually in arrear on each of 24 February and 24 August in each year in each year up to (and including) the Maturity Date, provided that if any such date is not a Payment Day (as defined in Condition 7.4), then the Noteholders will not be entitled to payment until the next following Payment Day in the relevant place and will not be entitled to further interest or other payment in respect of such delay. The first interest payment (representing a full six month period) will be made on 24 August 2017.
Issue Date	24 February 2017.
Maturity Date	24 February 2022.
Use of Proceeds	The net proceeds of the Offering will be used by the Issuer for general corporate purposes.
Status	The Notes will be direct, unconditional, unsubordinated and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and (subject as provided above) will rank *pari passu* without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.
Negative Pledge	The terms of the Notes will contain a negative pledge provision as further described in Condition 4.
Certain Covenants	The Issuer will agree to certain covenants, including covenants limiting transactions with affiliates. See Condition 5.
Redemption for Taxation Reasons	See Condition 8.2.
Taxation; Payment of Additional Amounts	See Condition 9. As of the date of this Prospectus, withholding tax at the rate of 0% applies on interest on the Notes. See "*Taxation - Certain Turkish Tax Considerations*" in the Base Prospectus.
Events of Default	The Notes will be subject to certain events of default, including (among others) non-payment, breach of

	obligations, cross acceleration and certain bankruptcy and insolvency events. See "*Terms and Conditions of the Notes – Condition 11*" in the Base Prospectus.
Form, Transfer and Denominations	The Regulation S Notes will be represented by beneficial interests in the Unrestricted Global Certificate in registered form, without interest coupons attached, which will be delivered to a common depositary for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg. The Rule 144A Notes will be represented by beneficial interests in the Restricted Global Certificate, in registered form, without interest coupons attached, which will be deposited with the Custodian, and registered in the name of Cede & Co., as nominee for, DTC. Except in limited circumstances, certificates for Notes will not be issued in exchange for beneficial interests in the Global Notes. See "*Conditions of the Notes—Condition 2*". Interests in the Rule 144A Notes will be subject to certain restrictions on transfer. See *Transfer Restrictions*" herein. Interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg, in the case of the Regulation S Notes, and by DTC and its direct and indirect participants, in the case of the Rule 144A Notes. Notes will be issued in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 thereafter. See Condition 1.
Governing Law	The Notes will be, and the Agency Agreement, the Deed of Covenant and the Deed Poll are, and any non-contractual obligations arising out of, or in connection with, any of them will be, governed by and construed in accordance with English law.
Listing	An application has been made to the Irish Stock Exchange to admit the Notes to listing on the Official List and trading on the Main Securities Market. However, no assurance can be given that such application will be accepted.
Turkish Selling Restrictions	The offer and sale of the Notes (or beneficial interests therein) is subject to restrictions in Turkey in accordance with applicable CMB and BRSA laws and regulations. In addition, the Joint Lead Managers have represented and agreed that they will not sell 10% or more of the aggregate principal amount of the Notes as part of their distribution at any time to any one person (including its subsidiaries and affiliates) (together an "**Investor Group**") (except where Notes are being purchased on behalf of any other person(s) and no individual person or Investor Group will have

	a beneficial interest in more than 10% of the aggregate principal amount of the Notes as a result of such purchase). See "*Subscription and Sale—Selling Restrictions—Turkey*" in the Base Prospectus.
Other Selling Restrictions	The Notes have not been nor will be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, any U.S. person (as defined in Regulation S under the Securities Act), except to qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or otherwise pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The offer and sale of Notes is also subject to restrictions in Turkey and the United Kingdom. See "*Subscription and Sale—Selling Restrictions*" herein and in the Base Prospectus.
Risk Factors	For a discussion of certain risk factors relating to Turkey, the Issuer and the Notes that prospective investors should carefully consider prior to making an investment in the Notes, see "*Risk Factors*" herein and in the Base Prospectus.
Issue Price	100.000% of the principal amount of the Notes payable in full in U.S. dollars on the Issue Date.
Yield	5.750% per annum.
Regulation S Security Codes	ISIN: XS1571399754 Common Code: 157139975
Rule 144A Security Codes	ISIN: US984848AH44 CUSIP: 984848AH4 Common Code: 157274449
Representation of Noteholders	There will be no trustee.
Expected Ratings	BBB- by Fitch Ba1 by Moody's
Fiscal Agent, Exchange Agent, Principal Paying and Transfer Agent:	The Bank of New York Mellon, London Branch
Registrar:	The Bank of New York Mellon (Luxembourg) S.A.

PRESENTATION OF FINANCIAL INFORMATION

Presentation of Financial Information

The Bank maintains its books and prepares its statutory financial statements in Turkish Lira in accordance with the prevailing accounting principles and standards set out as per Articles 37 and 38 of the Banking Law, effective from 1 November 2005, the Turkish Commercial Code (Law No. 6102) (the "**Turkish Commercial Code**") and Turkish tax legislation and other regulations, circulars, communiqués and pronouncements in respect of accounting and financial reporting and pronouncements made by the BRSA (collectively, the "**BRSA Principles**").

The Bank's consolidated and unconsolidated annual statutory financial statements as of and for the years ended 31 December 2016, 2015 and 2014 (the "**Annual BRSA Financial Statements**") have been prepared and presented in accordance with the "*Regulation on the Principles and Procedures Regarding Banks' Accounting Applications and Safeguarding of Documents*" published in the Official Gazette No. 26333 dated 1 November 2006 by the BRSA which refers to "*Turkish Accounting Standards*" and "*Turkish Financial Reporting Standards*" issued by the Public Oversight Accounting and Auditing Standards Authority ("**POA**") and other decrees, notes and explanations related to the accounting and financial reporting principles (all "**Turkish Accounting Standards**" or "**TAS**") published by the BRSA. See convenience translations into English of the relevant EY reports incorporated by reference into this Prospectus.

The format and the details of the publicly announced financial statements and related disclosures to these statements have been prepared in accordance with the "Communiqué Related to Publicly Announced Financial Statements of Banks and Explanations and Notes Related to these Financial Statements" and changes and notes to this communiqué published in the Official Gazette No. 28337 dated 28 June 2012. It is important to note that the consolidated BRSA Financial Statements are prepared with inclusion of only financial subsidiaries whereas other equity participations are included as noted in the following paragraph. The Bank's foreign affiliates maintain their books of account and prepare their financial statements in accordance with the generally accepted accounting principles and the related legislation applicable in the countries in which they operate, however in order to provide fair presentation according to TAS, necessary adjustments and reclassifications are reflected to those financial statements.

The BRSA Financial Statements are prepared on a historical cost basis that were restated for the changes in the general purchasing power of TL until 31 December 2004 except for: financial assets and liabilities at fair value through profit or loss, financial assets available for sale, trading derivative financial liabilities and hedging derivative financial assets/liabilities and art objects and paintings in tangible assets and buildings in tangible assets. The carrying values of financial assets carried at amortised cost but subject to fair value hedge are adjusted to reflect the fair value changes related to the hedged risks.

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

EY audited and issued auditors' reports with respect to the annual consolidated BRSA financial statements (i) as of and for the year ended 31 December 2015 in accordance with communique "Independent Audit of Banks" published by the BRSA in the Official Gazette No. 29314 dated 2 April 2015 and with the Independent Auditing Standards which is a part of the Turkish Auditing Standards promulgated by the POA and (ii) as of and for the year ended 31 December 2014 in accordance with the Regulation on Authorisation and Activities of Institutions to Perform External Audit in Banks and with the Independent Auditing Standards (which are a part of Turkish Auditing Standards promulgated by the POA, and (iii) as of and for the years ended 31 December 2013 in accordance with "Regulation on Authorization and Activities of Institutions to Conduct Independent Audit in Banks" published in the Official Gazette dated 1 November 2006 and numbered 26333 and International Standards on Auditing. See convenience translations in English of EY's reports incorporated by reference into this Prospectus. Due to mandatory regulatory requirements, the Bank will rotate auditors following completion of its annual audit as of and for the year ended 31 December 2016.

Activities of certain of the Bank's subsidiaries were classified as discontinued activities in the year ended 31 December 2012. The consolidated income statement of the Bank for the year ended 31 December 2012 has therefore been reclassified in order to provide a comparative presentation, see also "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies—Explanation on other matters*".

References to "**BRSA financial data**" in this Prospectus are to financial data prepared in accordance with BRSA Principles.

Unless otherwise indicated, the financial information presented herein is based upon the BRSA Financial Statements incorporated by reference herein and have been extracted from the BRSA Financial Statements without material adjustment. The BRSA Financial Statements incorporated by reference into this Prospectus, all of which are in English, were prepared as convenience translations of the BRSA Financial Statements originally issued in the Turkish language (which translations the Bank confirms were direct and accurate). The English language BRSA Financial Statements were not prepared for the purpose of their inclusion in this Prospectus.

While neither the Bank nor the Group is required by law to prepare its accounts under any accounting standards other than BRSA Principles, including under IFRS, the Bank's management has elected to publish annual consolidated and semi-annual consolidated financial statements that have been prepared in accordance with IFRS, with the most recent such audited financial statements being the Group's IFRS financial statements for the fiscal year ended 31 December 2015. IFRS financial statements are not used for any regulatory purposes and the Bank's management uses the BRSA Financial Statements and related BRSA Principles for the management of the Bank and communications with investors. While the Group's IFRS financial statements are available on the Bank's website, information in this Prospectus is based upon the BRSA Financial Statements, and the Group's IFRS audited financial statements do not form a part of (and are not incorporated by reference in) this Prospectus.

Certain figures included in, or incorporated by reference into, this Prospectus have been subject to rounding adjustments (e.g., certain U.S. Dollar amounts have been rounded to the nearest million). Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Unless otherwise indicated, the sources for statements and data concerning the Bank and its business are based upon best estimates and assumptions of the Bank's management. Management believes that these assumptions are reasonable and that its estimates have been prepared with due care. The data concerning the Bank included herein, whether based upon external sources or based upon the Bank's internal research, constitute the best current estimates of the information described.

The contents of any website referenced herein do not form part of (and are not incorporated into) this Prospectus.

BRSA Principles and IFRS

BRSA Principles differ from IFRS. As an example, the provisioning policy used in the preparation of the Bank's IFRS Financial Statements differs from that used under BRSA Principles. For example, under BRSA Principles, provisioning is based on the length of the period of default, whereas under IFRS, provisioning is based on an evaluation made by management. For a discussion of the differences between BRSA Principles and IFRS, see "*Appendix 1—Overview of Significant Differences Between IFRS and BRSA Accounting Principles*".

Non–GAAP Measures of Financial Performance

To supplement the Group's consolidated financial statements presented in accordance with BRSA Principles, the Group uses certain ratios and measures included in this Prospectus that would be considered non-GAAP financial measures in the United States. A body of generally accepted accounting principles such as IFRS or BRSA Principles is commonly referred to as "**GAAP**." A non-GAAP financial measure is defined as one that measures historical or future financial performance, financial position or cash flows but that excludes or includes amounts that would not be so adjusted in the most comparable GAAP measures. These non-GAAP financial measures are not a substitute for GAAP measures, for which management has responsibility.

The non-GAAP measures included in this Prospectus are not in accordance with or an alternative to measures prepared in accordance with BRSA Principles and may be different from similarly titled non-GAAP measures used by other companies. The Bank's management believes that this information, along with comparable measures under BRSA Principles, is useful to investors because it provides a basis for measuring the organic operating performance in the years presented. These measures are used in internal management of the Group, along with the most directly comparable financial measures under BRSA Principles, in evaluating the Group's operating performance. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with BRSA Principles. Non-GAAP financial measures as reported by the Group may not be comparable to similarly titled amounts reported by other companies.

The Bank's management believes that these non-GAAP measures, when considered in conjunction with measures under BRSA Principles, enhance investors' and management's overall understanding of the Group's current financial performance. In addition, because the Group has historically reported certain non-GAAP results to investors, the Bank's management believes that the inclusion of non-GAAP measures provides consistency in the Group's financial reporting.

Currency Presentation and Exchange Rates

In this Prospectus, all references to:

- "**Turkish Lira**" and "**TL**" refer to the lawful currency for the time being of the Republic of Turkey;
- "**euro**" and "**€**" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended;
- "**U.S. Dollars**", "**U.S.$**" and "**$**" refer to United States dollars;
- "**Renminbi**" and "**RMB**" refer to the lawful currency of the PRC which, for the purposes of this Prospectus, excludes the Hong Kong Special Administrative Region of the PRC, the Macao Special Administration Region of the PRC and Taiwan; and
- "**Sterling**" and "**£**" refer to pounds sterling.

Unless otherwise indicated, all amounts in this Prospectus are presented in Turkish Lira.

Certain Defined Terms, Conventions and Other Considerations in Relation to the Presentation of Information in this Prospectus

Capitalised terms which are used but not defined in any particular section of this Prospectus will have the meaning attributed thereto in "*Terms and Conditions of the Notes*" or any other section of this Prospectus.

In this Prospectus, any reference to Euroclear and/or Clearstream, Luxembourg (each as defined under "*Form of the Notes*") shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer and the Fiscal Agent.

Information regarding the Bank's shareholders (including ownership levels and agreements) in "*Business of the Bank*" and "*Share Capital and Ownership*" has been based upon public filings and announcements by such shareholders.

SELECTED FINANCIAL INFORMATION

The following tables set forth, for the periods indicated, selected consolidated financial information of the Bank and its subsidiaries derived from the Annual BRSA Financial Statements as of and for the years ended 31 December 2016, 2015 and 2014 incorporated by reference in this Prospectus.

Prospective investors should read the following information in conjunction with "*Presentation of Financial and other Information*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", the Annual BRSA Financial Statements as of and for the years ended 31 December 2016, 2015 and 2014.

Balance Sheet Data

	As of 31 December			
	2016	2016	2015	2014
	(U.S.$, thousands)[1]		*(TL, thousands)*	
Assets				
Cash and balances with Central Bank	9,400,800	33,083,295	27,388,947	23,214,665
Financial assets at fair value through profit or (loss) (net)	864,069	3,040,830	1,766,293	1,209,792
Deposits with banks	980,043	3,448,966	3,111,505	3,891,875
Money markets	72	252	286,126	1,568,750
Financial assets available for sale (net)	5,224,514	18,386,109	22,840,204	18,674,097
Loans and receivables	50,768,476	178,664,422	154,017,989	126,807,109
Factoring receivables	822,425	2,894,279	2,259,124	2,768,233
Held to maturity investments (net)	3,293,047	11,588,890	7,108,809	5,556,369
Investment in associates (net)	190,133	669,117	549,728	461,087
Subsidiaries (net)	2,074	7,300	7,300	2,300
Joint ventures (net)	5,147	18,114	20,851	19,054
Lease receivables	2,359,765	8,304,486	6,862,261	5,005,250
Derivative financial assets held for hedging	343,746	1,209,712	961,041	256,146
Property and equipment (net)	770,927	2,713,047	2,767,484	1,109,787
Intangible assets (net)	445,233	1,566,864	1,508,428	1,457,366
Investment property (net)	—	—	—	—
Tax asset	50,975	179,391	78,141	172,306
Assets held for resale and related to discontinued operations	47,222	166,183	153,922	155,485
Other assets	1,475,714	5,193,333	3,579,779	2,629,034
Total assets	**77,044,382**	**271,134,590**	**235,267,932**	**194,958,705**
Liabilities				
Deposits	44,637,473	157,088,195	130,025,065	107,630,631
Derivative financial liabilities held for trading	732,746	2,578,679	1,922,408	860,326
Funds borrowed	8,669,236	30,508,774	24,860,979	21,416,956
Money markets	2,615,660	9,205,029	14,263,537	8,774,752
Marketable securities issued (net)	5,137,664	18,080,467	17,172,893	13,355,937
Miscellaneous payables	3,171,967	11,162,787	9,794,681	8,738,336
Other liabilities	555,923	1,956,404	2,756,059	2,970,800
Other provisions	364,623	1,283,180	1,055,202	1,153,172
Factoring payables	—	—	—	—
Lease payables (net)	—	—	—	—
Derivative financial liabilities held for hedging	25,374	89,296	148,278	440,448
Provisions	969,224	3,410,892	2,927,784	2,205,865
Tax liability	165,333	581,841	619,453	427,228
Liabilities for property and equipment held for sale and related to discontinued operations (net)	—	—	—	—
Subordinated loans	2,576,692	9,067,893	6,635,191	6,770,549
Total Liabilities	**69,621,913**	**245,013,437**	**212,181,530**	**174,745,000**
Paid in capital	1,235,238	4,347,051	4,347,051	4,347,051
Capital reserves	756,316	2,661,627	2,877,463	1,618,240
Profit reserves	4,131,400	14,539,224	12,357,721	10,807,976
Income or (loss)	1,299,372	4,572,749	3,503,693	3,439,976
Minority interest	143	502	474	462
Total Shareholders' equity	**7,422,469**	**26.121.153**	**23,086,402**	**20,213,705**
Total liabilities and shareholders' equity	**77,044,382**	**271,134,590**	**235,267,932**	**194,958,705**

Notes:

(1) For the convenience of the reader, these figures have been translated into U.S. dollars at the rate of TL 3.5192 = U.S.$1.00, which corresponds with the Bank's Published Exchange Rate on 31 December 2016. Such translation should not be construed as a representation that the TL amounts have been converted into U.S. dollars pursuant to BRSA. The average and period end exchange rates for the six months ended 31 December 2016, based on the Bank's Published Exchange Rates and the rates published by the Central Bank are set out in "*Exchange Rates*".

Income Statement Data

	For the year ended 31 December			
	2016	2016	2015	2014
	(U.S.$, thousands)[12)]		*(TL, thousands)*	
Income statement Data:				
Interest income	6,331,965	19,109,871	16,300,345	12,633,965
Interest expense	(3,608,081)	(10,889,187)	(9,122,142)	(6,660,665)
Net interest income	**2,723,885**	**8,220,684**	**7,178,203**	**5,973,300**
Fees and commissions received	1,236,797	3,732,653	3,546,591	2,960,372
Fees and commissions paid	(251,746)	(759,769)	(705,631)	(617,357)
Net fees and commissions income	**985,051**	**2,972,884**	**2,840,960**	**2,343,015**
Dividend income	2,045	6,173	5,908	9,351
Trading gain/(loss) (net)	62,069	187,323	(439,135)	(236,654)
Other operating income	182,519	550,841	626,730	621,734
Provision for impairment of loans and other receivables	(979,139)	(2,955,042)	(2,649,238)	(1,938,729)
Other operating expenses	(1,761,205)	(5,315,318)	(5,077,318)	(4,146,281)
Net operating income/loss	**1,215,224**	**3,667,545**	**2,486,110**	**2,625,736**
Income/(loss) from investments accounted based on equity method	28,284	85,361	50,806	42,842
Tax provisions for continuing operations	(271,718)	(820,046)	(628,188)	(612,396)
Net profit/loss from continuing operations	**971,789**	**2,932,860**	**1,908,728**	**2,056,182**
Net profit/loss from discontinued operations	—	—	—	—

Notes:

(1) For the convenience of the reader, these figures have been translated into U.S. dollars at the average rate of TL 3.0180 = U.S.$1.00, which corresponds with average of the Bank's Published Exchange Rate for the year ended 31 December 2016. Such translation should not be construed as a representation that the TL amounts have been converted into U.S. dollars pursuant to the requirements of BRSA.

Key Ratios

The following table provides certain of the Group's key ratios as of and for the years ended 31 December 2016, 2015 and 2014. The basis for calculation of ratios that are non-GAAP financial measures is set out in the notes below. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with BRSA Principles. See "*Presentation of Financial Information—Non-GAAP Measures of Financial Performance*".

	For the year ended 31 December		
	2016	2015	2014
		(%)	
Return on average shareholders' equity excluding minority interest[(1)]	**12.8**	9.7	11.3
Net interest margin[(2)]	**3.4**	3.4	3.5
Capital adequacy ratio	**13.2**	12.9	14.4
Cost to income[(3)]	**44.2**	49.5	47.4
Free capital ratio[(4)]	**7.8**	7.7	8.7
Non-performing loans to total cash loans[(5)]	**4.8**	3.9	3.4
Cost to average total assets[(6)]	**2.1**	2.3	2.4

Notes:

(1) Annualised return on average shareholders' equity excluding minority interest, calculated based on the average of shareholders' equity (excluding profit and minority interest) at the end of the current period and shareholders' equity (excluding profit and minority interest) at the end of the previous period.

(2) Net interest income divided by average interest earning assets. For further information regarding the calculation of average interest earning assets, see "*Selected Statistical and Other Information*".

(3) Represents non-interest expenses divided by total operating income before provisions and non interest expense.

(4) Total shareholders' equity excluding investment in associates, goodwill, other intangible assets, property and equipment and deferred income tax assets divided by total assets.

(5) Total non-performing loans divided by total cash loans.

(6) Operating costs divided by the average of assets at the end of the current period and assets at the end of the previous period.

EXCHANGE RATES

The following table sets forth, for the periods indicated, information concerning the period average and period-end buying rates for U.S. dollars for the periods indicated. The rates set forth below are provided solely for your convenience and were not used by the Group in the preparation of the Group's consolidated financial statements incorporated by reference in this Prospectus. No representation is made that Turkish Lira could have been, or could be, converted into U.S. dollars at that rate or at any other rate.

Period Average(1)	**TL per U.S.$**	**Period End**(2)	**TL per U.S.$**
2016	3.0180	31 December 2016	3.5192
2015	2.7191	31 December 2015	2.9076
2014	2.1872	31 December 2014	2.3189
2013	1.8931	31 December 2013	2.1343
2012	1.7474	31 December 2012	1.7380
2011	1.6700	31 December 2011	1.8889
2010	1.5004	31 December 2010	1.5376
2009	1.5471	31 December 2009	1.4873
2008	1.2929	31 December 2008	1.5218
2007	1.3015	31 December 2007	1.1593
2006	1.4311	31 December 2006	1.4056
2005	1.3408	31 December 2005	1.3418

Source: Central Bank of Turkey

(1) For the periods between 2000 and 2008: Represents the arithmetic average of the month end closing rates of the TL/U.S.$ exchange rates.
For the periods after 2008: Represents the arithmetic average of the monthly averages, where monthly averages were calculated by taking the daily average of the TL/U.S.$ exchange rates.
Amounts in Turkish Lira with respect to periods before 2005 have been translated into New Turkish Lira at an exchange rate of TL 1,000,000 = TL 1.00.

(2) Represents the TL/U.S.$ exchange rates for the purchase of U.S. dollars determined by the Central Bank on the previous working day. Amounts in Turkish Lira with respect to periods before 2005 have been translated into New Turkish Lira at an exchange rate of TL 1,000,000 = TL 1.00.

CAPITALISATION OF THE BANK

The following table sets forth the consolidated capitalisation of the Group as of 31 December 2016. The information in this table has been extracted from the Group's Annual BRSA Financial Statements as of and for the year ended 31 December 2016 without material adjustment. This table should be read in conjunction with "*Use of Proceeds*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the Annual BRSA Financial Statements as of and for the year ended 31 December 2016 (with 31 December 2015 comparatives) incorporated by reference in this Prospectus.

	As of 31 December 2016	
	(U.S.$, thousands)[(1)]	*(TL, thousands)*
Indebtedness		
Subordinated debts borrowings	2,576,692	9,067,893
Debt securities in issue	5,137,664	18,080,467
Other borrowings	11,284,895	39,713,803
Total Indebtedness	**18,999,251**	**66,862,163**
Equity		
Paid in capital and share premium	1,389,785	4,890,932
Other reserves	5,566,539	19,589,765
Retained earnings	466,002	1,639,954
Equity attributable to equity holders of the Parent	**7,422,326**	**26,210,651**
Minority interests	143	502
Shareholders' equity	**7,422,469**	**26,121,153**
Total capitalisation	**26,421,720**	**92,983,316**

Note:

(1) For the convenience of the reader, these figures have been translated into U.S. dollars at the rate of TL 3.5192 = U.S.$1.00, which corresponds with the Bank's Published Exchange Rate on 31 December 2016. Such translation should not be construed as a representation that the TL amounts have been converted into U.S. dollars pursuant to the requirements of BRSA. The average and period end exchange rates for the nine month period ended 31 December 2016, based on the Bank's Published Exchange Rates and the rates published by the Central Bank are set out in "*Exchange Rates*".

There has been no material change in the Bank's capitalisation since 31 December 2016; however, there has been some impact due to the currency devaluation and ratings downgrades described on pages 8 and 9.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the consolidated financial condition and results of operations of the Group covers the financial years ended 31 December 2016, 2015 and 2014. Unless otherwise specified, the financial information presented in this discussion has been extracted from the Annual BRSA Financial Statements without material adjustment. This section should be read in conjunction with such Annual BRSA Financial Statements, the notes thereto and the other financial information incorporated by reference or included in this Prospectus (including the section entitled "Presentation of Financial and Other Information"). The Annual BRSA Financial Statements have been prepared in accordance with BRSA regulations as described in "Presentation of Financial and Other Information". For a discussion of the main differences between the BRSA Financial Statements and IFRS, see "Appendix 1—Overview of Significant Differences Between IFRS and BRSA Accounting Principles".

Certain information contained in the discussion and analysis set forth below and elsewhere in this Prospectus includes "forward-looking statements". Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. See the section entitled "Forward-Looking Statements".

Introduction

Yapı ve Kredi Bankası A.Ş. is a full service bank with its headquarters in Istanbul, Turkey. According to BRSA statistics, as of 31 December 2016, the Bank was the fourth largest private bank in Turkey by total assets. As of 31 December 2016, the Bank had 936 branches covering all regions of Turkey (including one branch in Bahrain) and served 12.9 million customers in Turkey. It maintains leading positions in key segments and products, supported by its strong franchise, large network and leading brand. The Bank provides financial products and services including retail banking (which includes individual, SME and card payment systems), private banking and wealth management, and corporate and commercial banking through its network of branches in Turkey. Internationally, the Group operates through subsidiaries in the Netherlands, Russia, Malta and Azerbaijan and maintains a foreign branch in Bahrain.

Significant Factors Affecting Results of Operations

Numerous factors affect the Group's results of operations, some of which are outside the Group's control. The following discussion identifies certain of those factors that are significant to the Group.

Turkish Economy

The majority of the Group's operations are in Turkey and its business and results of operations are affected by general economic conditions in Turkey. As of 31 December 2016, 96.6% of the Group's total assets were located in Turkey. Accordingly, the Bank's results of operations and financial condition have been and will continue to be significantly affected by Turkish political and economic factors, including the economic growth rate, the rate of inflation and fluctuations in exchange and interest rates. In addition, because the Bank is reliant on deposits from retail customers for a significant portion of its funding and generates a significant amount of its net income from retail customers, the Bank's performance is affected by changes in wages, consumer spending and GDP growth generally. See "*Risk Factors—Risks Related to the Group's Business—The Group's business, results of operations, financial condition and prospects are affected by general economic conditions in Turkey and internationally*" and "*Risk Factors—Risks Related to Turkey—Political developments in Turkey may have a material adverse effect on the Group's business, financial condition, results of operations and prospects*".

In 2011, the Central Bank started implementing an unconventional monetary policy and regulatory changes, aimed at controlling the widening current account deficit and discouraging short term capital inflows. The policy measures implemented since the beginning of 2011 include increased reserve requirements, increased general provisioning requirements, higher risk weighting for general purpose loans (other than mortgages and auto loans), the introduction of reserve option coefficients and an unofficial limit of credit growth of 15%. (see "*Turkish Regulatory Environment*" in the Base Prospectus).

Global uncertainties have continued for the past several years, driven by the European debt crisis, U.S. and global monetary policies, high inflation risk in emerging markets, low commodity prices and concerns about

slowdown of global growth rates, particularly in China. In Turkey, GDP grew by 5.2% in 2014, 6.1% in 2015 and 2.2% in the first nine months of 2016, according to TurkStat. GDP growth in 2016 was primarily driven by a positive and strong contribution from government expenditure, which was offset by a deceleration in external and internal demand. The current account deficit decreased from 4.7% of GDP in 2014 to 3.7% of GDP in 2015 and increased to 3.8% of GDP in 2016. The current account deficit has been affected by changing levels of domestic demand, but benefitted from lower global oil prices. The CPI increased in 2014 and 2015 (8.2% and 8.8%, respectively). Despite efforts to reduce inflation in Turkey, 2016 inflation remained persistently high and year-on-year inflation in 2016 was recorded at 8.5%.

In late May through July 2013, there were a series of political protests in Turkey, followed by the corruption probe scandal starting as of mid December, which resulted in increased volatility in the Turkish economy. As a result, the Bank abandoned its flexible monetary policy framework despite the fact that the impact of such developments was unpredictable. In addition, statements by the U.S. Federal Reserve regarding the tapering of monetary stimulus resulted in increased volatility and interest rates across emerging markets, including Turkey. The actual process of tapering began in December 2013 and market pressures subdued gradually thereafter, with the U.S. monetary stimulus coming to a close in October 2014. The local elections held in March 2014 and the presidential elections held in August 2014 resulted in a victory for the ruling Justice and Development Party. In the presidential elections, the former prime minister was elected as the president of Turkey, with an affirmative vote of 51.8%, and the former minister of foreign affairs was appointed as prime minister. The financial markets reacted positively to these results. In 2015, domestic politics and continuing tensions in the region due to the turmoil in Iraq and Syria heightened the external vulnerability and exerted an additional downward pressure on economic activity.

Turkey had two fairly closely-dated elections in 2015. The first was the regular general election in June, which led to the end of the single-party governments under AKP for the last thirteen years. AKP's share of the vote decreased from 49.8% in the 2011 elections to 40.9% in the first election held in June 2015. AKP's seat number decreased to 258, 18 seats short of the single party threshold, and search for a feasible coalition by the four parties ended with no result. Kurdish insurgence, which had been relatively silent for some time, picked up discernibly in the aftermath of the elections. An early election was held on 1 November 2015 as a result of the coalition efforts yielding no results, and the ruling party AKP had a landslide victory, obtaining 317 seats in the Parliament with 49.4% of total votes. Markets reacted to this result very positively at first but questions regarding the economy team members, presidential system arguments (including constitutional reform), and possibility of pressure on the Central Bank re-emerging has been causing some uncertainty among market participants, and some of the post-election correction in asset prices reversed. Furthermore, the increase in interest rates by the U.S. Federal Reserve in late 2016 and the uncertain pace of future increases has injected further volatility into global markets. Until such uncertainties clear away fully, management expects that markets will be cautious in pricing Turkish Lira assets and forming long-term expectations about the path to be taken by the government to be formed. See "*Risk Factors—Risks Related to the Group's Business—Political developments in Turkey may have a material adverse effect on the Group's business, financial condition, results of operations and prospects*". Despite the fact that a single party government with a strong mandate has been formed following the outcome of the November election, there is still a prolonged uncertainty about the implementation of the monetary policy. Until this uncertainty clears away, Turkish Lira asset investors are likely to remain subdued. However, there can be no assurance that the political instability in Turkey will not continue or that the political situation in Turkey will not further deteriorate.

Nevertheless, Turkey's economy continued to grow during 2015, with robust GDP growth of 6.1% for the year ended 31 December 2015, according to the Turkish Statistical Institute. In the first nine months of 2016, the Turkish economy grew by 2.2%. Headline inflation was 8.5% as of 31 December 2016, compared to 8.8% as of 31 December 2015. Core inflation (I Index) was 7.5% year-on-year as of 31 December 2016, which was largely in line with estimates by the Central Bank. See "*Risk Factors—Risks Related to the Turkish Banking Industry—The profitability and profitability growth of Turkish banks, including the Group, in recent periods may not be sustainable as a result of regulatory, competitive and other factors impacting the Turkish banking sector*" and "*Risk Factors—Risks Related to Turkey—Turkey's economy is subject to inflation and risks relating to its current account deficit*".

On 15 July 2016, the Turkish government was subject to an attempted coup by a group within the Turkish army. The Turkish government and the Turkish security forces (including the Turkish army) took control of the situation in a short period of time and the ruling government remained in control. On 20 July 2016, after

the failed coup attempt, the Turkish President announced, pursuant to Article 120 of the Turkish Constitution, a nationwide three month state of emergency, entitling the government to exercise additional powers. The three month state of emergency was subsequently extended in October 2016 and then again on 19 January 2017, effective for 90 more days.

Following the attempted coup in July 2016, Moody's placed Turkey's sovereign credit rating and the ratings of 17 Turkish banks on review for potential downgrade; S&P downgraded Turkey's sovereign rating from "BB+" to "BB" as well as the credit ratings of five Turkish banks; and Fitch changed Turkey's sovereign rating outlook from "stable" to "negative." Moody's then downgraded Turkey's sovereign rating from "Baa3 to Ba1" in September 2016. On 4 November 2016, although S&P affirmed the country's long-term foreign credit rating at BB, it upgraded its outlook for Turkey's sovereign credit rating to "stable" from "negative", which was then cut back to "negative" on 27 January 2016. On the same day, Fitch downgraded Turkey's sovereign rating from 'BBB-' to 'BB+' with a stable outlook. With this downgrade, Turkey now has below investment grade ratings from each of the "big three" rating agencies.

As of the date of this Prospectus, investigations with respect to the attempted coup are ongoing. There might be further arrests and actions taken by the government in relation to these investigations, including changes in policies and laws. Any future investigations may include customers of the Bank, which could impact such customers' ability to meet their obligations and may in turn result in an adverse impact on the Bank's loan portfolio. The ongoing investigations following the failed coup attempt and state of emergency have contributed to uncertainty surrounding the Turkish political environment. Despite signs of political unity in the immediate aftermath of the coup attempt, tensions between political parties have recently increased, and any consolidation of political power may have a detrimental effect on political checks and balances. See *"Risk Factors – Risks Related to Turkey"*.

Further slowdown in global economic activity (and in particular in the U.S. and China), continued uncertainty across EU markets, the impact of the U.K. referendum to exit the EU, a sell off in emerging markets, central bank actions (including the pace of rise of U.S. interest rates), U.S. policy under President Trump or even uncertainty over the anticipation of these facts, are potential sources of volatility and fragility for the Turkish economy.

The following table presents selected macroeconomic data with respect to the Turkish economy as of or for the years ended 31 December 2010 to 2016:

	As of or for the years ended 31 December(1)						
	2016	2015	2014	2013	2012	2011	2010
Nominal GDP at current prices (in millions of Turkish Lira)	2,487,914	2,337,530	2,044,466	1,809,714	1,569,672	1,394,477	1,160,014
Real GDP growth (%)	2.2	6.1	5.2	8.5	4.9	1.1	8.5
Deficit/surplus of consolidated budget (%)(2)	(1.1)	(1.0)	(1.1)	(1.0)	(2.0)	(1.2)	(3.4)
Inflation (end of period) (%)	8.5	8.8	8.2	7.4	6.2	10.4	6.4
Central Bank reference interest rate	8	7.5	8.25	4.5	5.5	5.75	6.5
Refinancing rate of the Central Bank (%)	8.50	10.75	11.25	7.75	9.0	12.5	9.0
Nominal appreciation (depreciation) of the Turkish Lira against the U.S. dollar (%)	(21.47)	(25.41)	(9.2)	(19.7)	5.9	(22.8)	(3.4)
Real effective exchange rate appreciation (depreciation) (%)(3)	(5.47)	(6.95)	4.63	(9.06)	7.36	(13.8)	5.84
Total gross gold and international currency reserves (in millions of U.S. dollars)	106,101	110,528	126,448	132,874	120,290	88,218	85,960

Notes:

(1) Inflation, nominal depreciation of the Turkish Lira against the U.S. dollar and real effective exchange rate are presented on a year to year basis. Nominal GDP is 12 months' rolling as of 30 September 2016. Real GDP growth is for the first nine months of 2016.

(2) Last 12 months deficit over last 12 months GDP.

(3) CPI based real effective exchange rate is used.

Sources: TurkStat for nominal GDP at current prices, real GDP growth, inflation. Turkish Ministry of Finance, General Directorate of Public Accounts, for deficit surplus of consolidated budget and Central Bank for reference overnight interest rate, refinancing rate, nominal appreciation (depreciation) of the Turkish Lira against the U.S. dollar, real effective exchange rate and total gross gold and international currency reserves.

Interest Rates

Market Interest Rates

One of the primary factors affecting the Group's profitability is the level of fluctuations in interest rates in Turkey, which in turn influence the return on its securities portfolio and its loan and deposit rates. Since mid-2013, elevated uncertainties regarding global monetary policies and domestic disturbances have led the

Central Bank to adopt a more cautious monetary policy, with an increase in the upper bound of the interest rate corridor to 7.75% as of 20 August 2013. During this period, Turkey's exchange rate depreciated more against the U.S. dollar than in other emerging markets. Elevated domestic uncertainty coupled with the aggregate demand conditions required the implementation of more flexible monetary policy in order to mitigate the pressure on inflation amid rising risks and market rates.

In January 2014, deterioration in risk perception followed by a significant depreciation in the Turkish Lira and a pronounced increase in the risk premium forced the Central Bank to implement a strong monetary tightening and to simplify the operational framework. The Central Bank increased the policy rate to 10.00%, accompanied by hikes in both the interbank lending and borrowing rates. After the political risks decreased, the Central Bank started to ease its strong stance and as of 17 July 2014 the policy rate is at 8.25% level where it remained through the end of 2014. In January 2015, the Central Bank reduced the policy rate to 7.75% as a result of reduced inflationary pressures mainly due to lower global oil prices.

A pass-through effect from the depreciation of the Turkish Lira brought inflation to 7.4% by the end of 2013. In 2014, external market uncertainties and risk premium indicators increased substantially. In order to contain the deterioration in inflation expectations and pricing behaviour, as well as to maintain macroeconomic and financial stability, the Central Bank adapted a more conventional tightening of policy and increased benchmark rates, increasing the one-week repo rate to 10.0% from 4.50%. Following local elections in Turkey in 2014, the overall level of volatility declined and the Central Bank lowered the one-week funding rate to 9.50% in May 2014 and to 8.75% in June 2014. On 18 July 2014, the Central Bank decreased the one-week repo rate from 8.75% to 8.25% and the overnight borrowing rate from 8.00% to 7.50%, while keeping the overnight lending rate the same. On 28 August 2014, the Central Bank decreased the overnight lending rate from 12.00% to 11.25%, which was further decreased to 10.75% on 24 February 2015. On 20 January 2015, the Central Bank decreased the one-week repo rate from 8.25% to 7.75% and the following month there was a further cut, bringing the policy rate to 7.50%. From March 2016 to October 2016, the Central Bank kept the one week repo rate stable at 7.50% while cutting the overnight lending rate and late liquidity overnight lending rate to 8.25% and 9.75% respectively. Following a funding cost decrease driven by Central Bank rate cuts, deposit costs fell in the banking sector, while Turkish Lira loan yields were almost constant as of October 2016. At its November meeting, the Central Bank raised the one-week repo and overnight lending rates by 50 and 25 basis points to 8.0% and 8.5%, respectively, as a response to volatility in financial markets to defend the Turkish Lira. In January, the Central Bank further hiked its overnight lending rate by 75 basis points to 9.25%, from 8.5%, after sharp falls in the Turkish Lira, but left its main policy rate on hold. The Central Bank also increased the rate at its late liquidity window, where it has been increasingly encouraging lenders to source lira, to 11% from 10%. It should be noted that since 12 January the Central Bank has not been holding one-week repo auctions and instead has been funding banks from late liquidity window and overnight lending rates.

Impact of Interest Rates on the Group

Interest earned and paid on the Group's assets and liabilities reflects, to a certain degree, inflation, expectations regarding inflation, shifts in short term interest rates set by the Central Bank and movements in long term real interest rates.

As is the case for the Turkish banking system generally, the Group's assets have a longer maturity and reprice more slowly than its liabilities. As a result, changes in short term interest rates are generally reflected in the rates of interest paid by the Group on its liabilities before such changes can be reflected in the rates of interest earned by the Group on its assets. Therefore, when interest rates decline, as was the case in the second half of 2014, the Group's interest margin is positively affected, but when interest rates increase, as was the case in the second half of 2013, the Group's interest margin is generally negatively affected.

The current environment remains intensely competitive, and there has been sustained margin compression across the Turkish banking sector. In light of these conditions, the Group is focusing on customer business, optimal allocation of loans in higher yielding segments, optimisation of deposit pricing, diversification of funding sources and service income generating segments.

The Group has generally been able to generate a substantial portion of its revenue from service income and fees which it views as sustainable, for example, as of 31 December 2016, 25% of the operating revenues of the Group consisted of net fees and commissions. A strong contributor to the Group's fee and commission

income is the credit card sector where the Group is a market leader with a 22.1% market share in volume of outstanding credit card balances, 19.9% market share in issuing volume, 20.8% market share in acquiring volume, and 17.8% market share in number of cards as of 31 December 2016, according to the Interbank Card Centre. In order to further enhance fee and commission income, the Group has been focusing on new product launches, fee collection, introduction of fees in new areas and on increasing fee generating products like insurance policies distributed by the Bank's wide branch network, cash management and trade finance. However, consumer fees have been limited to a certain extent by regulatory actions as part of the consumer protection law introduced in 2014. The Bank was able to offset the impact through a strategic focus on enhancing fee generating activity, particularly in unregulated areas (such as payment systems) and still has one of the highest ratios of fees/revenues among Turkish banks. See "*Risk Factors—Risks Related to the Turkish Banking Industry—The profitability and profitability growth of Turkish banks, including the Group, in recent periods may not be sustainable as a result of regulatory, competitive and other factors impacting the Turkish banking sector*".

Expansion of Branch Network and Digital Strategy

Between 2013 and 2015, the Group implemented the first phase of its growth strategy through its branch expansion plan with 21 net new branches in 2013, 60 net new branches in 2014, and 3 net new branches as of 31 December 2015. Although newly opened branches are generally not immediately profitable, they tend to experience an initial period of high growth, which may not be sustainable in the longer term. The financial performance of newly opened branches is monitored independently from that of the existing branch network and is consolidated with that of the existing branch network only once the newly opened branches reach a cumulative break even threshold. On average it can take approximately 25 months for such branches to reach this threshold.

The Group concluded its investment phase in new branches as of 31 December 2015 and achieved an improvement in its cost/income ratio in 2016 as it continued with the second phase of its strategy: the harvest period. The cost/income ratio realised at 44% as of 31 December 2016, compared with 49% as of 31 December 2015. With respect to the number of branches, the Bank continuously evaluates the efficiency of every branch and takes actions in order to optimise its network when necessary. In light of its network optimisation efforts and as a result of its digitalisation focus, the Bank concluded the year 2016 with 936 branches compared to 1,000 as of 2015 year-end See "*Business of the Bank—Accelerated Growth Strategy*".

As of 31 December 2016, the Bank had the fifth largest branch network in Turkey according to the Turkish Banking Association, with 936 branches, (8.7% market share compared to 8.9% as of 31 December 2015) as well as one branch in Bahrain.

Exchange Rates

A significant portion of the Group's assets and liabilities are denominated in foreign currencies, particularly in U.S. dollars and euros (46.45% of total assets and 47.96% of total liabilities as of 31 December 2016). While the Group monitors its net open position in foreign currencies and the Group is required to comply with foreign currency net open position limits set by the BRSA, the Group has maintained and is likely to continue to maintain gaps between the balances of its foreign currency assets and liabilities. The limit imposed by the BRSA is defined as an amount plus/minus 20% of the total capital, which is the basis for capital adequacy calculation. Foreign currency trading is primarily performed for client servicing transactions, and positions should not exceed the Group's end of day limit of EUR 60 million. The Group's net foreign currency open position as of 31 December 2016, 2015 and 2014 was as follows:

	Foreign Currency			
	EUR	**U.S.$**	**Other**	**Total**
		(thousands)		
As of 31 December 2016	127,584	(145,913)	609,119	590,790
As of 31 December 2015	124,363	(277,185)	868,113	715,291
As of 31 December 2014	(742)	(195,730)	591,543	395,071

Because the Group translates such assets and liabilities and interest earned from and paid on those assets and liabilities into local currency (Turkish Lira), the Group's income statement is affected by changes in exchange rates. The overall effect of exchange rate movements on the Group's results of operations depends on the rate of depreciation or appreciation of the Turkish Lira against its principal trading and financing currencies. For

the years ended 31 December 2016, 2015 and 2014, the Group recorded net foreign exchange gains of TL 225,458 thousand, TL (1,520,383) thousand and TL 763,790 thousand, respectively.

The TL/U.S. dollar exchange rate has experienced increased volatility in the recent years, increasing to around TL 3.54 per dollar levels during the year ended 31 December 2016. Although volatility initially diminished at the beginning of 2016, volatility increased following the coup attempt, and the TL/U.S. dollar exchange rate saw a record high level of 3.54 at the end of the year. TL has further depreciated against the U.S. dollar, reaching a record high of TL 3.94 per dollar as of 30 January 2017. Depreciation of the Turkish Lira may have a negative impact on the asset quality of certain industries in Turkey, particularly those that rely on domestic revenues to fund foreign currency loans. However, as the Group minimises its open foreign currency positions, the net balance sheet foreign currency position of the Group is not significant, and thus exchange rate fluctuations generally do not have a significant impact on the Group's balance sheet directly.

Exchange rate movements also affect the Turkish Lira equivalent value of the Group's foreign currency denominated assets and capital, which can affect capital adequacy either positively (for example, if the Turkish Lira appreciates, then assets in foreign currencies convert into fewer Turkish Lira in the calculations of capital adequacy ratios and thus increase the capital adequacy ratios) or negatively (for example, if the Turkish Lira depreciates, then assets in foreign currency convert into more Turkish Lira in the calculations of capital adequacy ratios and thus reduce the capital adequacy ratios). In particular, in 2016, the depreciation of the Turkish Lira had a negative impact of 71 basis points on the Group's capital adequacy ratio in 2016 and had a negative impact of 73 basis points on the Bank's capital adequacy ratio in 2016.

Since February 2001, the Central Bank has adopted a floating exchange rate regime. Consequently, the monetary policy of the Central Bank does not include any commitment to the level of exchange rates. The Central Bank intervenes in the market via direct sales or purchases only when there is deemed excessive volatility in the market as it most recently did in early 2014 due to rapid depreciation of the Turkish Lira against major international currencies. In July 2015, due to significant depreciation in Turkish Lira against the U.S. dollar especially after the Turkish elections, the Central Bank decreased the foreign exchange deposit U.S. dollar interest rate from 3.50% to 3.00% for a period of one week. In August 2015, the Central Bank decided to increase the upper limit of foreign exchange sales tender amount by U.S.$70 million per day. See "*Risk Factors—Risks Related to Turkey—The value of the Turkish Lira fluctuates against other currencies*".

Marketable Securities Portfolio

The Group's marketable securities portfolio is comprised of trading financial assets, financial assets at fair value through profit or loss, available for sale financial assets and held-to-maturity investments. The portfolio primarily includes Government debt securities, both in local and foreign currency. In the fourth quarter of 2012, the Bank sold U.S.$378.4 million in principal amount of Republic of Turkey Eurobonds from its "held-to-maturity" portfolio. In December 2012, the Bank reclassified U.S.$2.96 billion in principal amount of Republic of Turkey Eurobonds from "held-to-maturity" to "available-for-sale", following the transition to Basel II which led to changes in capital requirements.

The Group's net financial assets available for sale amounted to TL 18,386,109 thousand as of 31 December 2016, TL 22,840,204 thousand as of 31 December 2015 and TL 18,674,097 thousand as of 31 December 2014, and the Group's net held to maturity investments amounted to TL 11,588,890 thousand, TL 7,108,809 thousand and TL 5,556,369 thousand as of 31 December 2016, 2015 and 2014, respectively. The Group also had a portfolio of trading financial assets amounting to TL 3,040,830 thousand as of 31 December 2016, TL 1,766,293 thousand as of 31 December 2015 and TL 1,209,792 thousand as of 31 December 2014, though the Group did not maintain financial assets at fair value through profit or loss as of either date. Interest income derived from the Group's marketable securities portfolio amounted to TL 2,400,058 thousand for year ended 31 December 2016, TL 2,392,122 thousand for the year ended 31 December 2015 and TL 1,861,164 thousand for year ended 31 December 2014, accounting for 12.56%, 14.68% and 14.73% of total interest income for the respective periods. The Group's securities portfolio has been negatively impacted by the recent depreciation of the Turkish Lira, although such impact may be more limited than other Turkish banks given the Group's recent reductions in its securities portfolio to improve its capital position. The Group's CPI-linker volume was TL 9.5 billion as of 2016 year-end (an annual increase of 13%), with a gain of TL 212 million in the fourth quarter 2016 (compared with a TL 287 million gain in the third quarter 2016). As of 31 December 2016, mark-to-market unrealised loss of the Group was at TL 464 million, compared with a loss of TL 476 milllion as of 2015 year-end.

Reserve Requirement Ratios

Between 2010 and 2016, the Central Bank announced significant increases in bank reserve requirements for Turkish Lira deposits as part of its strategy to lengthen the maturities of assets flowing into the country and to address concerns that maturities of liabilities in the Turkish banking sector are shorter than those of assets, which in turn expose the sector to liquidity and interest rate risk. See "*Risk Factors—Risks Related to the Turkish Banking Industry—The profitability and profitability growth of Turkish banks, including the Group, in recent periods may not be sustainable as a result of regulatory, competitive and other factors impacting the Turkish banking sector*" in this Prospectus and "*Turkish Regulatory Environment—Liquidity Reserve Requirement*" in the Base Prospectus.

On 22 January 2013, the Central Bank increased reserve requirement ratios for Turkish Lira deposits from 11.00% to 11.25% (for demand deposits, notice deposits, private current accounts, deposits up to one month maturity and deposits up to and including three month maturity), from 8.00% to 8.25% (for deposits up to and including six month maturity), from 6.00% to 6.25% (for deposits up to and including one year maturity) and from 11.00% to 11.25% (for other liabilities up to and including one year maturity). For foreign currency deposits, the reserve requirements were increased from 11.50% to 12.00% (foreign exchange and gold demand deposits, notice deposits, foreign exchange private current accounts, and deposits/participation/gold accounts up to one month, three month, six month and one year maturities), from 11.50% to 12.00% (other liabilities up to and including one year maturity) and from 9.50% to 10.00% (other liabilities between one and three year (inclusive) maturity).

Moreover, on 19 February 2013, the Central Bank further raised the reserve requirement ratios for Turkish Lira deposits from 11.25% to 11.50% (demand deposits, notice deposits, private current accounts, deposits up to one month maturity, deposits up to and including three month maturity), from 8.25% to 8.50% (deposits up to and including six month maturity), from 6.25% to 6.50% (deposits up to and including one year maturity) and from 11.25% to 11.50% (other liabilities up to and including one year maturity). For foreign currency deposits, the Central Bank raised reserve requirement ratios from 12.00% to 12.50% (foreign exchange and gold demand deposits, notice deposits, foreign exchange private current accounts, and deposits/participation/gold accounts up to one month, three month, six month and one year maturities), from 12.00% to 12.50% (other liabilities up to and including one year maturity) and from 10.00% to 10.50% (other liabilities between one and three year (inclusive) maturity).

On 16 May 2013, the Central Bank further raised reserve requirement ratios for foreign currency deposits from 12.50% to 13.00% (foreign exchange and gold demand deposits, notice deposits, foreign exchange private current accounts, and deposits/ participation/gold accounts up to one month, three month, six month, one year maturities), from 12.50% to 13.00% (other liabilities up to and including one year maturity) and from 10.50% to 11.00% (other liabilities between one and three year (inclusive) maturities).

During 2015, the Central Bank kept reserve requirement ratios for foreign currency deposits up to 1 month stable at 13.00% and foreign currency deposits over one year maturity stable at 9%. The Central Bank increased reserve requirement ratios for foreign currency other liabilities to 25% (up to and including one year maturity), 20% (between one to two years maturity), 15% (between two to three years maturity), 7% (between three to five years) and reduced to 5% (over five years maturity) in order to incentivise longer maturities for funding.

In 2016, following six years of increases, the Central Bank cut reserve requirement ratios three times to provide additional liquidity to markets. Turkish Lira reserve requirement ratios were reduced by 50 basis points for all maturity brackets, while reserve requirement ratios for foreign currency deposits were kept stable.

The Central Bank has also implemented reserve option coefficients for the calculation of the respective foreign currency and gold amounts. Reserve option coefficient mechanism acts as an auto stabiliser for currency movements as it provides banks the flexibility to adjust their reserves at the Central Bank depending on their liquidity needs. On 24 July 2014, the Central Bank introduced an amendment to the Communiqué on Reserve Requirements requiring the respective foreign currency to be denominated only in U.S. dollars for the reserves set aside at an amount calculated according to reserve option coefficients. On 31 October 2016, the Central Bank decreased the coefficients for the second, third and fourth tranches of the foreign currency facility of the reserve option mechanism by 0.2 points, to provide additional foreign currency liquidity to the financial system.

The Central Bank initiated interest payments to TL reserve requirements as of November 2014 and to foreign currency reserve requirements as of May 2015, in order to support the Turkish banking sector's profitability.

Basel III Transition

In September 2013, the BRSA announced its intention to adopt the Basel III requirements and, as published in the Official Gazette dated 5 September 2013 and numbered 28756, adopted the Equity Regulation and amendments to the Capital Adequacy Regulation, both of which entered into effect on 1 January 2014. In addition to these new regulations: (a) Regulation on the Capital Conservation and Countercyclical Capital Buffer, which regulates the procedures and principles regarding the calculation of additional core capital amount, was published in the Official Gazette dated 5 November 2013 and numbered 28812 (b) the Regulation on the Measurement and Evaluation of Leverage Ratios of Banks, through which regulation the BRSA would seek to constrain leverage in the banking system and maintenance of adequate equity on a consolidated and non-consolidated basis against leverage risks (including measurement error in the risk-based capital measurement approach), was published in the Official Gazette dated 5 November 2013 and numbered 28812 and (c) in order to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day period, the BRSA has published the Regulation on the Calculation of Liquidity Coverage Ratio in the Official Gazette dated 21 March 2014 and numbered 28948. In the future, Turkish banks' capital adequacy requirements may be further affected by the requirements of Basel III regarding regulatory capital, liquidity adequacy, leverage ratio and counterparty credit risk measurements. On 6 August 2014, the BRSA announced that a number of draft regulations, including a guide for stress tests on liquidity and regulation on the calculation of internal capital adequacy, presented for public opinion as part of BRSA's efforts of promulgating Basel III requirements by April 2014, had been finalised and announced in the Official Gazette. On 6 September 2014, an amendment to the Equity Regulation, the draft of which was presented for public opinion in June 2014, was published in the Official Gazette and entered into force. This amendment introduced certain novelties as to BRSA's authority to write off Tier 1 and Tier 2 debt instruments. In addition to this amendment, on 6 September 2014, an amendment to the Capital Adequacy Regulation was published in the Official Gazette as well as other regulations as to calculation of capital adequacy as part of BRSA's efforts to adopt Basel III requirements.

On 23 October 2015, the BRSA issued certain amendments to the regulatory capital regulations in Turkey with a view to aligning the Turkish regulatory capital regime with Basel III requirements. These amendments were published in the Official Gazette numbered 29511 and entered into force on 31 March 2016. In summary, these new regulations included the following changes: (i) certain amendments to the Equity Regulation, (a) clarifications to the eligibility requirements of Additional Tier 1 and Tier 2 instruments, and

(b) amendments to the regulatory treatment of certain capital items that are taken into account for the purposes of calculating regulatory capital of the banks; (ii) certain amendments to the regulations regarding the Internal Systems and Internal Capital Adequacy Assessment Process of Banks, which impose new regulatory requirements to enhance the effectiveness of the internal risk management and internal capital adequacy assessment by introducing, among others things, new stress test requirements; and (iii) the introduction of the 2016 Capital Adequacy Regulation to replace the existing Capital Adequacy Regulation. On 20 January 2016, the BRSA introduced certain amendments to existing regulations with a view to continuing its efforts to adopt Basel III requirements. These amendments were published in the Official Gazette numbered 29599 and entered into force on 31 March 2016, except for the amendments relating to internal systems and internal capital adequacy ratios which entered into force on 20 January 2016. The amendments relate to equity requirements, liquidity coverage ratios, internal systems and internal capital adequacy ratios, capital adequacy requirements, risk assessment models and calculation of market risk, credit risk calculations, credit risk mitigation methods, risk management disclosures and financial statement disclosures.

Pursuant to the BRSA Decisions on the Countercyclical Capital Buffer, the countercyclical capital buffer for Turkish banks' exposures in Turkey has initially been set at 0% of a bank's risk-weighted assets in Turkey (effective as of 1 January 2016); however, such ratio might fluctuate between 0% and 2.5% as announced from time to time by the BRSA. Any increase to the countercyclical capital buffer ratio is to be effective one year after the relevant public announcement, whereas any reduction is to be effective as of the date of the relevant public announcement.

The BRSA published amendments to the Equity Regulation in the Official Gazette dated 20 January 2016 and numbered 29599, with such amendments entered into force on 31 March 2016. Such amendments introduced certain limitations to the items that are included in the capital calculations of banks that have issued old-style Additional Tier 1 and old-style Tier 2 instruments prior to 1 January 2014 and some adjustments in capital deduction items. Accordingly, as of 31 March 2016, the old-style Tier 2 instruments treated under the Bank's Tier 2 capital are subject to greater deduction in such capital treatment. First, the amortisation of the grandfathering treatment for old-style Tier 2 instruments will increase with the deduction for such capital treatment increasing from 20% to 40% for 2016. Second, foreign exchange rates of 1 January 2013 (rather than 1 January 2015) will be used as the maximum threshold in the valuation of such old-style Tier 2 instruments in the capital calculations of the banks. Lastly, on 22 June 2016, the BRSA introduced an amendment to the Equity Regulation to change the items taken into account in equity calculation with an enforcement date of 1 January 2017, and also published a draft Communiqué on Principles for Debt Instruments to be Included in Equity Calculations by Banks to introduce certain rules in relation to conversion and write-down of debt instruments to be included in additional Tier I or Tier II capital.

On 23 February 2016, the BRSA issued the D-SIBs Regulation introducing a methodology for assessing the degree to which banks are systemically important in the domestic market. The contemplated methodology requires the identification of the Turkish D-SIBs under four different categories based on their 2014 year-end consolidated financial statements, and requires the banks falling within these categories to hold 1 to 3% of additional core capital (*ilave çekirdek sermaye*) of their total risk-weighted assets. This additional core capital requirement that came into effect on 31 March 2016, subject to a transition period as set out below.

Groups	**D-SIBs Buffer Ratios (%)**			
	2016	**2017**	**2018**	**from 1 January 2019**
4th group (empty)	0.75	1.5	2.25	3
3rd group	0.5	1	1.5	2
2nd group	0.375	0.75	1.125	1.5
1st group	0.25	0.5	0.75	1

As of the date of this Prospectus, and effective from 31 March 2016, the Bank has been classified into the second group with respect to D-SIBs buffer ratios.

Consumer Protection Law

On 5 June 2013, the draft of the consumer protection law was submitted to the Grand National Assembly (TBMM). The draft regulation was finalised and accordingly published in the Official Gazette as of 28 November 2013 and entered into force on 28 May 2014. The regulation's main aim is to increase transparency and comparability between banks so that customers can make more informed decisions.

Change in credit cards and overdraft accounts cap rates

The Central Bank has reduced the monthly cap on individual credit card interest rates from 2.22% as of 1 April 2013, to 2.12% as of 1 July 2013 and 2.02% as of 1 October 2013. On 5 August 2013, the Central Bank introduced caps on commercial credit cards interest rates in line with the caps on individual cards. Accordingly, the ceiling for commercial cards contractual interest rate is set at 2.02%.

On 27 May 2013, the Central Bank made an amendment in the Communiqué on Interest Rates of Deposits and Loans and Other Benefits from Lending Transactions. In this regard, the Central Bank introduced an interest rate cap on overdraft loans. Accordingly, the maximum interest rates charged on overdraft accounts will not exceed that of credit cards.

Analysis of Results of Operations for the years ended 31 December 2016 and 2015

The following discussion of the Group's results of operations for the years ended 31 December 2016 and 2015 is based on information which has been extracted without material adjustment from the Annual BRSA Financial Statements. This information should be read in conjunction with the Annual BRSA Financial Statements and the notes thereto. See "*Presentation of Financial and Other Information*".

	For the year ended 31 December			Change
	2016	2016	2015	2016/2015
	(U.S.$, thousands)[(1)]	*(TL, thousands)*		(%)
Income statement data:				
Interest income	**6,331,965**	**19,109,871**	**16,300,345**	**1.17**
Interest on loans	5,196,851	15,684,097	13,132,800	1.19
Interest received from reserve deposits	39,308	118,632	43,309	2.74
Interest received from banks	57,749	174,287	84,579	2.06
Interest received from money market transactions	7,137	21,539	37,877	0.57
Interest received from marketable securities portfolio	795,248	2,400,058	2,392,122	1.00
Financial lease income	171,381	517,228	438,643	1.18
Other interest income	64,291	194,030	171,015	1.13
Interest expense	**(3,608,081)**	**(10,889,187)**	**(9,122,142)**	**1.19**
Interest on deposits	(2,606,710)	(7,867,050)	(6,335,649)	1.24
Interest on funds borrowed	(353,464)	(1,066,754)	(999,913)	1.07
Interest on expense on money market transactions	(316,882)	(956,350)	(946,451)	1.01
Interest on securities issued	(320,840)	(968,296)	(825,583)	1.17
Other interest expenses	(10,185)	(30,737)	(14,546)	2.11
Net interest income	**2,723,885**	**8,220,684**	**7,178,203**	**1.15**
Net fees and commissions income	**985,051**	**2,972,884**	**2,840,960**	**1.05**
Fees and commissions received	1,236,797	3,732,653	3,546,591	1.05
Non cash loans	157,965	476,738	409,874	1.16
Other	1,078,832	3,255,915	3,136,717	1.04
Fees and commissions paid	(251,746)	(759,769)	(705,631)	1.08
Non cash loans	(3,843)	(11,597)	(8,707)	1.33
Other	(247,903)	(748,172)	(696,924)	1.07
Dividend income	**2,045**	**6,173**	**5,908**	**1.04**
Trading gain/(loss) (net)	**62,069**	**187,323**	**(439,135)**	**0.43**
Trading gain/(losses) on securities	5,814	17,547	264,590	0.07
Derivative financial transactions gains/ (losses)	(18,450)	(55,683)	816,658	0.07
Foreign exchange gains/(losses)	74,704	225,459	(1,520,383)	0.15
Other operating income	**182,519**	**550,841**	**626,730**	**0.88**
Total operating income/(loss)	**3,955,568**	**11,937,905**	**10,212,666**	**1.17**
Provision for impairment of loans and other receivables	**(979,139)**	**(2,955,042)**	**(2,649,238)**	**1.12**
Other operating expenses	**(1,761,205)**	**(5,315,318)**	**(5,077,318)**	**1.05**
Net operating income/(loss)	**1,215,224**	**3,667,545**	**2,486,110**	**1.48**
Income/(loss) from investments accounted based on equity method	**28,284**	**85,361**	**50,806**	**1.68**
Tax provisions for continuing operations	**(271,718)**	**(820,046)**	**(628,188)**	**1.31**
Current tax provision	(218,037)	(658,037)	(413,941)	1.59
Deferred tax provision	(53,681)	(162,009)	(214,247)	0.76
Net profit/(loss) from continuing operations	**971,789**	**2,932,860**	**1,908,728**	**1.54**

	For the year ended 31 December			Change
	2016	**2016**	**2015**	**2016/2015**
	(U.S.$, thousands)[(1)]	*(TL, thousands)*		(%)
Net profit/(loss) from discontinued operations	—	—	—	
Net profit/(loss)	**971,789**	**2,932,860**	**1,908,728**	**1.54**

Note:

(1) For the convenience of reader, these figures have been translated into U.S. dollars at the average rate of TL 3.018 = U.S.$1.00, which corresponds with average of the Bank's Published Exchange Rate for the year ended 31 December 2016. Such translation should not be construed as a representation that the TL amounts have been converted into U.S. dollars pursuant to the requirements of BRSA.

The following table provides certain of the Group's key ratios as of and for the years ended 31 December 2016 and 2015. The basis for calculation of ratios that are non-GAAP financial measures is set out in the notes below. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with BRSA Principles. See "*Presentation of Financial Information—Non-GAAP Measures of Financial Performance*".

	31 December 2016	**31 December 2015**
	(%)	
Return on average shareholders' equity excluding minority interest[(1)]	**12.8**	9.7
Net interest margin[(2)]	**3.4**	3.4
Capital adequacy ratio	**13.2**	12.9
Cost to income[(3)]	**44.2**	49.5
Free capital ratio[(4)]	**7.8**	7.7
Non-performing loans to total cash loans	**4.8**	3.9
Cost to average total assets[(5)]	**2.1**	2.3

(1) Annualised return on average shareholders' equity excluding minority interest, calculated based on the average of shareholders' equity (excluding profit and minority interest) at the end of the current period and shareholders' equity (excluding profit and minority interest) at the end of the previous period.

(2) Net interest income divided by average interest earning assets. For further information regarding the calculation of average interest earning assets, see "*Selected Statistical and Other Information*".

(3) Represents non-interest expenses divided by total operating income before provisions and non-interest expense.

(4) Total shareholders' equity excluding investment in associates, goodwill, other intangible assets, property and equipment and deferred income tax assets divided by total assets.

(5) Operating costs divided by the average of assets at the end of the current period and assets at the end of the previous period.

Key ratios related to profit and loss items are compared on an annual basis.

Net Interest Income and Net Interest Margin

The Group's net interest income increased by 14.52% to TL 8,220,684 thousand (U.S.$2,723,885 thousand) for the year ended 31 December 2016, compared to TL 7,178,203 thousand (U.S.$2,639,919 thousand) for the year ended 31 December 2015, reflecting both growth in loans and deposits despite a volatile macroeconomic environment in 2016. The Bank's net interest margin was flat at 3.4% for the year ended 31 December 2016, compared with the year ended 31 December 2015, supported by effective loan repricing, stronger contribution of CPI linkers and proactive swap utilisation, despite pressure on deposit costs. On a swap-adjusted basis, the Bank's net interest margin increased by 55 bps to 3.3% as of 31 December 2016 from 2.8% as of 31 December 2015. Swap costs were TL -143,391 million as of 31 December 2016 versus TL -1,154,510 million as of 31 December 2015.

Interest Income

The Group's interest income is primarily derived from interest on loans and the Group's marketable securities portfolio. The Group's interest income increased by TL 2,809,526 thousand, or 17.00%, to TL 19,109,871 thousand for the year ended 31 December 2016, compared to TL 16,300,345 thousand for the year ended 31 December 2015, largely driven by growth of the Group's loan portfolio, primarily in general purpose consumer loans, credit cards and companies. In 2016, the Group continued its loan growth with a remix towards value generating products.

Interest income on loans increased to TL 15,684,097 thousand and constituted 82.07% of total interest income for the year ended 31 December 2016, compared to TL 13,132,800 thousand for the year ended 31 December 2015, when it constituted 80.57% of total interest income. Interest received from the Group's marketable

securities portfolio increased to TL 2,400,058 thousand and constituted 12.56% of total interest income for the year ended 31 December 2016, compared to TL 2,392,122 thousand for the year ended 31 December 2015, when it constituted 14.68% of total interest income.

The Bank's marketable securities portfolio is largely available for sale (AFS). However, during the year ended 31 December 2016, the Bank classified certain securities from AFS to held to maturity (HTM), in order to reduce volatility on mark-to-market under equity; the total number of securities classified as AFS decreased to 56%, compared with 72% as of 2015 year-end. Interest received from the Group's marketable securities portfolio was relatively flat compared to the previous year.

	As of 31 December					
	2016			2015		
	U.S.$	*€*	*TL*	*U.S.$*	*€*	*TL*
			(%)			
Assets						
Cash and balances with Central Bank	0.49	-	3.31	0.21	-	2.09
Loans	5.9	4.16	13.17	5.34	4.06	14.48
Financial assets at fair value through profit/loss	3.69	3.06	9.92	3.92	2.06	8.72
Investment securities						
– Available for sale assets	5.46	4.31	9.59	5.81	4.41	9.96
– Held to maturity investments	5.4	2.97	9.46	5.39	3.40	10.61

The overall interest rates on the Bank's Turkish Lira denominated interest earning assets increased as of 31 December 2016 as compared with 31 December 2015. Although there were also general increases in the interest rates payable on the Bank's foreign currency interest earning assets (particularly those denominated in U.S. dollars), these were less significant. Loans in foreign currencies totalled TL 70,670,205 thousand (U.S.$20,081,327 thousand) as of 31 December 2016, accounting for 39.55% of the Group's loan portfolio, compared to TL 54,864,716 thousand (U.S.$18,869,417 thousand) as of 31 December 2015, where they accounted for 35.62% of the Group's loan portfolio.

Interest Expense

The Group's interest expenses for the year ended 31 December 2016 increased by TL 1,767,045 thousand, or 19.37%, to TL 10,889,187 thousand (U.S.$3,608,081 thousand) from TL 9,122,142 thousand (U.S.$3,354,839 thousand) for the year ended 31 December 2015, due to pressure on deposit costs, as well as its deposit growth with special emphasis on demand deposits, which was mainly led by small ticket individuals.

The following table sets out the weighted average interest rates for financial instruments by major currency as of 31 December 2016 and 2015:

	As of 31 December					
	2016			2015		
	U.S.$	*€*	*TL*	*U.S.$*	*€*	*TL*
			(%)			
Liabilities						
Deposits	1.65	0.85	11.12	1.13	1.17	11.07
Other deposits	2.87	1.55	10.74	2.21	1.51	12.73
Expenses on money market transactions	1.18	0.21	8.5	1.01	-	7.91
Marketable securities issued	4.45	2.14	8.0	3.72	1.78	11.07
Funds borrowed	2.38	1.24	6.57	2.95	1.01	7.14

Changes in interest rates on interest bearing liabilities are the most significant factor on the Group's interest expense. Deposits make up the largest part of the Group's interest bearing liabilities representing 65.53% and 62.64% as of 31 December 2016 and 2015, respectively, and as a result changes in interest rates on deposits are most likely to have a significant effect on the Group's interest expense.

The interest rates on Turkish Lira denominated deposits from banks and customers increased from 11.07% and 12.73%, respectively, as of 31 December 2015, to 11.12% and 10.74%, respectively, as of 31 December 2016, mainly due to competitive pressure on deposit costs.

As of 31 December 2016, 46.38% of the Group's deposits, or TL 72,849,936 thousand (U.S.$20,700,709 thousand), were denominated in foreign currencies, with the remaining 53.62%, or TL 84,238,259 thousand (U.S.$23,936,764 thousand), denominated in Turkish Lira, including interest expense accrual.

Historically, interest expenses on deposits from banks and other borrowed funds have represented a relatively small percentage of the Group's total interest expenses because the Group has not relied on these as a principal source of its funding, although the Group is increasing this component to access longer term funding (principally Eurobonds) to address the maturity gap frequently encountered by Turkish banks.

Net Fees and Commissions Income

The Group's net fees and commission income for the year ended 31 December 2016 amounted to TL 2,972,884 thousand, an increase of 4.64% from TL 2,840,960 thousand for the year ended 31 December 2015. This increase was mainly driven by fees charged on credit cards and impacted by lack of account maintenance fees in 2016. As of 31 December 2016, of the total fees and commissions received by the Bank, 50.79% comes from card payment systems (an increase of 17.45% compared to 31 December 2015), 29.80% from lending related activity (a decrease of 4.62% compared to 31 December 2015), 2.84% from asset management (an increase of 1.55% compared to 31 December 2015, primarily due to better volume growth), 5.72% from insurance (a decrease of 1.92% compared to 31 December 2015) and 10.84% from other sources including account maintenance, money transfers, equity trading, campaign fees, other product-related fees.

Trading Gain/(Loss) (Net)

The Group recorded a trading gain (comprising the aggregate of trading gains) on securities, derivative financial transactions losses and foreign exchange gains of TL 187,323 thousand (U.S.$62,069 thousand) for the year ended 31 December 2016, compared to a trading loss of TL 439,135 thousand for the year ended 31 December 2015.

Trading gains on securities decreased by TL 872,341 thousand (U.S.$289,046 thousand), or 93.37%, to TL 17,548 thousand in the year ended 31 December 2016, from TL 264,590 thousand for the year ended 31 December 2015.

In derivative financial transactions, there was a TL 55,683 thousand loss as of 31 December 2016 (31 December 2015, by comparison, showed a TL 816,658 thousand gain). The TL 872,341 thousand loss in derivative financial transactions was netted by related foreign exchange gains.

The Group also recorded foreign exchange gains of TL 225,458 thousand (U.S.$74,704 thousand) for the year ended 31 December 2016, compared to foreign exchange losses of TL 1,520,383 thousand for the year ended 31 December 2015. These losses in 2016 were primarily the result of the Bank's on-balance sheet position and were largely set off by off-balance sheet derivative financial transaction gains.

Other Operating Income

The Group's other operating income mainly results from collections from provisions recorded as expense, release of provisions and sale of fixed assets. Other operating income decreased by TL 75,889 thousand, or 47.52% to TL 550,841 thousand (U.S.$182,519 thousand) for the year ended 31 December 2016, from TL 626,730 thousand for the year ended 31 December 2015. The increase in other operating income was primarily due to a reversal of a previously incurred impairment charge for buildings based on external expert valuation reports.

Provision for Impairment of Loans and Other Receivables

Provision for impairment of loans and other receivables increased by TL 305,804 thousand, or 11.54%, to TL 2,955,042 thousand (U.S.$979,139 thousand) for the year ended 31 December 2016, from TL 2,649,238 thousand for the year ended 31 December 2015 (with the total loan portfolio increasing by TL 24,646,433 or 16.00% to TL 178,664,422 for the year ended 31 December 2016 and the total NPL portfolio increasing by TL 2,655,860 thousand or 42.88% to TL 8,849,167 thousand during the same period). Loan loss provisions (specific and general) increased by 8.39% during the year ended 31 December 2016, while impairment of financial assets at fair value through profit or loss, available for sale financial assets and held to maturity investments increased by 0.37%. The cumulative total cost of risk (calculated as total loan loss provisions less collections, divided by total gross loans) decreased to 1.37% in the year ended 31 December 2016 as compared to 1.47% in 2015, despite a volatile operating environment. During the same period, the cumulative specific cost of risk (calculated as specific provisions less collections divided by total gross loans) increased to 1.11% in the year ended 31 December 2016 as compared to 1.01% in 2015.

In 2016, the Bank continued to have relatively stable specific and generic coverage levels. Specific provisions as a percentage of non-performing loans ratio stood at 75% versus 2015 year-end, while total coverage (calculated as specific and generic provisions divided by non-performing loans) for 2016 realised at 109%. During the same period, generic provisions as a percentage of performing loans ratio moved from 1.51% to 1.56%.

In 2016, the Bank's ratio of NPLs to total loans increased to 4.86% as of 31 December 2016, compared with 4.00% as of 31 December 2015, a result of a combination of the weaker operating environment resulting in additional NPL inflows and lower collections. Segment NPL ratios deteriorated due to the volatile environment. The NPL ratio in the Bank's credit card portfolio was 7.0% as of 31 December 2016, as compared with 5.9% as of 31 December 2015. In the area of SME loans, the Bank's NPL ratio increased to 9.9% as of 31 December 2016 from 5.4% as of 31 December 2015, while the NPL ratio in consumer loans increased to 6.5% as of 31 December 2016, from 5.4% as of 31 December 2015. In corporate and commercial loans, the Bank's NPL ratio was flat at 2.4% as of 31 December 2016 versus 31 December 2015.

By 31 December 2016, the Group had restructured loans in an aggregate amount of TL 2,563,238 thousand, corresponding to 1.4% of the Bank's aggregate loan portfolio (1.0% as of 31 December 2015). Of the aggregate amount, 20% were credit card and individual loans. As of 2016 year-end, the Group's watch loan ratio was at 3.3%, compared to its level of 3.1% as of 2015 year-end, due to the challenging operating environment and the Bank's conservative approach.

Other Operating Expenses

Other operating expenses for the year ended 31 December 2016 were TL 5,315,318 thousand, an increase of 4.69% from TL 5,077,318 thousand for the year ended 31 December 2015. The increase for the year ended 31 December 2016 was significantly below inflation and better than guidance, supported by a disciplined approach and decelerating fee rebates. As of 31 December 2016, the Bank had 936 branches (including 854 retail branches, 22 private banking branches, 3 corporate branches and 50 commercial branches, 1 international branch, 1 free zone branch, 1 overseas branch, 1 custody branch and 3 mobile branches), compared to a total of 1,000 branches as of 31 December 2015. The total number of employees increased to 19,419 as of 31 December 2016, as compared to 19,345 as of 31 December 2015.

Net Operating Income/(Loss)

Net operating income, comprised of operating income less other operating expense and provision for impairment of loans and other receivables, increased by TL 1,181,435 thousand, or 47.52%, to TL 3,667,545 thousand (U.S.$1,215,224 thousand) for the year ended 31 December 2016, from TL 2,486,110 thousand for the year ended 31 December 2015.

Tax Provision for Continuing Obligations

Tax provision for continuing obligations increased by TL 191,858 thousand, or 30.54%, to TL 820,046 thousand (U.S.$271,718 thousand) for the year ended 31 December 2016, from TL 628,188 thousand for the year ended 31 December 2015.

Under the Corporate Tax Law 5520, the applicable corporate tax rate was 20% for 2016 and 2015. Corporate tax is payable at a rate of 20% over the corporate tax base of the company after adjusting for certain deductible and non-deductible expenses, exempt income, investment allowance and other additions and deductions. The annual corporate income tax return is required to be filed by the 25th day of the fourth month following the close of the related fiscal year. Payments will be carried out in a single instalment until the end of the month in which the tax return is to be filed.

Net Profit/(Loss)

The Group's net profit increased by TL 1,024,132 thousand, or 53.66%, to TL 2,932,860 thousand (U.S.$971,789 thousand) for the year ended 31 December 2016, from TL 1,908,728 thousand for the year ended 31 December 2015.

Average shareholders' equity (excluding minority interest) is calculated by adding the quarterly consolidated BRSA shareholders' equity amounts (excluding minority interest) and the current year's profit from the

beginning of the period (including last year) until the end of the period and dividing the total by the number of periods.

The Group's return on average shareholders' equity, excluding minority interest, was 12.8% and 9.7% for the years ended 31 December 2016 and 2015, respectively.

Analysis of Results of Operations for the years ended 31 December 2015 and 2014

The following discussion of the Group's results of operations for the years ended 31 December 2015 and 2014 is based on information which has been extracted without material adjustment from the Annual BRSA Financial Statements. This information should be read in conjunction with the Annual BRSA Financial Statements and the notes thereto. See "*Presentation of Financial and Other Information*".

	For the year ended 31 December			Change
	2015	2015	2014	2015/2014
	(U.S.$, thousands)(1)	*(TL, thousands)*		(%)
Income statement data:				
Interest income	**5,994,757**	**16,300,345**	**12,633,965**	**29.0**
Interest on loans	4,829,833	13,132,800	9,913,741	32.5
Interest received from reserve deposits	15,928	43,309	732	5816.5
Interest received from banks	31,106	84,579	122,951	(31.2)
Interest received from money market transactions	13,930	37,877	241,310	(84.3)
Interest received from marketable securities portfolio	879,748	2,392,122	1,861,164	28.5
Financial lease income	161,319	438,643	334,268	31.2
Other interest income	62,894	171,015	159,799	7.0
Interest expense	**(3,354,839)**	**(9,122,142)**	**(6,660,665)**	**37.0**
Interest on deposits	(2,330,054)	(6,335,649)	(4,773,287)	32.7
Interest on funds borrowed	(367,737)	(999,913)	(851,007)	17.5
Interest on expense on money market transactions	(348,075)	(946,451)	(503,351)	88.0
Interest on securities issued	(303,624)	(825,583)	(513,882)	60.7
Other interest expenses	(5,350)	(14,546)	(19,138)	(24.0)
Net interest income	**2,639,919**	**7,178,203**	**5,973,300**	**20.2**
Net fees and commissions income	**1,044,816**	**2,840,960**	**2,343,015**	**21.3**
Fees and commissions received	1,304,325	3,546,591	2,960,372	19.8
Non cash loans	150,739	409,874	324,669	26.2
Other	1,153,586	3,136,717	2,635,703	19.0
Fees and commissions paid	(259,509)	(705,631)	(617,357)	14.3
Non cash loans	(3,202)	(8,707)	(10,968)	(20.6)
Other	(256,307)	(696,924)	(606,389)	14.9
Dividend income	**2,173**	**5,908**	**9,351**	**(36.8)**
Trading gain/(loss) (net)	**(161,500)**	**(439,135)**	**(236,654)**	**85.6**
Trading gain/(losses) on securities	97,308	264,590	278,801	(5.1)
Derivative financial transactions gains/ (losses)	300,341	816,658	(1,279,245)	(163.8)
Foreign exchange gains/(losses)	(559,149)	(1,520,383)	763,790	(299.1)
Other operating income	**230,492**	**626,730**	**621,734**	**0.8**
Total operating income/(loss)	**3,755,899**	**10,212,666**	**8,710,746**	**17.2**
Provision for impairment of loans and other receivables	**(974,307)**	**(2,649,238)**	**(1,938,729)**	**36.6**
Other operating expenses	**(1,867,279)**	**(5,077,318)**	**(4,146,281)**	**22.5**
Net operating income/(loss)	**914,314**	**2,486,110**	**2,625,736**	**(5.3)**
Income/(loss) from investments accounted based on equity method	**18,685**	**50,806**	**42,842**	**18.6**
Tax provisions for continuing operations	**(231,028)**	**(628,188)**	**(612,396)**	**2.6**
Current tax provision	(152,235)	(413,941)	(784,504)	(47.2)
Deferred tax provision	(78,793)	(214,247)	172,108	(224.5)
Net profit/(loss) from continuing operations	**701,971**	**1,908,728**	**2,056,182**	**(7.2)**
Net profit/(loss) from discontinued operations	—	—	—	—
Net profit/(loss)	**701,971**	**1,908,728**	**2,056,182**	**(7.2)**

Note:

(1) For the convenience of reader, these figures have been translated into U.S. dollars at the average rate of TL 2.7191 = U.S.$1.00, which corresponds with average of the Bank's Published Exchange Rate for the year ended 31 December 2015. Such translation should not be construed as a representation that the TL amounts have been converted into U.S. dollars pursuant to the requirements of BRSA.

The following table provides certain of the Group's key ratios as of and for the years ended 31 December 2015 and 2014. The basis for calculation of ratios that are non-GAAP financial measures is set out in the notes below. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with BRSA Principles. See "*Presentation of Financial Information—Non-GAAP Measures of Financial Performance*".

	31 December 2015	**31 December 2014**
	(%)	
Return on average shareholders' equity excluding minority interest[(1)]	9.7	12.0
Net interest margin[(2)]	3.4	3.5
Capital adequacy ratio	12.9	14.4
Cost to income[(3)]	49.5	47.4
Free capital ratio[(4)]	7.7	8.7
Non-performing loans to total cash loans	3.9	3.4
Cost to average total assets[(5)]	2.3	2.4

(1) Annualised return on average shareholders' equity excluding minority interest, calculated based on the average of shareholders' equity (excluding profit and minority interest) at the end of the current period and shareholders' equity (excluding profit and minority interest) at the end of the previous period.
(2) Net interest income divided by average interest earning assets. For further information regarding the calculation of average interest earning assets, see "*Selected Statistical and Other Information*".
(3) Represents non-interest expenses divided by total operating income before provisions and non-interest expense.
(4) Total shareholders' equity excluding investment in associates, goodwill, other intangible assets, property and equipment and deferred income tax assets divided by total assets.
(5) Operating costs divided by the average of assets at the end of the current period and assets at the end of the previous period.

Key ratios related to profit and loss items are compared on an annual basis.

Net Interest Income and Net Interest Margin

The Group's net interest income amounted to TL 7,178,203 thousand (U.S.$2,639,919 thousand) for the year ended 31 December 2015, compared to TL 5,973,300 thousand for the year ended 31 December 2014, reflecting both growth in loans and deposits as well as a volatile macroeconomic environment in 2015. The Bank's net interest margin decreased to 3.4% for the year ended 31 December 2015, compared with 3.5% for the year ended 31 December 2014, primarily due to pressure on deposit costs due to a volatile operating environment, which was partially offset by upward loan repricing.

Interest Income

The Group's interest income is primarily derived from interest on loans and the Group's marketable securities portfolio. The Group's interest income increased by TL 3,666,380 thousand, or 29.02%, to TL 16,300,345 thousand for the year ended 31 December 2015, compared to TL 12,633,965 thousand for the year ended 31 December 2014, largely driven by growth of the Group's loan portfolio, primarily in general purpose consumer loans, TL commercial and SME loans, and credit cards. In 2015, the Group took measures to control NPL inflows and improve collections in light of macroeconomic uncertainty, but still focused on growing its retail and SME loan portfolio driven by ongoing customer acquisition. As a result, the share of retail loans in the Group's portfolio increased from 26% to 30%, while credit cards decreased from 19% to 15% on a foreign exchange rate adjusted basis during the year ended 31 December 2015, as compared to the year ended 31 December 2013.

Interest income on loans increased to TL 13,132,800 thousand and constituted 80.57% of total interest income for the year ended 31 December 2015, compared to TL 9,913,741 thousand for the year ended 31 December 2014, when it constituted 78.47% of total interest income. Interest received from the Group's marketable securities portfolio increased to TL 2,392,122 thousand and constituted 14.68% of total interest income for the year ended 31 December 2015, compared to TL 1,861,164 thousand for the year ended 31 December 2014, when it constituted 14.73% of total interest income.

The Bank's marketable securities portfolio is largely available for sale. The decrease in interest received from the Group's marketable securities portfolio was driven mainly by the decreasing interest rate environment.

The following table sets out the weighted average interest rates on financial instruments by major currency outstanding as of 31 December 2015 and 2014:

	As of 31 December					
	2015			2014		
	U.S.$	*€*	*TL*	*U.S.$*	*€*	*TL*
			(%)			
Assets						
Cash and balances with Central Bank	0.21	-	2.09	-	-	1.30
Loans	5.34	4.06	14.48	5.00	4.55	13.50
Financial assets at fair value through profit/loss	3.92	2.06	8.72	4.41	1.97	8.27
Investment securities						
– Available for sale assets	5.81	4.41	9.96	6.28	5.49	9.98
– Held to maturity investments	5.39	3.40	10.61	5.51	3.77	9.81

The overall interest rates on the Bank's Turkish Lira denominated interest earning assets increased as of 31 December 2015 as compared with 31 December 2014. Although there were also general increases in the interest rates payable on the Bank's foreign currency interest earning assets (particularly those denominated in U.S. dollars), these were less significant. Loans in foreign currencies totalled TL 54,864,716 thousand (U.S.$18,869,417 thousand) as of 31 December 2015, accounting for 35.62% of the Group's loan portfolio, compared to TL 42,094,032 thousand as of 31 December 2014 as their percentage contribution to the Group's loan portfolio remained stable.

Interest Expense

The Group's interest expenses for the year ended 31 December 2015 increased by TL 2,461,477 thousand, or 36.96%, to TL 9,122,142 thousand (U.S.$3,354,839 thousand) from TL 6,660,665 thousand for the year ended 31 December 2014, due to pressure on deposit costs.

The following table sets out the weighted average interest rates for financial instruments by major currency as of 31 December 2015 and 2014:

	As of 31 December					
	2015			2014		
	U.S.$	*€*	*TL*	*U.S.$*	*€*	*TL*
			(%)			
Liabilities						
Deposits	1.13	1.17	11.07	0.47	1.42	10.34
Other deposits	2.21	1.51	12.73	2.11	1.95	10.74
Expenses on money market transactions	1.01	-	7.91	0.85	-	9.47
Marketable securities issued	3.72	1.78	11.07	3.57	2.12	7.85
Funds borrowed	2.95	1.01	7.14	3.33	1.58	9.48

Changes in interest rates on interest bearing liabilities are the most significant factor on the Group's interest expense. Deposits make up the largest part of the Group's interest bearing liabilities representing 69.45% and 62.96% as of 31 December 2015 and 2014, respectively, and as a result changes in interest rates on deposits are most likely to have a significant effect on the Group's interest expense.

The interest rates on Turkish Lira denominated deposits from banks and customers increased from 10.34% and 10.74%, respectively, as of 31 December 2014 to 11.07% and 12.73%, respectively, as of 31 December 2015, mainly due to competitive pressure on deposit costs.

As of 31 December 2015, 48.35% of the Group's deposits, or TL 62,863,339 thousand (U.S.$21,620,353 thousand), were denominated in foreign currencies, with the remaining 51.65%, or TL 67,161,726 thousand (U.S.$23,098,681 thousand), denominated in Turkish Lira, including interest expense accrual.

Historically, interest expenses on deposits from banks and other borrowed funds have represented a relatively small percentage of the Group's total interest expenses because the Group has not relied on these as a principal source of its funding, although the Group is increasing this component to access longer term funding (principally Eurobonds) to address the maturity gap frequently encountered by Turkish banks.

Net Fees and Commissions Income

The Group's net fees and commission income for the year ended 31 December 2015 amounted to TL 2,840,960 thousand, an increase of 21.25% from TL 2,343,015 thousand for the year ended 31 December 2014. This increase was mainly driven by fees charged on new loans due to growth of the Group's loan portfolio and a focus on fee and commission generating activities.

As of 31 December 2015, of the total fees and commissions received by the Bank, 46% comes from card payment systems (an increase of 14% compared to 31 December 2014, due to base effect of interchange fee rates), 33% from lending related activity (an increase of 32% compared to 31 December 2014, which was primarily the result of robust loan growth), 3% from asset management (an increase of 9% compared to 31 December 2014 primarily due to better volume growth), 6% from insurance (an increase of 43% compared to 31 December 2014) and 12% from other sources including account maintenance, money transfers, equity trading, campaign fees, other product-related fees.

Trading Gain/(Loss) (Net)

The Group recorded a trading loss (comprising the aggregate of trading gains/(losses) on securities, derivative financial transactions gains/(losses) and foreign exchange gains/(losses)) of TL 439,135 thousand (U.S.$161,500 thousand) for the year ended 31 December 2015, compared to a trading loss of TL 236,654 thousand for the year ended 31 December 2014.

Trading gains on securities decreased by TL 14,211 thousand (U.S.$5,226 thousand), or 5.1%, to TL 264,590 thousand in the year ended 31 December 2015, from TL 278,801 thousand for the year ended 31 December 2014.

Derivative financial transaction gains increased by TL 2,095,903 thousand (U.S.$770,808 thousand), to TL 816,658 thousand in the year ended 31 December 2015, from TL 1,279,245 thousand losses for the year ended 31 December 2014. This increase was due to increasing volume.

The Group also recorded foreign exchange losses of TL 1,520,383 thousand (U.S.$559,149 thousand) for the year ended 31 December 2015, compared to foreign exchange gains of TL 763,790 thousand for the year ended 31 December 2014. These losses in 2015 were primarily the result of the Bank's on-balance sheet position and were largely set off by off-balance sheet derivative financial transaction gains.

Other Operating Income

The Group's other operating income mainly results from collections from provisions recorded as expense, release of provisions and sale of fixed assets. Other operating income increased by TL 4,996 thousand, or 0.80% to TL 626,730 thousand (U.S.$230,492 thousand) for the year ended 31 December 2015, from TL 621,734 thousand for the year ended 31 December 2014. The increase in other operating income was primarily due to a reversal out of previously incurred impairment for buildings based on external expert valuation reports of expertise companies.

Provision for Impairment of Loans and Other Receivables

Provision for impairment of loans and other receivables increased by TL 710,509 thousand, or 36.65%, to TL 2,649,238 thousand (U.S.$974,307 thousand) for the year ended 31 December 2015, from TL 1,938,729 thousand for the year ended 31 December 2014 (with the total loan portfolio increasing by TL 27,210,880 or 21.46% to TL 154,017,989 for the year ended 31 December 2015 and the total NPL portfolio increasing by TL 1,813,984 thousand or 41.42% to TL 6,193,307 thousand during the same period). Loan loss provisions (specific and general) increased by 38.33% during the year ended 31 December 2015, while impairment of financial assets at fair value through profit or loss, available for sale financial assets and held to maturity investments increased by 31.09%. The increase was largely as a result of a lower GDP growth environment, the impact of a one-off transfer of a TL 210 million loan in the energy and agriculture sector to non-performing status, as well as a regulatory impact, specifically in card regulation. The transfer of the loan was provisioned at a rate of 100% in the fourth quarter of 2015. The total cost of risk (calculated as total loan loss provisions less collections, divided by total gross loans) increased to 1.47% in the year ended 31 December 2015 as compared to 1.17% in the same period in 2014, incorporating a TL 270 million provisions for card regulation in the year ended 31 December 2015.

In 2015, the Bank's ratio of NPLs to total loans increased to 3.9% as of 31 December 2015, compared with 3.4% as of 31 December 2014 as a result of pressure on smaller loans such as consumer loans including credit cards and loans to SME clients, while the corporate/commercial segment remained resilient. Segment NPL ratios deteriorated slightly due to the volatile environment. Credit Card NPLs were negatively impacted by market conditions and the impact at the end of the period of a new instalment regulation. The NPL ratio in the Bank's credit card portfolio was 5.9% as of 31 December 2015, as compared with 4.0% as of 31 December 2014. In the area of SME loans, the Bank's NPL ratio increased to 5.4% as of 31 December 2015 from 4.6% as of 31 December 2014, while the NPL ratio in consumer loans increased to 5.4% as of 31 December 2015 from 4.7% as of 31 December 2014. In corporate and commercial loans, the Bank's NPL ratio increased slightly overall to 2.4% as of 31 December 2015 from 2.3% as of 31 December 2014.

In 2015, the Bank sought to further improve its credit systems and collection infrastructure and continued to implement a series of proactive restructuring measures with respect to its SME, credit card and commercial loan portfolios, which were intended to control asset quality deterioration. One of the key features of these initiatives is the proactive restructuring of watch loans, in order to prevent them from deteriorating to the point of becoming NPLs. By 31 December 2015, the Bank had restructured loans in an aggregate amount of TL 1,608,302 thousand, corresponding to 1.0% of the Bank's aggregate loan portfolio (1.4% as of 31 December 2016). Of the aggregate amount, 23% were credit card and individual loans. In 2015, the Bank also started using and continued improving a scheme, which sets branch managers' lending approval authority based on their personal historical NPL ratios.

Other Operating Expenses

Other operating expenses are primarily composed of general and administrative expenses. Other operating expenses increased by TL 931,037 thousand, or 22.45%, to TL 5,077,318 thousand (U.S.$1,867,279 thousand) for the year ended 31 December 2015 from TL 4,146,281 thousand for the year ended 31 December 2014. This increase was mainly due to the Group's growth investments in branches and other platform building initiatives and fee rebates that were required to be paid by Turkish banks (see "*Risk Factors—Risks Related to the Group's Business— The Bank is appealing a judgment in the Istanbul Commercial Court and may be subject to legal claims by customers*").

The cost to income ratio of the Group was 49% and 47% for the years ended 31 December 2015 and 2014, respectively. Other operating expenses for the year ended 31 December 2015 were TL 5,077,318 thousand, an increase of 22.45% from TL 4,146,281 thousand for the year period ended 31 December 2014. The increase for the year ended 31 December 2015 was primarily driven by the Group's growth investments and fee rebates described above. As of 31 December 2015, the Bank had 1,000 branches (including 915 retail and SME branches, 22 private banking branches, 3 corporate branches and 53 commercial branches, one international branch, three mobile branches, one free-zone branch, one abroad branch and one custody branch), including 17 new branches opened during 2015. The total number of employees increased to 19,345 as of 31 December 2015, as compared to 18,534 as of 31 December 2014.

Net Operating Income/(Loss)

Net operating income, comprised of operating income less other operating expense and provision for impairment of loans and other receivables, decreased by TL 139,626 thousand, or 5.32%, to TL 2,486,110 thousand (U.S.$914,314 thousand) for the year ended 31 December 2015 from TL 2,625,736 thousand for the year ended 31 December 2014.

Tax Provision for Continuing Obligations

Tax provision for continuing obligations increased by TL 15,792 thousand, or 2.58%, to TL 628,188 thousand (U.S.$251,028 thousand) for the year ended 31 December 2015 from TL 612,396 thousand for the year ended 31 December 2014.

Under the Corporate Tax Law 5520, the applicable corporate tax rate was 20% for 2015 and 2014. Corporate tax is payable at a rate of 20% over the corporate tax base of the company after adjusting for certain deductible and non-deductible expenses, exempt income, investment allowance and other additions and deductions. The annual corporate income tax return is required to be filed by the 25th day of the fourth month

following the close of the related fiscal year. Payments will be carried out in a single instalment until the end of the month in which the tax return is to be filed.

Net Profit/(Loss)

The Group's net profit decreased by TL 147,454 thousand, or 7.17%, to TL 1,908,728 thousand (U.S.$701,971 thousand) for the year ended 31 December 2015 from TL 2,056,182 thousand for the year ended 31 December 2014.

Average shareholders' equity (excluding minority interest) is calculated by adding the quarterly consolidated BRSA shareholders' equity amounts (excluding minority interest) and the current year's profit from the beginning of the period (including last year) until the end of the period and dividing the total by the number of periods.

The Group's return on average shareholders' equity, excluding minority interest, was 9.7% and 11.3% for the years ended 31 December 2015 and 2014, respectively.

Analysis by Segment

The Group carries out its banking operations through three main business units: (a) retail banking (including credit cards, individual and SME banking), (b) corporate and commercial banking, and (c) private banking and wealth management. The Group also has foreign and other operations.

The following tables set forth certain data for the Group's segments for the years ended 31 December 2016, 2015 and 2014:

	31 December 2016								
	Retail Banking	**Corporate and Commercial Banking**	**Private Banking and Wealth Management**	**Other Foreign Operations**	**Other Domestic Operations**	**Insurance and Retirement**	**Treasury, Asset Liability Management and Other**	**Consolidation Adjustments(1)**	**Total**
					(TL, thousands)				
Operating revenue continuing	4,353,372	2,806,216	236,421	258,880	591,474	—	3,693,209	(6,840)	11,931,732
Operating expenses continuing	(4,331,137)	(1,020,631)	(102,516)	(123,775)	(233,340)	—	(2,465,801)	6,840	(8,270,360)
Net operating income continuing	**21,235**	**1,785,585**	**133,905**	**135,105**	**358,134**	**—**	**1,227,408**	**—**	**3,661,372**
Dividend income(2)	—	—	—	—	—	—	6,173	—	6,173
Income/loss from investments accounted based on equity method	—	—	—	—	—	—	85,361	—	85,361
Profit before tax	**21,235**	**1,785,585**	**133,905**	**135,105**	**358,134**	**—**	**1,318,942**	**—**	**3,752,906**
Tax expense(2)	—	—	—	—	—	—	(820,046)	—	(820,046)
Net period income from continuing operations	**21,235**	**1,785,585**	**133,905**	**135,105**	**358,134**	**—**	**498,896**	**—**	**2,932,860**
Minority interest (-)	—	—	—	—	—	—	(65)	—	(65)
Net period income from discontinued operations	—	—	—	—	—	—	—	—	—
Group income/loss	**21,235**	**1,785,585**	**133,905**	**135,105**	**358,134**	**—**	**498,831**	**—**	**2,932,795**

(1) Consolidation adjustments include transactions with subsidiaries and investments consolidated in these financial statements.
(2) Dividend income and tax provision expenses have not been distributed based on operating segments and have been presented under "Treasury, Asset Liability Management and Other".

	31 December 2015								
	Retail Banking	**Corporate and Commercial Banking**	**Private Banking and Wealth Management**	**Other Foreign Operations**	**Other Domestic Operations**	**Insurance and Retirement**	**Treasury, Asset Liability Management and Other**	**Consolidation Adjustments[1]**	**Total**
					(TL, thousands)				
Operating revenue continuing	4,085,978	2,371,581	213,250	272,453	540,672	—	2,679,482	43,342	10,206,758
Operating expenses continuing	(3,628,714)	(798,972)	(94,552)	(172,660)	(230,697)	—	(2,809,676)	8,715	(7,726,556)
Net operating income continuing	**457,264**	**1,572,609**	**118,698**	**99,793**	**309,975**	**—**	**(130,194)**	**52,057**	**2,480,202**
Dividend income[2]	—	—	—	—	—	—	5,908	—	5,908
Income/loss from investments accounted based on equity method	—	—	—	—	—	—	50,806	—	50,806
Profit before tax	**457,264**	**1,572,609**	**118,698**	**99,793**	**309,975**	**—**	**(73,480)**	**52,057**	**2,536,916**
Tax expense[2]	—	—	—	—	—	—	(628,188)	—	(628,188)
Net period income from continuing operations	**457,264**	**1,572,609**	**118,698**	**99,793**	**309,975**	**—**	**(701,668)**	**52,057**	**1,908,728**
Minority interest (-)	—	—	—	—	—	—	(45)	—	(45)
Net period income from discontinued operations	—	—	—	—	—	—	—	—	—
Group income/loss	**457,264**	**1,572,609**	**118,698**	**99,793**	**309,975**		**(701,713)**	**52,057**	**1,908,683**

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

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

	31 December 2014								
	Retail Banking	Corporate and Commercial Banking	Private Banking and Wealth Management	Other Foreign Operations	Other Domestic Operations	Insurance and Retirement	Treasury, Asset Liability Management and Other	Consolidation Adjustments[1]	Total
					(TL, thousands)				
Operating revenue continuing	3,154,995	1,984,536	193,161	247,468	505,294	—	2,654,658	(38,717)	8,701,395
Operating expenses continuing	(3,017,788)	(595,230)	(88,712)	(129,605)	(202,558)	—	(2,090,124)	39,007	(6,085,010)
Net operating income continuing	**137,207**	**1,389,306**	**104,449**	**117,863**	**302,736**	**—**	**564,534**	**290**	**2,616,385**
Dividend income[2]	—	—	—	—	—	—	9,351	—	9,351
Income/loss from investments accounted based on equity method	—	—	—	—	—	—	42,842	—	42,842
Profit before tax	**137,207**	**1,389,306**	**104,449**	**117,863**	**302,736**	**—**	**616,727**	**290**	**2,668,578**
Tax expense[2]	—	—	—	—	—	—	(612,396)	—	(612,396)
Net period income from continuing operations	**137,207**	**1,389,306**	**104,449**	**117,863**	**302,736**	**—**	**4,331**	**290**	**2,056,182**
Minority interest (-)	—	—	—	—	—	—	(167)		(167)
Net period income from discontinued operations	—	—	—	—	—	—	—	—	—
Group income/loss	**137,207**	**1,389,306**	**104,449**	**117,863**	**302,736**	**—**	**4,164**	**290**	**2,056,015**

(1) Consolidation adjustments include transactions with subsidiaries and investments consolidated in these financial statements.
(2) Dividend income and tax provision expenses have not been distributed based on operating segments and have been presented under "Treasury, Asset Liability Management and Other".

Retail Banking

Retail banking products and services offered to customers include credit cards, consumer loans (including general purpose loans, auto loans and mortgages), SME loans, time and demand deposits, investment accounts, life and non-life insurance products and payroll services. Credit card operations cover the management of products and services for member merchants as well as the sales and marketing operations for a variety of customer types. Operating profit for the retail banking segment decreased by TL 436,029 thousand (U.S.$123,900 thousand) or 95% for the year ended 31 December 2016, from TL 248,887 thousand for the same period in 2015, primarily due to regulatory changes, particularly in account maintenance fees and general provisions. Operating profit for the retail banking segment increased to a profit of TL 457,264 thousand (U.S.$168,167 thousand) for the year ended 31 December 2015 from a profit of TL 137,207 thousand for the same period in 2014. The increase resulted primarily from growing revenues as a result of ongoing investments in branches and alternate delivery channels and significant volume growths in line with the Group's growth strategy. Operating profit for the retail banking segment decreased from TL 381,763 thousand or 73.56%, to TL 137,207 thousand for the year ended 31 December 2014 which in turn decreased from TL 518,970 thousand for the year ended 31 December 2013. This decrease in the operating profit for the retail banking segment was primarily a result of regulatory changes, including a new consumer protection law which limited certain card, transactional and account maintenance fees and increased general provisions, as well as the continuing impact of the new regulation on the deferral of commission income related to loans.

Corporate and Commercial Banking

The Corporate and Commercial Banking segment is organised into three subgroups: Corporate Banking for large-scale companies, Commercial Banking for medium-sized enterprises and International & Multinational Companies Banking for multinational companies. The primary business lines in the commercial banking segment are working capital, financing, foreign trade finance, project finance, leasing and factoring, domestic and international non-cash credit line facilities such as letters of credit and guarantees, cash management and e-banking services to mid-size and large corporates.

Operating profit for the corporate and commercial banking segment increased to TL 1,785,609 thousand (U.S.$521,077 thousand) for the year ended 31 December 2016, from TL 1,572,609 thousand for the year ended 31 December 2015, primarily attributable to growth in non-interest income, including increased cash and non-cash loan commissions, increased banking service fees and the addition of financial advisory functions to the corporate and commercial banking segment. This in turn was an increase from TL 1,389,306 thousand for the same period in 2014, primarily attributable to loan volume growth in the corporate and commercial banking segment.

Private Banking and Wealth Management

Through its private banking and wealth management activities, the Group serves high net worth individuals and delivers investment products to its customer segment. Among the products and services offered to private banking customers are time deposits, fund deposits, mutual funds, managed fund accounts derivative products such as forwards, futures and options, personal loans, foreign exchange, gold and equity trading, safe deposit boxes and e-banking services. The Group also provides investment advisory and portfolio management services through the Group's portfolio management and brokerage subsidiaries. The Group also previously provided pension plans and insurance products, but completed a transaction to sell this business to Allianz in 2014. See "*—Insurance and Retirement*" and "*Business of the Bank—Associates—Yapi Kredi Insurance (Yapı Kredi Sigorta) and Yapi Kredi Pension (Yapı Kredi Emeklilik)*".

Operating profit for the private banking business unit increased to TL 133,905 thousand (U.S.$44,369 thousand) for the year ended 31 December 2016 from TL 118,698 thousand for the year ended 31 December 2015, itself an increase from TL 104,449 thousand for the year ended 31 December 2014. The increases across all periods were driven primarily by growth in the Bank's assets under management (AUM) products and asset allocation.

Foreign Operations

Foreign operations include the Group's banking operations in the Netherlands, Azerbaijan, Russia and Malta. Operating profit for the foreign operations segment amounted to TL 135,105 thousand (U.S.$44,766

thousand) for the year ended 31 December 2016, compared to TL 99,793 thousand for the same period in 2015, which was a decrease from TL 117,863 thousand for 2014. The overall increase since 2014 was primarily driven by the organic growth of foreign subsidiaries.

Other Domestic Operations

Other operations mainly consist of treasury transactions of supporting business units, insurance operations and other unallocated transactions, including the effect of free capital. Operating profit for the other domestic operations segment amounted to TL 358,134 thousand (U.S.$101,766 thousand) for the year ended 31 December 2016, representing an increase from TL 48,159 thousand for the same period in 2015, primarily due to higher inflation and a weaker Turkish Lira. Operating profit for the other domestic operations segment of TL 309,975 thousand for the year ended 31 December 2015 represented a relatively stable evolution compared to TL 302,736 thousand for 2014. The decreases for the years ended 31 December 2016 and 2015 were primarily due to decreased dividend income of domestic subsidiaries.

Treasury, Asset-Liability Management and Other

The Treasury, asset liability management and other segment mainly consists of treasury and asset liability management activities of the Group. Operating gain for the treasury, asset liability management and other segment amounted to TL 498,831 thousand (U.S.$141,746 thousand) for the year ended 31 December 2016, which was a decrease from a TL 1,200,544 thousand gain for the year ended 31 December 2015, an increase from TL 4,164 thousand for the same period in 2014. The overall increase was attributable to higher swap costs due to an increased volume of treasury activities as the Group continued to expand its overall product and service offerings, as well as the fluctuations in Turkish Lira interest rates.

Financial Condition

ASSETS	As of 31 December 2016	2015	2014
		(TL, thousands)	
Cash and balances with Central Bank	**33,083,295**	**27,388,947**	**23,214,665**
Financial assets at fair value through profit or (loss) (net)	**3,040,830**	**1,766,293**	**1,209,792**
Trading financial assets	3,040,830	1,766,293	1,209,792
Government debt securities	36,713	66,106	95,151
Share certificates	6,635	8,040	4,037
Derivative financial assets held for trading	2,997,482	1,692,147	1,110,521
Other marketable securities	—	—	83
Financial assets designated at fair value through profit/(loss)	—	—	—
Government debt securities	—	—	—
Share certificates	—	—	—
Loans	—	—	—
Other marketable securities	—	—	—
Banks	**3,448,966**	**3,111,505**	**3,891,875**
Money markets	**252**	**286,126**	**1,568,750**
Interbank money market placements	—	—	—
Receivables from Istanbul Stock Exchange Money Market	—	286,115	248,247
Receivables from reverse repurchase agreements	**252**	11	1,320,503
Financial assets available for sale (net)	**18,386,109**	**22,840,204**	**18,674,097**
Share certificates	106,743	255,018	43,610
Government debt securities	16,052,373	20,395,137	16,284,654
Other marketable securities	2,226,993	2,190,049	2,345,833
Loans and receivables	**178,664,422**	**154,017,989**	**126,807,109**
Loans and receivables	176,485,837	152,489,095	125,534,067
Loans to bank's risk group	2,602,074	1,787,980	1,414,314
Government debt securities	—	—	—
Other	173,883,763	150,701,115	124,119,753
Loans under follow up	8,849,167	6,193,307	4,379,323
Specific provisions ( )	(6,670,582)	(4,664,413)	(3,106,281)
Factoring receivables	**2,894,279**	**2,259,124**	**2,768,233**
Held to maturity investments (net)	**11,588,890**	**7,108,809**	**5,556,369**
Government debt securities	10,789,054	6,618,626	5,242,386
Other marketable securities	799,836	490,183	313,983
Investments in associates (net)	**669,117**	**549,728**	**461,087**
Consolidated based on equity method	664,614	545,225	456,584
Unconsolidated	4,503	4,503	4,503
Investments in financial associates	-	—	—
Investments in non financial associates	4,503	4,503	4,503
Subsidiaries (net)	**7,300**	**7,300**	**2,300**
Unconsolidated financial subsidiaries	-	—	—
Unconsolidated non financial subsidiaries	7,300	7,300	2,300
Joint ventures (net)	**18,114**	**20,851**	**19,054**
Accounted based on equity method	18,114	20,851	19,054
Unconsolidated	—	—	—
Financial joint ventures	—	—	—
Non financial joint ventures	—	—	—
Lease receivables	**8,304,486**	**6,862,261**	**5,005,250**
Financial lease receivables	9,834,091	8,137,509	5,970,295
Operation lease receivables	—	—	—
Other	—	—	—
Unearned income ( )	(1,529,605)	(1,275,248)	(965,045)
Derivative financial assets held for hedging	**1,209,712**	**961,041**	**256,146**
Fair value hedge	246,295	257,144	177,895
Cash flow hedge	963,417	703,897	78,251
Foreign net investment hedge	—	—	—
Property and equipment (net)	**2,713,047**	**2,767,484**	**1,109,787**
Intangible assets (net)	**1,566,864**	**1,508,428**	**1,457,366**
Goodwill	979,493	979,493	979,493
Other	587,371	528,935	477,873
Investment property (net)	—	—	—
Tax assets	**179,391**	**78,141**	**172,306**
Current tax assets	98,963	11,423	3,272
Deferred tax assets	80,428	66,718	169,034
Assets held for resale and related to discontinued operations (net)	**166,183**	**153,922**	**155,485**
Held for sale purposes	166,183	153,922	155,485
Related to discontinued operations	—	—	—
Other assets	**5,193,333**	**3,579,779**	**2,629,034**
Total assets	**271,134,590**	**235,267,932**	**194,958,705**

LIABILITIES & EQUITY	As of 31 December 2016	2015	2014
		(TL, thousands)	
Deposits	**157,088,195**	**130,025,065**	**107,630,631**
Deposits of the Bank's risk group	19,803,396	14,344,075	13,925,211
Other	137,284,799	115,680,990	93,705,420
Derivative financial liabilities held of trading	**2,578,679**	**1,922,408**	**860,326**
Funds borrowed	**30,508,774**	**24,860,979**	**21,416,956**
Money markets	**9,205,029**	**14,263,537**	**8,774,752**
Funds from interbank money market	—	1,887,563	—
Funds from Istanbul stock exchange money market	2,931,228	1,960,438	2,572,663
Funds provided under repurchase agreement	6,273,801	10,415,536	6,202,089
Marketable securities issued (net)	**18,080,467**	**17,172,893**	**13,355,937**
Bills	1,486,456	2,558,057	3,350,582
Asset backed securities	6,564,507	6,083,274	3,054,498
Bonds	10,029,504	8,531,562	6,950,857
Funds	—	—	—
Borrower funds	—	—	—
Other	—	—	—
Miscellaneous payables	**11,162,787**	**9,794,681**	**8,738,336**
Other liabilities	**1,956,404**	**2,756,059**	**2,970,800**
Factoring payables	—	—	—
Lease payables (net)	—	—	—
Financial lease payables	—	—	—
Operational lease payables	—	—	—
Other	—	—	—
Deferred lease expenses (-)	—	—	—
Derivative financial liabilities held for hedging	**89,296**	**148,278**	**440,448**
Fair value hedge	50,457	4,231	657
Cash flow hedge	38,839	144,047	439,791
Foreign net investment hedge	—	—	—
Provisions	**4,694,072**	**3,982,986**	**3,359,037**
General loan loss provision	3,109,571	2,627,271	1,927,821
Restructuring provision	—	—	—
Reserve for employee rights	301,321	300,513	278,044
Insurance technical provisions (net)	—	—	—
Other provisions	1,283,180	1,055,202	1,153,172
Tax liability	**581,841**	**619,453**	**427,228**
Current tax liability	313,590	500,356	424,789
Deferred tax liability	268,251	119,097	2,439
Liabilities for property and equipment held for sale and related to discontinued operations (net)	—	—	—
Held for sale	—	—	—
Related to discontinued operations	—	—	—
Subordinated loans	**9,067,893**	**6,635,191**	**6,770,549**
Shareholders' equity	**26,121,153**	**23,086,402**	**20,213,705**
Paid in capital	4,347,051	4,347,051	4,347,051
Capital reserves	2,661,627	2,877,463	1,618,240
Share premium	543,881	543,881	543,881
Share cancellation profits	-	—	—
Marketable securities valuation differences	(463,754)	(284,912)	391,468
Property and equipment revaluation differences	1,469,697	1,467,728	18,485
Intangible assets revaluation differences	-	—	—
Revaluation differences of investment property	-	—	—
Bonus shares from investments in associates, subsidiaries and joint ventures	4,561	4,503	4,503
Hedging funds (effective portion)	(93,962)	(43,949)	(512,661)
Value increase in assets held for sale and related to discontinued operations	-	—	—
Other capital reserves	1,201,204	1,190,212	1,172,564
Profit reserves	14,539,224	12,357,721	10,807,976
Legal reserves	844,539	751,512	641,000
Status reserves	-	—	—
Extraordinary reserves	12,913,149	11,148,251	9,815,284
Other profit reserves	781,536	457,958	351,692
Income or (loss)	4,572,749	3,503,693	3,439,976
Prior years' income or (loss)	1,639,954	1,595,010	1,383,961
Current year income or (loss)	2,932,795	1,908,683	2,056,015
Minority interest	502	474	462
Total liabilities and shareholders' equity	**271,134,590**	**235,267,932**	**194,958,705**

Assets

As of 31 December 2016, the Group had total assets of TL 271,134,590 thousand (U.S.$77,044,382 thousand), which represented an increase of 15.25% compared to TL 235,267,932 thousand as of 31 December 2015, which in turn represented an increase of 20.68% compared to TL 194,958,705 thousand as of 31 December 2014. The overall increase in the Group's total assets was primarily attributable to credit growth from existing and new customers due to the overall growth in the Turkish banking system and the Group's growth strategy.

Liabilities

As of 31 December 2016, the Group had total liabilities of TL 271,134,590 thousand (U.S.$77,044,382 thousand), which represented an increase of 15.25% from TL 235,267,932 thousand as of 31 December 2015, which in turn represented an increase of 20.68% from TL 194,958,705 thousand as of 31 December 2014. The overall increase was mainly attributable to an increase in deposits, also driven by growth in the Turkish economy, despite a volatile global environment, and the Group's growth strategy.

Shareholders' Equity

As of 31 December 2016, the Group's total shareholders' equity amounted to TL 26,121,153 thousand (U.S.$7,422,469 thousand), or 9.63% of the Group's total assets, compared to TL 23,086,402 thousand, or 9.81% of the Group's total assets as of 31 December 2015, TL 20,213,705 thousand, or 10.54% of the Group's total assets as of 31 December 2014. The Group paid dividends to its minority shareholders of TL 502 thousand in the year ended 31 December 2016 and TL 474 thousand in the year ended 31 December 2015, TL 462 thousand in 2014. As of 31 December 2016, the Group had TL 4,347,051 thousand in share capital outstanding.

Cash and Balances with the Central Bank

Cash and balances with the Central Bank represent a relatively small percentage of the Group's total assets, making up 12.20%, 11.64% and 11.91% as of 31 December 2016, 2015 and 2014, respectively. The increase in cash and balances with the Central Bank in 2014 to 31 December 2016 was primarily due to an increase in reserve deposits at central banks driven by an increased rate of reserve requirements of the Central Bank and the volume growth of the Bank.

Loans and Receivables

Loans and receivables represent the largest component of the Group's assets. As of 31 December 2016, loans and receivables amounted to TL 178,664,422 thousand (U.S.$50,768,476 thousand), which represented 65.90% of the Group's total assets, compared to TL 154,017,989 thousand, which represented 65.46% of the Group's total assets as of 31 December 2015 and TL 126,807,109 thousand, which represented 65.04% of the Group's total assets as of 31 December 2014.

The Group provides financing for various purposes, the majority of which are corporate and commercial loans and loans to SMEs, with maturities of 12 months on average. However, as demand for longer term financing from existing customers and other high quality corporate credits increases, the Group expects the maturity profile of its portfolio to gradually increase further.

Loans according to Maturity Structure

The following tables set out certain information relating to the maturity structure of the Group's loan portfolio (including NPLs) based upon the division between (i) short-term (less than one year) and (ii) medium and long-term loans (greater than one year) and other receivables in line with BRSA Principles as of the dates indicated:

	As of 31 December 2016			
	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
	(TL, thousands)			
Short term loans and other receivables	**55,999,980**	**921,250**	**1,044,618**	**412,817**
Non specialised loans	55,999,980	921,250	1,044,618	412,817
Specialised loans	—	—	—	—
Other receivables	—	—	—	—
Medium and long term loans and other receivables	**111,165,951**	**2,397,033**	**2,393,767**	**2,150,421**
Non specialised loans	111,165,951	2,397,033	2,393,767	2,150,421
Specialised loans	—	—	—	—
Other receivables	—	—	—	—

	As of 31 December 2015			
	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
	(TL, thousands)			
Short term loans and other receivables	**49,617,979**	**795,357**	**1,161,055**	**216,951**
Non specialised loans	49,617,979	795,357	1,161,055	216,951
Specialised loans	—	—	—	—
Other receivables	—	—	—	—
Medium and long term loans and other receivables	**95,851,948**	**1,369,035**	**2,085,419**	**1,391,351**
Non specialised loans	95,851,948	1,369,035	2,085,419	1,391,351
Specialised loans	—	—	—	—
Other receivables	—	—	—	—

	As of 31 December 2014			
	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
	(TL, thousands)			
Short term loans and other receivables	**47,002,581**	**583,154**	**929,235**	**326,326**
Non specialised loans	47,002,581	583,154	929,235	326,326
Specialised loans	—	—	—	—
Other receivables	—	—	—	—
Medium and long term loans and other receivables	**72,949,541**	**874,597**	**1,617,731**	**1,250,902**
Non specialised loans	72,949,541	874,597	1,617,731	1,250,902
Specialised loans	—	—	—	—
Other receivables	—	—	—	—

Consumer Loans, Individual Credit Cards, Personnel Loans and Personnel Credit Cards

Total lending to individuals through consumer loans, individual credit cards, personnel loans and personnel credit cards amounted to TL 47,056,934 thousand (U.S$13,371,486 thousand) as of 31 December 2016, which represented 17.36% of the Group's total assets, an increase from TL 43,910,736 thousand as of 31 December 2015, which represented 18.66% of the Group's total assets and TL 37,381,940 thousand as of 31 December 2014 (or 19.17% of the Group's total assets).

Commercial Instalment Loans and Corporate Credit Cards

Lending through commercial instalment loans and corporate credit cards amounted to TL 17,132,212 thousand (U.S.$4,868,212 thousand), which represented 6.32% of the Group's total assets as of 31 December 2016, compared to TL 17,889,252 thousand, which represented 7.60% of the Group's total assets as of 31 December 2015 and TL 14,702,726 thousand (or 7.54% of total assets) as of 31 December 2014.

Non-performing Loan Sales

From time to time, the Bank sells non-performing loans based on market conditions and expects to continue this going forward.

On 18 December 2013, the Board of Directors of the Bank sold a TL 214,815 thousand NPL portfolio for a consideration of TL 39,650 thousand to RCT Varlık Yönetimi A.Ş., Final Varlık Yönetimi A.Ş., Anadolu Varlık Yönetimi A.Ş. and LBT Varlık Yönetimi A.Ş. by dividing the NPL portfolio into four sub-portfolios. The Bank had set aside provisions of TL 202,472 thousand on these loans.

The Bank sold part of its non-performing loan portfolios to various asset management companies for a total consideration of TL 52,270 thousand in accordance with the Board of Directors' decisions during the year ended 31 December 2014.

The Group conducted no significant sales of NPLs in the years ended 31 December 2016 or 2015.

On 22 February 2017, the Bank's Board of Directors resolved to sell a fully provisioned NPL portfolio of credit card and individual loans, amounting to TL 531 million, for a total consideration of TL 27.5 million, to Güven Varlık Yönetim A.Ş. The proceeds will have a positive pre-tax profit and loss impact of TL 27.5 million, which will be reflected in the Bank's Q1 financials for 2017 after the transaction is finalised. The positive impact of the sale on the Bank's NPL ratio is expected to be ~25 bps.

Derivatives

The Group's derivative transactions primarily include interest rate and foreign exchange swaps, forward foreign exchange purchase and sale transactions, and options. The following table sets out certain information on derivative financial assets based upon management data in line with BRSA requirements:

	As of 31 December		
	2016	**2015**	**2014**
Types of derivative transactions		*(TL, thousands)*	
Foreign currency related derivative transactions	**137,959,963**	**114,959,640**	**95,117,720**
FC trading forward transactions	15,273,549	9,676,902	7,119,997
Trading swap transactions	105,096,276	91,851,905	78,505,376
Futures transactions	—	—	—
Trading option transactions	17,590,138	13,430,833	9,492,347
Interest related derivative transactions	**49,251,952**	**36,127,848**	**23,052,540**
Forward interest transactions	—	—	—
Interest rate swaps	47,580,058	34,250,180	15,959,242
Interest rate options	1,671,894	1,877,668	7,093,298
Interest rate futures		—	—
Other trading derivative transactions	**18,267,410**	**15,142,751**	**9,343,196**
Total trading derivative transactions	**205,479,325**	**166,230,239**	**127,513,456**
Types of hedging derivative transactions			
Transactions for fair value hedge	2,658,411	1,612,361	1,180,422
Cash flow hedges	50,014,021	57,114,076	40,767,075
Transactions for foreign net investment hedge	—	—	—
Total hedging related derivatives	**52,672,432**	**58,726,437**	**41,947,497**
Total derivative transactions	**258,151,757**	**224,956,676**	**169,460,953**

Marketable Securities Portfolio

The Group's marketable securities portfolio comprises of trading financial assets, financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity investments. Trading financial assets are acquired or incurred principally for the purpose of selling or repurchasing them in the near term or to form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking.

Trading financial assets are initially recognised and subsequently re measured at fair value. Securities with fixed maturity, where management has both the intent and the ability to hold to maturity, are classified as held to maturity. Securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or client's servicing activity, are classified as available for sale. Management determines the appropriate classification of investments at the time of their purchase.

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

Investment securities are initially recognised at fair value. Available-for-sale financial assets are subsequently re-measured at fair value. Gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is transferred to income statement.

Held-to-maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment.

The Group also enters into purchases or sales of investments under agreements to resell or repurchase substantially identical investments at a certain date in the future at a fixed price. Investments sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for the asset held in the portfolio, as appropriate.

The following table sets out a breakdown of investments held by the Group as on the dates indicated:

	As of 31 December		
	2016	**2015**	**2014**
		(TL, thousands)	
Trading financial assets	3,040,830	1,766,293	1,209,792
Available for sale financial assets	18,386,109	22,840,204	18,674,097
Held to maturity investments	11,588,890	7,108,809	5,556,369
Total marketable securities	**33,017,845**	**31,715,306**	**25,440,258**

The size of the Group's marketable securities portfolio increased by 4.10% to TL 33,015,829 thousand (U.S.$9,381,629 thousand) as of 31 December 2016, compared to TL 31,715,306 thousand as of 31 December 2015, which represented an increase of 24.67% compared to TL 25,440,258 thousand as of 31 December 2014. The decrease in the year ended 31 December 2016 was primarily attributable to scheduled redemptions. The increase in the year ended 31 December 2015 was driven by a 30% increase in the volume of TL securities and depreciation of the Turkish Lira, causing the value of the foreign exchange securities portfolio to increase by 33% as well. Foreign exchange securities stock in U.S. dollar terms rose only by 2%. A substantial part of the Turkish Lira securities growth emanated from expansion in the volume of CPI-linked bonds.

The weighted average interest rates for securities by major currencies outstanding as of 31 December 2016, 2015 and 2014 based on yearly contractual rates are as follows:

	As of 31 December								
	2016			**2015**			**2014**		
	U.S.$	*EUR*	*TL*	*U.S.$*	*EUR*	*TL*	*U.S.$*	*EUR*	*TL*
Investment securities									
Available for sale	5.46	4.31	13.17	5.81	4.41	9.96	6.28	5.49	9.98
Held to maturity	5.4	2.97	9.46	5.39	3.40	10.61	5.51	3.77	9.81

Trading Financial Assets

Trading financial assets include Government bonds and treasury bills, i.e., securities issued by the Turkish Treasury, as well as open ended mutual funds, derivatives and also equity securities that are either listed or unlisted.

The following table sets out a breakdown of the trading financial assets portfolio of the Group as of the dates indicated:

	As of 31 December		
	2016	2015	2014
		(TL, thousands)	
Government debt securities	36,713	66,106	95,151
Share certificates	6,635	8,040	4,037
Derivative financial assets held for trading	2,997,482	1,692,147	1,110,521
Other marketable securities	—	—	83
Total trading financial assets	**3,040,830**	**1,766,293**	**1,209,792**

As of 31 December 2016, the size of the Group's trading financial assets portfolio increased by 72.16% to TL 3,040,830 thousand (U.S.$864,069 thousand) from TL 1,766,293 thousand as of 31 December 2015, compared to TL 1,209,792 thousand as of 31 December 2014.

Available-for-Sale Financial Assets

Available-for-sale assets are financial assets that are not held for trading purposes, nor intended by the Group to be held-to-maturity. The portfolio of securities available-for-sale consists of Government bonds, treasury bills and Eurobonds that are discounted and coupon securities issued by the Turkish Treasury, as well as open-ended mutual funds incorporated in Turkey, credit linked notes ("**CLNs**"), other bonds issued by domestic and foreign financial institutions and also equity securities that are either listed or unlisted.

The following table sets out certain information relating to the portfolio of the Group's financial assets available for sale as of 31 December 2016, 2015 and 2014:

	As of 31 December		
	2016	2015	2014
		(TL, thousands)	
Debt securities	**18,381,399**	**22,925,060**	**18,626,742**
Quoted on stock exchange(1)	17,566,627	21,794,371	17,095,631
Not quoted(2)	814,772	1,130,689	1,531,111
Share certificates	**152,061**	**300,332**	**88,925**
Quoted on stock exchange	119	112	177
Not quoted	151,942	300,220	88,748
Impairment provision (-)(2)	**(243,991)**	**(403,267)**	**(114,222)**
Other(3)	**96,640**	**18,079**	**72,652**
Total financial assets available for sale	**18,386,109**	**22,840,204**	**18,674,097**

(1) Includes credit linked notes amounting to TL 475,930 thousand (U.S.$135,238 thousand) as of 31 December 2016, TL 476,119 thousand as of 31 December 2015 and TL 986,135 thousand as of 31 December 2014.
(2) The figure includes the negative differences between the cost and the market price of the securities and the impairment provisions, if any.
(3) Other available-for-sale financial assets include mutual funds.

As of 31 December 2016, the size of the available for sale financial assets portfolio decreased to TL 18,386,109 thousand (U.S.$5,224,514 thousand) from TL 22,840,204 thousand as of 31 December 2015, which represented an increase from TL 18,674,097 thousand as of 31 December 2014. The size of the available for sale financial assets portfolio as a percentage of total assets decreased from 9.71% as of 31 December 2015 to 6.78% as of 31 December 2016.

Held-to-Maturity Investments

Held to maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Group intends and has the ability to hold to maturity. These include certain debt investments. The Group cannot classify any financial asset as held to maturity if it has, during the current financial year or during two preceding financial years, sold or transferred held to maturity investments before maturity.

The held to maturity investments portfolio of the Group consists of quoted on stock exchange Government bonds, treasury bills and other debt securities, all issued by the Turkish Treasury and foreign government bonds.

The following table sets out certain information relating to the Group's portfolio of held to maturity investments as of 31 December 2016, 2015 and 2014:

	As of 31 December		
	2016	2015	2014
		(TL, thousands)	
Government bonds	10,789,054	6,618,626	5,242,386
Treasury bills	—	—	—
Other debt securities	799,836	490,183	313,983
Total held to maturity investments	**11,588,890**	**7,108,809**	**5,556,369**

As of 31 December 2016, the size of the held to maturity portfolio increased by 63.02% to TL 11,588,890 thousand (U.S.$3,293,047 thousand) from TL 7,108,809 thousand as of 31 December 2015, which represented an increase of 27.94% from TL 5,556,369 thousand as of 31 December 2014.

Property and Equipment

The following table sets out movements in the Group's tangible assets:

	As of 31 December		
	2016	2015	2014
		(TL, thousands)	
Book value at the beginning of the period	**2,767,484**	**1,109,787**	**1,016,541**
Additions	215,561	1,822,899	320,075
Transfers from intangible assets	(233,002)	1,230	—
Sale of a subsidiary	—	—	—
Disposals (-), net	(30,425)	(41,695)	(47,217)
Reversal of impairment, net	(14,121)	106,395	972
Impairment (-)	716	(1,492)	—
Depreciation (-)	—	(218,092)	(167,712)
Foreign exchange differences, net	6,834	(11,548)	(12,872)
Book value at the end of the period	**2,713,047**	**2,767,484**	**1,109,787**
Cost at the end of the period	4,629,235	4,547,967	3,351,166
Accumulated depreciation at the period end (-)	(1,916,188)	(1,780,483)	(2,241,379)

As of 31 December 2016, the Bank had total provision amounting to TL 224,378 thousand for property and commitment, as compared to TL 224,378 thousand as of 31 December 2015 and TL 326,748 thousand as of 31 December 2014.

The Group owns or leases premises for its head office, branches and operations centres. As of 31 December 2016, the Group's fixed assets (comprising land, land improvements, buildings, computer hardware and other fixed assets) had a total net book value of TL 2,713,047 million (U.S.$770,927 million) or 1.00% of the Bank's total assets. The Group owns its headquarters buildings in Istanbul and its operations centre in Gebze. As of 31 December 2016, the Bank owned approximately 19.19% of its branches and the rest were leased.

The Group decided to change its accounting policy on valuation of buildings to fair value accounting in accordance with TAS 16 as of 31 March 2015. Based on valuation reports of expert companies, authorised by CMB and BRSA, the Group realised a positive fair valuation difference as other comprehensive income amounting to TL 1,469,697 thousand, net of tax as of 31 December 2016. (TL 1,467,728 thousand as at 31 December 2015). Additionally, there has been a reversal out of previously incurred impairment in line with a change in the Bank's accounting policy regarding the valuation of fixed assets, amounting to TL 105,921 thousand, which was booked as income in 2015.

Intangible Assets

The following table sets out the Group's goodwill and other intangible assets:

	As of 31 December		
	2016	2015	2014
		(TL, thousands)	
Balance at the beginning of the period	**1,508,428**	**1,457,366**	**1,393,590**
Additions during the period	179,700	187,093	173,323
Unused and disposed items (-)	(11,018)	(955)	(217)
Sale of a subsidiary	14,121	(1,230)	—
Transfers	—	—	—
Impairment reversal	—	—	—
Amortisation expenses (-)	(124,572)	(128,678)	(110,151)
Foreign exchange valuation differences, net	205	(5,168)	821
Balance at the end of the period	**1,566,864**	**1,508,428**	**1,457,366**

Goodwill is reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. There was no impairment to goodwill identified as of 31 December 2016, 2015 or 2014.

Sources of Funding

As of 31 December 2016, the Group's major sources of funds for its lending and investment activities were deposits, which accounted for 70.14% of total funding, funds borrowed, which accounted for 17.67% of total funding, money markets, which accounted for 4.11% of total funding, and marketable securities issued, which accounted for 8.07% of total funding. Deposits accounted for 67.39% and 68.14%, respectively, as of 31 December 2015 and 2014; funds borrowed accounted for 16.32% and 17.85%, respectively, as of 31 December 2015 and 2014; money markets accounted for 7.39% and 5.56%, respectively, as of 31 December 2015 and 2014; and marketable securities accounted for 8.90% and 8.46%, respectively, as of 31 December 2015 and 2014.

The following table sets out the Group's sources of funding as of the dates indicated:

	As of 31 December					
	2016	%	2015	%	2014	%
			(TL, thousands)			
Deposits	157,088,195	70.14	130,025,065	67.39	107,630,631	68.14
Funds borrowed	39,576,667	17.67	31,496,170	16.32	28,187,505	17.85
Money markets	9,205,029	4.11	14,263,537	7.39	8,774,752	5.56
Marketable securities issued	18,080,467	8.07	17,172,893	8.90	13,355,937	8.46
Total	**223,950,358**	**100.0**	**192,957,665**	**100.0**	**157,948,825**	**100.0**

The availability of such funds is influenced by factors such as prevailing interest rates, market conditions and the level of competition prevailing.

Deposits

Deposits consist of customer demand and time deposits. Customer current accounts generally bear no interest and can be withdrawn upon demand. For time deposits, different interest rates are paid on the various types of account offered by the Group. Deposits from customers comprise local deposits, foreign currency deposits, savings, and commercial deposits.

Deposit growth between 2013 and 31 December 2016 was driven by a relatively balanced growth in both local currency and foreign currency deposits. During the year ended 31 December 2016, deposit growth was mainly driven by customers' preference to change from foreign currency deposits into local currency deposits, which became more pronounced after the attempted coup in July 2016. Across all periods, the Bank pursued a strategy of rebalancing toward more cost efficient, smaller Turkish Lira deposits. Strong deposit growth of 21% for the full year 2016 was mainly driven by local currency deposits (25% compared with 2015), while foreign currency deposits in U.S. dollar terms decreased by 4.25% compared with 2015.

The following tables set out the maturity structure of the Group's deposits/collected funds:

	As of 31 December 2016								
	Demand	With 7 days notifications	Up to 1 month	1-3 months	3-6 months	6 months – 1 year	1 year and over	Cumulative Deposits	Total
Savings deposits	6,145,162	2,534	1,392,165	31,602,890	1,555,624	209,889	174,943	485	41,083,692
Foreign currency deposits	12,804,821	36,207	9,292,694	36,447,490	3,899,045	4,665,206	2,289,801	—	69,435,264
Residents in Turkey	11,421,891	18,796	9,186,288	35,929,631	3,589,035	4,035,721	1,220,512	—	65,401,874
Residents abroad	1,382,930	17,411	106,406	517,859	310,010	629,485	1,069,289	—	4,033,390
Public sector deposits	230,784	-	35	3,797	16	180	59	—	234,871
Commercial deposits	6,795,962	-	4,835,125	17,433,057	2,765,952	1,302,572	333,090	—	33,465,758
Other institutions deposits	103,771	-	81,880	2,400,983	785,374	423,524	575	—	3,796,107
Precious metals vault	488,106	-	43,940	309,337	19,931	31,543	7,532	—	900,389
Bank deposits	613,650	42,914	5,559,697	971,004	275,121	670,239	39,489	—	8,172,114
The Central Bank	—	—	—	—	—	—	—	—	—
Domestic banks	1,931	—	5,329,588	392,639	117,925	19,278	4,170	—	5,865,531
Foreign banks	181,583	42,914	230,109	578,365	157,196	650,961	35,319	—	1,876,447
Participation banks	430,136	—	—	—	—	—	—	—	430,136
Other	—	—	—	—	—	—	—	—	—
Total	**27,182,256**	**81,655**	**21,205,536**	**89,168,558**	**9,301,063**	**7,303,153**	**2,845,489**	**485**	**157,088,195**

	As of 31 December 2015							
	Demand	With 7 days notifications	Up to 1 month	1-3 months	3-6 months	6 months – 1 year	1 year and over	Total
Savings deposits	4,219,828	292	1,342,831	26,878,250	806,474	127,203	187,905	33,562,783
Foreign currency deposits	9,680,582	16,477	7,748,761	30,615,266	4,731,711	4,755,724	2,938,619	60,487,140
Residents in Turkey	8,654,417	8,900	7,710,165	29,872,663	3,009,199	707,224	1,177,571	51,140,139
Residents abroad	1,026,165	7,577	38,596	742,603	1,722,512	4,048,500	1,761,048	9,347,001
Public sector deposits	833,607	—	70	72,690	71	660	77	907,175
Commercial deposits	4,806,847	—	4,143,763	15,441,255	732,772	139,680	638,898	25,903,215
Other institutions deposits	91,538	—	62,089	2,592,019	320,813	402,005	1,190	3,469,654
Precious metals vault	329,584	—	5,828	59,963	26,188	33,296	123,920	578,779
Bank deposits	349,936	8,215	3,102,799	739,430	202,185	662,035	51,719	5,116,319
The Central Bank	—	—	—	—	—	—	—	—
Domestic banks	1,854	—	2,886,157	365,081	—	—	—	3,253,092
Foreign banks	23,581	8,215	216,642	374,349	202,185	662,035	51,719	1,538,726
Participation banks	324,501	—	—	—	—	—	—	324,501
Other	—	—	—	—	—	—	—	—
Total	**20,311,922**	**24,984**	**16,406,141**	**76,398,873**	**6,820,214**	**6,120,603**	**3,942,328**	**130,025,065**

	As of 31 December 2014							
	Demand	With 7 days notifications	Up to 1 month	1-3 months	3-6 months	6 months – 1 year	1 year and over	Total
Savings deposits	3,183,189	19,203	1,472,508	23,308,258	1,124,488	261,856	241,704	29,611,206
Foreign currency deposits	7,115,405	28,095	5,555,497	22,185,813	3,568,019	1,454,480	2,297,646	42,204,955
Residents in Turkey	6,254,086	18,288	5,372,527	20,979,428	1,214,498	648,474	1,158,253	35,645,554
Residents abroad	861,319	9,807	182,970	1,206,385	2,353,521	806,006	1,139,393	6,559,401
Public sector deposits	899,028	—	—	3,076	417	516	1	903,038
Commercial deposits	4,440,843	—	4,182,457	14,150,955	2,814,083	501,598	124,116	26,214,052
Other institutions deposits	92,324	—	970,380	3,557,132	253,563	434,066	5,740	5,313,205
Precious metals vault	499,354	—	1,473	91,739	29,870	49,681	168,249	840,366
Bank deposits	406,111	12,744	999,163	592,191	30,098	465,868	37,634	2,543,809
The Central Bank	2	—	—	—	—	—	—	—
Domestic banks	2,981	—	878,853	445,203	—	12,715	6,333	1,346,085
Foreign banks	121,380	12,744	120,310	146,988	30,098	453,153	31,301	915,974
Participation banks	281,748	—	—	—	—	—	—	281,748
Other	—	—	—	—	—	—	—	—
Total	**16,636,254**	**60,042**	**13,181,478**	**63,889,164**	**7,820,538**	**3,168,065**	**2,875,090**	**107,630,631**

The following table sets out the currency basis analysis of the deposits (including interest expense accruals for all deposits) as of the dates indicated:

	As of 31 December		
	2016	2015	2014
		(TL, thousands)	
TL	84,238,259	67,161,726	62,903,994
U.S.$	45,039,420	39,291,394	26,224,060
€	25,360,322	21,610,289	16,402,602
Other	2,450,194	1,961,656	2,099,975
Total	**157,088,195**	**130,025,065**	**107,630,631**

Funds Borrowed

The following table sets out the Group's borrowings as of the dates indicated:

	As of 31 December					
	2016		2015		2014	
	TL	*FC*	*TL*	*FC*	*TL*	*FC*
The Central Bank borrowings	—	418,480	—	—	—	—
From domestic banks and institutions	985,663	1,387,972	730,154	1,247,208	1,408,691	906,936
From foreign banks, institutions and funds	381,767	27,334,892	541,887	22,341,730	662,856	18,438,473
Total	**1,367,430**	**29,141,344**	**1,272,041**	**23,588,938**	**2,071,547**	**19,345,409**

On 21 October 2016, the Bank established a new financing programme which will enable the Bank to issue mortgage covered bonds outside Turkey, up to EUR 1 billion or its equivalent in other currencies or Turkish Lira in various formats and maturities. As of the date of this Prospectus, there have not yet been any covered bonds issued under the programme.

On 4 October 2016, the Bank signed a 367-day syndicated loan agreement with 33 banks from 14 different countries. The loan is comprised of a U.S.$233.5 million tranche and a EUR 817.25 million tranche with a total cost of LIBOR plus 1.10% and EURIBOR plus 1.00%. The new facility replaced the syndicated loan facility that was signed in 30 September 2015, with a roll-over ratio of above 95.53%.

On 4 May 2016, the Bank entered into a dual tranche dual currency syndicated loan facility agreement with a syndicate of 48 banks from 15 countries. The facility is comprised of a U.S.$381 million tranche and a EUR 959.1 million tranche, with a total cost of LIBOR plus 0.85% and EURIBOR plus 0.75%, respectively, and a maturity of one year. This facility replaced the syndicated loan facility that was signed in 30 April 2015, with a roll-over ratio of above 100%.

On 8 March 2016, the Bank issued U.S.$500 million fixed rate resettable Tier 2 notes due 2026. The proceeds of the issuance have qualified for Tier 2 capital treatment and had a 70 basis point positive impact on the Bank's capital adequacy ratio. Interest on the notes will be paid semi-annually with the principal payment due at maturity.

On 30 September 2015, the Bank entered into a term loan facility agreement with a private investor for U.S.$100 million with a margin of 1.65% per annum and a maturity of two years and two weeks.

On 30 September 2015, the Bank entered into a dual tranche dual currency syndicated loan facility agreement with a syndicate of 38 banks from 17 countries. The facility is comprised of a U.S.$295 million tranche and a EUR 810.5 million tranche, with a total cost of LIBOR plus 0.75% and EURIBOR plus 0.75%, respectively, and a maturity of one year. This facility replaced the syndicated loan facility that was signed in September 2014, with a roll-over ratio of above 100%.

On 14 July 2015, the Bank issued U.S.$575.12 million notes under its diversified payment rights ("**DPR**") programme, with maturities between 5 to 12 years. For more information regarding the DPR programme see "*—Marketable Securities Issued*".

On 10 March 2015, the Bank issued U.S.$416 million notes under its DPR programme, with maturities between 5 to 10 years.

On 22 October 2014, the Bank issued U.S.$500 million 5.125% senior notes due 2019. The interest on the notes will be paid semi-annually with the principal payment due at maturity. The Bank tapped the notes on 30 October 2014 for a notional amount of U.S.$50 million.

On 2 October 2014, the Bank issued U.S.$550 million notes under its DPR programme, with a maturity of 20 years.

On 18 December 2013, the Bank entered into a subordinated loan agreement with UniCredit Bank Austria for an amount of U.S.$470 million with a maturity of ten years, repayable at the end of five years, bearing a margin of 6.35%. On 29 January 2015, certain articles of the loan agreement were amended in accordance with Article 8 of the Regulation Regarding Equity of Banks, which is the relevant legislation in force issued by the BRSA. In addition, the interest rate in the credit agreement has been updated to 6.55%.

On 3 December 2013, the Bank issued U.S.$500 million 5.25% senior notes due 2018. The interest on the notes will be paid semi-annually with the principal payment due at maturity.

On 26 July 2013, five new tranches were issued from the DPR securitisation programme and the total proceeds amount to EUR 115 million and U.S.$355 million, with four series having a final maturity of five years and one series with a 13 year final maturity. The transaction was a private placement with the involvement of four commercial banks and one supranational.

On 27 June 2013, the Bank entered into a Loan Agreement with the European Bank for Reconstruction and Development ("**EBRD**") in the amount of EUR100 million to be used by private sector micro, small and medium-size enterprises for the purposes of energy efficiency. The loan will be disbursed in tranches. The Bank utilised the first tranche, in the amount of U.S.$55 million, on 11 July 2013.

On 29 May 2013, the Bank entered into a Framework Loan Agreement with the Council of Europe Development Bank (the "**CEB**") in the amount of EUR 100 million, to be used by private sector micro, small and medium size enterprises. The loan will be disbursed in tranches. For each tranche, the amount, the interest rate (fixed or floating), the currency (EUR or U.S. dollar), the disbursement date, the repayment period, and the parties' accounts for remittance shall be agreed between the CEB and the Bank. The Bank utilised the first tranche, in the amounts of EUR 30 million and U.S.$26 million, on 17 July 2013.

On 22 January 2013, the Bank issued U.S.$500 million 4.0% senior notes due 2020.

On 6 December 2012, the Bank issued Basel II compliant U.S.$1 billion subordinated notes with a ten year maturity at a 5.5% coupon rate. The proceeds of the issuance have been qualified for Tier 2 capital treatment however is currently subject to grandfathering.

On 28 May 2012, the Board authorised the head office of the Bank regarding the execution of the necessary procedures for the issuance of covered bonds in an aggregate amount of EUR300 million for sale to qualified investors and the filing of the necessary applications with the CMB. Following its application in June 2012, the Bank obtained the CMB's approval for the issuance of covered bonds in an aggregate amount of EUR300 million on 27 July 2012. The first issuance amount on 16 November 2012 was the Turkish Lira equivalent of EUR200 million, with a maturity of the notes of three to five years.

On 24 February 2012, the Bank obtained a U.S.$585 million subordinated loan from UniCredit Bank Austria AG with a ten year maturity (callable after five years). The loan has an all in cost of three month LIBOR + 8.30%. The subordinated loan replaced the existing loan that was received from UniCredit Bank Austria AG in the amount of EUR450 million, maturing on 28 September 2012. With written approval of the BRSA dated 20 February 2012, this loan was approved as subordinated loan and can be taken into consideration as supplementary capital when calculating the Bank's capital adequacy ratios. On 9 January 2013, the Bank repaid this loan in full and replaced it with a further U.S.$585 million subordinated loan from UniCredit Bank Austria AG with a ten year maturity (callable after five years) subject to a fixed interest rate of 5.5%. On 29 January 2015, relevant articles of the loan agreement were amended in accordance with Article 8 of the BRSA's Regulation Regarding Equity of Banks. In addition, the interest rate in the credit agreement has been updated to 5.70%.

On 8 February 2012, the Bank issued U.S.$500 million 6.75% notes due 2017. The interest on the notes will be paid semi-annually with the principal payment due at maturity.

In November 2011, the Bank drew down a EUR 50 million equivalent tranche (borrowed in U.S. dollars) under its EUR 200 million Climate Change Facility signed with the European Investment Bank (the "**EIB**") on December 2010, with a maturity of 15 years (with a five-year grace period), to support renewable energy and energy efficiency projects. This tranche will mature on 3 November 2026.

On 22 September 2011, the SPC issued another EUR 75 million notes for the benefit of the Bank through Series 2011 E Notes under the same DPR programme. The notes were privately placed with a supranational institution. The series has a final maturity of 12 years.

In 2008, the Bank borrowed EUR 100 million under a facility with the EIB with a ten-year maturity. In 2009, the Bank borrowed an additional EUR 200 million from EIB with a 12-year maturity and, in August 2010, the Bank borrowed additional EUR 50 million in a second tranche under the same terms.

The following table sets out the maturity structure of the Group's borrowings as of the dates indicated:

	As of 31 December					
	2016		2015		2014	
	TL	*FC*	*TL*	*FC*	*TL*	*FC*
Short term	732,279	2,896,348	772,974	1,204,093	1,394,185	9,627,189
Medium and Long term	635,151	26,244,996	499,067	22,384,845	677,362	9,718,220
Total	**1,367,430**	**29,141,344**	**1,272,041**	**23,588,938**	**2,071,547**	**19,345,409**

The Group has entered into a number of Turkish Lira/Turkish Lira and foreign currency financings with banks and other financial institutions, which have an average maturity of 12 months.

As of 31 December 2016, the Group had outstanding borrowings of TL 30,508,774 thousand.

Marketable Securities Issued

The following table sets out a breakdown of the Group's marketable securities issued as of the dates indicated:

	As of 31 December					
	2016		2015		2014	
	TL	*FC*	*TL*	*FC*	*TL*	*FC*
Bills	1,399,791	86,665	2,106,752	451,305	1,638,373	1,712,209
Asset backed securities		6,564,507	—	6,083,274	—	3,054,498
Bonds	2,591,092	7,438,412	2,093,611	6,437,951	1,648,691	5,302,166
Total	**3,990,883**	**14,089,584**	**4,200,363**	**12,972,530**	**3,287,064**	**10,068,873**

The Bank registered its existing programme for domestic bond issues of up to TL 10 billion in aggregate with the CMB in November 2015, under which bond issues can be undertaken in multiple tranches within a term of one year as of the date of registration. Within this limit, local currency bonds of approximately TL 1,871 million nominal were issued. The Bank's total outstanding local currency bonds are TL 2.21 billion. These bonds can be re-purchased (upon investors' request) and re-sold according to applicable legislation.

The Bank registered its first programme for domestic bond issues of up to TL 3.5 billion in aggregate with the CMB in May 2011, under which bond issues can be undertaken in multiple tranches within a term of one year as of the date of registration. Within the framework of this TL 3.5 billion limit, the Bank issued several tranches of local currency plain and discounted bonds in an aggregate amount of TL 3.08 billion in the domestic capital markets targeted at retail and institutional investors in Turkey. The Bank registered another programme for domestic bond issues of up to TL 2.25 billion in aggregate with the CMB in May 2012, under which bond issues can be undertaken in multiple tranches within a term of one year as of the date of registration. After depletion of the limit, the Bank registered its latest programme in February 2013 with the CMB for domestic bond issuances up to TL 2.4 billion and within the limit year-to-date the Bank issued several tranches of discounted bank bills totalling TL 1.05 billion. Meanwhile another application was made to the CMB in February 2013 for domestic bond issuances of up to TL 1.1 billion in which a TL 0.6 billion limit has been set aside for private placement issuances. These bonds can be re-purchased (upon investors' request) and re-sold according to applicable legislation.

Guarantees and Warranties

The Group enters into certain financial instruments with off balance sheet risk in the normal course of business in order to meet the needs of its customers. These instruments, which include letters of guarantee, bank acceptances, import letters of acceptance and other commitments and liabilities, involve varying degrees of credit risk and are not reflected in the balance sheet. As of 31 December 2016, the Group had issued letters of credit amounting to TL 9,193,170 thousand (U.S.$2,612,290 thousand), letters of guarantee amounting to TL 52,792,231 thousand (U.S.$15,001,202 thousand) and bank acceptances amounting to TL 195,766 thousand (U.S.$55,628 thousand), compared to TL 8,043,863 thousand, letters of guarantee amounting to TL 45,171,002 thousand and bank acceptances amounting to TL 173,524 thousand as of 31 December 2015 and TL 7,859,833 thousand, TL 37,995,212 thousand and TL 126,982 thousand as of 31 December 2014. Maximum exposure to credit losses for letters of guarantee, bank acceptances and letters of credit is represented by the contractual amount of these transactions. Since many of the guarantees and warrantees are expected to expire without being drawn upon, the total amount does not necessarily represent future cash requirements. The ratio of non cash commitments to cash loans was 38.79% as of 31 December 2016, compared to 37.80% as of 31 December 2015 and 38.45% as of 31 December 2014.

The following table sets out certain details on guarantees and warrantees on a consolidated basis as of the dates indicated:

	As of 31 December		
	2016	2015	2014
		(TL, thousands)	
Letters of guarantee	52,792,231	45,171,002	37,995,212
Bank acceptances	195,766	173,524	126,982
Letters of credit	9,193,170	8,043,863	7,859,833
Prefinancing given as guarantee	—	—	—
Endorsement	—	—	—
Other guarantees	1,994,971	1,463,975	858,796
Other warrantees	4,278,346	2,791,832	1,916,016
Total guarantees and warrantees	**68,454,484**	**57,644,196**	**48,756,839**

As of 31 December 2016, the volume of letters of guarantee amounted to TL 52,792,231 thousand (U.S.$15,001,202 thousand), compared to TL 45,171,002 thousand as of 31 December 2015 and TL 37,995,212 thousand as of 31 December 2014. The overall increase was mainly driven by increasing non cash loan activities and by growth in business sectors as a result of the recovering economic environment.

As of 31 December 2016, the volume of letters of credit amounted to TL 9,193,170 thousand (U.S.$2,612,290 thousand), compared to TL 8,043,863 thousand as of 31 December 2015 and TL 7,859,833 thousand as of 31 December 2014.

Contractual Obligations

In the course of its business, the Group enters into various contractual arrangements that require it to make payments of various amounts over time. As a result of the relative short maturity of deposits in Turkey generally, the Group uses these types of financings to extend the maturity of its funding sources.

As of 31 December 2016, the Group had outstanding syndicated loans of TL 7,586,106 thousand compared to TL 108,290 thousand as of 31 December 2015 and TL 6,086,052 thousand as of 31 December 2014. In addition, the Group had subordinated debt amounting to TL 9,067,893 thousand as of 31 December 2016, compared to TL 6,635,191 thousand as of 31 December 2015 and TL 6,770,549 thousand as of 31 December 2014.

Capital Adequacy

Banks in Turkey are required to comply with capital adequacy guidelines promulgated by the BRSA, which are based upon the standards established by the Bank of International Settlements ("**BIS**"). These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance sheet exposures.

A bank's capital adequacy ratio is calculated by taking the aggregate of its Tier 1 capital (which comprises paid in capital, retained earnings and profit (or loss, if any) for the current periods) and its Tier 2 capital (which comprises general and subordinated loans obtained) *minus* deductions (which comprise participations to financial institutions, negative differences between fair and book values of subsidiaries and goodwill), and dividing the result by risk-weighted assets, which reflect both credit risk, market risk and operational risk. In accordance with these guidelines, banks must maintain a total capital adequacy ratio of a minimum of 8%. By taking into account banks' internal systems, assets and financial structure, the BRSA is authorised to (i) increase the minimum capital adequacy ratio, (ii) set different ratios for each bank, and (iii) revise the risk weighting of assets that are based upon participation accounts. If a bank's capital adequacy ratio is below the ratio set by the BRSA, certain restrictions are imposed.

The following table sets out information on the Group's consolidated capital and its capital adequacy ratios as of 31 December 2016, 2015 and 2014, all computed based upon BRSA guidelines under Basel I.

	As of 31 December		
	2016	2015	2014
		(TL, thousands)	
Paid in Capital	4,347,051	4,347,051	4,347,051
Legal Reserves	14,539,224	12,357,721	10,807,976
Profit	4,572,749	3,503,693	3,439,976
Net Current Period Profit	2,932,795	1,908,683	2,056,015
Prior Period Profit	1,639,954	1,595,010	1,383,961
Tier 1 Capital (I)	23,388,409	20,625,944	18,838,656
Tier 2 Capital (II)	9,315,485	7,724,499	7,048,270
Deductions (III)	2,663,386	448,257	328,562
Own Funds (I+II III)	32,484,365	27,902,186	25,558,364
Risk Weighted Assets (including market risk)	246,436,668	216,058,893	178,008,250
***Capital Ratios (%)*:**			
Tier 1 Capital/Risk Weighted Assets	9.49	9.55	10.58
Own Funds/Risk Weighted Assets	13.18	12.91	14.36

The Bank and its individually regulated operations were in compliance with all the above mentioned capital adequacy requirements throughout the above indicated periods.

The Basel II standard approach came into force as the primary standard in Turkey on 28 June 2012, following a one year period during which it ran in parallel with Basel I, which remained the primary standard. Accordingly, the Bank implemented Basel II starting from 1 July 2012. The Group's capital adequacy ratio under Basel II was 13.18% as of 31 December 2016, compared to 12.91% as of 31 December 2015 and 14.36% as of 31 December 2014. The Bank-only capital adequacy ratio was 14.21% as of 31 December 2016, compared to 13.81% as of 31 December 2015.

In 2013, the BRSA announced its intention to adopt the Basel III requirements and, as published in the Official Gazette dated 5 September 2013 and numbered 28756, adopted the Equity Regulation and amendments to the Regulation on the Measurement and Evaluation of Capital Adequacy of Banks, both of which entered into effect on 1 January 2014. In addition to these new regulations: (i) Regulation on the Capital Conservation and Countercyclical Capital Buffer, which regulates the procedures and principles regarding the calculation of additional core capital amount, was published in the Official Gazette dated 5 November 2013 and numbered 28812; (ii) the Regulation on the Measurement and Evaluation of Leverage Ratios of Banks, through which regulation the BRSA would seek to constrain leverage in the banking system and maintenance of adequate equity on a consolidated and non-consolidated basis against leverage risks (including measurement error in the risk-based capital measurement approach), was published in the Official Gazette dated 5 November 2013 and numbered 28812; and (iii) in order to ensure that a bank maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day period, the BRSA has published a regulation on a liquidity coverage ratio. The above rules are effective in Turkey from the beginning of 2014. As a result, as of the date of this Prospectus, Turkish banks are subject to Basel III capital adequacy requirements regarding regulatory capital, liquidity adequacy, leverage ratio and counterparty credit risk measurements. On 6 August 2014, the BRSA announced that a number of draft regulations, including a guide for stress tests on liquidity and regulation on the calculation of internal capital adequacy, presented for public opinion as part of BRSA's efforts of promulgating Basel III requirements by April 2014, had been finalised and announced in the Official Gazette. On 6 September 2014, an amendment to the Equity Regulation, the draft of which was presented for public opinion by June 2014, was published in the Official Gazette and entered into force. This amendment introduced certain changes as to BRSA's authority to write off Tier 1 and Tier 2 debt instruments. In addition to this amendment, on 6 September 2014, an amendment to the Capital Adequacy Regulation was published in the Official Gazette as well as regulations as to calculation of capital adequacy as part of BRSA's efforts to adopt Basel III requirements.

On 23 October 2015, the BRSA published certain amendments to the Equity Regulation and the Regulation regarding the Internal Systems and Internal Capital Adequacy Assessment Process of Banks and the 2016 Capital Adequacy Regulation, all of which entered into force on 31 March 2016. On 20 January 2016, the BRSA also introduced certain amendments to existing regulations with a view to continuing its efforts to adopt Basel III requirements. These amendments entered into force on 31 March 2016, except for the

amendments relating to internal systems and internal capital adequacy ratios which entered into force on 20 January 2016. The amendments relate to equity requirements, liquidity coverage ratios, internal systems and internal capital adequacy ratios, capital adequacy requirements, risk assessment models and calculation of market risk, credit risk calculations, credit risk mitigation methods, risk management disclosures and financial statement disclosures. Lastly, on 22 June 2016, the BRSA introduced an amendment to the Equity Regulation to change the items taken into account in equity calculation with an enforcement date of 1 January 2017, and also published a draft Communiqué on Principles for Debt Instruments to be Included in Equity Calculations by Banks to introduce certain rules in relation to conversion and write-down of debt instruments to be included in additional Tier I or Tier II capital. See "*Risk Factors—International guidelines for banking regulation and implementation in Turkey are subject to ongoing changes*" above and "*Turkish Regulatory Environment—Capital Adequacy*" in the Base Prospectus. The BRSA Decision on the Countercyclical Capital Buffer amended the countercyclical capital buffer for Turkish bank's exposures in Turkey. See "*Risks Related to the Turkish Banking Industry—The profitability and profitability growth of Turkish banks, including the Group, in recent periods may not be sustainable as a result of regulatory, competitive and other factors impacting the Turkish banking sector*".

On 23 February 2016, the BRSA issued the D-SIBs Regulation introducing a methodology for assessing the degree to which banks are systemically important in the domestic market. The contemplated methodology requires the identification of the Turkish D-SIBs under four different categories based on their 2014 year-end consolidated financial statements, and requires the banks falling within these categories to hold 1 to 3% of additional core capital (*ilave çekirdek sermaye*) of their total risk-weighted assets. This additional core capital requirement that came into effect on 31 March 2016, subject to a transition period as set out below.

Groups	D-SIBs Buffer Ratios (%)			
	2016	2017	2018	from 1 January 2019
4th group (empty)	0.75	1.5	2.25	3
3rd group	0.5	1	1.5	2
2nd group	0.375	0.75	1.125	1.5
1st group	0.25	0.5	0.75	1

As of the date of this Prospectus, and effective from 31 March 2016, the Bank has been classified into the second group with respect to D-SIBs buffer ratios. See "*Risk Factors—Risks Related to the Turkish Banking Sector —profitability and profitability growth of Turkish banks, including the Group, in recent periods may not be sustainable as a result of regulatory, competitive and other factors impacting the Turkish banking sector*" and "*—Significant Factors Affecting Results of Operations – Turkish Economy*".

Following the attempted coup in July 2016, Moody's placed Turkey's sovereign credit rating, and the ratings of 17 Turkish banks, on review for potential downgrade; S&P downgraded Turkey's sovereign rating from "BB+" to "BB", and did the same for the credit ratings of five Turkish banks; and Fitch changed Turkey's sovereign rating outlook from "stable" to "negative." Moody's then downgraded Turkey's sovereign rating from "Baa3 to Ba1" in September 2016. On 4 November 2016, although S&P affirmed the country's long-term foreign credit rating at BB, it upgraded its outlook for Turkey's sovereign credit rating to "stable" from "negative", which was then cut back to "negative" on 27 January 2016. On the same day, Fitch downgraded Turkey's sovereign rating from 'BBB-' to 'BB+' with a stable outlook. With this downgrade, Turkey now has below investment grade from the "big three" rating agencies. Although the banking sector as a whole still meets the recommended level of capital adequacy ratio (12%) set by the BRSA, the Turkish banking sector's capital adequacy ratio is likely to decline by 110 to 120bps on average after Fitch's rating decision. Potential capital erosion could be even larger for the banking industry were the Turkish Lira to face further depreciation pressures and Turkish Lira bonds were to suffer a significant sell-off. Management currently estimates that a 10% Turkish Lira depreciation would result in an average of 40 to 45bps CET1 and capital adequacy ratio erosion for Turkey's largest banks. Overall, management expects that Turkey's downgrade to below investment grade bond status may have medium-term negative implications on key macroeconomic balances.

Critical Accounting Policies

The Group's accounting policies used in the preparation of financial statements in accordance with the BRSA are integral to understanding the results of operations and financial condition presented in the Annual BRSA Financial Statements and the notes thereto. The Group's significant accounting policies are described in Section three of the Annual BRSA Financial Statements. The preparation of these financial statements

requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the year. On an on-going basis, management evaluates its estimates and judgments, including those related to allowance for losses, investments, income taxes, financing operations and contingencies, litigation and arbitration. Management bases its estimates and judgment upon historical experience and various other factors that it considers to be reasonable under the circumstances. Actual results may differ from estimates under different assumptions or conditions.

Management believes that the following significant accounting policies require critical judgments or estimates or involve a degree of complexity in application that affects the Group's financial condition and results of operations.

Explanations on interest income and expense

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

Explanations on fee and commission income and expenses

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

Explanations on financial assets

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

Financial assets at fair value through profit or loss

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

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

Derivative financial assets are treated as trading financial assets unless they are designated as hedge instruments. The principles regarding the accounting of derivative financial assets are explained in detail in Section three, Note IV to the Annual BRSA Financial Statements.

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets other than loans and receivables, with fixed maturities and fixed or determinable payments where management has the intent and ability to hold the financial assets to maturity and that are not initially classified as financial assets at fair value through

profit/loss or available for sale. Held-to-maturity financial assets are initially recognised at total of acquisition and transaction cost. Held-to-maturity securities are carried at "**Amortised cost**" using the "**Effective interest method**" after their initial recognition. Interest income related with held-to-maturity securities is recorded in "**Interest income**" and impairment arising from a decrease in cost or revalued amounts is recorded in "Provision for impairment of loans and other receivables" accounts.

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

Loans and receivables

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

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

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

On 22 June 2016, the BRSA published a new regulation on Procedures and Principles for Classification of Loans and Provisions to be Set Aside ("**2016 Provisioning Regulation**") that would replace the 2006 Provisioning Regulation as of 1 January 2017 in order to ensure compliance (by 1 January 2018) with the requirements of IFRS and the Financial Sector Assessment Programme, which is a joint programme by the International Monetary Fund and the World Bank. The 2016 Provisioning Regulation requires banks to adopt IFRS 9 principles (unless an exemption is granted by the BRSA) related to the assessment of credit risk by the end of 2017 and to set aside general provisions in line with such principles. Additionally, on 27 September 2016, the BRSA also published amendments to the regulation on provisions and classification of loans and receivables, which removed the requirements for the consumer loan provisions calculated according to the ratio of consumer loans to total loans and the ratio of non-performing consumer loans to total consumer loans. In 2013, housing loans had been excluded from the calculation of consumer loans by this regulation, and on 27 September 2016, the consumer loan provision rate for credit cards in Group I (Loans of a Standard Nature and Other Receivables) and Group II (Loans and Other Receivables under Close Monitoring) were reduced from 4% and 8% to 1% and 2%, respectively.

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

Available-for-sale financial assets

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

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

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

Explanations on impairment of financial assets

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

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

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

Explanations on obligations related to employee rights

Employee termination benefits

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

Under the Turkish Labour Law, the Group is required to pay a specific amount to the employees who have retired or whose employment is terminated other than for the reasons specified in the Turkish Labour Law. The reserve for employment termination benefits represents the present value of the estimated total liability for the future probable obligation of the Group determined by using certain actuarial assumptions.

Pension rights

The Bank’s personnel are members of the Yapi ve Kredi Bankasi Anonim Şirketi Mensuplari Yardim ve Emekli Sandiği Vakfi (the “**Fund**”) which was established in accordance with the 20th temporary article of the Social Security Law No. 506. The technical financial statements of the Fund are audited in accordance with the Article 38 of the Insurance Supervision Law and the Regulation Regarding the Actuaries” by a registered independent actuary.

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

The article of the Law related to the transfer was cancelled (pursuant to the application by the President on 2 November 2005) by the decision of the Constitutional Court (decision no: E.2005/39, K. 2007/33 dated 22 March 2007) published in the Official Gazette No. 20479 dated 31 March 2007, and the effect of the law article was suspended from the date of the publication of the decision.

The reasoning of the Constitutional Court regarding the abrogation of the corresponding article was published in the Official Gazette dated 15 December 2007, No 26372. With the publication of the reasoning of the decision, the Grand National Assembly of Turkey ("**GNAT**") started to work on new legal arrangements regarding the transfer of the fund members to SSI and the related articles of the "Law Regarding the Changes in Social Insurance and General Health insurance Law and Other Related Laws and Regulations" No 5754 (the "**New Law**") regulating the transfer or the funds were approved by the GNAT on 17 April 2008. The New Law was published in the Official Gazette No. 26870 dated 8 May 2008. With the New Law, the banks' pension funds will be transferred to SSI within three years from the date of publication of the decree and this period can be extended for a maximum of two years with the decision of the Council of Ministers. The transfer period was extended for another two years with the decision of the Council of Ministers No. 2011/1559 published in the Official Gazette dated 9 April 2011. According to the "Amendment of Social Insurance and General Health Insurance Law No. 6283" published in the Official Gazette dated 8 March 2012, Council of Ministers was authorised to increase the two-year extension period mentioned above to four years. According to the decision of the Council of Ministers dated 24 February 2014, the transfer date was initially set at May 2015. However, as of the date of this Prospectus, the transfer has not yet occurred, and no announcement has been made as to the updated transfer date.

A commission is in charge of the calculation of the value of the payment that would need to be made to SSI to settle the obligation using a technical interest rate of 9.8% by law taking into consideration income and expenses by insurance branches of the funds and the excess of salaries and income paid by the funds over the salaries and income to be paid in accordance with the SSI arrangements which should not be less than SSI arrangements, related to the members of the Fund as of the date of the transfer including the members who have left the scheme. The members of the commission are representatives of the SSI, Ministry of Finance, Turkish Treasury, State Planning Organization, BRSA and SDIF. One member from the commission represents the Fund, while another member represents the members of the Fund.

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

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

Defined contribution plans

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

Short term benefits of employee

According to TAS 19, liabilities derived from unused vacation pay defined in "Short term benefits of employee" are accrued in the period in which they are realised and are not discounted.

Explanations on other matters

The Bank decided to cancel the signed agreement to sell its shares of Yapı Kredi B Tipi Yatırım Ortaklığı A.Ş. ("**YKYO**") (previously decided in accordance with the Board of Directors' decision dated 28 September 2012) in accordance with the Board of Directors' decision dated 7 June 2013. With the same decision, the Bank also decided to liquidate YKYO. To begin the liquidation process, the Bank decided to buy the remaining shares of YKYO through a call in accordance with the CMB decree series IV numbered 44. As of

the date of this Prospectus, total shareholding of the Bank in YKYO amounted to 95.36%. With the permission of the CMB, YKYO completed the registration process for liquidation in December 2013 and has been renamed Tasfiye Halinde Yapı Kredi B Tipi Yatırım Ortaklığı A.Ş (“**TYKYO**”).

The TYKYO liquidation application submitted to T.C. Istanbul 33rd Commercial Court of First Instance was reviewed by a court-appointed official expert. According to the conclusion of the court-appointed official expert, TYKYO has no outstanding debt or other outstanding liabilities; hence the remaining assets can be distributed once all legal and financial obligations are met. Accordingly, the Court decided on 17 February 2014 that the one-year waiting period for liquidation can be waived for TYKYO and that its assets can be distributed before December 2014. Following an extraordinary General Assembly meeting of TYKYO held in July 2014, and the subsequent distribution of liquidation dividends, the liquidation of TYKYO was completed on 31 July 2014.

In July 2013, the Group sold 9,581,514,570 shares of Yapı Kredi Sigorta at a notional amount of TL 95,815,145.70, representing 93.94% of its shares for a return of TL 1,789,931,166.

In July 2013, Yapı Kredi Finansal Kiralama A.O. bought 115,574,715 shares of Yapı Kredi Emeklilik A.Ş. at a notional amount of TL 11,557,471.5, representing 19.93% of Yapı Kredi Emeklilik A.Ş. shares for TL 188,107,812.

Critical Accounting Estimates

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. These disclosures supplement the commentary significant accounting policies and financial risk management. Judgments, other than those involving estimations, that have the most significant effect on the amounts recognised in the consolidated financial statements include:

Held-to-maturity financial assets

Management applies judgment in assessing whether financial assets can be categorised as held-to-maturity, which includes assessing in particular the Group’s intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than for certain specific circumstances (for example, selling an insignificant amount close to maturity) it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost. If the entire class of held-to-maturity investments is tainted, the carrying amount would decrease by TL 1,410 thousand in 2013, with a corresponding entry in the fair value reserve in equity.

Finance leases and derecognition of financial assets

Management applies judgment to determine if substantially all of the significant risks and rewards of ownership of financial assets and lease assets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards.

Special purpose entities

Judgment is also required to determine whether the substance of the relationship between the Group and a special purpose entity indicates that the special purpose entity is controlled by the Group.

The key assumptions concerning the future and other key sources of estimating uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of available-for-sale equity investments

The Group reviews its debt securities classified as available-for-sale investments at each statement of financial position, in order to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and receivables.

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment the Group evaluates, among other factors, the volatility in share price and the duration and extent to which the fair value of an investment is less than its cost. In addition, objective evidence of impairment may be deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows. Had all the declines in fair value below cost been considered significant or prolonged, the Group would not suffer any additional loss, being the transfer of the total debt balance in the fair value reserve to profit or loss.

Impairment losses on loans and receivables

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

Fair value of derivatives

Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values. Changing the assumptions not supported by observable market data to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities.

Tax legislation

Turkish tax, currency and customs legislation is subject to varying interpretations as disclosed in Section three, Note XVII to the Annual BRSA Financial Statements for the year ended 31 December 2016.

Pension Fund

The Group determines the present value of funded benefit obligations in accordance with the New Law by using several critical actuarial assumptions, including the discount rate, mortality rate, and medical costs as disclosed in Section three, Note XVI to the Annual BRSA Financial Statements for the year ended 31 December 2016. This approach recognises the obligations of the Group to make payments to the SSI in respect of the benefits which will be transferred to the SSI rather than an obligation to make benefit payments to individuals.

Deferred income tax asset recognition

Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium-term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

Goodwill

Recoverable amount of goodwill was estimated based on value in use calculation as disclosed in Section three, Note XII to the Annual BRSA Financial Statements for the year ended 31 December 2016.

SELECTED STATISTICAL AND OTHER INFORMATION

Except as specifically noted herein, the information presented in this section is derived from the BRSA Financial Statements (and the notes thereto). This section should be read in conjunction with the BRSA Financial Statements incorporated by reference in this Prospectus, as well as with "Presentation of Financial and Other Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

All financial information presented in this Prospectus is presented in accordance with BRSA Principles unless expressed to the contrary.

*Some of the information included in this section of the Prospectus is not extracted from the Bank's audited financial statements and is unaudited. Such information is derived from the Bank's internal accounting and management information systems ("**MIS**") in accordance with the BRSA principles.*

Average Balance Sheet Information and Information on Interest Rates

The following tables set forth the average consolidated balances of the Group's interest earning assets and interest bearing liabilities, the interest generated from such assets and liabilities and average return rate at each date presented. For purposes of the following tables, except as otherwise indicated, the average is calculated on a daily basis for each representative period and is based on consolidated figures derived from the Group's internal accounting and MIS in accordance with BRSA Principles.

	For the year ended 31 December								
	2016			2015			2014		
	Average Balance(1)	Interest	Average Rate (%)	Average Balance(1)	Interest	Average Rate (%)	Average Balance(1)	Interest	Average Rate (%)
				(TL, thousands, except %)					
Assets									
Banks	3,280,236	174,287	10.63	3,501,690	84,579	4.83	3,950,501	122,951	3.11
Loans and receivables	166,341,206	15,684,097	18.86	140,412,549	13,132,800	18.71	113,715,520	9,913,741	8.72
Marketable securities	30,063,442	2,400,058	15.97	27,176,448	2,392,122	17.60	22,277,877	1,861,164	8.35
Liabilities									
Deposits	143,556,630	7,867,050	10.96	118,827,848	6,335,649	10.66	98,056,206	4,773,287	4.87
Money markets	11,734,283	956,350	16.30	11,519,145	946,451	16.43	7,190,019	503,351	7.00
Other funds borrowed	45,311,557	2,035,050	8.98	38,403,383	1,825,496	9.51	31,243,652	1,364,889	4.37

(1) Average balances are calculated based on the beginning and ending balances over the relevant period.

Average Interest Earning Assets, Yields, Margins and Spreads

Marketable Securities Portfolio

The Group's marketable securities portfolio comprises of trading financial assets, held-to-maturity investments and available-for-sale financial assets. Trading securities are acquired or incurred principally for the purpose of selling or repurchasing them in the near term or to form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

As of 31 December 2016, the size of the Group's marketable securities portfolio increased by 4.10% to TL 33,015,829 thousand (U.S.$9,381,629 thousand), from TL 31,715,306 thousand (U.S.$10,907,727 thousand) as of 31 December 2015, which was an increase of 24.67% from TL 25,440,258 thousand as of 31 December 2014. The increases in the year ended 31 December 2016 and 31 December 2015 resulted primarily from the Bank's strategy of maintaining the ratio of security to assets at a relatively stable level. In line with the risk management policies of the Group, 35.10% of the Group's marketable securities portfolio comprised held to maturity investments as of 31 December 2016, compared to 22.41% as of 31 December 2015 and 21.84% as of 31 December 2014.The following table sets out an analysis of the composition of the Group's marketable securities portfolio as of the dates indicated:

	As of 31 December		
	2016	2015	2014
		(TL, thousands)	
Trading financial assets	3,040,830	1,766,293	1,209,792
Available for sale financial assets	18,386,109	22,840,204	18,674,097
Held to maturity investments	11,588,890	7,108,809	5,556,369
Total marketable securities portfolio	**33,015,829**	**31,715,306**	**25,440,258**

The interest rates on the Group's Turkish Lira and foreign currency denominated securities ranged between 9.46% to 9.59% and from 4.31% to 5.46%, respectively, for the year ended 31 December 2016, compared to 9.96% to 10.61% and from 4.41% to 5.81%, respectively, for the year ended 31 December 2015 and 9.81% to 9.98% and from 5.49% to 6.28%, respectively, for the year ended 31 December 2014.

Trading Portfolio

Trading securities include Government bonds and treasury bills that are discounted and coupon securities issued by the Turkish Treasury, as well as open ended mutual funds incorporated in Turkey, derivatives and also equity securities that are either listed or unlisted.

The following table sets out a breakdown of the trading portfolio of the Group as of the dates indicated:

	As of 31 December		
	2016	2015	2014
		(TL, thousands)	
Government debt securities	36,713	66,106	95,151
Share certificates	6,635	8,040	4,037
Derivative financial assets held for trading	2,997,482	1,692,147	1,110,521
Other marketable securities	-	-	83
Total trading financial assets	**3,040,830**	**1,766,293**	**1,209,792**

As of 31 December 2016, the size of the Group's trading financial assets portfolio increased by 72.16% to TL 3,040,830 thousand (U.S.$864,069 thousand) from TL 1,766,293 thousand (U.S.$607,475 thousand) as of 31 December 2015, compared to TL 1,209,792 thousand as of 31 December 2014. The changes between these periods are mainly related to the fluctuations on mark to market valuation of derivative transactions due to the market conditions.

Available-for-Sale Portfolio

Available-for-sale assets are financial assets that are not held for trading purposes, nor intended by the Group to be held-to-maturity. The portfolio of financial assets available-for-sale consists of Government bonds, treasury bills and Eurobonds that are discounted and coupon securities issued by the Turkish Treasury, as well as open ended mutual funds incorporated in Turkey, CLNs, other bonds issued by domestic and foreign financial institutions and also equity securities that are either listed or unlisted.

The following table sets out certain information relating to the portfolio of available-for-sale financial assets of the Group as of the dates indicated:

	As of 31 December		
	2016	2015	2014
		(TL, thousands)	
Debt securities	18,381,399	22,925,060	18,626,742
Quoted on stock exchange(1)	17,566,627	21,794,371	17,095,631
Not quoted(2)	814,772	1,130,689	1,531,111
Share certificates	152,061	300,332	88,925
Quoted on stock exchange	119	112	177
Not quoted	151,942	300,220	88,748
Impairment provision (-)(2)	(243,991)	(410,013)	(114,222)
Other(3)	96,640	24,825	72,652
Total financial assets available for sale	**18,386,109**	**22,840,204**	**18,674,097**

(1) Includes credit linked notes amounting to TL 475,930 thousand (U.S.$135,238 thousand) as of 31 December 2016, TL 476,119 thousand as of 31 December 2015 and TL 986,135 thousand as of 31 December 2014.

(2) The figure includes the negative differences between the cost and the market price of the securities and the impairment provisions, if any.

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

Held-to-Maturity Investments

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Group intends and has the ability to hold to maturity. These include certain debt investments. The Group cannot classify any financial asset as held-to-maturity if it has, during the current financial year or during the two preceding financial years, sold or transferred held-to-maturity investments before maturity.

The held-to-maturity securities portfolio of the Group consists of Government bonds, treasury bills and Eurobonds that are purchased at discount and coupon securities issued by the Turkish Treasury and foreign government bonds.

The following table sets out certain information relating to the Group's portfolio of held-to-maturity investments as of the dates indicated:

	As of 31 December		
	2016	2015	2014
	(TL, thousands)		
Government bonds	10,789,054	6,618,626	5,242,386
Treasury bills	—	—	—
Other debt securities	799,836	490,183	313,983
Total held to maturity investments	**11,588,890**	**7,108,809**	**5,556,369**

As of 31 December 2016, the size of the held to maturity portfolio increased by 63.02% to TL 11,588,890 thousand (U.S.$3,293,047 thousand) from TL 7,108,809 thousand (U.S.$2,444,906 thousand) as of 31 December 2015, which represented an increase of 27.9% from TL 5,556,369 thousand as of 31 December 2014.

Maturities of Securities

The following tables set out the remaining maturities of the Group's securities based upon the original term to maturity (showing lifetime cash flows, which as a result are greater than the balance sheet amounts) as of the dates indicated:

	As of 31 December 2016					
	Demand and up to 3 months	**3 months- 1 year**	**1 year- 5 years**	**Over 5 years**	**Term not specified**	**Total**
	(TL, thousands)					
Trading[(1)] financial assets	956,760	842,677	887,506	347,252	6,635	3,040,830
Available-for-sale financial assets	222,560	718,519	7,745,531	9,592,756	106,743	18,386,109
Held-to-maturity investments	11,601	1,116,243	1,692,743	8,768,303	-	11,588,890

	As of 31 December 2015					
	Demand and up to 3 months	**3 months- 1 year**	**1 year- 5 years**	**Over 5 years**	**Term not specified**	**Total**
	(TL, thousands)					
Trading[(1)] financial assets	641,084	269,439	684,457	163,273	8,040	1,766,293
Available-for-sale financial assets	1,582,369	2,077,094	7,456,311	11,469,412	255,018	22,840,204
Held-to-maturity investments	27,113	206,761	2,204,103	4,670,832	-	7,108,809

	As of 31 December 2014					
	Demand and up to 3 months	**3 months- 1 year**	**1 year- 5 years**	**Over 5 years**	**Term not specified**	**Total**
	(TL, thousands)					
Trading[(1)] financial assets	351,041	479,366	276,271	99,077	4,037	1,209,792
Available-for-sale financial assets	1,062,345	3,345,796	5,292,982	8,929,364	43,610	18,674,097
Held-to-maturity investments	129,404	60,395	1,803,357	3,563,213	-	5,556,369

(1) Including derivative financial assets.

Currency breakdown of marketable securities portfolio

The following table sets out the currencies of the Group's marketable securities portfolio as of the dates indicated:

	As of 31 December 2016					
	U.S.$	Euro	Other	Total Foreign Currency	TL	Total
			(TL, thousands)			
Trading[1] financial assets	294,151	116,621	62	410,834	2,629,996	3,040,830
Available for sale financial assets	2,424,882	700,325	21,317	3,146,524	15,239,585	18,386,109
Held to maturity investments	5,889,209	868,012	2	6,757,223	4,831,667	11,588,890

	As of 31 December 2015					
	U.S.$	Euro	Other	Total Foreign Currency	TL	Total
			(TL, thousands)			
Trading[1] financial assets	178,402	57,051	52	235,505	1,530,788	1,766,293
Available for sale financial assets	3,021,679	723,258	453,553	4,198,490	18,641,714	22,840,204
Held to maturity investments	4,487,057	661,306	—	5,148,363	1,960,446	7,108,809

	As of 31 December 2014					
	U.S.$	Euro	Other	Total Foreign Currency	TL	Total
			(TL, thousands)			
Trading[1] financial assets	141,494	22,159	1,651	165,304	1,044,488	1,209,792
Available for sale financial assets	2,837,533	337,519	177,206	3,352,258	15,321,839	18,674,097
Held to maturity investments	3,130,433	488,213	-	3,618,646	1,937,723	5,556,369

(1) Including derivative financial assets.

Loan Portfolio

Loans and receivables represent the largest component of the Group's assets. As of 31 December 2016, total loans and receivables amounted to TL 178,664,422 thousand (U.S.$50,768,476 thousand), which represented 65.90% of the Group's total assets compared to TL 154,017,989 thousand (U.S.$52,970,831 thousand), which represented 65.46% of the Group's total assets as of 31 December 2015 and TL 126,807,109 thousand (or 65.04% of total assets) as of 31 December 2014. The Group's net loans and receivables increased by 16.0% from 31 December 2015 to 31 December 2016 and increased by 21.46% from 31 December 2014 to 31 December 2015. On an FX adjusted basis, performing loans of the Group grew by 8% in 2016 versus 2015 year-end.

The Bank sold part of its non-performing loan portfolios to various asset management companies for a consideration of TL 52,270 thousand in accordance with the Board of Directors' decisions during the year 2014. The Group conducted no significant sales of NPLs in the year ended 31 December 2015 or in the year ended 31 December 2016.

The Group provides financing for various purposes, the majority of which are corporate loans and loans to SMEs, with maturities of 12 months on average. However, as demand for longer term financing from existing customers and other high quality corporate credits increases, the Group expects the maturity profile of its portfolio to increase further.

Distribution of Loans and Receivables by Sector

As of 31 December 2016, The Group's loan portfolio comprised mainly the following segments: TL company loans (24%), foreign currency company loans (40%), commercial instalment loans (6%), credit cards (13%), general purpose consumer loans (10%) and mortgages (7%). Of the total foreign currency company loans, 64% was project finance loans (with a ytd growth of 13% compared with 2015), 29% was long term investment loans (with a growth of 5%) and 7% was short term loans (with a contraction of 14% ytd).

As part of its ongoing lending strategy, the Group intends to focus on retail segment, higher yielding project finance loans and Turkish Lira mid commercial loans. Lending to individuals through consumer loans (including credit cards) was up by 7.16% to TL 47,056,934 thousand as of 31 December 2016, mainly driven by general purpose consumer loans and credit cards, compared to TL 43,910,736 thousand as of 31 December 2015 and TL 37,381,940 thousand as of 31 December 2014.

The following table sets out the Group's performing retail and corporate loans by category as of the dates indicated in line with the Annual BRSA Financial Statements, including watch list customers:

	As of 31 December		
	2016	2015	2014
		(TL, thousands)	
Individual loans			
Housing	12,586,075	12,287,991	10,960,871
Credit cards	15,978,998	14,585,370	13,553,227
Auto	361,221	441,473	716,343
Other	18,130,640	16,595,902	11,369,054
Total individual loans	**47,056,934**	**43,910,736**	**36,599,495**
Loans to companies (including SMEs)	129,428,903	108,578,359	88,934,572
Total loans to companies	**129,428,903**	**108,578,359**	**88,934,572**
Total	**176,485,837**	**152,489,095**	**125,534,067**

The Bank expects that its primary growth opportunities in its retail segment will be in general purpose loans and mortgages to individuals as well as SMEs, which are presently underpenetrated markets in Turkey compared to Western Europe and U.S. markets. The credit card market is also expected to continue to be a focus area for the Bank, although with lower growth as it is a well-developed and relatively more penetrated market.

Composition by Maturity and Interest Rate

The following table sets out certain information relating to the maturity profile of the Group's loan portfolio (including NPLs) based upon the original term to maturity (showing lifetime cash flows, which as a result are greater than the balance sheet amounts) as of the dates indicated:

	As of 31 December		
	2016	2015	2014
		(TL, thousands)	
Unclassified	2,178,585	1,528,895	1,273,042
Up to 3 months	48,626,856	37,803,944	32,385,039
3 months to 1 year	40,082,186	39,655,792	26,926,042
1 year to 5 years	47,069,950	43,066,594	39,570,094
Over 5 years	40,706,845	31,962,765	26,652,892
Total loans	**178,664,422**	**154,017,989**	**126,807,109**

Composition of Loan Portfolio by Currency

As of 31 December 2016, foreign currency denominated loans amounted to TL 76,403,968 thousand (U.S.$21,710,607 thousand), or 42.76% of total loans (of which U.S. dollar obligations were the most significant portion), compared to TL 54,864,716 thousand (U.S.$18,869,417 thousand) as of 31 December 2015 and TL 47,197,433 thousand as of 31 December 2014.

The following table sets out an analysis of the composition of the Group's cash loan portfolio by currency as of the dates indicated:

	As of 31 December		
	2016	2015	2014
		(TL, thousands)	
TL	102,260,454	93,990,196	79,609,676
U.S.$	43,075,738	39,079,605	32,770,407
Euro	32,030,525	20,007,791	13,253,753
Other	1,297,705	940,397	1,173,273
Total	**178,664,422**	**154,017,989**	**126,807,109**

Foreign currency loans include FX indexed loans amounting to TL 5,733,763 thousand as of 31 December 2016, which have been disclosed as Turkish Lira denominated loans in the BRSA Financial Statements (TL 5,163,077 thousand as at 31 December 2015).

Comparison by Loan Classification and Allowances

The following tables set out a comparison of the Group's loan portfolio by loan classification and allowances as of the dates indicated:

	As of 31 December 2016					
	Corporate, commercial and other loans	Consumer loans	Credit Cards	Financial leasing	Factoring	Total
			(TL, thousands)			
Standard loans	118,792,011	29,912,146	21,780,057	7,966,725	2,709,393	181,160,332
Watch list	4,369,279	1,165,790	466,554	279,550	174,064	6,455,237
Loans under legal follow-up	5,018,769	2,181,464	1,648,934	335,655	141,420	9,326,242
Specific provisions (-)	(3,472,056)	(1,805,842)	(1,392,684)	(277,444)	(130,598)	(7,078,624)
Total	**124,708,003**	**31,453,558**	**22,502,861**	**8,304,486**	**2,894,279**	**189,863,187**

	As of 31 December 2015					
	Corporate, commercial and other loans	Consumer loans	Credit Cards	Financial leasing	Factoring	Total
			(TL, thousands)			
Standard loans	100,194,821	28,127,331	19,312,167	6,644,822	2,143,844	156,422,985
Watch list	3,048,392	1,198,035	608,349	180,017	89,924	5,124,717
Loans under legal follow-up	3,605,834	1,527,753	1,059,720	279,521	130,318	6,603,146
Specific provisions (-)	(2,668,475)	(1,174,379)	(821,559)	(242,099)	(104,962)	(5,011,474)
Total	**104,180,572**	**29,678,740**	**20,158,677**	**6,862,261**	**2,259,124**	**163,139,374**

	As of 31 December 2014					
	Corporate, commercial and other loans	Consumer loans	Credit Cards	Financial leasing	Factoring	Total
			(TL, thousands)			
Standard loans	81,665,253	22,640,608	17,104,012	4,751,537	2,686,888	128,848,298
Watch list	2,285,600	1,188,105	650,489	199,487	70, 543	4,394,224
Loans under legal follow-up	2,704,502	1,062,029	612,792	264,424	78,294	4,722,041
Specific provisions (-)	(1,961,533)	(762,778)	(381,970)	(210,198)	(67,492)	(3,383,971)
Total	**84,693,822**	**24,127,964**	**17,985,323**	**5,005,250**	**2,768,233**	**134,580,592**

Fair value of collateral

Collateral mainly comprises the following: cash funds, deposits, mortgages of real estate at the land registry and mortgages of real estate built on allocated land, export documents, guarantees, and acceptances and pledges on vehicles. The following tables show the fair value of collateral under the Group's watch listed and loans under legal follow-up as of the dates indicated:

	As of 31 December 2016					
	Corporate, commercial and other loans	**Consumer loans**	**Credit Cards**	**Financial leasing**	**Factoring**	**Total**
			(TL, thousands)			
Watch list	8,309,903	998,699	—	279,550	—	9,588,152
Loans under legal follow-up[(1)]	1,173,649	100,758	—	335,655	—	1,610,062
Total	**9,483,552**	**1,099,457**	—	**615,205**	—	**11,198,214**

	As of 31 December 2015					
	Corporate, commercial and other loans	**Consumer loans**	**Credit Cards**	**Financial leasing**	**Factoring**	**Total**
			(TL, thousands)			
Watch list	1,043,065	539,021	—	69,011	—	1,651,097
Loans under legal follow-up[(1)]	543,935	59,821	—	40,153	—	643,909
Total	**1,587,000**	**598,842**	—	**109,164**	—	**2,295,006**

	As of 31 December 2014					
	Corporate, commercial and other loans	**Consumer loans**	**Credit Cards**	**Financial leasing**	**Factoring**	**Total**
			(TL, thousands)			
Watch list	405,922	768,941	—	91,619	—	1,266,482
Loans under legal follow-up[(1)]	386,126	49,413	—	43,805	—	479,344
Total	**792,048**	**818,354**	—	**135,424**	—	**1,745,826**

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

Credit classification and provisioning policy

A description of the Group's risk management policies is set out in "*Risk Management*".

The Group uses an internal rating model for the evaluation of credit risk management of its corporate and commercial clients, classifying them on a scale of 17 grades. The following table shows the Bank's rating tool concentration by risk classes as of the dates indicated:

		Concentration level (%)		
		As of 31 December		
	Rating Class[(1)]	**2016**	**2015**	**2014**
Above average	1 - 4	45.2	47.5	44.7
Average	5+ - 6	44.3	44.0	47.1
Below average	7+- 9	10.6	8.6	8.2

(1) For corporate and commercial clients only.

Scoring models are also used throughout the granting and monitoring/collection processes for consumer loans and the credit card segment. These models are developed and updated in accordance with changes in customer behaviour. A new application scorecard has also been developed to evaluate SME clients. The model categorises clients into 23 rating classes.

In the year ended 31 December 2014, the Group sold NPL portfolios with an aggregate principal amount of TL 461,821 thousand. The Group conducted no significant sales of NPLs in the years ended 31 December 2016 and 2015.

Sources of Funding

As of 31 December 2016, the Group's major sources of funds for its lending and investment activities were deposits, which accounted for 70.14% of total funding and, to a lesser extent, funds borrowed, which accounted for 17.67% of total funding, and marketable securities issued (net), which accounted for 8.07% of total funding, compared to 67.4%, 16.3%, 8.9%, respectively as of 31 December 2015, and 68.14%, 17.85% and 8.46%, respectively, as of 31 December 2014. The following table sets out the Group's sources of funding as of the dates indicated:

	As of 31 December					
	2016	**%**	**2015**	**%**	**2014**	**%**
	(TL, thousands, except %)					
Deposits	157,088,195	70.14	130,025,065	67.4	107,630,631	68.1
Funds borrowed	39,576,667	17.67	31,496,170	16.3	28,187,505	17.8
Money markets	9,205,029	4.11	14,263,537	7.4	8,774,752	5.6
Marketable securities issued (net)	18,080,467	8.07	17,172,893	8.9	13,355,937	8.5
Total	**223,950,358**	**100.0**	**192,957,665**	**100.0**	**157,948,825**	**100.0**

The availability of such funds is influenced by factors such as prevailing interest rates, market conditions and the existing level of competition.

Deposits

Deposits consist of customer demand and time deposits. Customer current accounts generally bear no interest and can be withdrawn upon demand. For time deposits, different interest rates are paid on the various types of account offered by the Group. Deposits comprise local deposits, foreign currency deposits, savings, and commercial deposits. Deposit growth in 2016 and 2015 was driven by both local and foreign currency deposits. On an FX adjusted basis, deposits of the Group grew by 11% in 2016 versus 2015 year-end.

The following tables set out the maturity structure of the Group's deposits/collected funds (in Turkish Lira, thousands):

	As of 31 December 2016								
	Demand	**With 7 days notifications**	**Up to 1 month**	**1-3 months**	**3-6 months**	**6 months – 1 year**	**1 year and over**	**Cumulative Deposits**	**Total**
Savings deposits	6,145,162	2,534	1,392,165	31,602,890	1,555,624	209,889	174,943	485	41,083,692
Foreign currency deposits	12,804,821	36,207	9,292,694	36,447,490	3,899,045	4,665,206	2,289,801	—	69,435,264
Residents in Turkey	11,421,891	18,796	9,186,288	35,929,631	3,589,035	4,035,721	1,220,512	—	65,401,874
Residents abroad	1,382,930	17,411	106,406	517,859	310,010	629,485	1,069,289	—	4,033,390
Public sector deposits	230,784	-	35	3,797	16	180	59	—	234,871
Commercial deposits	6,795,962	-	4,835,125	17,433,057	2,765,952	1,302,572	333,090	—	33,465,758
Other institutions deposits	103,771	-	81,880	2,400,983	785,374	423,524	575	—	3,796,107
Precious metals vault	488,106	-	43,940	309,337	19,931	31,543	7,532	—	900,389
Bank deposits	613,650	42,914	5,559,697	971,004	275,121	670,239	39,489	—	8,172,114
The CBRT	—	—	—	—	—	—	—	—	—
Domestic banks	1,931	—	5,329,588	392,639	117,925	19,278	4,170	—	5,865,531
Foreign banks	181,583	42,914	230,109	578,365	157,196	650,961	35,319	—	1,876,447
Participation banks	430,136	—	—	—	—	—	—	—	430,136
Other	—	—	—	—	—	—	—	—	—
Total	**27,182,256**	**81,655**	**21,205,536**	**89,168,558**	**9,301,063**	**7,303,153**	**2,845,489**	**485**	**157,088,195**

	As of 31 December 2015							
	Demand	**With 7 days notifications**	**Up to 1 month**	**1-3 months**	**3-6 months**	**6 months – 1 year**	**1 year and over**	**Total**
Savings deposits	4,219,828	292	1,342,831	26,878,250	806,474	127,203	187,905	33,562,783
Foreign currency deposits	9,680,582	16,477	7,748,761	30,615,266	4,731,711	4,755,724	2,938,619	60,487,140
Residents in Turkey	8,654,417	8,900	7,710,165	29,872,663	3,009,199	707,224	1,177,571	51,140,139
Residents abroad	1,026,165	7,577	38,596	742,603	1,722,512	4,048,500	1,761,048	9,347,001
Public sector deposits	833,607	-	70	72,690	71	660	77	907,175
Commercial deposits	4,806,847	-	4,143,763	15,441,255	732,772	139,680	638,898	25,903,215
Other institutions deposits	91,538	-	62,089	2,592,019	320,813	402,005	1,190	3,469,654
Precious metals vault	329,584	-	5,828	59,963	26,188	33,296	123,920	578,779
Bank deposits	349,936	8,215	3,102,799	739,430	202,185	662,035	51,719	5,116,319
The CBRT								
Domestic banks	1,854	-	2,886,157	365,081	-	-	-	3,253,092
Foreign banks	23,581	8,215	216,642	374,349	202,185	662,035	51,719	1,538,726
Participation banks	324,501	-	-	-	-	-	-	324,501
Other	-	-	-	-	-	-	-	-
Total	**20,311,922**	**24,984**	**16,406,141**	**76,398,873**	**6,820,214**	**6,120,603**	**3,942,328**	**130,025,065**

	As of 31 December 2014							
	Demand	**With 7 days notifications**	**Up to 1 month**	**1-3 months**	**3-6 months**	**6 months – 1 year**	**1 year and over**	**Total**
Savings deposits	3,183,189	19,203	1,472,508	23,308,258	1,124,488	261,856	241,704	29,611,206
Foreign currency deposits	7,115,405	28,095	5,555,497	22,185,813	3,568,019	1,454,480	2,297,646	42,204,955
Residents in Turkey	6,254,086	18,288	5,372,527	20,979,428	1,214,498	648,474	1,158,253	35,645,554
Residents abroad	861,319	9,807	182,970	1,206,385	2,353,521	806,006	1,139,393	6,559,401
Public sector deposits	899,028	-		3,076	417	516	1	903,038
Commercial deposits	4,440,843	-	4,182,457	14,150,955	2,814,083	501,598	124,116	26,214,052
Other institutions deposits	92,324	-	970,380	3,557,132	253,563	434,066	5,740	5,313,205
Precious metals vault	499,354	-	1,473	91,739	29,870	49,681	168,249	840,366
Bank deposits	406,111	12,744	999,163	592,191	30,098	465,868	37,634	2,543,809
The CBRT	2	-	-	-	-	-	-	2
Domestic banks	2,981	-	878,853	445,203	-	12,715	6,333	1,346,085
Foreign banks	121,380	12,744	120,310	146,988	30,098	453,153	31,301	915,974
Participation banks	281,748	-	-	-	-	-	-	281,748
Other	-	-	-	-	-	-	-	-
Total	**16,636,254**	**60,042**	**13,181,478**	**63,889,164**	**7,820,538**	**3,168,065**	**2,875,090**	**107,630,631**

As of 31 December 2016, the weighted average interest rate on Turkish Lira denominated time deposit accounts offered by the Group to customers was 10.74%, while the interest rate paid on both euro and U.S. dollar denominated time deposits was 1.55% and 2.87%, respectively.

The following table sets out the currency basis analysis of the deposits/collected funds (including interest expense accruals for all deposits) as of the dates indicated:

	As of 31 December		
	2016	**2015**	**2014**
		(TL, thousands)	
TL	84,238,259	67,161,726	62,903,994
U.S.$	45,039,420	39,291,394	26,224,060
Euro	25,360,322	21,610,289	16,402,602
Other	2,450,194	1,961,656	2,099,975
Total	**157,088,195**	**130,025,065**	**107,630,631**

Other Borrowed Funds

The following table sets out a breakdown of the Group's other borrowed funds as of the dates indicated:

	As of 31 December					
	2016		**2015**		**2014**	
	TL	*FC*	*TL*	*FC*	*TL*	*FC*
Central Bank	—	418,480	—	—	—	—
From domestic banks and institutions	985,663	1,387,972	730,154	1,247,208	1,408,691	906,936
From foreign banks, institutions and funds	381,767	27,334,892	541,887	22,341,730	662,856	18,438,473
Total	**1,367,430**	**29,141,344**	**1,272,041**	**23,588,938**	**2,071,547**	**19,345,409**

The following table sets out the maturity profile of the Group's borrowings over expected cash flows (showing lifetime cash flows, which as a result are greater than the balance sheet amounts) as of the dates indicated:

	As of 31 December					
	2016		2015		2014	
	TL	*FC*	*TL*	*FC*	*TL*	*FC*
Short-term	732,279	2,896,348	772,974	1,204,093	1,394,185	9,627,189
Medium and Long-term	635,151	26,244,996	499,067	22,384,845	677,362	9,718,220
Total	**1,367,430**	**29,141,344**	**1,272,041**	**23,588,938**	**2,071,547**	**19,345,409**

The Group has entered into a number of Turkish Lira/Turkish Lira and foreign currency financings with banks and other financial institutions, which have an average maturity of 12 months.

As of 31 December 2016, the Group had outstanding borrowings of TL 30,508,774 thousand.

Debt Securities in Issue

The following table sets out a breakdown of the Group's debt securities in issue as of the dates indicated:

	As of 31 December					
	2016		2015		2014	
	TL	*FC*	*TL*	*FC*	*TL*	*FC*
Bills	1,399,791	86,665	2,106,752	451,305	1,638,373	1,712,209
Asset backed securities		6,564,507	—	6,083,274	—	3,054,498
Bonds	2,591,092	7,438,412	2,093,611	6,437,951	1,648,691	5,302,166
Total	**3,990,883**	**14,089,584**	**4,200,363**	**12,972,530**	**3,287,064**	**10,068,873**

Derivatives

The Group also enters into interest rate and foreign exchange swap and future contracts, which are agreements to hedge its interest rate and foreign currency exposure risk. The following tables set out certain information on consolidated options, futures and swaps as of the dates indicated, prepared in accordance with BRSA Principles:

	As of 31 December		
	2016	2015	2014
Types of derivative transactions			
Foreign currency related derivative transactions	**137,959,963**	**114,959,640**	**95,117,720**
FC trading forward transactions	15,273,549	9,676,902	7,119,997
Trading swap transactions	**105,096,276**	**91,851,905**	**78,505,376**
Futures transactions	—	—	—
Trading option transactions	17,590,138	13,430,833	9,492,347
Interest related derivative transactions	**49,251,952**	**36,127,848**	**23,052,540**
Forward interest transactions	—	—	—
Interest rate swaps	47,580,058	34,250,180	15,959,242
Interest rate options	1,671,894	1,877,668	7,093,298
Interest rate futures		—	—
Other trading derivative transactions	**18,267,410**	**15,142,751**	**9,343,196**
Total trading derivative transactions	**205,479,325**	**166,230,239**	**127,513,456**
Types of hedging derivative transactions			
Transactions for fair value hedge	2,658,411	1,612,361	1,180,422
Cash flow hedges	50,014,021	57,114,076	40,767,075
Transactions for foreign net investment hedge	—	—	—
Total hedging related derivatives	**52,672,432**	**58,726,437**	**41,947,497**
Total derivative transactions	**258,151,757**	**224,956,676**	**169,460,953**

BUSINESS OF THE BANK

Overview

Yapı ve Kredi Bankası A.Ş. is a full service bank with its headquarters in Istanbul, Turkey. It was established on 7 July 1944 and is incorporated with limited liability under the Turkish Commercial Code, the Banking Law and the Capital Markets Law for a period of 100 years.

According to BRSA statistics, as of 31 December 2016, the Bank was the fourth largest private bank in Turkey by total assets and ranked third among private banks in total cash loans (loans other than letters of guarantee, letters of credit and acceptances) with a 10.2% market share (compared with a market share of 10.3% as of 31 December 2015 and 10.2% as of 31 December 2014), and fourth among private banks in total deposits with a 10.6% market share (compared with a market share of 10.2% as of December 2015 and 10.0% as of 31 December 2014). As of 31 December 2016, the Bank had 936 branches covering all regions of Turkey (including one branch in Bahrain) and served 12.9 million customers in Turkey. It maintains market leading positions in key segments and products supported by its strong franchise, large network and leading brand. The Group is organised into three segments; retail banking, corporate and commercial banking, and private banking and wealth management. The Bank's service model is supported by its domestic and international subsidiaries. The Bank's shares are listed on the Borsa Istanbul and its global depositary receipts are listed on the London Stock Exchange.

As of 31 December 2016, the Bank held leading market positions in Turkey in credit cards (22.1% market share in credit card outstanding volume according to the BRSA statistics), and leasing (19.9% market share as of 31 December 2016 according to the Turkish Leasing Association). As of 31 December 2016, the Bank was also the leader in factoring (18.0% market share according to the Turkish Factoring Association). As of 31 December 2016, the Bank also had strong positions in mutual funds (ranked second, with a 17.1% market share according to Rasyonet), equity transaction volume (ranked third with 7.3% market share, as of 31 December 2016, according to Borsa Istanbul Data Publications) and non cash loans (ranked first among private banks with a 13.1% market, as of 31 December 2016, share according to the BRSA statistics). In 2014, 2015 and 2016, the Bank implemented its accelerated growth strategy, aimed at strengthening its market position and achieving long-term sustainable profitability. See "*—Accelerated Growth Strategy*".

The Bank has a strong presence in retail banking. As of 31 December 2016, the Group had approximately 12.9 million retail customers (of which approximately 11.2 million belong to the "mass segment", 144 thousand belong to the "affluent segment" and 1.5 million are SME customers) with TL 71.3 billion (U.S.$20.3 billion) of assets in its retail banking segment (including individual banking, SME and card payment systems), amounting to 26% of the Group's total assets. The Bank's retail products and services include mortgages, home equity loans, home improvement loans, general purpose loans, auto loans, FordFinans, individual flexible accounts, product bundles, bill payments, regular payments, rent payments, university payments, safety deposit box, deposits working accounts, health insurance, and property and casualty insurance. The Bank provides its SME customers with a range of banking products and services tailored to the SME market, including commercial instalment loans, revolving loans, flexible commercial accounts, commercial purchasing cards, product bundles, point of sale ("**POS**") and merchant services, agriculture loans, cash management products, commercial credit cards and investment products. Card payment systems include World, World Gold, World Platinum, Opet Worldcard, World Eko, Play, adios, adios Premium, taksitçi, Crystal, Fenerbahçe Worldcard, Koç Ailem Worldcard, World Business, debit cards, World gift card and World loyalty programmes.

In corporate and commercial banking, the Bank is focused on higher yielding mid commercial and project finance loans. The Bank provides a wide range of financial products and services to corporate and commercial customers, which include large Turkish corporates and trade companies. As of 31 December 2016, the Bank had 39 thousand corporate and commercial customers. The Bank's principal products and services include loan guarantees, money transfers, working capital, long term loans, trade finance, payments for enterprises, project finance, direct debit, BANKO™-OHES bulk payment system, payment products, collection products, government payments, import and export financing products

The Bank also conducts treasury operations, covering Turkish Lira and foreign currency fixed income, money market instruments and currency and interest rate swaps and other derivatives, both for its own account and for the account of its customers.

As of 31 December 2016, the Bank had the fifth largest branch network in Turkey according to the Turkish Banking Association with 936 branches spread throughout Turkey, including one branch in Bahrain (representing an 8.7% market share). While the Bank's branch network covers all regions in Turkey, as of 31 December 2016, most of the branches were in the larger cities, with 68% of the Bank's branches being located in the ten largest cities (including Istanbul, Ankara, Izmir, Antalya, Bursa, Konya and Adana). According to BRSA statistics, the Bank's market shares in the ten largest cities in Turkey as of 31 December 2016 in terms of branches was 9.6%, compared with 9.8% for both 31 December 2015 and 31 December 2014.

In addition to its branch network, the Bank offers products and services through a wide array of ADCs including 4,300 ATMs, 96% of which are "advanced" ATMs with cash deposit functionality (the fourth largest ATM network in Turkey with an 8.88% market share according to the Interbank Card Centre), award winning individual and corporate internet banking with 3.3 million customers as of 31 December 2016, a leading position in mobile banking and internet banking with market shares of 12.7% and 16.2%, respectively as of 31 December 2016, as well as four award winning call centres, according to the Turkish Banking Association. See "*Business of the Bank—Distribution—Alternative Channels*". As of 31 December 2016, the Group had 19,419 employees (representing a 9.3% market share), of which 18,366 were employees of the Bank. This compares to 19,345 and 18,534 employees as of 31 December 2015 and 31 December 2014, respectively, of which 18,261 and 17,457 were employees of the Bank. The Group increased its number of employees significantly to support its sales activities. Internationally, the Group carries out business through subsidiaries in the Netherlands, Russia, Azerbaijan, Malta and a branch in Bahrain.

The Group had total assets of TL 271.1 billion (U.S.$77.0 billion) as of 31 December 2016, compared with TL 235.3 billion as of 31 December 2015 and TL 195.0 billion as of 31 December 2014.

According to BRSA consolidated financial statements for the year ended 31 December 2016, the Group had operating income of TL 6,708 million (U.S.$2,223 million), compared to TL 5,186 million for the year ended 31 December 2015 and TL 4,607 million for the year ended 31 December 2014. For the period ended 31 December 2016, the Group's cost to income ratio was 44% (43% excluding a one-off administrative fine from the Ministry of Customs and Trade) and operating cost growth was 5% year-over-year (3% excluding the Customs and Trade fine). For the year ended 31 December 2015, the Group's cost to income ratio was 49%, compared to 47% in 2014. As of 31 December 2016, the Group's costs divided by average assets ratio realised at 2.1% versus 2.3% as of 31 December 2015, compared to 2.3% and 2.5% for private banks as of the same dates, respectively. The Group's fees divided by operating costs ratio stood at 56% in 2016 versus 2015, compared to private banks' flat level of 50%. The overall cost increase in 2014 and 2015 was driven by the first phase of the Group's growth related initiatives that was completed in 2015, including the increase in the headcount to support sales activity and network/ATM expansion. The Group continued the second phase of its growth strategy in 2016 and focused on selected profitable growth areas rather than overall expansion of market share. Maintaining its scale through effective customer acquisition, the Group achieved consistently strong revenue growth (more than 15% growth achieved for eight quarters; *i.e.* between 1 January 2015 and 31 December 2016). Supported by digitalisation, the Group was able to eliminate certain costs and achieve strong profitability acceleration. Accordingly, the Group's net income realised at TL 2,933 million and its return on average tangible shareholders' equity (excluding minority interest) was 12.8% for the period ended 31 December 2016, compared with TL 1,909 million and 9.7% for the year ended 31 December 2015 and TL 2,056 million and 12.0% for the year ended 31 December 2014. As of 2016 year-end, the Group's return on average assets ratio was at 1.1%, compared to 0.8% as of 2015 year-end.

As of 31 December 2016, 31 December 2015 and 31 December 2014, the Bank's capital adequacy ratio was 14.2%, 13.8%, and 15.0%, respectively, on a Bank-only basis. As of 31 December 2016, 31 December 2015 and 31 December 2014, the Bank's common equity tier-1 ratio was 10.6%, 10.3%, and 11.6%, respectively, on a Bank-only basis. On a consolidated basis, the Group's capital adequacy ratios stood at 13.2% and 12.9% as of 31 December 2016 and 31 December 2015, respectively, while common equity Tier-1 ratios were 10.3% and 10.0% as of the same dates.

Key Competitive Advantages

The Group's management believes that the Group has a number of key competitive advantages that enable it to compete effectively in the Turkish banking sector, including:

- **Leading market positions in key segments and products**.

  The Group is the fourth largest privately owned bank in Turkey by assets, with leading market positions in Turkey in credit cards, asset management, brokerage, leasing and factoring.

- **Robust and customer-oriented balance sheet**.

  The Group has total assets that incorporate a high proportion of loans (65% as of 31 December 2016) and a low proportion of securities (12% as of 31 December 2016).

  The Group is focused on improving its loan book mix towards more value generating areas. In this respect the Bank maintains a balanced growth mix among retail and corporate lending with a conservative approach to SMEs.

- **Large network and leading brand**.

  As of 31 December 2016, the Group had 936 branches (including one branch in Bahrain). As of 31 December 2016, the Group had a solid distribution platform, including the fifth largest branch network in Turkey according to the Turkish Banking Association, with a market share of 8.8% (as compared to 8.9% as of both 31 December 2015 and 2014). As of 31 December 2016, the Group had innovative ADCs including 4,300 ATMs, 96% of which are "advanced" ATMs with cash deposit functionality (the fourth largest ATM network in Turkey with an 8.88% market share according to the Interbank Card Center (BKM) (9.0% as of 31 December 2015 and 7.9% as of 31 December 2014)), award winning internet banking with 3.3 million active customers and a 16.2% market share, a leading position in mobile banking with a 12.7% market share according to the Turkish Banking Association as of 31 December 2016, as well as four award winning call centres. The Group's share of ADCs in total banking transactions is 88% as of 31 December 2016.

- **Strong commitment to risk management**.

  The Group has a conservative risk management strategy with solid credit risk infrastructure, underwriting and monitoring systems. The Group avoids speculative open foreign exchange positions and maintains liquidity ratios well above the regulatory levels. As of 31 December 2016, 31 December 2015 and 31 December 2014, the Bank's capital adequacy ratio according to the BRSA statistics was 14.2%, 13.8% and 15.0%, respectively, on a Bank-only basis. As of 31 December 2016, the Group had limited intragroup exposure, at 15.7% of its capital, as compared with the 20% regulatory limit. The Group's loan book is diversified, with its top 20 loans amounting to only 15% of its loan book as of 31 December 2016.

- **Diversified, high quality revenue mix**.

  The Group believes it has a sustainable revenue base, with a high share of fees in total revenues amounting to 24% for the year ended 31 December 2016, and that it has the capacity to effectively manage net interest margin through dynamic pricing. The Group focuses on profitable and value-generating segments including retail banking, and card payment systems, TL company and project finance.

- **Strong and committed shareholders**.

  Support from Koç Holding and UniCredit provides stability and helps to maximise the Bank's growth potential. UniCredit, with roots dating back to 1473, is a leading European financial institution based in Italy with more than 137,000 employees in 17 European countries. The Group benefits from UniCredit's know-how and expertise in risk management, internal audit, financial planning and control as well as from the UniCredit Group's experience in implementing efficiency improvements and cost management. Koç Holding, established in 1926, is the largest conglomerate in Turkey, with

more than 95,000 employees. Koç Holding has with strong positions in the energy, automotive and finance sectors in Turkey as well as in consumer durables both domestically and internationally, enabling potential synergies with the Group. As of 31 December 2015, Koç Holding's sales constituted 7% of Turkey's GDP and its exports constituted 9% of Turkey's exports.

Strategy

As a fully integrated banking and financial services group, the Bank is working towards its goal of becoming a leader in the finance sector. The Bank's mission is to ensure long-term sustainable growth and value creation for all stakeholders and to become the first choice for customers and employees.

Principles

The Bank's strategy is structured around three main principles:

Healthy and consistent growth

- Focus on core banking activities, growth in value generating segments and products, continuous improvement in commercial effectiveness, expansion of market presence and funding diversification to sustain long-term performance. See "*—Accelerated Growth Strategy*".

Strong and sustainable profitability

- Address specific customer needs via segment-based service model, optimise cost to serve to improve competitiveness and maintain effective cost, risk and capital management.

Superior and long-lasting customer satisfaction

- Enhance an easy-to work with approach through continuous investments in technology and delivery channels while maintaining focus on innovation, employee satisfaction and loyalty.

Key strategic objectives

The Bank aims to achieve a sustainable performance through sustained customer-orientation. The Bank expects to continue its strong performance through the following key long-term strategic pillars:

Growth and Commercial Effectiveness

- Value-generating loan growth with a focus on general purpose loans and mortgages in retail lending, together with selective growth in corporate/commercial lending with a focus on higher yielding mid-commercial and project finance.
- Improvements in efficiency and cost containment alongside significant investments as part of the accelerated growth strategy.
- Fee generation and customer penetration through continued focus on retail business and cross-selling.

Funding and Capital

- Emphasis on further strengthening deposit base and diversifying funding sources.
- Effective loan/deposit ratio management.
- Efficient capital utilisation with a focus on targeted growth in value generating segments and capital strengthening actions.

Efficiency and Cost Optimisation

- Disciplined cost approach and lower cost to serve.
- Optimisation of physical presence.

- Multi-channel approach and continuation of investments in growth initiatives with increased development of ADCs as sales channels.

Risk Management

- Dynamic and proactive portfolio management.
- Investments/enhancements to maintain cost of risk through the cycle levels.
- Early collections via capacity increase.
- Continuous enhancements of risks systems, especially in consumer and SME segments.
- Further improvements in quality of new loan generation.

Sustainability

- Customer/employee satisfaction and loyalty.
- Investments in technology and innovation.
- Enhance easy to work with approach.
- Acceleration of customer acquisition, penetration and activation.

History

The Bank in its present form results from the merger of Yapı ve Kredi Bankası A.Ş. and Koçbank in 2006. Yapı ve Kredi Bankası A.Ş. was established on 7 July 1944 as Turkey's first retail focused privately owned bank with a nationwide presence, and management believes it has played a pioneering role in the banking sector. Since its origins, Yapı Kredi has maintained a strong reputation in the banking sector leveraging on its customer-centric approach, dedication to innovation and contribution to the development of the financial sector in Turkey.

The following are a number of notable landmarks in the Bank's history:

- 1940s-1950s: The Bank gained a strong position as Turkey's first retail-focused private bank with a nationwide presence.
- 1960s: Introduced computerisation to the Turkish banking sector and played a pioneering role in developing long term project finance lending.
- 1970s: Led the way in the development of financial and international subsidiaries and became the first bank to be authorised to hold a foreign currency position in Turkey.
- 1980s: Introduced individual loans, credit cards, debit cards, ATMs and online banking systems; laid the foundations for today's corporate banking; established the first Turkish offshore bank in the Middle East and became the first Turkish bank to issue bonds and certificates in the international capital markets.
- 1990s: Initiated the first telephone banking service, introduced an advanced credit card infrastructure with loyalty point awards and instalments and was the first bank in Turkey to receive the ISO 9001 quality certification. In addition, the Bank developed its services infrastructure and modernised its corporate structure, human resources, education systems and market strategies to better suit the requirements of an increasingly technology driven environment.
- 2000s: Successfully completed its merger with Koçbank in October 2006, the largest merger in the Turkish banking sector, creating a strong retail franchise.
- 2014: Started a growth project to strengthen its market position through investments aimed at enhancing commercial effectiveness including an increase in headcount, ATMs and branches. In order to reach its objective, the Bank increased headcount by 1,850, opened 60 new branches and 606 new

ATMs, introduced branchless service models, enhanced internet banking and undertook other projects to improve commercial effectiveness.

- 2015: Growth oriented investment strategy continued with the bulk of the investments completed. In the context of this strategy, the Bank increased its headcount by 811 people and opened 17 new branches and 584 new ATMs during 2015.
- 2016: With the investment phase completed in 2015, the harvest phase of the growth strategy began in 2016, with a focus on strong growth in profitability, ROE improvement and shareholders' equity. The Bank recorded profitability acceleration driven by its core business in 2016. The Bank's focus during the year was on maintaining scale with continuing remix, strong revenue generation via ongoing customer acquisition and disciplined cost control, heavily leveraging digitalisation as well as controlled asset quality.
- 2017: The Bank expects profitability to continue to improve, driven by a core banking focus and strict cost discipline, while heavily leveraging digitalisation. The Bank aims to keep its market positioning stable compared with private banks, with a focus on a value generating mix. In terms of revenues, the Bank will focus on ongoing outperformance supported by sustainable core banking activity, while pursuing with strict cost discipline its process of leveraging heavily on digitalisation and efficiency. Meanwhile, the Bank aims to continue with its conservative and proactive asset quality approach to ensure resilient performance, and to continue its focus on maintaining solid capital and liquidity positions.

Following significant volatility in the Turkish currency and foreign exchange markets in 2001 and the collapse of several institutions, in 2002 the BRSA commenced an audit process that assessed the financial condition of all Turkish banks. Following this audit process, in January 2003 the BRSA, the SDIF and the Çukurova Group, which was then the Bank's largest shareholder, entered into an agreement under which the SDIF took certain protective measures and it was agreed that shares of Yapı ve Kredi Bankası A.Ş. previously owned or controlled by the Çukurova Group (57.4% in aggregate) would be sold within two years.

Koçbank was founded in 1981 as the American Express Bank, based in Istanbul. Koç Holding acquired a 51% stake in the American Express Bank in 1986, renaming it Koç American Bank, and in 1992, the bank became a wholly owned subsidiary of Koç Holding and was renamed Koçbank A.Ş. KFS was established in March 2001 as a management company and all financial services companies owned by Koç Holding, including Koçbank, were united under KFS. In October 2002, Koç Holding and UniCredit signed a joint venture agreement and became joint shareholders in KFS (each with a 50% interest), making KFS the first foreign partnership to be established in the financial sector in Turkey.

Under the management of UniCredit and Koç Holding, Koçbank underwent a significant restructuring process and began a period of organic growth. By 2005, Koçbank had over 170 branches and had developed its own expertise in private banking, asset management and corporate and commercial banking, leasing and factoring companies.

In January 2005, pursuant to its agreement with the BRSA and the SDIF, Çukurova Group sold 57.4% of the Bank's shares to KFS. In April 2006 Koçbank acquired a further 9.9% of the Bank's shares, taking Koçbank's interest in the Bank to 67.3%.

In October 2006, Yapı ve Kredi Bankası A.Ş. was merged with Koçbank, when Koçbank was dissolved and its rights, receivables, obligations and liabilities were transferred to Yapı ve Kredi Bankası A.Ş., with the combined legal entity continuing under the name Yapı ve Kredi Bankası A.Ş. The merger between Koçbank (eighth largest bank) and Yapı Kredi (seventh largest bank) formed the new Yapı Kredi, which became the fourth largest private bank.

Accelerated Growth Strategy

In 2014, the Bank implemented its accelerated growth strategy, aimed at strengthening its market position and achieving long-term sustainable profitability. The Bank's management believes this strategy was an important step in light of regulatory changes and increasing competition, which have impacted the profitability levels of the Turkish banking sector in recent years.

The main pillars behind the growth strategy were to enhance commercial effectiveness capabilities through investments, primarily in headcount, ATMs and branches. In 2014 and 2015, the Bank increased its headcount by 2,661 to 19,345, thereby increasing its market share to 9.1% as of 31 December 2015 (from 7.9% in 2013). At the same time, with the opening of 77 new branches, the total number of branches reached 1,000, leading to an increase in the Bank's market share to 8.9% as of 31 December 2015 (from 8.6% in 2013). As a result, the Bank's branch market share ranking moved up by two notches to third position. Newly opened branches, while generally not immediately profitable, tend to experience an initial period of high growth, which may not be sustainable in the longer term. See "*Management's Discussion and Analyses of Financial Condition and Results of Operations – Significant Factors Affecting Results of Operations – Expansion of Branch Network*".

Additionally, 1,299 new ATMs were deployed, bringing the total network to 4,332 ATMs, which resulted in an increase in market share to 9.0% as of 31 December 2015 (from 7.1% in 2013). In terms of innovation, the Bank introduced a new direct banking model "NUVO", redesigned its customer experience processes, and enhanced its internet banking, among other commercial effectiveness related initiatives.

One of the key achievements of the accelerated growth strategy and a crucial factor in terms of sustainability was the significant acceleration in customer acquisition. In 2015 and 2014, the Bank increased its customer base by around 1.2 million. In 2016, the Bank acquired 730 thousand new customers. The total number of customers reached 12.9 million as of 31 December 2016.

As of the end of 2015, the Group concluded its investment phase and continued with the second phase of its strategy, known as the harvest period. In 2016, the Bank focused on disciplined cost management and revenue generation, while maintaining its position in the sector, reaping the benefits of its investments during the growth period. Accordingly, the Bank recorded 17% revenue growth versus 2015. Cost growth during the year 2016 was significantly below inflation, at 5% year-over-year, supported by a disciplined approach, which delivered better results than the guidance. During the same period, the Bank's return on average tangible shareholders' equity realised at 12.8%, compared to its level of 9.7% in 2015. During the year 2016, loan market share among private banks improved to 16.4%, compared to 16.0%, 15.5% and 14.3%, respectively, as of the end of 2015, 2014 and 2013. Among the total sector, the Bank's loan market share realised at 10.2% as of 2016 year-end, compared with 10.3%, 10.2% and 9.5% as of 2015, 2014 and 2013, respectively. On the deposits side, the Bank was able to increase its deposit market share among private banks to 16.0%, compared with 15.3%, 14.9% and 13.8% as of the end of 2015, 2014 and 2013, respectively. Among the total sector, the Bank's deposit market share realised at 10.6% as of 2016 year-end, compared with 10.2%, 10.0% and 9.1% as of 2015, 2014 and 2013, respectively.

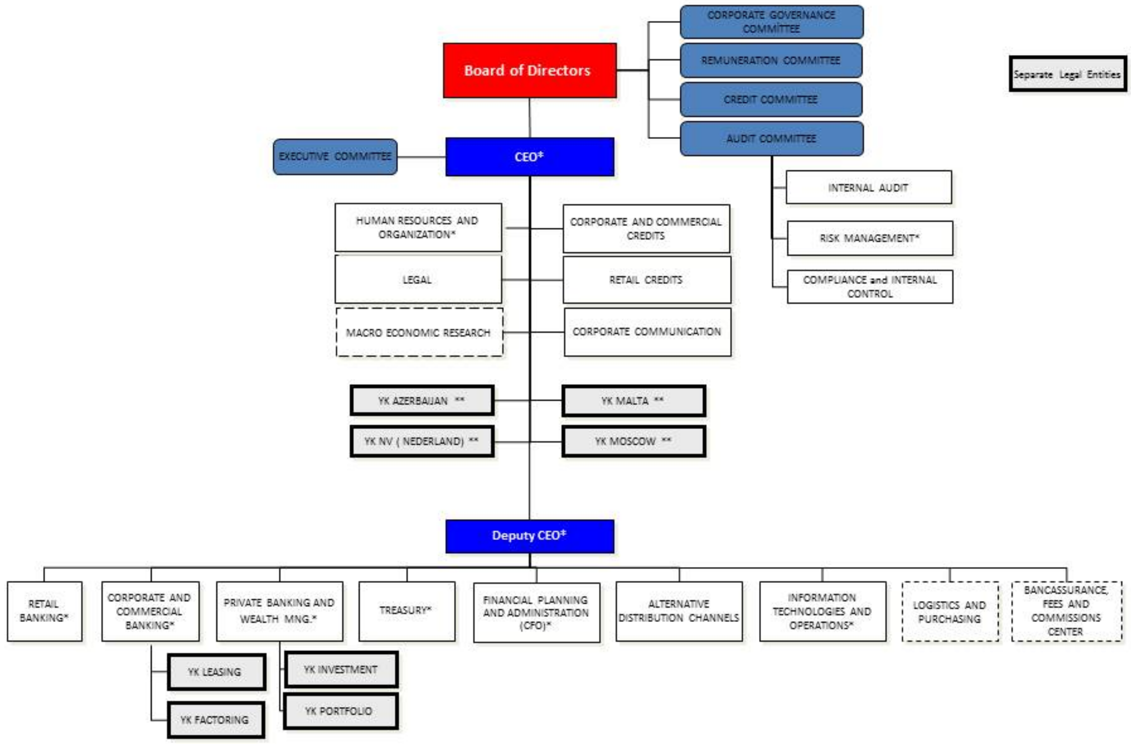
As of 31 December 2016, the Group's Loans / (Deposits + TL Bonds) ratio stood at 110%, compared with 114% as of 31 December 2015.

Overview of Banking Products and Services

The Bank's operations are carried out through three main segments: (1) retail banking, which includes the Bank's individual, card payment systems and SME business segments, (2) private banking and wealth management, and (3) corporate and commercial banking. The Bank's service model is supported by its domestic and international subsidiaries.

Organisational structure

The following chart represents the Bank's organisational structure as of 31 December 2016, including its subsidiaries' structures.



* Executive Committee Permanent Member.

** In YK Moscow, YK Nederland N.V., YK Azerbaijan and YK Malta Corporate and Commercial Banking Assistant General Manager to be Board Member and to be accountable for results to foster synergies.

Retail Banking

Overview

The Bank's retail banking division consists of credit card, individual banking (Mass and Affluent) and SME banking businesses. Yapı Kredi also launched its new Affluent brand "Platinum Banking" in the third quarter of 2014.

As of the date of this Prospectus, retail banking was one of the key growth areas for the Bank, especially in general purpose loans, credit cards, mortgages, asset gathering (deposits and mutual funds) and pension funds. As of 31 December 2016, the Bank's retail banking division served approximately 12.9 million active retail customers, of which approximately 11.2 million were mass customers, 144 thousand were "platinum customers" and 1.5 million were SME customers. These were serviced by 3,927 retail relationship managers, of whom 2,163 focused on SMEs and 1,764 focused on individuals, through 854 retail branches.

In the Turkish retail banking market, as of 31 December 2016, the Bank was the market leader in terms of credit card volume outstanding, number of credit cards and commercial cards volume outstanding. The Bank ranked second in credit card issuing and acquiring turnover. As of 30 September 2016, the Bank was the fifth largest bank in terms of consumer loan volume and the sixth largest bank in terms of deposit volume according to BRSA financials. Income from the Bank's retail banking activities comprises primarily interest income from loans to individuals and SMEs and commission income from loans, credit cards, point of sale business and other banking transactions. As of 31 December 2016, the Group had loans in its consumer

segment (excluding credit cards) of TL 31,077,936 thousand (U.S.$8,830,966 thousand), compared to TL 29,325,366 thousand at 31 December 2015 and TL 23,828,713 thousand at 31 December 2014.

The Bank offers its retail customers a broad range of products and services, including general purpose loans, auto loans, credit, debit and prepaid cards, payment and collection services, deposit and overdraft accounts, asset management products, scrap gold collection, working account, platinum fund, İlk param, cross sell screens, pre-approved loan, packages, ATMs, telephone banking, internet banking and mobile banking and life and non-life insurance products. The Bank introduced some of these products and services to the Turkish banking industry, including consumer loans, credit cards, overdraft accounts, telephone banking, ATMs and POS terminals, and the Bank's management believes that the Bank has been a pioneer in retail banking in Turkey.

Retail Customer Segmentation

Within the retail banking division, the Bank's customers are divided into three segments to facilitate customer management and to allow a clear and focused approach for responding to different groups' behaviours and needs. These three segments are: the mass segment, the platinum segment (for individuals) and the SME segments (for companies).

Individuals are segmented mainly by the value of their assets with the Bank and/or the amount of their monthly salary, while SME customers are segmented according to their annual turnover. Mass customers are customers with total personal financial assets of up to TL 50,000 and/or a monthly salary below TL 6,000. Platinum customers are individual customers with personal financial assets between TL 50,000 and TL 500,000 and/or a monthly salary between TL 6,000 and TL 20,000. SMEs are customers with annual turnover of less than U.S.$10,000,000.

Cards Payment Business

The Bank was the first bank in Turkey to issue credit cards, starting in 1988. Since then, it has been one of Turkey's leading issuers and acquirers of credit cards and this remains an important focus for the Bank.

The Bank has maintained non-exclusive agreements with Visa International since 1981, Visa Europe since 2009 and MasterCard International since 1988.

Yapı Kredi has been the leader in credit cards for the last 28 years with strong brand recognition and a loyal customer base. The Bank's credit card programme, World, is the sixth largest in Europe and 48th largest in the world according to the Nilson Report. According to the Nilson Report in 2016, the Bank's credit card programme, World, is the largest credit card programme in Turkey and in Continental Europe in terms of outstanding volume.

Card Payment Products

As of 31 December 2016, the Bank had approximately 10.5 million credit cards (including virtual cards) issued, representing market shares of 17.8% and 22.1% in Turkey by number of cards, according to the Interbank Card Centre, and by outstanding balance, according to BRSA statistics, respectively. The Bank's outstanding credit card receivables (including commercial cards) amounted to TL 22.2 billion (U.S.$6.32 billion) as of 31 December 2016.

During 2014, the Bank focused on special campaign offers to commercial credit card customers to enhance cash flow management and synergies with SME banking. In terms of issuing volume, the commercial credit cards market grew from TL 77.8 billion (U.S.$26.8 billion) as of 31 December 2014 to TL 97.9 billion (U.S.$33.7 billion) as of 31 December 2015 and further to TL 115.6 billion (U.S.$38.3 billion) as of 31 December 2016. Moreover, in terms of outstanding volume, the commercial credit cards market grew from TL 12.2 billion as of 31 December 2014 to TL 15.9 billion as of 31 December 2015 and further to TL 18.7 billion as of 31 December 2016 (despite BRSA's recent legislations imposing limits on instalments, which came into effect in February 2014). Meanwhile, the Bank maintained its leadership position in terms of commercial card turnover volume with 23% market share and commercial card outstanding volume with 33.5% market share as of 31 December 2016.

Credit card customers are an important source of new business for the Bank, as a credit card is often the first of the Bank's products acquired by a customer. The Bank endeavours to cross sell its credit card customers other products and services utilising advanced marketing techniques, including customer relationship management programmes and database marketing systems with its merchant network to increase sales. As of 31 December 2016, the Bank's credit card division was served by a sales team comprising 240 sales people throughout various regions in Turkey.

The Bank's own credit card brand, Worldcard, was launched in 1991. In 2002, following changes in both card technology and customer preferences, the Bank re-launched the Worldcard brand by allowing the card to be used with merchants in the Bank's merchant network to purchase items on instalment plans and offered a new Worldcard loyalty programme. The Bank offers a wide variety of credit cards, each targeted at a specific range of customers. Listed below are some examples of the Bank's cards payment products and a brief description of their features:

- **Worldcard**

  Worldcard is the Bank's mass credit card with instalment, loyalty point and cash advance options.

- **World Gold Card**

  World Gold card is the second tier card in the World portfolio, offering the same benefits as the Worldcard but considered to be more prestigious. World Gold card provides purchase protection insurance and assistance services to cardholders such as medical consulting, homecare services, and an information line for social activities, restaurants and hotels.

- **World Platinum Card**

  World Platinum card is the most prestigious credit card in the World portfolio. Customers with a minimum monthly income of TL 4,000 can apply for a World Platinum card.

- **adios Card**

  adios card specifically targets customers who travel frequently. adios cardholders are able to redeem their loyalty points at a greater value to cover their travel expenses.

- **adios Premium Card**

  adios Premium card targets the platinum traveller segment with a minimum monthly income of TL 4,000. adios Premium cardholders are able to redeem their loyalty points at a greater value to cover their travel expenses. The card offers travel privileges such as discounts and travel insurance

- **Crystal Card**

  Crystal card is the most prestigious credit card in the Bank's credit card portfolio which is offered to a limited number of distinguished clients. Crystal cards offer several privileges to cardholders ranging from private concierge services to travel privileges, as well as other services such as insurance.

- **Opet Worldcard**

  Opet Worldcard is a co-branded credit card in co-operation with Opet Gas Distribution Company. Opet Worldcard targets customers that have regular fuel consumption. Besides including all the benefits of the Worldcard, customers are rewarded with fuel points that can be only redeemed at Opet Stations.

- **Play Card**

  Play Card specifically targets the youth segment and university students can apply for Play Cards without declaring income. Play Card won the Best New Customer Proposition and The Best of The Best awards in the Visa Europe Member Awards 2009 held among all VISA Europe member banks. Play Card won 3 bronze awards in the Crystal Apple Turkish Advertisement Awards Competition media and digital categories for sponsorship projects.

- **taksitçi Card**

  The taksitçi card enables cardholders to take benefit from repaying in three instalments on purchases of TL 100 or above with merchants who are not members of the Bank's World network, as well as a further three instalments on purchases of TL 100 or above with merchants who are World members.

- **World Eko**

  The World Eko card has no annual card fee. World Eko card holders are able to benefit from instalment, loyalty points and cash advance options.

- **World Business Card**

  The World Business card meets the purchasing and cash advance needs of companies, combined with the World system advantages. Cardholders can gain Worldpoints and make instalment purchases at member merchants.

- **Debit cards (TLcard, Platinum TLcard, Play TLcard, Nuvo TLcard and Business TLcard**

  TLcard is a debit card that can be used for banking transactions, cash withdrawals from ATMs and purchases at Visa or MasterCard merchants all over the world. TLcard collects Worldpoints from purchases at World merchants.

The Bank offers an instalment payment programme on its credit cards in conjunction with certain members of its merchant network, whereby cardholders are able to make instalment payments for their purchases and, provided the instalment payments are paid over the agreed time period, interest will not accrue on the amount of the purchase. The programme is only available where the Bank's cardholders make a purchase through one of the Bank's participating merchants, except where customers have the taksitçi card in which case a limited number of purchases may be made on an instalment basis, in applicable sectors.

The Bank's credit card business operates in accordance with the Bank Cards and Credit Cards Law enacted in 2006 (Law No. 5464), which requires that banks issue credit cards only upon request by a customer, either orally or in writing. Credit limits are set at an amount not exceeding twice the cardholder's average monthly salary for the first year the customer receives his first credit card from a Turkish bank, and an amount not exceeding four times the average monthly salary for the second year, if a sufficient limit is available. The Central Bank determines the maximum contractual and default interest rates of credit cards.

In 2016, the Bank prioritised credit card acquisitions and several related projects were initiated to increase new credit card customers. New outsource call centre channels were added and card application via yapikredi.com.tr has begun. The Bank believes the biggest improvement has been the development of pre-approved card offers via sales channels, which has increased card sales offer amounts and eased the application process. Further enhancements in conjunction with the Bank's digitalisation strategy are under way to increase new customer acquisition via digital channels.

As Turkey's leading credit card platform, one of the major aims is digitalising the credit card experience through a new "Yapı Kredi Wallet" mobile application launched in December 2015, which is available for iOS and Android devices. Yapı Kredi Wallet offers not only robust in-store NFC payments but also digitalises the World loyalty system, which is a significant step in digital services. Using the application, customers can view and enrol onto campaigns, access their shopping transactions, points, limits, cut-off dates for the accounts and payment deadlines.

Co-branding Partnerships

The Bank has credit card co-branding partnership agreements with TEB, Vakıfbank, Anadolubank and Albaraka Turk. These partnerships have helped the Bank's credit card brand World become Turkey's largest credit card network and marketing platform, with approximately 14 million credit cards.

In September 2012, the Bank introduced its World credit card programme in Azerbaijan. In recognition of the Bank's success in introducing the programme in Azerbaijan, it received the Best Marketing Campaign award

from MasterCard. As of 31 December 2016, the Bank had issued over 96,966 World credit cards in Azerbaijan.

Merchant Network

The Bank has been a leader in total acquiring volume in the market over a number of years, with a market share of 20.8% as of 31 December 2016. The Bank's acquiring volume as of 31 December 2016 was TL 125.3 billion, as compared to TL 114.5 billion and TL 96.2 billion as of 31 December 2015 and 2014, respectively. Additionally, as of 31 December 2016, the Bank's market share amounted to 15.26%. The Bank's number of POS terminals was a total of 554 thousand as of 31 December 2016, compared to a total of 619 thousand and 501 thousand as of 31 December 2015 and 2014, respectively.

Developing its relationships with merchants is a key priority for the Bank. The Bank's large POS network enhances the Bank's retail transactions volume and provides added value to the Bank's cardholders through the various campaigns, promotions and loyalty programmes offered through the POS network and participating merchants.

In order to encourage customers to use the Bank's cards and to attract member merchants with World platform, the Bank offers sales increasing campaigns such as point rewards, discounts and other privileges to its customers. As of 31 December 2016, the Bank organised more than 100 campaigns per month through 315 thousand loyalty merchants. Improvements have been completed for Self Service World, which is a CRM tool enabling merchants to design, launch and promote their own campaigns for Yapı Kredi cardholders.

The Bank has widened its pricing diversity by launching new offers for its Fixed Price POS service, such as those with no commission or blockage day charges but instead a standard monthly fee, through which smaller SMEs can enter the Bank's merchant network for the first time.

In 2016, merchant acquisitions via Direct Sales Force ("**DSF**") have continued to be a powerful sales channel for the Bank's acquiring business. 19% of the retail merchant acquisitions have been driven by DSF as of 31 December 2016.

Individual Banking

The Bank's individual banking activities are organised under mass and platinum sub segments to enable the Bank to differentiate its services and to provide the most suitable products to different customer groups. As of 31 December 2016, the Bank provided individual banking services to approximately 10.6 million mass customers and approximately 428 thousand platinum customers, respectively, mainly due to a reclassification from "mass" to "platinum".

The Bank's product offering to its individual customers includes a full range of payment products, overdraft and deposit accounts (time deposit, demand deposit, flexible time deposit, fund deposit, gold deposit, and 5D deposit, state supported dowry and housing deposits), scrap gold collection, investment products, mortgages, auto loans, general purpose loans, home improvement loans, education loans and auto loans, İlk Param and Platinum Fund, as well as health insurance products.

The Bank offers customers in its mass segment a wide variety of products and services through diverse delivery channels including branches and a variety of alternative distribution channels such as internet and mobile banking portals, ATMs and call centres. As of 31 December 2016, the Bank's loans and receivables in its mass segment comprised 42% of its total loans and receivables to its retail customers and the Bank's deposits from customers in its mass segment comprised 29% of its total deposits from its retail customers.

As of 31 December 2016, the Bank's platinum customers were served by 513 relationship managers and a wide distribution network. In addition to the standard individual banking products offered to all individual customers, the Bank's relationship managers for platinum customers have expertise in investment and mortgage products. Platinum customers also benefit from the Bank's asset management and brokerage services. As of 31 December 2016, the Bank's loans and receivables in its platinum segment comprised 13% of its total loans and receivables to its retail customers and the Bank's deposits from customers in its platinum segment comprised 44% of its total deposits from its retail customers.

The Bank's customer relationship management ("**CRM**") systems and analytical "data mining" models played a key role in increasing customer loyalty and increasing product sales to its individual customers. The Bank produces targeted offers for its retail banking customers through its campaign management system.

Direct Banking

Nuvo, the direct banking service model, reaches its customers through mobile and internet channels offering simple and flexible banking services.

The Bank has four strategic objectives for direct banking deployment: acquire new customers entering the banking market and draw customers from competitors; divert unprofitable segments; increase customer retention; and create a new brand that is young, tech-savvy and cutting-edge.

Nuvo is a separate brand of the Bank, which has a strong marketing budget and innovative marketing features, and is run by a dedicated department with its own functional allocation and CRM integration. It defines its target market as young university students and tech-savvy individuals with simple banking needs or people reluctant to enter branches if online service is sufficiently convenient. Nuvo attracts its customers by offering various advantages, such as higher interest rates on time deposits for young people, branchless and no fee loan products, as well as special discounts and point reward systems at merchants and e-commerce firms, for all Nuvo customers. The first Nuvo customers can benefit from major cost advantages resulting from lower branch-based costs and re-investing in direct low-cost channels. Nuvo customers are targeted by product based campaigns and through in-app stores of popular e-commerce platforms.

Mortgages

Mortgage loans are an important part of the retail banking business in the Turkish banking sector. As of 31 December 2016, 31 December 2015 and 31 December 2014 mortgage loans amounted to 9.1%, 9.2% and 9.7%, respectively, of aggregate loans in the Turkish banking sector, according to BRSA weekly data.

The Group's mortgage loan portfolio slightly increased to TL 12,586,075 thousand as of 31 December 2016, compared to TL 12,287,991 thousand as of 31 December 2015 and TL 10,960,871 thousand as of 31 December 2014.

As of 31 December 2016, the Bank's mortgage loans represented 7.0% of the Group's total gross loans, compared to 8.2% and 8.9% as of 31 December 2015 and 2014, respectively.

The Bank's mortgage loan strategy is based on providing service to customers through the Bank's mortgage experts, developing dedicated branch and non branch delivery channels and offering innovative mortgage products. The Bank's mortgage experts provide customers with mortgage products and provide consultancy for all aspects of mortgages including financial, legal, technical and tax related issues at branches. As of 31 December 2016, the Bank had trained over 1,600 mortgage experts.

The Bank has established a dedicated team within the mortgage department to work with real estate developers and improve the flow of new individual mortgage applications to the Bank. This programme has helped the Bank to strengthen its mortgage services through its relationships with real estate developers for 524 projects and 2,783 realtors.

Payroll Services

The Bank had 27,320 payroll companies and 1,845,362 payroll customers as of 31 December 2016 as compared to 21,000 payroll companies and 1,553,953 payroll customers as of 31 December 2015, and 17,078 payroll companies and 1,228,161 payroll customers as of 31 December 2014. The Bank has established limited service branches in the locations where its payroll services customers work in order to provide convenient service. The Bank's management believes that the Bank enjoys a strategic strength in this area, which it intends to continue to develop and grow through cross selling of its products and services. In order to further increase its market share in this area, the Bank launched the Salary Customer Strategy Project in 2013, led by consultant firm BCG, which aims to develop a comprehensive payroll structure and growth strategy for the Bank. Payroll services have been an area of the Bank's focus as part of its accelerated growth strategy during 2014, 2015 and 2016.

Auto loans

The Group's auto loans (including both commercial instalment car loans and consumer car loans) comprised 1.1%, 1.6% and 2.1% of the Group's total gross loans as of 31 December 2016, 31 December 2015 and 2014, respectively.

The Bank has had an exclusive agreement with Ford Otosan since December 2007, which allows the Bank the exclusive right to provide FordFinans branded auto loans for Ford automobiles in Turkey and allows customers to apply for an auto loan directly from a dealership through an online application system. In 2016, the Bank started to utilise individual auto loans at Ford Otosan dealers through the online system. The agreement excludes heavy commercial vehicles, fleet sales and sales for car rental companies.

Bancassurance

In 2013, Allianz bancassurance partnership combined the Bank's customer focused leading retail franchise with Allianz's global experience in developing and managing insurance products.

The Bank considers bancassurance an area with strong growth potential. As a bank with a significant retail market share, the Bank has a large base of potential customers for both insurance and pension products. In 2015, the Bank integrated all its bancassurance products to its core IT system, which is expected to boost sales via branches whilst facilitating digital channel insurance sales (including sales via internet banking, mobile banking and call centres). As a result of the integration, time to market duration for new product developments is expected to diminish and the system's flexibility when adapting to new conditions is expected to increase. As the market initiator, the Bank offers its customers a life insurance bundle with credit via mobile banking. Online life insurance sales via mobile banking are a pioneer process for the bancassurance business in Turkey.

Yapı Kredi is the bancassurance market leader in health insurance with a 38.77% market share as of 31 December 2016, as compared to 41.11% as of 31 December 2015.

Small and Medium-sized Enterprises

SMEs (corporate customers with an annual turnover of less than U.S.$10,000,000) are an important segment for the Bank. As of 31 December 2016, 31 December 2015 and 2014, the Bank had over 1.5 million, 1.1 million and 1.05 million SME clients, respectively.

In 2012, Yapı Kredi created a new service model to support the Bank's growing SME customer base. Customers were segmented based on their size and diverse financial needs and tailored product offerings were provided to customers through a wider range of delivery channels, in line with the Bank's multi-channel approach.

This new approach created two new relationship manager roles. In 2013, remote relationship managers located in different regions of Turkey began to serve a large number of customers with basic needs through the phone. This further increased efficiency as branch based relationship managers' focus on addressing more complex customer needs. In 2012, customer acquisition activities were strengthened through the formation of dedicated relationship managers for customer acquisition teams, called "hunters", whose sole purpose is to acquire new customers and create sales leads. These teams acted as key customer acquisition engines for the Bank, focusing on unique product bundles designed for SME customers. This team acquired 22% of the new SME customers. In 2014, the customer range of Remote Relationship Managers ("**RRMs**"), a team that serves customers that meet predefined criteria more rapidly and proactively through phone calls in 9 regions in Turkey widened. RRMs focus on micro customers and their main roles are preventing churn and increasing penetration.

As of 31 December 2016, the Bank's SME customers were served through a network of 1979 dedicated relationship managers in the Bank's branches, 81 remote relationship managers and 108 hunters in the Bank's SME banking centres, and are encouraged to utilise the Bank's alternative distribution channels such as internet banking, ATMs and operating out of call centres. In addition, the Bank provides consultancy services to support SMEs in obtaining grants. The Bank also provides SME customers a similar range of products to those provided to corporate customers, as well as commercial purchasing cards specifically designed for SMEs.

In 2016, the Bank took part in three loan programmes as in conjunction with supranational organisations to provide longer maturity and discounted interest rate funding for its SME customers. Throughout the year, the Bank provided over TL 65 million in loan support to SMEs through agreements with the Turkey Agriculture Financing Facility ("**TURAFF**") and Turkey Sustainable Energy Financing Facility ("**TURSEFF**"). The Bank also continued to cooperate with the Small and Medium Industry Development Organization ("**KOSGEB**") and Credit Guarantee Fund ("**CGF**") to provide government subsidised loans to small businesses.

The Bank has named agricultural banking as a strategic sector and has developed various strategies and action plans during the last 6 years. For example, a new agricultural marketing and sales team has been established under the SME and agricultural banking group and a new agricultural loan evaluation system was announced in January 2012. In addition, agricultural experts have been located throughout the Bank's regions, and the agricultural loan product range has been expanded by establishing specific loan types. Verimli Card, which is a special credit card for farmers, was relaunched in May 2014. In 2015, the Agricultural Value Chain was introduced as a business model aimed at obtaining the cash flow between Food Processor or Agricultural Product Producer Companies and Farmers and Traders. Since the beginning of 2016, a main strategy for the agricultural banking group has been to focus on mass customer acquisition and enhancing cross business penetration. Yapi Kredi agricultural banking business aims to increase its market share and the number of clients, and operates through 204 "agri branches" (standard branches whose main economic activity is agriculture) nationwide.

Private Banking and Wealth Management

The private banking division serves the Bank's high net worth and ultra-high net worth customers. The Bank's wealth management services are carried out by its subsidiaries Yapi Kredi Invest and Yapi Kredi Asset Management, providing asset management and brokerage services to the Bank's clients.

Private Banking

The Bank has a leading position in the private banking market in Turkey both in terms of total asset size, which amounted to TL 47.4 billion as of 31 December 2016 (including equity balance), and distribution network, private banking centres, branches and corners (being private banking service points in branches that otherwise serve non-private banking customers, such as retail or commercial branches), as well as remote services. Customers with personal financial assets in excess of TL 500,000 are serviced by the Bank's private banking division. The Bank considers a private banking customer to be active if they meet the active customer criteria (*i.e.*, having actual funds on the account and carrying out any transaction) at least once and are assigned to a portfolio within the last 1.5 years. As of 31 December 2016, 31 December 2015 and 2014, the Bank had 22,525, 21,686 and 20,794 active private banking customers, respectively.

As of 31 December 2016, private banking customers were served by 157 private banking relationship managers through 22 private banking centres/branches and one corner. ADCs for the private banking segment also include a dedicated call centre team and a separate private banking web page on the Bank website.

The total volume of deposits managed by the private banking business amounted to TL 32.5 billion as of 31 December 2016, TL 28.1 billion as of 31 December 2015 and TL 22.3 billion as of 31 December 2014. In assets under management in the mutual fund business, the Bank ranked second with 17.10%, 17.52% and 17.97% of the Turkish market, as of 31 December 2016, 31 December 2015 and 31 December 2014, respectively, according to Rasyonet statistics.

As of 31 December 2016, the private banking division provided a wide range of products and services, including 32 different types of mutual funds including hedge funds, bonds and bill funds, variable funds, equity funds, fund of funds, precious metals funds, participation funds, mixed funds and money market funds. The Bank uses CRM modelling tools in order to define eligible customers for different types of products such as securities, derivative products (forwards, futures and options), foreign exchange, gold and equity trading, insurance products, safe deposit boxes and e-banking services. The Bank also has affiliates and subsidiaries, which provide investment, advisory and portfolio management services, supported by the Bank's relationship with UniCredit and its subsidiaries. The Bank also offers various advisory services through different and specialised business partners such as Tax Advisory, Art Advisory, Inheritance Advisory, Real Estate Advisory, Philanthropy Advisory, and Educational Advisory. Educational Advisory was launched in

May 2015, as a new service targeting Private Banking customers and their children who plan to study abroad. Philanthropy Advisory was launched in June 2012, and the service is provided through the Bank's business partner TUSEV. It is not only the Bank's newest service, but also the first Philanthropy Advisory in Turkey. Private banking customers are also entitled to a number of services such as 24-hour emergency ambulance service and have access to seminars on pertinent issues relevant to their financial interests, including investments, financial markets and taxation and are kept informed on the economy and capital markets through daily emails.

The new CRM platform for private banking was launched in the fourth quarter of 2015. The new platform aims to provide a better portfolio management facility for private banking relationship managers through customised content, simplified processes and one-click solutions.

Yapi Kredi Invest (Yapi Kredi Yatırım)

Yapı Kredi Invest provides institutional and individual investors with investment and advisory solutions, with strategies spanning asset classes, industries, and geographies. Yapı Kredi Invest's investment product range includes fixed income, public equities, commodities, derivatives and leveraged foreign currency trading operations. Additionally, it provides corporate finance advisory services with a dedicated team.

Yapı Kredi Invest has established one of the widest branch networks in Turkey, with a presence in 13 cities in Turkey. It has four Sales Desks in İstanbul and 12 branches in the cities as Adana, Ankara, Antalya, Aydin, Balikesir, Bursa, Denizli, Izmir, Kayseri, Marmaris, Samsun and Trabzon.

As of 31 December 2016, Yapi Kredi Invest was one of the top three domestic brokerage houses in Turkey, with a 7.32% market share in the equity market. Additionally, as of 31 December 2016, Yapi Kredi Invest had a 4.52% market share in the derivatives market.

Yapi Kredi Asset Management (Yapi Kredi Portföy)

Established in 2002, Yapi Kredi Asset Management provides customers with mutual funds, private pension funds and discretionary portfolio management products, together with portfolio advisory and private fund establishment services. Yapi Kredi Asset Management provides services throughout the country through its head office in Istanbul and the Bank's branch network. It had 63 employees as of 31 December 2016.

As of 31 December 2016, Yapi Kredi Asset Management offered 35 mutual funds and had total assets of approximately TL 7.4 billion. Its total market share for mutual funds stood at 17.09% as of 31 December 2016.

Yapi Kredi Asset Management also provides management services to 21 private pension funds. It had approximately 13.17% market share of the private pension fund market in Turkey, with assets under management of approximately TL 8 billion as of 31 December 2016.

Yapi Kredi Asset Management provided discretionary portfolio management services to 537 customers as of 31 December 2016, of which 15 were institutional and 522 were high income individual investors. Yapi Kredi Asset Management's assets under management in its discretionary portfolio management services, excluding DPM funds, were approximately TL 702.2 million as of 31 December 2016.

Managed assets, including mutual funds, private pension funds, hedge fund and discretionary portfolios, amounted to TL 16.1 billion as of 31 December 2016.

Corporate and Commercial Banking

As of 31 December 2016, the Bank had approximately 1,432 active corporate clients and 20,422 active commercial clients. In general, the Bank considers a customer to be active if they meet the active customer criteria at least once and are assigned to a portfolio within the last 1.5 years. As of 31 December 2016, the Bank served its corporate clients via three branches and 27 relationship managers and it served its commercial clients via 50 branches and 256 relationship managers. Corporate and commercial customers are segmented mainly by the value of their annual turnover. Commercial customers are companies with an annual turnover of between U.S.$10 million to U.S.$100 million, while corporate customers are companies with an annual

turnover of more than U.S.$100 million. Companies with turnover of less than U.S.$10 million are considered to be part of the Bank's SME segment and are managed within the retail banking division.

Following the introduction of the Bank's new organisational structure in February 2009, corporate and commercial banking, which were previously separate, were brought together. The Bank's leasing and factoring departments and international banking operations were also brought together. Recently, the Bank introduced new segmentation criteria for its corporate and commercial clients to better address their needs and provide tailored, client-specific services more efficiently. These criteria are based on the company's size and behaviour benchmarks such as the company's turnover (for potential client value), its international dimension (in order to assess the complexity of the relationship with the client), outstanding systems (to assess the size and complexity of the client's financial needs) and trade finance (as an indicator of the complexity and size of the client's business needs).

As of 31 December 2016, the Group's lending to the corporate and commercial sector comprised 55% of its total loan portfolio, while deposits from corporate and commercial customers comprised of 40% of the Group's total deposits.

The Bank provides additional services to its corporate customers including working capital financing, foreign trade finance, project finance, a variety of domestic and international non-cash credit line facilities such as letters of credit and guarantees, cash management, investment banking and brokerage, factoring, leasing and insurance services. In addition, in non-cash loans, the Bank provides both domestic and foreign currency facilities to its customers, principally comprising guarantees in relation to imports and letters of credit in respect of trade financing activities.

The primary business lines in the commercial banking segment are working capital, financing, foreign trade finance, project finance, leasing and factoring, domestic and international non-cash credit line facilities, cash management and e-banking services to mid-size and large corporates.

Operating profit for the corporate and commercial banking segment amounted to TL 1,785,585 thousand (U.S.$591,645 thousand) for the year ended 31 December 2016, as compared with TL 1,572,609 thousand for the year ended 31 December 2015 and TL 1,389,306 thousand for the year ended 31 December 2014. These increases were the result of:

- a focus on high margin foreign currency project finance loans driven by selective loan growth and a disciplined pricing approach in corporate banking; and
- a focused approach on mid-commercial sub-segment driven by upward loan re-pricing initiatives in commercial banking.

Project Finance

The Bank has been active in the provision of project finance loans and syndicated loans in Turkey since 1999. As of 31 December 2016, its project finance team comprised 17 staff members specialising in energy, real estate and infrastructure projects, as well as acquisition finance and structured finance.

For the year ended 31 December 2016, the Bank had underwritten TL 8,740 million (U.S.$2,484 million) of project finance loans, compared to approximately TL 7,550 million (U.S.$2,597 million) for the year ended 31 December 2015 and approximately TL 7,500 million for the year ended 31 December 2014. The maturity of project finance loans typically ranges from five to 12 years, with a maximum grace period of four years. The Bank focuses on the energy sector, particularly financing energy production, electricity transmission and distribution projects as well as thermal and renewable energy power plants and large dam and hydroelectric power plant projects.

Global Transaction Banking

The product range of the global transaction banking department covers all traditional products in addition to structured products, which are customised for client needs. One of the Bank's competitive advantages is to provide multinational solutions to its local clients in relation to the UniCredit Group's product scheme.

The cash management and trade finance teams have product development and sales departments which serve the Turkish Lira and foreign currency cash flow needs of the Bank's clients. As of 31 December 2016, the sales team's 21 staff were organised (located in the head office, six commercial regions, three corporate branches and one multinational branch) in order to provide support and keep close contact with both the clients and the branches. The sales team focuses its coverage on the clients, the network and the complete product range.

As of 31 December 2016, the Bank maintained its industry leading position with a market share of approximately 11.78% in cheque clearing (according to the Central Bank statistics), 15% in import flows and 17.21% in export flows (according to the Turkish Statistical Institute). In the period ended 31 December 2016, the number of clients utilizing the Bank's cash management and trade finance products increased by 7.79% to approximately 284,295 companies as compared to the same period in 2015.

Cash Management

The Bank has further strengthened its market leading e-banking position, with particular high turnover performance in direct debit and the BANKO^{TM}-OHES bulk payment system, while maintaining its leading position in traditional collection systems such as domestic cheque clearing in the Central Bank. The Bank's cash management services include a broad variety of products, including all countywide collection and payment services, cash transfer services, electronic banking and operational services. In addition, the Bank offers a variety of data integration and reconciliation solutions related to its products. In the year ended 31 December 2016, the Bank's bulk payment transactions increased by 9.61% to 7.2 million as compared to 2015.

Trade Finance

The Bank provides a variety of support services and payment management mechanisms to Turkish companies engaging in international trade transactions. These include advance payments, letters of credit (sight, deferred and acceptance), cash against documents, cash against goods, standby letters of credit, export financing (pre- and post-shipment), import financing (post-financing, promissory note discount), forfaiting and export credit insurance, back-to-back letters of credit and transferable letters of credit. In addition to traditional import and export products, the Bank offers its customers innovative and alternative foreign trade products and structured solutions.

The Bank has created a special team that is responsible for expanding its structured trade finance business through export credit agencies and export-import banks of other countries, as well as originating short-term and long-term financing through correspondent banks for the investment needs of the clients.

International Banking

The Bank was one of the first Turkish banks to establish correspondent banking relationships and to undertake foreign business. The relationship management function for foreign financial institutions for the Bank is conducted by the Financial Institutions team. The Financial Institutions team also carries out functions including the following:

- provides presentations and insight on developments on the Bank and the Turkish economic and political environment to correspondent banks;
- discusses new products with correspondent banks and implements them within the Bank, in collaboration with the Trade Finance department, in order to gain access to new markets and improve service quality;
- engages in the international marketing of the Bank and its products;
- analyses the financial situation of banks and applies for credit lines on their behalf; and
- arranges long-term structured borrowings in accordance with the Bank's projected borrowing needs.

Treasury

The Bank's treasury department consists of five major groups: Fixed Income Securities, Money Markets and Balance Sheet Management, Foreign Exchange and Derivatives, ALM Planning and Financial Monitoring, and Treasury Marketing. It manages the Bank's on-going liquidity needs, interest rate risks, foreign exchange rates and controls its proprietary investment portfolio.

Fixed Income Securities

The Fixed Income group is primarily in charge of managing the Bank's local and foreign currency fixed income portfolios. As of 31 December 2016, the Bank was one of the 13 primary dealers accepted by the Undersecretariat of Treasury in Turkey. The Fixed Income group also manages local and foreign currency deposits. As of 31 December 2016, the Group's securities portfolio amounted to 12.18% of its total assets. For a discussion of the Bank's securities portfolio, see "*Management's Discussion and Analyses of Financial Condition and Results of Operations – Significant Factors Affecting Results of Operations – Marketable Securities Portfolio*".

As of 31 December 2016, the Bank had a 19.86% market share in securities trading on the Borsa Istanbul compared with 26.44% as of 31 December 2015 and 20.4% as of 31 December 2014, according to the Borsa Istanbul.

Money Market & Balance Sheet Management and Foreign Exchange & Derivatives

This group is primarily involved in asset and liability management activities, interbank money market transactions and foreign exchange trading, including derivatives. For the year ended 31 December 2016, the Bank's trading volume was U.S.$658.8 billion, compared to U.S.$1,192.8 billion for the year ended 31 December 2015 and U.S.$756.2 billion for the year ended 31 December 2014. The Bank's interbank foreign exchange trade volume was approximately U.S.$335.8 billion for the year ended 31 December 2016, U.S.$764.4 billion for the year ended 31 December 2015 and U.S.$299.2 billion for the year ended 31 December 2014. Foreign exchange volume for client transactions denominated against the Turkish Lira was U.S.$56.3 billion in the year ended 31 December 2016, U.S.$56.3 billion in the year ended 2015 and U.S.$61.3 billion in the year ended 31 December 2014. As of 31 December 2016, the Bank also held 12.51%, 15.01% and 8.13% market shares (customer transactions against the Turkish Lira) in the domestic spot trading, forward and swap markets, respectively.

This group is also responsible for stabilising the interest income on the balance sheet and creating necessary funding for targeted asset growth purposes.

ALM Planning and Financial Monitoring

The ALM Planning and Financial Monitoring group is primarily responsible for monitoring the treasury department's performance and activities. This group also assists other groups within the treasury department with introducing new products.

Treasury Marketing

The Treasury Marketing group is the contact point for large scale corporate, commercial and private customers. The group advises and assists customers with managing risk exposures and hedging opportunities. The group completed transactions worth approximately U.S.$98 billion for customers for the year ended 31 December 2016, U.S.$104 billion for customers in 2015 and U.S.$121 billion in 2014.

Distribution Network

The Bank offers its banking products and services through an extensive distribution network, which includes branches as well as advanced ADCs such as ATMs, call centres, internet banking and mobile banking.

Branches

As of 31 December 2016, the Bank had 936 branches covering all regions of Turkey (including one branch in Bahrain) and served 12.9 million customers in Turkey. While the Bank's branch network covers all regions in Turkey, most of the branches are in the largest cities, with 68% of the Bank's branches being located in the

ten largest cities (including Istanbul, Ankara, Izmir, Antalya, Bursa, Konya and Adana) as of 31 December 2016. According to BRSA statistics, the Bank's market share in the ten largest cities in Turkey as of 31 December 2016, 31 December 2015 and 31 December 2014 in terms of branches was 9.6%, 9.8% and 9.9%, respectively, compared to 8.8%, 9.0% and 9.0% across Turkey as of 31 December 2016, 31 December 2015 and 31 December 2014, respectively. The Bank has a number of different types of branches, including standard, satellite and mobile, which provide customers with a wide range of services. As of 31 December 2016, 854 of the Bank's branches were retail related, demonstrating the retail market orientation of the Bank. As of 31 December 2016, the Bank's corporate commercial branch network consisted of 53 branches (including one international branch) and the Bank's private banking network comprised 22 private banking centres.

Alternative Channels

The Bank uses three main ADCs: ATMs, Digital Banking and a 24 hour call centre, all of which rely upon the Bank's information technology platform. These channels allow customers to access services 24 hours a day and seven days a week. The cost of processing transactions through ADCs is lower than processing them through branches. Therefore the Bank encourages its customers to utilise ADCs by offering promotions and reduced fees in return for customers using these channels instead of the branches. As of 31 December 2016, the Bank handled 88.3% of all its transactions through ADCs and the remaining 11.7% through branches. Of the 88.3% handled through ADCs, 42.0% were via ATMs, 34.5% via Digital Banking (composing internet and mobile banking), 0.1% via its four call centres and the remaining 11.8% via other channels including post office and centralised automated transaction channels.

ATMs

As of 31 December 2016, the Bank had the fourth largest ATM network in Turkey, with 4,300 ATM machines and nearly 6.5 million ATM users. The Bank continues to grow its ATM network throughout Turkey.

At the beginning of the 2005, 'Recycle ATMs' (where the banknotes deposited can be also used for withdrawal) were deployed in order to reduce the bank's operational cost and to optimise the efficiency of its ATM Network. As of 31 December 2016, 39% of the Bank's ATMs were Recycle ATMs.

To achieve the aim of digitalising the ATM channel, the Bank has started to focus on innovative projects such as: "Sending Transaction Receipt by E-mail", which was launched at the end of May 2015. Although Sending Transaction Receipt by E-mail is available only for five transactions, as of 31 December 2016, 31 million transaction receipts were sent by e-mail. The Bank will increase the number of transactions in which the customers also have the chance to take their transaction receipts by e-mail.

In addition to being the most frequently visited, high volume transaction processing channel, the Bank increased its focus on the sales offers at ATMs in 2011. As of 31 December 2016, the number of product sales via ATMs increased to 1.5 million. Flexible Account, Consumer Loan, Credit Card Limit Increase, Credit Card & Flexible Account E-Statements are some of the high-value sales offered through ATMs.

The Bank achieved its aim of increasing the number of ATMs enabled for disabled customers to 51% by the end of December 2016.

In 2008, the Bank launched the Enabled Banking Programme, as Turkey's first service that offers disabled customers easy access to banking services. The Bank redesigned call centres to assist visually-impaired customers by introducing text to speech technology. In 2009, the Bank installed in selected locations enabled ATMs which have been modified for orthopaedic impaired customers facilitating wheelchair access. In 2010, the first "talking ATMs" were launched, adding new features to enable blind and visually impaired customers to perform banking operations. Between 2008 and 2013, the Bank received several awards for this programme. The Bank continues to support the Enabled Banking Programme by increasing its enabled ATMs and increasing the variety of service for disabled customers.

In 2010, the Bank presented its "ATM with Keyboard" technology, which enables customers to add text and explanations when carrying out deposit and transfer transactions. These explanations are displayed on both the sender's and the receiver's account activities and statements.

Digital Banking

As of 31 December 2016, the Bank had a leading mobile banking application with a 12.68% market share, as well as a 16.16% market share in internet banking, according to the Turkish Banking Association. As of 31 December 2016, Digital Banking had 3.3 million individual customers and 246 thousand corporate and commercial customers. On the mobile banking side, the Bank had 2.4 million active mobile banking customers including 2.3 million "Individual Mobile Banking" customers and 108 thousand "Corporate Mobile Banking" customers. The Bank's number of active internet banking customers has increased 27% from December 2015 to December 2016. The number of Mobile Banking active customers has increased 62% from December 2015 to December 2016. The share of non-cash transactions executed through internet banking as a percentage of all non-cash transactions had increased to 93% as of 31 December 2016. The Bank has experienced increasing numbers of transactions and transaction volumes in recent years, mainly due to higher internet penetration rates globally and in Turkey, and significant marketing of the Bank's internet banking services.

As of 31 December 2016, 21% of GPL sales were made via digital banking channels (7% through internet, 13% through the mobile application). Additionally, 16% of total GPL sales were made through call centres. The Bank first launched internet banking with Teleweb in 2000. Internet banking services are currently provided through internet banking and mobile banking applications. Mobile banking applications can be installed on mobile devices on all native platforms by visiting yukle.yapikredi.com or can be used as html without installation necessary by visiting m.ykb.com.

Following an exhaustive renewal of its mobile banking app with a view to offering customers an even faster and more effective experience, the Bank plans to deliver further innovation for the banking sector with its eye scan technology (Eyeprint-ID), also a first in Europe. This function allows users to log in via their smartphones in a faster, easier and more secure manner, without having to enter their password. The renewed Yapı Kredi Mobile also enables swift contactless money withdrawal from ATMs via QR code and direct access to the call centre. Initially marketed on the iOS platform, the Bank's new mobile banking app received over 1 million downloads per week in the last quarter of 2016.

In 2016, the Bank laid the foundations of a free and open source software platform, Code.YapıKredi, which is open to everyone who wishes to learn software development and use their knowledge to contribute to productivity. Code.YapıKredi is a comprehensive platform that covers programming tutorials and financial guidance, with plans to expand its scope further in 2017. The Bank aims to contribute to the development of the fintech ecosystem with Code.YapıKredi, while also paving the way for young entrepreneurs.

The Bank developed an Apple Watch app before the watch was released and became the first company to provide such an app to its customers in Turkey. The Bank also has a mobile banking app compatible with Samsung Gear S2 and Google Glass. Moreover, the Bank released a Smart TV application which provides an uninterrupted TV experience and market information tracking at the same time. The Yapi Kredi Smart TV Finance application can be downloaded on Arcelik, Beko, Grundig TV's Appstore.

Furthermore, the Bank broke new ground with its Facebook chatbot (messaging robot) service which is the first in the Turkish banking sector. By using Yapi Kredi BankacıBot (BankerBot), customers can access a variety of operations such as applications, bill payment and information inquiries via Facebook Messenger.

To ensure secure internet connections, the Bank offers One Time Password ("**OTP**") products through OTP Mobile (a JAVA application operating on mobile phones), OTP SMS (one time passwords sent via SMS), Mobile Signature and Smart Banking (for corporate internet banking). The Bank's internet banking system provides 24-hour customer service through live chat, call centres and email enquiries.

Moreover, the Bank focused on increasing the direct sales capability of digital channels as a way to ensure sustainable growth. Yapı Kredi offers branchless GPL product which provides customers with a convenient way to meet their financial needs as well as boosts bank revenues. Customers can apply for a loan on the internet and mobile banking and the approved credit amount is sent directly to customer's account, even on weekends. It also provides access to more products such as flexible account, credit card application and life insurance sales on internet banking. The Bank has also e-Government Gateway integration which enables customers to make over 1.200 transactions related to public institutions with their internet banking password without needing any other credentials.

The Bank uses Google Search Appliance technology as its search engine on digital channels. The Bank became the first bank in Turkey to utilise Google Search Appliance technology and was subsequently selected as a case study by Google. The website also utilises BehaviorPad, a behavioural targeting tool designed for proposing the most relevant offers to customers on yapikredi.com.tr. Furthermore, thanks to the Web Payment Center (a first in the banking sector), users can make bill payments even if they are not Yapı Kredi customers and can also pay MVT (motor vehicle tax) on yapikredi.com.tr. The Bank also provides an Application Center, which involves credit card, GPL, mortgage, SME loan, education loan and private pension functions.

The Bank has recently started to provide "Auto Enrolment In Private Pension System" and offer this product both via Corporate Internet Banking and yapikredi.com.tr.

Yapı Kredi also provides an alarm and reminder service (Smart Assistant) that notifies customers instantly via SMS, e-mail or push notification.

The Bank developed "Self Service World", which enables corporate internet banking members to create campaigns on their own for Yapı Kredi individual customers. Self Service World is the first and (as of January 2017) only campaign generation application provided by a bank in Turkey. The Bank is continuing to develop innovative ways to improve its customer experience. The Bank added the login with QR code feature to corporate internet banking, the first bank to do so in Turkey. The Bank's customers can login to corporate internet banking by scanning a QR code on the internet login screen with their mobile phone.

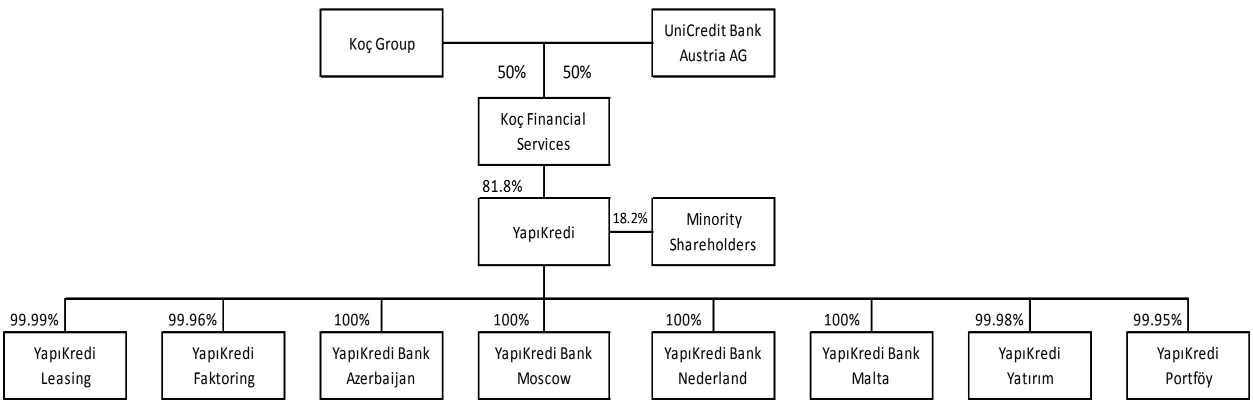
The Bank's shopping app, World Shopping Assistant, was recently rebranded, "Yapı Kredi Wallet" (Yapı Kredi Cüzdan), with a renewed design and many additional features. It offers the Bank's customers a variety of benefits. These include displaying the closest shopping points to users' locations, being notified about special offers, and accessing credit card information such as recent shopping transactions, available card limit and points information. The app also provides a mobile payment option so that customers can make contactless payments simply by tapping their smart phones to POS terminals.

Call Centre

Yapı Kredi's Contact Center has positioned itself to set the standards in this sector in Turkey. The Bank's award-winning call centre is one of the largest financial call centres in Turkey in terms of agents and number of calls received. The call centre deals with a wide range of the Bank's services including credit cards, merchants, retail, SME, corporate, commercial and private banking, serving both individual and corporate customers. As of 31 December 2016, the call centre had 1,532 employees. This service is supported by technical infrastructure with the capacity to serve 1,500 customers simultaneously. In addition to being one of the most important service channels, the Bank's contact centre has a significant role as a sales hub. In 2016, the contact centre carried out approximately 20 million contacts, 986 thousand credit card retention calls, 203 thousand customers retained and 5.1 million product sales. Approximately 68.3% of the call centre activities are carried out via an interactive voice recognition system which allows self-service usage.

Corporate Structure

The following chart presents the corporate structure of the Group and its shareholders as of the date of this Prospectus.



Subsidiaries

Following the merger of Yapı ve Kredi Bankası A.Ş. and Koçbank in October 2006, certain financial subsidiaries of KFS and the Bank were rationalised and merged. Below is a description of the Bank's primary operating subsidiaries.

Domestic Subsidiaries

Yapi Kredi Leasing

Yapi Kredi Leasing was established in 1987 and, as of the date of this Prospectus, is 99.9% owned by the Bank. Yapi Kredi Leasing has been listed on the Borsa Istanbul since 1994. However, in accordance with Article 25 of the ISE Listing Regulation and the CMB's Principle Decision on De-Listing, dated 30 July 2010 and numbered 22/675, Yapi Kredi Leasing was delisted following the second session of 20 July 2012. As of 31 December 2016, Yapi Kredi Leasing had shareholders' equity of approximately TL 1.7 billion. As of 31 December 2016, Yapi Kredi Leasing had 141 employees. The key role of Yapi Kredi Leasing is to develop and provide customers with leasing products through the Bank's wide branch network as well as 14 Yapi Kredi Leasing branches.

Yapi Kredi Faktoring

Yapi Kredi Faktoring was established in 1999 and was 99.95% owned by the Bank as of the date of this Prospectus. Yapi Kredi Faktoring provides factoring services in Turkey via: its head office in Istanbul, branches in Beyoğlu, Güneşli, Kartal, Kadıköy, Izmir, Ankara, Bursa, Antalya and Adana. The company had 118 employees as of 31 December 2016. Yapi Kredi Faktoring offers its customers monitoring and collection of short term domestic or international receivables from product or service sales, guarantees for receivables against payment defaults and flexible financing through early payment before the due date of the receivables. In terms of turnover, Yapi Kredi Faktoring has been the market leader in the factoring sector since 2001 and as of 31 December 2016 held an 18.03% market share in total factoring turnover and a 14.95% market share in export factoring turnover (according to the Association of Financial Institutions). Yapi Kredi Faktoring is a member of Factors Chain International.

Yapi Kredi Invest (Yapi Kredi Yatırım)

Yapi Kredi Invest was founded in 1989. With central sales in Istanbul, branches in Adana, Ankara, Antalya, Aydin, Balikesir, Bursa, Denizli, Izmir, Kayseri, Marmaris, Samsun, Trabzon and an internet branch, Yapi Kredi Invest provides capital market products, brokerage, corporate finance, derivatives, leveraged foreign currency trading operations and investment advisory services. Yapi Kredi Invest has received authorisation from the CMB to undertake leveraged foreign currency trading operations.

Yapi Kredi Invest ranked third among brokerage houses, with a 7.32% market share of the equity market as of 31 December 2016, according to Borsa Istanbul Data Publications. As of 31 December 2016, Yapi Kredi Invest generated a 4.52% market share in the derivatives market among brokerage houses, compared to a 5.26% market share as of 31 December 2015 and a 5.0% market share as of 31 December 2014, according to Borsa Istanbul Data Publications.

Yapi Kredi Asset Management (Yapi Kredi Portföy)

Established in 2002, Yapi Kredi Asset Management provides customers with mutual funds, private pension funds and discretionary portfolio management products, together with portfolio advisory and private fund establishment services. Yapi Kredi Asset Management provides services throughout the country through its head office in Istanbul and the Bank's branch network. It had 63 employees as of 31 December 2016.

As of 31 December 2016, Yapi Kredi Asset Management offered 35 mutual funds and had total assets of approximately TL 7.4 billion. Its total market share for mutual funds stood at 17.09% as of 31 December 2016.

Yapi Kredi Asset Management also provides management services to 21 private pension funds. It had approximately 13.17% market share of the private pension fund market in Turkey, with assets under management of approximately TL 8 billion as of 31 December 2016.

Yapi Kredi Asset Management provided discretionary portfolio management services to 537 customers as of 31 December 2016, of which 15 were institutional and 522 were high income individual investors. Yapi Kredi Asset Management's assets under management in its discretionary portfolio management services, excluding DPM funds, were approximately TL 702.2 million as of 31 December 2016.

Managed assets, including mutual funds, private pension funds, hedge fund and discretionary portfolios, amounted to TL 16.1 billion as of 31 December 2016.

International Subsidiaries

Yapi Kredi Bank Nederland

Yapi Kredi Bank Nederland N.V., a wholly owned subsidiary of the Bank, is active in the Netherlands and subject to the supervision of De Nederlandsche Bank (the "**Dutch Central Bank**") as well as the Netherlands Authority for the Financial Markets. The bank was established in May 1996 and changed its name from Koçbank Nederland N.V. to Yapi Kredi Bank Nederland N.V. upon acquiring the latter in 2007. The bank operates through its head office in Amsterdam and offers a wide range of retail, corporate and private banking services. Its main objective is to provide banking solutions to domestic customers and also to the Bank's customers from abroad. The focus of its corporate services varies and covers a wide range such as transactional trade finance, ship finance, Islamic finance and project finance. In terms of retail banking, Yapi Kredi Bank Nederland N.V. provides saving and deposit products in the Dutch retail market to more than 14 thousand customers as of 31 December 2016. As of 31 December 2016, the total assets of Yapi Kredi Bank Nederland N.V. were U.S.$2.1 billion.

Yapi Kredi Bank Moscow

Yapi Kredi Bank Moscow was established in 1988 and is a wholesale commercial bank serving a growing number of companies operating in Russia. It is a wholly owned subsidiary of the Group and has 57 employees in its head office building, as of 31 December 2016. Yapi Kredi Bank Moscow continues to expand its operations in the Russian banking sector, with an emphasis on commercial lending, deposit taking, money market operations and foreign exchange transactions. As of 31 December 2016, it had total assets of U.S.$127 million.

Yapi Kredi Bank Azerbaijan

Koçbank Azerbaijan was established as a joint venture between Koçbank (80%) and the IFC (20%) in 2000. In 2006, KFS became the sole owner acquiring IFC's share. Since early 2007, following the merger of Yapı Kredi and Koçbank, the Bank has continued functioning under the "Yapi Kredi Bank Azerbaijan" brand. Yapi Kredi Bank Azerbaijan provides retail and corporate banking services to its customers, including loans, deposits, project finance, domestic and international money transfers, trade finance, equity market and securities transactions, credit card transactions, safe deposit box and travel cheques. As of 31 December 2016, Yapi Kredi Bank Azerbaijan operated through 13 branches (plus one central customer office), it had 381 employees and 3,891 corporate customers, 6,521 SME customers and 234,305 retail customers, 27 ATMs and 1,804 POS terminals. In September 2012, Yapi Kredi Bank Azerbaijan also launched credit card sales alongside its retail operations. As of 31 December 2016, the total assets of Yapi Kredi Bank Azerbaijan were U.S.$262 million.

Yapı Kredi Malta

In October 2014, the Bank received from Malta Financial Services Authority a banking license to establish a new banking subsidiary in the Republic of Malta under the name of "Yapı Kredi Bank Malta Ltd." following the necessary permission by the BRSA. Yapı Kredi Bank Malta Ltd. is controlled by Yapı Kredi Holding BV whose share capital is fully owned by the Bank.

Yapı Kredi Malta started its operations in 2015 with a share capital of EUR 60 million. In order to fulfil this capital requirement, the share capital of Yapı Kredi Holding BV was increased by the Bank to EUR 102 million from EUR 59 million. As of 31 December 2016, the total assets of Yapi Kredi Malta were U.S.$158 million.

Associates

Banque de Commerce et de Placements S.A.

Banque de Commerce et de Placements S.A. ("**BCP**") is a Swiss bank established in 1963 and is 30.67% owned by the Bank. BCP has been an affiliate of the Bank since 1996. BCP operates in the areas of trade finance, wealth management, treasury services, and correspondent banking. BCP is rated as investment grade by Fitch. Headquartered in Geneva, the bank also operates through its branches in Luxembourg and Dubai.

Yapi Kredi Insurance (Yapı Kredi Sigorta) and Yapi Kredi Pension (Yapı Kredi Emeklilik)

On 26 March 2013, the Group agreed to sell its non-life and life insurance businesses to Allianz and to establish a 15-year strategic distribution partnership for non-life insurance, life insurance and pension products in Turkey. Following regulatory approvals, the transaction was finalised on 12 July 2013.

As the first component of this transaction, the Group sold its 93.94% stake in Yapi Kredi Insurance, including Yapi Kredi Pension, to Allianz for total cash consideration of TL 1,790 million (of which TL 1,410 million will accrue to the Bank). As the second component of the transaction, the Group then bought back and will retain a total 19.93% stake in Yapi Kredi Pension for cash consideration of TL 188 million in order to benefit from the expected strong growth in the life insurance and pension business in Turkey.

As the third component of the transaction, the Group also entered into the 15-year bancassurance agreement with Allianz for the marketing and distribution of non-life insurance, life insurance and pension products through the Group's retail network and other alternative delivery channels. The partnership combines the Group's customer-focused leading retail franchise in Turkey with Allianz's global experience and leadership in developing and managing insurance products. Throughout the duration of the Bancassurance Agreement, the Bank is to receive a commission flow for the distribution services as well as a profit share from its life insurance sales.

Joint Venture

Yapi Kredi Koray Gayrimenkul Yatırım Ortakliği A.Ş.

Yapi Kredi Koray Gayrimenkul Yatırım Ortakliği A.Ş. is a real estate investment trust established in 1996. The trust is 30.45% owned by the Bank and approximately 47% publicly quoted. The trust is headquartered in Istanbul.

Competition

In recent years, the banking sector has become increasingly important to the Turkish economy and foreign banks have become increasingly involved in the sector.

As of 31 December 2016, there were a total of 52 banks licensed to operate in Turkey (excluding five participation banks). According to the Turkish Banking Association, as of 31 December 2016, the five largest banks in Turkey held approximately 56% of the banking sector's aggregate loan portfolio and approximately 56% of aggregate banking sector assets in Turkey. Among the 10 largest banks, there are three state owned banks: Ziraat (ranked first), Halkbank (ranked sixth) and Vakıfbank (ranked seventh), which constituted approximately 30.14% of the total banking sector assets as of 30 September 2016.

Foreign banks have shown an increased interest in the banking sector in Turkey in recent years. Foreign banks such as BNP Paribas, Burgan Bank, ING, Qatar National Bank, Commercial Bank of Qatar, UniCredit, Sberbank and Odeabank have acquired interests in Turkish banks. Additionally, after obtaining regulatory approval in May 2015, Industrial and Commercial Bank of China acquired a 75% stake in Tekstilbank.

According to BRSA statistics, as of 31 December 2016, 31 December 2015 and 31 December 2014, the Bank's market share in loans, deposits and assets were as follows:

	As of 31 December		
	2016	2015	2014
		(%)	
Loans	10.2	10.3	10.2
Deposits	10.6	10.2	10.0
Assets	9.7	9.9	9.9

Source: *Banking Regulatory and Supervisory Agency (BRSA)*

As of 31 December 2016, according to BRSA statistics, the Bank was the fourth largest private bank in Turkey by total assets. According to BRSA statistics, as of 31 December 2016, the Bank ranked fourth in terms of cash and non-cash loans (including letters of guarantee, letters of credit and acceptances) with a 10.9% market share, and had a market share of 9.6% in consumer loans (ranking fifth) including mortgages, general purpose and auto loans, 5.3% in commercial instalment loans (ranking seventh) and 9.4% in company loans (ranking sixth). As of 31 December 2016, the Bank's market share in total deposits among private banks was 16.0% (compared to 15.3% as of 31 December 2015 and 14.9% as of 31 December 2014) according to BRSA statistics. As of 31 December 2016, the Bank's market share in total cash loans among private banks was 16.4% (compared with a market share of 16.0% as of 31 December 2015 and 15.5% as of 31 December 2014) according to BRSA statistics. As of 31 December 2016, the Bank ranked fifth, with a revenue market share of 9.7% for the year ended 31 December 2016 according to BRSA statistics. The Bank's management views Garanti Bank, Akbank and Işbank as the Bank's main competitors.

As of 31 December 2016, the Bank was a Turkish market leader in credit cards (22.1% market share in credit card outstanding volumes (ranking first) according to BRSA statistics, 19.9% market share in credit card issuing volumes (ranking second) and 17.8% market share in number of credit cards (ranking first), according to the Interbank Card Centre data). As of 31 December 2016, the Bank was a Turkish market leader in leasing (19.9% market share according to the Turkish Leasing Association). As of 31 December 2016, the Bank was also a Turkish market leader in factoring (18.0% market share according to the Turkish Factoring Association). As of 31 December 2016, the Bank has strong positions in asset management (ranked second, with a 17.1% market share according to Rasyonet). As of 31 December 2016, the Bank had a strong position in equity transaction volume (ranked third with 7.3% market share according to Borsa Istanbul Data Publications). As of 31 December 2016, the Bank was ranked first among private banks with a 18.6% market share in non-cash loans according to the BRSA statistics.

Employees

As of 31 December 2016, 31 December 2015 and 31 December 2014, the Group had 19.419, 19,345 and 18,533 employees, respectively, of whom 18.366, 18,261 and 17,457, respectively, were employees of the Bank. The following table sets out the number of employees of the Group and the Bank as of 31 December 2016, 2015 and 2014:

	As of 31 December		
	2016	2015	2014
Bank	18,366	18,261	17,457
Head office and operations	8,157	7,429	6,858
- Branches	10,209	10,832	10,599
- Subsidiaries	1,053	1,084	1,076
Total Group	**19,419**	**19,345**	**18,533**

The Bank's management believes that the Bank has a qualified workforce with appropriate educational backgrounds. All employees are trained in customer-oriented service principles and are considered competent in technical banking applications. Women represented 63% of total employees, and the proportion of university graduates was 76% as of 31 December 2016. As part of the Bank's training strategy, the Bank employs new graduates and prepares them within the institutional culture for managerial positions.

Within the Bank, there are unionised employees, for whom a collective bargaining agreement (the "**CBA**") applies, in addition to Turkish labour laws and the Bank's personnel regulations, which apply to all of the Bank's employees. In total, 10,946 of the Bank's employees were members of the Union, amounting to 60% of all employees as of 31 December 2016.

With respect to Union employees, the Bank's management and Union officials meet regularly to exchange information on working conditions. The Bank and the Union agree and sign new protocols to the CBA every two years and the latest agreement covers the period from 1 April 2015 to 31 March 2017. The Bank also provides additional benefits to its employees including a group retirement plan, health insurance and welfare fund.

Information Technologies

The Group's information technologies and operations departments are integrated in order to provide better service internally and improve the efficiency of core banking activities.

The Group maintains its information technologies and operations infrastructure in order to support its growing business and minimise operational risk and business interruption. The Bank operates a 2,000 square meter information technology centre in Gebze, Kocaeli (43 kilometres from Istanbul), which deals with all of the Bank's technology functions and initiatives. The fully operational information technology centre provides services to the Bank's headquarters, branches and customers. The Bank has developed much of its software in-house, including its internet banking software, through its software development department.

The Group has developed and implemented procedures for emergency system and data restoration and maintains a separate disaster recovery centre in Ankara, which has been in place since 1998. The disaster recovery site contains all key applications, such as Core Banking, Internet Banking, Workflow Systems, Credit Cards Systems, ATMs, EFT, SWIFT and Treasury. Data is transferred online as defined in Disaster Recovery Procedures. The Group maintains a remote online real time disaster recovery system, which is operated when the main production system or main data centre is not available. The Group can transfer operations and re-route data lines through the disaster recovery system within 30 minutes. The disaster recovery centre is tested on a bi-annual basis. This has enabled the Bank to be in full compliance with Basel II requirements for systems and data.

In 2011, it was decided to increase IT capacity to enable better service to the business. The IT project development capacity has been increased by 50% since 2011 to a target of more than 125,000 man-days in 2014. In 2017, the IT project development capacity target is 197,385 man-days.

In 2011, the Bank completed 178 IT projects. This number increased to 207 in 2012, 213 in 2013, 245 in 2014, 334 in 2015 and 263 in 2016. For 2017, an IT master plan was approved with a total of 246 projects.

Major ongoing programmes cover the following areas:

- The **Treasury & Investment Strategies Programme** aims to enhance the Bank's technical capabilities in treasury systems and investment products, in order to strengthen its competitive position in the market. In order to adapt to the rapidly evolving market trends, a new business model supported by a flexible technical structure is to be implemented with the collaboration of IT and related business units. The program started on 28 February 2013 and completed in 2016, with the exception of the FIX Income project. The FIX Income project is expected to be completed in the second quarter of 2019.

- The **Credit Underwriting Redesign Programme** aims to create more flexible, automated and user-friendly underwriting and disbursement systems. The programme was started in 2013 and completed in the first quarter of 2016 with gradual deliveries. In addition to first deliveries, new functionalities and enhancements are planned to be completed in the third quarter of 2017.

- The **ATM Re-platforming Programme** was started in 2015 to renew the ATM network of the Bank and with the objectives of creating a more flexible and effective infrastructure with respect to software, monitoring and package distribution and enabling an integrated and singular customer experience with an omni-channel approach. The new ATM system will support multiple vendors, multiple currencies and multiple languages, and have enhanced content management and commercial capabilities. The programme is expected to be completed in 2017.

- The **RRE (Retail Risk Excellence) Programme** aims to improve collection performance. The programme is comprised of three main projects and is expected to be completed in the first quarter of 2017.

- Retail Risk Excellence: Underwriting and Collection Systems and Processes improvements will be studied within this project to maintain our profitability and increase collection performance. To achieve this goal, 14 actions will be held. As at February 2017, 13 actions had been completed. One action is expected to be completed in March 2017.

- Improving YKB's NPL Collection Performance: The scope of this project is to focus on improved legal collection and to form the ideal high-level NPL sales process. The project is now completed.

- Enhancements of Consumer Loan Underwriting System: Underwriting system infrastructure changes will be delivered to simplify work streams and minimise process complexity for better customer management.

- The **One Direction Programme** was initiated in January 2016 and the expected completion date is June 2017. The programme aims to develop a new system for the Call Center which:

  - will improve opportunities to increase sales and retention effectiveness;

  - will decrease Average Handling Time and increase quality significantly in each call; and

  - will complete contact history of the customer through all channels (aligning OMNI-Channel strategy)

- The **Data Transformation Management Programme** was initiated in 2016 with the aim of setting up an enhanced data governance model that would support the organisation and enable it to extract more benefits from data. The programme will cover data management and data quality, including designing the governance structure. The programme also includes the Data Warehouse Modernisation initiative. A key objective of the Data Warehouse Modernisation initiative is to renew the Bank's data warehouse to effectively organise, store, analyse and extract data. At the end of the programme, the renewed data warehouse will be more available and performant, have a simpler and completely integrated data model to address changing business needs, have less time and cost to market and will be able to deliver more analytics capability due to the renewed modernised architecture. The Data Transformation Management Programme will be completed in 2018.

- The **NBA (Next Best Action) Programme** was initiated in 2016 and will be completed in 2018. NBA is a direct marketing paradigm that aims to capture opportunities with inbound contacts, increase business intelligence of outbound offers and orchestrate CRM in an omni-channel environment.

- **Digitalisation Programme** is an initiative to increase the digitalisation index of Yapi Kredi. The Programme started in 2016 and is expected to be completed in 2018

- The **Target Operating Model** aims to maximise the front-to- back office ratio of the Bank via optimisation and standardisation of operation activities with branch and centre splits while increasing control focus of operations. Accordingly, target services models in the branches have been redefined and these models will be put in place through the launch of included IT and non IT initiatives. Initiatives consist of subprojects to eliminate, automate, centralise and transform operation activities. Preparations started in 2015 and the target for full implementation is year-end 2018.

- The **SME Boosting Programme** was initiated in November 2016 and the expected completion date is June 2018. The Programme aims to:

  - develop a new service model for the SME segment to capture market growth and optimise risk-adjusted returns;

  - develop/enhance the commercial and risk tools to support the new service model and risk infrastructure; and

  - improve current risk management infrastructure to mirror the enhanced business/service model.

In addition, the following programs have been completed which aim to strengthen the Bank's market position in the following key areas:

- **Open World**

  The Open World programme was started in May 2009 and involved the transporting of the Mainframe System to "Open System" with the aim of strengthening the Bank's leading position in the credit card market and further differentiating the Bank from its competitors by creating a credit card system suitable for simple, quick and flexible improvement and delivering structural enhancements. In particular, Open System aimed to reduce credit card maintenance, development and transaction costs, improve the Bank's disaster recovery system, and adopt new functionalities including credit limit management and card differentiation. This programme was completed in the second quarter of 2014.

- **Harmoni**

  The Bank's other primary initiative was started in 2011 and involved the migration to a new front end platform called Harmoni. The programme used a process based approach for maximizing business efficiency and system performance. 696 reports, 1101 screens, 736 types of transactions and 151 types of work flow management forms have been migrated to the Harmoni platform. The programme was completed in the fourth quarter of 2013.

- **MCM Programme**

  In 2011, a set of new projects were initiated in parallel with the Bank's new strategies to develop "multichannel banking" (e.g., mobile banking, centralised customer service call centres, ATM management and marketing optimisation). A number of strategic projects have been launched within the programme. Yapı Kredi Mobile Banking was launched in 2011 for various mobile platforms and new functionalities are being added continuously. The Branch Call Diversion Project was completed in the third quarter of 2013 for efficient and high quality call management in branches. The new Yapı Kredi Internet Banking was launched in the first quarter of 2014, with new design and new functionalities, including extended CRM features and security enhancements. The Bank's web site has been renewed for better customer communication. The web site has received awards from "Communicator Awards" in three categories (Award of Excellence in Financial Services, Award of Distinction in Banking/Bill Paying category, Award of Distinction in Corporate Identity) and the Outstanding Achievement Award from "Interactive Media Awards" for its self-learning behaviour and simple design. The programme was completed in 2014.

- **Direct Banking**

  A new Direct Banking platform was launched in May 2014 with the brand name "Nuvo". By offering a new direct banking platform, the programme aimed to acquire new customers, decrease the usage of high-cost channels, such as branches, and increase the usage of low-cost channels, such as mobile branches and Internet branches. The target model focused on students, young professionals and tech savvy seniors, who have basic banking needs and are sensitive to pricing.

- **Sales Force Automation & Credit Card Only Customer Acquisition Programme**

  Retail banking management strategies were supported by giving automated and efficient processes to end-users. Simple product sales processes, more efficient disbursement processes, quick underwriting availability, one click cross sell interface and form free sales availabilities aimed to increase sales capacity and productivity. Another aim of the programme was to move customers that only used credit cards to the retail segment through cross-selling activities. The programme has been completed and rolled out in all branches as of August 2014.

- **UPDM**

  This project aimed to create a unified collection system for the Group which replaced the former distribution infrastructure. This project was initiated in the first quarter of 2013 and completed in June 2014.

- **Corporate Internet Banking Uplift**

  The main goal of this project was to renew the design and increase functionality of Corporate Internet Banking, to enhance usability, security and efficiency. The project was completed in 2015.

Property

The Group owns or leases premises for its head office, branches and operations centres. As of 31 December 2016, the Group's fixed assets (comprising land, land improvements, buildings, computer hardware and other fixed assets) had a total net book value of TL 2,713,047 thousand (U.S.$770,927 thousand) or 1.00% of the Bank's total assets. The Group owns its headquarters buildings in Istanbul and its operations centre in Gebze. As of 31 December 2016, the Bank owned approximately 19.19% of its branches and the rest were leased.

The Group decided to change its accounting policy on valuation of buildings to fair value accounting in accordance with TAS 16 as of 31 March 2015. Based on valuation reports of expert companies, authorised by CMB and BRSA, the Bank realised a positive fair valuation difference as other comprehensive income amounting to TL 1,510,187 thousand. Additionally, there has been a reversal out of previously incurred impairment amounting to TL 105,921 thousand, which is booked as an income.

Insurance

The Group maintains insurance policies with levels of coverage it deems necessary given the nature of its business. The Group's fixed assets, cash in transit and cash in hand are covered by general insurance arrangements covering normal risks. The Bank generally requires that real property assets owned by borrowers which form part of the collateral for loans the Bank makes are insured. The Bank does not have any credit risk insurance in relation to defaults by its customers as this type of insurance is generally not available in Turkey. The Group maintains insurance on its properties, including its head office and branches and personal property, with respect to such risks, including earthquakes and terrorist attacks, and in such amounts as the Group deems appropriate.

Legal Proceedings

From time to time, in the ordinary course of its business, the Group is party to legal proceedings, both as a plaintiff and a defendant. There are no legal proceedings pending, or to the Group's knowledge threatened, that may materially adversely affect the Group's business, results of operations or financial condition. As of 31 December 2016, the Group recognised a provision of TL 75,955 thousand in respect of legal proceedings.

Istanbul Commercial Court Litigation

The Bank is a defendant in a lawsuit filed by a Turkish company with respect to amounts collected by the Bank under an agreement for the transfer of shares in exchange for a profit sharing arrangement following the bankruptcy of the company in 1992. The litigation commenced in 2005. In May 2010, the Istanbul Commercial Court issued a judgment against the Bank in the amount of TL 25 million plus accrued interest. The Bank filed an appeal and in September 2012 the Court of Appeals overturned the decision of the Istanbul Commercial Court on the basis of incomplete review of information relating to the dispute. However, in December 2012, one of the plaintiffs objected to the appellate ruling and asked for the correction of the judgment. The Court of Appeals turned down the objection. The Istanbul Commercial Court complied with the Court of Appeals' decision and reviewed the case, taking into consideration the judgment of the Court of Appeals. In its decision, the Istanbul Commercial Court ruled against the Bank, but it decreased the compensation amount. The Bank filed an appeal against this new decision of the Istanbul Commercial Court and the Court of Appeals has reversed the decision. The Bank has not recorded any provisions in its financial statements in respect of this litigation.

Competition Board Investigations

In November 2011, the Turkish Competition Board announced that it had initiated an investigation into 12 major Turkish banks, including the Bank as well as two other financial institutions, in response to allegations that these entities had violated Article 4 of Law No. 4054 on the Protection of Competition (the "**Competition Law**") by acting in concert with respect to interest rates in the deposit, credit and credit card services markets. The Competition Law is enforced by the Competition Board, which has the power to

investigate possible breaches and impose administrative fines up to 10% of the annual gross income of the entity determined to be in breach of the Competition Law. The amount of the fine is determined by the Competition Board. The Bank was notified of the investigation on 16 November 2011 and submitted its first, second and third defence statements to the Competition Board on 12 December 2011, 9 October 2012 and 7 January 2013, respectively. The Competition Board made its final decision regarding the investigation on 8 March 2013. The Competition Board confirmed in its decision that it had found that breaches of competition law had occurred and issued fines against the Bank and the other 11 banks which were being investigated. The fine imposed on the Bank was TL 149,961 thousand.

The Bank paid TL 112,471 thousand (75% of the administrative fine) to the relevant directorate of revenues in August 2013. In September 2013, the Bank filed an appeal at the 2nd District of Ankara Administrative Court against the decision of the Competition Board for the annulment of the relevant decision and recovery of the paid amount. The Court decided to reject the appeal of the relevant Competition Board decision (File No. 2013/1257, Dec. No 2014/1394). The Bank appealed to the 13th Council of State on 17 April 2015 against the Administrative Court's decision, and the 13th Council of State approved the decision of the 2nd District of Ankara Administrative Court. The 13th Council's decision was notified to the Bank on 29 July 2016, and the Bank submitted an appeal to revise the decision on 15 August 2016. The case is currently ongoing at the Council of State.

Ministry of Customs and Trade Administrative Fine

In September 2016, an administrative fine of TL 116,254 thousand was imposed on the Bank as the result of an audit carried out by the Ministry of Customs and Trade. TL 87,191 thousand of the administrative fine, which is the amount calculated after benefiting from the discount for early payment of an administrative fine within the timeframe provided for in Article 17 of the Law on Misdemeanors No. 5326, was paid by the Bank on 30 September 2016, and the Bank reserved its rights to litigate against the related decision. On 25 October 2016 the Bank announced that litigation against the related decision has been filed in the Istanbul 5th administrative court. The case is ongoing at the administrative court.

RISK MANAGEMENT

Internal Audit Department

The Bank's internal audit department is divided into four primary divisions: strategic planning and audit coordination, network audit, domestic and foreign subsidiary audit, and investigation. The department utilises a risk-oriented model to assess credit risk, operational and IT risk, market risk, and investigations and coordination of audits in the Bank's subsidiaries. Audits are conducted every 18 months for all of the Bank's branches on an ongoing, risk-driven basis every 12 to 60 months for the Bank's head office and subsidiaries. Regular and process audits are scheduled based on an annual audit plan which is submitted to the Board of Directors and shareholders for approval through the Audit Committee. The annual audit plan is prepared following meetings with the senior management to assess each unit's risk priorities and follow-up corrective actions on previously identified risks. In addition, significant internal audit findings are submitted to the Board of Directors at least four times a year through the Audit Committee.

In addition, the BRSA requires a "Management Assertion" study of Banking processes and IT systems to be completed by the Internal Audit Department annually. The Management Assertion study was completed as of 31 October 2016 and the Audit Committee was informed of the results. No material control deficiency has been identified in 2016; 22 medium risk issues were reported compared with 23 in 2015, 27 in 2014 and 26 in 2013. Additionally, the auditing activities started in 41 outsourced service provider firms, either on-site or remotely, again within the context of the Management Assertion framework, and the audits were finalised at the end of 2016.

Risk Management Department

The Bank's risk management department functions independently from its commercial operations. With the Credit Committee and the Asset and Liability Management function of the Executive Committee, the Risk Management department is an integral part of ensuring the Bank's compliance with the Banking Law, with respect to measuring, monitoring and managing the credit market and operational risks concerning the Bank's portfolio.

The basic functions of the Risk Management department are to measure and manage risks in a manner consistent with the Bank's risk appetite. The department is also responsible for: (a) maximising returns on invested capital and maintaining sustainable profit growth, (b) monitoring trends in risk exposures and communicating irregularities to senior management, (c) monitoring asset and liability profiles to allow the Bank to take rebalancing actions on a timely basis, (d) defining the risk structures of products, processes and services, (e) measuring the credit risk of the Bank's portfolio via rating models, and (f) ensuring the Bank's compliance with the Banking Law.

As of 31 December 2016, the risk management department has 90 employees. The main organisational segments of the department are Operational Risk Management, Credit Risk Management and Market Risk Management.

Risk Reporting Control and Operational Risk Management

Risk reporting control involves the following key roles and responsibilities in the Bank: (a) defining the optimum composition of the overall loan portfolio and identifying risk positions within legal and Group limitations, (b) preparing credit risk budget in line with the Bank's risk appetite and lending targets, (c) monitoring the evolution of credit risk for all segments (including by industry, type and sector), (d) preparing and presenting strategic credit risk related reports to the senior management (including the evolution of loan provisioning and comparison with peer banks), (e) calculating cost of risk and related provisions by segments to assess the underlying risk of the loan portfolio and maintain asset quality, and (f) providing support to the Bank's subsidiaries whilst simultaneously coordinating their functions, with the aim of achieving loan portfolio with the best credit-worthiness possible as well as ensuring the proper implementation of their credit, credit risk cost and budgeting processes. This includes the preparation of action plans for such subsidiaries in order to align implementation processes across the Group.

The operational side of the Risk Management department encompasses responsibility for the following tasks: (a) defining the Group's operational risk policy covering IT risks, (b) issuing guidelines for the measuring, evaluation and management of operational risks and IT risks, and ensuring correct implementation both at

Bank and subsidiary levels, (c) developing and regularly updating the operational risk measuring and monitoring systems and models at Group level, (d) measuring and monitoring operational risks and IT risks at Group level, (e) carrying out "second level controls" for operational risks and IT risks at Group level, (f) ensuring compliance with Basel II in the area of operational risk, (g) managing the Business Continuity Plan of the Bank with particular responsibility for assuring the establishment and maintenance of the plan, and controlling and coordinating the various entities involved in the process, (h) preparing action plans for operational risk mitigation and coordinating the implementation of such plans, and (i) taking into account the significance of reputational risk and consequently setting and ensuring implementation of policies and strategies, which are assessed, quantified and managed with the overall intention of minimising such complications.

Credit Risk Management

The credit risk management department coordinates the following: (a) measuring the credit risk of portfolios by developing PD (Probability of Default), EAD (Exposure at Default) and LGD (Loss Given Default) models, which are used to compute the EL (Expected Loss) of a subject if it were to default, (b) defining the business specifications of all information technology tools used throughout the credit processes and the information technology systems where information about credit risk is kept (e.g. limits, risks, collaterals, credit risk datamarts in the DataWarehouse), (c) evaluating new credit products and changes to existing credit products, (d) leading credit risk related Basel IRB preparations at a Group level in anticipation of approaches by the BRSA, (e) validating and monitoring the rating/scoring systems used by the Bank in daily business process, (f) establishing, monitoring and coordinating studies related to Internal Capital Adequacy Assessment Process and economic capital calculations, (g) managing and monitoring rule sets used in retail portfolios for underwriting, monitoring and collection purposes, and (h) making economic calculations for the credit portfolio.

On 21 July 2016, the Turkish government declared a three-month state of emergency following the attempted coup. This state of emergency was then further extended for an additional three months. The state of emergency law allows for removal of public employees and transfers of the assets of individuals and related companies to the Turkish treasury. To comply with the state of emergency law, the Bank's legal department is in charge of monitoring the government's declarations and reporting exposures of the Bank's customers on a daily basis.

Lending Policy

Lending Limits

The BRSA defines large exposure as an exposure exceeding 10% of the Bank's capital base in light of BRSA credit conversion factors. The Bank's total exposure to a single company or group cannot exceed 25% of the Bank's capital base. Total exposure to a risk group (comprised of Koç Holding and UniCredit Group) cannot exceed 20% of the Bank's capital base. The total of the Bank's large exposures cannot exceed the Bank's capital base by more than eight times. To date, the Bank has never exceeded these ratios. Further description of the applicable regulatory requirements is set out in "*Turkish Regulatory Environment—Lending Limits*" in the Base Prospectus.

According to the Bank's credit policy each individual sector should not exceed a targeted level of 10% of total loan portfolio. Currently, the only industrial sector that exceeds this internal limitation is the construction sector, including non-cash lending. This sector also includes various sub sectors, such as commercial real estate finance, which constitutes a significant share of this sector. KFS's total exposure to a single company or group cannot exceed 20% of KFS's consolidated capital base.

Limit Structure

The Bank's credit underwriting divides commercial credits into three risk categories. Category A (full risk) includes credit lines that are not directly and explicitly associated with a commercial transaction and are not self-liquidating, as well as medium/long term credit lines (with maturity over 18 months) that are directly associated with a commercial transaction. Category B (commercial risk) includes all short term trade/commercial related credit lines which are not self-liquidating. Category C (self-liquidating risk) includes

all credit lines supported with credit transfer and/or against a reimbursement predetermined procedure that is self-liquidating.

From 2015, the Bank has begun implementing a new limit methodology, where conversion is effected in iterations, starting with corporate and commercial clients. This new limit method divides credits into five risk categories: Cash, Payment Guarantee, Other Non-Cash, Cash Management and Derivative.

Approval Authorities

In general, the lowest level of authoritative personnel for credit approval is the branch manager for corporate and commercial loans and the retail sales manager for SME loans. Up to certain thresholds, there is no involvement of credit departments at either branch or regional level.

For authorisations of credit above TL 750,000 (after taking rating and product coefficients into account) for SMEs and TL 1,500,000 adjusted (after taking rating and product coefficients into account capped with a nominal limit of TL 3,000,000) for corporate and commercial banking, starting at the level of the Regional Manager, the credit department will be involved and their credit opinion will be binding. If a credit opinion is negative, the credit proposal may either be passed onto a higher authority or be rejected.

The credit department is authorised to approve corporate and commercial banking that amounts to TL 1,500,000 or above the adjusted limit (after taking rating and product coefficients into account capped with a nominal limit of TL 3,000,000).

Higher Credit and/or Reputation Risk Loans

Certain types of transactions entail a higher credit and/or reputation risk for the Bank and are therefore either discouraged or require a higher level of approval. The Bank applies higher levels of approval and a prudent approach towards loans in other sectors, such as media, health and arms and weapons dealings.

Corporate and Commercial Lending

Corporate and commercial underwriting is performed by three units: the corporate credit underwriting section, the commercial credit underwriting section and the specialised credit underwriting section. The corporate credit underwriting section considers credit applications of companies with an annual turnover above U.S.$100 million or annual foreign trade volume above U.S.$30 million or companies considered clients of the corporate strategic business unit. The commercial credit underwriting section reviews credit applications of companies with an annual turnover between U.S.$10 million and U.S.$100 million or annual foreign trade volume between U.S.$1 million and U.S.$30 million. The commercial credit underwriting section has both regional and head office organisation. There are eight regions (four in Istanbul and four in Anatolia) in addition to the Bank's head office. The specialised credit and corporate credit teams are located in the head office. The specialised credit team analyses the credit requests for energy (hydro, wind, solar, thermal, biomass, distribution etc.), real estate (shopping centres or mixed type projects), shipping (ship construction and ship operation) and mergers and acquisitions.

Retail Lending

Retail underwriting utilises scorecards, decision trees and rule sets to evaluate the creditworthiness of applications. Once the data entry for credit card and individual loan applications is performed, inquiries to external sources (including the credit bureau and the Central Bank) and internal data sources (including customer information file and product performance) are run. Retail application scores are calculated through a computerised system. Once the inquiries are completed, the data is sent to the decision engine, where decision trees, data methods, and rule sets are checked and the final decision is provided. Loan to value ratios are up to 80% for residential mortgage loans, 50% for working premises loans and 70% for car loans with a vehicle value of up to TL 50,000. If the invoice amount is greater than TL 50,000, the loan to value ratios are up to 70% for the amount up to TL 50,000 and up to 50% for the remainder.

Credit card limits are calculated as twice the monthly net income of the customer for the first year. For the second and subsequent years, credit limits are calculated as four times the monthly net income of the customer.

The SME credit underwriting section is organised into nine regions (three in Istanbul and six in Anatolia) and in the Bank's head office. The rating system, as well as the results from internal and external inquiries, is the major parameters for credit decisions in SME underwriting. Relevant external and internal information is gathered and fed into the underwriting tools automatically. New and existing clients with bad ratings are rejected automatically whereas clients with ratings that meet certain thresholds are approved automatically by the system.

Rating Models

For corporate and commercial clients, internal application rating models integrated within the underwriting process assign a probability of default to each borrower, who is then classed into one of nine *grades.* The model is composed of various modules that encompass different sectors of information. There is a module that solely considers the demographic data received about a borrower. Financial information is also received both internally and from the central bank, where the negative as well as positive events of a borrower are considered. The categories stated above involve the quantitative side of the model; however, a module for the qualitative portion of assessment is also used. The outputs of rating models reflect the risk-fullness of each considered client and generic provisions are set in accordance with each performing client's rating. Additionally, there is a model for the Construction sector of the Commercial portfolio.

Six application rating models are used to measure the credit-worthiness of SME clients. These models classify clients in 20 rating classes and assign a probability of default to each borrower. Data is acquired from both internal and external sources, with the combination of data compiled by relationship managers while preparing proposals. The first versions of the models were developed and implemented in 2009. In March 2014, the Bank started to use the "fourth generation" of the models.

For consumer loans, behavioural rating models have been in use since April 2012. For corporate, commercial and SME clients, behavioural rating models were upgraded in September 2012. The behavioural scorecards are rating models that are aimed at measuring the worthiness of existing clients. In 2014, these behavioural models were re-calibrated for the SME model. Such rating models are intended to act as a warning of an approaching default and can be used to indicate when the monitoring process of a client should begin. These behavioural ratings are calculated on a monthly basis. Since January 2010, the Bank monitors internally developed exposure at default and loss given default models, which have also been used to define Business related processes.

The outcomes of rating models reflect the riskiness of each rated customer/credit, and generic provisions are set aside in accordance with each performing client's/credit's rating. These differentiated evaluation methodologies and processes are based on market segments and give the Bank the ability to measure, manage and monitor credit risk in a more accurate way.

Loan Loss Provisioning Policy

For purposes of loss provisioning the loans are divided into five groups.

- 1st group: Includes standard loans and other receivables, reimbursement of which has been made within the specified periods or for which no reimbursement problems are expected in the future, and which can be fully collected. No deterioration in the credit risk of the debtor has been observed.
- 2nd group: Includes closely monitored loans and other receivables with respect to which there is no problem at present but which the Bank believes should be more closely monitored for reasons such as decreasing solvency or cash flow problems of the debtor, significant financial risk carried by the debtor, or more generally for which capital sum and interest repayments are likely to fail and the persistence of such problems might result in partial or full non-payment risk.
- 3rd group: Includes loans and other receivables with limited collection ability. These include loans with respect to which the collection of the principal sum and/or interest has been delayed for more than 90 days but less than 180 days from the due date.
- 4th group: Includes doubtful loans and other receivables with respect to which the collection of the principal and/or interest has been delayed for more than 180 days but less than one year from the due date.

- 5th group: Includes loans and other receivables, which are considered as a loss. These include loans that are deemed to be uncollectable, or where collection of principal and/or interest has been delayed by one year or more from the due date.

In accordance with BRSA Principles, the Bank recognises a minimum provision of 1% of total cash credits with standard quality (0.2% of total of letter of guarantees, sureties and other letters of credit) and 2% of total cash credits in close follow up (0.4% for letter of guarantees, sureties and other letters of credit).

In accordance with BRSA Principles, the Bank's loan provisioning policy provides that a provision should be at least 20% when a loan is categorised as being in the 3rd group, 50% in the 4th group and 100% in the 5th group. Further description of the applicable regulatory requirements is set out in "*Turkish Regulatory Environment – Loan Loss Reserves*" in the Base Prospectus.

Exposure to Credit Risk

The top 20 clients of the Bank mainly include leading conglomerates and state owned enterprises in Turkey. As of 31 December 2016 the share of the top 20 companies in terms of the total gross loans to companies amounted to 15%. The Bank has not experienced any deterioration in the credit quality of these clients.

Market Risk Management

As part of a financial group, the Bank is constantly exposed to interest rate, liquidity and foreign exchange risks. The Bank's market risk policy provides for guidelines with respect to the market risk management and binding limit structure and defines roles and responsibilities of the various teams involved. Market risk is managed based on the treatment of the Bank's banking and trading books. The banking book consists of all assets and liabilities arising from commercial activities, and is sensitive to interest rate and foreign exchange movements. The trading book includes positions held for trading, client servicing purposes or keeping the Bank's market making status. The Bank's market risk management strategy, policies and guidelines are based on UniCredit Group standards as well as on the Turkish regulatory rules and procedures.

The Bank's trading activity is realised on foreign exchange, securities and derivatives, which are tolerated within predefined limits. Risk limits are set in terms of end-of-day and intra-day position basis, as well as value at risk ("**VaR**"), monitored on a daily basis. Monitoring of trading activity is performed daily through reports prepared by the market risk management department, which show VaR positions and stop-loss limits, in addition to back-testing profit and loss figures. These reports are then sent to the Bank's executive management, the Treasury department and the UniCredit risk management group.

The banking book's interest rate risk is measured daily on basis point sensitivity and monthly through the economic value perspective. The economic value sensitivity method calculates the potential change in fair value of the Bank's interest rate positions resulting from a parallel upward or downward shift of the yield curve. As outlined in Basel II, this interest rate fluctuation is to be maintained within 20% of the Bank's core Tier 1 and Tier 2 capital. Interest rate swaps are utilised to mitigate the banking book interest rate risk resulting from the maturity mismatch. Besides Economic Value Sensitivity, an overall VaR, covering all on and off balance sheet items and Basis Point Value methods are used to measure the structural interest rate risk. Structural foreign exchange position risk limits and VaR are also monitored daily and reported to the executive management.

The Bank monitors liquidity risk daily, paying particular attention to keeping enough cash and cash equivalent instruments to fund increases in assets, unexpected decreases in liabilities, as well as meeting legal requirements, while optimising the cost of carrying any excess liquidity. The liquidity policy provides guidelines to quantify the liquidity position and achieve a sound balance between profitability and liquidity needs. Liquidity risk limits are set both for short term and structural long term liquidity positions. The Bank has its own liquidity contingency plan on liquidity management. As part of the UniCredit Group, the Bank is included in the UniCredit Group liquidity contingency plan. Moreover, the Bank maintains the majority of its securities portfolio as marketable, thus facilitating access to repo market as and when short liquidity is needed.

The Bank's derivative instruments are limited to financial instruments such as forwards, swaps, futures and options in foreign exchange and capital markets. These transactions are considered effective economic hedges under the Group's management policies.

As part of its market risk management, the Group undertakes various hedging strategies. The Group also enters into interest rate swaps to match the interest rate risk associated with the fixed rate long-term loans.

Fair value hedges

Since 1 March 2009, the Bank has hedged the possible fair value effects of changes in market interest rates on part of its fixed interest Turkish Lira mortgage and car loan portfolios, as well as changes in foreign exchange rates on part of its foreign currency borrowed denominated funds, using cross currency rate swaps. The net carrying value of hedging instruments as of 31 December 2016 amounted to assets of TL 205,519 thousand compared with assets of TL 251,230 thousand as of 31 December 2015 and TL 177,895 thousand as of 31 December 2014. As of 31 December 2016, the mark to market difference of the hedging instruments since the inception date of the hedge relationship was a gain of TL 14,710 thousand compared with a loss of TL (17,963) thousand as of 31 December 2015 and a loss of TL (5,403) thousand as of 31 December 2014. As of 31 December 2016, the fair value difference of the hedged item was TL (8,587) thousand compared with TL (28,479) thousand as of 31 December 2015 and TL (10,516) thousand as of 31 December 2014. Their changes in fair value amounted to an increase of TL 14,710 thousand as of 31 December 2016, a decrease of TL 17,963 thousand as of 31 December 2015 and a decrease of TL 5,403 thousand as of 31 December 2014.

Cash flow hedges

The Group is exposed to fluctuations in future interest cash flows on non-trading assets and liabilities which bear interest at a variable rate. The Group uses interest rate swaps as cash flow hedges to guard against these interest rate risks.

In order to hedge its cash flow risk from liabilities, the Group has applied cash flow hedge accounting since 1 January 2010.

Net gain on cash flow hedges reclassified to the statement of income

The net gain/(loss) on cash flow hedges reclassified to the statement of income during the year ended 31 December 2016 and the years ended 31 December 2015 and 2014:

	For the year ended 31 December		
	2016	**2015**	**2014**
		(TL, thousands)	
Portion of cash flow hedges reclassified to the statement of income........	(44,407)	(89,216)	(158,005)

For the year ended 31 December 2016 and the years ended 31 December 2015 and 2014, losses of TL 5,290 thousand, TL 6,355 thousand and TL 12,225, respectively, were recognised in the statement of income due to the ineffectiveness of cash flow hedges.

As of 31 December 2016, 2015 and 2014, net gains and losses arising from cash flow hedges recognised under equity, net of reclassification to statement of income and net of tax, were TL 111,184 thousand, TL 564,974 thousand and TL (181,892) thousand, respectively.

Net investment hedges

The Group hedges part of the currency translation risk of net investments in foreign operations through currency borrowings.

The Group's euro denominated borrowing is designated as a hedge of the net investment in certain of the Group's euro denominated subsidiaries. The total amount of borrowing designated as a hedge of the net investment as of 31 December 2016 was EUR 386 million compared to EUR 348 million as of 31 December 2015 and EUR 275 million as of 31 December 2014.

Value-at-risk

The Group applies a VaR methodology to its trading portfolios, to estimate the market risk of positions held and the maximum losses expected, based on a number of assumptions for various changes in market conditions. The VaR limits are set by the Board and revised every year according to the budget and strategic plan of the Group. VaR limit compliance is monitored by risk management on a daily basis. Since 1 January 2009, these limits have not been exceeded.

VaR is a statistical estimate of the potential loss on the current portfolio from adverse market movements. It expresses the maximum amount the Group might lose, but only to a certain level of confidence (99%). Therefore, actual loss could be greater than the VaR estimate, with 1% probability. The VaR model of the Group assumes a one day "holding period" for liquidation of positions, hence potential losses are projected based on daily returns. The Group's assessment of past movements is based on data for the last 500 days. The Group applies these historical changes in rates, prices, indices, etc. directly to its current positions—a method known as historical simulation. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VaR calculation (back testing). The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

As VaR constitutes an integral part of the Group's market-risk control regime, VaR limits are established by the Board annually for all trading portfolio operations. For investment positions, as well as for the held-to-maturity portfolio, risk appetite limits are applied (VaR/nominal position). Actual exposure against limits, together with a consolidated group-wide VaR, is reviewed daily by risk management. Average daily VaR of the Group's trading portfolio for the year ended 31 December 2016 was TL 2,508 thousand compared to TL 4,067 thousand for the year ended 31 December 2015 and TL 3,741 thousand for the year ended 31 December 2014. As of 31 December 2016, the VaR for the trading portfolio of the Group was TL 4,176 thousand.

The quality of the VaR model is continuously monitored by back testing the VaR results for trading books. All exceptions in the back testing process are investigated and results are reported to the monthly meetings of the Asset and Liability Management function within the Executive Committee.

Stress tests

Stress tests provide an indication of the potential size of the losses that could arise in extreme conditions. The stress tests carried out by risk management, also indicated in the market risk policy of the Group, include foreign exchange and interest rate stress testing, where stress movements are applied to the foreign exchange position and to the banking book. The results of the stress tests are reviewed by the Asset and Liability Management function within the Executive Committee. Following the implementation of the Internal Capital Adequacy Assessment Process by the local regulator in Turkey, the Bank also calculates bank-wide stress tests.

Foreign exchange risk

Foreign exchange exposure is the result of the mismatch of foreign currency denominated assets and liabilities (including foreign currency indexed ones) together with exposures resulting from off-balance sheet foreign exchange derivative instruments. The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The limits are set by the Board on the level of exposure in aggregate for both overnight and intra-day positions, which are monitored on a daily basis. The Bank performs periodic stress tests on foreign currency VaR by implementing different scenarios. These stress test scenarios are periodically renewed and monitored in accordance with market volatility.

Interest rate risk

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group is exposed to the effects of fluctuation in the prevailing levels of market interest rates in both its fair value and cash flow risks. Interest rate risk limits are set in terms of a total economic value sensitivity limit. Sensitivity analysis is performed according to a scenario of 4% shift in Turkish Lira yield curve and 2% shift in foreign exchange yield curve. The resulting profit/loss should not exceed 20% of the Bank's Tier 1 and Tier 2 Capital. Moreover, the BPV is applied for the banking book. The BPV limit restricts maximum interest rate risk position by currency and time buckets with valuation changes being based on an interest rate change of 0.01%.

In 2009 the Bank started to hedge a portion of its interest rate risk between its medium- and long-term fixed rate Turkish Lira loans (such as mortgages) and its Turkish Lira deposits, which have a relatively short maturity when compared to the Bank's assets. The Bank hedged this exposure by creating fixed rate

medium/long-term Turkish Lira funding via cross currency interest rate swap contracts (U.S. dollars against Turkish Lira) and interest rate swaps.

The tables below set out the Group's exposure to interest rate risk as of 31 December 2016, 31 December 2015 and 2014 in TL thousands. The tables include the Group's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates.

	As of 31 December 2016						
	Up to 1 month	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**5 years and over**	**Non-interest bearing**	**Total**
Assets							
Cash (cash in vault, effectives, cash in transit, cheque purchased) and balances with the Central Bank of the Republic of Turkey	18,716,507	-	55,603	-	-	14,311,185	**33,083,295**
Banks	1,288,116	621,003	202,417	1,083	-	1,336,347	**3,448,966**
Financial assets at fair value through profit/loss	1,084,075	799,785	431,598	429,746	288,991	6,635	**3,040,830**
Money market placements	252	-	-	-	-	-	**252**
Available-for-sale financial assets	2,391,170	4,113,076	5,798,470	3,475,043	2,404,967	203,383	**18,386,109**
Loans	28,880,789	31,619,615	54,549,782	40,263,114	21,172,537	2,178,585	**178,664,422**
Held-to-maturity investments	11,601	868,075	1,505,914	1,645,515	7,557,785	-	**11,588,890**
Other assets	3,196,759	1,871,657	2,091,349	5,027,780	766,035	9,968,246	**22,921,826**
Total assets	**55,569,269**	**39,893,211**	**64,635,133**	**50,842,281**	**32,190,315**	**28,004,381**	**271,134,590**
Liabilities							
Bank deposits	6,263,450	598,498	696,516	-	-	613,650	**8,172,114**
Other deposits	87,315,238	25,054,236	8,862,812	981,506	133,683	26,568,606	**148,916,081**
Funds from money market	6,699,947	915,685	1,502,348	87,049	-	-	**9,205,029**
Miscellaneous payables	-	-	-	-	-	11,162,787	**11,162,787**
Marketable securities issued	598,290	10,802,731	1,112,075	5,530,026	37,345	-	**18,080,467**
Funds borrowed from other financial institutions	7,530,570	10,149,293	10,240,290	1,853,121	735,500	-	**30,508,774**
Other liabilities and shareholders' equity	604,694	348,832	597,932	905,572	9,272,345	33,359,963	**45,089,338**
Total liabilities	**109,012,189**	**47,869,275**	**23,011,973**	**9,357,274**	**10,178,873**	**71,705,006**	**271,134,590**
Balance sheet long position	**-**	**-**	**41,623,160**	**41,485,007**	**22,011,442**	**-**	**105,119,609**
Balance sheet short position	**(53,442,920)**	**(7,976,064)**	**-**	**-**	**-**	**(43,700,625)**	**(105,119,609)**
Off-balance sheet long position	9,992,141	17,275,624	-	-	-	-	27,267,765
Off-balance sheet short position	-	-	(2,350,770)	(16,392,589)	(8,159,895)	-	(26,903,254)
Total position	**(43,450,779)**	**9,299,560**	**39,272,390**	**25,092,418**	**13,851,547**	**(43,700,625)**	**364,511**

	As of 31 December 2015						
	Up to 1month	**1 – 3 months**	**3 12 months**	**1 – 5 years**	**5 years and over**	**Non-interest bearing**	**Total**
Assets							
Cash (cash in vault, effectives, cash in transit, cheque purchased) and balances with the Central Bank of the Republic of Turkey	17,087,214	—	58,152	—	—	10,243,581	**27,388,947**
Banks	928,892	782,638	170,961	—	—	1,229,014	**3,111,505**
Financial assets at fair value through profit/loss	639,390	221,550	608,555	238,771	49,987	8,040	**1,766,293**
Money market placements	284,115	2,011	—	—	—	—	**286,126**
Available-for-sale financial assets	2,064,819	5,606,359	7,561,054	3,788,649	3,546,226	273,097	**22,840,204**
Loans	24,799,040	18,136,911	49,801,041	39,551,011	20,201,092	1,528,894	**154,017,989**
Held-to-maturity investments	—	396,679	1,221,604	1,143,899	4,346,627	—	**7,108,809**
Other assets	1,908,390	1,229,534	1,759,260	4,402,110	564,058	8,884,707	**18,748,059**
Total assets	**47,711,860**	**26,375,682**	**61,180,627**	**49,124,440**	**28,707,990**	**22,167,333**	**235,267,932**
Liabilities							
Bank deposits	3,678,714	382,544	672,053	33,072	-	349,936	**5,116,319**
Other deposits	64,571,208	33,002,949	6,398,343	685,677	288,583	19,961,986	**124,908,746**
Funds from money market	13,702,748	315,153	245,636	-	-	-	**14,263,537**
Miscellaneous payables	-	-	-	-	-	9,794,681	**9,794,681**
Marketable securities issued	435,023	8,129,023	2,325,254	6,251,601	31,992	-	**17,172,893**
Funds borrowed from other financial institutions	6,792,512	9,134,800	7,339,844	768,127	825,696	-	**24,860,979**
Other liabilities and shareholders' equity	763,758	583,539	1,104,543	193,425	6,086,423	30,419,089	**39,150,777**
Total liabilities	**89,943,963**	**51,548,008**	**18,085,673**	**7,931,902**	**7,232,694**	**60,525,692**	**235,267,932**
Balance sheet long position	—	—	**43,094,954**	**41,192,538**	**21,475,296**	——	**105,762,788**
Balance sheet short position	**(42,232,103)**	**(25,172,326)**	—	—	—	**(38,358,359)**	**(105,762,788)**
Off-balance sheet long position	6,138,880	18,321,753	—	—	—	—	**24,460,633**
Off-balance sheet short position	—	—	(6,677,496)	(14,181,466)	(4,332,133)	—	**(25,191,095)**
Total position	**(36,093,223)**	**(6,850,573)**	**36,417,458**	**27,011,072**	**17,143,163**	**(38,358,359)**	**(730,462)**

	As of 31 December 2014						
	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	5 years and over	Non-interest bearing	Total
Assets							
Cash (cash in vault, effectives, cash in transit, cheque purchased) and balances with the Central Bank of the Republic of Turkey	1,299,884	—	—	—	—	21,914,781	**23,214,665**
Banks	1,110,996	550,000	111,757	48,172	-	2,070,950	**3,891,875**
Financial assets at fair value through profit/loss	314,255	235,234	530,835	72,393	52,955	4,120	**1,209,792**
Money market placements	1,568,750	—	—	—	—	—	**1,568,750**
Available-for-sale financial assets	1,047,104	3,378,655	7,682,621	3,630,719	2,821,837	113,161	**18,674,097**
Loans	27,855,780	28,760,233	34,508,942	26,280,409	8,128,703	1,273,042	**126,807,109**
Held-to-maturity investments	46,660	427,237	1,074,105	789,647	3,218,720	—	**5,556,369**
Other assets	2,516,136	844,399	1,609,333	2,852,046	516,122	5,698,012	**14,036,048**
Total assets	**35,759,565**	**34,195,758**	**45,517,593**	**33,673,386**	**14,738,337**	**31,074,066**	**194,958,705**
Liabilities							
Bank deposits	1,457,118	161,294	487,985	31,301	—	406,111	**2,543,809**
Other deposits	56,203,929	27,010,539	4,620,103	814,992	207,116	16,230,143	**105,086,822**
Funds from money market	7,737,585	725,194	116,054	195,919	—	—	**8,774,752**
Miscellaneous payables	—	—	—	—	—	8,738,336	**8,738,336**
Marketable securities issued	420,397	4,587,074	3,391,721	3,845,451	1,111,294	—	**13,355,937**
Funds borrowed from other financial institutions	5,372,903	6,630,970	7,953,400	970,563	489,120	—	**21,416,956**
Other liabilities and shareholders' equity	317,984	1,918,550	996,160	73,707	4,794,907	26,940,785	**35,042,093**
Total liabilities	**71,509,916**	**41,033,621**	**17,565,423**	**5,931,933**	**6,602,437**	**52,315,375**	**194,958,705**
Balance sheet long position	—	—	**27,952,170**	**27,741,453**	**8,135,900**	—	**63,829,523**
Balance sheet short position	**(35,750,351)**	**(6,837,863)**	—	—	—	**(21,241,309)**	**(63,829,523)**
Off-balance sheet long position	3,363,730	13,286,633	1,540,302	—	—	—	**18,190,665**
Off-balance sheet short position	—	—	—	(18,178,694)	(408,169)	—	**(18,586,863)**
Total position	**(32,386,621)**	**6,448,770**	**29,492,472**	**9,562,759**	**7,727,731**	**(21,241,309)**	**(396,198)**

Liquidity Risk

Liquidity risk arises from mismatches between maturities of assets and liabilities, which may result in the Bank being unable to meet its obligations in a timely manner. The Bank's liquidity risk is managed as part of the asset and liability management strategy in accordance with the Bank's market risk policies. In order to manage this risk, the Bank's funding sources are diversified and the Bank believes that it holds sufficient cash and cash equivalents to fund its liabilities in the event such mismatches occur. During the monthly meetings of the Asset and Liability Management function within the Executive Committee, the liquidity position of the Group is evaluated and measures are implemented if necessary.

The Bank uses the following definitions with respect to the components of liquidity risk:

(a) Liquidity mismatch risk refers to the risk of non-conformity between the amounts and/or the maturities or cash inflows and cash outflows;

(b) Liquidity contingency risk refers to the risk that future unexpected events could require a greater amount of liquidity than the amount estimated necessary by the Bank. This risk could arise as a result of events such as the failure by clients to reimburse loans, the need to finance new assets, difficulties in selling liquid assets or obtaining new financings in the event of a liquidity crisis; and

(c) Market liquidity risk refers to the risk that the Bank may incur losses as a result of the sale of assets deemed to be liquid, or in extreme conditions is unable to liquidate such positions due to insufficient liquidity offered by the market or keeps the position that is too large when compared to market turnover.

Reports on short-term liquidity positions and structural liquidity positions are prepared by the Bank's risk management department. Short-term liquidity risk management focuses on events that can impact upon the Bank's liquidity position from one day and up to three months. Structural liquidity positions focus on events effecting the Group's long-term liquidity position. The primary objective is to maintain an adequate ratio between total liabilities and medium or long-term assets, with a view of avoiding pressures on short-term sources (both current and future), while optimising the cost of funding.

According to the BRSA Communiqué on liquidity, banks have to meet 80% liquidity ratio of foreign currency assets/liabilities and 100% liquidity ratio of total assets/liabilities for weekly and monthly time brackets. The risk management department performs the calculation of the above-mentioned ratios on a daily basis and shares the results with the Treasury department and the Bank's senior management. Further description of the applicable regulatory requirements is set out in "*Turkish Regulatory Environment—Liquidity Reserve Requirements*" in the Base Prospectus.

A significant portion of the Group's funding base consists of deposits and funds borrowed. As of 31 December 2016, deposits comprised 57.94% of the Bank's total liabilities and, of all deposits, 93.20% had maturities of three months or less. As of 31 December 2016, loans and receivables comprised 65.90% of the Bank's total assets and, of all loans and receivables, 27.22% had maturities of three months or less.

The following tables set forth the Group's breakdown of financial liabilities according to their remaining contractual maturities as of 31 December 2016, 2015 and 2014 in TL thousands:

	As of 31 December 2016					
	Demand and up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Above 5 years	Total
			(TL, thousands)			
Liabilities						
Deposits	121,503,298	25,967,821	9,778,772	986,930	133,707	158,370,528
Funds borrowed from other financial institutions	1,582,766	2,812,256	20,122,521	7,814,443	2,654,499	34,986,485
Funds from money market	6,718,374	922,314	1,515,507	87,049	-	9,243,244
Subordinated loans	-	131,831	416,029	2,163,955	10,147,038	12,858,853
Marketable securities issued	634,449	4,311,511	1,345,780	7,433,015	5,300,698	19,025,453
Total	**130,438,887**	**34,145,733**	**33,178,609**	**18,485,392**	**18,235,942**	**234,484,563**

	As of 31 December 2015					
	Demand and up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Above 5 years	Total
			(TL, thousands)			
Liabilities						
Deposits	88,996,260	33,859,767	7,241,042	754,978	349,975	131,202,022
Funds borrowed from other financial institutions	1,567,281	2,240,927	14,317,262	6,150,021	4,178,948	28,454,439
Funds from money market	13,719,659	315,429	257,316	-	-	14,292,404
Subordinated loans	-	47,942	300,656	1,936,583	6,697,677	8,982,858
Marketable securities issued	521,307	1,663,115	3,129,545	8,535,659	4,338,997	18,188,623
Total	**104,804,507**	**38,127,180**	**25,245,821**	**17,377,241**	**15,565,597**	**201,120,346**

	As of 31 December 2014					
	Demand and up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Above 5 years	Total
			(TL, thousands)			
Liabilities						
Deposits	74,661,139	27,538,017	5,241,649	902,827	258,342	108,601,974
Funds borrowed from other financial institutions	1,804,779	2,073,840	12,262,271	4,724,601	2,839,650	23,705,141
Funds from money market	7,754,623	727,017	119,420	205,234	-	8,806,294
Subordinated loans	-	58,857	279,392	3,058,077	5,591,020	8,987,346
Marketable securities issued	121,481	1,396,802	4,264,818	6,518,278	2,149,795	14,451,174
Total	**84,342,022**	**31,794,533**	**22,167,550**	**15,409,017**	**10,838,807**	**164,551,929**

Operational Risk Management

Operational risk is related to losses which arise as a result of inadequate or ineffective internal processes, personnel or systems or due to external events. The operational risk management team monitors the Bank's operational and reputational risk exposure in accordance with the Bank's standards and policies, collects operational risk data in a web-based database, identifies risk indicators, conducts scenario analysis assessment, plans for business continuity management and assures the quality of data gathered in accordance with Basel II standards, proposes insurance hedging on operational risks, prepares risk mitigation plans and coordinates IT risk management activities. The operational risk management department performs second level controls, manages and measures the Bank's operational risks.

The Bank's objective is to implement the advanced measurement approaches of Basel II and related measurement systems in operational risk management. As part of the Basel II operational risk project, the Bank has been collecting data on internal operational risk since 2004. Data on internal losses are collected from various departments and branches using wed-based systems. Scenario analysis studies for measuring and managing the impacts of unrealised potential operational risk have been performed since 2008. Key risk indicator analyses have been performed to monitor current and potential operational risk exposure of the Bank since 2007. A dedicated database was established for monitoring the trends of key risk indicators. Moreover, a risk based insurance management approach was used to seek to minimise main operational risks that the Bank is exposed to. These actions have resulted in minimising internet fraud, enhancing the effectiveness of the risk transfer mechanism and helped senior management to better understand and monitor the main risk factors associated with banking activities. Additionally, potential risk evaluations were made before launching new products and services and the findings were shared with related departments so that necessary measures could

be taken. Besides, both for IT and logistics purposes, the business continuity management activities and investments were accomplished and necessary tests were performed.

For regulatory and statutory capital adequacy ratio purposes, the Group calculated the amount subject to operational risk on a consolidated basis with the basic indicator method in accordance with Section 3 of "*Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio*" published by the Official Gazette No. 29111 dated 6 September 2014, namely "*The Calculation of the Amount Subject to Operational Risk*", based on the gross income of the Group for the years ended 2015, 2014 and 2013. As of 31 December 2016 (calculated as at 31 December 2015 for the year 2016), the total amount subject to operational risk was calculated as TL 14,338,007 thousand, compared to TL 12,833,313 thousand as of 31 December 2015 and TL 11,505,425 thousand as of 31 December 2014. As of 31 December 2016, the amount of the related capital requirement was TL 1,147,041 thousand, compared to TL 1,026,665 thousand as of 31 December 2015 and TL 920,434 thousand as of 31 December 2014.

Capital Management

Banks in Turkey are required to comply with capital adequacy guidelines published by the BRSA. These capital adequacy guidelines are based on standards established by BIS. These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance sheet exposures.

A bank's capital adequacy ratio is calculated based on the aggregate of its Tier 1 capital (which includes paid in capital, reserves, retained earnings, unrealised gain and loss on available-for-sale financial assets, changes in the marked-to-market value of subsidiaries, profit for the current periods minus period loss (if any), and 60% of goodwill), its Tier 2 capital (which includes general loan provisions and subordinated loans obtained) minus deductions (which include subordinated loans extended and 40% of goodwill), and by dividing the result by risk-weighted assets, which reflect credit risk, operational risk and market risk. In accordance with the guidelines, banks must maintain a total capital adequacy ratio of a minimum of 8%. By taking into account banks' internal systems, assets and financial structure, the BRSA is authorised to (i) increase the minimum capital adequacy ratio, (ii) set different ratios for each bank, and (iii) determine a different calculation and submission period for capital adequacy ratio for each bank. If a bank's capital adequacy ratio is below the ratio set by the BRSA, certain restrictions are imposed.

The Bank and its individually-regulated operations were in compliance with all of the above mentioned capital adequacy requirements as of 31 December 2016.

The table below shows the Group's regulatory capital position on a consolidated BRSA basis as of 31 December 2016 in TL thousands unless otherwise stated:

	As of 31 December 2016	Amounts subject to treatment before 1/1/2014[1]
Common Equity Tier 1 Capital		
Paid-up Capital	4,347,051	—
Share issue premiums	543,881	—
Retained earnings	14,539,224	—
Accumulated other comprehensive income and other disclosed reserves which defined in the Turkish Accounting Standards	3,053,077	—
Profit	4,572,749	—
Net profit of the period	2,932,795	—
Profit of the previous years	1,639,954	—
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and cannot be recognised within profit for the period	4,561	—
Minority interest	502	—
Common Equity Tier 1 capital before regulatory adjustments	**27,061,045**	**—**
Common Equity Tier 1 capital: regulatory adjustments		
Prudential valuation adjustments	19,189	—
The sum of the net loss for the current period and the previous years which could not be absorbed by the retained earnings and losses recognised in equity in accordance with TAS	939,892	—
Improvement costs for operating leasing	119,336	—
Goodwill (net of related tax liability)	587,696	979,493
Other intangibles other than mortgage-servicing rights (net of related tax liability)	331,709	552,848
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	—	
Cash-flow hedge reserve	379,150	—
Shortfall of provisions to expected losses	—	—
Securitisation gain on sale	—	—
Gains and losses due to changes in own credit risk on fair valued liabilities	—	—
Defined-benefit pension fund net assets	—	—
Investments in own shares	—	—
Credits extended contrary to the fourth paragraph of Articles 56 of the Banking Law	—	—
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	—	—
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank owns more than 10% of the issued share capital (amount above 10% threshold)	—	—
Mortgage servicing rights (amount above 10% threshold)	—	—
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	—	—
Amount exceeding the 15% threshold (as set out in the paragraph 2 of the Provisional Article 2 of the Regulation on Banks' Own Funds)	—	—
The amount above threshold for the investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank owns more than 10% of the issued share capital	682,728	—
The amount above threshold for mortgage servicing rights	—	—
The amount above threshold for deferred tax assets arising from temporary differences	—	—
National specific regulatory adjustments which shall be determined by the BRSA	—	—
Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	—	—
Total regulatory adjustments to Common equity Tier 1	**3,059,700**	—
Common Equity Tier 1 capital (CET1)	**24,001,345**	—
Additional Tier 1 Capital		—
Preferred shares that are not included in Common Equity Tier 1 capital and related shares issue premiums	—	—
Eligible capital instruments and relevant share issue premiums that are approved by the BRSA	—	—
Eligible capital instruments and relevant share issue premiums that are approved by the BRSA (For the purposes of the Provisional Article 4 of the Regulation on Banks' Own Funds)	—	—
Shares of Third Parties in Additional Tier I Capital	—	—
Shares of Third Parties in Additional Tier I Capital (Covered by Temporary Article 3)	—	—
Additional Tier 1 capital before regulatory adjustments	—	—
Additional Tier 1 capital: regulatory adjustments	—	—
Investments in own Additional Tier 1 instruments	—	—

	As of 31 December 2016	Amounts subject to treatment before 1/1/2014[1]
Reciprocal cross-holdings in Additional Tier 1 instruments	—	—
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	—	—
Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	—	—
National specific regulatory adjustments which shall be determined by the BRSA	—	—
Regulatory Adjustments which will be deducted from Tier 1 capital during the transition period		
Goodwill and other intangible assets and related deferred tax liabilities which will not deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	612,936	—
Net deferred tax asset/liability which is not deducted from Common Equity Tier 1 capital for the purposes of the sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	—	—
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	—	—
Total regulatory adjustments to Additional Tier 1 capital	—	—
Total Additional Tier 1 capital	—	—
Total Tier 1 capital (Tier 1 capital = Common Equity Tier 1 capital + Additional Tier 1 capital)	**23,388,409**	—
Tier 2 Capital		—
Eligible capital instruments and relevant share issue premiums that are approved by the Agency	5,472,356	—
Eligible capital instruments and relevant share issue premiums that are approved by the Agency (For the purposes of the Provisional Article 4 of the Regulation on Banks' Own Funds)	1,066,560	—
Shares of Third Parties in Additional Tier I Capital	—	—
Shares of Third Parties in Additional Tier I Capital (Covered by Temporary Article 3)	—	—
Provisions (Article 8 of the Regulation on the Equity of Banks)	2,886,021	—
Tier 2 capital before regulatory adjustments	**9,424,937**	—
Tier 2 capital: regulatory adjustments		—
Direct and indirect investments of the Bank on its own Tier 2 Capital (-)	—	—
Investments of the Bank to banks that invest on the Bank's Tier 2 and components of equity issued by financial institutions with the conditions declared in Article 8	109,452	—
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold) (-)	—	—
Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions) (-)	—	—
National specific regulatory adjustments which shall be determined by the BRSA	—	—
Total regulatory adjustments to Tier 2 capital	**109,452**	—
Total Tier 2 capital	**9,315,485**	—
Total Capital (The sum of Tier 1 capital and Tier 2 capital)	**32,484,365**	—
The Sum of Tier 1 Capital and Tier 2 Capital (Total Capital)	—	—
Credits extended contrary to the provisions of Articles 50 and 51 of the Banking Law	13,811	—
Portion of the sum of the banks' real estate net book values, which is in excess of 50% of their own funds and net book values of those of merchandise and real estate which have to be acquired due to their receivables and disposed of pursuant to Article 57 of the Banking Law, which cannot be disposed of despite the lapse of a period of five years since the date of such acquisition	11,868	—
National specific regulatory adjustments which shall be determined by the BRSA	193,850	—
Regulatory Adjustments which will be deducted from Total Capital during the transition period	—	—
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold) which will not deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	—	—
Significant investments in the Additional Tier 1 capital and Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold) which will not deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	—	—

	As of 31 December 2016	Amounts subject to treatment before 1/1/2014[(1)]
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions(amount above 10% threshold), mortgage servicing rights (amount above 10% threshold), deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability) which will not deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	—	—
Own Funds	—	—
Total Capital (The sum of Tier 1 capital and Tier 2 capital)	**32,484,365**	—
Total Risk Weighted Assets	**246,436,668**	—
Capital Adequacy Ratios	—	—
Consolidated Common Equity Tier 1 Capital Adequacy Ratio(%)	9.74	—
Consolidated Tier 1 Capital Adequacy Ratio (%)	9.49	—
Consolidated Capital Adequacy Ratio (%)	13.18	—
Buffers		—
Institution specific buffer requirement of the Bank	5.512	—
Capital conservation buffer requirement (%)	0.625	—
Bank's specific countercyclical buffer requirement (%)	0.012	—
The ratio of Additional Common Equity Tier 1 capital which will be calculated by the first paragraph of the Article 4 of Regulation on Capital Conservation and Countercyclical Capital buffers to Risk Weighted Assets (%)	3.739	—
Amounts below the thresholds for deduction (before risk weighting)		—
Non-significant investments in the capital of other financials	—	—
Significant investments in the common stock of financials	—	—
Mortgage servicing rights (net of related tax liability)	—	—
Deferred tax assets arising from temporary differences (net of related tax liability)	1,218,309	—
Applicable caps on the inclusion of provisions in Tier 2 capital		—
General provisions for standard based receivables (before 10,025 limitation)	3,109,571	—
Up to 1.25% of total risk-weighted amount of general provisions for receivables where the standard approach used	2,886,021	—
Excess amount of total provision amount to credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	—	—
Excess amount of total provision amount to 0.6% of risk weighted receivables of credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	—	—
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		—
Current cap on Additional Tier 1 capital instruments which subject to phase out arrangements in the Provisional Article 4 of the Regulation on Banks' Own Funds	—	—
Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) which subject to Provisional Article 4 of the Regulation on Banks' Own Funds	—	—
Current cap on Tier 2 capital instruments which subject to phase out arrangements in the Provisional Article 4 of the Regulation on Banks' Own Funds	—	—
Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) which subject to Provisional Article 4 of the Regulation on Banks' Own Funds	—	—

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

The table below shows the Group's regulatory capital position on a consolidated BRSA basis as of 31 December 2015 in TL thousands unless otherwise stated:

	As of 31 December 2015
Common Equity Tier 1 Capital	
Paid in Capital to be entitled for compensation after all Creditors	4,347,051
Share Premium	543,881
Share Cancellation Profits	—
Legal Reserves	12,357,721
Other Comprehensive Income according to TAS	2,657,940
Profit	3,503,693
Net Current period profit	1,908,683
Prior period profit	1,595,010
Provisions for possible losses	—
Bonus shares from Associates, Subsidiaries and Joint Ventures not accounted in Current Period's Profit	4,503
Minority Shares	474
Common Equity Tier 1 capital before regulatory adjustments	**23,415,263**
Common Equity Tier 1 capital: regulatory adjustments	
Current and prior periods' losses not covered by reserves, and losses accounted under equity according to TAS (-)	596,826
Leasehold improvements on operational leases (-)	147,518
Goodwill and intangible assets and related deferred tax liabilities (-)	591,560
Net deferred tax assets / liabilities (-)	—
Shares Obtained against Article 56, Paragraph 4 of the Banking Law (-)	—
Investments in own common equity (-)	—
Total of net long positions of the investments in equity items of consolidated banks and financial institutions where the bank does not own 10% or less of the issued share capital exceeding the 10% threshold of above Tier 1 Capital	—
Total of net long positions of the investments in equity items of consolidated banks and financial institutions where the bank owns 10% or less of the issued share capital exceeding the 10% threshold of above Tier I Capital (-)	—
Mortgage servicing rights (amount above 10% threshold) (-)	—
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability) (-)	—
Amount Exceeding the 15% Threshold of Tier I Capital as per the Article 2, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	—
The Portion of Net Long Position of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank owns 10% or more of the Issued Share Capital not deducted from Tier I Capital (-).	—
Mortgage servicing rights (amount above 10% threshold) (-)	—
Excess Amount arising from Deferred Tax Assets from Temporary Differences (-)	—
Other items to be defined by the regulator (-)	—
Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions (-)	566,076
Total regulatory adjustments to Common equity Tier 1	**1,901,980**
Common Equity Tier 1 capital	**21,513,283**
Additional Tier 1 capital: instruments	
Privileged stocks which are not included in common equity and share premiums	—
Directly issued qualifying Additional Tier 1 instruments (approved by the regulators) plus related stock surplus (Issued or Obtained after 1.1.2014)	—
Directly issued qualifying Additional Tier 1 instruments (approved by the regulators) plus related stock surplus (Issued or Obtained after 1.1.2014)	—
Minority shares	—
Additional Tier 1 capital before regulatory adjustments	—
Additional Tier 1 capital: regulatory adjustments	—
Direct and Indirect Investments of the Bank on its own Additional Core Capital (-)	—
Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank does not own 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	—
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Consolidated Banks and Financial Institutions where the Bank owns more than 10% of the Issued Share Capital (-)	—
Other items to be Defined by the regulator (-)	—
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover	—
deductions (-)	—
Total regulatory adjustments to Additional Tier 1 capital	—
Additional Tier 1 capital	
Regulatory adjustments to Common Equity	

	As of 31 December 2015
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	887,339
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	—
Tier 1 capital	**20,625,944**
Tier 2 capital	
Directly issued qualifying Tier 2 instruments (that are approved by the regulator) plus related stock surplus (Issued or Obtained after 1.1.2014)	—
Directly issued qualifying Tier 2 instruments (that are approved by the regulator) plus related stock surplus (Issued or Obtained before 1.1.2014)	5,213,047
Pledged sources on behalf of the Bank for the use of committed share capital increase by shareholders	—
Generic Provisions	2,511,452
Minority shares	
Tier 2 capital before regulatory adjustments	**7,724,499**
Tier 2 capital: regulatory adjustments	
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	—
Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank does not own 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	—
The Total of Net Long Position of the Direct or Indirect Investments in Additional Core Capital and Tier II Capital of Consolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued	—
Share Capital Exceeding the 10% Threshold of Tier I Capital (-)	—
Other items to be Defined by the regulator (-)	—
Total regulatory adjustments to Tier 2 capital	**—**
Tier 2 capital	**7,724,499**
Total capital	**28,350,443**
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	6,808
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-)	11,345
Loans to Banks, Financial Institutions (domestic/foreign) or Qualified Shareholders in the form of Subordinated Debts or Debt Instruments Purchased from Such Parties and Qualified as Subordinated Debts (-)	149,667
Deductions as per the Article 20, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	—
Other items to be Defined by the regulator (-)	280,437
The Portion of Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank does not own 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	—
The Portion of Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	—
The Portion of Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	—
Own Fund	**27,902,186**
Amounts below the thresholds for deduction	**1,003,593**
Remaining Total of Net Long Positions of the Investments in Own Fund Items of Consolidated Banks and Financial Institutions where the Bank owns 10% or less of the Issued Share Capital	—
Remaining total of net long positions of the investments in Tier I capital of Consolidated banks and Financial Institutions where the Bank owns more than 10% Or Less of the Tier I Capital	—
Remaining mortgage servicing rights	—
Net deferred tax assets arising from temporary differences	1,003,593
Total shareholders' equity	**27,902,186**
Capital Requirement for Credit Risk (CRCR)	200,916,240
Capital requirement for market risk (ii) (MRCR)	2,309,349
Capital requirement for operational risk (iii) (ORCR)	12,833,313
Total risk weighted assets	**225,058,902**
Capital adequacy ratio (%)	**12.91**

The table below shows the Group's regulatory capital position on a consolidated BRSA basis as of 31 December 2014 in TL thousands unless otherwise stated:

	As of 31 December 2014
Common Equity Tier 1 Capital	
Paid in Capital to be entitled for compensation after all Creditors	4,347,051
Share Premium	543,881
Share Cancellation Profits	—
Legal Reserves	10,807,976
Other Comprehensive Income according to TAS	1,582,517
Profit	3,439,976
Net Current period profit	2,056,015
Prior period profit	1,383,961
Provisions for possible losses	180,211
Bonus shares from Associates, Subsidiaries and Joint Ventures not accounted in Current Period's Profit	4,503
Minority Shares	462
Common Equity Tier 1 capital before regulatory adjustments	**20,906,577**
Common Equity Tier 1 capital: regulatory adjustments	
Current and prior periods' losses not covered by reserves, and losses accounted under equity according to TAS (-)	—
Leasehold improvements on operational leases (-)	157,347
Goodwill and intangible assets and related deferred tax liabilities (-)	286,987
Net deferred tax assets / liabilities (-)	—
Shares Obtained against Article 56, Paragraph 4 of the Banking Law (-)	—
Investments in own common equity (-)	—
Total of net long positions of the investments in equity items of consolidated banks and financial institutions where the bank does not own 10% or less of the issued share capital exceeding the 10% threshold of above Tier 1 Capital	—
Total of net long positions of the investments in equity items of consolidated banks and financial institutions where the bank owns 10% or less of the issued share capital exceeding the 10% threshold of above Tier I Capital (-)	—
Mortgage servicing rights (amount above 10% threshold) (-)	—
Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability) (-)	—
Amount Exceeding the 15% Threshold of Tier I Capital as per the Article 2, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	—
The Portion of Net Long Position of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank owns 10% or more of the Issued Share Capital not deducted from Tier I Capital (-).	—
Mortgage servicing rights (amount above 10% threshold) (-)	—
Excess Amount arising from Deferred Tax Assets from Temporary Differences (-)	—
Other items to be defined by the regulator (-)	—
Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions (-)	475,638
Total regulatory adjustments to Common equity Tier 1	**919,972**
Common Equity Tier 1 capital	**19,986,605**
Additional Tier 1 capital: instruments	
Privileged stocks which are not included in common equity and share premiums	—
Directly issued qualifying Additional Tier 1 instruments (approved by the regulators) plus related stock surplus (Issued or Obtained after 1.1.2014)	—
Directly issued qualifying Additional Tier 1 instruments (approved by the regulators) plus related stock surplus (Issued or Obtained after 1.1.2014)	—
Minority shares	—
Additional Tier 1 capital before regulatory adjustments	—
Additional Tier 1 capital: regulatory adjustments	—
Direct and Indirect Investments of the Bank on its own Additional Core Capital (-)	—
Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank does not own 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	—
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Consolidated Banks and Financial Institutions where the Bank owns more than 10% of the Issued Share Capital (-)	—
Other items to be Defined by the regulator (-)	—
Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover	—
deductions (-)	—
Total regulatory adjustments to Additional Tier 1 capital	
Additional Tier 1 capital	
Regulatory adjustments to Common Equity	

	As of 31 December 2014
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 (-)	1,147,949
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	—
Tier 1 capital	**18,838,656**
Tier 2 capital	
Directly issued qualifying Tier 2 instruments (that are approved by the regulator) plus related stock surplus (Issued or Obtained after 1.1.2014)	—
Directly issued qualifying Tier 2 instruments (that are approved by the regulator) plus related stock surplus (Issued or Obtained before 1.1.2014)	5,120,449
Pledged sources on behalf of the Bank for the use of committed share capital increase by shareholders	
Generic Provisions	1,927,821
Minority shares	—
Tier 2 capital before regulatory adjustments	**7,048,270**
Tier 2 capital: regulatory adjustments	
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	—
Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank does not own 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	—
The Total of Net Long Position of the Direct or Indirect Investments in Additional Core Capital and Tier II Capital of Consolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued	—
Share Capital Exceeding the 10% Threshold of Tier I Capital (-)	—
Other items to be Defined by the regulator (-)	
Total regulatory adjustments to Tier 2 capital	—
Tier 2 capital	**7,048,270**
Total capital	**25,886,926**
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	23,512
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-)	7,908
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 (-)	159,277
Deductions as per the Article 20, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	—
Other items to be Defined by the regulator (-)	137,865
The Portion of Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank does not own 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	—
The Portion of Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	—
The Portion of Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	—
Own Fund	**25,558,364**
Amounts below the thresholds for deduction	**860,094**
Remaining Total of Net Long Positions of the Investments in Own Fund Items of Consolidated Banks and Financial Institutions where the Bank owns 10% or less of the Issued Share Capital	—
Remaining total of net long positions of the investments in Tier I capital of Consolidated banks and Financial Institutions where the Bank owns more than 10% Or Less of the Tier I Capital	—
Remaining mortgage servicing rights	—
Net deferred tax assets arising from temporary differences	860,094
Total shareholders' equity	**25,558,364**
Capital Requirement for Credit Risk (CRCR)	164,852,925
Capital requirement for market risk (ii) (MRCR)	1,649,900
Capital requirement for operational risk (iii) (ORCR)	11,505,425
Total risk weighted assets	**178,008,250**
Capital adequacy ratio (%)	**14.36**

Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by the quoted market price, if available.

The estimated fair value of financial instruments has been determined by the Group with the use of available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data in order to develop the estimated fair value. Accordingly, the estimated fair value presented in this Prospectus is not necessarily indicative of the amount the Group could realise in a current market exchange transaction.

The table below indicates the carrying and estimated fair value of the financial assets and liabilities, which are not presented on the Group's balance sheet at their estimated fair value.

	As of 31 December					
	2016		2015		2014	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets:						
Due from money markets	252	252	286,126	286,126	1,568,750	1,568,750
Banks	3,448,966	3,450,260	3,111,505	3,113,324	3,891,875	3,895,771
Available for sale financial assets	18,386,109	18,386,109	22,840,204	22,840,204	18,674,097	18,674,097
Held to maturity investments	11,588,890	10,981,828	7,108,809	7,038,312	5,556,369	5,818,301
Loans	178,664,422	185,565,273	154,017,989	156,893,601	126,807,109	130,121,004
Financial liabilities:						
Bank deposits	8,172,114	8,186,147	5,116,319	5,121,899	2,543,809	2,540,157
Other deposits	148,916,081	149,132,775	124,908,746	125,145,431	105,086,822	105,304,517
Funds borrowed from other financial institutions	30,508,774	30,074,417	24,860,979	24,989,311	21,416,956	21,513,899
Subordinated loans	9,067,893	9,170,193	6,635,191	6,726,059	6,770,549	6,855,936
Marketable securities issued	18,080,467	18,136,827	17,172,893	17,465,429	13,355,937	13,590,525
Miscellaneous payables	11,162,787	11,162,787	9,794,681	9,794,681	8,738,336	8,738,336

The following methods and assumptions were used to estimate the fair value of the Group's financial instruments:

Banks, Bank deposits and Funds borrowed from other financial institutions

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

Held-to-maturity assets

The fair value of held-to-maturity assets is determined based on market prices or, when these prices are unavailable, based on market prices quoted for other securities subject to the same redemption qualifications in terms of interest, maturity and other similar conditions.

Loans

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

Available-for-sale financial assets

Available-for-sale financial assets are subsequently re-measured at fair value. When fair values based on market prices cannot be obtained reliably, the available-for-sale financial assets are carried at fair values determined by using alternative models. Available-for-sale equity securities which are not quoted in a market, and the fair values of which cannot be determined reliably, are carried at cost less any impairment.

Assets and liabilities measured at fair value

The following table presents assets and liabilities at fair value as of 31 December 2016 in TL thousands.

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or (loss)	**43,348**	**2,997,482**	—	**3,040,830**
Government debt securities	36,713	—	—	36,713
Share certificates	6,635	—	—	6,635
Trading derivative financial assets	—	2,997,482	—	2,997,482
Other marketable securities	—	—	—	—
Available—for—sale financial assets	**16,166,933**	**2,211,406**	—	**18,378,339**
Government debt securities	16,052,373	—	—	16,052,373
Other marketable securities	114,560	2,211,406	—	2,325,966
Hedging derivative financial assets	—	**1,209,712**	—	**1,209,712**
Total assets	**16,210,281**	**6,418,600**	—	**22,628,881**
Trading derivative financial liabilities	—	2,578,679	—	2,578,679
Hedging derivative financial liabilities	—	4,111,709	—	4,111,709
Marketable securities issued (net)	—	89,296	—	89,296
Total liabilities	—	**6,779,684**	—	**6,779,684**

Risk Committees

Within the Bank, risk management is performed by the Asset and Liability Management function within the Executive Committee and the Credit Committee.

The Credit Committee is responsible for: (i) determining lending guidelines in line with the credit policy, economic objectives and the overall risk profile of the credit portfolio of the Bank, (ii) granting loans within certain set limits or advising the Board with respect to granting loans exceeding such limits, (iii) defining restructuring terms for overdue loans within certain set limits or advising the Board on the same with respect to loans exceeding such limits, and (iv) performing other functions assigned to it by the Board. The Credit Committee consists of four principal members: the CEO, the Deputy CEO and two members of the Board. The Risk Management Assistant General Manager attends the meetings by invitation. The Credit Committee meets on a weekly basis.

The decisions of the Credit Committee become immediately effective in the case of a unanimous vote. Otherwise, decisions of the Credit Committee require a majority approval from the Board.

The Asset and Liability Management function within the Executive Committee is responsible for: (a) determining the Bank's structural risk management guidelines and policies, (b) defining risk profile management strategies, and ensuring their compliance with the Board's guidelines in terms of risk appetite, (c) optimising the level of risk that the Bank is exposed to within the guidelines set by the Board, (d) defining risk limits, (e) defining operational principles of risk management and approval of risk measurement and control models, and (f) maintaining an overview of credit, market and operational risks. The decisions of the Asset and Liability Management function within the Executive Committee are made by unanimous vote of its permanent members. Such permanent members include the CEO, the Deputy CEO, the CFO, the Treasury Department Assistant General Manager and the Risk Management Assistant General Manager. In addition, heads of other business units as members of the Executive Committee also regularly attend meetings of the Asset and Liability Management function within the Executive Committee, including the Corporate and Commercial Banking Assistant General Manager, the Retail Banking Assistant General Manager, and the Private Banking and Wealth Management Assistant General Manager. The Asset and Liability Management function within the Executive Committee usually meets on a biweekly basis but in any case not less frequently than once a month.

MANAGEMENT

The Bank is managed by its Board of Directors, its General Manager and its senior management.

Board of Directors

Pursuant to the Bank's articles of association, the Board is responsible for the Bank's management. The Bank's articles of association stipulate that the Board should consist of a minimum of eight members elected by the General Assembly, with the General Manager holding a board seat, as required by the Banking Law. The Board is currently composed of 14 directors. Each director is appointed for a maximum term of three years. The business address of each of the directors is Yapı Kredi Plaza D Blok, Levent 34330, Istanbul, Turkey.

The following table sets forth certain information regarding each member of the Board as of the date of this Prospectus. (1)

Name	Position
Ali Y. Koç	Chairman
Carlo Vivaldi	Vice Chairman
H. Faik Açıkalın	Chief Executive Officer
Niccoló Ubertalli	Member and Deputy CEO
F. Füsun Akkal Bozok	Member
Ahmet F. Ashaboğlu	Member
Levent Çakıroğlu	Member
Gianfranco Bisagni	Member
Mirko D. G. Bianchi	Member
Wolfgang Schilk	Member
Giovanna Villa	Member (Independent)
Adil G. Öztoprak	Member (Independent)
Giuseppe Scognamiglio	Member
A. Ümit Taftalı	Member

(1) Based on the decision of Board of Directors dated 13 October 2016, Gianfranco Bisagni and Wolfgang Schilk are provisionally elected as Members in accordance with Article 363 of the Turkish Commercial Code to replace Gianni F. G. Papa and Dr. Jürgen Kullnigg - who resigned on 13 October 2016 - to be confirmed at the first forthcoming General Meeting of Shareholders.

Ali Y. KOÇ, Chairman of the Board of Directors

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

Carlo VIVALDI, Vice Chairman of the Board of Directors

After graduating from the University of Ca'Foscari, Venice, Department of Business Administration, Carlo Vivaldi started his career in 1991 as a Teller in Cassamarca, one of the four banks which merged into UniCredit in 1998. At that time, he moved to the Group's Planning and Control Division, where he contributed to the development of the Group's internet strategy. In 2000, he moved to the Group's newly established New Europe Division, and was responsible for Planning and Control, contributing to the expansion of UniCredit in the region. At the end of 2002, he moved to Turkey and took up the positions of Chief Financial Officer and Executive Vice President at Koç Financial Services and Yapı Kredi, respectively, in addition to memberships of the Board of Directors at certain Group subsidiaries until September 2007. At

that time he actively contributed to the largest merger in Turkish banking history, between Koçbank and Yapı Kredi. In October 2007, he was appointed as a member of the Management Board and Chief Financial Officer at UniCredit Bank Austria AG (covering Austria and the CEE countries) and started serving on several other Supervisory Boards at UniCredit Group's CEE subsidiaries. In May 2009, Mr. Vivaldi was appointed as a member of the Board of Directors of Yapı Kredi, and in January 2011, he became UniCredit representative for Turkey in the position of Executive Director and Deputy CEO in Yapi Kredi. During this time, he served as an Executive Director and Deputy CEO of Koç Financial Services and Vice Chairman in certain Yapı Kredi subsidiaries. Since February 2015, Mr. Vivaldi has served as Head of UniCredit's CEE Division and also serves on Boards of various UniCredit Group companies. In addition, Mr. Vivaldi is a Member of the UniCredit Group Executive Management Committee. Mr. Vivaldi is also Vice Chairman of Koç Financial Services.

H. Faik AÇIKALIN, Chief Executive Officer (CEO)

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

Niccoló UBERTALLI, Executive Director and Deputy CEO

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

Activities, Arts and Publishing). He is also a member of the Board of Directors of Yapı Kredi Koray Real Estate Investment Trust and Allianz Yaşam ve Emeklilik.

F. Füsun AKKAL BOZOK, Member of the Board of Directors

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

Ahmet F. ASHABOĞLU, Member of the Board of Directors

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

Levent ÇAKIROĞLU, Member of the Board of Directors

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

Mirko D. G. BIANCHI, Member of the Board of Directors

Mirko D. G. Bianchi earned an MSc in Chemical Process Engineering from the Swiss Federal Institute of Technology (ETH). In 1991, he earned his MBA in Marketing & Finance from Fordham University (New York), and started his career at BCI Capital in New York in 1992 as an equity analyst. He later assumed the positions of Vice President and Senior Analyst at Moody's Investors Service and Director in Debt Capital Markets Ratings Advisory at Deutsche Bank Securities. Between 2000 and 2009, Mr. Bianchi worked at UBS Investment Bank (London) as Managing Director and Global Head of Ratings Advisory. In 2009, Mr. Bianchi joined UniCredit in Milan as Head of Group Finance in the CFO department and Co-Head of the Group Treasury. Between June 2015 and September 2016, he was appointed as CFO for Austria & CEE of UniCredit Bank Austria AG and served as a member of the Management Board. In September 2016, Mr. Bianchi was appointed CEO of UniCredit. He also serves on the Board of Directors at certain UniCredit Group Companies and is a member of the Board of Directors at Koç Financial Services.

Giovanna VILLA, Member of the Board of Directors (Independent)

Giovanna Villa earned her Bachelor's degree in Financial Administration from Bocconi in 1991, and obtained a Certified Public Accountant (CPA) certificate in 2000. Between 1991 1995, Ms. Villa worked as a Senior Auditor at PricewaterhouseCoopers, and between 1995 and 1997, as an assistant in the administration department at Santavaleria (holding company for the Max Meyer Group, Bertram Yatch and Sediver). In 1997, Ms. Villa provided accounting consultancy services to SME companies in the Milan and Monza area. Between 2000 and 2005, Ms. Villa taught administration and management courses at CIS, Lecco. Between

2009 and 2011, she worked as an assistant to the Internal Auditor at Aler Azienda Lombarda Edilizia Residenziale. Since 2000, Ms. Villa has been a member of the Statutory Audit Committees for several companies such as Lenova, Ritrama Group, Sias Autodromo di Monza Circuit, Lubra, Malvestiti, Crescere Insieme, Crippa Campeggio, Italian Gasket, Siemens and Siemens Holding. She also serves as a member of the Board of Directors at Koç Financial Services.

Giuseppe SCOGNAMIGLIO, Member of the Board of Directors

Giuseppe Scognamiglio obtained a Law degree from the University of Naples in 1987 and started his career as a junior Professor in International Law and the Law of the European Community. In 1989, Mr. Scognamiglio started working for the Italian Ministry for Foreign Affairs. Between 1989 and 1992, he coordinated human rights policies with the United Nations. Between 1992 and 1995, he was the Italian Consul in İzmir, Turkey, where he created the Italo-Turkish Chamber of Commerce and the Italian Cultural Centre, Goldoni, in Alsancak. Between 1996 and 1999, he was the Political and Press Counselor in Buenos Aires, Argentina. Between 1999 and 2002, he served as Counselor for Foreign Policy of the Ministry for Industry and Foreign Trade and as the Chief of Staff of the Ministry for Foreign Affairs. For the following two years, he was the Italian delegate to the "Bureau International des Expositions". In July 2003, Mr. Scognamiglio joined UniCredit. Since 2010, he has been a member of the Management Board, Executive Vice President for Group Institutional & Regulatory Affairs and a member of the Steering Committee of ABI (Italian Banks Association). He is also the Chairman of the Editorial Company "EuropEye", which publishes and distributes, among other publications, the bimonthly magazine of international policy and economy "Eastwest", of which he was appointed editor in January 2016. Mr. Scognamiglio is also a board member of the non-profit organization, "L'AltraNapoli" Association and was previously a board member of "Save the Children Italy" until 2015. He also serves as a member of the Board of Directors at Koç Financial Services.

Gianfranco BISAGNI, Member of the Board of Directors

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

Adil G. ÖZTOPRAK, Member of the Board of Directors (Independent)

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

Wolfgang SCHILK, Member of the Board of Directors (Independent)

Wolfgang Schilk graduated from University of Wien Law School in 1992 and completed a postgraduate management trainee program at Creditanstalt-Bankverein (CA-BV). Between 1994 and 1996 he was Restructuring and Workout Manager responsible for Corporate Banking at CA-BV. From 1996 until 2004 Wolfgang worked as the Head of the Credit Unit at Bank Austria Creditanstalt covering Underwriting,

Monitoring, Financial Analyses and Loan Administration. Later in 2004, he became the Head of the Regional Office of Lower Austria responsible for Corporate Banking. In 2006, he became Head of the Regional Office responsible for Private and SME Banking. Between 2007 and 2010, Mr. Schilk worked as the Head of the Risk Management Department responsible for Private and SME Clients at Bank Austria. Between 2010 and 2016, Mr. Schilk served as the CRO of Yapı Kredi. In September 2016, he was appointed as UniCredit CRO for the CEE region. Mr. Schilk also serves as a member of the Board of Directors at Koç Financial Services.

A. Ümit TAFTALI, Member of the Board of Directors

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

Senior Management

The current members of the Bank's senior management and their areas of responsibility are as follows:

Name	Position	Responsibility
Faik Açikalin	BOD Member/CEO	General Manager
Niccolo Ubertalli	BOD Member/Deputy CEO	Deputy General Manager
Massimo Francese	Assistant General Manager	Financial Planning and Administration Management (Chief Financial Officer)
Patrick Josef Schmitt(1)	Assistant General Manager	Risk Management Chief Risk Officer
Akif Cahit Erdogan	Assistant General Manager	Information Technologies and Operation Management
Yakup Dogan	Assistant General Manager	Alternative Distribution Channels
Mehmet Murat Ermert	Assistant General Manager	Corporate Communication Management
Feza Tan	Assistant General Manager	Corporate and Commercial Banking Management
Demir Karaaslan	Assistant General Manager	Retail Credits
Mert Yazicioğlu	Assistant General Manager	Private Banking and Asset Management
Mehmet Erkan Özdemir	Assistant General Manager	Compliance and Internal Control/Consumer Relations Coordination Officer
Stefano Perazzini(2)	Assistant General Manager	Internal Audit/Chief Audit Executive
Cemal Aybars Sanal	Assistant General Manager	Legal Activities Management
Zeynep Nazan Somer Ozelgin	Assistant General Manager	Retail Banking Management
Nurgün Eyüboğlu	Assistant General Manager	Corporate and Commercial Credit Management
Mehmet Gökmen Uçar	Assistant General Manager	Human Resources and Organization Management
Mert Oncü	Assistant General Manager	Treasury Management
Cengiz Arslan	Chief Information Officer	Information Technologies

(1) Effective as of 1 September 2016, Mr. Patrick Josef Schmitt has succeeded Mr. Wolfgang Schilk as Assistant General Manager responsible for Risk Management. Mr. Schilk has assumed another position in the UniCredit Group.
(2) Effective as of 1 January 2017, Mr. Giovanni Avanzi has succeeded Mr. Stefano Perazzini as Assistant General Manager responsible for Internal Audit. Mr. Perazzini has assumed another position within the UniCredit Group (The appointment will be effective following the BRSA's approval).

Set forth below is brief biographical information regarding Yapı Kredi's current senior management (other than those who are members of the Board, whose biographical information is set out above):

Mr. Massimo Francese

Mr. Francese, 51, graduated from Università Cattolica del Sacro Cuore, Economics & Commerce Department in Milan, Italy. He joined Credito Italiano in 1991 as Customer Relationship Manager and then moved to different positions in organisation, audit, planning and control functions. In 2005, he became the Head of

Group Planning at UniCredit S.p.A. Mr. Francese continued his career at UniCredit Family Financing Bank S.p.A between 2007 and 2010 as Chief Financial Officer. In November 2010, he moved to UniCredit S.p.a. as the Head of Value Management & Planning for the bank's consumer finance business. In 2012, Mr. Francese assumed the position of CEO and the Chairman of the Management Board in UniCredit Consumer Financing EAD in Sofia (Bulgaria), where he worked until the end of February 2016. As of 1 March 2016, he has been appointed Chief Financial Officer and a member of the Executive Committee at Yapı Kredi.

Mr. Patrick Josef Schmitt

Mr. Patrick Schmitt, 44, graduated from University of Cologne and completed a master's program at Community of European Management Schools in 2001. In 2001 he began his professional career at HypoVereinsbank AG as Trainee in Corporate division. Between 2003 and 2005 he served as a Relationship Manager responsible for Corporate Banking and in 2005 he appointed as Executive Assistant in Risk Management. From 2007 until 2014, Mr. Schmitt worked as Risk Management Manager in UniCredit Bank AG and later in 2014, he became the Head of Risk Management and member of the management board. Mr. Schmitt has been working as CRO and a member of the Executive Committee at Yapı Kredi since September 2016. Mr. Schmitt is also member of the Board of Directors of certain domestic and foreign subsidiaries of Yapı Kredi.

Mr. Akif Cahit Erdogan

Mr. Erdogan, 43, graduated from the Faculty of Mechanical Engineering at Istanbul Technical University. Mr. Erdogan earned his MBA degree from the Rochester Institute of Technology. Starting his professional career at Xerox Corporation (Rochester, NY) as a Business Analyst, Mr. Erdogan moved to Accenture (Istanbul Office) in 2000 as a Management Consultant, where he went on to hold various positions. Mr. Erdogan joined the Bank on 1 December 2009 as Chief Information Officer. As of 15 July 2013, he assumed the position of Assistant General Manager in charge of Information Technologies and Operations at the Bank. Mr. Erdoğan has been a member of the Executive Committee of Yapı Kredi Bank since July 2013 and also a chairman of the Executive Committee of Yapı Kredi Teknoloji A.Ş. since May 2015.

Mr. Yakup Dogan

Mr. Dogan, 50, received a degree in Business Administration from the Çukurova University. Mr. Doğan started his career at İş Bankası as an Assistant Specialist in 1992. Between 1996 and 2001, he worked at Ottoman Bank in Senior Management positions responsible for the development of Retail Banking, Credit Cards and Alternative Delivery Channels. In 2001, Mr. Doğan joined Koçbank as Alternative Delivery Channels Manager. In 2006, Mr. Doğan held the position of Alternative Delivery Channels Executive Vice President in Yapı Kredi. As of January 30, 2009, he assumed the position of Assistant General Manager in charge of ADCs at the Bank.

Mr. Mehmet Murat Ermert

Mr. Ermet, 51, received a degree in Business Administration from Marmara University. He has worked in advertising at Leo Burnett Advertising Agency, Yapı Kredi, Dogan Media Group and later joined Demirbank. Mr. Ermet has served as Executive Vice President responsible for Corporate Communications at Disbank (later Fortis) and also worked in the Global Marketing and Communications Management (Brussels) of Fortis. Mr. Ermet also served as a faculty member at both Anadolu University and Bahçeşehir University and was one of the founding members of Turkish Association of Corporate Communications Directors, and a member of European Association of Communications Directors (EACD). In June 2008, he assumed the position of Executive Vice President in charge of Corporate Communications at the Bank and has been working as Assistant General Manager, Corporate Communications at Yapı Kredi since July 2008.

Ms. Feza Tan

Ms. Tan, 47, earned her graduate degree from the Department of Economics, Boğaziçi University in 1993. She began her professional career at Yapı Kredi as a Management Trainee in Corporate and Commercial Credits in the same year and served in various positions in the same unit from 1993 until 2006. In 2006, she was promoted to the Head of Corporate and Commercial Credits Underwriting Unit. Between February 2009 and February 2013, she has served as Assistant General Manager responsible for Corporate and Commercial

Credits. In February 2013, she was appointed as Assistant General Manager responsible for Corporate and Commercial Banking.

Mr. Demir Karaaslan

Mr. Karaaslan, 39, graduated from Marmara University, Business Administration department in 1999. Between September 1999 and December 2004, he worked at Başaran Nas Bağimsiz Denetim ve S.M.M.M. A.Ş. (PwC) where he joined as an Assistant Auditor and was promoted to Audit Manager. He continued his career at Koçbank between 2005 and 2006 as Head of Budget & Planning. In 2006, following the merger of Koçbank and Yapi Kredi Bank, he was appointed as Vice President responsible from Planning & Control. He has been the Head of Planning & Control since 2010 and promoted as Executive Vice President in 2011. Starting from January 2016, he was appointed as Assistant General Manager responsible from Retail Credits. Throughout his career, Mr. Karaaslan has also assumed the positions of Statutory Auditor and member of the Board in several subsidiaries of Yapi Kredi Bank.

Mr. Mert Yazicioğlu

Mr. Yazicioğlu, 50, graduated from Istanbul Technical University, Department of Engineering Management, and completed a master's program in Business Administration. He began his career at S. Bolton and Sons in 1987, serving as International Relations Officer. He joined Koçbank in 1989 where he served as Customer Relations Officer, Dealer, Senior Dealer and Assistant Manager. Mr. Yazicioğlu was promoted to Group Manager of the TL -FX Group under the Treasury Department in 1996 and then to Executive Vice President in 1999. Mr. Yazıcıoğlu served as the Assistant General Manager responsible for Treasury Management from February 2006 and he has been working as Assistant General Manager for Private Banking and Wealth Management at the Bank since May 2011.

Mr. Mehmet Erkan Özdemir

Mr. Özdemir, 49, received a degree in Economics from the Middle East Technical University. He worked as a Sworn-in Bank Auditor on the Sworn-in Bank Auditor Board of the Banking Regulation and Supervision Agency between April 1994 and August 2001. He joined Koç Group in August 2002 where he worked as Audit Coordinator in the Audit Group responsible for the financial companies of the Group. Since April 2008, Mr. Özdemir has been serving as Compliance Officer and Executive Vice President at the Bank. Mr. Özdemir has been serving as Assistant General Manager in charge of Compliance and Internal Control since October 2013 and a member of the Executive Committee at Yapı Kredi Teknoloji A.Ş. since May 2015.

Mr. Stefano Perazzini

Mr. Perazzini, 53, received a degree in Economics from the University of Turin. He began his career at San Paolo IMI Bank in 1987. Between 1989 and 1992, he joined Honeywell Bull where he was responsible for the Planning and Control Department. Mr. Perazzini then became an Information Technology Auditor at Banca CRT Head Office in 1997 and later an Internal Auditor at the London and Paris branches of the Bank. Assuming the position of Internal Auditor at UniCredit Holding in September 1999, Mr. Perazzini was then appointed Deputy Manager of the Internal Audit Department at Bank Pekao, a UniCredit Group company. In 2003, he took on the responsibility of Executive Vice President for Internal Audit at Koç Financial Services and since 2006 he has been serving as Assistant General Manager responsible for Internal Audit at the Bank.

Mr. Cemal Aybars Sanal

Mr. Sanal, 57, graduated from Istanbul University, Faculty of Law. He began his career in 1986 with the law firm of Sanal & Sanal as a Partner. Subsequently, he served at the Shell Company of Turkey Limited as an attorney from 1992 to 1995, at White & Case LLP as an attorney from 1995 to 1998, at the Shell Company of Turkey Limited once again as Chief Legal Counsel and a member of the Board of Directors from 1998 to 1999 and at Boyner Holding A.Ş. as Chief Legal Counsel and Vice President between 1999 and 2006. After working as a freelance attorney between 2006 and 2007, Mr. Sanal worked with the ELIG Law Firm as a Consultant from 2007 to 2008. He has been working as Assistant General Manager responsible for Legal Affairs at the Bank, since July 2008.

Ms. Zeynep Nazan Somer Özelgin

Ms. Özelgin, 53, graduated from Bogazici University, Faculty of Business Administration. She joined Arthur Andersen in 1988 and served as a Partner in charge of the finance sector from 1999 until 2000. Joining the Bank in September 2000 as Executive Vice President responsible for Individual Banking, Ms. Somer served as Executive Vice President responsible for Credit Cards and Consumer Lending from February 2006 until January 2009. She then became Assistant General Manager responsible for Retail Banking. Ms. Özelgin also became a member of the Executive Committee in February 2009.

Ms. Nurgün Eyüboğlu

Ms. Eyüboğlu, 49, graduated from Boğaziçi University, Business Administration in 1991. She began her career at Iktisat Bankası as Management Trainee. She joined Koçbank in 1993 as Relationship Manager and worked as Branch Manager from 1995 to 2004. Between 2004 and 2009 she held the position of Head of Corporate Banking and Multinational Companies at Yapı Kredi Bank. She was appointed as General Manager of Yapi Kredi Leasing in February 2009. Ms. Eyüboğlu has been Assistant General Manager in charge of Corporate and Commercial Credits at Yapı Kredi since February 2013.

Mr. Mehmet Gökmen Uçar

Mr. Uçar, 42, graduated from Boğaziçi University, Faculty of Economics in 1998. Between 1998 and 2002, he worked in Başaran Nas Bağimsiz Denetim ve S.M.M.M. A.Ş. (PwC) as an independent auditor and obtained the "**Certified Public Accountant**" qualification. He joined Koçbank in 2002 and worked in Budget Control and Planning as Budget Planning and MIS Supervisor until 2005. Between 2005 and 2007, he gained several management responsibilities over strategy, budgeting and planning areas under the UniCredit Group in Italy, Germany and Austria. He returned to Yapı ve Kredi Bankası A.Ş. in 2008 and has since worked as Capital Management, Cost Control and Allocation Supervisor, Financial Reporting Head and Financial Reporting and Accounting Vice President. In 2011, he was appointed Financial Reporting and Accounting Executive Vice President. He was Assistant General Manager responsible for Retail Credits from August 2012. Mr. Uçar, has been Assistant General Manager for Human Resources and Organization Management since January 2016.

Mr. Mert Öncü

Mr. Öncü, 46, graduated from Istanbul Technical University, Electronics and Telecommunication Engineering Department in 1992 and received his MBA degree from DePaul University in 1994 and doctoral degree from Marmara University in 2001. He started his career at DePaul University where he worked as graduate assistant between 1993-1994. In 1994, he worked at Chicago Mercantile Exchange. He joined Koçbank in 1994 and worked at the Currency Risk and Asset Management departments respectively as Senior Dealer, Section Head and Treasury TL/FX Manager. Between 2003 and 2006, he worked as Money and FX Markets Manager. In 2006, he worked as Head of Money and FX Markets Unit in Yapı Kredi. He has been working as Assistant General Manager for Treasury Management since May 2011.

Mr. Cengiz Arslan

Mr. Arslan, 49, graduated from Istanbul Technical University in 1989, Department of Control and Computer Engineering. He started his career in October 1992 at Yapı Kredi Technology (BILPA), where he worked as a System Software Specialist and Project Leader, until November 1995. Between 1995 and 2000, Mr. Arslan worked as Supervisor in SYNERGY Ltd., and in 2000 he worked at Garanti Technology Inc., where he started to work in the Department of Image and Workflow as a Supervisor. He then assumed the role of Unit Manager in the Payment Systems and Automotive Companies Department. In 2012, Mr. Arslan worked as Executive Vice President of Software at Doğuş Technology. Mr. Arslan joined the Bank on 17 December 2012 as BL Info Doc. Management and Workflow Software Development Vice President. As of 15 July 2013, he assumed the position of Chief Information Officer.

The business address of Mr. Yakup Dogan and Mr. Akif Cahit Erdogan is Yapı ve Kredi Bankası A.Ş., Genel Mudurluk/Bankacilik Ussu, Akse Mahallesi, Rahmi Dibek Caddesi No: 275 41435 Çayirova, Kocaeli, Turkey which is the operation centre of the Bank. The other members of the senior management have their business address at Yapı ve Kredi Bankası A.Ş., Yapı Kredi Plaza D Blok, 34330 Istanbul, Turkey.

Board Committees

Yapı Kredi has a number of committees comprising various members of the Board. These committees consider risk and credit matters and include the Asset and Liability Management function of the Executive Committee and the Credit Committee, which are described in detail in "*Risk Management*", as well as the Audit Committee, the Corporate Governance Committee and the Remuneration Committee. The Audit Committee supervises compliance by the Bank with local laws and internal regulations, monitors the performance of the Internal Audit Department, Compliance and Internal Control Department and Risk Management Department, controls ethical compliance and executes other functions provided for by the Banking Legislation and CMB Legislation for Audit Committees. The Audit Department, Risk Management and Compliance and Internal Control report to the Audit Committee.

Corporate Governance

Until recently, there were no mandatory corporate governance rules in Turkey. In 2003, the CMB issued a set of recommended principles for public companies, which applied to public companies on a "comply or explain" basis. In 2004, the Board decided to adopt these principles. On 30 December 2011, the *Communiqué on the Determination and Implementation of Corporate Governance Principles* Series: IV, No: 56 (the "**Annulled Corporate Governance Communiqué**") was published and came into force, providing certain compulsory and non-mandatory principles applicable to all companies incorporated in Turkey and listed on the Borsa Istanbul, including the Bank. The Annulled Corporate Governance Communiqué became applicable to the Bank on 30 December 2012, as the regulation provided a one-year exemption for listed banks. Following the entrance into force of the New Capital Markets Law No. 6362, by 30 December 2012, the CMB started to prepare secondary legislation in light of the new law. Accordingly, a new communiqué on corporate governance – *the Corporate Governance Communiqué Series:II No:17.1* (the "**Corporate Governance Communiqué**") was published in the Official Gazette as of 3 January 2014 which annulled the Communiqué on the Determination and Implementation of Corporate Governance Principles Series: IV, No: 56. The Corporate Governance Communiqué contains principles relating to: (i) the company shareholders; (ii) public disclosure and transparency; (iii) the stakeholders of the company; and (iv) the board of directors. A number of principles are compulsory while the remaining principles continue to apply on a "comply or explain" basis as before. The Corporate Governance Communiqué classifies listed companies into three categories according to their market capitalisation and the market value of their free-float shares, subject to recalculation on an annual basis. The CMB has classified 27 companies for the year 2014 as "Tier 1" companies, which have maximum exposure to the mandatory principles set out in the Corporate Governance Communiqué. Some of these mandatory principles are not applicable to "Tier 2" and/or "Tier 3" companies. The Bank is classified as a "Tier 1" company. According to the Information Policy of the Bank, the public disclosures and all other relevant information given to shareholders are done under the supervision of the compliance office.

- The compliance office manages the official public disclosures via www.kap.gov.tr
- Public disclosure is managed daily so as to assure timely communication.

The mandatory principles under the Corporate Governance Communiqué include: (i) the composition of the board of directors; (ii) appointment of independent board members; (iii) board committees; (iv) specific corporate approval requirements for related party transactions, transactions that may result in a conflict of interest and certain other transactions deemed material by the Corporate Governance Communiqué; and (v) the information rights in connection with General Assembly meetings.

All "Tier 1" and "Tier 2" companies are required to have a number of independent board members that constitute at least one-third of the board of directors. However, these companies can apply to the CMB in order to limit the number of independent board members to two, irrespective of the ratio of the company's free-float shares, as long as at least 51% of their share capital is equally owned by two independent shareholders contractually sharing equal management control but having no direct or indirect shareholding, management or audit relationship among themselves, except for banks. "Tier 3" companies do not have to comply with the one-third ratio, although they are obliged to have at least two independent directors. Pursuant to Article 6 of Corporate Governance Communiqué, banks have discretion in determining the number of independent directors, *provided that* they sustain the minimum requirement of having at least three independent directors. Board members who are appointed as an audit committee member within the bank's

organisational structure shall be considered as an independent board member within the framework of the Corporate Governance Communiqué.

The Corporate Governance Communiqué further initiated a pre-assessment system to determine the "independency" of individuals nominated as independent board members in "Tier 1" companies. Those nominated for such positions must be evaluated by the "**Nomination Committee**" of the board of directors for fulfilling the applicable criteria stated in the Corporate Governance Communiqué. The board of directors is required to prepare a list of nominees based on this evaluation for final review by the CMB, which is authorised to issue a "negative view" on any nominee and prevent their appointment as independent members of the board of directors. The Corporate Governance Communiqué also requires listed companies to establish certain other board committees. "Tier 2" and "Tier 3" public companies are not required to go through the CMB pre-assessment for the appointment of independent directors, although the nominations must still be evaluated by the Nomination Committee.

In addition to the mandatory principles regarding the composition of the board and the independent board members, the Corporate Governance Communiqué introduced specific corporate approval requirements for all related-party transactions, transactions creating any guarantee, pledge or mortgage in favour of third parties, transactions that may result in a conflict of interest with the company or its subsidiaries and certain other transactions deemed material by the Corporate Governance Communiqué. For example, material transactions, which are described as the lease, transfer or establishment of rights *in rem* over the total or a substantial part of the listed company's assets, the acquisition or lease of a material asset, must be approved by the majority of the independent board members. If the majority of the independent directors do not vote in favour of such board resolutions, the relevant transaction will be subject to the approval of the shareholders, which will convene without required meeting quorums and where the related parties to those transactions will not be able to vote. The foregoing framework also applies to all related-party transactions as well as transactions creating any guarantee, pledge or mortgage in favour of third parties.

In 2007, the CMB had issued a rating communiqué enabling rating agencies to rate companies on the basis of their compliance with the applicable principles. In 2008, following a corporate governance rating report issued by SAHA Corporate Governance and Credit Rating Services Inc., the Bank was included among the leading companies that form the Borsa Istanbul Corporate Governance Index. The report provided Yapı Kredi with a corporate governance rating of 8.02 out of 10. In 2016, following a repeated review by SAHA Corporate Governance and Credit Rating Services Inc., the Bank's corporate governance rating was upgraded to 9.34.

Compensation

The Bank's compensation policy aims to remunerate fairly and in a manner that is consistent with the nature of work and structure of the general market or the sector, in order to enhance talent and key staff attraction/retention capability and people motivation. The compensation package is composed of base pay and variable pay. The variable pay is linked to the realisation of the Bank's strategic targets.

In general, base pay depends upon the position and the work completed whilst variable pay depends on performance. Thus, the compensation system allows the bank to reward employees according to their level of contribution and responsibility in order to reach the goals of the institution.

Salaries and other benefits paid to the Group's senior management amounted to TL 56,454 thousand as of 31 December 2016, TL 47,455 thousand as of 31 December 2015, TL 40,723 thousand as of 31 December 2014 and TL 43,220 thousand as of 31 December 2013.

UniCredit Relationship

As a result of the Group's relationship with the UniCredit Group, the Group receives assistance from the UniCredit Group in identifying candidates to fill management roles within the Group. However, the Group's management may also be appointed to other roles within the UniCredit Group. For example, in June 2010, the Bank's former Chief Risk Officer was appointed to a more senior position at another entity within the UniCredit Group. The Board resolved on 30 July 2010 to apply to the BRSA in order to appoint Wolfgang Schilk, a senior executive from the UniCredit Group, as Chief Risk Officer. This appointment was confirmed as of October 2010.

Conflicts

None of the members of the Bank's Board or Senior Management has any existing or potential conflicts of interest with respect to his duties to the Bank and his private interests or other duties.

SHARE CAPITAL AND OWNERSHIP

Share Capital

As of the date of this Prospectus, the Bank's share capital consisted of 4,347,051 thousand authorised shares with a nominal value of TL 0.01 each. The Bank's shares are listed on the Borsa Istanbul and its global depositary receipts are listed on the London Stock Exchange.

The Bank's issued and fully paid up share capital was held as of the dates specified as follows:

	As of 31 December 2016		As of 31 December 2015		As of 31 December 2014	
	Ownership	**Capital**	**Ownership**	**Capital**	**Ownership**	**Capital**
	(%)	*(TL, thousands)*	*(%)*	*(TL, thousands)*	*(%)*	*(TL, thousands)*
Shareholders						
Koç Financial Services A.S	81.80	3,555,712	81.80	3,555,712	81.80	3,555,712
Others shareholders (minorities)	18.20	791,339	18.20	791,339	18.20	791,339
Historical share capital	100.00	4,347,051	100.00	4,347,051	100.00	4,347,051
Adjustment to share capital	—	(60,471)	—	(60,471)	—	(60,471)
Share premium	—	535,679	—	535,679	—	535,679
Total share capital and share premium	**—**	**4,822,259**	**—**	**4,822,259**	**—**	**4,822,259**

On 18 January 2012, the Board decided to increase the registered capital ceiling from TL 5 billion, the maximum level that the Board is authorised to increase the share capital absent a resolution of the General Assembly, to TL 10 billion. Such increase of the registered capital ceiling was approved by the CMB and the BRSA in February 2012 and was finalised upon the approval of the shareholders during the General Assembly meeting dated 22 March 2012.

Ownership

As of the date of this Prospectus, the Bank's controlling shareholder was KFS with an 81.8% stake and the remaining 18.2% of the Bank's shares were publicly traded and held by minority shareholders. The direct or indirect acquisition of shares, which represent 10% or more of the share capital of any bank, or the direct or indirect acquisition or transfer of shares resulting in the total number of shares held by a shareholder to increase above or fall below 10%, 20%, 33% or 50% of the share capital of a bank, requires the permission of the BRSA. In addition, irrespective of these thresholds, an assignment and transfer of privileged shares with the right to nominate a member to the board of directors or audit committee or issuance of new shares with such privileges is also subject to the authorisation of the BRSA.

On 30 September 2016, UniCredit Bank Austria AG transferred its 50% shareholding in KFS to UniCredit SPA (which wholly owns UniCredit Bank Austria AG). Following the transfer, UniCredit SPA directly owns 50% of KFS's shares.

Controlling Shareholders

Koç Financial Services

KFS is a financial holding company and an equal share (50%/50%) joint venture between the Koç Group and the UniCredit Group. In connection with the establishment of the joint venture, the UniCredit Group and Koç Group entered into a shareholders' agreement to govern various aspects of the management of KFS and the Bank (the "**Shareholders' Agreement**"). The Shareholders' Agreement includes an agreement between the parties to ensure that both are represented equally on the board of directors of KFS and the Bank and their various committees and among the senior management and sets out terms under which the shareholders may dispose of their relevant stake in KFS. In addition, the parties agree not to compete with the Bank in the Turkish banking market.

Koç Holding A. S.

Koç Holding is one of Turkey's largest conglomerates in terms of turnover and exports, with operations in the energy, automotive, consumer durables and finance sectors, employing approximately 95,000 employees. Koç

Holding derives its strength from a large distribution network and after sales services, a wide customer base in different business segments together with strong customer relationship management capabilities enabling efficient upward and cross selling, leading brands and strong recognition and optimum portfolio diversification. In the year ended 31 December 2015, Koç Holding had total sales that corresponded to 7% of Turkey's GDP and exports that comprised 9% of Turkey's total exports. In 2016, Koç Holding generated EUR 21.2 billion in total revenues.

UniCredit and the UniCredit Group

UniCredit is a bank incorporated as a joint-stock company under Italian law, with registered office at Via A. Specchi, 16, 00186, Rome, Italy, and with head office and principal centre of business at Piazza Cordusio, 20123, Milan, Italy.

UniCredit is the parent holding company of the Gruppo UniCredit registered with the Register of Banking Groups held by the Bank of Italy pursuant to Article 64 of the Italian Banking Act under number 02008.1 (the "**UniCredit Group**").

The UniCredit Group is a global financial institution with an established presence in 17 European countries with over 7,100 branches. The UniCredit Group is strategically positioned in its primary markets such as Italy, southern Germany, Austria, Poland and Central-Eastern Europe.

As of 31 December 2016, the UniCredit Group had over 137,000 (full-time equivalent) employees.

UniCredit Bank AG, as one of the Arrangers and the Issuer are affiliates of UniCredit, the parent company of the UniCredit Group. Further information about this relationship is set out in "*Related Party Transactions*" and "*Subscription and Sale – UniCredit Affiliate Relationship*".

RELATED PARTY TRANSACTIONS

Related parties include entities that are directors, shareholders or affiliates of, or entities under common management or control with, the Bank. 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 or operational decisions. The Group is controlled by Koç Group and the UniCredit Group, owning 50% of the ordinary shares each of KFS and as a result, both the UniCredit Group and Koç Group are considered related parties of the Group.

All of the related-party credit applications must go through the Group's normal credit review process. All extensions of credit to the related parties are made on an arm's length basis and the credit and payment terms in respect of such credits are no more favourable than those offered to third parties.

The Banking Law places limits on a bank's exposure to related parties. Under the Banking Law, the total amount of loans to be extended by a bank to its risk group must not be more than 20% of its own funds. As of 31 December 2016, the Bank's total net exposure to its risk group totalled TL 5,013 million, an amount corresponding to 15.7% of its own funds; the Bank is therefore within the limits of the Banking Law in terms of its exposure to its subsidiaries and other affiliates.

The following tables show the loans of the Group's risk group as of the dates indicated:

	As of 31 December 2016					
	Associates, subsidiaries and joint ventures		**Direct and indirect shareholders of the Group**		**Other real and legal persons that have been included in the risk group**	
Group's risk group[(1)(2)]	**Cash**	**Non cash**	**Cash**	**Non cash**	**Cash**	**Non cash**
			(TL, thousands)			
Loans and other receivables						
Balance at the beginning of the period	33,816	10,388	106,881	954,585	1,688,868	2,440,007
Balance at the end of the period	21,974	8,492	519,444	1,158,561	2,394,592	2,586,737
Interest and commission income received	**870**	**119**	**4,981**	**7,546**	**245,453**	**10,501**

(1) Defined in subsection 2 of the 49th article of Banking Act No.5411.
(2) The information in the table above includes loans and due from banks, as well as marketable securities.

	As of 31 December 2015					
	Associates, subsidiaries and joint ventures		**Direct and indirect shareholders of the Group**		**Other real and legal persons that have been included in the risk group**	
Group's risk group[(1)(2)]	**Cash**	**Non cash**	**Cash**	**Non cash**	**Cash**	**Non cash**
			(TL, thousands)			
Loans and other receivables						
Balance at the beginning of the period	88,339	5,916	47,956	536,763	1,320,617	2,117,169
Balance at the end of the period	33,816	10,388	106,881	954,585	1,688,868	2,440,007
Interest and commission income received	**2,381**	**109**	**13,052**	**6,027**	**201,351**	**8,986**

(1) Defined in subsection 2 of the 49th article of Banking Act No.5411.
(2) The information in the table above includes loans and due from banks, as well as marketable securities.

	As of 31 December 2014					
	Associates, subsidiaries and joint ventures		**Direct and indirect shareholders of the Group**		**Other real and legal persons that have been included in the risk group**	
Group's risk group[(1)(2)]	**Cash**	**Non cash**	**Cash**	**Non cash**	**Cash**	**Non cash**
			(TL, thousands)			
Loans and other receivables						
Balance at the beginning of the period	88,320	3,769	127,213	450,294	903,056	1,029,707
Balance at the end of the period	88,339	5,916	47,956	536,763	1,320,617	2,117,169
Interest and commission income received	**4,534**	**57**	**5,065**	**4,100**	**112,997**	**10,095**

(1) Defined in subsection 2 of the 49th article of Banking Act No.5411.
(2) The information in the table above includes loans and due from banks, as well as marketable securities.

The following table shows the deposits of the Group's risk group for the periods indicated:

Group's risk group(1)(2)	Associates, subsidiaries and joint ventures			Direct and indirect shareholders of the Bank			Direct and indirect shareholders of the Bank		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
					(TL, thousands)				
Beginning of the period	82,069	121,840	6,688	19,927,462	13,660,682	15,480,464	5,148,413	10,291,156	6,544,935
End of the period	232,820	82,069	121,840	24,423,963	19,927,462	13,360,682	14,406,822	5,148,413	10,291,156
Interest expense on deposits	**3,139**	**2,426**	**1,463**	**1,107,376**	**892,403**	**406,622**	**556,428**	**385,410**	**210,212**

(1) Defined in subsection 2 of the 49th article of Banking Act No.5411.
(2) The information in the table above includes borrowings, marketable securities issued and repo transactions, as well as deposits.

The following table shows the forward and option agreements and other derivative instruments with the Group's risk group for the periods indicated:

Group's risk group(1)(2)	Associates, subsidiaries and joint ventures			Direct and indirect shareholders of the Bank			Other real and legal persons that have been included in the risk group		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
					(TL, thousands)				
Transactions at fair value through profit or loss(2)									
Beginning of the period(3)	-	-	-	1,455,484	150,569	442,253	146.778	879,327	659,635
End of the period(3)	-	-	-	8,532,884	1,455,484	150,569	802.512	146,778	879,327
Total profit/loss	**(8,091)**	**(7,169)**	**(11,463)**	**(9,004)**	**(53,226)**	**(1,830)**	**(9,512)**	**31,343**	**(75,049)**
Transactions for hedging purposes(2)	-	-	-	-	-	-	-	-	-
Beginning of the period(3)	-	-	-	-	-	-	-	-	-
End of the period(3)	-	-	-	-	-	-	-	-	-
Total profit/loss	-	-	-	-	-	-	-	-	-

(1) Defined in subsection 2 of the 49th article of Banking Act No.5411.
(2) The Bank's derivate instruments are classified as "Financial instruments at fair value through profit or loss" or "Derivate financial instruments held for hedging" according to TAS 39.
(3) The balances at the beginning and end of the periods are disclosed as the total of buy and sell amounts of derivate financial instruments.

In December 2013, the Bank repaid a EUR 350 million subordinated loan facility advanced by Goldman Sachs International and received a new subordinated loan facility from UniCredit Bank Austria AG in the amount of U.S.$470 million. The new facility has a ten-year maturity with a repayment option at the end of five years. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Sources of Funding – Funds Borrowed*".

ISSUE TERMS

*The terms and conditions of the Notes shall consist of the terms and conditions set out in the Base Prospectus (the "**Base Conditions**") as supplemented by the terms set out below in this section. References in the Base Conditions to "Final Terms" shall be deemed to refer to the terms of the Notes substantially in the form set out below.*

YAPI VE KREDİ BANKASI A.Ş.

Issue of U.S.$600,000,000 5.750% Notes due 2022 (the "Notes")
under the U.S.$11,000,000,000
Global Medium Term Note Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 30 September 2016 and the Prospectus dated 23 February 2017, which together constitute a prospectus for the purposes of Directive 2003/71/EC as amended (including the amendments made by Directive 2010/73/EU) (the "**Prospectus Directive**") (the "**Prospectus**"). This document constitutes the Issue Terms of the Notes described herein and must be read in conjunction with the Prospectus. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus. On issuance the Prospectus will be published on the website of the Irish Stock Exchange (www.ise.ie) and the website of the Central Bank of Ireland (www.centralbank.ie).

1.	Issuer:		Yapı ve Kredi Bankası A.Ş.
2.	(a)	Series Number:	204
	(b)	Tranche Number:	1
	(c)	Date on which the Notes will be consolidated and form a single Series:	Not Applicable
3.	Specified Currency or Currencies:		U.S. Dollars ("**U.S.$**")
4.	USD Payment Election:		Not Applicable
5.	Aggregate Nominal Amount:		
	(a)	Series:	U.S.$600,000,000
	(b)	Tranche:	U.S.$600,000,000
6.	Issue Price:		100.000% of the Aggregate Nominal Amount
7.	(a)	Specified Denominations:	U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof
	(b)	Calculation Amount:	U.S.$1,000
8.	(a)	Issue Date:	24 February 2017
	(b)	Interest Commencement Date:	Issue Date
9.	Maturity Date:		24 February 2022
10.	Interest Basis:		5.750% Fixed Rate
11.	Redemption Basis:		Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at 100% of their nominal amount
12.	Change of Interest Basis:		Not Applicable
13.	Put/Call Options:		Not Applicable
14.	(a)	Status of the Notes:	Unsubordinated, unsecured
	(b)	Date Board approval for issuance of Notes obtained:	4 September 2013, 27 November 2013, 10 February 2014, 26 February 2015 and 25 February 2016.

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15.	Fixed Rate Note Provisions	Applicable
	(a) Rate(s) of Interest:	5.750% per annum payable in arrear on each Interest Payment Date
	(b) Interest Payment Date(s):	24 February and 24 August in each year up to and including the Maturity Date
	(c) Fixed Coupon Amount(s):	Not Applicable
	(d) Broken Amount(s):	Not Applicable
	(e) Day Count Fraction:	30/360
	(f) Determination Date(s):	Not Applicable
16.	Floating Rate Note Provisions	Not Applicable
17.	Zero Coupon Note Provisions	Not Applicable

PROVISIONS RELATING TO REDEMPTION

18.	Notice periods for Condition 8.2:	Minimum period: 30 days Maximum period: 60 days
19.	Issuer Call:	Not Applicable
20.	Investor Put:	Not Applicable
21.	Final Redemption Amount:	U.S.$1,000 per Calculation Amount
22.	Early Redemption Amount payable on redemption for taxation reasons or on event of default:	U.S.$1,000 per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

23.	Form of Notes:	Registered Notes: Regulation S Global Note registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg exchangeable for Definitive Registered Notes upon an Exchange Event Rule 144A Global Note registered in the name of a nominee for DTC exchangeable for Definitive Registered Notes upon an Exchange Event
24.	Additional Financial Centre(s):	Not Applicable
25.	Talons for future Coupons to be attached to Definitive Notes:	Not Applicable
26.	RMB Currency Events:	Not Applicable
27.	Other Issue Terms:	Clause 19.2 (*Submission to Jurisdiction*) of the Base Conditions shall be deemed to be deleted in its entirety and be replaced by this new clause 19.2 (*Submission to jurisdiction*): The Issuer irrevocably agrees, for the benefit of the Noteholders and the Couponholders, that the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales) are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes and/or the Coupons (including a dispute relating to any non contractual obligations arising out of or in connection with the Notes and/or the

Coupons) and accordingly submits to the exclusive jurisdiction of the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales).

The Issuer waives any objection to the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales)on the grounds that they are an inconvenient or inappropriate forum. To the extent allowed by law, the Noteholders and the Couponholders may take any suit, action or proceedings (together referred to as "**Proceedings**") arising out of or in connection with the Notes and the Coupons (including any Proceeding relating to any non contractual obligations arising out of or in connection with the Notes and/or the Coupons) against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

Clause 19.3 (*Consent to Enforcement*) of the Base Conditions shall be deemed to be deleted in its entirety and be replaced by this new clause 19.3 (*Consent to Enforcement*):

The Issuer agrees, without prejudice to the enforcement of a judgment obtained in the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales)according to the provisions of Article 54 of the International Private and Procedural Law of Turkey (Law No. 5718), that in the event that any action is brought in relation to the Issuer in a court in Turkey in connection with the Notes and/or the Coupons, in addition to other permissible legal evidence pursuant to the Civil Procedure Code of Turkey (Law No. 6100), any judgment obtained in the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales) in connection with such action shall constitute conclusive evidence of the existence and amount of the claim against the Issuer, pursuant to the provisions of the first paragraph of Article 193 of the Civil Procedure Code of Turkey (Law No. 6100) and Articles 58 and 59 of the International

Private and Procedural Law of Turkey (Law No. 5718).

Clause 19.5 (*Other documents*) shall be deleted in its entirety and be replaced by this new clause 19.5 (*Other documents*):

The Issuer has in the Agency Agreement, the Deed of Covenant and the Deed Poll submitted to the jurisdiction of the High Court of Justice of England and Wales in London (and any competent United Kingdom appellate court in respect of any appeal relating to any judgment or order originally of the High Court of Justice of England and Wales) and appointed an agent for service of process, in terms substantially similar to those set out above.

Signed on behalf of **YAPI VE KREDİ BANKASI A.Ş.**

By:
Duly authorised

By:
Duly authorised

PART B – OTHER INFORMATION

1.	**LISTING AND ADMISSION TO TRADING**		
	(a)	Listing and Admission to trading:	Application has been made to the Irish Stock Exchange for the Notes to admitted to the Official List and trading on its regulated market with effect from on or about 24 February 2017
	(b)	Estimate of total expenses related to admission to trading:	EUR 5,000
2.	**RATINGS**		
	Ratings:		The Notes to be issued are expected to be rated: BBB- by Fitch Ratings Ltd. ("**Fitch**") and Ba1 by Moody's Deutschland GmbH ("**Moody's**" and together with Fitch, the "**Rating Agencies**"). Each of the Rating Agencies is established in the EU and is registered under Regulation No 1060/2009 (as amended)

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

Save for any fees payable to the Joint Lead Managers, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.

4.	**YIELD**		
	Indication of yield:		5.750% per annum The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.
6.	**OPERATIONAL INFORMATION**		
	(a)	ISIN:	Regulation S Notes: XS1571399754 Rule 144A Notes: US984848AH44
	(b)	Common Code:	Regulation S Notes: 157139975 Rule 144A Notes: 157274449
	(c)	CUSIP:	Rule 144A Notes: 984848AH4
	(d)	Any clearing system(s) other than DTC Euroclear Bank SA/NV and Clearstream Banking, société anonyme and the relevant identification number(s):	Not Applicable
	(e)	Delivery:	Delivery against payment
	(f)	Names and addresses of additional Paying Agent(s) (if any):	Not Applicable
7.	**DISTRIBUTION**		
	(a)	Method of distribution:	Syndicated
	(b)	If syndicated, names of Managers:	Deutsche Bank AG, London Branch HSBC Bank plc ING Bank N.V., London Branch Merrill Lynch, Pierce, Fenner & Smith Incorporated UniCredit Bank AG

(c)	Date of Subscription Agreement:	23 February 2017
(d)	Stabilisation Manager(s) (if any):	Merrill Lynch, Pierce, Fenner & Smith Incorporated
(e)	If non-syndicated, name of relevant Dealer:	Not Applicable
(f)	U.S. Selling Restrictions:	Regulation S Compliance Category 2 and Rule 144A

FORM OF THE NOTES

For the purposes of this Prospectus, the sections entitled "*Registered Notes*" and "*Transfer of Interests*" in the "*Form of the Notes*" section of the Base Prospectus on pages 40 to 41 should be disregarded and instead read with the following sections.

Registered Notes

The Notes offered and sold in reliance on Regulation S in offshore transactions to persons other than U.S. persons will initially be represented by a global note in registered form (an "**Unrestricted Global Certificate**"). Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to the Notes, the Notes offered and sold in reliance on Regulation S (including Definitive Regulation S Registered Notes) or beneficial interests therein may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 and such beneficial interests in an Unrestricted Global Certificate may not be held otherwise than through Euroclear or Clearstream, Luxembourg and such Notes will bear a legend regarding such restrictions on transfer.

The Notes (or beneficial interests therein) offered and sold in the United States or to, or for the account or benefit of, U.S. persons may only be offered and sold in private transactions to "qualified institutional buyers" within the meaning of Rule 144A under the Securities Act ("**QIBs**"). The Notes sold to QIBs pursuant to Rule 144A will be represented by a global note in registered form (a "**Restricted Global Certificate**").

The Notes will either be (i) deposited with a custodian for, and registered in the name of a nominee of, the Depository Trust Company ("**DTC**") or (ii) deposited with a common depositary for Euroclear and Clearstream, Luxembourg, and registered in the name of a nominee of that common depositary, as specified in the Terms and Conditions of the Notes in the Base Prospectus. Persons holding beneficial interests in the Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 7.2) as the registered holder of the Notes on the relevant Record Date. None of the Issuer, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. Payments of principal, interest or any other amount in respect of the Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 7.2) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that (i) an Event of Default has occurred and is continuing, (ii) in the case of Notes registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depositary for the Notes and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act and no alternative clearing system is available, (iii) in the case of Notes registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available or (iv) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Registered Global Note in definitive form. The Issuer will promptly give notice to Noteholders in accordance with Condition 14 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream, Luxembourg or any person acting on their behalf (acting on the instructions of any holder of an interest in such Registered Global Note) may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iv) above, the Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Transfer of Interests

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. The Notes are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions, see "*Subscription and Sale*" and "*Transfer Restrictions*".

General

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 11. In such circumstances, where any Note is still represented by a Global Note and the Global Note (or any part thereof) has become due and repayable in accordance with the Conditions and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then the Global Note will become void at 8.00 p.m. (London time) on such day. At the same time holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, will become entitled to proceed directly against the Issuer on the basis of statements of account provided by Euroclear, Clearstream, Luxembourg and DTC on and subject to the terms of a deed of covenant dated 3 November 2014 and executed by the Issuer.

TAXATION

See the section in the Base Prospectus entitled "Taxation" for the other tax considerations applicable to the Notes.

Certain U.S. Federal Income Tax Considerations

The following summary describes certain U.S. federal income tax consequences of the acquisition, ownership and disposition of a Note. Except for the section below entitled "*FATCA*," this summary deals only with a Note held by a U.S. Holder (as defined below) whose functional currency is the U.S. dollar that acquires the Note in this Offering from the Joint Lead Managers at a price equal to the issue price of the Notes (the first price at which a substantial amount of the Notes is sold for money to investors) and holds it as a capital asset. This summary does not address all aspects of U.S. federal income taxation that may be applicable to particular U.S. Holders subject to special U.S. federal income tax rules, including, among others, tax-exempt organisations, financial institutions, dealers and traders in securities or currencies, U.S. Holders that will hold a Note as part of a "straddle," hedging transaction, "conversion transaction" or other integrated transaction for U.S. federal income tax purposes, U.S. Holders that enter into "constructive sale" transactions with respect to the Notes, U.S. Holders liable for alternative minimum tax and certain U.S. expatriates. In addition this summary does not address consequences to U.S. Holders of the acquisition, ownership and disposition of a Note under any other U.S. federal tax laws (e.g. Medicare, estate or gift tax laws) or under the tax laws of any state, locality or other political subdivision of the United States or other countries or jurisdictions.

As used herein, the term "**U.S. Holder**" means a beneficial owner of a Note that is for U.S. federal income tax purposes: (a) an individual who is a citizen or resident of the United States, (b) a corporation created or organised in or under the laws of the United States, any state thereof or the District of Columbia, (c) an estate, the income of which is subject to U.S. federal income taxation regardless of its source, or (d) a trust that is subject to U.S. tax on its worldwide income regardless of its source.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds a Note, the U.S. federal income tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. Therefore, a partnership holding a Note and its partners should consult their own tax advisors regarding the U.S. federal income tax consequences of the acquisition, ownership and disposition of a Note.

The discussion below is based upon the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), Treasury Regulations thereunder, and judicial and administrative interpretations thereof, all as in effect as of the date of this Prospectus and any of which may at any time be repealed, revoked or modified or subject to differing interpretations, potentially retroactively, so as to result in U.S. federal income tax consequences different from those discussed below.

The summary of the U.S. federal income tax consequences set out below is for general information only. Prospective purchasers should consult their tax advisors as to the particular tax consequences to them of owning the Notes, including the applicability and effect of state, local, foreign and other tax laws and possible changes in tax law.

Payments of interest

The Issuer does not expect the Notes to be, and this discussion assumes that the Notes will not be, issued with original issue discount ("**OID**"). Payments of stated interest on the Notes, including additional amounts, if any, generally will be taxable to a U.S. Holder as ordinary income at the time that such payments are received or accrued, in accordance with such U.S. Holder's usual method of accounting for U.S. federal income tax purposes. Interest paid on a Note and any additional amounts generally will constitute foreign source income for U.S. federal income tax purposes and generally will be considered "passive" income, which is treated separately from other types of income in computing the foreign tax credit that may be allowable to U.S. Holders under U.S. federal income tax laws. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisor regarding the availability of the foreign tax credit under your particular circumstances.

Sale, exchange and redemption of Notes

Upon the sale, exchange, redemption, retirement at maturity or other taxable disposition of a Note, a U.S. Holder generally will recognise taxable gain or loss equal to the difference between the amount realised (i.e., the amount of cash and the fair market value of any property received on the disposition (except to the extent the cash or property received is attributable to accrued and unpaid interest not previously included in income, which is treated like a payment of interest)) and the U.S. Holder's tax basis in the Note. A U.S. Holder's tax basis in a Note generally will equal the amount paid for the Note. Gain or loss recognised by a U.S. Holder on the sale, exchange or other disposition of a Note will be capital gain or loss and will be long-term capital gain or loss if the Note was held by the U.S. Holder for more than one year. The deductibility of capital losses is subject to significant limitations. Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source. U.S. Holders should consult their own advisors about the availability of U.S. foreign tax credits or deductions with respect to any Turkish taxes imposed upon a disposition of Notes.

Further Issues

The Issuer may, without the consent of the Noteholders, issue additional Notes with identical terms. These additional Notes, even if they are treated for non-tax purposes as part of the same series of the original Notes, in some cases may be treated as a separate series for U.S. federal income tax purposes. In such a case, the additional Notes may be considered to have been issued with OID even though the Issuer does not expect the original notes to be issued with OID. These differences may affect the market value of the original Notes if the additional Notes are not otherwise distinguishable from the original Notes.

Information reporting and backup withholding

Information returns may be filed with the IRS (unless the U.S. Holder establishes, if requested to do so, that it is an exempt recipient) in connection with payments on the Notes, and the proceeds from the sale, exchange or other disposition of Notes. If information reports are required to be made, a U.S. Holder may be subject to U.S. backup withholding if it fails to provide its taxpayer identification number, or to establish that it is exempt from backup withholding. The amount of any backup withholding imposed on a payment will be allowed as a credit against any U.S. federal income tax liability of a U.S. Holder and may entitle the U.S. Holder to a refund, provided the required information is timely furnished to the IRS.

U.S. Holders should consult their own tax advisors regarding any filing and reporting obligations they may have as a result of their acquisition, ownership or disposition of Notes.

Foreign Financial Asset Reporting

Certain U.S. Holders who are individuals (and some specified entities) are required to report information relating to an interest in the Notes, subject to certain exceptions (including an exception for Notes held in accounts maintained by financial institutions). U.S. Holders are urged to consult their tax advisors regarding their information reporting obligations, if any, with respect to their ownership and disposition of the Notes.

FATCA

FATCA imposes a reporting regime and up to 30% withholding tax (a) on certain payments made to any non-U.S. financial institution (an "**FFI**") that either (1) is not a "**Participating FFI**" (i.e. an FFI that has entered into an agreement with the IRS to provide the IRS with certain information in respect of its account holders and investors) or (2) is not otherwise exempt from or deemed in compliance with FATCA and (b) with respect to certain payments to any investor that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States account" of a Participating FFI (unless otherwise exempt from FATCA). The Issuer is classified as an FFI and any paying agent may be classified as an FFI.

FATCA withholding will apply to "foreign passthru payments" no earlier than 1 January 2019, but generally will not apply to payments in respect of the Notes unless the Notes are significantly modified after the "**grandfathering date**," which is the date that is six months after the date on which final Treasury Regulations defining the term "foreign passthru payment" are filed with the Federal Register. Treasury Regulations defining the term "foreign passthru payment" have not been filed with the Federal Register. In

addition, if the Issuer creates and issues further notes after the grandfathering date that are consolidated and form a single series with Notes outstanding on the grandfathering date as permitted by Condition 17 in the Base Prospectus, a withholding agent may not be able to distinguish between the outstanding Notes and the further notes, which may result in withholding on both the outstanding Notes and the further notes, unless such further notes are issued pursuant to a "qualified reopening" of the outstanding Notes for U.S. federal income tax purposes.

If an amount in respect of FATCA were to be deducted or withheld from interest, principal or other payments on or with respect to the Notes, neither the Issuer, a paying agent, nor any other party would have an obligation to pay additional amounts or otherwise indemnify a holder for any such withholding or deduction by the Issuer, a paying agent or any other party. As a result, investors may receive less interest or principal than expected.

The United States and Turkey have reached an agreement in substance to enter into a Model 1 intergovernmental agreement to facilitate the implementation of FATCA (an "**IGA**"). If the IGA is entered into as agreed in substance, payments of U.S. source income to Turkish "financial institutions", as defined under the IGA, including the Issuer, would not be subject to FATCA withholding *provided that* such Turkish "financial institutions" are in compliance with the IGA. However, the Issuer and other Turkish "financial institutions" would be required to report certain information regarding their respective U.S. account holders to the government of Turkey, which information may ultimately be reported to the U.S. Internal Revenue Service. The IGA, if entered into, currently does not require withholding on foreign passthru payments. However, there can be no assurance that Turkey and the United States will in fact enter into an IGA or that the IGA will not be amended in the future to require withholding on foreign passthru payments.

Significant aspects of the application of FATCA are not currently clear. Investors should consult their own advisors about the application of FATCA, in particular if they may be classified as financial institutions under the FATCA rules.

THE ABOVE SUMMARIES ARE NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE INVESTMENT IN THE NOTES. PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX CONSEQUENCES OF THEIR PARTICULAR SITUATIONS. THIS DISCUSSION IS BASED UPON LAWS AND RELEVANT INTERPRETATIONS THEREOF IN EFFECT AS OF THE DATE OF THIS PROSPECTUS.

SUBSCRIPTION AND SALE

None of the Issuer and the Joint Lead Managers represents that the Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale. The Issuer intends to offer the Notes through the Joint Lead Managers and their broker-dealer affiliates, as applicable, named below. Subject to the terms and conditions stated in a subscription agreement dated on or about 23 February 2017 (the "**Subscription Agreement**"), among the Joint Lead Managers and the Issuer, each of the Joint Lead Managers has severally agreed to purchase, and the Issuer has agreed to sell to each of the Joint Lead Managers, the principal amount of the Notes set forth opposite each Joint Lead Manager's name below.

Joint Lead Managers	**Principal Amount of Notes** *(U.S. dollars)*
Deutsche Bank AG, London Branch	120,000,000
HSBC Bank plc	120,000,000
ING Bank N.V., London Branch	120,000,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	120,000,000
UniCredit Bank AG	120,000,000
Total	**600,000,000**

The Subscription Agreement provides that the obligations of the Joint Lead Managers to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. The Joint Lead Managers must purchase all the Notes if they purchase any of the Notes. The offering of the Notes by the Joint Lead Managers is subject to receipt and acceptance and subject to the Joint Lead Managers' right to reject any order in whole or in part.

The Issuer has been informed that the Joint Lead Managers propose to resell the Notes at the offering prices set forth on the cover page of this Prospectus within the United States to persons reasonably believed to be qualified institutional buyers (as defined in Rule 144A) in reliance upon Rule 144A, and to non-U.S. persons outside the United States in reliance upon Regulation S. See "*Transfer Restrictions*" below. The prices at which the Notes are offered may be changed at any time without notice.

Broker commissions

To the extent permitted by local law, the Joint Lead Managers and Issuer have agreed that commissions may be offered to certain brokers, financial advisors and other intermediaries based upon the amount of investment in the Notes purchased by such intermediary and/or its customers. Each such intermediary is required by law to comply with any disclosure and other obligations related thereto, and each customer of any such intermediary is responsible for determining for itself whether an investment in the Notes is consistent with its investment objectives.

Selling Restrictions

See the section in the Base Prospectus entitled "Selling Restrictions" (other than the section entitled "United States") for the other selling restrictions applicable to the Notes.

United States of America

Offers and sales of the Notes in the United States will be made by those Joint Lead Managers or their affiliates that are registered broker-dealers under the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), or in accordance with Rule 15a-6 thereunder.

Certain Joint Lead Managers are not broker-dealers registered with the SEC and, therefore, may not make sales of any Notes in the United States or to U.S. persons except in compliance with applicable U.S. laws and regulations. To the extent that such Joint Lead Managers intend to effect sales of the Notes in the United States, they will do so only through one or more U.S. registered broker-dealers or otherwise, as permitted by applicable U.S. law.

The Notes have not been registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in

Regulation S under the Securities Act) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See "*Transfer Restrictions*".

Accordingly, until 40 days after the commencement of this offering, an offer or sale of the Notes within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

The Notes will constitute a new class of securities of the Bank with no established trading market. The Bank cannot assure you that the prices at which the Notes will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering. The Joint Lead Managers have advised the Bank that they currently intend to make a market in the Notes. However, they are not obligated to do so, and they may discontinue any market-making activities with respect to the Notes at any time without notice. Accordingly, the Bank cannot assure you as to the liquidity of or the trading market for the Notes.

In connection with the offering, the Joint Lead Managers may purchase and sell the Notes in the open market. These transactions may include over-allotment, syndicate covering transactions and stabilising transactions. Over-allotment involves the sale of Notes in excess of the principal amount of Notes to be purchased by the Joint Lead Managers in this offering, which creates a short position for the Joint Lead Managers. Covering transactions involve the purchase of the Notes in the open market after the distribution has been completed in order to cover short positions. Stabilising transactions consist of certain bids or purchases of Notes made for the purpose of preventing or retarding a decline in the market price of the Notes while the offering is in progress. Any of these activities may have the effect of preventing or retarding a decline in the market price of the Notes. They may also cause the price of the Notes to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The Joint Lead Managers may conduct these transactions in the over-the-counter market or otherwise. If the Joint Lead Managers commence any of these transactions, they may discontinue them at any time.

The Joint Lead Managers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Joint Lead Managers or their respective affiliates may have performed investment banking and advisory services for the Issuer and its affiliates from time to time for which they may have received customary fees and expenses. The Joint Lead Managers or their respective affiliates may, from time to time, engage in transactions with and perform advisory and other services for the Issuer and its affiliates in the ordinary course of their business.

In the ordinary course of their various business activities, the Joint Lead Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer or the Issuer's affiliates. Certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Issuer hedge their credit exposure to the Issuer consistent with their customary risk management policies. These hedging activities could have an adverse effect on the future trading prices of the Notes offered hereby. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of the Notes. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Each of the Joint Lead Managers has represented to and agreed with the Issuer in the Subscription Agreement that (except to the extent that all of the Joint Lead Managers have agreed otherwise with the Issuer) it will not sell, either itself or together with the other Joint Lead Managers, 10% or more of the aggregate principal amount of the Notes as part of their initial distribution at any time to any one person (including such person's subsidiaries and other affiliates) (together an "Investor Group")(except where Notes (or beneficial interests

therein) are being purchased on behalf of any other person(s) and no individual person or investor group will have a beneficial interest in more than 10% of the aggregate principal amount of the Notes as a result of such purchase).

The Issuer has agreed to indemnify the several Joint Lead Managers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Joint Lead Managers may be required to make because of those liabilities.

TRANSFER RESTRICTIONS

Because the following restrictions will apply with respect to the Notes, purchasers of the Notes are advised to consult legal counsel prior to making an offer, resale, pledge or transfer of any of the Notes.

According to Article 15d(ii) of Decree 32 regarding the Protection of the Value of the Turkish Currency, residents of Turkey will be free to purchase and sell securities and other capital market instruments (or beneficial interests therein) traded on financial markets outside of Turkey on an unsolicited (reverse inquiry) basis, *provided that* such sale and purchase is made through banks and/or licensed brokerage institutions authorised pursuant to the CMB communiqués and the purchase price is transferred through banks. As such, Turkish residents should use banks or licensed brokerage institutions when purchasing Notes (or beneficial interests therein) and transfer the purchase price through banks. However, the Notes cannot be offered or sold in Turkey, as the CMB's approval of the issuance is conditioned on the Notes being offered and sold exclusively outside Turkey. Additionally, following the primary sale of the Notes, no transaction may occur that may be deemed as a sale of the Notes (or beneficial interests therein) in Turkey by way of private placement or public offering.

The Bank has not registered the Notes under the Securities Act or the laws of any state securities commission and, therefore, the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only (1) to persons reasonably believed to be "**qualified institutional buyers**" (as defined in Rule 144A under the Securities Act), commonly referred to as "**QIBs**", in compliance with Rule 144A under the Securities Act and (2) to non-U.S. persons outside the United States in compliance with Regulation S under the Securities Act.

If you purchase the Notes, you will be deemed to have acknowledged, represented and agreed with the Joint Lead Managers and the Bank as follows:

(1) You understand and acknowledge that the Notes have not been registered under the Securities Act or any other applicable securities law and that the Notes are being offered for resale in transactions not requiring registration under the Securities Act or any other securities law, including sales pursuant to Rule 144A under the Securities Act, and, unless so registered, may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the Securities Act or any other applicable securities law, or pursuant to an exemption therefrom or in a transaction not subject thereto, and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.

(2) You are not an "**affiliate**" (as defined in Rule 144 under the Securities Act) of the Bank and you are not acting on the Bank's or their behalf and you are either (i) a QIB and are aware that any sale of Notes to you will be made in reliance on Rule 144A and such acquisition will be for your own account or for the account of another QIB or (ii) not a "**U.S. person**" (as defined in Regulation S under the Securities Act) or purchasing for the account or benefit of a U.S. person (other than a distributor) and you are purchasing Notes in an offshore transaction in accordance with Regulation S under the Securities Act.

(3) You acknowledge that none of the Bank or the Joint Lead Managers, or any person representing the Bank or the Joint Lead Managers, has made any representation to you with respect to the Bank or the offer or sale of any of the Notes, other than the information contained in this Prospectus, which has been delivered to you and upon which you are relying in making your investment decision with respect to the Notes. You acknowledge that the Joint Lead Managers make no representation or warranty as to the accuracy or completeness of this Prospectus. You have had access to such financial and other information concerning the Bank and the Notes as you have deemed necessary in connection with your decision to purchase the Notes, including an opportunity to ask questions of and request information from the Bank and the Joint Lead Managers.

(4) You are purchasing the Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act. You agree on

your own behalf and on behalf of any investor account for which you are purchasing Notes, and each subsequent holder of the Notes by its acceptance thereof will agree, to offer, sell or otherwise transfer such Notes prior to (x), the date which is one year (or such shorter period of time as permitted by Rule 144 under the Securities Act or any successor provision thereunder) after the later of the date of the original issue of the Notes and the last date on which the Bank or any affiliate of the Bank was the owner of such Notes (or any predecessor thereto), or (y), such later date, if any, as may be required by applicable law (the "**Resale Restriction Termination Date**"), only (a) to the Bank, (b) pursuant to a registration Statement which has been declared effective under the Securities Act, (c) for so long as the Notes are eligible for resale pursuant to Rule 144A, to a person you reasonably believe is a QIB that purchases for its own account or for the account of another QIB to whom you give notice that the transfer is being made in reliance on Rule 144A, (d) in an offshore transaction complying with Rule 903 or 904 of Regulation S under the Securities Act, or (e) pursuant to any other available exemption from the registration requirements of the Securities Act, subject in each of the foregoing cases to compliance with any applicable state securities laws. The foregoing restrictions on resale will not apply subsequent to the Resale Restriction Termination Date. You acknowledge that the Bank reserves the right prior to any offer, sale or other transfer of the Notes pursuant to clause (d) or (e) above, to require the delivery of an opinion of counsel, certifications and/or other information satisfactory to the Bank.

Each purchaser acknowledges that each Rule 144A Note will contain a legend substantially in the following form:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR OTHER SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION UNLESS THE TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT IT IS A "**QUALIFIED INSTITUTIONAL BUYER**" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT), (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES THAT IT WILL NOT PRIOR TO (X), THE DATE WHICH IS ONE YEAR (OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144 UNDER THE SECURITIES ACT OR ANY SUCCESSOR PROVISION THEREUNDER) AFTER THE LATER OF THE ORIGINAL ISSUE DATE THEREOF (OR OF ANY PREDECESSOR OF THIS NOTE) OR THE LAST DAY ON WHICH THE ISSUER OR ANY AFFILIATE (AS DEFINED IN RULE 144) OF THE ISSUER WAS THE OWNER OF THIS NOTE (OR ANY PREDECESSOR OF THIS NOTE), OR (Y), SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAW (THE "**RESALE RESTRICTION TERMINATION DATE**"), OFFER, SELL OR OTHERWISE TRANSFER SUCH NOTE EXCEPT (A) TO THE ISSUER, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, (D) PURSUANT TO OFFERS AND SALES TO NON-U.S. PERSONS THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND, IN EACH CASE, IN COMPLIANCE WITH THE RELEVANT SECURITIES LAWS OF ANY OTHER JURISDICTION, AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS NOTICE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND; *PROVIDED THAT* THE ISSUER AND THE ISSUING AND PAYING AGENT SHALL HAVE

THE RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D) OR (E) ABOVE, TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATIONS AND/OR OTHER INFORMATION REASONABLY SATISFACTORY TO THE ISSUER AND THE ISSUING AND PAYING AGENT. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION," "UNITED STATES" AND "U.S. PERSON" HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

(5) If you are a purchaser in a sale that occurs outside the United States within the meaning of Regulation S, you acknowledge that until the expiration of the "40-day distribution compliance period" within the meaning of Rule 903 of Regulation S, any offer or sale of the Notes shall not be made by you to a U.S. person or for the account or benefit of a U.S. person within the meaning of Rule 902 under the Securities Act.

(6) If you purchase the Notes, you will also be deemed to acknowledge that the foregoing restrictions apply to holders of beneficial interests in the Notes as well as to holders of the Notes.

(7) You acknowledge that the registrar will not be required to accept for registration of transfer any Notes acquired by you, except upon presentation of evidence satisfactory to the Bank and the registrar that the restrictions set forth herein have been complied with.

(8) You acknowledge that:

   (a) the Bank, the Joint Lead Managers and others will rely upon the truth and accuracy of your acknowledgements, representations and agreements set forth herein and you agree that if any of your acknowledgements, representations or agreements herein cease to be accurate and complete, you will notify the Bank and the Joint Lead Managers promptly in writing; and

   (b) if you are acquiring any Notes as fiduciary or agent for one or more investor accounts, you represent with respect to each such account that:

      (i) you have sole investment discretion; and

      (ii) you have full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account and that each such investment account is eligible to purchase the Notes.

(9) You agree that you will give to each person to whom you transfer the Notes notice of any restrictions on the transfer of the Notes.

(10) You understand that no action has been taken in any jurisdiction (including the United States) by the Bank or the Joint Lead Managers that would permit a public offering of the Notes or the possession, circulation or distribution of this Prospectus or any other material relating to the Bank or the Notes in any jurisdiction where action for that purpose is required. Consequently, any transfer of the Notes will be subject to the selling restrictions set forth herein and under "*Subscription and Sale*" in the Base Prospectus.

Each purchaser and subsequent transferee of a Note (or a beneficial interest therein) will be deemed to have represented and warranted that (a) either (i) no portion of the assets used by such purchaser or transferee to acquire and hold the Notes (or beneficial interests therein) constitutes assets of any employee benefit plan subject to Title I of ERISA, any plan, individual retirement account or other arrangement subject to section 4975 of the Code or provisions under any Similar Law, or any entity whose underlying assets are considered to include "plan assets" of any such plan, account or arrangement or (ii) the acquisition, holding and disposition of the Notes (or beneficial interests therein) by such purchaser or transferee will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation under any applicable Similar Law, and (b) such purchaser or transferee agrees not to sell or otherwise transfer any interest in the Notes otherwise than to an acquirer or transferee that is deemed to make these same representations, warranties and agreements with respect to its acquisition, holding and disposition of such Notes.

GENERAL INFORMATION

The Bank is registered at the Istanbul Trade Registry under number 32736. It has its principal office at Yapı Kredi Plaza, D Blok, Levent 34330 Istanbul, Republic of Turkey. Its telephone number is +90 212 339 7011.

Authorisation

The establishment of the Programme and the issuance and sale of the Notes by the Issuer and the execution and delivery by the Issuer of the documents in relation thereto have been authorised pursuant to the authority of the officers of the Issuer under resolutions of its Board of Directors dated 4 September 2013, 27 November 2013, 10 February 2014, 26 February 2015 and 25 February 2016.

Listing

Application has been made to list the Notes on the Irish Stock Exchange, through the Listing Agent, Arthur Cox Listing Services Limited ("**ACLSL**"). ACLSL is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission to the Official List or to trading on the Main Securities Market. It is expected that admission of the Notes to listing on the Official List and to trading on the Main Securities Market will be granted on or about 24 February 2017, subject only to the issue of the Notes. The total expenses related to the admission to trading of the Notes are expected to be approximately EUR 5,000.

Clearing Systems

The Unrestricted Global Certificate has been accepted for clearance through Euroclear and Clearstream, Luxembourg (ISIN XS1571399754 and Common Code 157139975). Application has been made for acceptance of the Restricted Global Certificate into DTC's book-entry settlement system (ISIN US984848AH44, Common Code 157274449 and CUSIP 984848AH4).

Significant or Material Adverse Change

There has been no material adverse change in the financial position or prospects of either the Issuer or the Group since 31 December 2016, being the end of the last financial period for which the Group's audited financial statements have been published, and there has been no significant change in the financial or trading position of either the Issuer or the Group since 31 December 2016, being the date of the last financial period for which the Group's audited financial statements have been published.

Financial Statements and Auditor

The Annual BRSA Financial Statements incorporated by reference into this Prospectus have been audited, without qualification (i) as of and for the year ended 31 December 2016, in accordance with the communiqué "Independent Audit of Banks" published by the BRSA in the Official Gazette No.29314 dated 2 April 2015 and with the Independent Auditing Standards which is a part of the Turkish Auditing Standards promulgated by the POA and (ii) as of and for the year ended 31 December 2015, in accordance with the "Regulation on Authorization and Activities of Institutions to Conduct Independent Audit in Banks" published in the Official Gazette dated 1 November 2006 and numbered 26333 and with the Independent Auditing Standards (which are a part of Turkish Auditing Standards promulgated by the POA), and (iii) as of and for the years ended 31 December 2014 in accordance with "Regulation on Authorization and Activities of Institutions to Conduct Independent Audit in Banks" published in the Official Gazette dated 1 November 2006 and numbered 26333 and International Standards on Auditing, in each case by EY, located at Maslak Mahallesi, Eski Büyükdere Caddesi No: 27, Daire: 54 57 59, Kat: 2 3 4, Sariyer/Istanbul, Republic of Turkey, as stated in the convenience translations into English of the relevant EY's reports incorporated by reference into this Prospectus.

EY (a member firm of Ernst & Young Global Limited) is authorised by the CMB, BRSA, Turkish Treasury, EMRA and Public Oversight Accounting and Auditing Standard Authority Board to conduct independent audits. The Bank's financial statements are prepared on a quarterly basis, semi-annual and annual basis in accordance with BRSA.

Save as disclosed on page 10 under the title "*The Bank is appealing a judgment in the Istanbul Commercial Court and may be subject to legal claims by customers*", on pages 23 to 25 under the title "*The profitability and profitability growth of Turkish banks, including the Group, in recent periods may not be sustainable as a result of regulatory, competitive and other factors impacting the Turkish banking sector*" and on pages 133 to 134 under the title "*Legal Proceedings*" of this Prospectus, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware), which may have, or have had, during the 12 months prior to the date of this Prospectus, a significant effect on the Group's consolidated financial position or profitability.

Documents

The following documents will be available in electronic form for inspection (in English except as specified) for so long as the Notes are outstanding:

- the Bank's articles of association (as amended from time to time) (in Turkish with certified English translations);
- the convenience translations into English of the audited BRSA Financial Statements as of and for the years ended 31 December 2016, 2015 and 2014, together with the respective independent auditors' reports;
- when published, the most recently published audited annual financial statements of the Issuer and the most recently published unaudited interim financial statements of the Issuer, in each case the convenience translation into English and together with any audit or review reports prepared in connection therewith. The Issuer currently prepares audited consolidated and unconsolidated financial statements in accordance with BRSA Principles on an annual basis, audited consolidated and unaudited unconsolidated financial statements in accordance with IFRS on an annual basis, unaudited consolidated and unconsolidated interim financial statements in accordance with BRSA Principles on a quarterly basis, and unaudited consolidated interim financial statements in accordance with IFRS on a semi-annual basis (though the Issuer's IFRS financial statements do not constitute a part of, and are not incorporated by reference into, this Prospectus);
- the Agency Agreement (including the forms of the Notes);
- the Deed of Covenant;
- the Deed Poll; and
- a copy of this Prospectus and the Base Prospectus.

The convenience translations into English of copies of the latest audited annual and unaudited half-yearly interim reports of the Bank delivered pursuant to Condition 4 may be obtained from the registered office of the Issuer.

In addition, copies of this Prospectus, each document incorporated by reference and the financial statements listed above will be available on the websites of the Issuer and the Irish Stock Exchange at the respective locations:

(i) the Base Prospectus dated 30 September 2016, published on the website of the Irish Stock Exchange at:

http://ise.ie/debt_documents/Base%20Prospectus_66f62162-98f6-4c5a-a80e-76ca11851cc5.pdf;

(ii) the convenience translations into English of BRSA consolidated financial statements and related notes of the Group as of and for the year ended 31 December 2016 and the audit report of EY thereon, which are published on the Bank's website at:

https://www.yapikredi.com.tr/medium/file/31-december-2016-consolidated-financials_31247/download;

(iii) the convenience translations into English of BRSA consolidated financial statements and related notes of the Group as of and for the year ended 31 December 2015 and the audit report of EY thereon, which are published on the Bank's website at:

https://www.yapikredi.com.tr/medium/file/31-december-2015-signed_23945/download.aspx;

(iv) the convenience translations into English of BRSA consolidated financial statements and related notes of the Group as of and for the year ended 31 December 2014 and the audit report of EY thereon, which are published on the Bank's website at:

http://www.yapikredi.com.tr/medium/file/31-december-2014-signed_19330/download.aspx;

(v) the convenience translations into English of BRSA unconsolidated financial statements and related notes of the Bank as of and for the year ended 31 December 2016 and the audit report of EY thereon, which are published on the Bank's website at:

https://www.yapikredi.com.tr/medium/file/31-december-2016-unconsolidated-financials_31248/download;

(vi) the convenience translations into English of BRSA unconsolidated financial statements and related notes of the Bank as of and for the year ended 31 December 2015 and the audit report of EY thereon, which are published on the Bank's website at:

https://www.yapikredi.com.tr/medium/file/31-december-2015-signed_23947/download.aspx;

(vii) the convenience translations into English of BRSA unconsolidated financial statements and related notes of the Bank as of and for the year ended 31 December 2014 and the audit report of EY thereon, which are published on the Bank's website at:

http://www.yapikredi.com.tr/medium/file/31-december-2014-signed_19331/download.aspx; and

Such websites are not, and should not be deemed to, constitute a part of, or be incorporated into, this Prospectus.

The translations from Turkish into English of the Bank's articles of association and financial statements referred to above are direct and accurate. In the event of a discrepancy, the original version prevails.

Material Contracts

The Bank has not entered into any material contract outside the ordinary course of its business, which could result in the Bank being under an obligation or entitlement that is material to its ability to meet its obligations in respect of the Notes.

Interests in the Offer

Save as described in "*Subscription and Sale – UniCredit Affiliate Relationship*" and except for the fees payable to the Joint Lead Managers, the Fiscal Agent and the other Agents, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest that is material to the issue of the Notes.

Foreign Text

The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

APPENDIX 1 OVERVIEW OF SIGNIFICANT DIFFERENCES BETWEEN IFRS AND BRSA ACCOUNTING PRINCIPLES

The BRSA Principles differ from IFRS. Such differences are primarily related to the presentation of financial statements, disclosure requirements (e.g., IFRS 7) and certain accounting policies. BRSA presentation and disclosure requirements are prescribed by relevant regulations and do not always meet IFRS or IAS 34 standards. Among the differences in accounting policies some of the most important are:

Consolidation and equity accounting

Only financial sector subsidiaries and associates are consolidated and equity accounted, respectively, under BRSA Principles, others are carried at cost or fair value.

Specific provisioning for loan losses

BRSA provisioning for loan losses is different from IAS 39 and is based on minimum percentages related to number of days overdue prescribed by relevant regulations, whereas in IFRS, provision for loan loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. Furthermore, according to BRSA, collaterals are included in the calculation of specific reserves using the percentages provided in the regulation by type of collateral; in IAS 39, the calculation of the present value of the estimated future cash flows of a collateralised financial asset is based on the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

General loan loss provisioning

This is required under BRSA Principles but prohibited under IFRS.

BRSA requires general loan loss provisions to be calculated over on and off balance sheet financial instruments that carry credit risk using specific percentages as defined in the regulation. Instead, IFRS requires portfolio/collective provisioning for groups of loans and receivables sharing similar characteristics and not individually identified as impaired.

Assets held for sale

Definitions and accounting treatment according to BRSA Principles are different from those under IFRS (based on regulations prescribed by the BRSA).

Under BRSA Principles, depreciation of assets held for sale is taken into account for assets with probability of disposal within one year, whereas pursuant to IFRS 5, non-current assets held for sale are classified to this category only if their sale is highly probable and is expected to be completed within one year and they are carried at lower of cost or fair value less cost to sell.

Deferred taxation

Certain differences exist in this area. According to IAS 12, income taxes' deferred taxation is calculated based on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements when it is probable that the future economic benefit resulting from the reversal of temporary differences will flow to or from the relevant issuer, whereas under BRSA Principles, it is not permitted to recognise deferred tax on general loan loss provisions.

Application period for hyperinflationary accounting

Under the BRSA Principles, this period ends at 1 January 2005 whereas under IFRS it ends at 1 January 2006, constituting a one year difference between the two.

Related Party Disclosures

Related party transactions and balances are disclosed in IFRS based on the definition provided in IAS 24, whereas in BRSA such disclosures are based on "risk group" as defined in the Banking Law.

Similar differences with IFRS also exist in the accounting policies and disclosure requirements applied to consolidated subsidiaries, especially those providing factoring and leasing services which are subject to specific BRSA policies/requirements.

ISSUER

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PROSPECTUS
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