

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
CONSOLIDATED FINANCIAL STATEMENTS AND RELATED
DISCLOSURES AT DECEMBER 31, 2016 TOGETHER WITH
INDEPENDENT AUDITORS' REPORT**

**(Convenience Translation of Publicly Announced Consolidated
Financial Statements and Independent Auditors' Report
Originally Issued in Turkish,
See in Note I. of Section Three)**



**CONVENIENCE TRANSLATION INTO ENGLISH OF THE
INDEPENDENT AUDITOR'S REPORT
ORIGINALLY PREPARED AND ISSUED IN TURKISH**

To the Board of Directors of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı;

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı ("the Bank") and its subsidiaries (collectively referred to as the "Group") as at 31 December 2016 and the related consolidated statement of income, consolidated income and expense items under shareholders' equity, consolidated statement of changes in shareholders' equity, consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Independent Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our audit was conducted in accordance with the "Regulation on Independent Audit of Banks" published by the BRSA on the Official Gazette No.29314 dated 2 April 2015 and Independent Auditing Standards that are part of Turkish Standards on Auditing published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that ethical requirements are complied with and that the audit is planned and performed to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and its subsidiaries as at 31 December 2016 and the results of its operations and its cash flows for the year then ended in accordance with BRSA Accounting and Reporting Legislation.

Report on Other Responsibilities Arising From Regulatory Requirements

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

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

Additional Paragraph for Convenience Translation

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

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

A handwritten signature in blue ink, appearing to read "Zeynep Uras", is written over the printed name.

Zeynep Uras, SMMM
Partner

Istanbul, 20 February 2017

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED
CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE I. OF SECTION THREE**

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI
CONSOLIDATED FINANCIAL REPORT
AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2016**

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The consolidated financial report as at and for the year ended December 31, 2016 prepared in accordance with the communiqué of Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks as regulated by Banking Regulation and Supervision Agency, is comprised of the following sections:

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

The subsidiaries and associates included in the consolidated financial report are as follows:

| SUBSIDIARIES | ASSOCIATES | JOINT-VENTURES |
|--|-------------------------------------|-----------------------|
| Güneş Sigorta A.Ş. | Kıbrıs Vakıflar Bankası Ltd. | - |
| Vakıf Emeklilik A.Ş. | Türkiye Sınai Kalkınma Bankası A.Ş. | - |
| Vakıf Faktoring A.Ş. | - | - |
| Vakıf Finansal Kiralama A.Ş. | - | - |
| Vakıf Portföy Yönetimi A.Ş. | - | - |
| Vakıf Yatırım Menkul Değerler A.Ş. | - | - |
| Vakıfbank International AG | - | - |
| Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. | - | - |
| Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş. | - | - |

The consolidated financial statements for the year and related disclosures and footnotes that were subject to limited review, are prepared in accordance with the Regulation on Accounting Applications for Banks and Safeguarding of Documents, Turkish Accounting Standards, Turkish Financial Reporting Standards and the related statements and guidance and in compliance with the financial records of our Bank. Unless otherwise stated, the accompanying consolidated financial report is presented in thousands of Turkish Lira (TL), and has been subjected to limited review.

20 February 2017

Ramazan GÜNDÜZ
Chairman of
the Board of Directors

Mehmet Emin ÖZCAN
Deputy Chairman of the Board
and Audit Committee Member

Sabahattin BİRDAL
Board Member and
Audit Committee Member

Halil AYDOĞAN
General Manager and
Board Member

Metin Recep ZAFER
Assistant General Manager

Ferkan MERDAN
Director of Accounting and
Financial Affairs

The authorized contact person for questions on this financial report:

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Name-Surname/Title: Burcu Sütcü AKDAĞ / Asst. Manager
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**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED
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**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS
FINANCIAL SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2016**

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

SECTION ONE

GENERAL INFORMATION

I. HISTORY OF THE PARENT BANK INCLUDING ITS INCORPORATION DATE, INITIAL LEGAL STATUS, AMENDMENTS TO LEGAL STATUS

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı (“The Bank” or “The Parent Bank”) was established to operate as stated in the disclosure V of this section, under the authorization of a special law numbered 6219, called “the Law of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı”, on 11 January 1954 within the framework of the authority granted to The General Directorate of the Foundations of Turkish Republic Prime Ministry (“The General Directorate of the Foundations”). The Bank’s statute has not been changed since its establishment.

II. THE PARENT BANK’S SHAREHOLDERS STRUCTURE, MANAGEMENT AND INTERNAL AUDIT, DIRECT AND INDIRECT SHAREHOLDERS, CHANGE IN SHAREHOLDER STRUCTURE DURING THE PERIOD AND INFORMATION ON BANK’S RISK GROUP

The shareholder having control over the shares of The Parent Bank is the General Directorate of the Foundations.

As at December 31, 2016 and December 31, 2015, The Bank’s paid-in capital is TL 2,500,000 divided into 250,000,000,000 shares with each has a nominal value of Kr 1.

The Parent Bank’s shareholders structure as at December 31, 2016 is stated below:

| Shareholders | Number of Shares (100 unit) | Nominal Value of the Shares – Thousands of TL | Share Percentage (%) |
|--|--|--|---------------------------------|
| Registered foundations represented by the General Directorate of the Foundations (Group A) | 1,075,058,640 | 1,075,058 | 43.00 |
| Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (Group C) | 402,552,666 | 402,553 | 16.10 |
| Registered foundations represented by the General Directorate of the Foundations (Group B) | 386,224,785 | 386,225 | 15.45 |
| Other appendant foundations (Group B) | 2,823,304 | 2,823 | 0.11 |
| Other registered foundations (Group B) | 1,448,543 | 1,448 | 0.06 |
| Other real persons and legal entities (Group C) | 1,532,626 | 1,533 | 0.06 |
| Publicly traded (Group D) | 630,359,436 | 630,360 | 25.22 |
| Total | 2,500,000,000 | 2,500,000 | 100.00 |

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(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

GENERAL INFORMATION (Continued)

III. INFORMATION ON THE PARENT BANK’S CHAIRMAN AND MEMBERS OF THE BOARD OF DIRECTORS, AUDIT COMMITTEE MEMBERS, GENERAL MANAGER, ASSISTANT GENERAL MANAGERS AND THEIR SHARES IN THE BANK

| <u>Name and Surname</u> | <u>Responsibility</u> | <u>Date of Appointment</u> | <u>Education</u> | <u>Experience in Banking and Management</u> |
|----------------------------------|--|----------------------------|------------------|---|
| <u>Board of Directors</u> | | | | |
| Ramazan GÜNDÜZ | Chairman | March 29, 2013 | University | 38 years |
| Mehmet Emin ÖZCAN | Deputy Chairman | March 29, 2013 | University | 33 years |
| Halil AYDOĞAN | Member – General Manager | March 29, 2013 | University | 39 years |
| İsmail ALPTEKİN | Member | April 6, 2009 | University | 18 years |
| Dr.Adnan ERTEM | Member | October 28, 2010 | PHD | 28 years |
| Sabahattin BİRDAL | Member | March 31, 2014 | University | 39 years |
| Öztürk ORAN | Member | April 30, 2014 | University | 41 years |
| Dilek YÜKSEL | Member | March 29, 2016 | University | 4 years |
| <u>Audit Committee</u> | | | | |
| Mehmet Emin ÖZCAN | Member | April 4, 2014 | University | 33 years |
| Sabahattin BİRDAL | Member | April 4, 2014 | University | 39 years |
| <u>Auditor</u> | | | | |
| Yunus ARINCI | Auditor | March 19, 2010 | Master | 19 years |
| Mehmet Emin BAYSA | Auditor | March 29, 2016 | Master | 15 years |
| <u>Assistant Managers</u> | | | | |
| Metin Recep ZAFER | Accounting and Financial Affairs, Treasury and Foreign Operations, Banking Operations, Consumer Coordination Attendant, Application Development Departments, System Management, IT Operations and Support, IT Demand Management Directorate, IT Business Development, Project Management Directorate, Information Security, IT Process Management and Compliance Directorate | 13 June 2006 | PHD | 21 years |
| Hasan ECESoy | Treasury, International Relations and Investor Relations, Coordination of Foreign Branches | 18 June 2010 | PHD | 23 years |
| Serdar SATOĞLU | Private Banking, Associates | 2 July 2010 | PHD | 21 years |
| Osman DEMREN | Commercial and Corporate Loans, Consumer and SME Loans, Intelligence | 6 April 2011 | Master | 26 years |
| Muhammet Lütfü ÇELEBİ | Commercial and Corporate Banking, SME Banking, Cash Management Affairs, Corporate Branches | 23 October 2013 | University | 21 years |
| Mustafa SAYDAM | Human Resources, Support Services, Distribution Channels | 28 October 2013 | University | 23 years |
| Mehmet Emin KARAAĞAÇ | Loans and Follow-up, Legal Affairs | 8 November 2013 | University | 27 years |
| Yakup ŞİMŞEK | Retail Banking, Payment Systems, Payment System Operations, Insurance Banking | 7 September 2016 | University | 20 years |

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**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS
FINANCIAL SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2016**

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

GENERAL INFORMATION (Continued)

III. INFORMATION ON THE PARENT BANK’S CHAIRMAN AND MEMBERS OF THE BOARD OF DIRECTORS, AUDIT COMMITTEE MEMBERS, GENERAL MANAGER, ASSISTANT GENERAL MANAGERS, AND THEIR SHARES IN THE BANK (Continued)

At the resolution of the 62nd Ordinary Meeting of the General Assembly dated 29 March 2016, Şeref AKSAÇ who was a member of Board of Directors and Mehmet HALTAŞ who was a member of audit committee have left their position. Based on the decision taken at the same meeting Dilek YÜKSEL has been assigned to member of Board of Directors and Mehmet Emin BAYSA has been assigned to audit committee member.

In the Ordinary General Assembly meeting of the Parent Bank held on August 25, 2016, duty of Yakup ŞİMŞEK (Head of Cash Management Transactions) has appointed for the Executive Vice President.

In the Ordinary General Assembly meeting of the Parent Bank held on September 8, 2016, duty of Ali Engin EROĞLU(Executive Vice President) has left his position.

İsmail ALPTEKİN, member of the Board of Directors, holds 59 unquoted shares of Group C of the Parent Bank. The remaining members of the top management listed above do not hold any unquoted shares of the Parent Bank.

IV. INFORMATION ON THE PARENT BANK’S QUALIFIED SHAREHOLDERS

| Shareholders | Nominal Value of Shares | Share Percentage | Paid Shares (Nominal) | Unpaid Shares |
|--|------------------------------------|-----------------------------|--------------------------------------|----------------------|
| Registered foundations represented by the General Directorate of the Foundations (Group A) | 1,075,058 | 43.00 | 1,075,058 | - |
| Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (Group C) | 402,553 | 16.10 | 402,553 | - |
| Registered foundations represented by the General Directorate of the Foundations (Group B) | 386,225 | 15.45 | 386,225 | - |

The shareholder holding control over the Parent Bank is the General Directorate of the Foundations and Appendant foundations represented by the General Directorate of the Foundations having 58.45% of the Bank’s outstanding shares. Another organization holding qualified share in the Parent Bank is Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı, having 16.10% of outstanding shares of the Bank.

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED
FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE I. OF SECTION THREE**

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS
FINANCIAL SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2016**

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

GENERAL INFORMATION (Continued)

V. INFORMATION ABOUT THE SERVICES AND NATURE OF ACTIVITIES OF THE PARENT BANK

The Parent Bank was established under the authorization of special law numbered 6219, called “The Law of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı”, on 11 January 1954 within the framework of the authority granted to The General Directorate of the Foundations. Operational activities of the Bank as stated at its Articles of Association are as follows:

- Lending loans by granting securities and real estates as collateral,
- Establishing or participating in all kinds of insurance corporations already established,
- Trading real estates,
- Servicing all banking operations and services,
- Operating real estates and participating in industrial sectors for corporations handed over by foundations and General Directorate of the Foundations in line with conditions stipulated by agreements if signed.
- The Bank is established to render banking services to the foundations and carry out cashier transactions of the General Directorate of Foundations in compliance with the agreements signed by General Directorate of the Foundations.

The Parent Bank and its consolidated subsidiaries are called as “The Group” in the report.

As at December 31, 2016, The Parent Bank has 921 domestic, 3 foreign, in total 924 branches (December 31, 2015: 917 domestic, 3 foreign, in total 920branches). As at December 31, 2016, The Parent Bank has 15,615 employees (December 31, 2015: 15,410 employees).

VI. DIFFERENCES BETWEEN THE COMMUNIQUE ON PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS OF BANKS AND TURKISH ACCOUNTING STANDARDS AND SHORT EXPLANATION ABOUT THE INSTITUTIONS SUBJECT TO LINE-BY-LINE METHOD OR PROPORTIONAL CONSOLIDATION AND INSTITUTIONS WHICH ARE DEDUCTED FROM EQUITY OR NOT INCLUDED IN THESE THREE METHODS

As at and for the year ended December 31, 2016, the financial statements of T. Vakıflar Bankası T.A.O., Vakıfbank International AG, Vakıf Finansal Kiralama A.Ş., Güneş Sigorta A.Ş., Vakıf Emeklilik A.Ş., Vakıf Faktoring A.Ş., Vakıf Yatırım Menkul Değerler A.Ş., Vakıf Portföy Yönetimi A.Ş., Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. and Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş. have been included in the consolidated financial statements of the Group.

As at and for the year ended December 31, 2016, the financial statements of Kıbrıs Vakıflar Bankası Ltd. and Türkiye Sınai Kalkınma Bankası A.Ş. have been consolidated per equity method in the consolidated financial statements of the Group.

İstanbul Takas ve Saklama Bankası A.Ş. and Kredi Garanti Fonu A.Ş. are excluded from the scope of consolidation according to the Communiqué on Preparation of Consolidated Financial Statements. Since Bankalararası Kart Merkezi A.Ş., Kredi Kayıt Bürosu A.Ş., Roketsan Roket Sanayi ve Ticaret A.Ş., Güçbirliği Holding A.Ş. and İzmir Enternasyonel A.Ş. are not financial associates; these associates have not been consolidated. These associates have been accounted for as per TAS-39 in the consolidated financial statements.

Vakıf Enerji ve Madencilik A.Ş., Taksim Otelcilik A.Ş., Vakıf Pazarlama Sanayi ve Ticaret A.Ş. and Vakıf Gayrimenkul Değerleme A.Ş. have not been consolidated since they are not among the financial subsidiaries of the Bank. Therefore, the subsidiaries whose fair value can be reliably measured are reflected in the consolidated financial statements at their fair values.

VII. CURRENT OR LIKELY ACTUAL OR LEGAL BARRIERS TO IMMEDIATE TRANSFER OF EQUITY OR REPAYMENT OF DEBTS BETWEEN THE PARENT BANK AND ITS SUBSIDIARIES

None.

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED
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FINANCIAL SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2016**

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

SECTION TWO

CONSOLIDATED FINANCIAL STATEMENTS

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED
FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE I. OF SECTION THREE**

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS FINANCIAL SUBSIDIARIES
CONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) AS AT DECEMBER 31, 2016**

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

| ASSETS | Notes | Audited Current Period December 31, 2016 | | | Audited Prior Period December 31, 2015 | | |
|--|---------|--|-------------------|--------------------|--|-------------------|--------------------|
| | | TL | FC | Total | TL | FC | Total |
| I. CASH AND BALANCES WITH THE CENTRAL BANK | V-I-1 | 4,409,164 | 19,960,151 | 24,369,315 | 2,134,017 | 19,355,897 | 21,489,914 |
| II. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Net) | V-I-2 | 1,644,899 | 144,334 | 1,789,233 | 840,168 | 155,694 | 995,862 |
| 2.1 Financial assets held for trading purpose | | 1,644,899 | 144,334 | 1,789,233 | 840,168 | 155,694 | 995,862 |
| 2.1.1 Debt securities issued by the governments | | 206 | 10,647 | 10,853 | 312 | 9,566 | 9,878 |
| 2.1.2 Equity securities | | 2,095 | - | 2,095 | 1,832 | - | 1,832 |
| 2.1.3 Derivative financial assets held for trading purpose | V-I-2 | 1,473,865 | 133,687 | 1,607,552 | 739,339 | 146,128 | 885,467 |
| 2.1.4 Other securities | | 168,733 | - | 168,733 | 98,685 | - | 98,685 |
| 2.2 Financial assets designated at fair value through profit or loss | | - | - | - | - | - | - |
| 2.2.1 Debt securities issued by the governments | | - | - | - | - | - | - |
| 2.2.2 Equity securities | | - | - | - | - | - | - |
| 2.2.3 Other securities | | - | - | - | - | - | - |
| 2.2.4 Loans | | - | - | - | - | - | - |
| III. BANKS | V-I-3 | 1,195,786 | 4,079,703 | 5,275,489 | 1,185,799 | 4,990,220 | 6,176,019 |
| IV. RECEIVABLES FROM INTERBANK MONEY MARKETS | | 5,232 | - | 5,232 | 6,699 | - | 6,699 |
| 4.1 Interbank money market placements | | - | - | - | - | - | - |
| 4.2 Istanbul Stock Exchange money market placements | | 3,428 | - | 3,428 | 3,310 | - | 3,310 |
| 4.3 Receivables from reverse repurchase agreements | | 1,804 | - | 1,804 | 3,389 | - | 3,389 |
| V. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Net) | V-I-4 | 12,588,929 | 6,030,151 | 18,619,080 | 12,100,346 | 5,235,765 | 17,336,111 |
| 5.1 Equity securities | | 15 | 27,595 | 27,610 | 15 | 79,238 | 79,253 |
| 5.2 Debt securities issued by the governments | | 12,588,914 | 5,719,498 | 18,308,412 | 12,100,331 | 5,028,990 | 17,129,321 |
| 5.3 Other securities | | - | 283,058 | 283,058 | - | 127,537 | 127,537 |
| VI. LOANS AND RECEIVABLES | V-I-5 | 100,166,610 | 49,408,659 | 149,575,269 | 88,452,140 | 37,507,539 | 125,959,679 |
| 6.1 Performing loans and receivables | | 99,001,801 | 49,402,693 | 148,404,494 | 87,548,356 | 37,502,389 | 125,050,745 |
| 6.1.1 Loans provided to risk group | V-VII-1 | 581 | 36,936 | 37,517 | 1,071 | 822 | 1,893 |
| 6.1.2 Debt securities issued by the governments | | - | - | - | - | - | - |
| 6.1.3 Other | | 99,001,220 | 49,365,757 | 148,366,977 | 87,547,285 | 37,501,567 | 125,048,852 |
| 6.2 Loans under follow-up | | 6,626,073 | 77,310 | 6,703,383 | 5,071,771 | 66,342 | 5,138,113 |
| 6.3 Specific provisions (-) | V-I-5 | 5,461,264 | 71,344 | 5,532,608 | 4,167,987 | 61,192 | 4,229,179 |
| VII. FACTORING RECEIVABLES | | 1,171,659 | 219,055 | 1,390,714 | 622,754 | 94,973 | 717,727 |
| VIII. HELD-TO-MATURITY INVESTMENT SECURITIES (Net) | V-I-6 | 8,039,914 | 140,621 | 8,180,535 | 7,546,748 | 130,981 | 7,677,729 |
| 8.1 Debt securities issued by the governments | | 8,039,914 | - | 8,039,914 | 7,546,748 | - | 7,546,748 |
| 8.2 Other securities | | - | 140,621 | 140,621 | - | 130,981 | 130,981 |
| IX. INVESTMENTS IN ASSOCIATES (Net) | V-I-7 | 336,229 | 3 | 336,232 | 295,332 | 3 | 295,335 |
| 9.1 Associates, consolidated per equity method | | 275,765 | - | 275,765 | 245,549 | - | 245,549 |
| 9.2 Unconsolidated associates | | 60,464 | 3 | 60,467 | 49,783 | 3 | 49,786 |
| 9.2.1 Financial associates | | 48,111 | - | 48,111 | 37,434 | - | 37,434 |
| 9.2.2 Non-Financial associates | | 12,353 | 3 | 12,356 | 12,349 | 3 | 12,352 |
| X. INVESTMENTS IN SUBSIDIARIES (Net) | V-I-8 | 286,698 | - | 286,698 | 271,017 | - | 271,017 |
| 10.1 Unconsolidated financial subsidiaries | | - | - | - | - | - | - |
| 10.2 Unconsolidated non-financial subsidiaries | | 286,698 | - | 286,698 | 271,017 | - | 271,017 |
| XI. INVESTMENTS IN JOINT-VENTURES (Net) | V-I-9 | - | - | - | - | - | - |
| 11.1 Joint-ventures, consolidated per equity method | | - | - | - | - | - | - |
| 11.2 Unconsolidated joint-ventures | | - | - | - | - | - | - |
| 11.2.1 Financial joint-ventures | | - | - | - | - | - | - |
| 11.2.2 Non-financial joint-ventures | | - | - | - | - | - | - |
| XII. LEASE RECEIVABLES | V-I-10 | 364,209 | 1,182,200 | 1,546,409 | 318,359 | 1,007,466 | 1,325,825 |
| 12.1 Finance lease receivables | | 465,056 | 1,323,625 | 1,788,681 | 401,084 | 1,134,987 | 1,536,071 |
| 12.2 Operational lease receivables | | - | - | - | - | - | - |
| 12.3 Other | | - | - | - | - | - | - |
| 12.4 Unearned income (-) | | 100,847 | 141,425 | 242,272 | 82,725 | 127,521 | 210,246 |
| XIII. DERIVATIVE FINANCIAL ASSETS HELD FOR RISK MANAGEMENT PURPOSE | V-I-11 | - | - | - | - | - | - |
| 13.1 Fair value hedges | | - | - | - | - | - | - |
| 13.2 Cash flow hedges | | - | - | - | - | - | - |
| 13.3 Hedges of net investment in foreign operations | | - | - | - | - | - | - |
| XIV. TANGIBLE ASSETS (Net) | V-I-12 | 1,693,745 | 9,358 | 1,703,103 | 1,648,900 | 5,218 | 1,654,118 |
| XV. INTANGIBLE ASSETS (Net) | V-I-13 | 230,242 | 23 | 230,265 | 201,506 | 31 | 201,537 |
| 15.1 Goodwill | | - | - | - | - | - | - |
| 15.2 Other intangibles | | 230,242 | 23 | 230,265 | 201,506 | 31 | 201,537 |
| XVI. INVESTMENT PROPERTIES (Net) | V-I-14 | 354,385 | - | 354,385 | 287,726 | - | 287,726 |
| XVII. TAX ASSETS | V-I-15 | 197,922 | - | 197,922 | 139,972 | 2,944 | 142,916 |
| 17.1 Current tax assets | V-I-15 | 835 | - | 835 | 787 | 2,944 | 3,731 |
| 17.2 Deferred tax assets | V-I-15 | 197,087 | - | 197,087 | 139,185 | - | 139,185 |
| XVIII. ASSETS HELD FOR SALE AND ASSETS RELATED TO THE DISCONTINUED OPERATIONS (Net) | V-I-16 | 1,228,102 | - | 1,228,102 | 994,991 | - | 994,991 |
| 18.1 Assets held for sale | | 1,228,102 | - | 1,228,102 | 994,991 | - | 994,991 |
| 18.2 Assets related to the discontinued operations | | - | - | - | - | - | - |
| XIX. OTHER ASSETS | V-I-17 | 3,110,515 | 2,472,502 | 5,583,017 | 2,789,299 | 1,263,054 | 4,052,353 |
| TOTAL ASSETS | | 137,024,240 | 83,646,760 | 220,671,000 | 119,835,773 | 69,749,785 | 189,585,558 |

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

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED
FINANCIAL STATEMENTS ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE I. OF SECTION THREE**

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS FINANCIAL SUBSIDIARIES
CONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION) AS AT DECEMBER 31, 2016**
(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

| | Notes | Audited Current Period December 31, 2016 | | | Audited Prior Period December 31, 2015 | | |
|---|----------------|--|-------------------|--------------------|--|-------------------|--------------------|
| | | TL | FC | Total | TL | FC | Total |
| LIABILITIES AND EQUITY | | | | | | | |
| I. DEPOSITS | V-II-1 | 85,815,420 | 40,443,889 | 126,259,309 | 76,054,788 | 35,955,209 | 112,009,997 |
| 1.1 Deposits of risk group | V-II-1 | 1,686,765 | 116,088 | 1,802,853 | 1,209,289 | 110,608 | 1,319,897 |
| 1.2 Other deposits | V-II-1 | 84,128,655 | 40,327,801 | 124,456,456 | 74,845,499 | 35,844,601 | 110,690,100 |
| II. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING | | | | | | | |
| PURPOSE | V-II-2 | 955,019 | 199,405 | 1,154,424 | 153,177 | 151,175 | 304,352 |
| III. FUNDS BORROWED | V-II-3 | 1,720,814 | 24,578,616 | 26,299,430 | 932,351 | 19,262,696 | 20,195,047 |
| IV. INTERBANK MONEY MARKET | | 11,450,137 | 1,794,134 | 13,244,271 | 9,423,761 | 3,403,437 | 12,827,198 |
| 4.1 Interbank money market takings | | 2,501,180 | - | 2,501,180 | 1,150,343 | - | 1,150,343 |
| 4.2 Istanbul Stock Exchange money market takings | | 277,667 | - | 277,667 | 83,157 | - | 83,157 |
| 4.3 Obligations under repurchase agreements | | 8,671,290 | 1,794,134 | 10,465,424 | 8,190,261 | 3,403,437 | 11,593,698 |
| V. SECURITIES ISSUED (Net) | V-II-3 | 3,373,519 | 11,309,305 | 14,682,824 | 3,257,620 | 7,389,088 | 10,646,708 |
| 5.1 Bills | | 3,373,519 | - | 3,373,519 | 3,257,620 | - | 3,257,620 |
| 5.2 Asset backed securities | | - | - | - | - | - | - |
| 5.3 Bonds | | - | 11,309,305 | 11,309,305 | - | 7,389,088 | 7,389,088 |
| VI. FUNDS | | 3,319 | - | 3,319 | 4,228 | - | 4,228 |
| 6.1 Funds against borrower's note | | - | - | - | - | - | - |
| 6.2 Other | | 3,319 | - | 3,319 | 4,228 | - | 4,228 |
| VII. MISCELLANEOUS PAYABLES | | 4,622,676 | 920,879 | 5,543,555 | 3,647,401 | 750,360 | 4,397,761 |
| VIII. OTHER EXTERNAL RESOURCES PAYABLE | V-II-4 | 747,599 | 2,018,132 | 2,765,731 | 662,279 | 1,783,682 | 2,445,961 |
| IX. FACTORING PAYABLES | | 77 | 4 | 81 | - | 5 | 5 |
| X. LEASE PAYABLES (Net) | V-II-5 | - | - | - | - | - | - |
| 10.1 Finance lease payables | | - | - | - | - | - | - |
| 10.2 Operational lease payables | | - | - | - | - | - | - |
| 10.3 Other | | - | - | - | - | - | - |
| 10.4 Deferred finance leasing expenses (-) | | - | - | - | - | - | - |
| XI. DERIVATIVE FINANCIAL LIABILITIES HELD FOR RISK MANAGEMENT PURPOSE | V-II-6 | - | - | - | - | - | - |
| 11.1 Fair value hedges | | - | - | - | - | - | - |
| 11.2 Cash flow hedges | | - | - | - | - | - | - |
| 11.3 Hedges of net investment in foreign operations | | - | - | - | - | - | - |
| XII. PROVISIONS | V-II-7 | 5,562,513 | 43,584 | 5,606,097 | 5,025,269 | 31,277 | 5,056,546 |
| 12.1 General provisions | V-II-7 | 2,153,773 | 13,670 | 2,167,443 | 1,944,150 | 13,453 | 1,957,603 |
| 12.2 Restructuring reserves | | - | - | - | - | - | - |
| 12.3 Reserve for employee benefits | V-II-7 | 736,608 | 1,791 | 738,399 | 700,635 | 1,544 | 702,179 |
| 12.4 Insurance technical provisions (Net) | V-II-7 | 2,304,345 | 14,000 | 2,318,345 | 2,082,428 | 9,127 | 2,091,555 |
| 12.5 Other provisions | V-II-7 | 367,787 | 14,123 | 381,910 | 298,056 | 7,153 | 305,209 |
| XIII. TAX LIABILITIES | V-II-8 | 477,830 | 11,957 | 489,787 | 531,561 | 7,888 | 539,449 |
| 13.1 Current tax liabilities | | 463,916 | 2,847 | 466,763 | 514,681 | 1,678 | 516,359 |
| 13.2 Deferred tax liabilities | V-I-15 | 13,914 | 9,110 | 23,024 | 16,880 | 6,210 | 23,090 |
| XIV. PAYABLES FOR ASSETS HELD FOR SALE AND ASSETS RELATED TO DISCONTINUED OPERATIONS (Net) | V-II-9 | - | - | - | - | - | - |
| 14.1 Payables related to the assets held for sale | | - | - | - | - | - | - |
| 14.2 Payables related to the discontinued operations | | - | - | - | - | - | - |
| XV. SUBORDINATED LOANS | V-II-10 | - | 5,014,700 | 5,014,700 | - | 4,155,551 | 4,155,551 |
| XVI. EQUITY | | 19,154,003 | 453,469 | 19,607,472 | 16,437,456 | 565,299 | 17,002,755 |
| 16.1 Paid-in capital | V-II-11 | 2,500,000 | - | 2,500,000 | 2,500,000 | - | 2,500,000 |
| 16.2 Capital reserves | | 1,494,226 | 50,440 | 1,544,666 | 1,390,356 | 257,405 | 1,647,761 |
| 16.2.1 Share premium | | 727,780 | - | 727,780 | 727,780 | - | 727,780 |
| 16.2.2 Share cancellation profits | | - | - | - | - | - | - |
| 16.2.3 Valuation differences of the marketable securities | V-II-11 | (181,609) | 50,440 | (131,169) | (227,394) | 257,405 | 30,011 |
| 16.2.4 Revaluation surplus on tangible assets | | 997,197 | - | 997,197 | 940,657 | - | 940,657 |
| 16.2.5 Revaluation surplus on intangible assets | | - | - | - | - | - | - |
| 16.2.6 Revaluation surplus on investment properties | | - | - | - | - | - | - |
| 16.2.7 Bonus shares of associates, subsidiaries and joint-ventures | | 3,683 | - | 3,683 | 3,683 | - | 3,683 |
| 16.2.8 Hedging reserves (effective portion) | | - | - | - | - | - | - |
| 16.2.9 Revaluation surplus on assets held for sale and assets related to the discontinued operations | | - | - | - | - | - | - |
| 16.2.10 Other capital reserves | | (52,825) | - | (52,825) | (54,370) | - | (54,370) |
| 16.3 Profit reserves | | 12,025,037 | 234,296 | 12,259,333 | 10,163,563 | 170,099 | 10,333,662 |
| 16.3.1 Legal reserves | | 1,428,436 | 8,351 | 1,436,787 | 1,228,224 | 7,942 | 1,236,166 |
| 16.3.2 Status reserves | | 6,337 | - | 6,337 | 6,337 | - | 6,337 |
| 16.3.3 Extraordinary reserves | | 10,151,977 | 4,598 | 10,156,575 | 8,475,454 | 4,594 | 8,480,048 |
| 16.3.4 Other profit reserves | | 438,287 | 221,347 | 659,634 | 453,548 | 157,563 | 611,111 |
| 16.4 Profit or loss | | 2,660,885 | 115,059 | 2,775,944 | 1,921,411 | 94,530 | 2,015,941 |
| 16.4.1 Prior years' profit/loss | | (107,147) | 93,173 | (13,974) | (34,277) | 101,630 | 67,353 |
| 16.4.2 Current period's profit/loss | | 2,768,032 | 21,886 | 2,789,918 | 1,955,688 | (7,100) | 1,948,588 |
| 16.5 Non-controlling interest | | 473,855 | 53,674 | 527,529 | 462,126 | 43,265 | 505,391 |
| TOTAL LIABILITIES AND EQUITY | | 133,882,926 | 86,788,074 | 220,671,000 | 116,129,891 | 73,455,667 | 189,585,558 |

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

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE I. OF SECTION THREE**

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS FINANCIAL SUBSIDIARIES
CONSOLIDATED OFF-BALANCE SHEET AS AT DECEMBER 31, 2016**

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

| | Notes | Audited Current Period December 31, 2016 | | | Audited Prior Period December 31, 2015 | | |
|--|----------------|--|--------------------|----------------------|--|--------------------|----------------------|
| | | TL | FC | TOTAL | TL | FC | TOTAL |
| A. OFF-BALANCE SHEET COMMITMENTS AND CONTINGENCIES (I+II+III) | | 71,979,483 | 76,304,502 | 148,283,985 | 54,303,859 | 64,173,751 | 118,477,610 |
| I. GUARANTEES AND SURETIES | V-III-2 | 26,946,124 | 13,714,227 | 40,660,351 | 22,126,363 | 10,993,538 | 33,119,901 |
| 1.1 Letters of guarantee | V-III-1 | 26,687,992 | 5,628,335 | 32,316,327 | 21,980,769 | 4,816,824 | 26,797,593 |
| 1.1.1 Guarantees subject to State Tender Law | | 3,203,501 | 2,571,209 | 5,774,710 | 2,542,809 | 2,199,589 | 4,742,398 |
| 1.1.2 Guarantees given for foreign trade operations | | 1,059,516 | - | 1,059,516 | 1,030,530 | - | 1,030,530 |
| 1.1.3 Other letters of guarantee | | 22,424,975 | 3,057,126 | 25,482,101 | 18,407,430 | 2,617,235 | 21,024,665 |
| 1.2 Bank acceptances | | 53,702 | 1,143,484 | 1,197,186 | 86,762 | 1,389,251 | 1,476,013 |
| 1.2.1 Import letter of acceptance | | - | 395,874 | 395,874 | - | 189,471 | 191,061 |
| 1.2.2 Other bank acceptances | | 53,702 | 747,610 | 801,312 | 85,172 | 1,199,780 | 1,284,952 |
| 1.3 Letters of credit | | 1,762 | 6,911,368 | 6,913,130 | 16,306 | 4,772,403 | 4,788,709 |
| 1.3.1 Documentary letters of credit | | 1,762 | 6,911,368 | 6,913,130 | 16,306 | 4,772,403 | 4,788,709 |
| 1.3.2 Other letters of credit | | - | - | - | - | - | - |
| 1.4 Guaranteed pre-financings | | - | 2,796 | 2,796 | - | 2,314 | 2,314 |
| 1.5 Endorsements | | - | - | - | - | - | - |
| 1.5.1 Endorsements to the Central Bank of Republic of Turkey | | - | - | - | - | - | - |
| 1.5.2 Other endorsements | | - | - | - | - | - | - |
| 1.6 Marketable securities underwriting commitments | | - | - | - | - | - | - |
| 1.7 Factoring related guarantees | | 202,668 | 7,682 | 210,350 | 42,526 | 2,224 | 44,750 |
| 1.8 Other guarantees | | - | 16,890 | 16,890 | - | 10,522 | 10,522 |
| 1.9 Other sureties | | - | 3,672 | 3,672 | - | - | - |
| II. COMMITMENTS | | 27,151,229 | 12,692,995 | 39,844,224 | 21,560,921 | 13,287,107 | 34,848,028 |
| 2.1 Irrevocable commitments | | 24,078,084 | 1,659,432 | 25,737,516 | 19,153,861 | 3,897,112 | 23,050,973 |
| 2.1.1 Asset purchase commitments | V-III-1 | 1,362,697 | 1,502,055 | 2,864,752 | 112,420 | 3,730,953 | 3,843,373 |
| 2.1.2 Deposit purchase and sales commitments | | - | - | - | - | - | - |
| 2.1.3 Share capital commitments to associates and subsidiaries | V-III-1 | - | - | - | - | - | - |
| 2.1.4 Loan granting commitments | V-III-1 | 9,817,555 | 34,042 | 9,851,597 | 8,482,816 | 11,931 | 8,494,747 |
| 2.1.5 Securities issuance brokerage commitments | | - | - | - | - | - | - |
| 2.1.6 Commitments for reserve deposit requirements | | - | - | - | - | - | - |
| 2.1.7 Commitments for cheque payments | V-III-1 | 2,154,102 | - | 2,154,102 | 1,805,569 | - | 1,805,569 |
| 2.1.8 Tax and fund obligations on export commitments | | - | - | - | - | - | - |
| 2.1.9 Commitments for credit card limits | V-III-1 | 8,682,835 | - | 8,682,835 | 7,399,361 | - | 7,399,361 |
| 2.1.10 Commitments for credit card and banking operations promotions | | 300,108 | - | 300,108 | 196,037 | - | 196,037 |
| 2.1.11 Receivables from "short" sale commitments on securities | | - | - | - | - | - | - |
| 2.1.12 Payables from "short" sale commitments on securities | | - | - | - | - | - | - |
| 2.1.13 Other irrevocable commitments | | 1,760,787 | 123,335 | 1,884,122 | 1,157,658 | 154,228 | 1,311,886 |
| 2.2 Revocable commitments | | 3,073,145 | 11,033,563 | 14,106,708 | 2,407,060 | 9,389,995 | 11,797,055 |
| 2.2.1 Revocable loan granting commitments | | 3,024,169 | 11,033,563 | 14,057,732 | 2,407,060 | 9,389,995 | 11,797,055 |
| 2.2.2 Other revocable commitments | | 48,976 | - | 48,976 | - | - | - |
| III. DERIVATIVE FINANCIAL INSTRUMENTS | V-III-5 | 17,882,130 | 49,897,280 | 67,779,410 | 10,616,575 | 39,893,106 | 50,509,681 |
| 3.1 Derivative financial instruments held for risk management | | - | - | - | - | - | - |
| 3.1.1 Fair value hedges | | - | - | - | - | - | - |
| 3.1.2 Cash flow hedges | | - | - | - | - | - | - |
| 3.1.3 Net foreign investment hedges | | - | - | - | - | - | - |
| 3.2 Trading derivatives | | 17,882,130 | 49,897,280 | 67,779,410 | 10,616,575 | 39,893,106 | 50,509,681 |
| 3.2.1 Forward foreign currency purchases/sales | | 492,117 | 1,123,868 | 1,615,985 | 211,514 | 257,246 | 468,760 |
| 3.2.1.1 Forward foreign currency purchases | | 247,789 | 560,368 | 808,157 | 106,014 | 128,693 | 234,707 |
| 3.2.2.2 Forward foreign currency sales | | 244,328 | 563,500 | 807,828 | 105,500 | 128,553 | 234,053 |
| 3.2.2 Currency and interest rate swaps | | 16,341,272 | 37,911,234 | 54,252,506 | 9,535,325 | 31,037,511 | 40,572,836 |
| 3.2.2.1 Currency swaps-purchases | | 8,566,437 | 11,982,601 | 20,549,038 | 4,474,398 | 12,245,882 | 16,720,280 |
| 3.2.2.2 Currency swaps-sales | | 6,324,835 | 10,311,809 | 16,636,644 | 4,160,927 | 6,377,871 | 10,538,798 |
| 3.2.2.3 Interest rate swaps-purchases | | 725,000 | 7,808,412 | 8,533,412 | 450,000 | 6,206,879 | 6,656,879 |
| 3.2.2.4 Interest rate swaps-sales | | 725,000 | 7,808,412 | 8,533,412 | 450,000 | 6,206,879 | 6,656,879 |
| 3.2.3 Currency, interest rate and security options | | 142,676 | 730,632 | 873,308 | 258,134 | 255,396 | 513,530 |
| 3.2.3.1 Currency call options | | 121,124 | 306,804 | 427,928 | 65,004 | 185,976 | 250,980 |
| 3.2.3.2 Currency put options | | 21,552 | 423,828 | 445,380 | 193,130 | 69,420 | 262,550 |
| 3.2.3.3 Interest rate call options | | - | - | - | - | - | - |
| 3.2.3.4 Interest rate put options | | - | - | - | - | - | - |
| 3.2.3.5 Security call options | | - | - | - | - | - | - |
| 3.2.3.6 Security put options | | - | - | - | - | - | - |
| 3.2.4 Currency futures | | - | - | - | - | - | - |
| 3.2.4.1 Currency futures-purchases | | - | - | - | - | - | - |
| 3.2.4.2 Currency futures-sales | | - | - | - | - | - | - |
| 3.2.5 Interest rate futures | | - | - | - | - | - | - |
| 3.2.5.1 Interest rate futures-purchases | | - | - | - | - | - | - |
| 3.2.5.2 Interest rate futures-sales | | - | - | - | - | - | - |
| 3.2.6 Other | | 906,065 | 10,131,546 | 11,037,611 | 611,602 | 8,342,953 | 8,954,555 |
| B. CUSTODY AND PLEDGED ITEMS (IV+V+VI) | | 1,045,090,768 | 580,650,674 | 1,625,741,442 | 900,903,931 | 422,152,366 | 1,323,056,297 |
| IV. ITEMS HELD IN CUSTODY | | 56,357,991 | 4,476,062 | 60,834,053 | 75,156,434 | 3,413,733 | 78,570,167 |
| 4.1 Customers' securities held | | 796,204 | - | 796,204 | 682,348 | 28,306 | 710,654 |
| 4.2 Investment securities held in custody | | 43,543,703 | 147,806 | 43,691,509 | 63,234,788 | 118,086 | 63,352,874 |
| 4.3 Checks received for collection | | 9,441,126 | 2,589,510 | 12,030,636 | 9,151,798 | 2,345,788 | 11,497,586 |
| 4.4 Commercial notes received for collection | | 1,535,349 | 751,302 | 2,286,651 | 1,265,535 | 450,126 | 1,715,661 |
| 4.5 Other assets received for collection | | 2,152 | 141 | 2,293 | 2,152 | 116 | 2,268 |
| 4.6 Assets received through public offering | | - | - | - | - | - | - |
| 4.7 Other items under custody | | 49,414 | 87,056 | 136,470 | 24,796 | 66,158 | 90,954 |
| 4.8 Custodians | | 990,043 | 900,247 | 1,890,290 | 795,017 | 405,153 | 1,200,170 |
| V. PLEDGED ITEMS | | 280,719,507 | 104,200,492 | 384,919,999 | 235,457,258 | 82,272,386 | 317,729,644 |
| 5.1 Securities | | 495,623 | 16,366 | 511,989 | 435,618 | 14,171 | 449,789 |
| 5.2 Guarantee notes | | 767,642 | 544,996 | 1,312,638 | 793,282 | 429,076 | 1,222,358 |
| 5.3 Commodities | | 31,750,967 | 775,907 | 32,526,874 | 28,164,121 | 681,732 | 28,845,853 |
| 5.4 Warranties | | - | - | - | - | - | - |
| 5.5 Real estates | | 230,190,866 | 86,340,346 | 316,531,212 | 191,799,623 | 67,309,165 | 259,108,788 |
| 5.6 Other pledged items | | 16,964,074 | 16,365,309 | 33,329,383 | 13,661,436 | 13,683,601 | 27,345,037 |
| 5.7 Pledged items-depository | | 550,335 | 157,568 | 707,903 | 603,178 | 154,641 | 757,819 |
| VI. CONFIRMED BILLS OF EXCHANGE AND SURETIES | | 708,013,270 | 471,974,120 | 1,179,987,390 | 590,290,239 | 336,466,247 | 926,756,486 |
| TOTAL OFF-BALANCE SHEET ITEMS (A+B) | | 1,117,070,251 | 656,955,176 | 1,774,025,427 | 955,207,790 | 486,326,117 | 1,441,533,907 |

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

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE I. OF SECTION THREE**

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS FINANCIAL SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 2016**

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

| | Notes | Audited Current Period January 1, 2016-December 31, 2016 | Audited Prior Period January 1, 2015-December 31, 2015 |
|---|----------------|---|---|
| I. INTEREST INCOME | | 16,964,189 | 13,973,432 |
| 1.1 Interest income from loans | V-IV-1 | 14,268,928 | 11,598,337 |
| 1.2 Interest income from reserve deposits | | 111,798 | 38,684 |
| 1.3 Interest income from banks | V-IV-1 | 121,181 | 78,724 |
| 1.4 Interest income from money market transactions | | 600 | 1,633 |
| 1.5 Interest income from securities portfolio | V-IV-1 | 2,230,139 | 2,072,208 |
| 1.5.1 Trading financial assets | | 8,946 | 6,775 |
| 1.5.2 Financial assets designated at fair value through profit or loss | | - | - |
| 1.5.3 Available-for-sale financial assets | | 1,513,449 | 1,409,589 |
| 1.5.4 Held-to-maturity investments | | 707,744 | 655,844 |
| 1.6 Finance lease income | | 110,201 | 102,526 |
| 1.7 Other interest income | | 121,342 | 81,320 |
| II. INTEREST EXPENSE | | 9,727,956 | 8,238,164 |
| 2.1 Interest expense on deposits | V-IV-2 | 7,194,767 | 6,115,699 |
| 2.2 Interest expense on funds borrowed | V-IV-2 | 508,116 | 362,500 |
| 2.3 Interest expense on money market transactions | | 1,007,022 | 886,728 |
| 2.4 Interest expense on securities issued | V-IV-2 | 691,897 | 595,176 |
| 2.5 Other interest expenses | | 326,154 | 278,061 |
| III. NET INTEREST INCOME (I – II) | | 7,236,233 | 5,735,268 |
| IV. NET FEES AND COMMISSIONS INCOME | | 912,483 | 870,329 |
| 4.1 Fees and commissions received | | 1,458,702 | 1,351,513 |
| 4.1.1 Non-cash loans | | 229,775 | 186,784 |
| 4.1.2 Others | | 1,228,927 | 1,164,729 |
| 4.2 Fees and commissions paid | | 546,219 | 481,184 |
| 4.2.1 Non-cash loans | | 1,916 | 1,148 |
| 4.2.2 Others | | 544,303 | 480,036 |
| V. DIVIDEND INCOME | V-IV-3 | 61,736 | 37,169 |
| VI. TRADING INCOME/LOSSES (Net) | V-IV-4 | 505,038 | 139,931 |
| 6.1 Trading account income/losses | | 24,051 | 46,761 |
| 6.2 Income/losses from derivative financial instruments | | 354,798 | (29,129) |
| 6.3 Foreign exchange gains/losses | | 126,189 | 122,299 |
| VII. OTHER OPERATING INCOME | V-IV-5 | 2,004,336 | 2,036,648 |
| VIII. TOTAL OPERATING PROFIT (III+IV+V+VI+VII) | | 10,719,826 | 8,819,345 |
| IX. PROVISION FOR LOSSES ON LOANS AND OTHER RECEIVABLES (-) | V-IV-6 | 2,333,609 | 1,635,860 |
| X. OTHER OPERATING EXPENSES (-) | V-IV-7 | 4,906,704 | 4,817,078 |
| XI. NET OPERATING PROFIT/LOSS (VIII-IX-X) | | 3,479,513 | 2,366,407 |
| XII. INCOME RESULTED FROM MERGERS | | - | - |
| XIII. INCOME/LOSS FROM INVESTMENTS UNDER EQUITY ACCOUNTING | | 37,267 | 34,617 |
| XIV. GAIN/LOSS ON NET MONETARY POSITION | | - | - |
| XV. INCOME/LOSS FROM CONTINUING OPERATIONS BEFORE TAXES (XI+...+XIV) | | 3,516,780 | 2,401,024 |
| XVI. CONTINUING OPERATIONS PROVISION FOR TAXES | V-IV-8 | (724,334) | (527,111) |
| 16.1 Current tax charges | V-IV-11 | (741,888) | (417,396) |
| 16.2 Deferred tax credits | V-IV-11 | 17,554 | (109,715) |
| XVII. NET INCOME/LOSS AFTER TAXES FROM CONTINUING OPERATIONS (XV±XVI) | V-IV-10 | 2,792,446 | 1,873,913 |
| XVIII. INCOME FROM DISCONTINUED OPERATIONS | | - | - |
| 18.1 Income from investment properties | | - | - |
| 18.2 Income from sales of subsidiaries, affiliates and joint-ventures | | - | - |
| 18.3 Other income from discontinued activities | | - | - |
| XIX. EXPENSES FROM DISCONTINUED OPERATIONS(-) | | - | - |
| 19.1 Investment property expenses | | - | - |
| 19.2 Losses from sales of subsidiaries, affiliates and joint ventures | | - | - |
| 19.3 Other expenses from discontinued activities | | - | - |
| XX. INCOME/LOSS FROM DISCONTINUED OPERATIONS BEFORE TAXES(XVIII-XIX) | | - | - |
| XXI. DISCONTINUED OPERATIONS PROVISION FOR TAXES(±) | | - | - |
| 21.1 Current tax charge | | - | - |
| 21.2 Deferred tax charge | | - | - |
| XXII. NET INCOME/LOSS AFTER TAXES FROM DISCONTINUED OPERATIONS(XX±XXI) | | - | - |
| XXIII.NET PROFIT/LOSS (XVI+XXII) | V-IV-12 | 2,792,446 | 1,873,913 |
| 23.1. Equity holders of the Bank | | 2,789,918 | 1,948,588 |
| 23.2. Non-controlling interest(-) | V-IV-13 | 2,528 | (74,675) |
| Earnings per 100 Share (full TL) | III-XXV | 1.1160 | 0.7794 |

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

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE I. OF SECTION THREE**

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS FINANCIAL SUBSIDIARIES
CONSOLIDATED STATEMENT OF PROFIT AND LOSS ITEMS ACCOUNTED UNDER SHAREHOLDERS'
EQUITY FOR THE YEAR ENDED DECEMBER 31, 2016**

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

| | Audited Current Period January 1, 2016-December 31, 2016 | Audited Prior Period January 1, 2015-December 31, 2015 |
|---|---|---|
| GAINS AND LOSSES RECOGNIZED IN EQUITY | | |
| I. VALUATION DIFFERENCES OF AVAILABLE FOR SALE FINANCIAL ASSETS RECOGNIZED IN VALUATION DIFFERENCES OF MARKETABLE SECURITIES | (234,289) | (585,086) |
| II. REVALUATION SURPLUS ON TANGIBLE ASSETS | 16,708 | 791,080 |
| III. REVALUATION SURPLUS ON INTANGIBLE ASSETS | - | - |
| IV. CURRENCY TRANSLATION DIFFERENCES | 59,217 | 42,762 |
| V. GAINS/(LOSSES) FROM CASH FLOW HEDGES (Effective Portion of Fair Value Changes) | - | - |
| VI. GAINS/(LOSSES) FROM NET FOREIGN INVESTMENT HEDGES (Effective portion) | - | - |
| VII. EFFECTS OF CHANGES IN ACCOUNTING POLICIES AND ERRORS | - | - |
| VIII. OTHER GAINS AND LOSSES RECOGNIZED IN EQUITY IN ACCORDANCE WITH TAS | 31,515 | (49,238) |
| IX. DEFERRED TAXES DUE TO VALUATION DIFFERENCES | 44,360 | 70,314 |
| X. NET GAINS/LOSSES RECOGNIZED DIRECTLY IN EQUITY (I+II+...+IX) | (82,489) | 269,832 |
| XI. CURRENT PERIOD'S PROFIT/(LOSS) | 2,792,446 | 1,873,913 |
| 11.1 Change in fair value of securities (transfers to the statement of income) | (5,576) | 36,105 |
| 11.2 Gains/Losses recognized in the statement of income due to reclassification of cash flow hedges | - | - |
| 11.3 Gains/Losses recognized in the statement of income due to reclassification of net foreign investment hedges | - | - |
| 11.4 Others | 2,798,022 | 1,837,808 |
| XII. TOTAL GAINS AND LOSSES RECOGNIZED DURING THE PERIOD (X+XI) | 2,709,957 | 2,143,745 |

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

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE I. OF SECTION THREE**

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS FINANCIAL SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2016**
(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

| | Notes | Paid-in Capital | Capital Reserves from Inflation Adjustment s to Paid-in Capital | Share Premium | Share Cancellation Profits | Legal Reserves | Status Reserves | Extraordinary Reserves | Other Reserves | Current Period Net Profit/ (Loss) | Prior Period Net Profit/ (Loss) | Valuation Differences of the Marketabl e Securities | Revaluation Surplus on Tangible, Intangible Assets and Investment Property | Bonus Shares of Associates, Subsidiaries and Joint Ventures | Hedging Reserves | Revaluation Surp. On Assets Held for Sale and Discount. Op.s | Shareholders ' Equity before Minority Interest | Minority Interest | Total Shareholders ' Equity | |
|--|-------|--------------------|---|------------------|----------------------------------|-------------------|--------------------|---------------------------|-------------------|--|---------------------------------------|---|--|--|---------------------|--|--|----------------------|-----------------------------------|---|
| I. | | | | | | | | | | | | | | | | | | | | |
| Prior Period – December 31, 2015 | | | | | | | | | | | | | | | | | | | | |
| II. | | | | | | | | | | | | | | | | | | | | |
| Balances at the beginning of the period | | 2,500,000 | - | 727,780 | - | 1,069,245 | 6,337 | 7,346,127 | 372,881 | - | 1,873,992 | 521,530 | 52,864 | 3,683 | - | - | 14,474,439 | 486,084 | 14,960,523 | |
| III. | | | | | | | | | | | | | | | | | | | | |
| Corrections made according to TAS 8 | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2.1. The effect of corrections of error | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 2.2. The effect of changes in accounting policies | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| III. | | | | | | | | | | | | | | | | | | | | |
| Adjusted beginning balance (I+II) | | 2,500,000 | - | 727,780 | - | 1,069,245 | 6,337 | 7,346,127 | 372,881 | - | 1,873,992 | 521,530 | 52,864 | 3,683 | - | - | 14,474,439 | 486,084 | 14,960,523 | |
| IV. | | | | | | | | | | | | | | | | | | | | |
| Changes during the period | | | | | | | | | | | | | | | | | | | | |
| V. | | | | | | | | | | | | | | | | | | | | |
| Mergers | | - | - | - | - | - | - | - | - | - | - | (479,644) | - | - | - | - | (479,644) | 459 | (479,185) | |
| VI. | | | | | | | | | | | | | | | | | | | | |
| Associates, Subsidiaries and "Available-for-sale" securities | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| VII. | | | | | | | | | | | | | | | | | | | | |
| Hedges for risk management | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 6.1 Net cash flow hedges | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 6.2 Net foreign investment hedges | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| VIII. | | | | | | | | | | | | | | | | | | | | |
| Revaluation surplus on tangible assets | | - | - | - | - | - | - | - | - | - | (638) | - | 653,011 | - | - | - | 652,373 | 91,356 | 743,729 | |
| IX. | | | | | | | | | | | | | | | | | | | | |
| Bonus shares of associates, subsidiaries and joint-ventures | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| X. | | | | | | | | | | | | | | | | | | | | |
| Translation differences | | - | - | - | - | - | - | - | 38,486 | - | - | - | - | - | - | - | 38,486 | 4,276 | 42,762 | |
| XI. | | | | | | | | | | | | | | | | | | | | |
| Changes resulted from disposal of assets | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| XII. | | | | | | | | | | | | | | | | | | | | |
| Changes resulted from reclassifications of the assets | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| XIII. | | | | | | | | | | | | | | | | | | | | |
| Effect of change in equities of associates on the Bank's equity | | - | - | - | - | - | - | - | - | - | (26,975) | (11,875) | - | - | - | - | (38,850) | - | (38,850) | |
| XIV. | | | | | | | | | | | | | | | | | | | | |
| Capital increase | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 14.1 Cash | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 14.2 Internal sources | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| XV. | | | | | | | | | | | | | | | | | | | | |
| Share issuance | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| XVI. | | | | | | | | | | | | | | | | | | | | |
| Share cancellation profits | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| XVII. | | | | | | | | | | | | | | | | | | | | |
| Capital reserves from inflation adjustments to paid-in capital | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| XVIII. | | | | | | | | | | | | | | | | | | | | |
| Other | | - | - | - | - | - | - | 11 | 1,961 | - | - | - | - | - | - | - | 1,972 | (596) | 1,376 | |
| XIX. | | | | | | | | | | | | | | | | | | | | |
| Current period's net profit/loss | | - | - | - | - | - | - | - | - | 1,948,588 | - | - | - | - | - | - | 1,948,588 | (74,675) | 1,873,913 | |
| XX. | | | | | | | | | | | | | | | | | | | | |
| Profit distribution | | - | - | - | - | 166,921 | - | 1,133,910 | 143,413 | - | (1,779,026) | - | 234,782 | - | - | - | (100,000) | (1,513) | (101,513) | |
| 20.1 Dividends | V-V-5 | - | - | - | - | - | - | - | - | - | (100,000) | - | - | - | - | - | (100,000) | (1,513) | (101,513) | |
| 20.2 Transferred to reserves | V-V-5 | - | - | - | - | 166,921 | - | 1,133,910 | 143,413 | - | (1,679,026) | - | 234,782 | - | - | - | - | - | - | |
| 20.3 Other | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | |
| Balances at the end of the period | | 2,500,000 | - | 727,780 | - | 1,236,166 | 6,337 | 8,480,048 | 556,741 | 1,948,588 | 67,353 | 30,011 | 940,657 | 3,683 | - | - | 16,497,364 | 505,391 | 17,002,755 | |

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

CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL STATEMENTS
ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE I. OF SECTION THREE

TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS FINANCIAL SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2016

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

| Audited | Notes | Paid in Capital | Capital Reserves from Inflation Adjustments to Paid in Capital | Share Premium | Share Cancellation Profits | Legal Reserves | Status Reserves | Extra-ordinary Reserves | Other Profit Reserves | Current Year's Net Profit/(Loss) | Prior Period's Net Profit/(Loss) | Valuation Differences of the Marketable Securities | Revaluation Surplus on Tangible, Intangible Assets and Investment Property | Bonus Shares of Associates, Subsidiaries and Joint Ventures | Hedging Reserves | Revaluation Surp. On Assets Held for Sale and Assets of Discount. Op.s. | Shareholders' Equity before Minority Shares | Non-controlling Interest | Total Shareholders' Equity |
|---|-------|------------------|--|----------------|----------------------------|------------------|-----------------|-------------------------|-----------------------|----------------------------------|----------------------------------|--|--|---|------------------|---|---|--------------------------|----------------------------|
| I. Current Period – December 31, 2015 | | | | | | | | | | | | | | | | | | | |
| Balances at the beginning of the period | | 2,500,000 | - | 727,780 | - | 1,236,166 | 6,337 | 8,480,048 | 556,741 | - | 2,015,941 | 30,011 | 940,657 | 3,683 | - | - | 16,497,364 | 505,391 | 17,002,755 |
| II. Mergers | | | | | | | | | | | | | | | | | | | |
| - | | | | | | | | | | | | | | | | | | | |
| III. Valuation differences of the marketable securities | | | | | | | | | | | | | | | | | | | |
| - | | | | | | | | | | | | | | | | | | | |
| IV. Hedging reserves | | | | | | | | | | | | | | | | | | | |
| - | | | | | | | | | | | | | | | | | | | |
| 4.1 Cash flow hedges | | | | | | | | | | | | | | | | | | | |
| - | | | | | | | | | | | | | | | | | | | |
| 4.2 Net investment hedges | | | | | | | | | | | | | | | | | | | |
| - | | | | | | | | | | | | | | | | | | | |
| V. Revaluation surplus on tangible assets | | | | | | | | | | | | | | | | | | | |
| - | | | | | | | | | | | | | | | | | | | |
| VI. Revaluation surplus on intangible assets | | | | | | | | | | | | | | | | | | | |
| - | | | | | | | | | | | | | | | | | | | |
| VII. Bonus shares of associates, subsidiaries and joint-ventures | | | | | | | | | | | | | | | | | | | |
| - | | | | | | | | | | | | | | | | | | | |
| VIII. Translation differences | | | | | | | | | | | | | | | | | | | |
| - | | | | | | | | | | | | | | | | | | | |
| IX. Changes resulted from disposal of the assets | | | | | | | | | | | | | | | | | | | |
| - | | | | | | | | | | | | | | | | | | | |
| X. Changes resulted from reclassifications of the assets | | | | | | | | | | | | | | | | | | | |
| - | | | | | | | | | | | | | | | | | | | |
| XI. Effect of change in equities of associates on the Group's equity | | | | | | | | | | | | | | | | | | | |
| - | | | | | | | | | | | | | | | | | | | |
| XII. Capital increase | | | | | | | | | | | | | | | | | | | |
| - | | | | | | | | | | | | | | | | | | | |
| 12.1 Cash | | | | | | | | | | | | | | | | | | | |
| - | | | | | | | | | | | | | | | | | | | |
| 12.2 Internal sources | | | | | | | | | | | | | | | | | | | |
| - | | | | | | | | | | | | | | | | | | | |
| XIII. Share issuance | | | | | | | | | | | | | | | | | | | |
| - | | | | | | | | | | | | | | | | | | | |
| XIV. Share cancellation profits | | | | | | | | | | | | | | | | | | | |
| - | | | | | | | | | | | | | | | | | | | |
| XV. Capital reserves from inflation adjustments to paid-in capital | | | | | | | | | | | | | | | | | | | |
| - | | | | | | | | | | | | | | | | | | | |
| XVI. Other | | | | | | | | | | | | | | | | | | | |
| - | | | | | | | | | | | | | | | | | | | |
| XVII. Current period's net profit/loss | | | | | | | | | | | | | | | | | | | |
| - | | | | | | | | | | | | | | | | | | | |
| XVIII. Profit distribution | | | | | | | | | | | | | | | | | | | |
| - | | | | | | | | | | | | | | | | | | | |
| 18.1 Dividends | | | | | | | | | | | | | | | | | | | |
| - | | | | | | | | | | | | | | | | | | | |
| 18.2 Transferred to reserves | | | | | | | | | | | | | | | | | | | |
| - | | | | | | | | | | | | | | | | | | | |
| 18.3 Other | | | | | | | | | | | | | | | | | | | |
| - | | | | | | | | | | | | | | | | | | | |
| Balances at the end of the period | | 2,500,000 | - | 727,780 | - | 1,436,787 | 6,337 | 10,156,575 | 606,809 | 2,789,918 | (13,974) | (131,169) | 997,197 | 3,683 | - | - | 19,079,943 | 527,529 | 19,607,472 |

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

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL
ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE I. OF SECTION THREE**

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS FINANCIAL SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED DECEMBER 31, 2016**

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

| | Notes | Audited Current Period December 31, 2016 | Audited Prior Period December 31, 2015 |
|---|---------------|--|--|
| A. CASH FLOWS FROM BANKING OPERATIONS | | | |
| 1.1 Operating profit before changes in operating assets and liabilities | | 4,169,924 | 3,238,846 |
| 1.1.1 Interests received | | 15,649,451 | 13,135,951 |
| 1.1.2 Interests paid | | (9,579,425) | (8,073,427) |
| 1.1.3 Dividends received | | 10,225 | 5,483 |
| 1.1.4 Fee and commissions received | | 1,458,702 | 1,351,513 |
| 1.1.5 Other income | | 1,155,052 | 1,106,645 |
| 1.1.6 Collections from previously written-off loans and other receivables | V-I-5 | 1,203,154 | 1,018,600 |
| 1.1.7 Payments to personnel and service suppliers | | (1,886,447) | (1,715,096) |
| 1.1.8 Taxes paid | | (950,946) | (691,055) |
| 1.1.9 Other | V-VI-1 | (2,889,842) | (2,899,768) |
| 1.2 Changes in operating assets and liabilities | | (4,359,432) | (3,851,919) |
| 1.2.1 Net (increase) decrease in financial assets held for trading purpose | | (68,142) | (42,630) |
| 1.2.2 Net (increase) decrease in financial assets valued at fair value through profit or loss | | - | - |
| 1.2.3 Net (increase) decrease in due from banks and other financial institutions | | 1,386,426 | (2,341,828) |
| 1.2.4 Net (increase) decrease in loans | | (26,315,387) | (20,944,190) |
| 1.2.5 Net (increase) decrease in other assets | | (353,827) | (433,611) |
| 1.2.6 Net increase (decrease) in bank deposits | | (469,133) | 722,756 |
| 1.2.7 Net increase (decrease) in other deposits | | 14,656,938 | 17,810,595 |
| 1.2.8 Net increase (decrease) in funds borrowed | | 6,024,640 | 3,813,977 |
| 1.2.9 Net increase (decrease) in matured payables | | - | - |
| 1.2.10 Net increase (decrease) in other liabilities | V-VI-1 | 779,053 | (2,436,988) |
| I. Net cash flow from banking operations | | (189,508) | (613,073) |
| B. CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| II. Net cash flow from investing activities | | (1,212,616) | (1,615,919) |
| 2.1 Cash paid for purchase of associates, subsidiaries and joint-ventures | | - | - |
| 2.2 Proceeds from disposal of associates, subsidiaries and joint-ventures | | - | - |
| 2.3 Cash paid for purchase of tangible assets | | (248,621) | (858,423) |
| 2.4 Proceeds from disposal of tangible assets | | 462,653 | 580,786 |
| 2.5 Cash paid for purchase of available-for-sale financial assets | | (6,636,883) | (4,215,603) |
| 2.6 Proceeds from disposal of available-for-sale financial assets | | 5,466,684 | 3,410,191 |
| 2.7 Cash paid for purchase of held-to-maturity investments | | (1,873,688) | (1,610,704) |
| 2.8 Proceeds from disposal of held-to-maturity investments | | 1,673,758 | 1,129,187 |
| 2.9 Other | V-VI-1 | (56,519) | (51,353) |
| C. CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| III. Net cash flow from financing activities | | 4,712,885 | 2,125,686 |
| 3.1 Cash obtained from funds borrowed and securities issued | | 13,644,312 | 9,840,198 |
| 3.2 Cash used for repayment of funds borrowed and securities issued | | (8,831,100) | (7,612,999) |
| 3.3 Equity instruments issued | | - | - |
| 3.4 Dividends paid | | (100,327) | (101,513) |
| 3.5 Repayments for finance leases | | - | - |
| 3.6 Other | | - | - |
| IV. Effect of change in foreign exchange rates on cash and cash equivalents | V-VI-1 | 53,516 | (30,472) |
| V. Net (decrease) / increase in cash and cash equivalents | | 3,364,277 | (133,778) |
| VI. Cash and cash equivalents at the beginning of the period | V-VI-4 | 9,057,127 | 9,190,905 |
| VII. Cash and cash equivalents at the end of the period | V-VI-4 | 12,421,404 | 9,057,127 |

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

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL
ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE I. OF SECTION THREE**

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS FINANCIAL
SUBSIDIARIES CONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION
FOR THE YEAR ENDED DECEMBER 31, 2016**

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

| | Notes | Current Period December 31, 2016 | Prior Period December 31, 2015 |
|--|----------------|-------------------------------------|-----------------------------------|
| I. DISTRIBUTION OF CURRENT YEAR PROFIT^(***) | | | |
| 1.1 CURRENT YEAR'S PROFIT | | 3,395,524 | 2,470,293 |
| 1.2 TAXES AND LEGAL DUTIES PAYABLE | | (692,482) | (540,184) |
| 1.2.1 Corporate tax (income tax) | V-IV-11 | (712,424) | (404,310) |
| 1.2.2 Withholding tax | | - | - |
| 1.2.3 Other taxes and duties ^(**) | V-IV-11 | 19,942 | (135,874) |
| A. NET PROFIT FOR THE YEAR | | 2,703,042 | 1,930,109 |
| 1.3 DEFERED TAX INCOME TRANSFERRED TO OTHER RESERVES | V-IV-11 | - | - |
| B. NET PROFIT FOR THE YEAR AFTER DEFERRED TAX INCOME | | 2,703,042 | 1,930,109 |
| 1.4 ACCUMULATED LOSSES | | - | - |
| 1.5 FIRST LEGAL RESERVES | V-V-5 | - | (96,506) |
| 1.6 OTHER STATUTORY RESERVES | V-V-5 | - | (96,506) |
| C. NET PROFIT AVAILABLE FOR DISTRIBUTION^(*) | | - | 1,737,097 |
| 1.7 FIRST DIVIDEND TO SHAREHOLDERS | | - | 100,000 |
| 1.7.1 To owners of ordinary shares | | - | 100,000 |
| 1.7.2 To owners of privileged shares | | - | - |
| 1.7.3 To owners of redeemed shares | | - | - |
| 1.7.4 To profit sharing bonds | | - | - |
| 1.7.5 To holders of profit and loss sharing certificates | | - | - |
| 1.8 DIVIDENDS TO PERSONNEL | | - | - |
| 1.9 DIVIDENDS TO BOARD OF DIRECTORS | | - | - |
| 1.10 SECOND DIVIDEND TO SHAREHOLDERS | | - | - |
| 1.10.1 To owners of ordinary shares | | - | - |
| 1.10.2 To owners of privileged shares | | - | - |
| 1.10.3 To owners of redeemed shares | | - | - |
| 1.10.4 To profit sharing bonds | | - | - |
| 1.10.5 To holders of profit and loss sharing certificates | | - | - |
| 1.11 SECOND LEGAL RESERVES | | - | - |
| 1.12 STATUS RESERVES | | - | - |
| 1.13 EXTRAORDINARY RESERVES | V-V-5 | - | 1,635,437 |
| 1.14 OTHER RESERVES | | - | - |
| 1.15 SPECIAL FUNDS | V-V-5 | - | 1,660 |
| II. DISTRIBUTION FROM RESERVES | | - | - |
| 2.1 DISTRIBUTION OF RESERVES | | - | - |
| 2.2 SECOND LEGAL RESERVES | | - | - |
| 2.3 DIVIDENDS TO SHAREHOLDERS | | - | - |
| 2.3.1 To owners of ordinary shares | | - | - |
| 2.3.2 To owners of privileged shares | | - | - |
| 2.3.3 To owners of redeemed shares | | - | - |
| 2.3.4 To profit sharing bonds | | - | - |
| 2.3.5 To holders of profit and loss sharing certificates | | - | - |
| 2.4 DIVIDENDS TO PERSONNEL | | - | - |
| 2.5 DIVIDENDS TO BOARD OF DIRECTORS | | - | - |
| III. EARNINGS PER SHARE | | - | - |
| 3.1 TO OWNERS OF ORDINARY SHARES (Earning per 100 shares) | | 1.0812 | 0.7720 |
| 3.2 TO OWNERS OF ORDINARY SHARES (%) | | 108.12 | 77.20 |
| 3.3 TO OWNERS OF PRIVILEGED SHARES | | - | - |
| 3.4 TO OWNERS OF PRIVILEGED SHARES (%) | | - | - |
| IV. DIVIDEND PER SHARE | | - | - |
| 4.1 TO OWNERS OF ORDINARY SHARES | | - | - |
| 4.2 TO OWNERS OF ORDINARY SHARES (%) | | - | - |
| 4.3 TO OWNERS OF PRIVILEGED SHARES | | - | - |
| 4.4 TO OWNERS OF PRIVILEGED SHARES (%) | | - | - |

(*) As of the report date, distributable net profit of the period is not shown as any decision regarding the 2016 profit distribution is not taken.

(**) The amount shown in other taxes and legal liabilities is deferred income/expense tax, and deferred tax income is not subject to profit distribution.

(***) The profit distribution is based on the non-consolidated financial statements of the Parent Bank.

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

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ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE I. OF SECTION THREE**

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(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

SECTION THREE

ACCOUNTING POLICIES

I. BASIS OF PRESENTATION

The consolidated financial statements are prepared within the scope of the “Regulation on Accounting Applications for Banks and Safeguarding of Documents” related with Banking Act numbered 5411 published in the Official Gazette no.26333 dated November 1, 2006 and in accordance with the regulations, communiques, interpretations and legislations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency (“BRSA”), and in case where a specific regulation is not made by BRSA, Turkish Accounting Standards “TAS” and Turkish Financial Reporting Standards (“TFRS”) and related appendices (together referred as BRSA Accounting and Reporting Legislation). The format and content of the publicly announced consolidated financial statements and notes to these statements have been prepared in accordance with the “Communiqué on Publicly Announced Financial Statements, Explanations and Notes to These Financial Statements” and “Communiqué on Disclosures about Risk Management to be Announced to Public by Banks” and amendments to this Communiqué.

The preparation of financial statements requires the use of certain critical estimates on assets and liabilities reported as of balance sheet date or amount of contingent assets and liabilities explained and amount of income and expenses occurred in related period. Although these estimates rely on the management’s best judgment, actual results can vary from these estimates. Judgments and estimates are explained in related notes.

The accounting policies and valuation principles applied in the preparation of these financial statements are explained in detail below.

The amendments to TAS and TFRS, effective from 1 January 2016, have no material impact on the Group’s accounting policies, financial position and performance. The amendments to TAS and TFRS, except for TFRS 9 Financial Instruments (2014 Version), which have been published but not came into force as of financial statement date, will have no impact on the accounting policies, financial condition and performance of the Parent Bank. The Group assesses the impact of TFRS 9 Financial Instruments standard.

Additional paragraph for convenience translation to English

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

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ACCOUNTING POLICIES (Continued)

**II. STRATEGY FOR THE USE OF FINANCIAL INSTRUMENTS AND INFORMATION ON
FOREIGN CURRENCY TRANSACTIONS**

Strategy for the use of financial instruments

The Parent Bank’s core operations are based on retail banking, corporate banking, private banking, foreign exchange operations, money market operations, investment security transactions, and international banking in accordance with the requirements of its economic development while utilizing foundation resources. As a result of the nature of its operations, the Parent Bank intensively utilizes financial instruments. The Parent Bank accepts deposits consisting various maturities as the main source of funding with deposits being in high return as well as carefully utilizing them in high quality financial activities.

The most important fund sources of the Parent Bank other than the deposits are its equity and medium and long-term borrowings obtained from foreign financial institutions. The Parent Bank pursues an effective asset-liability management strategy by securing balance between funding resources and investments so as to reduce risks and increase returns. Accordingly, the Parent Bank attaches great significance to long-term placements bearing higher interest rates.

It is essential to consider the maturity structure of assets and liabilities in liquidity management. The essence of asset liability management is the keep the liquidity risk, exchange rate risk and credit risk within reasonable limits; while enhancing profitability and strengthening the Parent Bank’s shareholders’ equity.

Investments in marketable securities and lending loans generate higher return than the average rate of return of the Bank’s operating activities on the basis of maturity structures and market conditions. When bank placements are considered, they have short term maturity in terms of liquidity management and have lower return. The Bank can take various positions on short-term foreign exchange risk, interest rate risk and market risk in money and capital markets, by considering market conditions, within specified limits set by regulations. The Parent Bank hedges itself and controls its position against the foreign exchange risk being exposed due to foreign currency available-for-sale investments, investments in other portfolios and other foreign currency transactions by various derivative transactions and setting the equilibrium between foreign currency denominated assets and liabilities.

Within the legal limitations and the regulations of The Parent Bank’s internal control, the foreign currency position is being followed, the foreign currency position is established according to the basket equilibrium that is determined by taking into account current market conditions.

In order to avoid interest rate risk, assets and liabilities having fixed and floating interest rates are kept in balance, taking the maturity structure into consideration.

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(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated.)

ACCOUNTING POLICIES (Continued)

**II. STRATEGY FOR THE USE OF FINANCIAL INSTRUMENTS AND INFORMATION ON
FOREIGN CURRENCY TRANSACTIONS (Continued)**

Information on foreign currency transactions

Foreign currency transactions are recorded in TL which is the functional currency of the Parent Bank. Monetary assets and liabilities denominated in foreign currencies at the balance sheet, are translated into Turkish Lira by using the foreign exchange rates effective at the balance sheet date. Non-monetary foreign currency items which are recorded at fair value are valued at historical foreign exchange rates. Foreign exchange gain/loss amounts due to conversion of monetary items or collection or payments foreign currency denominated transactions are recognized in income statement.

Foreign exchange differences resulting from amortized costs of foreign currency denominated available-for-sale financial assets are recognized in the statement of income whilst foreign exchange differences resulting from unrealized gains and losses are presented in "Valuation differences of marketable securities" under equity.

If the net investments in associates and subsidiaries operating in foreign countries are measured at cost, they are reported as translated into TL by using the foreign exchange rate at the date of transaction. If related associates and subsidiaries are measured at fair value, net foreign operations are reported as translated into TL by the rates prevailing at the date of the determination of the fair value.

As of September 30, 2016 reporting period, the Bank started the fair value risk hedging strategy in order to avoid currency risk due to the share of Vakıfbank International AG's 67.5 million Euros that is represented in paid-in capital. The 68.5 million Euros of the nominal amount of 500 million Euros of the securities issued by the Bank on May 4, 2016 with a maturity date of May 4, 2021 has been declared as the hedging instrument. In the subject process, the fair value changes that are related to the hedged investments abroad are recognized in the income statements as long as the hedge is effective. In this context, the foreign exchange differences recognized in the income statement as of 30 September 2016 is TL 11,041. The effectiveness of the process is the degree of offset of the amount of changes in the hedged items' fair values that may be associated with the foreign exchange risks by the hedging instrument.

As of December 31, 2016, it was identified that the evaluations that were made about the process to protect from the fair value risk were effective. Efficiency testing, which is consistent with the Bank's risk strategies, is conducted using the "Dollar off-set method" in the protection from risk process. According to this method, hedging compares the change in value of protection subject from risk with the change in value of protection tool from risk and calculates the relation with the effectiveness ratio of the hedge. The calculated effectiveness ratio is being evaluated within the TAS-39 Financial Instruments: Recognition and Measurement standards and hedge accounting principles are being applied. The bank documents the hedging strategies along with risk management goals. Hedge accounting ends when protection subject from risk ends or being sold or effectiveness test results are not effective anymore.

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ACCOUNTING POLICIES (Continued)

**III. INFORMATION ON ASSOCIATES THAT ARE CONSOLIDATED AND SUBSIDIARIES
THAT ARE ACCOUNTED ACCORDING TO EQUITY METHOD**

Consolidated subsidiaries

As at and for the year ended December 31, 2016, the financial statements of T. Vakıflar Bankası T.A.O., Vakıfbank International AG, Vakıf Finansal Kiralama A.Ş., Güneş Sigorta A.Ş., Vakıf Emeklilik A.Ş., Vakıf Faktoring A.Ş., Vakıf Yatırım Menkul Değerler A.Ş., Vakıf Portföy Yönetimi A.Ş., Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. and Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş. have been included in the consolidated financial statements of the Group.

Vakıfbank International AG, was established in 1999 to operate in the banking sector in foreign countries, in line with the Bank’s globalization policy. Its head office is in Vienna.

Vakıf Finansal Kiralama A.Ş., was established in 1988 to enter into finance lease operations and related transactions and contracts. Its head office is in Istanbul.

Güneş Sigorta A.Ş. was established under the leadership of the Bank and Toprak Mahsulleri Ofisi (TMO) in 1957. The Company has been operating in nearly all non-life insurance branches like fire, accident, transportation, engineering, agriculture, health, forensic protection, and loan insurance. Its head office is in Istanbul.

Vakıf Emeklilik A.Ş. was established under the name Güneş Hayat Sigorta A.Ş. in 1991. In 2003 the Company has taken conversion permission from Republic of Turkey Undersecretariat of Treasury and started to operate in private pension system. Its head office is in Istanbul.

Vakıf Faktoring A.Ş. was established in 1998 to perform factoring transactions and any kind of financing transactions. Factoring, the main operation of the Company, is a financing method that includes the trade receivables of production, distribution and service companies to be sold to intermediary institutions. Its head office is in Istanbul.

Vakıf Yatırım Menkul Değerler A.Ş. was established in 1996 to provide service to investors through making capital market transactions, issuance of capital market tools, commitment of repurchase and sales, and purchase (repo) and sales (reverse repo) of marketable securities, operating as a member of stock exchange, investment consultancy, and portfolio management. Its head office is in Istanbul.

Vakıf Portföy Yönetimi A.Ş. operates in investment fund management, portfolio management and pension fund management. Its head office is in Istanbul.

Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. was established as the first real estate investment partnership in finance sector under the adjudication of Capital Markets Law in 1996. The Company’s main operation is in line with the scope in the Capital Markets Board’s regulations relating to real estate investment trusts like, real estates, capital market tools based on real estates, real estate projects and investment on capital market tools. Its head office is in Istanbul.

Vakıf Menkul Kıymet Yatırım Ortaklığı A.Ş. was established in 1991 in Istanbul. The main operation of the Company is to invest on a portfolio including marketable debt securities, equity securities without having managerial power in the partnerships whose securities have been acquired; gold and other precious metals traded in national and international stock exchange markets or active markets other than stock exchange markets, in accordance with the principles and regulations promulgated by Capital Markets Board. Its head office is in Istanbul.

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ACCOUNTING POLICIES (Continued)

**III. INFORMATION ON ASSOCIATES THAT ARE CONSOLIDATED AND SUBSIDIARIES
THAT ARE ACCOUNTED ACCORDING TO EQUITY METHOD (Continued)**

Pursuant to the 4 March 2010 dated and 764 numbered decision of Board of Directors of Central Bank of Turkish Republic of Northern Cyprus, the official authorisation of World Vakıf UBB Ltd., a subsidiary which was subject to consolidation in previous periods, is abrogated due to incompliance with the 7th and 9th articles of 41/2008 numbered Law of International Banking Units. World Vakıf UBB Ltd. will be liquidated according to 24 May 2010 dated decision of the Nicosia Local Court. Therefore, the financial statements of the company have not been consolidated as at December 31, 2016 and 31 December 2015 but until the liquidation decision date its accumulated previous years’ loss has been included in the accompanying consolidated financial statements.

The liquidation process of World Vakıf Off UBB Ltd., an associate of the Parent Bank, has been carried out by NCTR Collecting and Liquidation Office. The application of the company for cancellation of the liquidation has been rejected and the decision of liquidation has been agreed. Thus, the company’s name has been changed as “World Vakıf UBB Ltd. in Liquidation”.

As per the resolution of the Board of Directors of the Parent Bank held on 8 September 2011, it has been decided to merge Vakıf Sistem Pazarlama Yazılım Servis Güvenlik Temizlik Ticaret ve Sanayi A.Ş. with Vakıf Pazarlama Ticaret A.Ş. with dissolution of Vakıf Sistem Pazarlama Yazılım Servis Güvenlik Temizlik Ticaret ve Sanayi A.Ş. without liquidation, in accordance with Mülga Law No: 6762, article 451 of Turkish Commercial Code. Since Vakıf Pazarlama ve Ticaret A.Ş. is not a financial subsidiary anymore, its financial statements have not been consolidated as at December 31, 2016 and 31 December 2015, but its equity until the merger date has been included in the accompanying consolidated financial statements.

Investments in associates consolidated per equity method

As at and for the year ended December 31, 2016, the financial statements of Kıbrıs Vakıflar Bankası Ltd and Türkiye Sınai Kalkınma Bankası A.Ş. have been consolidated per equity method in the consolidated financial statements of the Group.

Kıbrıs Vakıflar Bankası Ltd. was established in 1982 in Turkish Republic of Northern Cyprus, mainly to encourage the credit cards issued by the Bank, and increase foreign exchange inflow, and carry on retail and commercial banking operations. Its head office is in Lefkosa.

Türkiye Sınai Kalkınma Bankası A.Ş. was established in 1950 to support investments in all economic sectors. Its head office is in Istanbul.

In cases where the accounting policies for the preparation of the financial statements of Financial Subsidiaries are different than those of the Parent Bank, the differences have been adjusted to the accounting policies of the Parent Bank, taking the materiality principle into account. The financial statements of local Financial Subsidiaries, and foreign Financial Subsidiaries preparing their financial statements according to the principles of the countries which they are located in, have been adjusted in accordance with Reporting Standards as at the related reporting dates. Inter-company balances and transactions, and any unrealized gains and losses arising from inter-company transactions, are eliminated in preparing these consolidated financial statements.

IV. INFORMATION ON FORWARDS, OPTIONS AND OTHER DERIVATIVE TRANSACTIONS

The derivative transactions of the Group mainly consist of currency and interest rate swaps, precious metal swaps, foreign currency forward contracts and currency options. The Group has classified its derivative transactions as “trading purpose derivatives” in accordance with the TAS 39 – Financial Instruments: Recognition and Measurement.

Derivatives are initially recorded at their purchase costs. The notional amounts of derivative transactions are recorded in off-balance sheet accounts based on their contractual amounts.

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ACCOUNTING POLICIES (Continued)

**IV. INFORMATION ON FORWARDS, OPTIONS AND OTHER DERIVATIVE TRANSACTIONS
(Continued)**

Subsequently, the derivative transactions are measured at their fair values and the changes in fair values are recorded in the balance sheet under “Derivative financial assets held for trading purpose” or “Derivative financial liabilities held for trading purpose”. The subsequent fair value changes of derivative transactions is recorded in the consolidated statement of income.

V. INFORMATION ON INTEREST INCOME AND EXPENSES

Banking activities

Interest income and expense are recognized according to the effective interest method based on accrual basis. According to the TAS 39 - Financial Instruments: Recognition and Measurement, effective interest rate is the rate that discounts the expected cash flows of financial assets or liabilities during their lifetimes to their carrying values. Effective interest rate is calculated when a financial asset or a liability is initially recorded with transactions costs and is not modified thereafter.

In accordance with Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables, the accrued interest income on non-performing loans are reversed and subsequently recognized as interest income only when collected.

Finance leasing activities

The total of minimum rent amounts are recorded at finance lease receivables account in gross amounts comprising the principal amounts and interests. The interest, the difference between the total of rent amounts and the cost of the fixed assets, is recorded at unearned income account. As the rents are collected, finance lease receivables account is decreased by the rent amount; and the interest component is recorded in the consolidated statement of income as interest income.

Factoring operations

Factoring receivables are initially recorded at their historical costs less transaction costs. They are amortized using the effective interest method, taking their historical costs and future cash flows into account and the amortized amounts are recognized as “other interest income” in the consolidated statement of income.

VI. INFORMATION ON FEES AND COMMISSIONS

Banking services income is recorded as income when it is collected. Other fee and commission income is transferred to profit/loss accounts according to time period principle on the basis of accrual using the principle of the effective interest method. Fee and commission expenses are recorded as expense at the time they are paid.

VII. INFORMATION ON FINANCIAL ASSETS

A financial asset is any asset that is cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

Financial assets except for measured at fair value through profit or loss are recognized initially with their transaction costs that are directly attributable to the acquisition or issue of the financial asset while purchase and sale transactions of securities are accounted at settlement dates.

According to TAS 39 – Financial Instruments: Recognition and Measurement, financial assets are classified in four categories; as financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, and loans and receivables.

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ACCOUNTING POLICIES (Continued)

VII. INFORMATION ON FINANCIAL ASSETS (Continued)

Financial assets at fair value through profit or loss

The financial assets included in this group are divided into two separate titles as "Financial assets held for trading" and "Financial assets classified as financial assets at fair value through profit or loss".

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

Financial assets classified as financial assets at fair value through profit or loss are financial assets which are not acquired for trading, however during initial recognition classified as financial assets at fair value through profit or loss including transaction costs. Such an asset is not present in the Group's portfolio.

Both assets are measured at their fair values and gain/loss arising is recorded in the statement of income. Interest income earned on financial assets and the difference between their acquisition costs and fair values are recorded as interest income in the statement of income. The gains/losses in case of disposal of such securities before their maturities are recorded under trading income/losses in the statement of income.

Available-for-sale financial assets

Available-for-sale financial assets are the financial assets other than loans and receivables, held-to-maturity investments and financial assets at fair value through profit or loss. Available-for-sale financial assets are initially recorded at cost and subsequently measured at their fair values. However, assets that are not traded in an active market are measured by valuation techniques, including recent market transactions in similar financial instruments, adjusted for factors unique to the instrument being valued; or discounted cash flow techniques for the assets which do not have a fixed maturity. Unrecognized gains or losses derived from the difference between their fair values and the discounted values are recorded in "Valuation differences of the marketable securities" under the shareholders' equity. In case of disposal of such assets, the valuation differences under shareholder's equity are transferred directly to the statement of income.

Held to maturity investments

Held to maturity investments are the financial assets with fixed maturities and pre-determined payment schedules that the Group has the intent and ability to hold until maturity, excluding loans and receivables.

Financial assets classified as held to maturity investment however sold before its' maturity or reclassified, are not allowed to be classified as held to maturity investment for two years with respect to TAS 39 rules. There are no financial assets in the Bank's portfolio contradictory to the standard.

Held-to-maturity investments, subsequent to initial recognition, are measured at amortized cost using effective interest method after deducting impairments, if any.

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ACCOUNTING POLICIES (Continued)

VII. INFORMATION ON FINANCIAL ASSETS (Continued)

Loans and receivables

Loans and receivables are the financial assets raised by the Group providing money, commodity and services to debtors. Loans are financial assets with fixed or determinable payments, which are not quoted in an active market and not classified as a securities.

Loans and receivables are initially recognized with their purchase and carried at their amortized costs using the effective interest method at the subsequent recognition.

Foreign currency (“FC”) granted loans are recognized in original currency and is subject to evaluation with the buying rate of Turkish Lira. Foreign currency indexed loans, are converted to Turkish Lira (“TL”) at the rate of the opening date and in the following periods, according to changes in period exchange rate on the income statement in the foreign exchange gains / losses are recorded in the accounts.

VIII. INFORMATION ON IMPAIRMENT OF FINANCIAL ASSETS

A financial asset or group of financial assets, can be considered as impaired only if one or multiple events (damage/loss event) occur and in the conclusion of the impact to related financial asset or financial assets estimation in a reliable manner to the estimated future cash flows after its initial recognition. In such a situation, the financial asset is exposed to impairment and impairment loss occurs. The matters of determination of impairment and provision must be considered within the scope of TAS 36 - Impairment of Assets.

In circumstances of impairment in financial assets at fair value through profit/loss or in financial assets available for sale, the impairment should be recognized under “Impairment Losses on Securities” account.

In case of impairment losses on investment securities held-to-maturity occurs related loss amount to be discounted at the original effective interest rate of the asset's estimated future cash flows are measured as the difference between the present value and the book value of the asset through to be recognized as loss of the said difference amount book value is reduced.

If there is an objective evidence that certain loans will not be collected, for such loans; the Bank provides specific and general allowances for loan and other receivables classified in accordance with the Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables published on the Official Gazette no. 26333 dated 1 November 2006 and the amendments to this regulation.

20% specific provision for non-performing loans for Third Group and 100% specific provision for non-performing loans for Fourth and Fifth Group used to be reserved on condition of not being less than the minimum required rates specified within the related Regulation, 50% specific provision is reserved for the non-performing loans that are transferred to Fourth Group according to changes in accounting policy about specific provisions of non-performing loans that are transferred to Fourth Group as of 30 September 2015 accounting period.

IX. INFORMATION ON OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and liabilities are reported in the balance sheet as net amount in the cases of the Bank’s right and right to sanction to finalize and have the intention to receive/pay related financial asset or liability over the recognized amount or have the right to finalize the related asset and liability simultaneously.

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ACCOUNTING POLICIES (Continued)

X. INFORMATION ON SALES AND REPURCHASE AGREEMENTS AND SECURITIES LENDING

Securities sold under repurchase agreements (“repo”) are classified under “held for trading purpose”, “available for sale” and/or “held-to-maturity” portfolios according to their holding purposes in the Group’s portfolio, and they are valued based on the revaluation principles of the related portfolios. Funds received through repurchase agreements are classified separately under liability accounts and the related interest expenses are accounted on an accrual basis of balance sheet date.

Securities purchased under resale agreements (“reverse repo”) are classified in balance sheet under “Receivables from Money Markets” separately. The income accrual is calculated for the securities purchased under resale agreements via the difference between buying and selling prices on the balance sheet date.

XI. INFORMATION ON ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Tangible assets acquired in consideration of receivables are accounted for in accordance with the requirements of the Communiqué on “Methods, Principles for Purchase and Sale of Precious Metal and Sale of Goods and Immovables obtained in Return of Receivables” published in the Official Gazette numbered 26333 and dated 1 November 2006 and these assets are subject to revaluation by no means.

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

The Group has no discontinued operations.

XII. INFORMATION ON GOODWILL AND OTHER INTANGIBLE ASSETS

As at the balance sheet date, the Group has no goodwill.

The Group’s intangible assets consist of software. Intangible assets are initially recorded at their costs in compliance with the TAS 38 - *Intangible Assets*.

The costs of the intangible assets purchased before 31 December 2004 are restated from the purchasing dates to 31 December 2004, the date the hyperinflationary period is considered to be ended. The intangible assets purchased after this date are recorded at their historical costs. The intangible assets are amortized on their restated costs based on straight line amortization.

If there is objective evidence of impairment, the asset’s recoverable amount is estimated in accordance with the TAS 36 - *Impairment of Assets* and if the recoverable amount is less than the carrying value of the related asset, a provision for impairment loss is made.

Estimated useful lives of the Group’s intangible assets are 3-15 years, and amortization rates are between 6.67% and 33.33%.

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ACCOUNTING POLICIES (Continued)

XIII. INFORMATION ON TANGIBLE ASSETS

The costs of the tangible assets purchased before 31 December 2004 are restated from the purchasing dates to 31 December 2004, the date the hyperinflationary period is considered to be ended. In subsequent periods no inflation adjustment is made for tangible assets, and costs which are restated as of 31 December 2004 are considered as their historical costs. Tangible assets purchased after 1 January 2005 were recorded at their historical costs after foreign exchange differences and financial expenses are deducted if any. The Group decided to pursue the properties for use according to their fair values in terms of separating the land and buildings within the context of TAS 16 “Turkish Accounting Standard on Property, Plant and Equipment” after the change in the accounting policy as of 30 September 2015.

Gains and losses arising from the disposal of the tangible assets are calculated as the difference between the net book value and the net sales price and is recognized in the income statement of the period.

Maintenance costs of tangible fixed assets are capitalized if they extend the economic useful life of related assets. Other maintenance costs are recognized as expense.

There are no restrictions such as pledges, mortgages or any other restriction on tangible assets.

Depreciation rates of tangible assets and estimated useful lives are:

| Tangible assets | Estimated useful life (years) | Depreciation rate (%) |
|--|--|----------------------------------|
| Buildings | 50 | %2 |
| Office equipment, furniture and fixture, and motor vehicles | 5-10 | %10-%20 |
| Assets obtained through finance leases | 4-5 | %20-%25 |

There are no changes in the accounting estimates that are expected to have an impact in the current or subsequent periods.

At each reporting date, the Group evaluates whether there is objective evidence of impairment on its assets. If there is an objective evidence of impairment, the asset’s recoverable amount is estimated in accordance with the TAS 36 - Impairment of Assets and if the recoverable amount is less than the carrying value of the related asset, a provision for impairment loss is made.

XIV. INFORMATION ON INVESTMENT PROPERTIES

Investment property is a property held either to earn rental income or for capital appreciation or for both. Group holds investment property with respect to the consolidated real estate investment and insurance firms’ activities.

Investment properties are initially recorded at their acquisition costs including transaction costs.

Investment properties, following the initial recording, are measured by acquisition cost method (deducting accumulated depreciation and if it is present, provisions for impairment from acquisition cost).

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ACCOUNTING POLICIES (Continued)

XV. INFORMATION ON LEASING ACTIVITIES

Leasing activities

Risks and benefits on leasing activities that belongs to lessee is termed TAS 17- Leasing activities that belongs to financial leasing.

- *Finance leasing activities as the lessee*

Tangible assets acquired by way of finance leasing are recognized in tangible assets and the obligations under finance leases arising from the lease contracts are presented under “Finance Lease Payables” account in the financial statements. In the determination of the related assets and liabilities, the lower of the fair value of the leased asset and the present value of leasing payments is considered. Financial costs of leasing agreements are expanded in lease periods at a fixed interest rate.

If there is an impairment in the value of the assets obtained through financial lease and in the expected future benefits, the leased assets are valued with net realizable value. Provision for losses is calculated for decrease of the value of the assets that is obtained by this way. Depreciation for assets obtained through financial lease, is calculated in the same manner as tangible assets.

- *Finance leasing transactions as lessor*

The rent amounts at the beginning of the finance leasing activities are recorded at “finance lease receivables” account in gross amounts comprising the principal amounts and interests. The interest, the difference between the total of rent amounts and the cost of the fixed assets, is recorded at “unearned income” account. As the rents are collected, “finance lease receivables” account is decreased by the rent amount; and the interest component is recorded at consolidated income statement as interest income.

Operational leases

Operational leasing is defined as activities except from financial leasing. Operational leasing payments are recognized in equal payments as expense under income statement during the leasing period.

XVI. INFORMATION ON PROVISIONS, CONTINGENT ASSETS AND LIABILITIES

Provisions other than the specific and general provisions set for loans and other receivables and provisory liabilities are accounted in accordance with TAS 37 “Turkish Accounting Standard on Provisions, Contingent Liabilities and Contingent Assets Corresponding”.

In the financial statements, a provision is made for an existing commitment resulted from past events if it is probable that the commitment will be settled and a reliable estimate can be made of the amount of the obligation. Provisions are calculated based on the best estimates of management on the expenses to incur as at the balance sheet date and, if material, such expenses are discounted for their present values. If the amount is not reliably estimated and there is no probability of cash outflow from the Group to settle the liability, the related liability is considered as “contingent” and disclosed in the notes to the financial statements.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of unplanned or unexpected one or more uncertain future events not wholly within the control of the Group. Contingent assets are not recognized in financial statements since this may result in the recognition of income that may never be realized. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, the Group discloses the contingent asset.

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ACCOUNTING POLICIES (Continued)

XVII. INFORMATION ON OBLIGATIONS OF THE GROUP CONCERNING EMPLOYEE RIGHTS

Reserve for employee termination benefits

In accordance with existing Turkish Labor Law, the Group is required to make lump-sum termination indemnities to each employee who has completed one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. The computation of the liability is based upon the retirement pay ceiling announced by the Government. The applicable ceiling amount as at December 31, 2016 is TL 4,297 (full TL) (December 31, 2015: TL 3,828 (full TL)).

The Group reserved for employee severance indemnities in the accompanying consolidated financial statements using actuarial method in compliance with the TAS 19 – Employee Benefits.

As at December 31, 2016 and December 31, 2015, the major actuarial assumptions used in the calculation of the total liability are as follows:

| | Current Period | Prior Period |
|----------------------------|-----------------------|---------------------|
| Discount Rate | 11.10% | 10.20% |
| Estimated Inflation Rate | 7.80% | 7.10% |
| Increase in Real Wage Rate | 8.80% | 8.10% |

Other benefits to employees

The Group has provided provision for undiscounted other employee benefits earned during the financial period (unused vacations, premium and dividend) as per services rendered in compliance with TAS 19 in the accompanying consolidated financial statements.

The Group has provided provision for vacation that employees did not use until the relevant accounting period.

According to TAS 19, actuarial gains and losses have been accounted in “Other Capital Reserves” shown under Equity associated with The Statement of Gains and Losses Recognized in Equity for the respective reporting periods.

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ACCOUNTING POLICIES (Continued)

**XVII. INFORMATION ON OBLIGATIONS OF THE GROUP CONCERNING EMPLOYEE
RIGHTS (Continued)**

Pension fund

The employees of the Parent Bank are the members of “Türkiye Vakıflar Bankası Türk Anonim Ortaklığı Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı” (“the Fund”) established on 15 May 1957 as per the temporary article no. 20 of the Social Security Law no. 506.

As part of Social Security Law’s 506 numbered, temporary article no.23, monthly income or salary is eligible for whose disabled with fund’s associates, senility and death insurance is subjected according to the first paragraph of the temporary article no. 23 which states the Banks should transfer pension funds to the Social Security Institution within three years after the 1 November 2005 dated and 25983 numbered Official Gazette, has been cancelled by the Constitutional Court’s 22 March 2007 dated and 2007/33 numbered decision. Reasoned ruling of the Constitutional Court has been issued on 15 December 2007 in the Official Gazette no. 26731. The reason for the cancellation decision by Constitutional Court was stated as possible future losses on acquired rights of Fund members.

Following the publication of the ruling, the Turkish Parliament started to work on new legal arrangements and the Social Security Law no. 5754 (“the Law”) has been approved on 17 April 2008. The Law is enacted by the approval of the President of Turkey and issued on the 8 May 2008 dated and 26870 numbered Official Gazette.

In accordance with the temporary article no. 20 of the Article no. 73 of the Law;

The discounted liability for each fund in terms of the persons transferred as at the transfer date, including the contributors left the fund, should be calculated by the assumptions below,

- a) The technical interest rate to be used for the actuarial calculation is 9.80%.
- b) Income and expenditures in respect to fund’s insurance division are considered in the calculation of discounted liability.

Law requires the transfer to be completed in three years beginning from 1 January 2008. The three year period has expired on 8 May 2011; however, it has been extended to 8 May 2013 with the decision of Council of Ministers published in Official Gazette dated 9 April 2011. Before the expiration date, with the decision of Council of Ministers published in Official Gazette dated 3 May 2013, the period for transferring banks, insurance and reinsurance firms, board of trade, exchanges or participants, monthly salary paid individuals and beneficiaries of the funds that are constructed for their personnel to Social Security Institution in the scope of the temporary article no. 20 of the Social Security Law no. 506 published in Official Gazette dated 30 April 2014 extended for one year. The Council of Ministers has been lastly authorized to determine the transfer date in accordance with the last amendment in the first paragraph of the 20th provisional article of Law No.5510 implemented by the Law No. 6645 on Amendment of the Occupational Health and Safety Law and Other Laws and Decree Laws published in the Official Gazette dated 23 April 2015 numbered 29335.

The employer of pension fund participants will continue to pay the non-transferable social rights, which are already disclosed in the article of association of the pension fund, to the pension participants and their right owners, even though the salary payment obligation has been transferred to the Social Security Institution.

The technical financial statements of the Fund are audited by the certified actuary according to the “Actuaries Regulation” which is issued as per the Article no. 21 of the 5684 numbered Insurance Law. As per the actuarial report regarding December 31, 2016 in compliance with the principles explained above, there is no technical or actual deficit determined which requires provision against as at December 31, 2016.

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ACCOUNTING POLICIES (Continued)

XVIII. INFORMATION ON TAXATION

Corporate tax

Corporate tax rate is 20% in Turkey according to Article 32 of the Corporate Taxes Law No. 5520. This rate is applied to total income of the Bank adjusted for certain disallowable expenses, exempt income and any other allowances.

Dividends paid to the resident institutions and the institutions working through local offices or representatives are not subject to withholding tax. Except for the dividend payments to these institutions, the withholding tax rate on the dividend payments is 15%. In applying the withholding tax rates on dividend payments to the nonresident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

75% of the associate shares that hold at least 2 years and profits from property sales are exceptional from corporate taxes if there is a capital increase according to Corporate Tax Law or it is hold for a 5 years on special fund account. The Bank follows these profits in “Revaluation surplus on tangible assets” under the equity.

75% revenue of the sales from the firms that follows up for their debts and their guarantors’ and mortgagor’ properties, associate shares, founder shares, redeemed shares and privileges are exceptional from the corporate taxes.

Advance tax that is calculated 20% of the profit from the quarterly period has to be paid on 17th in the two months followed which is declared on 14th of the same month. Advance tax which is paid during the year is to be set off on corporate taxes that calculates on corporate tax return. Taxes paid is to collect in cash or is to set off on other financial debts.

According to tax legislation, financial losses which are not exceed over 5 years can be deducted from profit of the company. Losses cannot be set off from retained earnings.

There is no practice about reaching an agreement with laws in Turkey. Corporate taxes are paid on 25th of the fourth month that is followed form the end of the accounting period. Firms that allowed to analyze taxes, can examine the accounting records and change the amount if there is a wrong transaction.

Corporation tax legislation for the foreign branches

Bahrain (Manama)

The Parent Bank’s branch that is operating in Bahrain is nontaxable because there is no corporate tax practice in that country. Bahrain Branch’s income is added to headquarters income and it is taxed in Turkey according to Law No. 5520 on Corporate Tax Laws published in the Official Gazette dated 05 June 2012, numbered B.07.1.GİB.4.99.16.02-KVK-5/1-b-128.

North Iraq (Erbil)

The Parent Bank’s branch that is operating in Erbil is taxable according to the country’s law legislation. Declaration of financial records and their tax payments are differ from cities that are related to centralized government and cities that are related to North Iraq. On the other hand, North Iraq tax administrations can impute taxes rather than the designated rates.

USA (New York)

The Parent Bank’s branch that is operating in New York is taxable according to state law legislation and country law legislation. Double Tax Treaty Agreements is stated for being taxed in Turkey.

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ACCOUNTING POLICIES (Continued)

XVIII. INFORMATION ON TAXATION (Continued)

Banking and Insurance Transaction Tax

Banking and insurance transaction tax is arranged by the Law No. 6802 on Expenditure Taxes Law. Excluding the banks’ and insurance companies’ transactions according to Law No. 3226 on Leasing Law Legislation which is dated 10.6.1985, the collecting money in cash or by approximation is subject to banking and insurance transaction tax. Those amounts are up to 5% banking and insurance transaction tax according to Law No. 6802 on Expenditure Taxes Law’s 33. Notice and Article No. 98/11591.

Deferred taxes

According to the TAS 12 - Income Taxes; deferred tax assets and liabilities are recognized, on all taxable temporary differences arising between the carrying values of assets and liabilities in the financial statements and their corresponding balances considered in the calculation of the tax base, and initial recognition of assets and liabilities which affect neither accounting nor taxable profit. The delayed tax debt or assets is determined by calculating the “taxable temporary differences “ between the assets’ and debts’ book values versus the values on the legal tax base accounts . According to tax legislation, differences that do not affect the financial or commercial profit of the assets or liabilities at the acquisition date are excluded from these calculations.

According to 8 December 2004 BRSA DZM 2/13/1-a-3 notice;

- There are no deferred tax assets on general provision
- Deferred tax income is not considered on distribution on profit.

Deferred taxes’ book value is revised in every balance sheet date. Deferred tax book value can be reduced if there is improbable to create revenue.

The deferred tax assets and liabilities are reported as net in the financial statements only if the Bank has legal right to present the net value of current year tax assets and current year tax liabilities and the deferred tax assets and deferred tax liabilities are income taxes of the same taxable entity.

In case valuation differences resulting from the subsequent measurement of the items are recognized in the statement of income, then the related current and or deferred tax effects are also recognized in the statement of income. On the other hand, if valuation differences are recognized in shareholders’ equity, then the related current or deferred tax effects are also recognized directly in the shareholders’ equity.

Transfer Pricing

In Turkey, the transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with heading of “disguised profit distribution via transfer pricing”. The General Communiqué on disguised profit distribution via Transfer Pricing, dated 18 November 2007 sets details about implementation.

Pursuant to the relevant Communiqué, if a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm’s length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

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ACCOUNTING POLICIES (Continued)

XIX. INFORMATION ON CASH AND CASH EQUIVALENT

For the purposes of the cash flow statement, cash includes cash effectives, cash in transit, purchased cheques and demand deposits including balances with the Central Bank of Turkey (CBRT); and cash equivalents include interbank money market placements and time deposits at banks with original maturity periods of less than three months.

XX. ADDITIONAL INFORMATION ON BORROWINGS

The Parent Bank obtains funding resources such as syndication and securitization transactions in case of need. In the current period, the Parent Bank has started to obtain funds through domestic and international bonds and bills. The Parent Bank has started to obtain funds through domestic and international bonds since August 2011.

These transactions are initially recognized at acquisition costs at the transaction date and are subsequently measured at amortized cost using effective interest method.

The group is not hedging about debt instruments.

XXI. INFORMATION ON ISSUANCE OF EQUITY SECURITIES

The shares of the Parent Bank having nominal value of TL 322,000,000 (full TL), representing the 25.18% of the Bank’s outstanding shares, was publicly offered at a price between TL 5.13-5.40 for each share having a nominal value of TL 1 on November 2005, and TL 1,172,347 was recorded as “Share Premiums” in shareholders’ equity. TL 448,429 of this amount has been utilized in capital increase on 19 December 2006.

XXII. INFORMATION ON CONFIRMED BILLS OF EXCHANGE AND ACCEPTANCES

Confirmed bills of exchange and acceptances are realized simultaneously with the customer payments and recorded in off-balance sheet accounts as possible debt and commitment, if any. As at the balance sheet date, there are no acceptances recorded as liability in return for assets.

XXIII. INFORMATION ON GOVERNMENT INCENTIVES

As at December 31, 2016, Vakıf Finansal Kiralama A.Ş., a consolidated subsidiary of the Group, has unused investment incentives amounting to TL 199,946 (December 31, 2015: TL 220,278).

XXIV. INFORMATION ON SEGMENT REPORTING

An operating segment is a component of an entity:

- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
- Whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- For which discrete financial information is available.

Segment reporting was selected as a fundamental section reporting method considering Bank’s risk and return structure and key sources which is disclosed in Section 4 Note X.

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ACCOUNTING POLICIES (Continued)

XXV. OTHER MATTERS

Earnings per shares

Earnings per share has been calculated by dividing the net profit for the period to weighted average of outstanding shares. In Turkey, the companies may perform capital increase (“Bonus Shares”) from retained earnings. In earning per share computation bonus shares are treated as issued shares.

As at and for the year ended December 31, 2016, earnings per 100 shares are full TL 1.1160 (December 31, 2015: full TL 0.7794).

Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Shareholders, top executives and board members are accepted as related party personally, with their families and companies according to TAS 24 - Related Party Disclosures Standard. Transactions made with related parties are disclosed in Section 5 Note V.

Classifications

None.

Insurance operations

Written Premiums: Written premiums represent premiums on policies written during the year net of taxes and premiums of the cancelled policies produced in previous years. Written premiums, after deduction of premiums ceded to reinsurance companies are recorded under other operating income in the accompanying consolidated statement of income.

Reserve for unearned premiums: Reserve for unearned premiums represents the proportions of the premiums written in a period that relate to the period of risk subsequent to the balance sheet date, without deductions of commission or any other expense. Reserve for unearned premiums is calculated for all contracts except for the insurance contracts for which the Group provides mathematical reserve. Reserve for unearned premiums is also calculated for the annual premiums of the annually renewed long-term insurance contracts. Reserve for unearned premiums is presented under “insurance technical provisions” in the accompanying consolidated financial statements.

Reserve for outstanding claims: Accounts for outstanding claim reserve for ultimate cost of the claims incurred, but not paid in the current or previous periods or, for the estimated ultimate cost if the cost is not certain yet, and for the incurred but not reported claims. Claim provisions are accounted for based on reports of experts or initial assessments of policyholders and experts, and in the calculations related to the claim reserves, claim recoveries, salvage and similar gains are not deducted. The difference between the outstanding claim reserve that is accrued and determined on account and the amount that is calculated by using the actuarial chain ladder method, of which the content and implementation fundamentals are determined on the Legislation for Technical Provision and the "Circular on Outstanding Claim Reserve" numbered. 2014/16 and dated 5 December 2014 and is effective from 1 January 2015, is accounted as incurred but not reported claims reserve. The calculation of incurred but not reported outstanding claim reserve considering best estimations of the Company’s actuary has been calculated in the line with the related regulation.

Mathematical provisions: Mathematical provisions are the provisions recorded against the liabilities of the Group to the beneficiaries of long-term life and individual accident policies based on actuarial assumptions. Mathematical provisions consist of actuarial mathematical provisions and profit sharing reserves.

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ACCOUNTING POLICIES (Continued)

XXV. OTHER MATTERS (Continued)

Actuarial mathematical provisions are calculated as the difference between the net present values of premiums written in return of the risk covered by the Group and the liabilities to policyholders for long-term insurance contracts based on the basis of actuarial mortality assumptions as approved by the Republic of Turkey Prime Ministry Under secretariat of Treasury, which are applicable for Turkish insurance companies. Mathematical provision also includes the saving portion of the provisions for saving life product.

Profit sharing reserves are the reserves provided against income obtained from asset backing saving life insurance contracts. These contracts entitle the beneficiaries of those contracts to a minimum guaranteed crediting rate per annum or, when higher, a bonus rate declared by the Group from the eligible surplus available to date. Mathematical provisions are presented under “insurance technical provisions” in the accompanying consolidated financial statements.

Deferred acquisition cost and deferred commission income: Commissions given to the intermediaries and other acquisition costs that vary with and are related to securing new contracts and renewing existing insurance contracts are capitalized as deferred acquisition cost. Deferred acquisition costs are amortized on a straight-line basis over the life of the contracts. Commission income obtained from the premiums ceded to reinsurance firms are also deferred and amortized on a straight-line basis over the life of the contracts.

Liability adequacy test: At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing this test, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any inadequacy is immediately charged to the statement of income by establishing an unexpired risk provision under “insurance technical provisions” in the accompanying consolidated financial statements.

If the result of the test is that a loss is required to be recognized, the first step is to reduce any intangible item arising from business combinations related to insurance. If there is still a loss remaining, then the deferred acquisition cost is reduced to the extent that expense loadings are considered not recoverable. Finally, if there is a still remaining amount of loss, this should be booked as an addition to the reserve for premium deficiency.

Individual pension business

Individual pension system receivables presented under ‘other assets’ in the accompanying consolidated financial statements consists of ‘receivables from the clearing house on behalf of the participants’. Pension funds are the mutual funds that the individual pension companies invest in, by the contributions of the participants. Shares of the participants are kept at the clearing house on behalf of the participants.

‘Receivables from the clearing house on behalf of the participants’ is the receivable from the clearing house on pension fund basis against the contributions of the participants. The same amount is also recorded as payables to participants for the funds acquired against their contributions under the ‘individual pension system payables’.

In addition to the ‘payables to participants’ account, mentioned in the previous paragraph, individual pension system payables also includes participants’ temporary accounts, and payables to individual pension agencies. The temporary account of participants includes the contributions of participants that have not yet been invested. Individual pension system payables are presented under other liabilities and provisions in the accompanying consolidated financial statements.

Fees received from individual pension business consist of investment management fees, fees levied on contributions and entrance fees. Fees received from individual pension business are recognized in other income in the accompanying consolidated statement of comprehensive income.

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SECTION FOUR

**INFORMATION RELATED TO CONSOLIDATED FINANCIAL POSITION AND RISK
MANAGEMENT**

I. INFORMATION ON CONSOLIDATED EQUITY ITEMS

Calculation of Equity and Capital Adequacy Standard Ratio are calculated according to “Regulation on Bank's Capital Adequacy Assessment of the Measurement“, “Communique on Credit Risk Mitigation“, “BRSA Regulation on Bank’s Shareholder Equity“, “Regulations on Systemically Important Banks“, “Regulation on Capital Conservation and Cyclical Capital Buffer“. As of December 31, 2016 Group’s capital adequacy ratio is 13.88% (December 31, 2015: 14.21%).

Information about the consolidated shareholder equity items

| | Current Period December 31, 2016 | Amount as per the regulation before 1/1/2014(*) |
|--|-------------------------------------|--|
| COMMON EQUITY TIER I CAPITAL | | |
| Paid-in capital to be entitled for compensation after all creditors | 2,500,000 | - |
| Share Premium | 727,780 | - |
| Reserves | 12,259,333 | - |
| Income recognized under equity in accordance with TAS | 866,028 | - |
| Profit | 2,775,944 | - |
| Current Period’s Profit | 2,789,918 | - |
| Prior Period’s Profit | (13,974) | - |
| Bonus shares from associates, subsidiaries and joint-ventures not accounted in current period’s profit | 3,683 | - |
| Minority shares | 521,476 | - |
| Common Equity Tier 1 Capital Before Deductions | 19,654,244 | - |
| Deductions from Common Equity Tier 1 Capital | - | - |
| Valuation adjustments calculated as per the (i) item of first paragraph of Article 98(-) | - | - |
| Net loss for the prior year losses and uncovered portion of the total reserves and losses that are recognized under equity in accordance with TAS(-) | 52,825 | - |
| Leasehold Improvements on Operational Leases (-) | 162,121 | - |
| Goodwill netted with deferred tax liability(-) | - | - |
| Other intangible assets netted with deferred tax liabilities except mortgage servicing rights(-) | 138,159 | 230,265 |
| Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability) (-) | - | - |
| Differences are not recognized at the fair value of assets and liabilities subject to hedge of cash flow risk(-) | - | - |
| Communiqué Related to Principles of the amount credit risk calculated with the Internal Ratings Based(-) Approach, total expected loss amount exceeds the total provision(-) | - | - |
| Gains arising from securitization transactions(-) | - | - |
| Unrealized gains and losses due to changes in own credit risk on fair valued liabilities(-) | - | - |
| Defined-benefit pension fund net assets | - | - |
| Direct and indirect investments of the Bank in its own Common Equity(-) | - | - |
| Excess amount expressed in the law (Article 56 4th paragraph) (-) | - | - |
| Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)(-) | - | - |
| Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions (amount above 10% threshold) of Tier 1 Capital(-) | - | - |
| Mortgage servicing rights (amount above 10% threshold) of Tier 1 Capital(-) | - | - |
| Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)(-) | - | - |
| Amounts exceeding 15% of Tier 1 Capital according to Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (2nd article temporary second paragraph)(-) | - | - |
| Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible long positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)(-) | - | - |
| Amounts related to mortgage servicing rights(-) | - | - |
| Excess amount of deferred tax assets from temporary differences(-) | - | - |
| Other Items Determined by BRSA(-) | - | - |
| The amount to be deducted from common equity tier 1 capital(-) | - | - |
| Total regulatory adjustments to Common equity Tier 1 | 353,105 | - |
| Common Equity Tier 1 capital (CET1) | 19,301,139 | - |

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

I. INFORMATION ON CONSOLIDATED EQUITY ITEMS (Continued)

| | Current Period December 31, 2016 | Amount as per the regulation before 1/1/2014(*) |
|---|-------------------------------------|--|
| Additional Tier 1 capital: instruments | - | - |
| Premiums that are not included in Common Equity Tier 1 capital | - | - |
| Bank's borrowing instruments and related issuance premium | - | - |
| Bank's borrowing instruments and related issuance premium (Temporary Article 4) | - | - |
| Third parties' share in the Additional Tier I capital - | - | - |
| Third parties' share in the Additional Tier I capital (Temporary Article 3) | - | - |
| Additional Tier 1 Capital before deductions | - | - |
| Deductions from Additional Tier 1 Capital | - | - |
| Bank's a direct or indirect investment in Tier 1 Capital(-) | - | - |
| Investments of Bank to Banks that invest in Bank's additional equity and components of equity issued by financial institutions with compatible with Article 7 | - | - |
| Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% | - | - |
| Threshold of Common Equity Tier 1 Capital | - | - |
| Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital | - | - |
| Other Items Determined by BRSA | - | - |
| Transition from the Core Capital to Continue to deduce Components | 92,106 | - |
| Goodwill and other intangible assets and related deferred tax liabilities which will not deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-) | - | - |
| Net deferred tax asset/liability which is not deducted from Common Equity Tier 1 capital for the purposes of the sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-) | - | - |
| The amount to be deducted from Additional Tier 1 Capital (-) | - | - |
| Total Deductions from Additional Tier 1 capital | - | - |
| Total Additional Tier 1 capital (AT1) | - | - |
| Total Tier 1 Capital (Tier 1 Capital=Common Equity+Additional Tier 1 Capital) | 19,209,033 | - |
| TIER 2 CAPITAL | - | - |
| Bank's borrowing instruments and related issuance premium | 2,723,659 | - |
| Bank's borrowing instruments and related issuance premium (Temporary Article 4) | 977,288 | - |
| Third parties' share in the Tier II Capital | - | - |
| Third parties' share in the Tier II Capital (Temporary Article 3) | 6,053 | - |
| Provisions (Article 8 of the Regulation on the Equity of Banks) | 1,983,272 | - |
| Tier 2 Capital Before Deductions | 4,712,984 | - |
| Deductions From Tier 2 Capital | - | - |
| Bank's direct or indirect investment in Tier 2 Capital (-) | - | - |
| Investments of Bank to Banks that invest on Bank's Tier 2 and components of equity issued by Financial Institutions with the conditions declared in Article 8 | - | - |
| Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% threshold of Common Equity Tier 1 Capital (-) | - | - |
| The Total of Net Long Position of the Direct or Indirect Investments in Additional Core Capital and Tier 2 Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier 1 Capital | - | - |
| Other Items Determined by BRSA (-) | - | - |
| Total Deductions From Tier 2 Capital | - | - |
| Tier 2 Capital | 4,712,984 | - |
| Total Capital (The sum of Tier 1 Capital and Tier 2 Capital) | 23,922,017 | - |
| The sum of Tier 1 Capital and Tier 2 Capital (Total Capital) | - | - |
| Loan granted to Customer against the Articles 50 and 51 of the Banking Law | - | - |
| Net Book Values of Immovables Exceeding 50% of the Equity and of Assets Acquired against Overdue Receivables and Held for Sale as per the Article 57 of the Banking Law but Retained More Than Five Years (-) | 112,142 | - |
| Other items to be defined by the BRSA (-) | 1,166 | - |

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

I. INFORMATION ON CONSOLIDATED EQUITY ITEMS (Continued)

| | Current Period December 31, 2016 | Amount as per the regulation before 1/1/2014(*) |
|---|-------------------------------------|--|
| In transition from Total Core Capital and Supplementary Capital (the capital) to Continue to Download Components | | |
| Portion of the total of net long positions of direct or indirect investments made in Additional Tier 1 and Tier 2 Capital items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank not to be deducted from the Additional Tier 1 Capital and Tier 2 Capital as per the 1st clause of the Provisional Article 2 of the Regulation on the Equity of Banks | - | - |
| Portion of the total of net long positions of investments made in Common Equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital, deferred tax assets based on temporary differences and mortgage servicing rights not deducted from Common Equity as per the 1st and 2nd Paragraph of the 2nd clause of the Provisional Article 2 of the Regulation on the Equity of Banks | - | - |
| TOTAL CAPITAL | | |
| Total Capital | 23,808,709 | - |
| Total Risk Weighted Amounts | 171,540,121 | - |
| CAPITAL ADEQUACY RATIOS | | |
| Consolidated Core Capital Adequacy Ratio (%) | 11.25 | - |
| Consolidated Tier 1 Capital Adequacy Ratio (%) | 11.20 | - |
| Consolidated Capital Adequacy Ratio (%) | 13.88 | - |
| BUFFERS | | |
| Total buffer requirement | 0.627 | - |
| Capital conservation buffer requirement (%) | 0.625 | - |
| Bank specific counter-cyclical buffer requirement (%) | 0.002 | - |
| The ratio of Additional Common Equity Tier 1 capital which will be calculated by the first paragraph of the Article 4 of Regulation on Capital Conservation and Countercyclical Capital buffers to Risk Weighted Assets (%) | 6.75 | - |
| Amounts below deduction thresholds | | |
| Amounts arising from the net long positions of investments made in Total Capital items of banks and financial institutions where the Bank owns 10% or less of the issued common share capital | - | - |
| Amounts arising from the net long positions of investments made in Tier 1 Capital items of banks and financial institutions where the Bank owns 10% or more of the issued common share capital | - | - |
| Mortgage servicing rights | - | - |
| Deferred tax assets arising from temporary differences (net of related tax liability) | - | - |
| Limits related to provisions considered in Tier 2 calculation | | |
| General provisions for standard based receivables (before tenthousandtwentyfive limitation) | 2,167,443 | - |
| Up to 1.25% of total risk-weighted amount of general reserves for receivables where the standard approach used | 1,983,272 | - |
| Excess amount of total provision amount to credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation | - | - |
| Excess amount of total provision amount to 0.6% of risk weighted receivables of credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation | - | - |
| Debt instruments subjected to Article 4 (to be implemented between 1 January 2018 and 1 January 2022) | | |
| Upper limit for Additional Tier 1 Capital subjected to temporary Article 4 | - | - |
| Amounts Excess the Limits of Additional Tier 1 Capital subjected to temporary Article 4 | - | - |
| Upper limit for Additional Tier 2 Capital subjected to temporary Article 4 | - | - |
| Amounts Excess the Limits of Additional Tier 2 Capital subjected to temporary Article 4 | - | - |

(*) Represents the amounts taken into consideration according to transition clauses.

Summary information related to consolidated capital adequacy ratio

| | Prior Period |
|--|--------------|
| Capital Requirement for Credit Risk (Value at Credit Risk*0.08) (CRCR) | 11,200,599 |
| Capital Requirement for Market Risk (MRCR) | 116,352 |
| Capital Requirement for Operational Risk (ORCR) (*) | 876,010 |
| Shareholders' Equity | 21,651,824 |
| Shareholders' Equity/((CRCR+MRCR+ORCR) *12.5)*100 | 14.21 |
| Tier I Capital/((CRCR+MRCR+ORCR) *12.5)*100 | 10.95 |
| Common Equity Tier I Capital/((CRCR+MRCR+ORCR)*12.5)*100 | 11.03 |

(*) Equity and capital adequacy ratio calculation is changed in accordance with the "Regulation on the Amendment to the Regulation of Bank's Shareholder Equity" which came into force as of 31 March 2016. Prior period information is calculated within the framework of abolished regulations.

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I. INFORMATION ON CONSOLIDATED EQUITY ITEMS (Continued)

Information about the consolidated shareholder equity items

| | Prior Period |
|---|---------------------|
| COMMON EQUITY TIER I CAPITAL | |
| Paid-in Capital to be Entitled for Compensation after all Creditors | 2,500,000 |
| Share Premium | 727,780 |
| Share Cancellation Profits | - |
| Reserves | 10,333,662 |
| Other Comprehensive Income according to TAS | 970,668 |
| Profit | 2,015,941 |
| Current Period Profit | 1,948,588 |
| Previous Period Profit | 67,353 |
| General Reserves for Possible Losses | - |
| Bonus shares from Associates, Subsidiaries, and Joint-Ventures not Accounted in Current Period's Profit | 3,683 |
| Minority Shares | 500,271 |
| Common Equity Tier I Capital Before Deductions | 17,052,005 |
| Deductions from Common Equity Tier I Capital | |
| Current and Prior Periods' Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS(-) | 54,370 |
| Leasehold Improvements on Operational Leases(-) | 106,676 |
| Goodwill and Other Intangible Assets and Related Deferred Taxes(-) | 80,615 |
| Net Deferred Tax Asset/Liability (-) | - |
| Shares Obtained against Article 56, Paragraph 4 of the Banking Law(-) | - |
| Direct and Indirect Investments of the Bank on its own Tier I Capital (-) | - |
| Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-) | - |
| Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-) | - |
| Mortgage Servicing Rights Exceeding the 10% Threshold of Tier I Capital (-) | - |
| Net Deferred Tax Assets arising from Temporary Differences Exceeding the 10% Threshold of Tier I Capital (-) | - |
| Amount Exceeding the 15% Threshold of Tier I Capital as per the Article 2, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-) | - |
| The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more than the Issued Share Capital not deducted from Tier I Capital(-) | - |
| Mortgage Servicing Rights not deducted (-) | - |
| Excess Amount arising from Deferred Tax Assets from Temporary Differences (-) | - |
| Other items to be Defined by the BRSA (-) | - |
| Deductions from Tier I Capital in cases where there are no adequate Additional Tier I or Tier II Capitals (-) | - |
| Total Deductions from Common Equity Tier I Capital | 241,661 |
| Total Common Equity Tier I Capital | 16,810,344 |
| ADDITIONAL CORE CAPITAL | |
| Preferred Stock not Included in Tier I Capital and the Related Share Premiums | - |
| Debt Instruments and the Related Issuance Defined by the BRSA (Issued or Obtained after 01.01.2014) | - |
| Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued or Obtained before 01.01.2014) | - |
| Shares in the Additional Core Capital of Third Parties | - |
| Additional Core Capital before Deductions | - |
| Deductions from Additional Core Capital | |
| Direct and Indirect Investments of the Bank on its own Additional Core Capital (-) | - |
| Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-) | - |
| The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more of 10% of the Issued Share Capital (-) | - |
| Other items to be Defined by the BRSA (-) | - |
| The amount to be deducted from Additional Tier I Capital (-) | - |

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

I. INFORMATION ON CONSOLIDATED EQUITY ITEMS (Continued)

| | Prior Period |
|--|---------------------|
| Total Deductions from Additional Core Capital | - |
| Total Additional Core Capital | - |
| Deductions from Core Capital | - |
| Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-) | 120,922 |
| Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-) | - |
| Total Core Capital | 16,689,422 |
| TIER II CAPITAL | |
| Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued or Obtained after 1.1.2014) | 1,450,446 |
| Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued or Obtained before 1.1.2014) | 1,895,553 |
| Pledged Assets of the Shareholders to be used for the Bank’s Capital Increases | - |
| General Provisions | 1,750,094 |
| Shares in the capital contribution of third parties | 5,120 |
| Tier II Capital before Deductions | 5,101,213 |
| Deductions from Tier II Capital | |
| Direct and Indirect Investments of the Bank on its own Tier II Capital (-) | - |
| Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-) | - |
| The Total of Net Long Positions of the Direct or Indirect Investments in Additional Core Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-) | - |
| Other items to be Defined by the BRSA (-) | - |
| Total Deductions from Tier II Capital | - |
| Total Tier II Capital | 5,101,213 |
| CAPITAL | 21,790,635 |
| Loans Granted against the Articles 50 and 51 of the Banking Law (-) | - |
| Net Book Values of Movables and Immovable Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-) | 138,557 |
| Loans to Banks, Financial Institutions (domestic/foreign) or Qualified Shareholders in the form of Subordinated Debts or Debt Instruments Purchased from Such Parties and Qualified as Subordinated Debts (-) | - |
| Deductions as per the Article 20, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-) | - |
| Other items to be Defined by the BRSA (-) | 254 |
| The Portion of Total of Net Long Positions of the Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-) | - |
| The Portion of Total of Net Long Positions of the Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more than the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-) | - |
| The Portion of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Capital, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation (-) | - |
| EQUITY | 21,651,824 |
| Amounts lower than Excesses as per Deduction Rules | |
| Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital | - |
| Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% or less of the Tier I Capital | - |
| Remaining Mortgage Servicing Rights | - |
| Net Deferred Tax Assets arising from Temporary Differences | 139,185 |

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

I. INFORMATION ON CONSOLIDATED EQUITY ITEMS (Continued)

Information about the debt instruments included in the consolidated equity calculation:

| | |
|---|--|
| Issuer | T.Vakıflar Bankası T.A.O. |
| Unique identifier (e.g. CUSIP, ISIN, etc.) | XS0849728190/ US90015NAB91 XS1175854923/ US90015WAC73 |
| Governing law(s) of the instrument | Debt Instrument Communiqué numbered CMB-II-31.1 BRSA regulation on bank’s shareholder equity |
| Regulatory treatment | |
| Subject to 10% deduction as of 1/1/2015 | XS0849728190/ US90015NAB91 is subject to deduction. XS1175854923/ US90015WAC73 is not subject to deduction. |
| Eligible at unconsolidated/consolidated/consolidated&unconsolidated | Available |
| Instrument type | Bond Issuance Possessing Subordinated Loan Conditions (Tier II Capital) |
| Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date) | 2,724 |
| Par value of instrument | 4,903 |
| Accounting classification | 347011 - Subordinated Liabilities |
| Original date of issuance | XS0849728190/ US90015NAB91 November 1, 2012 XS1175854923/ US90015WAC73 February 2, 2015 |
| Perpetual or dated | XS0849728190/ US90015NAB91 Dated (10 years) Maturity Date: November 1, 2022 XS1175854923/ US90015WAC73 Dated (10 years) Maturity Date: February 3, 2025 |
| Issue date | XS0849728190/ US90015NAB91 November 1, 2012 XS1175854923/ US90015WAC73 February 2, 2015 |
| Issuer call subject to prior supervisory approval | Yes |
| Call option dates, conditioned call dates and call amount | XS0849728190/ US90015NAB91 Not available XS1175854923/ US90015WAC73 early call date at February 3, 2020 is available. |
| Subsequent call dates, if applicable | XS0849728190/ US90015NAB91 Not available XS1175854923/ US90015WAC73 only one call option is available. |
| Coupons / dividends | |
| Fixed or floating dividend/coupon | Fixed/Interest payment once in six month, principal payment at the maturity date |
| Coupon rate and any related index | XS0849728190/ US90015NAB91 6% fixed interest rate XS1175854923/ US90015WAC73 6.875% fixed interest rate |
| Existence of a dividend stopper | Nil |
| Fully discretionary, partially discretionary or mandatory | Nil |
| Existence of step up or other incentive to redeem | Nil |
| Noncumulative or cumulative | Noncumulative |
| Convertible or non-convertible | |
| If convertible, conversion trigger (s) | Nil |
| If convertible, fully or partially | Nil |
| If convertible, conversion rate | Nil |
| If convertible, mandatory or optional conversion | Nil |
| If convertible, specify instrument type convertible into | Nil |
| If convertible, specify issuer of instrument it converts into | Nil |
| Write-down feature | |
| If write-down, write-down trigger(s) | XS0849728190/ US90015NAB91 Not available. XS1175854923/ US90015WAC73 available Revoking the business activity of Bank according to 71 clause of 5411 numbered Banking Law or liquidation proceedings to Savings Deposit Insurance Fund are the triggering |
| If write-down, full or partial | XS0849728190/ US90015NAB91 not available XS1175854923/ US90015WAC73 has full or partial write down feature. |
| If write-down, permanent or temporary | XS0849728190/ US90015NAB91 not available XS1175854923/ US90015WAC73 has permanent write down feature. |
| If temporary write-down, description of write-up mechanism | XS0849728190/ US90015NAB91 not available XS1175854923/ US90015WAC73 has no write-up mechanism. |
| Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Before debt instruments included in Tier II Capital after deposit and other receivables |
| Whether conditions which stands in article of 7 and 8 of Banks’ shareholder equity law are possessed or not | Possess Article 8 |
| According to article 7 and 8 of Banks’ shareholders’ equity law that are not possessed | Not Possess Article 7 |

Reconciliation of capital items to balance sheet:

| | |
|---|--------------------------|
| | December 31, 2016 |
| Shareholders’ equity | 19,607,472 |
| Leasehold improvements on operational leases | (162,121) |
| Goodwill and intangible assets | (138,159) |
| General provision (1.25% of the amount that subject to credit risk) | 1,983,272 |
| Subordinated debt | 2,723,659 |
| Deductions from shareholders’ equity | (205,414) |
| Capital | 23,808,709 |

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

II. CONSOLIDATED CREDIT RISK

Credit risk is defined as the counterparty’s possibility of failing to fulfil its obligations on the terms set by the agreement. Credit risk means risks and losses that may occur if the counterparty fails to comply with the agreement’s requirements and cannot perform its obligations partially or completely on the terms set. It covers the possible risks arising from futures and option agreements and other agreements alike and the credit risks arising from credit transactions that have been defined by the Banking Law.

In compliance with the articles 51 and 54 set forth in Banking Law and ancillary regulation, credit limits are set by The Parent Bank for the financial position and credit requirements of customers within the authorization limits assigned for branches, regional directorates, lending departments, assistant general manager responsible of lending, general manager, credit committee and board of directors and credits are given regarding these limits in order to limit credit risk in lending facilities.

Credit limits are determined separately for the individual customer, company, group of companies, risk groups on a product basis. In accordance with the related Lending Policy, several criteria are used in the course of determining these credit limits. Customers should have a long-standing and a successful business past, a high commercial morality, possess a good financial position and a high morality, the nature of their business should be appropriate to use the credit, possess their commercial operations in an affirmative and a balanced manner, have experience and specialization in their profession, be able to adopt themselves to the economic conditions, to be accredited on the market, have sufficient equity capital, possess the ability to create funds with their operations and finance their placement costs. Also the sector and the geographical position of customers, where they operate and other factors that may affect their operations are considered in the evaluation process of loans. Apart from ordinary intelligence operations, the financial position of the customer is mainly analyzed based on the balance sheets and the income statements provided by the loan customer, the documents received in accordance with the related regulation for their state of accounts and other related documents. Credit limits are subject to revision regarding the overall economic developments and the changes in the financial information and operations of the customers.

Collaterals for the credit limits are determined on a customer basis in order to ensure bank placements and their liquidity. The amount and type of the collateral are determined regarding the creditworthiness of the credit users. The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees.

The Group has risk control limits for derivative transaction (futures, options, etc.) positions, which effects credit risk and market risk.

For credit risk management purposes, Risk Management Department operates in

- The determination of credit risk policies in coordination with the Bank’s other units,
- The determination and monitoring of the distribution of concentration limits with respect to sector, geography and credit type,
- The contribution to the formation of rating and scoring systems,
- The submit to the Board of Directors and the senior management of not only credit risk management reports about credit portfolio’s distribution (borrower, sector, geographical region), credit quality (impaired loans, credit risk ratings) and credit concentration but also scenario analysis reports, stress tests and other analyses,
- The studies regarding the formation of advanced credit risk measurement approaches.

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

II. CONSOLIDATED CREDIT RISK (Continued)

Credit risk is defined and managed for all cash and non-cash agreements and transactions, which carry counterparty risk. Loans with renegotiated terms are followed in accordance with Bank’s credit risk management and follow-up principles. The financial position and trading operations of related customers are continuously analyzed and principal and interest payments, scheduled in renegotiation agreement, are strictly controlled by related departments. In the framework of Bank’s risk management concept, long term commitments are accepted more risky than short term commitments. Besides, risk limits defined for long term commitments and collaterals that should be taken against long term commitments are handled in a wider range compared to short term commitments.

Indemnified non-cash loans are regarded as the same risk weight with the loans that are pastdue and unpaid.

Banking operations and lending activities carried in foreign countries are not exposed to material credit risks, due to related countries’ financial conditions, customers and their operations.

The Group classifies its past due and impaired receivables as shown below in accordance with the “Regulation on Procedures and Principles for Determination of Qualifications of Loans and Other Receivables and Provisions to be Set Aside”.

- For which recovery of principal and interest or both delays from their terms or due dates are more than ninety days but not more than one hundred eighty days are classified as “Group Three- Loans and Other Receivables With Limited Recovery”,
- For which recovery of principal and interest or both delays from their terms or due dates are more than one hundred and eighty days but not more one year are classified as “Group Four- Loans and Other Receivables With Suspicious Recovery”,
- For which recovery of principal and interest or both delays from their terms or due dates are more than one year are classified as “Group Five - Loans and Other Receivables Having the Nature of Loss”,

Regardless of the guarantees and pledges received, the Group provides 20% provision for the Loans and Other Receivables classified in Group Three, by 30 September 2015, 50% provision for the Loans and Other Receivables classified in Group Four and 100% in Group Five. The provision amount is recognized in profit and loss statement of the period.

The Group’s largest 100 cash loan customers compose 26.83% of the total cash loan portfolio (December 31, 2015: 24.19%).

The Group’s largest 100 non-cash loan customers compose 55.78% of the total non-cash loan portfolio (December 31, 2015: 54.84%).

The Group’s largest 100 cash loan customers compose 18.04% of total assets of the Group and the Group’s largest 100 non-cash loan customers compose 15.30% of total off-balance sheet items (December 31, 2015: 15.96% and 15.33%).

The Group’s largest 200 cash loan customers compose 32.99% of the total cash loan portfolio (December 31, 2015: 29.74%).

The Group’s largest 200 non-cash loan customers compose 67.94% of the total non-cash loan portfolio (December 31, 2015: 66.75%).

The Group’s largest 200 cash loan customers compose 22.19% of total assets of the Group and the Bank’s largest 200 non-cash loan customers compose 18.63% of total off-balance sheet items (December 31, 2015: 19.62% and 18.66%).

The general provision for credit risk amounts to TL 2,167,443 (December 31, 2015: TL 1,957,603).

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

II. CONSOLIDATED CREDIT RISK (Continued)

| Risk Classifications: | Current Period Risk Amount^(*) | Average Risk Amount^{(*)(**)} |
|---|---|--|
| Claims on sovereigns and Central Banks | 58,031,079 | 61,716,668 |
| Claims on regional governments or local authorities | 4,754,757 | 4,084,721 |
| Claims on administrative bodies and other non- commercial undertakings | 1,321,061 | 1,499,245 |
| Claims on multilateral development banks | 3,705 | 436 |
| Claims on international organizations | - | - |
| Claims on banks and intermediary institutions | 17,387,089 | 13,984,837 |
| Claims on corporate | 75,239,181 | 68,943,308 |
| Claims included in the regulatory retail portfolios | 45,732,251 | 40,238,614 |
| Claims secured by residential property | 43,946,760 | 39,721,096 |
| Past due loans | 1,170,775 | 1,050,056 |
| Higher risk categories decided by the Agency | 402,675 | 2,140,556 |
| Marketable securities secured by mortgages | - | - |
| Securitization exposures | - | - |
| Short-term claims and short-term corporate claims on banks and intermediary institutions | - | - |
| Undertakings for collective investments in mutual funds | - | 5 |
| Stock Investments | 650,567 | 576,735 |
| Other claims | 7,538,274 | 6,986,070 |

^(*) Average risk amount is calculated based on the arithmetic average of the monthly risk amounts after conversion for January-December 2016 period.

^(**) Before reducing the credit risk, the rate of the post credit conversion is given.

| Risk Classifications: | Prior Period Risk Amount^(*) | Average Risk Amount^{(*)(**)} |
|---|---|--|
| Claims on sovereigns and Central Banks | 57,024,024 | 57,630,354 |
| Claims on regional governments or local authorities | 3,701,832 | 3,256,170 |
| Claims on administrative bodies and other non- commercial undertakings | 1,110,567 | 1,084,244 |
| Claims on multilateral development banks | 219 | 36 |
| Claims on international organizations | - | - |
| Claims on banks and intermediary institutions | 10,498,291 | 12,197,625 |
| Claims on corporate | 62,902,098 | 60,633,093 |
| Claims included in the regulatory retail portfolios | 28,722,154 | 28,205,081 |
| Claims secured by residential property | 39,642,054 | 36,961,615 |
| Past due loans | 908,934 | 578,050 |
| Higher risk categories decided by the Agency | 11,406,846 | 11,243,906 |
| Marketable securities secured by mortgages | - | - |
| Securitization exposures | - | - |
| Short-term claims and short-term corporate claims on banks and intermediary institutions | - | - |
| Undertakings for collective investments in mutual funds | - | 548 |
| Other claims | 7,429,686 | 5,998,450 |

^(*) Average risk amount is calculated based on the arithmetic average of the monthly risk amounts after conversion for January-December 2015 period.

^(**) Before reducing the credit risk, the rate of the post credit conversion is given.

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

II. CONSOLIDATED CREDIT RISK (Continued)

Risk profile according to the geographical concentration (*)**

| Current Period | Claims on sovereigns and Central Banks | Claims on regional governments or local authorities | Claims on administrative bodies and other non-commercial undertakings | Claims on multilateral development banks | Claims on international organizations | Claims on banks and intermediary institutions | Claims on corporates | Claims included in the regulatory retail portfolios | Claims secured by residential property | Past due loans | Higher risk categories decided by the Board | Secured by mortgages | Securitization positions | Short-term claims and short term corporate claims on banks and intermediary institutions | Undertakings for collective investments in mutual funds | Stock Investments | Other receivables | Total |
|--|--|---|---|--|---------------------------------------|---|----------------------|---|--|------------------|---|----------------------|--------------------------|--|---|-------------------|-------------------|--------------------|
| Domestic | 54,800,963 | 4,754,757 | 1,310,984 | 3,705 | - | 7,196,080 | 71,454,598 | 45,723,566 | 43,898,829 | 1,164,809 | 197,087 | - | - | - | - | 27,637 | 6,648,036 | 237,181,051 |
| EU countries | 448,596 | - | 10,077 | - | - | 8,551,401 | 1,944,141 | 6,990 | - | 5,966 | - | - | - | - | - | - | 17,972 | 10,985,143 |
| OECD countries (*) | - | - | - | - | - | 13,085 | - | - | - | - | - | - | - | - | - | - | - | 13,085 |
| Off-shore banking regions | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| USA, Canada | 2,781,520 | - | - | - | - | 1,536,287 | 1,748,377 | 1,695 | 47,931 | - | - | - | - | - | - | - | - | 6,115,810 |
| Other countries | - | - | - | - | - | 90,236 | 92,065 | - | - | - | 205,588 | - | - | - | - | - | - | 387,889 |
| Investment and associates, subsidiaries and joint ventures | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 622,930 | - | 622,930 |
| Undistributed Assets/ Liabilities (**) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 872,266 | 872,266 |
| Total | 58,031,079 | 4,754,757 | 1,321,061 | 3,705 | - | 17,387,089 | 75,239,181 | 45,732,251 | 43,946,760 | 1,170,775 | 402,675 | - | - | - | - | 650,567 | 7,538,274 | 256,178,174 |

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

(**) The assets and liabilities that can not be distributed according to a consistent base.

(***) Risk amounts are given before credit risk mitigation, after multiplied by credit risk conversion ratio.

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

II. CONSOLIDATED CREDIT RISK (Continued)

Risk profile according to the geographical concentration (*)**

| Prior Period | Claims on sovereigns and Central Banks | Claims on regional governments or local authorities | Claims on administrative bodies and other non- commercial undertakings | Claims on multilateral development banks | Claims on international organizations | Claims on banks and intermediary institutions | Claims on corporates | Claims included in the regulatory retail portfolios | Claims secured by residential property | Past due loans | Higher risk categories decided by the Board | Secured by mortgages | Securitization positions | Short-term claims and short term corporate claims on banks and intermediary institutions | Undertakings for collective investments in mutual funds | Other receivables | Total |
|---|---|---|---|---|---|--|-------------------------|--|---|-------------------|--|----------------------------|-----------------------------|--|--|----------------------|--------------------|
| Domestic | 52,902,940 | 3,694,135 | 1,110,567 | 2 | - | 3,378,158 | 61,135,851 | 28,675,914 | 39,615,204 | 903,784 | 11,289,128 | - | - | - | - | 6,278,985 | 208,984,668 |
| EU countries | 416,042 | - | - | 217 | - | 6,034,103 | 130,649 | 9,225 | - | 5,150 | - | - | - | - | - | 24,052 | 6,619,438 |
| OECD countries (*) | - | - | - | - | - | 1,133 | 5 | - | - | - | - | - | - | - | - | - | 1,138 |
| Off-shore banking regions | - | - | - | - | - | - | 916 | - | - | - | - | - | - | - | - | - | 916 |
| USA, Canada | 3,627,192 | 7,697 | - | - | - | 951,702 | 1,501,066 | 37,015 | 26,850 | - | - | - | - | - | - | - | 6,151,522 |
| Other countries | 77,850 | - | - | - | - | 133,195 | 133,611 | - | - | - | 117,718 | - | - | - | - | - | 462,374 |
| Investment and associates, subsidiaries and joint ventures | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 496,774 | 496,774 |
| Undistributed Assets/ Liabilities (**) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 629,875 | 629,875 |
| Total | 57,024,024 | 3,701,832 | 1,110,567 | 219 | - | 10,498,291 | 62,902,098 | 28,722,154 | 39,642,054 | 908,934 | 11,406,846 | - | - | - | - | 7,429,686 | 223,346,705 |

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

(**) The assets and liabilities that can not be distributed according to a consistent base.

(***) Risk amounts are given before credit risk mitigation, after multiplied by credit risk conversion ratio.

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

II. CONSOLIDATED CREDIT RISK (Continued)

Risk profile according to sectors and counterparties (*)

| Current Period | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | TL | FC | Total |
|---|-------------------|------------------|------------------|--------------|---|-------------------|-------------------|-------------------|-------------------|------------------|----------------|----|----|----|----|----------------|------------------|--------------------|--------------------|--------------------|
| Agricultural | 2,306 | 54 | 207,563 | - | - | - | 1,265,696 | 628,586 | 667,275 | - | - | - | - | - | - | - | - | 1,925,166 | 846,314 | 2,771,480 |
| <i>Farming and raising livestock</i> | <i>1,833</i> | <i>54</i> | <i>207,563</i> | - | - | - | <i>961,861</i> | <i>570,802</i> | <i>628,685</i> | - | - | - | - | - | - | - | - | <i>1,792,861</i> | <i>577,937</i> | <i>2,370,798</i> |
| <i>Forestry</i> | <i>471</i> | - | - | - | - | - | <i>258,674</i> | <i>29,458</i> | <i>19,454</i> | - | - | - | - | - | - | - | - | <i>80,584</i> | <i>227,473</i> | <i>308,057</i> |
| <i>Fishing</i> | <i>2</i> | - | - | - | - | - | <i>45,161</i> | <i>28,326</i> | <i>19,136</i> | - | - | - | - | - | - | - | - | <i>51,721</i> | <i>40,904</i> | <i>92,625</i> |
| Manufacturing | 5,917 | 570 | 171,838 | - | - | - | 32,036,896 | 4,011,586 | 5,229,920 | - | - | - | - | - | - | - | - | 14,872,642 | 26,584,085 | 41,456,727 |
| <i>Mining</i> | <i>707</i> | - | <i>6,712</i> | - | - | - | <i>1,406,125</i> | <i>156,918</i> | <i>211,494</i> | - | - | - | - | - | - | - | - | <i>558,930</i> | <i>1,223,026</i> | <i>1,781,956</i> |
| <i>Production</i> | <i>5,210</i> | <i>23</i> | <i>49,004</i> | - | - | - | <i>21,506,151</i> | <i>3,721,968</i> | <i>4,890,928</i> | - | - | - | - | - | - | - | - | <i>12,288,286</i> | <i>17,884,998</i> | <i>30,173,284</i> |
| <i>Electric, Gas, Water</i> | - | <i>547</i> | <i>116,122</i> | - | - | - | <i>9,124,620</i> | <i>132,700</i> | <i>127,498</i> | - | - | - | - | - | - | - | - | <i>2,025,426</i> | <i>7,476,061</i> | <i>9,501,487</i> |
| Construction | 434 | 105 | 73,780 | - | - | - | 10,681,069 | 2,626,315 | 5,891,523 | - | - | - | - | - | - | - | - | 11,263,498 | 8,009,728 | 19,273,226 |
| Services | 34,903,667 | 4,624,121 | 700,690 | 3,700 | - | 17,386,596 | 24,649,122 | 12,764,924 | 15,372,177 | - | 205,588 | - | - | - | - | 27,610 | - | 66,896,612 | 43,741,583 | 110,638,195 |
| <i>Wholesale and retail trade</i> | <i>184,370</i> | <i>583</i> | <i>43</i> | - | - | - | <i>8,817,625</i> | <i>7,441,861</i> | <i>8,473,190</i> | - | - | - | - | - | - | - | - | <i>19,003,181</i> | <i>5,914,491</i> | <i>24,917,672</i> |
| <i>Hotel, Food and Beverage Services</i> | <i>2,282</i> | <i>17</i> | <i>64</i> | - | - | - | <i>2,450,566</i> | <i>498,907</i> | <i>3,130,880</i> | - | - | - | - | - | - | - | - | <i>1,455,534</i> | <i>4,627,182</i> | <i>6,082,716</i> |
| <i>Transportation and Telecommunication</i> | <i>283</i> | <i>7,554</i> | <i>365,546</i> | - | - | - | <i>8,323,167</i> | <i>4,174,378</i> | <i>1,476,312</i> | - | - | - | - | - | - | - | - | <i>6,498,613</i> | <i>7,848,627</i> | <i>14,347,240</i> |
| <i>Financial Institutions</i> | <i>34,488,078</i> | <i>7</i> | <i>1,010</i> | <i>3,700</i> | - | <i>17,386,596</i> | <i>3,611,257</i> | <i>50,347</i> | <i>1,086,383</i> | - | <i>205,588</i> | - | - | - | - | <i>27,610</i> | - | <i>33,038,141</i> | <i>23,822,435</i> | <i>56,860,576</i> |
| <i>Real Estate and renting services</i> | - | - | <i>4</i> | - | - | - | <i>374,326</i> | <i>133,167</i> | <i>489,797</i> | - | - | - | - | - | - | - | - | <i>432,085</i> | <i>565,209</i> | <i>997,294</i> |
| <i>Self-employment services</i> | <i>480</i> | <i>1,254</i> | <i>16,839</i> | - | - | - | <i>20,133</i> | <i>68</i> | - | - | - | - | - | - | - | - | - | <i>38,774</i> | - | <i>38,774</i> |
| <i>Education services</i> | <i>51,276</i> | <i>32</i> | <i>1,026</i> | - | - | - | <i>445,396</i> | <i>100,796</i> | <i>292,437</i> | - | - | - | - | - | - | - | - | <i>853,897</i> | <i>37,066</i> | <i>890,963</i> |
| <i>Health and social services</i> | <i>176,898</i> | <i>4,614,674</i> | <i>316,158</i> | - | - | - | <i>606,652</i> | <i>365,400</i> | <i>423,178</i> | - | - | - | - | - | - | - | - | <i>5,576,387</i> | <i>926,573</i> | <i>6,502,960</i> |
| Other | 23,118,755 | 129,907 | 167,190 | 5 | - | 493 | 6,606,398 | 25,700,840 | 16,785,865 | 1,170,775 | 197,087 | - | - | - | - | 622,957 | 7,538,274 | 56,420,395 | 25,618,151 | 82,038,546 |
| Total | 58,031,079 | 4,754,757 | 1,321,061 | 3,705 | - | 17,387,089 | 75,239,181 | 45,732,251 | 43,946,760 | 1,170,775 | 402,675 | - | - | - | - | 650,567 | 7,538,274 | 151,378,313 | 104,799,861 | 256,178,174 |

(*) Risk amounts are given before credit risk mitigation, after multiplied by credit risk conversion ratio.

- 1- Claims on sovereigns and Central Banks
- 2- Claims on regional governments or local authorities
- 3- Claims on administrative bodies and other non-commercial undertakings
- 4- Claims on multilateral development banks
- 5- Claims on international organizations
- 6- Claims on banks and intermediary institutions
- 7- Claims on corporates
- 8- Claims included in the regulatory retail portfolios
- 9- Claims secured by residential property
- 10- Past due loans
- 11- Higher risk categories decided by the Board
- 12- Secured by mortgages
- 13- Securitization positions
- 14- Short-term claims and short term corporate claims on banks and intermediary institutions
- 15- Undertakings for collective investments in mutual funds
- 16- Stock investments
- 17- Other receivables

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

II. CONSOLIDATED CREDIT RISK (Continued)

Risk profile according to sectors and counterparties (*)

| Prior Period | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | TL | FC | Total |
|---|-------------------|------------------|------------------|------------|---|-------------------|-------------------|-------------------|-------------------|----------------|-------------------|----|----|----|----|------------------|--------------------|-------------------|--------------------|
| Agricultural | 2,414 | 105 | 26,352 | - | - | - | 1,161,728 | 439,998 | 705,331 | - | 59,684 | - | - | - | - | - | 1,785,630 | 609,982 | 2,395,612 |
| <i>Farming and raising livestock</i> | 2,018 | 105 | 26,352 | - | - | - | 842,919 | 395,678 | 647,326 | - | 59,636 | - | - | - | - | - | 1,649,514 | 324,520 | 1,974,034 |
| <i>Forestry</i> | 393 | - | - | - | - | - | 281,910 | 22,702 | 32,854 | - | 39 | - | - | - | - | - | 81,705 | 256,193 | 337,898 |
| <i>Fishing</i> | 3 | - | - | - | - | - | 36,899 | 21,618 | 25,151 | - | 9 | - | - | - | - | - | 54,411 | 29,269 | 83,680 |
| Manufacturing | 1,045 | 740 | 193,618 | - | - | - | 26,412,474 | 2,623,725 | 5,560,093 | - | 6,131 | - | - | - | - | - | 13,123,768 | 21,674,058 | 34,797,826 |
| <i>Mining</i> | - | - | 3,674 | - | - | - | 1,163,960 | 91,198 | 196,693 | - | 216 | - | - | - | - | - | 481,280 | 974,461 | 1,455,741 |
| <i>Production</i> | 980 | 30 | 97,208 | - | - | - | 17,893,764 | 2,487,186 | 5,194,457 | - | 5,795 | - | - | - | - | - | 11,060,452 | 14,618,968 | 25,679,420 |
| <i>Electric, Gas, Water</i> | 65 | 710 | 92,736 | - | - | - | 7,354,750 | 45,341 | 168,943 | - | 120 | - | - | - | - | - | 1,582,036 | 6,080,629 | 7,662,665 |
| Construction | 42 | 225 | 353 | - | - | - | 8,574,498 | 1,509,265 | 5,041,111 | - | 3,379 | - | - | - | - | - | 8,895,159 | 6,233,714 | 15,128,873 |
| Services | 36,818,658 | 3,634,972 | 634,288 | 217 | - | 10,498,291 | 20,067,827 | 9,966,610 | 13,806,938 | - | 147,886 | - | - | - | - | 79,253 | 60,468,962 | 35,185,978 | 95,654,940 |
| <i>Wholesale and retail trade</i> | 4,975 | 3,765 | 98,714 | - | - | - | 7,372,177 | 5,617,739 | 8,146,349 | - | 18,612 | - | - | - | - | - | 16,275,415 | 4,986,916 | 21,262,331 |
| <i>Hotel, Food and Beverage Services</i> | 14 | 1,027 | 622 | - | - | - | 1,838,986 | 295,384 | 2,560,578 | - | 2,136 | - | - | - | - | - | 1,281,778 | 3,416,969 | 4,698,747 |
| <i>Transportation and Telecommunication</i> | 54 | 8,502 | 34,503 | - | - | - | 6,057,655 | 3,646,731 | 1,758,499 | - | 6,977 | - | - | - | - | - | 6,123,706 | 5,389,215 | 11,512,921 |
| <i>Financial Institutions</i> | 36,645,125 | 11 | 100,192 | 217 | - | 10,498,291 | 3,389,360 | 35,139 | 465,128 | - | 117,938 | - | - | - | - | 79,253 | 31,281,611 | 20,049,043 | 51,330,654 |
| <i>Real Estate and renting services</i> | - | - | 4 | - | - | - | 452,479 | 86,614 | 183,413 | - | 449 | - | - | - | - | - | 431,092 | 291,867 | 722,959 |
| <i>Self-employment services</i> | 159 | 724 | 2,444 | - | - | - | 7,679 | - | - | - | - | - | - | - | - | - | 11,006 | - | 11,006 |
| <i>Education services</i> | 4,995 | 48 | 8,889 | - | - | - | 216,735 | 67,764 | 272,888 | - | 258 | - | - | - | - | - | 519,242 | 52,335 | 571,577 |
| <i>Health and social services</i> | 163,336 | 3,620,895 | 388,920 | - | - | - | 732,756 | 217,239 | 420,083 | - | 1,516 | - | - | - | - | - | 4,545,112 | 999,633 | 5,544,745 |
| Other | 20,201,865 | 65,790 | 255,956 | 2 | - | - | 6,685,571 | 14,182,556 | 14,528,581 | 908,934 | 11,189,766 | - | - | - | - | 7,350,433 | 51,393,140 | 23,976,314 | 75,369,454 |
| Total | 57,024,024 | 3,701,832 | 1,110,567 | 219 | - | 10,498,291 | 62,902,098 | 28,722,154 | 39,642,054 | 908,934 | 11,406,846 | - | - | - | - | 7,429,686 | 135,666,659 | 87,680,046 | 223,346,705 |

(*) Risk amounts are given before credit risk mitigation, after multiplied by credit risk conversion ratio.

- 1- Claims on sovereigns and Central Banks
- 2- Claims on regional governments or local authorities
- 3- Claims on administrative bodies and other non-commercial undertakings
- 4- Claims on multilateral development banks
- 5- Claims on international organizations
- 6- Claims on banks and intermediary institutions
- 7- Claims on corporates
- 8- Claims included in the regulatory retail portfolios
- 9- Claims secured by residential property
- 10- Past due loans
- 11- Higher risk categories decided by the Board
- 12- Secured by mortgages
- 13- Securitization positions
- 14- Short-term claims and short term corporate claims on banks and intermediary institutions
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- 16- Other receivables
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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

II. CONSOLIDATED CREDIT RISK (Continued)

Distribution of maturity risk factors according to their outstanding maturities (*)

| Risk Classifications-Current Period | According to their outstanding maturities | | | | 1 year and over |
|--|--|------------------|-------------------|-------------------|------------------------|
| | 1 month | 1-3 month | 3-6 month | 6-12 month | |
| Claims on sovereigns and Central Banks | 5,378,866 | 225,795 | 409,148 | 1,583,377 | 50,433,893 |
| Claims on regional governments or local authorities | 1,782 | 21,645 | 28,086 | 388,627 | 4,314,617 |
| Claims on administrative bodies and other non-commercial undertakings | 42,633 | 278,512 | 9,991 | 64,845 | 925,080 |
| Claims on multilateral development banks | - | - | - | - | 3,705 |
| Claims on international organizations | - | - | - | - | - |
| Claims on banks and intermediary institutions | 6,646,906 | 2,506,413 | 270,739 | 481,645 | 7,481,386 |
| Claims on corporate | 2,748,096 | 3,463,594 | 6,864,871 | 11,067,646 | 51,094,974 |
| Claims included in the regulatory retail portfolios | 717,876 | 1,483,285 | 2,597,138 | 6,293,548 | 34,640,404 |
| Claims secured by residential property | 672,308 | 1,262,278 | 2,192,723 | 5,051,028 | 34,768,423 |
| Past due loans | - | - | - | - | 1,170,775 |
| Higher risk categories decided by the Agency | - | 300 | - | - | 402,375 |
| Marketable securities secured by mortgages | - | - | - | - | - |
| Securitization exposures | - | - | - | - | - |
| Short-term claims and short-term corporate claims on banks and intermediary institutions | - | - | - | - | - |
| Undertakings for collective investments in mutual funds | - | - | - | - | - |
| Stock investments | 3 | - | - | - | 650,564 |
| Other claims | 17,974 | - | - | - | 7,520,300 |
| Total | 16,226,444 | 9,241,822 | 12,372,696 | 24,930,716 | 193,406,496 |

(*) Risk amounts are given before credit risk mitigation, after multiplied by credit risk conversion ratio.

Distribution of maturity risk factors according to their outstanding maturities (*)

| Risk Classifications-Prior Period | According to their outstanding maturities | | | | 1 year and over |
|--|--|------------------|-------------------|-------------------|------------------------|
| | 1 month | 1-3 month | 3-6 month | 6-12 month | |
| Claims on sovereigns and Central Banks | 7,936,470 | 151,346 | 399,825 | 1,811,781 | 46,724,602 |
| Claims on regional governments or local authorities | 9,104 | 15,419 | 85,821 | 146,074 | 3,445,414 |
| Claims on administrative bodies and other non-commercial undertakings | 32,724 | 38,442 | 89,225 | 37,776 | 912,400 |
| Claims on multilateral development banks | - | - | - | 217 | 2 |
| Claims on international organizations | - | - | - | - | - |
| Claims on banks and intermediary institutions | 5,565,126 | 973,107 | 719,948 | 71,678 | 3,168,432 |
| Claims on corporate | 2,766,479 | 4,100,994 | 6,104,668 | 10,372,218 | 39,557,739 |
| Claims included in the regulatory retail portfolios | 475,513 | 1,069,575 | 1,896,600 | 4,252,175 | 21,028,291 |
| Claims secured by residential property | 729,855 | 1,249,282 | 2,168,805 | 4,718,668 | 30,775,444 |
| Past due loans | - | - | - | - | 908,934 |
| Higher risk categories decided by the Agency | - | - | - | 14,009 | 11,392,837 |
| Marketable securities secured by mortgages | - | - | - | - | - |
| Securitization exposures | - | - | - | - | - |
| Short-term claims and short-term corporate claims on banks and intermediary institutions | - | - | - | - | - |
| Undertakings for collective investments in mutual funds | - | - | - | - | - |
| Other claims | 24,052 | - | - | - | 7,405,634 |
| Total | 17,539,323 | 7,598,165 | 11,464,892 | 21,424,596 | 165,319,729 |

(*) Risk amounts are given before credit risk mitigation, after multiplied by credit risk conversion ratio.

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

II. CONSOLIDATED CREDIT RISK (Continued)

Risk balances according to risk weights

| Risk Weights Current Period | 0% | 10% | 20% | 35% | 50% | 75% | 100% | 150% | 200% | 250% | 1250% | Deductions from the shareholders' equity |
|--------------------------------|------------|-----|-----------|------------|------------|------------|------------|---------|------|---------|-------|---|
| Pre-Amount of Credit | | | | | | | | | | | | |
| Risk Mitigation | 32,700,554 | - | 9,993,765 | 21,214,639 | 56,561,380 | 45,732,250 | 89,572,911 | 205,588 | - | 197,087 | - | 505,694 |
| Amount after Credit | | | | | | | | | | | | |
| Risk Mitigation | 39,936,159 | - | 4,432,856 | 21,214,639 | 58,565,139 | 45,441,195 | 86,185,511 | 205,588 | - | 197,087 | - | 505,694 |

| Risk Weights Prior Period | 0% | 10% | 20% | 35% | 50% | 75% | 100% | 150% | 200% | 250% | 1250% | Deductions from the shareholders' equity |
|------------------------------|------------|-----|------------|-----|------------|------------|------------|-----------|-----------|---------|-------|---|
| Pre-Amount of Credit | | | | | | | | | | | | |
| Risk Mitigation | 52,398,384 | - | 10,754,016 | - | 45,380,875 | 27,765,430 | 75,641,154 | 3,666,757 | 7,571,232 | 168,857 | - | 447,024 |
| Amount after Credit | | | | | | | | | | | | |
| Risk Mitigation | 56,021,211 | - | 8,531,672 | - | 46,489,761 | 27,570,823 | 73,342,392 | 3,660,714 | 7,561,275 | 168,857 | - | 447,024 |

Credit rating of the credit rating agency, related to the Bank's Capital Adequacy Assessment of the Measurement is listed in Appendix 1 which corresponds to the credit quality step that is given in the table below.

| Ratings Matched | Credit Quality Rank | Fitch Ratings |
|----------------------------------|---------------------|-------------------|
| Long Term Credit Ratings | 1 | AAA between AA- |
| | 2 | A+ between A- |
| | 3 | BBB+ between BBB- |
| | 4 | BB+ between BB- |
| | 5 | B+ between B- |
| | 6 | CCC+ and below |
| Short Term Credit Ratings | 1 | F1+ between F1 |
| | 2 | F2 |
| | 3 | F3 |
| | 4 | F3 and below |
| | 5 | - |
| | 6 | - |

Information According to Sectors and Counterparties

| Current Period | Loans | | | |
|---|------------------|------------------|----------------------------|------------------|
| | Impaired (*) | Past Due (**) | Value Adjustments (***) | Provisions |
| Agricultural | 127,068 | 56,562 | 1,580 | 107,103 |
| <i>Farming and raising livestock</i> | 116,360 | 51,912 | 1,424 | 98,027 |
| <i>Forestry</i> | 7,897 | 3,064 | 91 | 7,046 |
| <i>Fishing</i> | 2,811 | 1,586 | 65 | 2,030 |
| Manufacturing | 1,251,018 | 572,232 | 15,267 | 1,067,661 |
| <i>Mining</i> | 61,077 | 69,885 | 1,436 | 49,541 |
| <i>Production</i> | 1,178,844 | 490,172 | 13,644 | 1,008,911 |
| <i>Electric, Gas, Water</i> | 11,097 | 12,175 | 187 | 9,209 |
| Construction | 618,199 | 235,419 | 8,541 | 534,429 |
| Services | 1,854,467 | 2,237,522 | 49,129 | 1,559,932 |
| <i>Wholesale and retail trade</i> | 1,237,429 | 607,124 | 18,008 | 1,020,355 |
| <i>Hotel, Food and Beverage Services</i> | 137,051 | 97,034 | 2,808 | 117,059 |
| <i>Transportation and telecommunication</i> | 230,134 | 1,228,172 | 20,804 | 196,319 |
| <i>Financial Institutions</i> | 13,331 | 1,950 | 58 | 12,487 |
| <i>Real estate and renting services</i> | 45,269 | 32,707 | 1,104 | 42,390 |
| <i>Self-employment services</i> | 113,724 | 183,281 | 3,788 | 104,510 |
| <i>Education services</i> | 20,923 | 20,255 | 721 | 15,099 |
| <i>Health and social services</i> | 56,606 | 66,999 | 1,838 | 51,713 |
| Other | 2,852,631 | 3,215,435 | 232,451 | 2,263,483 |
| Total | 6,703,383 | 6,317,170 | 306,968 | 5,532,608 |

(*) Impaired loans are composed of group three, four and five loans.

(**) Past due loans and other receivables consist of loans and other receivables that are past due up to ninety days.

(***) Value adjustments represents general provisions of non-performing loans.

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

II. CONSOLIDATED CREDIT RISK (Continued)

| Prior Period | Loans | | | |
|---|------------------|------------------|-------------------------|------------------|
| | Impaired (*) | Past Due (**) | Value Adjustments (***) | Provisions |
| Agricultural | 97,854 | 63,490 | 1,082 | 84,031 |
| <i>Farming and raising livestock</i> | 87,308 | 57,860 | 995 | 74,536 |
| <i>Forestry</i> | 8,408 | 3,188 | 75 | 7,669 |
| <i>Fishing</i> | 2,138 | 2,442 | 12 | 1,826 |
| Manufacturing | 1,092,095 | 263,507 | 6,344 | 899,226 |
| <i>Mining</i> | 139,744 | 7,731 | 63 | 73,788 |
| <i>Production</i> | 946,606 | 250,811 | 6,197 | 820,424 |
| <i>Electric, Gas, Water</i> | 5,745 | 4,965 | 84 | 5,014 |
| Construction | 538,816 | 214,734 | 4,877 | 463,489 |
| Services | 1,592,010 | 1,344,869 | 26,214 | 1,362,549 |
| <i>Wholesale and retail trade</i> | 969,437 | 596,895 | 12,883 | 818,176 |
| <i>Hotel, Food and Beverage Services</i> | 101,335 | 82,970 | 1,283 | 86,187 |
| <i>Transportation and telecommunication</i> | 311,208 | 448,813 | 8,132 | 271,145 |
| <i>Financial Institutions</i> | 10,448 | 4,873 | 89 | 10,281 |
| <i>Real estate and renting services</i> | 46,858 | 21,350 | 311 | 42,251 |
| <i>Self-employment services</i> | 119,204 | 145,031 | 2,792 | 105,315 |
| <i>Education services</i> | 8,723 | 17,877 | 333 | 7,744 |
| <i>Health and social services</i> | 24,797 | 27,060 | 391 | 21,450 |
| Other | 1,817,338 | 2,797,820 | 74,248 | 1,419,884 |
| Total | 5,138,113 | 4,684,420 | 112,765 | 4,229,179 |

(*) Impaired loans are composed of group three, four and five loans.

(**) Past due loans and other receivables consist of loans and other receivables that are past due up to ninety days.

(***) Value adjustments represents general provisions of non-performing loans.

| Current Period | The opening Balance | Provisions amounts set aside during the period | The cancelation of the provisions | Other Adjustments(*) | Closing Balance |
|---------------------|---------------------|--|-----------------------------------|----------------------|-----------------|
| Specific provisions | 4,229,179 | 1,963,013 | (668,315) | 8,731 | 5,532,608 |
| General provisions | 1,957,603 | 213,855 | - | (4,015) | 2,167,443 |

(*) Includes effect of currency translations differences and other provisions' classifications.

| Prior Period | The opening Balance | Provisions amounts set aside during the period | The cancelation of the provisions | Other Adjustments(*) | Closing Balance |
|---------------------|---------------------|--|-----------------------------------|----------------------|-----------------|
| Specific provisions | 3,861,308 | 1,085,809 | (723,382) | 5,444 | 4,229,179 |
| General provisions | 1,603,242 | 354,951 | - | (590) | 1,957,603 |

(*) Includes effect of currency translations differences and other provisions' classifications

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

II. CONSOLIDATED CREDIT RISK (Continued)

Fair value of collateral held against impaired loans

| | December 31, 2016 | December 31, 2015 |
|---------------------|-------------------|-------------------|
| Cash collateral (*) | - | - |
| Mortgage | 2,551,197 | 1,796,132 |
| Promissory note (*) | - | - |
| Others (**) | 4,152,186 | 3,341,981 |
| Total | 6,703,383 | 5,138,113 |

(*) As a policy, it is aimed to utilize from cash collateral or liquidate promissory note for an impaired loan collateralized by cash collateral or promissory note to cover the credit risk. Hence, cash collateral and promissory note are shown as zero in the table above.

(**) Sureties obtained for impaired loans are presented in this raw to the extent that the amount does not exceed the amount of impaired loans.

The detail of collateral held against performing cash and non-cash loans by the Group

| Cash loans | December 31, 2016 | December 31, 2015 |
|--|--------------------|--------------------|
| Secured Loans: | 114,150,134 | 94,650,837 |
| Secured by mortgages | 43,031,980 | 38,466,325 |
| Secured by cash collateral | 976,854 | 852,010 |
| Guarantees issued by financial institutions | 581,869 | 770,042 |
| Secured by government institutions or government securities | 2,420,844 | 1,459,632 |
| Other collateral (pledge on assets, corporate and personal guarantees, promissory notes) | 67,138,587 | 53,102,828 |
| Unsecured Loans | 37,191,483 | 32,443,460 |
| Total performing loans | 151,341,617 | 127,094,297 |

| Non-cash loans | December 31, 2016 | December 31, 2015 |
|--|-------------------|-------------------|
| Secured Loans: | 16,831,486 | 14,300,378 |
| Secured by mortgages | 2,105,139 | 2,983,905 |
| Secured by cash collateral | 126,971 | 243,874 |
| Guarantees issued by financial institutions | 240,422 | 229,287 |
| Other collateral (pledge on assets, corporate and personal guarantees, promissory notes) | 14,358,954 | 10,843,312 |
| Unsecured Loans | 23,828,865 | 18,819,523 |
| Total non-cash loans | 40,660,351 | 33,119,901 |

Exposures subject to countercyclical capital buffer

| Country of ultimate risk | RAV Calculated for Private sector credit exposures in banking book | RAV Calculated for Risk Weighted Equivalent trading book | Total |
|---------------------------------|---|---|--------------------|
| Turkey | 137,360,356 | 221,843 | 137,582,199 |
| ABD | 2,136,618 | 1 | 2,136,619 |
| England | 1,588,910 | - | 1,588,910 |
| France | 922,499 | 94,879 | 1,017,377 |
| Iraq | 632,187 | 4,993 | 637,180 |
| Switzerland | 400,361 | - | 400,361 |
| Holland | 245,176 | 153 | 245,330 |
| Germany | 173,084 | 273 | 173,357 |
| Austria | 94,428 | - | 94,428 |
| Albania | 15,201 | - | 15,201 |
| Other | 3,182,771 | - | 3,182,771 |
| Total | 146,751,591 | 322,142 | 147,073,733 |

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III. CONSOLIDATED FOREIGN CURRENCY EXCHANGE RISK

Foreign exchange risk that the Parent Bank is exposed to, estimation of effects of exposures, and the limits set by the Board of Directors of the Parent Bank for the positions monitored on a daily basis

The Standard Method which is also used in the legal reporting is used in measuring the currency risk of The Parent Bank.

The Parent Bank’s and all consolidated financial subsidiaries’ foreign currency assets and liabilities and the forward foreign-currency transactions are taken into consideration in calculating the capital obligation for the consolidated currency risk. The net long and short positions are calculated in Turkish Lira equivalent of the each currency. The position with the biggest absolute value is determined as the base amount for the capital obligation. The capital obligation is calculated at that amount.

The magnitude of hedging foreign currency debt instruments and net investment in foreign operations by using derivatives

As at December 31, 2016 and December 31, 2015, the Group does not have derivative financial instruments held for risk management purpose.

Foreign exchange risk management policy

Risk policy of the Parent Bank is based on the transactions within the limits and keeping the currency position well-balanced.

In the light of the national legislations and international applications, the Parent Bank has established a foreign currency risk management policy that enables the Group to take position between lower and upper limits determined in respect of the current equity profile. Speculative position is not held by the Parent Bank.

The effective exchange rates at the date of balance sheet and for the last five working days of the period announced by the Parent Bank in TL are as follows:

| | US Dollar | Euro |
|--|------------------|---------------|
| The Bank’s foreign currency purchase rate at the balance sheet date | 3.5150 | 3.7048 |
| <u>Foreign currency purchase rates for the days before balance sheet date:</u> | | |
| Day 1 | 3.4800 | 3.6387 |
| Day 2 | 3.4600 | 3.6233 |
| Day 3 | 3.4500 | 3.6011 |
| Day 4 | 3.4600 | 3.6199 |
| Day 5 | 3.4500 | 3.6039 |
| | US Dollar | Euro |
| Last 30-days arithmetical average rate | 3.4158 | 3.6065 |

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III. CONSOLIDATED FOREIGN CURRENCY EXCHANGE RISK (Continued)

Information on currency risk

| Current Period | Euro | US Dollar | Other FC | Total |
|--|--------------------|-------------------|--------------------|-------------------|
| Assets: | | | | |
| Cash and balances with the Central Bank of Republic of Turkey | 4,700,206 | 10,785,020 | 4,474,925 | 19,960,151 |
| Banks | 589,629 | 3,336,694 | 153,380 | 4,079,703 |
| Financial assets at fair value through profit or loss ⁽¹⁾ | 5,549 | 117,676 | - | 123,225 |
| Interbank money market placements | - | - | - | - |
| Available-for-sale financial assets | 1,459,496 | 4,570,655 | - | 6,030,151 |
| Loans and receivables ⁽²⁾ | 21,285,184 | 32,524,986 | 92,309 | 53,902,479 |
| Associates, subsidiaries and joint-ventures | 3 | - | - | 3 |
| Held-to-maturity investments | - | 140,621 | - | 140,621 |
| Derivative financial assets held for risk management purpose | - | - | - | - |
| Tangible assets | 1,432 | 7,926 | - | 9,358 |
| Intangible assets | 23 | - | - | 23 |
| Other assets ⁽³⁾⁽⁴⁾ | 1,601,653 | 2,341,842 | 427 | 3,943,922 |
| Total assets | 29,643,175 | 53,825,420 | 4,721,041 | 88,189,636 |
| Liabilities: | | | | |
| Bank deposits | 187,729 | 3,234,981 | 151,579 | 3,574,289 |
| Foreign currency deposits | 16,022,572 | 19,605,975 | 1,241,053 | 36,869,600 |
| Interbank money market takings | 18,524 | 1,775,610 | - | 1,794,134 |
| Funds borrowed | 9,370,767 | 15,205,677 | 2,172 | 24,578,616 |
| Securities issued | 3,740,911 | 7,568,394 | - | 11,309,305 |
| Miscellaneous payables | 680,817 | 197,050 | 43,012 | 920,879 |
| Derivative financial liabilities held for risk management purpose | - | - | - | - |
| Other liabilities ⁽¹⁾⁽⁵⁾ | 133,110 | 6,935,405 | 435 | 7,068,950 |
| Total liabilities | 30,154,430 | 54,523,092 | 1,438,251 | 86,115,773 |
| Net ‘on balance sheet’ position | (511,255) | (697,672) | 3,282,790 | 2,073,863 |
| Net ‘off-balance sheet’ position | 665,383 | 2,658,591 | (3,282,690) | 41,284 |
| Derivative assets ⁽⁶⁾ | 3,755,331 | 21,698,055 | 290,944 | 25,744,330 |
| Derivative liabilities ⁽⁶⁾ | 3,089,948 | 19,039,464 | 3,573,634 | 25,703,046 |
| Non-cash loans ⁽⁷⁾ | 4,082,706 | 9,339,955 | 291,566 | 13,714,227 |
| Prior Period | Euro | US Dollar | Other FC | Total |
| Total assets | 19,692,433 | 49,208,308 | 4,456,999 | 73,357,740 |
| Total liabilities | 24,672,940 | 47,245,439 | 866,994 | 72,785,373 |
| Net ‘on balance sheet’ position | (4,980,507) | 1,962,869 | 3,590,005 | 572,367 |
| Net ‘off-balance sheet’ position | 5,576,216 | (670,154) | (3,577,895) | 1,328,167 |
| Derivative assets ⁽⁶⁾ | 7,738,067 | 12,701,193 | 2,036,853 | 22,476,113 |
| Derivative liabilities ⁽⁶⁾ | 2,161,851 | 13,371,347 | 5,614,748 | 21,147,946 |
| Non-cash loans ⁽⁷⁾ | 3,015,389 | 7,731,618 | 246,531 | 10,993,538 |

⁽¹⁾ Derivative financial assets amounting to TL 21,109 (December 31, 2015: TL (51,275)) and liabilities amounting to TL 43,941 (December 31, 2015: TL (11,791)) resulting from changes in foreign exchange rates are not included.

⁽²⁾ Foreign currency indexed loans amounting to TL 4,493,820 (December 31, 2015: TL 3,555,465) presented in TL in the financial statements are included in the above table.

⁽³⁾ Foreign currency indexed factoring receivables amounted to TL 150,892 (December 31, 2015: TL 67,225) presented in TL column in the accompanying consolidated balance sheet are included.

⁽⁴⁾ Prepaid expenses amounting to TL 80,727 (December 31, 2015: TL 66,010) are not included.

⁽⁵⁾ Unearned income amounting to TL 165,259 (December 31, 2015: TL 110,576), deferred tax liabilities amounting to TL 9,632 (December 31, 2015: 6,210) and equity amounting to TL 453,469 TL (December 31, 2015: TL 565,299) are not included.

⁽⁶⁾ Asset purchase commitments amounting to TL 918,356 (December 31, 2015: TL 1,835,888), asset sales commitments amounting to TL 583,699 (December 31, 2015: TL 1,895,065) are included.

⁽⁷⁾ Non-cash loans are not taken into consideration in the calculation of the net ‘off-balance sheet’ position.

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III. CONSOLIDATED FOREIGN CURRENCY EXCHANGE RISK (Continued)

Exposure to currency risk

10 percent depreciation of the TL against the following currencies as at and for the year ended December 31, 2016 and 2015 would have effect on consolidated equity and the consolidated statement of income (without tax effects) by the amounts shown in the table below.

This analysis assumes that all other variables, in particular interest rates, remain constant.

| | December 31, 2016 | | December 31, 2015 | |
|------------------------|-------------------|----------------|-------------------|----------------|
| | Profit or loss | Equity (*) | Profit or loss | Equity (*) |
| US Dollar | 195,299 | 195,299 | 128,842 | 128,842 |
| Euro | 15,267 | 15,267 | 27,552 | 41,688 |
| Other currencies | 10 | 10 | 1,211 | 1,211 |
| Total, net (**) | 210,576 | 210,576 | 157,605 | 171,741 |

(*) Equity effect also includes profit or loss effect of 10% devaluation of TL against related currencies.

(**) Associates, subsidiaries, joint ventures, tangible and intangible assets are not included to the analysis.

10 percent appreciation of the TL against the following currencies as at and for the year ended December 31, 2016 and 2015 would have effect on consolidated equity and consolidated statement of income (without tax effects) by the amounts shown in the table below.

| | December 31, 2016 | | December 31, 2015 | |
|------------------------|-------------------|------------------|-------------------|------------------|
| | Profit or loss | Equity (*) | Profit or loss | Equity (*) |
| US Dollar | (195,299) | (195,299) | (127,517) | (127,517) |
| Euro | (15,267) | (15,267) | (27,552) | (41,688) |
| Other currencies | (10) | (10) | (1,085) | (1,085) |
| Total, net (**) | (210,576) | (210,576) | (156,154) | (170,290) |

(*) Equity effect also includes profit or loss effect of 10% revaluation of TL against related currencies.

(**) Associates, subsidiaries, joint ventures, tangible and intangible assets are not included to the analysis.

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

IV. CONSOLIDATED INTEREST RATE RISK

Interest sensitivity of assets, liabilities and off-balance sheet items is evaluated during the weekly Assets-Liabilities Committee meetings taking into account the developments in market conditions.

The Parent Bank’s interest rate risk is measured by the standard method.

Measurements for standard method are carried out monthly using the maturity ladder table.

Interest rate sensitivity of assets, liabilities and off balance sheet items (Based on repricing dates)

| Current Period | Up to 1 Month | 1-3 Months | 3-12 Months | 1-5 Years | 5 Years and Over | Non-Interest Bearing | Total |
|---|----------------------|-----------------------|------------------------|-------------------|-----------------------------|---------------------------------|--------------------|
| <i>Assets:</i> | | | | | | | |
| Cash and balances with CBRT | 13,369,312 | - | - | - | - | 11,000,003 | 24,369,315 |
| Banks | 3,465,261 | 885,101 | 22,306 | - | - | 902,821 | 5,275,489 |
| Financial assets at fair value through profit/loss | 550,409 | 678,810 | 76,648 | 383,420 | 89,850 | 10,096 | 1,789,233 |
| Interbank money market placements | 5,232 | - | - | - | - | - | 5,232 |
| Available-for-sale financial assets | 2,906,630 | 2,178,457 | 4,371,742 | 6,072,648 | 3,061,993 | 27,610 | 18,619,080 |
| Loans and receivables | 47,370,846 | 35,356,537 | 33,735,670 | 21,033,750 | 10,885,036 | 1,193,430 | 149,575,269 |
| Held-to-maturity investments | 674,843 | 1,937,819 | 4,047,247 | 1,287,620 | 233,006 | - | 8,180,535 |
| Other assets (*) | 199,340 | 426,206 | 569,072 | 1,561,618 | 154,733 | 9,945,878 | 12,856,847 |
| Total assets | 68,541,873 | 41,462,930 | 42,822,685 | 30,339,056 | 14,424,618 | 23,079,838 | 220,671,000 |
| <i>Liabilities:</i> | | | | | | | |
| Bank deposits | 4,281,972 | 455,862 | 94,424 | - | - | 243,643 | 5,075,901 |
| Other deposits | 66,828,991 | 20,852,159 | 8,411,150 | 933,657 | 15,737 | 24,141,714 | 121,183,408 |
| Interbank money market takings | 11,591,451 | 1,138,639 | - | 449,439 | 64,742 | - | 13,244,271 |
| Miscellaneous payables | - | - | - | - | - | 5,543,555 | 5,543,555 |
| Securities issued | 538,113 | 1,709,240 | 3,417,189 | 9,018,282 | - | - | 14,682,824 |
| Funds borrowed | 4,357,895 | 9,253,336 | 9,288,468 | 1,759,274 | 1,640,457 | - | 26,299,430 |
| Other liabilities (**) | 524,040 | 189,450 | 262,393 | 1,435,505 | 3,761,055 | 28,469,168 | 34,641,611 |
| Total liabilities | 88,122,462 | 33,598,686 | 21,473,624 | 13,596,157 | 5,481,991 | 58,398,080 | 220,671,000 |
| On balance sheet long position | - | 7,864,244 | 21,349,061 | 16,742,899 | 8,942,627 | - | 54,898,831 |
| On balance sheet short position | (19,580,589) | - | - | - | - | (35,318,242) | (54,898,831) |
| Off-balance sheet long position | 2,073,148 | 3,048,601 | - | - | - | - | 5,121,749 |
| Off-balance sheet short position | - | - | (522,353) | (3,391,353) | (210,900) | - | (4,124,606) |
| Net position | (17,507,441) | 10,912,845 | 20,826,708 | 13,351,546 | 8,731,727 | (35,318,242) | 997,143 |

(*) Subsidiaries, associates and tangible and intangible assets, and deferred tax are included in “non-interest bearing” column.

(**) Equity is included in “non-interest” bearing column in other liabilities line.

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

IV. CONSOLIDATED INTEREST RATE RISK (Continued)

| Prior Period | Up to 1 Month | 1-3 Months | 3-12 Months | 1-5 Years | 5 Years and Over | Non-Interest Bearing | Total |
|---|--------------------------|-------------------|--------------------|-------------------|-----------------------------|---------------------------------|--------------------|
| <i>Assets:</i> | | | | | | | |
| Cash and balances with CBRT | 12,781,090 | - | - | - | - | 8,708,824 | 21,489,914 |
| Banks | 5,475,827 | 194,049 | 61,644 | - | - | 444,499 | 6,176,019 |
| Financial assets at fair value through profit/loss | 391,852 | 421,683 | 6,030 | 87,765 | 73,042 | 15,490 | 995,862 |
| Interbank money market placements | 6,699 | - | - | - | - | - | 6,699 |
| Available-for-sale financial assets | 2,388,751 | 2,496,529 | 4,703,040 | 5,237,102 | 2,431,436 | 79,253 | 17,336,111 |
| Loans and receivables | 42,202,253 | 26,571,644 | 26,825,084 | 19,169,977 | 10,281,787 | 908,934 | 125,959,679 |
| Held-to-maturity investments | 1,010,446 | 1,774,694 | 3,360,520 | 1,301,192 | 230,877 | - | 7,677,729 |
| Other assets (*) | 104,786 | 295,650 | 311,063 | 1,119,520 | 227,377 | 7,885,149 | 9,943,545 |
| Total assets | 64,361,704 | 31,754,249 | 35,267,381 | 26,915,556 | 13,244,519 | 18,042,149 | 189,585,558 |
| <i>Liabilities:</i> | | | | | | | |
| Bank deposits | 4,477,914 | 555,665 | 151,903 | - | - | 392,993 | 5,578,475 |
| Other deposits | 58,747,568 | 19,744,450 | 7,262,399 | 777,354 | 16,558 | 19,883,193 | 106,431,522 |
| Interbank money market takings | 11,216,171 | 1,148,950 | - | 397,450 | 64,627 | - | 12,827,198 |
| Miscellaneous payables | - | - | - | - | - | 4,397,761 | 4,397,761 |
| Securities issued | 1,179,387 | 1,235,096 | 2,244,042 | 5,988,183 | - | - | 10,646,708 |
| Funds borrowed | 3,683,934 | 7,684,616 | 5,500,813 | 929,920 | 2,395,764 | - | 20,195,047 |
| Other liabilities (**) | 45,764 | 92,326 | 245,280 | 903,262 | 3,176,408 | 25,045,807 | 29,508,847 |
| Total liabilities | 79,350,738 | 30,461,103 | 15,404,437 | 8,996,169 | 5,653,357 | 49,719,754 | 189,585,558 |
| On balance sheet long position | - | 1,293,146 | 19,862,944 | 17,919,387 | 7,591,162 | - | 46,666,639 |
| On balance sheet short position | (14,989,034) | - | - | - | - | (31,677,605) | (46,666,639) |
| Off-balance sheet long position | 1,207,068 | 2,297,615 | - | - | - | - | 3,504,683 |
| Off-balance sheet short position | - | - | (315,011) | (1,725,656) | (902,100) | - | (2,942,767) |
| Net position | (13,781,966) | 3,590,761 | 19,547,933 | 16,193,731 | 6,689,062 | (31,677,605) | 561,916 |

(*) Subsidiaries, associates and tangible and intangible assets are stated in “non-interest bearing” column.

(**) Equity is included in “non-interest bearing” column in other liabilities line.

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IV. CONSOLIDATED INTEREST RATE RISK (Continued)

Average interest rates applied to monetary financial instruments (*):

| Current Period | Euro | US Dollar | Yen | TL |
|---|-------------|------------------|------------|-----------|
| | % | % | % | % |
| Assets: | | | | |
| Cash and balance with CBRT | - | 0.75 | - | 3.31 |
| Banks | 0.19 | 1.02 | - | 11.49 |
| Financial assets at fair value through profit/loss | 5.50 | 5.89 | - | 10.91 |
| Interbank money market placements | - | - | - | 9.81 |
| Available-for-sale financial assets | 2.52 | 4.51 | - | 9.49 |
| Loans and receivables | 4.24 | 4.99 | - | 12.34 |
| Held-to-maturity investments | - | 2.68 | - | 9.65 |
| Liabilities: | | | | |
| Bank deposits | 0.21 | 1.18 | - | 10.87 |
| Other deposits | 1.37 | 2.84 | - | 9.17 |
| Interbank money market takings | - | 1.77 | - | 8.32 |
| Miscellaneous payables | - | - | - | - |
| Securities issued | 2.90 | 4.88 | - | 9.60 |
| Funds borrowed | 3.15 | 3.71 | - | 11.80 |
| <hr/> | | | | |
| Prior Period | Euro | US Dollar | Yen | TL |
| | % | % | % | % |
| Assets: | | | | |
| Cash and balance with CBRT | - | 0.49 | - | 3.81 |
| Banks | 0.22 | 0.36 | - | 12.38 |
| Financial assets at fair value through profit/loss | 5.50 | 11.78 | - | 11.39 |
| Interbank money market placements | - | - | - | 11.65 |
| Available-for-sale financial assets | 4.43 | 6.70 | - | 9.69 |
| Loans and receivables | 3.77 | 4.69 | - | 12.10 |
| Held-to-maturity investments | - | 3.59 | - | 10.02 |
| Liabilities: | | | | |
| Bank deposits | 3.99 | 0.67 | - | 13.07 |
| Other deposits | 1.73 | 2.07 | - | 10.77 |
| Interbank money market takings | - | 1.08 | - | 8.46 |
| Miscellaneous payables | - | - | - | - |
| Securities issued | 2.72 | 4.44 | 0.93 | 10.93 |
| Funds borrowed | 1.07 | 1.87 | - | 11.83 |

(*) The rates above are calculated over financial instruments with interest rates.

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

V. CONSOLIDATED STOCK POSITION RISK

Stock position risks arising from banking book items

Information on separations of risks according to objectives including their relation with gains presented in equity and strategically reasons, accounting techniques and general information about valuation methods with the related assumptions and factors that affect the valuation and significant changes

The accounting applications regarding to share investment that qualifications in associate and subsidiary of are disclosed in Section 3 Note III.

If carrying value is substantially different from fair value and for publicly traded shares if market value is substantially different from fair value, the comparison with the market prices are shown in the table below:

| Current Period | Comparison | | |
|---|-----------------------|---------------------------------|-----------------------------------|
| Stock Investments | Carrying Value | Fair Value^(*) | Market Value^(*) |
| Stocks quoted in exchange^(*) | 263,309 | 263,309 | 263,309 |
| 1.Stocks Investments Group A | 263,309 | 263,309 | 263,309 |
| 2.Stock Investments Group B | - | - | - |
| 3.Stock Investments Group C | - | - | - |
| Stocks unquoted in exchange^(**) | 387,231 | 298,705 | - |

^(*) The values of stocks traded in Stock Exchange are included to both columns assuming the market value is approximate to fair value.

^(**) The values of stocks unquoted in exchange are determined according to valuation reports prepared by independent valuation companies.

| Prior Period | Comparison | | |
|---|-----------------------|---------------------------------|-----------------------------------|
| Stock Investments | Carrying Value | Fair Value^(*) | Market Value^(*) |
| Stocks quoted in exchange^(*) | 233,212 | 233,212 | 233,212 |
| 1.Stocks Investments Group A | 233,212 | 233,212 | 233,212 |
| 2.Stock Investments Group B | - | - | - |
| 3.Stock Investments Group C | - | - | - |
| Stocks unquoted in exchange^(**) | 412,393 | 271,913 | - |

^(*) The values of stocks traded in Stock Exchange are included to both columns assuming the market value is approximate to fair value.

^(**) The values of stocks unquoted in exchange are determined according to valuation reports prepared by independent valuation companies.

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

V. CONSOLIDATED STOCK POSITION RISK (Continued)

Total unearned gain or loss, total revaluation surplus and values included to principal and supplementary capital

Total unrealized gain or loss, total appraisal surplus and values included to principal and supplementary capital are given in the below table:

| Portfolio-Current Period | Realized Gain/Loss in Current Period | Revaluation Surplus | | Unrealized Gain and Loss | | |
|-----------------------------------|---|---------------------|---|--------------------------|--------------------------------|---|
| | | Total (*) | Included in Supplementary Capital | Total (*) | Included in Core Capital | Included in Supplementary Capital |
| 1. Private Capital Investments | - | - | - | - | - | - |
| 2. Publicly Traded Stocks | - | - | - | - | - | - |
| 3. Other Stocks | - | 64,288 | 64,288 | - | - | - |
| 4. Total | - | 64,288 | 64,288 | - | - | - |

(*) Amounts are presented including the effect of deferred tax.

| Portfolio-Prior Period | Realized Gain/Loss in Current Period | Revaluation Surplus | | Unrealized Gain and Loss | | |
|-----------------------------------|---|---------------------|-----------------------------|--------------------------|--------------------------------|---|
| | | Total (*) | Included in Core Capital | Total (*) | Included in Core Capital | Included in Supplementary Capital |
| 1. Private Capital Investments | - | - | - | - | - | - |
| 2. Publicly Traded Stocks | - | - | - | - | - | - |
| 3. Other Stocks | - | 118,580 | 118,580 | - | - | - |
| 4. Total | - | 118,580 | 118,580 | - | - | - |

(*) Amounts are presented including the effect of deferred tax.

Explanations on Equity Shares Risk Arising from Banking Book

| Portfolio-Current Period | Carrying Value | Total RWA | Minimum Capital Requirement |
|------------------------------|----------------|----------------|--------------------------------|
| 1.Private Equity Investments | - | - | - |
| 2.Quoted | 263,309 | 263,309 | 21,065 |
| 3.Other Stocks | 387,231 | 387,231 | 30,978 |
| 4. Total | 650,540 | 650,540 | 52,043 |

| Portfolio-Prior Period | Carrying Value | Total RWA | Minimum Capital Requirement |
|------------------------------|----------------|----------------|--------------------------------|
| 1.Private Equity Investments | - | - | - |
| 2.Quoted | 233,212 | 233,212 | 18,657 |
| 3.Other Stocks | 412,393 | 412,393 | 32,991 |
| 4. Total | 645,605 | 645,605 | 51,648 |

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VI. CONSOLIDATED LIQUIDITY RISK AND LIQUIDITY COVERAGE RATIO

Liquidity risk is defined as the risk of not fulfilling payment liabilities on time as a result of not having adequate cash or cash inflow to meet the cash outflow properly due to imbalance in cash flows of the bank. The framework of liquidity risk of the Parent Bank is specified with Liquidity Risk Management Document. In the framework of liquidity risk management, policies regarding liquidity risk management are written down by Risk Management Department and fundamental principles, analyses regarding measurement and monitoring risk, basic rudiments on early warning indicators, liquidity buffer and limits are included.

The Parent Bank is managing liquidity risk according to risk capacity and the Bank’s risk appetite in the range envisioned by the regulations. Liquidity risk management approach is in general based on the principle of monitoring in-day liquidity risk. The Bank monitors the net liquidity position and liquidity requirements continuously and facing the future. The Bank takes precautions to increase diversity in fund sources to increase effectiveness and durability in liquidity risk management. On market basis and specific to the Bank (in consideration of market and funding liquidity) scenario and susceptibility analyses are performed and assumptions based on these analyses are reviewed regularly. It is aimed to protect the optimum liquidity level that can meet short – term liquidity needs not to remain inactive and maintain profitability – risk balance.

In addition to the structure described concerning the Parent Bank’s liquidity risk management, various systems and processes are also available subsidiaries and associates. These systems and processes are designed in a way compatible with the generally accepted approach concerning liquidation risk management and legal regulations that each subsidiary and associate is subject to be. Besides the established structures and arrangements are able to execute liquidation risk management of subsidiaries and associates effectively within the organization, it is expected that these established structures and arrangements are also contribute to the integrated liquidity risk management structure with the Parent Bank’s all associates.

Liquidity management in the Parent Bank is carried out under Treasury Department in regard to the Parent Bank’s strategic goals and projections, decisions taken in Asset/Liability Committee, treasury policies, limits defined under market circumstances, the Parent Bank’s balance sheet and income goals and strategies defined to meet these goals. Daily, weekly, and monthly cash flow statements are prepared in accordance with principles of profitability and prudence in the Parent Bank’s liquidity management. Cash flow statements are evaluated and the Parent Bank’s liquidity is managed in line with Treasury Department policies, daily TL and FC liquidity position Bank balance sheet and income goals.

Scenarios about where to make replacement funding in case of high amount outflows in daily liquidity management are made regularly, effects of probable outflows on liquidity level and legal ratios are evaluated and liquidity management is carried out by taking necessary actions.

The Parent Bank makes use of liquidity gap analysis reports and liquidity stress tests in the internal measurement of liquidity risk. In Liquidity gap analysis and liquidity stress scenarios, the Bank’s compensation level of net cash outflows which are more likely to happen in short term are presented. Measurements regarding liquidity risk are performed by Risk Management Department and measurement results are reported regularly to performer units responsible of management of the related risk and top management and the Board of Directors.

It is taken as a basis that the Group consistently monitors TL and FC liquidity positions and funding strategies. Necessary precautions are taken in line with liquidity needs by following stress circumstances. “Liquidity Emergency Action Plan” which is an important part of liquidity risk management of the Bank, consists of early warning indicators which play an important role in monitoring increases in liquidity risk and the prevention of a possible crisis, action plans to prevent a possible crisis and to be applied during a crisis. Furthermore, to fulfill the banks reserve deposits liability that it has to allocate in the presence of CBRT, alternative fund sources to provide liquidity that is needed in various stress circumstances and under which circumstances to apply these sources, precautions to minimize time maturity mismatch and provide necessary funds on time, how the mechanism is going to operate in cases of crisis and stress is included in the plan.

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VI. CONSOLIDATED LIQUIDITY RISK AND LIQUIDITY COVERAGE RATIO (Continued)

The Group’s Foreign Currency and total liquidity coverage ratio averages for current period. The highest value and the lowest value occurred in this period are given below:

| Liquidity Coverage Ratio | TL+FC | | FC | |
|--------------------------|---------------|-----------|---------------|-----------|
| | DATE | RATIO (%) | DATE | RATIO (%) |
| The lowest value | December 2016 | 100.72 | December 2016 | 110.36 |
| The highest value | October 2016 | 107.48 | October 2016 | 160.67 |

Liquidity Coverage Ratio

| Current Period | | Total unweighted value * | | Total weighted value* | |
|-----------------------------------|--|--------------------------|-------------------|----------------------------|-------------------|
| | | TL+FC | FC | TL+FC | FC |
| HIGH QUALITY LIQUID ASSETS | | | | | |
| 1 | Total High Quality Liquid Assets (HQLA) | | | 31,327,045 | 17,494,256 |
| CASH OUTFLOWS | | | | | |
| 2 | Retail deposits and deposits from small business customers, of which: | 56,398,533 | 18,755,224 | 4,709,780 | 1,875,523 |
| 3 | Stable deposits | 18,601,460 | - | 930,073 | - |
| 4 | Less stable deposits | 37,797,073 | 18,755,224 | 3,779,707 | 1,875,523 |
| 5 | Unsecured wholesale funding, of which: | 63,466,793 | 16,531,060 | 25,468,933 | 8,024,537 |
| 6 | Operational deposits | 43,127,499 | 9,221,613 | 10,781,875 | 2,305,403 |
| 7 | Non-operational deposits | 10,385,173 | 5,745,212 | 6,992,999 | 4,191,277 |
| 8 | Unsecured debt | 9,954,121 | 1,564,235 | 7,694,059 | 1,527,857 |
| 9 | Secured wholesale funding | | | - | - |
| 10 | Additional requirements of which: | 12,074,577 | 11,213,463 | 12,074,577 | 11,213,463 |
| 11 | Outflows related to derivative exposures and other collateral requirements | 12,074,577 | 11,213,463 | 12,074,577 | 11,213,463 |
| 12 | Outflows related to loss of funding on debt products | - | - | - | - |
| 13 | Credit and liquidity facilities | - | - | - | - |
| 14 | Other contractual funding obligations | 16,675,067 | 16,238,733 | 833,753 | 811,937 |
| 15 | Other contingent funding obligations | 44,925,526 | 11,988,692 | 6,590,564 | 1,095,508 |
| 16 | TOTAL CASH OUTFLOWS | | | 49,677,607 | 23,020,968 |
| CASH INFLOWS | | | | | |
| 17 | Secured lending | - | - | - | - |
| 18 | Inflows from fully performing exposures | 13,757,171 | 5,596,651 | 9,870,634 | 4,837,408 |
| 19 | Other cash inflows | 9,441,176 | 5,175,370 | 9,441,176 | 5,175,370 |
| 20 | TOTAL CASH INFLOWS | 23,198,347 | 10,772,021 | 19,311,810 | 10,012,778 |
| | | | | Upper Limit Applied Values | |
| 21 | TOTAL HQLA | | | 31,327,045 | 17,494,256 |
| 22 | TOTAL NET CASH OUTFLOWS | | | 30,365,797 | 13,008,190 |
| 23 | LIQUIDITY COVERAGE RATIO (%) | | | 103.26 | 136.98 |

(*) Simple arithmetic average, calculated for the last three months, of the values calculated by taking monthly simple arithmetic average.

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VI. CONSOLIDATED LIQUIDITY RISK AND LIQUIDITY COVERAGE RATIO (Continued)

| Prior Period | | Total unweighted value * | | Total weighted value* | |
|-----------------------------------|--|--------------------------|-------------------|-----------------------|-------------------|
| | | TL+FC | FC | TL+FC | FC |
| HIGH QUALITY LIQUID ASSETS | | | | | |
| 1 | Total High Quality Liquid Assets (HQLA) | | | 28,842,274 | 19,291,743 |
| CASH OUTFLOWS | | | | | |
| 2 | Retail deposits and deposits from small business customers, of which: | 47,209,327 | 17,527,659 | 3,750,130 | 1,526,493 |
| 3 | Stable deposits | 19,416,047 | 4,525,463 | 970,802 | 226,273 |
| 4 | Less stable deposits | 27,793,280 | 13,002,196 | 2,779,328 | 1,300,220 |
| 5 | Unsecured wholesale funding, of which: | 47,583,503 | 13,101,636 | 24,148,735 | 8,946,020 |
| 6 | Operational deposits | 8,708,614 | 2,794,066 | 7,947,240 | 4,566,970 |
| 7 | Non-operational deposits | 31,958,453 | 8,125,734 | 9,579,078 | 2,220,567 |
| 8 | Unsecured debt | 6,916,436 | 2,181,836 | 6,622,417 | 2,158,483 |
| 9 | Secured wholesale funding | | | - | - |
| 10 | Additional requirements of which: | 11,935,341 | 10,289,600 | 11,935,341 | 10,289,599 |
| 11 | Outflows related to derivative exposures and other collateral requirements | 11,935,341 | 10,289,600 | 11,935,341 | 10,289,599 |
| 12 | Outflows related to loss of funding on debt products | - | - | - | - |
| 13 | Credit and liquidity facilities | - | - | - | - |
| 14 | Other contractual funding obligations | 12,634,258 | 12,132,366 | 631,713 | 606,618 |
| 15 | Other contingent funding obligations | 41,024,707 | 12,600,559 | 6,462,091 | 1,660,257 |
| 16 | TOTAL CASH OUTFLOWS | | | 46,928,010 | 23,028,987 |
| CASH INFLOWS | | | | | |
| 17 | Secured lending | - | - | - | - |
| 18 | Inflows from fully performing exposures | 12,252,177 | 5,859,220 | 8,755,145 | 5,156,973 |
| 19 | Other cash inflows | 10,114,577 | 7,424,636 | 10,114,577 | 7,424,636 |
| 20 | TOTAL CASH INFLOWS | 22,366,754 | 13,283,856 | 18,869,722 | 12,581,609 |
| Upper Limit Applied Values | | | | | |
| 21 | TOTAL HQLA | | | 28,842,274 | 19,291,743 |
| 22 | TOTAL NET CASH OUTFLOWS | | | 28,058,288 | 10,447,378 |
| 23 | LIQUIDITY COVERAGE RATIO (%) | | | 102.79 | 184.66 |

(*) Simple arithmetic average, calculated for the last three months, of the values calculated by taking monthly simple arithmetic average.

With the “Liquidity Coverage Rate” which is prepared under the framework of “Regulations Regarding Banks’ Calculations of Liquidity Coverage Rate” published by BRSA, the balance between banks’ net cash outflows and high quality liquid asset stock

The Group’s high quality liquid asset stock consists of cash and debt instruments issued by CBRT and Republic of Turkey Undersecretariat of Treasury.

Whereas the Group’s important fund sources are deposits, funds obtained from other financial institutions, marketable securities issued and funds obtained from repo transactions.

Derivatives transactions with 30 or less days to maturity are included into liquidity coverage calculation with cash outflows created by the transactions as of the calculated liquidity coverage rate. In case of a liability resulting from derivatives transactions and security fulfillment liability resulting from other liabilities, actions are taken accordingly to the related regulation.

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VI. CONSOLIDATED LIQUIDITY RISK AND LIQUIDITY COVERAGE RATIO (Continued)

Maturity analysis of assets and liabilities according to remaining maturities:

| Current Period | Demand | Up to 1 Month | 1-3 Months | 3-12 Months | 1-5 Years | 5 Years and Over | Undistributed(*) | Total |
|---|-------------------|--------------------------|-----------------------|------------------------|----------------------|-----------------------------|-------------------------|--------------------|
| Assets: | | | | | | | | |
| Cash and balance with CBRT | 24,369,315 | - | - | - | - | - | - | 24,369,315 |
| Banks | 3,560,499 | 807,583 | 885,101 | 22,306 | - | - | - | 5,275,489 |
| Financial assets at fair value through profit/loss | 10,096 | 53,413 | 88,608 | 456,671 | 1,082,591 | 97,854 | - | 1,789,233 |
| Interbank money market placements | - | 5,232 | - | - | - | - | - | 5,232 |
| Available-for-sale financial assets | - | 677,535 | 270,855 | 1,846,497 | 9,133,684 | 6,662,899 | 27,610 | 18,619,080 |
| Loans and receivables | 9,441 | 12,646,753 | 5,498,653 | 30,852,055 | 63,969,529 | 35,428,484 | 1,170,354 | 149,575,269 |
| Held-to-maturity investments | - | 674,843 | 52,727 | - | 3,733,430 | 3,719,535 | - | 8,180,535 |
| Other assets | 88,436 | 1,446,477 | 532,701 | 754,268 | 1,771,081 | 154,769 | 8,109,115 | 12,856,847 |
| Total assets | 28,037,787 | 16,311,836 | 7,328,645 | 33,931,797 | 79,690,315 | 46,063,541 | 9,307,079 | 220,671,000 |
| Liabilities: | | | | | | | | |
| Bank deposits | 243,644 | 4,281,971 | 455,862 | 94,424 | - | - | - | 5,075,901 |
| Other deposits | 24,600,347 | 66,313,388 | 20,647,664 | 7,844,839 | 1,737,563 | 39,607 | - | 121,183,408 |
| Funds borrowed | - | 687,887 | 1,261,151 | 11,536,861 | 6,754,426 | 6,059,105 | - | 26,299,430 |
| Interbank money market takings | - | 11,591,451 | 1,138,639 | - | 449,439 | 64,742 | - | 13,244,271 |
| Securities issued | - | 538,113 | 1,709,240 | 3,143,948 | 9,291,523 | - | - | 14,682,824 |
| Miscellaneous payables | - | 4,061,654 | 174,010 | 89,602 | 2,039 | - | 1,216,250 | 5,543,555 |
| Other liabilities | 95,873 | 1,339,050 | 899,680 | 1,085,675 | 862,078 | 5,104,683 | 25,254,572 | 34,641,611 |
| Total liabilities | 24,939,864 | 88,813,514 | 26,286,246 | 23,795,349 | 19,097,068 | 11,268,137 | 26,470,822 | 220,671,000 |
| Liquidity gap | 3,097,923 | (72,501,678) | (18,957,601) | 10,136,448 | 60,593,247 | 34,795,404 | (17,163,743) | - |
| Net Off Balance Sheet | | | | | | | | |
| Position | - | (479,339) | (6,902) | 423,379 | 933,313 | 652,787 | - | 1,523,238 |
| Receivables from Derivative Financial Instruments | - | 8,668,204 | 4,637,320 | 2,809,733 | 12,736,387 | 5,799,680 | - | 34,651,324 |
| Payables from Derivative Financial Instruments | - | 9,147,543 | 4,644,222 | 2,386,354 | 11,803,074 | 5,146,893 | - | 33,128,086 |
| Non-cash Loans | 3,594,694 | 1,317,799 | 23,411,576 | 6,463,985 | 5,003,522 | 868,775 | - | 40,660,351 |
| Prior Period | | | | | | | | |
| Total assets | 25,646,221 | 15,865,730 | 5,191,847 | 28,101,282 | 66,535,678 | 40,925,182 | 7,319,618 | 189,585,558 |
| Total liabilities | 20,635,409 | 79,801,335 | 23,867,969 | 19,737,147 | 10,985,905 | 9,583,788 | 24,974,005 | 189,585,558 |
| Liquidity gap | 5,010,812 | (63,935,605) | (18,676,122) | 8,364,135 | 55,549,773 | 31,341,394 | (17,654,387) | - |
| Net Off Balance Sheet | | | | | | | | |
| Position | - | 36,402 | (15,382) | 70,417 | 496,019 | 374,145 | - | 961,601 |
| Receivables from Derivative Financial Instruments | - | 10,288,932 | 3,593,668 | 1,389,636 | 5,540,752 | 4,922,653 | - | 25,735,641 |
| Payables from Derivative Financial Instruments | - | 10,252,530 | 3,609,050 | 1,319,219 | 5,044,733 | 4,548,508 | - | 24,774,040 |
| Non-cash Loans | 2,663,320 | 951,139 | 19,403,416 | 5,498,569 | 4,078,818 | 524,639 | - | 33,119,901 |

(*) Certain assets on the balance sheet that are necessary for the banking operations but not convertible into cash in short period such as tangible assets, intangible assets, associates, subsidiaries, miscellaneous receivables and shareholder's equity in the liabilities have been included in the “Undistributed” column.

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VI. CONSOLIDATED LIQUIDITY RISK AND LIQUIDITY COVERAGE RATIO (Continued)

Residual contractual maturities of financial liabilities ()*

| Current period | Carrying amount | Gross nominal outflow | Demand | Less than one month | 1-3 months | 3 months to 1 year | 1-5 years | More than 5 years |
|-------------------------|------------------------|------------------------------|-------------------|----------------------------|-------------------|---------------------------|-------------------|--------------------------|
| Bank deposits | 5,075,901 | 5,085,671 | 243,644 | 4,287,093 | 459,456 | 95,478 | - | - |
| Other deposits | 121,183,408 | 122,125,718 | 24,600,347 | 66,481,532 | 20,858,252 | 8,055,182 | 2,052,190 | 78,215 |
| Funds borrowed | 26,299,430 | 29,135,873 | - | 689,930 | 1,278,907 | 11,742,778 | 7,845,281 | 7,578,977 |
| Money market takings | 13,244,271 | 13,376,729 | - | 11,596,992 | 1,141,262 | - | 548,086 | 90,389 |
| Issued Securities (Net) | 14,682,824 | 15,769,709 | - | 540,447 | 1,733,134 | 3,211,213 | 10,284,915 | - |
| Miscellaneous payables | 5,543,555 | 5,543,555 | 1,216,250 | 4,061,654 | 174,010 | 89,602 | 2,039 | - |
| Other liabilities | 8,480,070 | 10,486,315 | 1,931,584 | 884,634 | 92,437 | 27,654 | 466,873 | 7,083,133 |
| Total | 194,509,459 | 201,523,570 | 27,991,825 | 88,542,282 | 25,737,458 | 23,221,907 | 21,199,384 | 14,830,714 |
| Non-Cash Loans | 40,660,351 | 40,660,351 | 3,594,694 | 1,317,799 | 23,411,576 | 6,463,985 | 5,003,522 | 868,775 |

| Prior period | Carrying amount | Gross nominal outflow | Demand | Less than one month | 1-3 months | 3 months to 1 year | 1-5 years | More than 5 years |
|-------------------------|------------------------|------------------------------|-------------------|----------------------------|-------------------|---------------------------|-------------------|--------------------------|
| Bank deposits | 5,578,475 | 5,593,377 | 392,993 | 4,483,071 | 562,204 | 155,109 | - | - |
| Other deposits | 106,431,522 | 107,036,149 | 20,242,411 | 58,628,018 | 19,787,960 | 7,396,999 | 954,597 | 26,164 |
| Funds borrowed | 20,195,047 | 21,775,455 | - | 619,943 | 977,891 | 10,192,539 | 3,767,715 | 6,217,367 |
| Money market takings | 12,827,198 | 12,843,308 | - | 11,227,072 | 1,151,513 | - | 399,406 | 65,317 |
| Issued Securities (Net) | 10,646,708 | 11,398,974 | - | 1,185,490 | 1,246,388 | 2,031,028 | 6,936,068 | - |
| Miscellaneous payables | 4,397,761 | 4,397,761 | 821,687 | 3,197,707 | 107,686 | 266,215 | 4,466 | - |
| Other liabilities | 6,546,168 | 8,465,570 | 1,726,125 | 378,507 | 37,667 | 52,867 | 83,027 | 6,187,377 |
| Total | 166,622,879 | 171,510,594 | 23,183,216 | 79,719,808 | 23,871,309 | 20,094,757 | 12,145,279 | 12,496,225 |
| Non-Cash Loans | 33,119,901 | 33,119,901 | 2,663,320 | 951,139 | 19,403,416 | 5,498,569 | 4,078,818 | 524,639 |

This table shows the undiscounted cash flows on the Group’s financial liabilities on the basis of their earliest possible contractual maturity. Therefore, the gross nominal outflows in the table above vary from the carrying amounts of the relevant financial liabilities reflected in the consolidated financial statements.

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VII. CONSOLIDATED LEVERAGE RATIO

**Information on Issues that Cause Differences between Current Period and Previous Period
Leverage Ratios**

The Group’s consolidated leverage rate which is calculated due to “Regulation on Banks’ Measurement and Evaluation of Leverage Level” actualised as 6.71%. Increase in balance sheet assets and off-balance sheet transactions resulted in change on leverage rate compared to previous period (December 31, 2015: 6.72%). The Regulation adjudicated minimum leverage rate as 3%.

**Summary comparison table of the total risk amount and the total asset amount in the consolidated
financial statements prepared as per TAS**

| | Current Period | Prior Period |
|---|-----------------------|---------------------|
| Total asset amount in the consolidated financial statements prepared as per TAS ⁽¹⁾ | 198,555,907 | 188,113,759 |
| The difference between the total asset amount in the consolidated financial statements prepared as per TAS and the asset amount in the consolidated financial statements prepared as per the Communiqué on the Preparation of the Consolidated Financial Statements of Banks ⁽¹⁾ | (1,639,489) | (1,471,799) |
| The difference between the derivative financial instruments and the loan derivatives amount in the consolidated financial statements prepared as per the Communiqué on the Preparation of the Consolidated Financial Statements of Banks and the risk amounts ⁽²⁾ | (1,620,419) | (1,339,299) |
| The difference between the financial transactions with securities or goods warranty amounts in the consolidated financial statements prepared as per the Communiqué on the Preparation of the Consolidated Financial Statements of Banks and the risk amounts ⁽²⁾ | 13,914,719 | 11,531,134 |
| The difference between the off-balance sheet transactions amount in the consolidated financial statements prepared as per the Communiqué on the Preparation of the Consolidated Financial Statements of Banks and the risk amounts ⁽²⁾ | 10,234,984 | 9,316,429 |
| Other differences between the amount in the consolidated financial statements prepared as per the Communiqué on the Preparation of the Consolidated Financial Statements of Banks and the risk amounts ⁽²⁾ | (84,572,910) | (75,852,096) |
| Total risk amount | 261,537,348 | 245,588,552 |

⁽¹⁾ The amounts represent 30 June 2016 and 31 December 2015 balances of consolidated financial statements prepared as per the sixth paragraph of Article 5 of the Communiqué on the Preparation of the Consolidated Financial Statements of Banks.

⁽²⁾ The balances in the table represent the average of three months.

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

VII. CONSOLIDATED LEVERAGE RATIO (Continued)

Leverage ratio common disclosure template

| | On-balance sheet exposures | Current Period^(*) | Prior Period^(*) |
|-----|---|-------------------------------------|-----------------------------------|
| 1. | On-balance sheet items (excluding derivatives and SFTs; including collateral) | 216,824,485 | 188,355,835 |
| 2. | Assets deducted in determining Basel III Tier 1 capital | (314,602) | (357,384) |
| 3. | Total on-balance sheet exposures (excluding derivatives and SFTs) | 216,509,883 | 187,998,451 |
| | Derivative exposures | | |
| 4. | Replacement cost | 1,384,507 | 958,702 |
| 5. | Add-on amount | 649,441 | 380,597 |
| 6. | Total derivative exposures | 2,033,948 | 1,339,299 |
| | Securities financing transaction exposures | | |
| 7. | Gross SFT assets (with no recognition of accounting netting) | 653,844 | 779,920 |
| 8. | Agent transaction exposures | - | - |
| 9. | Total securities financing transaction exposures | 653,844 | 779,920 |
| | Other off-balance sheet exposures | | |
| 10. | Off-balance sheet exposures with gross nominal amount | 63,161,241 | 54,444,913 |
| 11. | Adjustment amount off-balance sheet exposures with credit conversion factor | 1,350,160 | 1,025,968 |
| 12. | Total off-balance sheet exposures | 64,511,401 | 55,470,881 |
| | Capital and total exposures | | |
| 13. | Tier 1 capital | 19,017,854 | 16,514,311 |
| 14. | Total exposures | 283,709,076 | 245,588,551 |
| | Leverage ratio | | |
| 15. | Leverage ratio | 6.71 | 6.72 |

(*) Calculated by using three month average of balances in Leverage Rate Notification table.

VIII. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

| | Carrying Value | | Fair Value | |
|--|-----------------------|---------------------|-----------------------|---------------------|
| | Current Period | Prior Period | Current Period | Prior Period |
| Financial Assets: | | | | |
| Receivables from Interbank Money Markets | 5,232 | 6,699 | 5,232 | 6,699 |
| Banks | 5,275,489 | 6,176,019 | 5,275,489 | 6,176,019 |
| Available-for-Sale Financial Assets | 18,619,080 | 17,336,111 | 18,619,080 | 17,336,111 |
| Held-to-Maturity Investments | 8,180,535 | 7,677,729 | 7,992,774 | 7,496,076 |
| Loans | 149,575,269 | 125,959,679 | 149,812,100 | 127,521,403 |
| Financial Leasing Receivables | 1,546,409 | 1,325,825 | 1,546,409 | 1,325,825 |
| Factoring Receivables | 1,390,714 | 717,727 | 1,390,714 | 717,727 |
| Financial Liabilities: | | | | |
| Bank Deposits | 5,075,901 | 5,578,475 | 5,139,171 | 5,610,321 |
| Other Deposits | 121,183,408 | 106,431,522 | 121,240,772 | 106,428,225 |
| Funds Borrowed | 26,299,430 | 20,195,047 | 27,221,894 | 20,508,451 |
| Securities Issued | 14,682,824 | 10,646,708 | 14,898,154 | 10,569,723 |
| Subordinated Loans | 5,014,700 | 4,155,551 | 4,694,264 | 4,155,551 |
| Miscellaneous Payables | 5,543,555 | 4,397,761 | 5,543,555 | 4,397,761 |

Fair values of available-for-sale financial assets and held-to-maturity investments are derived from market prices or in case of absence of such prices they are derived from prices of other marketable securities, whose interest rate, maturity date and other conditions are similar to securities held.

Fair value of loans are calculated by discounting future cash flows with the use of current market interest rates.

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VIII. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (Continued)

Fair value of funds borrowed with fixed interest rate are calculated by discounting cash flows with current market interest rates. Fair value of funds borrowed with floating interest rate is calculated according to repricing period by discounting cash flows with current market rates.

Fair value of other assets and liabilities is calculated by adding accumulated acquisition costs and the sum of the interest accrual.

Classification of Fair Value Measurement

TFRS 7 - Financial Instruments requires the classification of fair value measurements into a fair value hierarchy by reference to the observability and significance of the inputs used in measuring fair value of financial instruments measured at fair value to be disclosed. This classification basically relies on whether the relevant inputs are observable or not. Observable inputs refer to the use of market data obtained from independent sources, whereas unobservable inputs refer to the use of predictions and assumptions about the market made by the Company. This distinction brings about a fair value measurement classification generally as follows:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);

Level 3: Fair value measurements using inputs for the assets or liability that are not based on observable market data (unobservable inputs).

Classification requires using observable market data if possible.

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VIII. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (Continued)

The classification of fair value measurements of financial assets and liabilities measured at fair value is as follows:

| December 31, 2016 | Level 1 | Level 2 | Level 3 | Total |
|---|-------------------|------------------|----------------|-------------------|
| Financial assets at fair value through profit/loss: | | | | |
| Financial assets held for trading purpose: | 182,264 | 1,606,969 | - | 1,789,233 |
| Debt securities | 171,585 | - | - | 171,585 |
| Derivative financial assets held for trading purpose | 583 | 1,606,969 | - | 1,607,552 |
| Investment funds | 8,001 | - | - | 8,001 |
| Equity securities | 2,095 | - | - | 2,095 |
| Available-for-sale financial assets | 16,071,306 | 2,547,759 | 15 | 18,619,080 |
| Equity securities | - | 27,595 | 15 | 27,610 |
| Debt securities | 16,071,306 | 2,520,164 | - | 18,591,470 |
| Investments in associates and subsidiaries ^(*) | - | - | 298,705 | 298,705 |
| Total Financial Assets | 16,253,570 | 4,154,728 | 298,720 | 20,707,018 |

| | | | | |
|---|----------|--------------------|----------|--------------------|
| Financial liabilities at fair value through profit/loss: | | | | |
| Derivative financial liabilities held for trading purpose | - | (1,154,424) | - | (1,154,424) |
| Total Financial Liabilities | - | (1,154,424) | - | (1,154,424) |

| December 31, 2015 | Level 1 | Level 2 | Level 3 | Total |
|---|-------------------|------------------|----------------|-------------------|
| Financial assets at fair value through profit/loss: | | | | |
| Financial assets held for trading purpose: | 84,684 | 911,178 | - | 995,862 |
| Debt securities | 69,685 | 25,711 | - | 95,396 |
| Derivative financial assets held for trading purpose | - | 885,467 | - | 885,467 |
| Investment funds | 13,167 | - | - | 13,167 |
| Equity securities | 1,832 | - | - | 1,832 |
| Available-for-sale financial assets | 14,322,018 | 2,934,840 | 79,253 | 17,336,111 |
| Equity securities | - | - | 79,253 | 79,253 |
| Debt securities | 14,322,018 | 2,934,840 | - | 17,256,858 |
| Investments in associates and subsidiaries ^(*) | - | - | 271,913 | 271,913 |
| Total Financial Assets | 14,406,702 | 3,846,018 | 351,166 | 18,603,886 |

| | | | | |
|---|----------|------------------|----------|------------------|
| Financial liabilities at fair value through profit/loss: | | | | |
| Derivative financial liabilities held for trading purpose | - | (304,352) | - | (304,352) |
| Total Financial Liabilities | - | (304,352) | - | (304,352) |

^(*) This amount consist of fair value of the affiliates and subsidiaries determined by independent valuation companies.

The reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy as at and for the year ended December 31, 2016 is as follows:

| | Level 3 Current Period | Level 3 Prior Period |
|---|-----------------------------------|---------------------------------|
| Balance at the beginning of the year | 351,166 | 259,823 |
| Total gains or losses for the year recognized in profit or loss | - | - |
| Total gains or losses for the year recognized under equity | (52,466) | 91,343 |
| Balance at the end of the year | 298,720 | 351,166 |

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

IX. TRANSACTIONS CARRIED OUT ON BEHALF OF CUSTOMERS, ITEMS HELD IN TRUST

The Parent Bank provides buying, selling and custody services and management and advisory services in financial matters for its customers. The Group is not involved in trust activities.

X. CONSOLIDATED SEGMENT REPORTING

The Parent Bank operates in corporate, commercial, small business, retail and investment banking. Accordingly, the banking products served to customers are; time and demand deposit, accumulating account, repos, overdraft facilities, spot loans, foreign currency indexed loans, consumer loans, automobile and housing loans, working capital loans, discounted bills, overdraft facilities, gold loans, foreign currency loans, Eximbank loans, pre-export loans, ECA covered financing, letters of guarantee, letters of credit, export factoring, acceptance credits, draft facilities, forfaiting, leasing, insurance, forward, futures, salary payments, investment account, cheques, safety boxes, bill payments, tax collections, payment orders.

The Parent Bank provides service packages to its corporate, commercial and retail customers including deposit, loans, foreign trade transactions, investment products, cash management, leasing, factoring, insurance, credit cards, and other banking products. A customer-oriented branch network has been built in order to serve customers’ needs effectively and efficiently.

Additionally, the Parent Bank provides “small business” banking service to enterprises in retail and service sectors. Products include overdraft accounts, POS machines, credit cards, cheque books, TL and foreign currency deposits, investment accounts, internet banking and call-center, debit card, and bill payment.

Retail banking customers form a wide-spread and sustainable deposit base for the Parent Bank. Individual customers’ needs are met by diversified consumer banking products through branches and alternative delivery channels.

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

X. CONSOLIDATED SEGMENT REPORTING (Continued)

Major financial statement items according to business lines:

| Current Period | Retail Banking | Corporate Banking | Investment Banking | Other | Total Operations |
|---|---------------------------|------------------------------|-------------------------------|--------------------|-----------------------------|
| OPERATING INCOME/ EXPENSES | | | | | |
| Interest Income | 4,959,825 | 8,323,574 | 3,667,054 | 13,736 | 16,964,189 |
| <i>Interest income from loans</i> | 4,959,825 | 8,105,767 | 1,203,336 | - | 14,268,928 |
| <i>Interest income from reserve deposits</i> | - | - | 111,798 | - | 111,798 |
| <i>Interest income from securities portfolio</i> | - | - | 2,230,139 | - | 2,230,139 |
| <i>Interest income from banks</i> | - | - | 121,181 | - | 121,181 |
| <i>Interest income from money market transactions</i> | - | - | 600 | - | 600 |
| <i>Finance lease income</i> | - | 110,201 | - | - | 110,201 |
| <i>Other interest income</i> | - | 107,606 | - | 13,736 | 121,342 |
| Interest Expense | 3,387,865 | 3,631,947 | 2,655,536 | 52,608 | 9,727,956 |
| <i>Interest expense on deposits</i> | 3,387,865 | 3,552,149 | 254,753 | - | 7,194,767 |
| <i>Interest expense on funds borrowed</i> | - | 79,798 | 428,318 | - | 508,116 |
| <i>Interest expense on money market transactions</i> | - | - | 1,007,022 | - | 1,007,022 |
| <i>Interest expense on securities issued</i> | - | - | 691,897 | - | 691,897 |
| <i>Other interest expenses</i> | - | - | 273,546 | 52,608 | 326,154 |
| Net Interest Income | 1,571,960 | 4,691,627 | 1,011,518 | (38,872) | 7,236,233 |
| Net Fees and Commissions Income | 425,547 | 410,527 | 76,409 | - | 912,483 |
| Trading Income/ Losses (Net) | - | - | 505,038 | - | 505,038 |
| Dividend Income | - | - | 61,736 | - | 61,736 |
| Other Income (*) | - | - | - | 2,004,336 | 2,004,336 |
| Provision For Losses on Loans and Other | | | | | |
| Receivables | 431,238 | 1,657,372 | 30,432 | 214,567 | 2,333,609 |
| Other Expenses (**) | - | - | - | 4,906,704 | 4,906,704 |
| Income/Loss From Investments Under Equity | | | | | |
| Accounting | - | - | 37,267 | - | 37,267 |
| Profit Before Taxes | 1,566,269 | 3,444,782 | 1,661,536 | (3,155,807) | 3,516,780 |
| Provision for taxes | - | - | - | (724,334) | (724,334) |
| Net Profit/ Loss | 1,566,269 | 3,444,782 | 1,661,536 | (3,880,141) | 2,792,446 |
| SEGMENT ASSETS | | | | | |
| Securities Portfolio | - | - | 26,981,296 | - | 26,981,296 |
| Derivative Financial Assets Held for Trading | | | | | |
| Purpose | - | - | 1,607,552 | - | 1,607,552 |
| Banks and Receivables From Money Markets | - | - | 5,280,721 | - | 5,280,721 |
| Investments in Associates and Subsidiaries | - | - | 622,930 | - | 622,930 |
| Loans and Receivables | 41,432,801 | 83,828,729 | 24,313,739 | - | 149,575,269 |
| Other Assets | - | 2,937,123 | 24,223,603 | 9,442,506 | 36,603,232 |
| TOTAL ASSETS | 41,432,801 | 86,765,852 | 83,029,841 | 9,442,506 | 220,671,000 |
| SEGMENT LIABILITIES | | | | | |
| Deposits | 54,570,012 | 66,613,397 | 5,075,900 | - | 126,259,309 |
| Derivative Financial Liabilities Held for Trading | | | | | |
| Purpose | - | - | 1,154,424 | - | 1,154,424 |
| Interbank Money Market Takings | - | - | 13,244,271 | - | 13,244,271 |
| Funds Borrowed | - | 662,429 | 25,637,001 | - | 26,299,430 |
| Securities Issued | - | - | 14,682,824 | - | 14,682,824 |
| Other Liabilities | - | 81 | 5,758,436 | 7,568,869 | 13,327,386 |
| Provisions and Tax Liabilities | - | - | - | 6,095,884 | 6,095,884 |
| Equity | - | - | - | 19,607,472 | 19,607,472 |
| TOTAL LIABILITIES AND EQUITY | 54,570,012 | 67,275,907 | 65,552,856 | 33,272,225 | 220,671,000 |

(*) TL 892,467 amount of TL 2,004,336 shown in other income consist of acquired insurance premiums, TL 668,315 of income from reversal of the specific provisions for loans from prior periods, TL 165,307 of income from the sale of Group's assets, TL 40,316 from communications income, TL 987 of leasing income, TL 78,307 of income from private pension activities and the remaining TL 158,637 of other operating income.

(**) TL 1,663,884 amount of TL 4,906,704 shown in other expenses line consists of personnel expenses, TL 1,984,578 of other operating expenses, TL 186,400 of depreciation expenses, TL 147,970 of dividend reserves expenses to be given to personnel, TL 138,469 of Savings Deposit Insurance Fund (SDIF) expenses, TL 141,588 of taxes and funds expenses, TL 47,034 pension compensations, TL 79,694 from cumulative/noncumulative commission expenses, TL 240,428 from production commission expenses and the remaining TL 266,259 of other expenses.

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

X. CONSOLIDATED SEGMENT REPORTING (Continued)

| Prior Period | Retail Banking | Corporate Banking | Investment Banking | Other | Total Operations |
|---|---------------------------|------------------------------|-------------------------------|--------------------|-----------------------------|
| OPERATING INCOME/ EXPENSES | | | | | |
| Interest Income | 4,219,010 | 6,709,281 | 3,034,890 | 10,251 | 13,973,432 |
| Interest income from loans | 4,219,010 | 6,535,686 | 843,641 | - | 11,598,337 |
| Interest income from reserve deposits | - | - | 38,684 | - | 38,684 |
| Interest income from securities portfolio | - | - | 2,072,208 | - | 2,072,208 |
| Interest income from banks | - | - | 78,724 | - | 78,724 |
| Interest income from money market transactions | - | - | 1,633 | - | 1,633 |
| Finance lease income | - | 102,526 | - | - | 102,526 |
| Other interest income | - | 71,069 | - | 10,251 | 81,320 |
| Interest Expense | 2,558,344 | 3,428,744 | 2,214,157 | 36,919 | 8,238,164 |
| Interest expense on deposits | 2,558,344 | 3,367,161 | 190,194 | - | 6,115,699 |
| Interest expense on funds borrowed | - | 61,583 | 300,917 | - | 362,500 |
| Interest expense on money market transactions | - | - | 886,728 | - | 886,728 |
| Interest expense on securities issued | - | - | 595,176 | - | 595,176 |
| Other interest expenses | - | - | 241,142 | 36,919 | 278,061 |
| Net Interest Income | 1,660,666 | 3,280,537 | 820,733 | (26,668) | 5,735,268 |
| Net Fees and Commissions Income | 396,068 | 380,447 | 93,814 | - | 870,329 |
| Trading Income/ Losses (Net) | - | - | 139,931 | - | 139,931 |
| Dividend Income | - | - | 37,169 | - | 37,169 |
| Other Income (*) | - | - | - | 2,036,648 | 2,036,648 |
| Provision For Losses on Loans and Other Receivables | 738,638 | 501,235 | 40,709 | 355,278 | 1,635,860 |
| Other Expenses (**) | - | - | - | 4,817,078 | 4,817,078 |
| Income/Loss From Investments Under Equity Accounting | - | - | 34,617 | - | 34,617 |
| Profit Before Taxes | 1,318,096 | 3,159,749 | 1,085,555 | (3,162,376) | 2,401,024 |
| Provision for taxes | - | - | - | (527,111) | (527,111) |
| Net Profit/ Loss | 1,318,096 | 3,159,749 | 1,085,555 | (3,689,487) | 1,873,913 |
| SEGMENT ASSETS | | | | | |
| Securities Portfolio | - | - | 25,124,235 | - | 25,124,235 |
| Derivative Financial Assets Held for Trading Purpose | - | - | 885,467 | - | 885,467 |
| Banks and Receivables From Money Markets | - | - | 6,182,718 | - | 6,182,718 |
| Investments in Associates and Subsidiaries | - | - | 566,352 | - | 566,352 |
| Loans and Receivables | 36,859,220 | 71,577,442 | 17,523,017 | - | 125,959,679 |
| Other Assets | - | 2,043,552 | 20,379,948 | 8,443,607 | 30,867,107 |
| TOTAL ASSETS | 36,859,220 | 73,620,994 | 70,661,737 | 8,443,607 | 189,585,558 |
| SEGMENT LIABILITIES | | | | | |
| Deposits | 47,588,682 | 58,842,840 | 5,578,475 | - | 112,009,997 |
| Derivative Financial Liabilities Held for Trading Purpose | - | - | 304,352 | - | 304,352 |
| Interbank Money Market Takings | - | - | 12,827,198 | - | 12,827,198 |
| Funds Borrowed | - | 371,535 | 19,823,512 | - | 20,195,047 |
| Securities Issued | - | - | 10,646,708 | - | 10,646,708 |
| Other Liabilities | - | 5 | 4,745,571 | 6,257,930 | 11,003,506 |
| Provisions and Tax Liabilities | - | - | - | 5,595,995 | 5,595,995 |
| Equity | - | - | - | 17,002,755 | 17,002,755 |
| TOTAL LIABILITIES AND EQUITY | 47,588,682 | 59,214,380 | 53,925,816 | 28,856,680 | 189,585,558 |

(*) TL 763,294 amount of TL 2,036,648 of income from reversal of the specific provisions for loans from prior periods, TL 767,881 of acquired insurance premiums, TL 109,681 of income from the sale of Group's assets, TL 50,723 of communications income, TL 64,583 of income from private pension activities, TL 80,490 of leasing income and the remaining TL 199,996 of other operating income.

(**) TL 1,539,206 amount of TL 4,817,078 shown in other expenses line consists of personnel expenses, TL 2,046,075 of other operating expenses, TL 169,811 of depreciation expenses, TL 144,017 of dividend reserves expenses to be given to personnel, TL 115,916 of Savings Deposit Insurance Fund (SDIF) expenses, TL 125,706 of taxes and funds expenses, TL 46,802 pension compensations, TL 8,119 from cumulative/noncumulative commission expenses, TL 239,952 from production commission expenses and the remaining TL 381,474 of other expenses.

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

XI. INFORMATION ON RISK MANAGEMENT

1. Information on Risk Management and Overview of Risk Weighted Amounts

The footnotes and related explanations published in the Official Gazette No. 29511 dated October 23, 2015 and prepared in accordance with the “Explanations Communique on Explanations to the Public Regarding Banks Risk Management” entered into force as of March 31, 2016 are given in this section. Since the Group uses a standardized approach to capital adequacy calculations, there is no disclosure within the scope of the internal rating-based approach.

a) Risk Management Strategy of the Group

The Group manages assets and values which are entrusted to it effectively and efficiently in order to increase the constant contribution to customers, shareholders and the society. The Group adopted the forward looking risk based approach in all activities undertaken by creating assets in a high quality and managing obligations well. The improvement of risk culture in parallel with changes in economic conjectures and risk perception is considered as an important factor by the Group and it aims to ensure the risk awareness and sensitivity in actions to be taken.

Risk management strategy of the Group is basically to avoid legal risks and risks which are unlikely to occur but have a huge impact, to take measures to minimize the risks (to reduce risks) that may arise due to the nature of banking activities, to purchase protection, insurance or techniques such as credit derivatives in order to transfer risks to the third parties (transfer of risk) and the acceptance of risks that are unlikely to occur and have small impact.

Within the scope of the general principles and principles observed by the Group in the context of risk management, the internal capital adequacy assessment process (İSEDES) is established in parallel with the budgeting process to determine the internal capital targets consistent with the risk profile and the activity environment and the effects of scenario outcomes on the Group projections is evaluated. As a part of risk appetite structure, risk limits are set and over-limit exemptions and early warning levels are observed/followed. The risks may arise from the new products and services and effects of these risks are analyzed. For the quantification of quantifiable risks and the qualitative evaluation of non-quantifiable. Effective and applicable systems which are compatible with the Group's product range and fields of activity are developed.

In response to the sudden and unexpected changes in the macroeconomic indicators and the Group's specific circumstances, the risks the can be exposed to such as income/expenditure effect, capital loss, economic value change , liquidity adequacy are presented by various reports and stress tests conducted daily ,weekly, monthly and annually. These reports and stress tests play an active role in the process of making decisions in the context of risk based approach. Risks subject to stress tests contains all the risks related to the Group's risk group (on the consolidated balance sheet – off the consolidated balance sheet).These risks are subject to stress test applications independently , and can be subject to stress test applications in an integrated way taking into account interactions between them.

Risks which are subject to stress test applications can be evaluated on portfolio and activities basis, consolidated and non-consolidated basis, at specific and general levels. Specific stress test applications are performed with sensitivity and scenario analysis specific to particular portfolio and activity. General stress test applications are established to ensure that Group's risks are seen in an integrated perspective. Relations between risks are taken into account by the correlation effect and relations between portfolios are considered with diversification effect. Furthermore in addition to stress tests, reverse stress tests that enable us to evaluate which risk factors and which risk concentrations causes significant loss indicators designed from the outset are conducted.

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

XI. INFORMATION ON RISK MANAGEMENT(Contunied)

b) Risk weighted amounts

| | Risk Weighted Amount | | Minimum Capital |
|---|----------------------|---------------------|-------------------|
| | Current Period | Prior Period(**) | Current Period |
| 1 Credit Risk (excluding counterparty credit risk) (*) | 156,045,237 | 146,138,635 | 12,483,619 |
| 2 Standardised approach | 156,045,237 | 146,138,635 | 12,483,619 |
| 3 Internal rating based approach | - | - | - |
| 4 Counterparty Credit Risk | 2,123,816 | 2,585,067 | 169,905 |
| 5 Standardised approach for counterparty credit risk | 2,123,816 | 2,585,067 | 169,905 |
| 6 Internal model method | - | - | - |
| 7 Equity position in banking book under basic risk weighting or internal rating based | - | - | - |
| 8 Equity investments in funds – look-through approach | - | - | - |
| 9 Equity investments in funds – mandate-based approach | - | - | - |
| 10 Equity investments in funds – 1250% weighted risk approach | - | - | - |
| 11 Settlement Risk | - | - | - |
| 12 Securitization positions in banking accounts | - | - | - |
| 13 IRB ratings-based approach | - | - | - |
| 14 IRB Supervisory formula approach | - | - | - |
| 15 SA/simplified supervisory formula approach | - | - | - |
| 16 Market risk | 632,989 | 755,615 | 50,639 |
| 17 Standardised approach | 632,989 | 755,615 | 50,639 |
| 18 Internal model approaches | - | - | - |
| 19 Operational Risk | 12,245,361 | 12,245,361 | 979,629 |
| 20 Basic Indicator Approach | 12,245,361 | 12,245,361 | 979,629 |
| 21 Standardised approach | - | - | - |
| 22 Advanced measurement approach | - | - | - |
| 23 The amounts below the thresholds for deduction from capital (subject to a 250% risk weight) | 492,718 | 427,870 | 39,418 |
| 24 Floor adjustment | - | - | - |
| 25 Total (1+4+7+8+9+10+11+12+16+19+23+24) | 171,540,121 | 162,152,548 | 13,723,210 |

(*) Except for the amount of the discount threshold under the equity.

(**) Prior period amounts include risk weighted amounts as of September 30, 2016 reporting period, consistent with the related communiqué.

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XI. INFORMATION ON RISK MANAGEMENT (Continued)

2. Linkages between Financial statements and Regulatory Exposures

a) Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

| | Carrying values of items (according to TAS) | | | | | Not subject to capital requirements or subject to deduction from capital |
|--|---|------------------------|-------------------------------------|-------------------------------|------------------------|--|
| | Carrying values as reported in published financial statements | Subject to credit risk | Subject to counterparty credit risk | Subject to the securitization | Subject to market risk | |
| Assets | | | | | | |
| Cash and balances at central bank | 24,369,315 | 24,369,315 | - | - | - | - |
| Financial assets held for trading | 1,789,233 | - | 1,789,233 | - | 57,814 | - |
| Financial assets designated at fair value through profit or loss | - | - | - | - | - | - |
| Banks | 5,275,489 | 5,275,489 | - | - | - | - |
| Receivables from money markets | 5,232 | 5,232 | - | - | - | - |
| Available for sale financial assets (net) | 18,619,080 | 18,083,454 | 5,960,349 | - | 535,626 | - |
| Loans and receivables | 149,575,269 | 149,574,103 | - | - | - | 1,166 |
| Factoring receivables | 1,390,714 | - | - | - | - | - |
| Held to maturity investments (net) | 8,180,535 | 8,180,535 | 5,323,555 | - | - | - |
| Investments in associates (net) | 336,232 | 336,232 | - | - | - | - |
| Investments in subsidiaries (net) | 286,698 | 286,698 | - | - | - | - |
| Investments in joint ventures (net) | - | - | - | - | - | - |
| Leasing receivables | 1,546,409 | - | - | - | - | - |
| Derivative financial assets held for hedges | - | - | - | - | - | - |
| Tangible assets (net) | 1,703,103 | 1,540,982 | - | - | - | 162,121 |
| Intangible assets (net) | 230,265 | - | - | - | - | 230,265 |
| Investment properties (net) | 354,385 | - | - | - | - | - |
| Tax assets | 197,922 | 197,922 | - | - | - | - |
| Non-current assets and disposal groups classified as held for sale (net) | 1,228,102 | 1,115,960 | - | - | - | 112,142 |
| Other assets | 5,583,017 | 5,583,017 | - | - | - | - |
| Total assets | 220,671,000 | 214,548,939 | 13,073,137 | - | 593,440 | 505,694 |

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XI. INFORMATION ON RISK MANAGEMENT (Continued)

2. Linkages between Financial statements and Regulatory Exposures (Continued)

a) Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories:

| | Carrying values of items (according to TAS) | | | | | Not subject to capital requirements or subject to deduction from capital |
|---|---|------------------------|-------------------------------------|-------------------------------|------------------------|--|
| | Carrying values as reported in published financial statements | Subject to credit risk | Subject to counterparty credit risk | Subject to the securitization | Subject to market risk | |
| Liabilities | | | | | | |
| Deposits | 126,259,309 | - | - | - | - | 126,259,309 |
| Derivative financial liabilities held for trading | 1,154,424 | - | 1,154,424 | - | 45,403 | 1,154,424 |
| Loans | 26,299,430 | - | - | - | - | 26,299,430 |
| Debt to money markets | 13,244,271 | - | 13,244,271 | - | - | 13,244,271 |
| Debt securities in issue | 14,682,824 | - | - | - | - | - |
| Funds | 3,319 | - | - | - | - | 3,319 |
| Various debts | 5,543,555 | - | - | - | - | 5,543,555 |
| Other liabilities | 2,765,731 | - | - | - | - | 2,765,731 |
| Factoring debts | 81 | - | - | - | - | - |
| Debts from leasing transactions | - | - | - | - | - | - |
| Derivative financial liabilities held for hedges | - | - | - | - | - | - |
| Provisions | 5,606,097 | - | - | - | - | 5,606,097 |
| Tax liability | 489,787 | - | - | - | - | 489,787 |
| Liabilities included in disposal groups classified as held for sale (net) | - | - | - | - | - | - |
| Subordinated debts | 5,014,700 | - | - | - | - | 5,014,700 |
| Equity | 19,607,472 | - | - | - | - | 19,607,472 |
| Total liabilities | 220,671,000 | - | 14,398,695 | - | 45,403 | 205,988,095 |

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

XI. INFORMATION ON RISK MANAGEMENT (Continued)

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

| | Total | Items subject to credit risk | Items subject to securitisation | Items subject to counterparty credit risk | Items subject to market risk |
|---|--------------------|------------------------------|---------------------------------|---|------------------------------|
| 1 Asset carrying value amount under scope of regulatory consolidation | 220,165,306 | 214,548,939 | - | 13,073,137 | 593,440 |
| 2 Liabilities carrying value amount under regulatory scope of consolidation | 14,682,905 | - | - | 14,398,695 | (45,403) |
| 3 Total net amount under regulatory scope of consolidation | 205,482,401 | 214,548,939 | - | (1,325,558) | 548,037 |
| 4 Off-balance sheet amounts | 114,819,263 | 22,688,894 | - | 2,225,820 | 548,037 |
| 5 Differences in valuations | - | - | - | - | - |
| 6 Differences due to different netting rules, other than those already included in row 2 | - | - | - | - | - |
| 7 Differences due to consideration of provisions | - | - | - | - | - |
| 8 Differences due to prudential filters | - | (3,898,133) | - | - | - |
| 9 Differences due to risk reduction | - | - | - | 769,791 | - |
| 10 Exposure amounts considered for regulatory | 334,984,569 | 233,339,701 | - | 30,467,443 | 548,037 |

c) Explanations of differences between accounting and regulatory exposure amounts

There is no significant difference between the amounts assessed pursuant to TAS and the risk amounts used within the scope of capital adequacy reported on the financial statements.

3. Credit Risk Explanations

a) General Information on Credit Risk

If the counterparty does not partially or completely fulfil its obligations in accordance with contract, the credit risk is exposed. The Group’s definition of credit risk contains the credit risk in all products and activities based on the credit definition of law of banking.

The Parent Bank’s branches, regional directorates, general directorate crediting units, deputy general manager responsible for credits, general manager, credit committee and board of directors determine the credit limits for counterparties within the framework of lending authority limits and provide credits within these limits in accordance with the articles 51 and 54 of banking law and in compliance with legal legislation in order to restrict the credit risk in the crediting operations.

Credit limits are set separately for each individual customer, company, group of companies. When credit limits are set, in accordance with the credit policy, customers whose credit limits are allocated should have a long and successful commercial background, good commercial ethics, high financial structure and morality, are able to use their business subjects as liquid, have positive and balanced commercial activities, experience and expertise, have understanding and structure to attune to economic justifications, have a good reputation, adequate equity, have the ability to create funds after the operation activities and to meet the expenses of placement by values created. Various criterions such as sectors and geographical regions are assessed. Evaluation of customer’s financial structure, in addition to normal intelligence studies, is based on balance sheets and income statement provided by companies with credits, account status documents obtained in accordance with relevant legislation and other information and documents.

It is possible to revise the determined credit limits as a result of assessment of general economic developments and the observation of changes in customer’s financial information and businesses. Type and the amount of the assurance that is determined according to the situation of companies to be loaned are provided on the customer basis in order for ensure security and liquidity of the Parent Bank’s placement.

Crediting activities are one of the basic and extensive fields of activities. The Parent Bank can provide all kind of crediting activities with its experience, competitiveness, variety of product and services. Parallel to this, it has a wide range of organization, regulation (legislation/documentation) and system infrastructure for the marketing, allocation and monitoring process of credit.

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

XI. INFORMATION ON RISK MANAGEMENT (Continued)

While establishing infrastructure, it is also supervised that all activities can be performed on a risk basis, in addition to providing the highest level of efficiency in the processes of the credits.

Credit management is not the single function within the Parent Bank and it is not restricted to the only one unit and responsibility area. Credit management is a process carried out together with different units and employees with different roles, authorities and responsibilities.

The Risk Management Department continues its activities to assess, analyze and report on the credit risk in line with the policy document and measurement results and to determine the effect of the Group on the capital requirement.

Within the results of the studies made in this context, it is possible to establish better portfolios with lower potential asset classes (credit types and/or counterparties) by sharing them with the Parent Bank’s top management and the units managing the loan portfolios, trying to be a guide in these matters.

The eventual aim of the Parent Bank is using credit risk inherent management methods in accordance with Basel III and best international implementations. In this context, studies of IRB (Internal Ratings Based Approach) are carried out. Within the scope of IRB studies, politics and procedures are updated as risk-focused.

Credit Quality of Assets

| | | Gross carrying values of (according to TAS) | | | |
|---|----------------------------|---|---------------------|-------------------------|--------------------|
| | | Defaulted Exposures | Defaulted Exposures | Allowances / Impairment | Net Values |
| 1 | Loans | 6,703,383 | 151,341,617 | 5,532,608 | 152,512,392 |
| 2 | Debt Securities | - | 27,067,730 | 295,725 | 26,772,005 |
| 3 | Off-balance sheet exposure | 165,159 | 66,397,867 | 59,816 | 66,503,210 |
| 4 | Total | 6,868,542 | 244,807,214 | 5,888,149 | 245,787,607 |

Changes in Stock of Defaulted Loans and Debt Securities (*)

| | | |
|---|---|------------------|
| 1 | Defaulted Loans and debt securities at 31 December 2015 | 5,138,113 |
| 2 | Loans and debt securities that have defaulted since the last reporting period | 2,957,373 |
| 3 | Returned to non-defaulted status | (599,952) |
| 4 | Amounts written-off | (1,341) |
| 5 | Other Changes | (790,810) |
| 6 | Defaulted Loans and debt securities at 30 June 2016 (1+2-3-4±5) | 6,703,383 |

(*) Indemnified non-cash loans of the firms which are followed under “Non-performing Loans” accounts are not included in the table

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

XI. INFORMATION ON RISK MANAGEMENT (Continued)

Additional disclosure related to the credit quality of assets

The Parent Bank classifies loans and other receivables in accordance with the “Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables” and other regulations. When loans that are followed under the groups except Group I mentioned in this regulation are classified as past due items, general provision is calculated for Group II, and special provision is calculated for loans followed under Group III, IV and Group V.

According to the above mentioned “Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables” Minimum provision rates to Loans classified is 20% to loans on Group III, 50% to loans on Group IV and 100% to loans on Group V.

Restructuring that can be applied for performing or non-performing receivables is done by changing the terms of the loan contract or by partially or completely refinancing the loan due to the financial difficulties that the borrower is facing or is likely to encounter in the payments.

Breakdown of loan receivables by geographical area

| Geographical area | Credit receivables/risks) |
|---------------------------|----------------------------------|
| Domestic | 143,862,151 |
| European Union Countries | 210,585 |
| OECD Countries (*) | - |
| Off-Shore Banking Regions | - |
| USA, Canada | 1,756,636 |
| Other | 5,512,245 |
| Total | 151,341,617 |

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

Breakdown of loan receivables by sector

| Cash Loans | Cash Loans | Impaired Loans | Provisions |
|--------------------------------------|--------------------|-----------------------|-------------------|
| Agricultural | 2,081,056 | 127,068 | 107,103 |
| Farming and raising livestock | 1,706,877 | 116,360 | 98,027 |
| Forestry | 286,722 | 7,897 | 7,046 |
| Fishing | 87,457 | 2,811 | 2,030 |
| Manufacturing | 28,480,421 | 1,251,018 | 1,067,661 |
| Mining and Quarrying | 1,050,381 | 61,077 | 49,541 |
| Production | 21,545,525 | 1,178,844 | 1,008,911 |
| Electricity, Gas, Water | 5,884,515 | 11,097 | 9,209 |
| Construction | 17,293,281 | 618,199 | 534,429 |
| Services | 46,173,055 | 1,854,467 | 1,559,932 |
| Wholesale and Retail Trade | 18,670,707 | 1,237,429 | 1,020,355 |
| Accommodation and Dining | 5,446,964 | 137,051 | 117,059 |
| Transportation and Telecommunication | 10,695,260 | 230,134 | 196,319 |
| Financial Institutions | 3,556,915 | 13,331 | 12,487 |
| Real Estate and Rental Services | 2,619,317 | 45,269 | 42,390 |
| Professional Services | 3,457,610 | 113,724 | 104,510 |
| Educational Services | 813,640 | 20,923 | 15,099 |
| Health and Social Services | 912,642 | 56,606 | 51,713 |
| Other | 57,313,804 | 2,852,631 | 2,263,483 |
| Total | 151,341,617 | 6,703,383 | 5,532,608 |

Breakdown by outstanding maturity

| | Demand | Up to 1Month | 1 – 3 Months | 3 – 12 Months | 1 – 5 Years | 5 Years and Over | Total |
|--------------|--------|--------------|--------------|------------------|----------------|---------------------|--------------------|
| Loans | 9,441 | 12,646,753 | 5,498,653 | 30,852,055 | 63,969,529 | 35,428,484 | 148,404,915 |

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XI. INFORMATION ON RISK MANAGEMENT (Continued)

Amounts of provision allocated receivables (According to the definition used by the Bank in accounting) based on geographical area and sector and amounts deducted from the assets with the related provisions

| Geographical area | Loans Receivables(Risks) | Provisions |
|---------------------------|---------------------------------|-------------------|
| Domestic | 6,625,558 | 5,460,788 |
| European Union Countries | 70,100 | 64,134 |
| OECD Countries (*) | - | - |
| Off-Shore Banking Regions | - | - |
| USA, Canada | 65 | 50 |
| Other | 7,660 | 7,636 |
| Total | 6,703,383 | 5,532,608 |

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

Aging analysis for overdue receivables

| | Current Period |
|--------------------|-----------------------|
| 31-60 days overdue | 1,171,545 |
| 61-90 days overdue | 889,662 |

* Loan receivables with overdue loans are taken into consideration.

(*) Loan receivables with overdue loans are taken into consideration.

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

| | Total |
|---|--------------|
| Loans restructured from Standard Loans and Other Receivables | 1,473,046 |
| Loans restructured from Loans under Follow-up and Other Receivables | 1,534,582 |
| Loans restructured from Non-Performing Loans | 392,162 |

b) Credit Risk Mitigation

Qualitative disclosure on credit risk mitigation techniques

Credit risk mitigation techniques in the Parent Bank are evaluated within the scope of the "Policy Document on Credit Risk Management". Within the scope of "Communiqué on Credit Risk Mitigation", simple financial guarantee method is used for financial guarantees. Cash and cash equivalents and guarantees are used to mitigate credit risk.

Policies regarding the valuation of financial collateral and the appraisal of the valuations and policies and procedures for the valuation of real estate established for the collateral of mortgage-backed loans, which are an asset class, have been established. These policies and procedures have been prepared in accordance with the "Communiqué on Credit Risk Mitigation" and cover the minimum requirements for collateral valuation and management.

The Parent Bank receives collaterals such as mortgages, sureties/guarantees and financial collaterals for the loans given.

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XI. INFORMATION ON RISK MANAGEMENT (Continued)

Credit Risk Mitigation Techniques

| | | Exposures unsecured: carrying amount | Exposures secured by collaterals | Exposures secured by collateral, of which: secured amount | Exposures secured by financial guarantees | Exposures secured by financial guarantees, of which: secured amount | Exposures secured by credit derivatives | Exposures secured by credit derivatives, of which: secured amount |
|---|---------------------------|---|--|--|--|---|--|---|
| 1 | Loans | 97,586,808 | 54,925,584 | 46,872,614 | 3,076,521 | 2,649,313 | - | - |
| 2 | Debt Securities | 26,772,005 | - | - | - | - | - | - |
| 3 | Total | 124,358,813 | 54,925,584 | 46,872,614 | 3,076,521 | 2,649,313 | - | - |
| 4 | Of Which Defaulted | 6,703,383 | - | - | - | - | - | - |

c) Credit risk under standardised approach

Qualitative disclosures on banks’ use of external credit ratings under the standardised approach for credit risk

The external rating grades of the counterparties of Fitch Ratings international rating agencies are used in determining the risk weights for the risk classes specified in Article 6 of the Regulation on Measurement and Evaluation of Banks' Capital Adequacy. Fitch Ratings is used as an international rating agency to determine the risk weights of risk classes to be received from central government or central banks and from banks and intermediary institutions.

When an international rating is taken into account for the entire risk category of central government or central banks, the centralized and central banks that are not rated by the Fitch Ratings international rating agency are based on the country risk classification issued by the Organization for Economic Co-operation and Development (OECD).

The following table shows that the rating scale of the credit rating agency corresponds to the credit quality levels reported in the annex of the Regulation on the Measurement and Evaluation of Banks' Capital Adequacy.

| Ratings Matched | Credit Quality Rank | Fitch Ratings |
|----------------------------------|---------------------|-----------------------|
| Long Term Credit Ratings | 1 | Between AAA and AA- |
| | 2 | Between A+ and A- |
| | 3 | Between BBB+ and BBB- |
| | 4 | Between BB+ and BB- |
| | 5 | Between B+ and B- |
| | 6 | CCC+ and below |
| Short Term Credit Ratings | 1 | Between F1+ and F1 |
| | 2 | F2 |
| | 3 | F3 |
| | 4 | F3 and below |
| | 5 | - |
| | 6 | - |

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

XI. INFORMATION ON RISK MANAGEMENT (Continued)

Credit Risk Exposure and Credit Risk Mitigation (CRM) Effects

| Asset classes | Exposures before Credit Conversion Factors and CRM | | Exposures post- Credit Conversion Factors and CRM | | RWA and RWA density | |
|--|---|-----------------------------|--|-----------------------------|---------------------|-------------|
| | On-balance sheet amount | Off-balance sheet amount | On-balance sheet amount | Off-balance sheet amount | RWA | RWA density |
| 1 Exposures to central governments or central banks | 51,462,827 | 492,584 | 53,883,670 | 241,211 | 13,566,988 | 25% |
| 2 Exposures to regional governments or local authorities | 4,597,033 | 344,708 | 4,597,033 | 156,470 | 2,345,893 | 49% |
| 3 Exposures to public sector entities | 636,031 | 1,373,402 | 636,031 | 667,205 | 1,298,648 | 100% |
| 4 Exposures to multilateral development banks | 3,705 | - | 3,705 | - | - | 0% |
| 5 Exposures to international organizations | - | - | - | - | - | 0% |
| 6 Exposures to institutions | 5,149,430 | 1,682,800 | 5,149,432 | 956,406 | 2,486,006 | 41% |
| 7 Exposures to corporates | 60,375,270 | 50,259,565 | 57,954,425 | 17,018,385 | 73,095,869 | 97% |
| 8 Retail exposures | 42,990,135 | 20,892,607 | 42,990,135 | 2,703,720 | 34,068,749 | 75% |
| 9 Exposures secured by residential property | 20,926,182 | 703,497 | 20,926,182 | 288,457 | 7,425,123 | 35% |
| 10 Exposures secured by commercial real estate | 22,075,082 | 1,401,642 | 22,075,082 | 657,040 | 14,085,290 | 62% |
| 11 Past-due loans | 1,170,775 | - | 1,170,775 | - | 1,170,775 | 100% |
| 12 Higher-risk categories by the Agency Board | 402,675 | - | 402,675 | - | 801,099 | 199% |
| 13 Exposures in the form of covered bonds | - | - | - | - | - | 0% |
| 14 Exposures to institutions and corporates with a short-term credit assessment | - | - | - | - | - | 0% |
| 15 Exposures in the form of units or shares in collective investment undertakings (CIUs) | - | - | - | - | - | 0% |
| 16 Stock investments | 7,538,274 | - | 7,538,274 | - | 5,542,948 | 74% |
| 17 Other assets | 650,567 | - | 650,567 | - | 650,567 | 100% |
| 18 Total | 217,977,986 | 77,150,805 | 217,977,986 | 22,688,894 | 156,537,955 | 65% |

Exposures by asset classes and risk weights

| Asset Classes/ Risk Weight* | 0% | 10% | 20% | 35% (secured by real estate) | | | | | | 150% | 200% | 250% | Other Risk Weights | Total credit risk exposure amount (After CCF and CRM) |
|---|-------------------|----------|------------------|---------------------------------|-------------------|-------------------|-------------------|----------------|----------|----------------|----------|----------|-----------------------|--|
| | | | | 20% | 50% | 75% | 100% | 150% | 200% | | | | | |
| 1 Exposures to central governments or central banks | 26,990,907 | - | - | - | 27,133,972 | - | 2 | - | - | - | - | - | - | 54,124,881 |
| 2 Exposures to regional governments or local authorities | 10,109 | - | 86,015 | - | 4,657,379 | - | - | - | - | - | - | - | - | 4,753,503 |
| 3 Exposures to public sector entities | 4,060 | - | 660 | - | - | - | 1,298,516 | - | - | - | - | - | - | 1,303,236 |
| 4 Exposures to multilateral development banks | 3,705 | - | - | - | - | - | - | - | - | - | - | - | - | 3,705 |
| 5 Exposures to International organizations | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 6 Exposures to institutions | 1,792 | - | 1,994,366 | - | 4,045,095 | - | 64,585 | - | - | - | - | - | - | 6,105,838 |
| 7 Exposures to corporates | 399,141 | - | 394,561 | - | 2,324,302 | - | 71,854,806 | - | - | - | - | - | - | 74,972,810 |
| 8 Retail exposures | - | - | - | - | - | 45,693,855 | - | - | - | - | - | - | - | 45,693,855 |
| 9 Exposures secured by residential property | - | - | - | 21,214,639 | - | - | - | - | - | - | - | - | - | 21,214,639 |
| 10 Exposures secured by commercial real estate | - | - | - | - | 17,293,665 | - | 5,438,457 | - | - | - | - | - | - | 22,732,122 |
| 11 Past-due loans | - | - | - | - | - | - | 1,170,775 | - | - | - | - | - | - | 1,170,775 |
| 12 Higher Risk categories by the Agency Board | - | - | - | - | - | - | - | 205,588 | - | 197,087 | - | - | - | 402,675 |
| 13 Exposures in the form of covered bonds | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 14 Exposures to institutions and corporates with a short term credit assessments | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 15 Exposures in the form of units or shares in collective investment undertakings (CIUs) | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| 16 Stock investments | - | - | - | - | - | - | 650,567 | - | - | - | - | - | - | 650,567 |
| 17 Other assets | 1,801,543 | - | 242,229 | - | - | - | 5,494,502 | - | - | - | - | - | - | 7,538,274 |
| 18 Total | 29,211,257 | - | 2,717,831 | 21,214,639 | 55,454,413 | 45,693,855 | 85,972,210 | 205,588 | - | 197,087 | - | - | - | 240,666,880 |

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

XI. INFORMATION ON RISK MANAGEMENT (Continued)

4. Counterparty Credit Risk Explanations

Qualitative disclosure on counterparty credit risk

The counterparty credit risk that may be incurred by the counterparty that is a party to a transaction that is liable to both parties due to default before the final payment in the cash flow is managed within the Parent Bank's "Counterparty Credit Risk Management Policy Document". The counterparty credit risk amounts calculated using the "Fair Value Valuation Method" within the scope of the "Communiqué on Credit Risk Mitigation" are calculated on the basis of the portfolios in the trading accounts and banking accounts, and these amounts are used within the scope of capital adequacy calculations. Various scenarios and stress tests are applied to the counterparty credit risk.

Processes related to counterparty credit risk management activities have been written down. In the direction of the policy document and measurement results, activities of evaluating, analyzing and reporting the counterparty credit risk and determining the effect of the capital requirement of the Parent Bank and Group are being continued.

In addition to the measurement activities, sensitivity and scenario analysis are used to evaluate the resistance of the Group to the changes that may be experienced in risk factors against economic developments. Monthly unconsolidated stress test reports include analyzes of counterparty credit risk. The distributions of positions subject to counterparty credit risk calculation, the ratings of these counterparties from independent rating agencies and transaction concentration are regularly monitored by the Risk Management Department. The Risk Management Department of the Parent Bank monitors the level of concentration in terms of the counterparty of derivative transactions. The collateral process of derivative transactions, repo, marketable securities transactions etc. with foreign banks is covered with ISDA and ISMA contracts and the collateral agreements regarding the mutual rights and obligations for the transactions between the two parties.

Treasury transactions are valued on a daily basis over the market prices taking into account these contracts and rules from the beginning to the closing of the transaction and the difference between the favorable and unfavorable values of the transactions against the market prices cause the settlement call movements by agreeing with the related banks. In compliance with the limitations of the bank which exposed to counterparty risk, the Bank follows the limit follow up system. Limits, which are defined as loan limits and compromise limits in the system, are monitored instantaneously.

The Bank has fulfilled its statutory obligations under EMIR (European Markets Infrastructure Regulation). The clearing member of the bank has been transmitted to the "counterparty" via a bank and transactions that provide conditions within the existing transactions in the portfolio have started to be cleared under the conditions of EMIR.

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XI. INFORMATION ON RISK MANAGEMENT (Continued)

Counterparty credit risk (CCR) approach analysis

| | Replacement cost | Potential future exposure | EEPE (Effective Expected Positive Exposure) | Alpha used for Computing regulatory exposure at default | Exposure at default post CRM | RWA |
|--|---------------------|---------------------------------|--|--|------------------------------------|------------------|
| 1 Standardised Approach (for derivatives) | 1,598,356 | 627,528 | | | 2,225,884 | 1,095,500 |
| 2 Internal Model Method (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions) | | | | | - | - |
| 3 Simple Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions) | | | | | 769,791 | 183,644 |
| 4 Comprehensive Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions) | | | | | - | - |
| 5 Value-at-Risk (VaR) for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions | | | | | - | - |
| 6 Total | | | | | | 1,279,144 |

Capital requirement for credit valuation adjustment (CVA)

| | EAD post CRM | RWA |
|---|------------------|----------------|
| Total portfolios subject to the Advanced CVA capital obligation | - | - |
| 1 (i) VaR component (including the 3×multiplier) | | - |
| 2 (ii) Stressed VaR component (including the 3×multiplier) | | - |
| 3 All portfolios subject to the Standardised CVA capital obligation | 2,219,529 | 844,350 |
| 4 Total subject to the CVA capital obligation | 2,219,529 | 844,350 |

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XI. INFORMATION ON RISK MANAGEMENT (Continued)

Counterparty Credit Risk (CCR) Exposures by Regulatory Portfolio and Risk Weights

| Risk Classes / Risk Weights | 0% | 10% | 20% | %35 Secured by real estate | 50% | 75% | 100% | 150% | Other | Total Credit Exposures(*) |
|--|-------------------|------------|------------------|---|------------------|---------------|----------------|-------------|--------------|--------------------------------------|
| Claims from central governments and central banks | 3,906,197 | - | - | - | - | - | - | - | - | - |
| Claims from regional and local governments | 1,216 | - | 38 | - | - | - | - | - | - | 8 |
| Claims from administration and non-commercial entity | 16,486 | - | - | - | - | - | 1,339 | - | - | 1,339 |
| Claims from multilateral development banks | - | - | - | - | - | - | - | - | - | - |
| Claims from international organizations | - | - | - | - | - | - | - | - | - | - |
| Claims from institutions | 6,537,261 | - | 1,633,264 | - | 3,110,725 | - | - | - | - | 1,882,015 |
| Corporates | 54,409 | - | - | - | - | - | 211,962 | - | - | 211,962 |
| Retail portfolios | 406 | - | - | - | - | 37,989 | - | - | - | 28,492 |
| Claims on landed real estate | - | - | - | - | - | - | - | - | - | - |
| Past-due loans | - | - | - | - | - | - | - | - | - | - |
| Claims which are determined as high risk by the board of BRSA | - | - | - | - | - | - | - | - | - | - |
| Mortgage securities | - | - | - | - | - | - | - | - | - | - |
| Securitization positions | - | - | - | - | - | - | - | - | - | - |
| Claims from corporates, banks and financial intermediaries which have short term credit rating | - | - | - | - | - | - | - | - | - | - |
| Investments which are qualified as collective investment institutions | - | - | - | - | - | - | - | - | - | - |
| Stock investment | - | - | - | - | - | - | - | - | - | - |
| Other claims | - | - | - | - | - | - | - | - | - | - |
| Other assets (**) | - | - | - | - | - | - | - | - | - | - |
| Total | 10,515,975 | - | 1,633,302 | - | 3,110,725 | 37,989 | 213,301 | - | - | 2,123,816 |

(*) Total credit exposure: the amount relevant for the capital requirements calculation, having applied CRM techniques.

(**) Other assets: the amounts excludes exposures to Central Counterparty, which are reported in Counterparty Credit Risk.

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XI. INFORMATION ON RISK MANAGEMENT (Continued)

Collaterals for CCR

| | Collateral for derivative transactions | | | | Collateral for other transactions | |
|--------------------------|--|--------------|--------------------------------|--------------|-----------------------------------|--------------------------------|
| | Fair value of collateral received | | Fair value of collateral given | | Fair value of collateral received | Fair value of collateral given |
| | Segregated | Unsegregated | Segregated | Unsegregated | | |
| Cash-domestic currency | - | - | - | - | - | - |
| Cash-foreign currency | - | - | - | - | 5,533,270 | - |
| Domestic sovereign debts | - | - | - | - | - | 1,804 |
| Other sovereign debts | - | - | - | - | - | - |
| Government agency debts | - | - | - | - | - | - |
| Corporate debts | - | - | - | - | - | - |
| Equity securities | - | - | - | - | - | - |
| Other collateral | - | - | - | - | - | - |
| Total | - | - | - | - | 5,533,270 | 1,804 |

Loan Derivatives

| | Protection bought | Protection sold |
|----------------------------------|-------------------|-----------------|
| Notionals | | |
| Single-name credit default swaps | 165,000 | 246,050 |
| Index credit default swaps | - | - |
| Total return swaps | - | - |
| Credit options | - | - |
| Other credit derivatives | - | - |
| Total Notionals | 165,000 | 246,050 |
| Fair Values | | |
| Positive fair values (asset) | 11,131 | - |
| Negative fair values (liability) | - | 24,801 |

Central counterparty risks

| | Exposure at default (post-CRM) | RWA |
|--|--------------------------------|-----|
| 1 Exposure to Qualified Central Counterparties (QCCPs) (total) | | 323 |
| 2 Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which | 16,124 | 323 |
| 3 (i) OTC Derivatives | 16,124 | 323 |
| 4 (ii) Exchange-traded Derivatives | - | - |
| 5 (iii) Securities financing transactions | - | - |
| 6 (iv) Netting sets where cross-product netting has been approved | - | - |
| 7 Segregated initial margin | - | - |
| 8 Non-segregated initial margin | - | - |
| 9 Pre-funded default fund contributions | - | - |
| 10 Unfunded default fund contributions | - | - |
| 11 Exposures to non-QCCPs (total) | | - |
| 12 Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which) | - | - |
| 13 (i) OTC Derivatives | - | - |
| 14 (ii) Exchange-traded Derivatives | - | - |
| 15 (iii) Securities financing transactions | - | - |
| 16 (iv) Netting sets where cross-product netting has been approved | - | - |
| 17 Segregated initial margin | - | - |
| 18 Non-segregated initial margin | - | - |
| 19 Pre-funded default fund contributions | - | - |
| 20 Unfunded default fund contributions | - | - |

5. Explanations on Securitizations

None.

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XI. INFORMATION ON RISK MANAGEMENT (Continued)

6. Explanations on Market Risk

Qualitative disclosure requirements related to market risk

As a result of fluctuations in the financial market, the Group is exposed to market risk, depending on the exchange rates, interest rates and changes in the market prices of the shares.

Market risks get measured and monitored with the internal models that are parallel to international applications. This market risk management process continues by including buying and selling balance sheet both internally and externally, meeting the legal necessities, being able to analyze the all risks that can be cause from the buying-selling activities and by identifying the all risk that can be caused by market portfolios.

Risk management of the Parent Bank is important in order to be understood by the all management stages and be able to get an opportunity to manage risk. In addition to that, it is similarly important to handle the loss that might cause when a risk occurs. Therefore measurements must cover the evaluations for the fund needs near the size of the risk and evaluations of the conditions that caused it. By using the methods of scenario and stress test, it is possible to see risk levels and needs of funds that can be generated from different circumstances and risky conditions.

In addition to the results of market risk measurements using standard method, which calculated in monthly periods, other daily risk dependencies can be also calculated by using internal model. There are daily back testings occurred in order to examine the trustworthiness and performance of the model results. Besides, there are also scenario analyzes and stress tests are happening in order to backing up the standard method and internal models. In addition to this, in order to limit the market risks, daily limit implementation and limit implementation in accordance with the early warning system can be monitored on daily basis.

Market Risk- Standardised approach

| | | RWA |
|--------------------------|---|----------------|
| Outright products | | |
| 1 | Interest rate risk (general and specific) | 305,400 |
| 2 | Stock risk (general and specific) | 20,127 |
| 3 | Foreign exchange risk | 307,162 |
| 4 | Commodity risk | - |
| Options | | |
| 5 | Simplified approach | - |
| 6 | Delta-plus method | 300 |
| 7 | Scenario approach | - |
| 8 | Securitisation | - |
| 9 | Total | 632,989 |

7. Explanations on Operational Risk

The "Basic Indicator Method" that is mentioned in "Regulation on Measurement and Assessment of Capital Adequacy of Banks" Communiqué published in the Official Gazette no. 29511 on 23 October 2015 and entered into force as of July 1, 2012, is used in the operational risk calculation of the Group. The amount subject to the operational risk as of 31 December 2016 is calculated once a year by using the gross income of the Bank in 2013, 2014 and 2015.

Annual gross revenue is calculated by deduction of profit/loss derived from the sale of available-for-sale assets and held-to maturity securities, extraordinary income and indemnity insurance gains from the total of net interest income and non-interest income.

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INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT (Continued)

XI. INFORMATION ON RISK MANAGEMENT (Continued)

| Current Period | December 31, 2014 | December 31, 2015 | December 31, 2016 | Total/Positive GI year number | Ratio (%) | Total |
|--|----------------------|----------------------|----------------------|----------------------------------|-----------|------------|
| Gross income | 5,893,893 | 6,411,206 | 7,287,478 | 6,530,859 | 15 | 979,629 |
| Amount subject to Operational Risk (Amount*12,5) | - | - | - | - | - | 12,245,361 |

8. Interest Rate Risk Related to Banking Book

The Parent Bank has evaluated to interest rate risk arising from on-balance sheet and off-balance sheet positions in banking accounts in accordance with “Regulation on Measurement and Evaluation of Interest Rate Risk in Banking Accounts with Standard Shock Method” performs and reports on these measurement based results and analyzes on weekly and monthly periods. In addition, in the Asset-Liability Management Committee meetings, the sensitivity of the active, passive and off-balance sheet items to the interest rate is evaluated taking into consideration the market developments.

In line with the management of interest rate risk arising from banking accounts; Scenario analysis, gap analysis to date of re-pricing, behavioral analysis, core demand deposit level, duration and maturity mismatch metrics, option risk, base risk and yield curve risk components are followed together.

| Currency | Applied Shock (+/- x basis points) | Gains/Losses | Gains / Shareholders' Equity Losses/ Shareholders' Equity |
|------------------------------------|---------------------------------------|-----------------------|--|
| 1 TRY | 500/(400) | (2,210,943)/2,186,994 | (9.45%)/9.34% |
| 2 EURO | 200/(200) | 388,955/1,240 | 1.66%/0.01% |
| 3 USD | 200/(200) | 603,486/(601,248) | 2.58%/(2.57%) |
| Total (for negative shocks) | - | 1,586,986 | 6.78% |
| Total (for positive shocks) | - | (1,218,502) | (5.21%) |

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SECTION FIVE

DISCLOSURE AND FOOTNOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

I. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED ASSETS

1. Information on cash and balances with the Central Bank

| | Current Period | | Prior Period | |
|---|------------------|-------------------|------------------|-------------------|
| | TL | FC | TL | FC |
| Cash | 1,281,060 | 508,933 | 1,157,778 | 282,194 |
| Central Bank of Republic of Turkey ^(*) | 2,892,154 | 19,433,355 | 778,712 | 19,055,634 |
| Other | 235,950 | 17,863 | 197,527 | 18,069 |
| Total | 4,409,164 | 19,960,151 | 2,134,017 | 19,355,897 |

(*) TL 14,977,543 (December 31, 2015: TL 18,422,690) of the foreign currency deposit at Central Bank of Republic of Turkey consists of foreign currency reserve deposits.

In accordance with “Announcement on Reserve Deposits” of CBRT numbered 2013/15, all banks operating in Turkey shall provide a reserve rate ranging from 4.0% to 10.5% (December 31, 2015: ranging from 5.0% to 11.5%). For foreign currency liabilities, all banks shall provide a reserve rate ranging from 4.5% to 24.5% in US Dollar or Euro (December 31, 2015: ranging from 5.0% to 25.0%).

According to 2014-72 numbered and 21 October 2014 dated announcement of Central Bank of the Republic of Turkey, interest has been started to be paid for Turkish Lira reserve deposit beginning from November 2014.

According to 2015-35 numbered and 2 May 2015 dated announcement of Central Bank of Republic of Turkey, interest has started to be paid for US Dollar denominated reserve deposits beginning from May 2015.

Balances with the Central Bank of Republic of Turkey

| | Current Period | | Prior Period | |
|------------------------------|------------------|-------------------|----------------|-------------------|
| | TL | FC | TL | FC |
| Unrestricted demand deposits | 2,861,879 | 2,647,870 | 760,146 | 632,944 |
| Unrestricted time deposits | - | - | - | - |
| Restricted time deposits | - | 1,807,942 | 105 | - |
| Reserve Deposits | 30,275 | 14,977,543 | 18,461 | 18,422,690 |
| Total | 2,892,154 | 19,433,355 | 778,712 | 19,055,634 |

2. Further information on classified as financial assets at fair value through profit/loss

Financial assets at fair value through profit/loss given as collateral or blocked

| | Current Period | | Prior Period | |
|---|----------------|---------------|---------------|----------|
| | TL | FC | TL | FC |
| Equity shares | - | - | - | - |
| Bonds, treasury bills and similar marketable securities | 68,526 | 10,647 | 52,723 | - |
| Other | - | - | - | - |
| Total | 68,526 | 10,647 | 52,723 | - |

Trading securities subject to repurchase agreements

None.

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DISCLOSURE AND FOOTNOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED ASSETS (Continued)

Positive differences on derivative financial assets held for trading purpose

| | Current Period | | Prior Period | |
|----------------------|------------------|----------------|----------------|----------------|
| | TL | FC | TL | FC |
| Forward transactions | 18,625 | 4,254 | 2,087 | 624 |
| Swap transactions | 1,455,133 | 129,105 | 737,149 | 145,264 |
| Futures | - | - | - | - |
| Options | 107 | 328 | 103 | 240 |
| Other | - | - | - | - |
| Total | 1,473,865 | 133,687 | 739,339 | 146,128 |

3. Information on banks

| | Current Period | | Prior Period | |
|-----------------------------------|------------------|------------------|------------------|------------------|
| | TL | FC | TL | FC |
| Banks | 1,195,786 | 4,079,703 | 1,185,799 | 4,990,220 |
| Domestic | 1,180,083 | 301,055 | 1,185,057 | 322,562 |
| Foreign | 15,703 | 3,778,648 | 742 | 4,667,658 |
| Foreign Head Offices and Branches | - | - | - | - |
| Total | 1,195,786 | 4,079,703 | 1,185,799 | 4,990,220 |

Due from foreign banks

| | Unrestricted Balance | | Restricted Balances ^(**) | |
|-------------------------------|----------------------|------------------|-------------------------------------|---------------|
| | Current Period | Prior Period | Current Period | Prior Period |
| EU Countries | 418,643 | 201,714 | - | - |
| USA, Canada | 2,753,327 | 3,678,985 | 308,742 | 77,170 |
| OECD Countries ^(*) | 89,546 | 590,452 | - | - |
| Off-shore Banking Regions | 1,059 | 785 | - | 1 |
| Others | 223,034 | 119,131 | - | 162 |
| Total | 3,485,609 | 4,591,067 | 308,742 | 77,333 |

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

(**) Restricted balances that occur from securitisation loans and other common banking activities

4. Information on available-for-sale financial assets

Available-for-sale financial assets given as collateral or blocked

| | Current Period | | Prior Period | |
|---|------------------|------------------|------------------|------------------|
| | TL | FC | TL | FC |
| Equity shares | - | - | - | - |
| Bonds, treasury bills and similar marketable securities | 1,882,699 | 2,051,546 | 1,571,646 | 1,516,438 |
| Other | - | - | - | - |
| Total | 1,882,699 | 2,051,546 | 1,571,646 | 1,516,438 |

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I. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED ASSETS (Continued)

Available-for-sale financial assets subject to repurchase agreements

| | Current Period | | Prior Period | |
|-------------------------------------|------------------|------------------|------------------|------------------|
| | TL | FC | TL | FC |
| Government bonds | 3,775,304 | - | 3,621,980 | - |
| Treasury bills | - | - | - | - |
| Other debt securities | - | 2,113,320 | - | 2,647,350 |
| Bonds issued or guaranteed by banks | - | - | - | - |
| Asset backed securities | - | - | - | - |
| Total | 3,775,304 | 2,113,320 | 3,621,980 | 2,647,350 |

Information on available-for-sale financial assets

| | Current Period | Prior Period |
|---|-------------------|-------------------|
| Debt securities | 18,832,215 | 17,432,577 |
| Quoted on a Stock Exchange | 18,832,215 | 17,432,577 |
| Unquoted | - | - |
| Equity securities | 27,610 | 79,253 |
| Quoted on a Stock Exchange | - | - |
| Unquoted | 27,610 | 79,253 |
| Provisions for impairment losses (-) | 240,745 | 175,719 |
| Total | 18,619,080 | 17,336,111 |

5. Information on loans

Information on all types of loans and advances given to shareholders and employees of the Parent Bank

| | Current Period | | Prior Period | |
|--|----------------|---------------|----------------|---------------|
| | Cash | Non-Cash | Cash | Non-Cash |
| Direct loans provided to the shareholders | - | 31,720 | - | 28,550 |
| Legal entities | - | 31,720 | - | 28,550 |
| Real persons | - | - | - | - |
| Indirect loans provided to the shareholders | - | - | - | - |
| Loans provided to the employees | 117,544 | 41 | 103,366 | 13 |
| Total | 117,544 | 31,761 | 103,366 | 28,563 |

Information about loans classified in the first and second group and other receivables and loans that have been restructured or rescheduled

| Cash Loans | Standard loans and other receivables | | | Loans and other receivables under close monitoring | | |
|---------------------------------|--------------------------------------|-------------------------------|-------|--|-------------------------------|-------|
| | Loans and other receivables | Agreement conditions modified | | Loans and other receivables | Agreement conditions modified | |
| | | Payment plan extensions | Other | | Payment plan extensions | Other |
| Non-specialized loans | 139,967,671 | 1,473,046 | - | 5,419,037 | 1,534,582 | - |
| Loans given to enterprises | 42,428,085 | 807,393 | - | 1,711,000 | 1,131,062 | - |
| Export loans | 5,260,079 | - | - | 287,483 | 49,334 | - |
| Import loans | - | - | - | - | - | - |
| Loans given to financial sector | 3,519,976 | - | - | 4,875 | - | - |
| Consumer loans | 34,558,169 | 273,354 | - | 1,511,270 | 215,892 | - |
| Credit cards | 5,576,319 | - | - | 303,582 | 94,251 | - |
| Other | 48,625,043 | 392,299 | - | 1,600,827 | 44,043 | - |
| Specialized lending | 717 | - | - | - | - | - |
| Other receivables | 9,441 | - | - | - | - | - |
| Total | 139,977,829 | 1,473,046 | - | 5,419,037 | 1,534,582 | - |

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I. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED ASSETS (Continued)

Information related to the changes in the payment plans of loans and other receivables:

| <i>Number of modifications to extend payment plans</i> | <i>Standard Loans and Other Receivables (*)</i> | <i>Loans and other receivables under close monitoring (*)</i> |
|--|---|---|
| Extended for 1 or 2 times | 1,473,046 | 1,168,269 |
| Extended for 3,4 or 5 times | - | - |
| Extended for more than 5 times | - | - |

| <i>Extended period of time</i> | <i>Standard Loans and Other Receivables (*)</i> | <i>Loans and other receivables under close monitoring (*)</i> |
|--------------------------------|---|---|
| 0-6 Months | 6,768 | 222 |
| 6-12 Months | 9,781 | 12,283 |
| 1-2 Years | 44,284 | 74,260 |
| 2-5 Years | 1,185,501 | 991,589 |
| 5 Years and Over | 226,712 | 89,915 |

(*) The a and b paragraph of the 4th article of the 5th paragraph is the loan balances within the scope of the “Regulation on Accounting Applications for Banks and Safeguarding of Documents” published in the Official Gazette no.27947 dated 28 May 2011.

Maturity analysis of cash loans

| | Performing Loans and Other Receivables | | Loans under Follow-Up and Other Receivables | |
|--|---|--|--|--|
| | <i>Loans and Other Receivables</i> | <i>Restructured or Rescheduled Loans and Other Receivables</i> | <i>Loans and Other Receivables</i> | <i>Restructured or Rescheduled Loans and Other Receivables</i> |
| Cash loans | | | | |
| Short-term Loans and Other Receivables | 38,184,364 | 8,627 | 2,148,865 | 238,926 |
| Loans | 38,184,364 | 8,627 | 2,148,865 | 238,926 |
| Specialization loans | - | - | - | - |
| Other Receivables | - | - | - | - |
| Medium, Long-term Loans and Other Receivables | 101,793,465 | 1,464,419 | 3,270,172 | 1,295,656 |
| Loans | 101,783,307 | 1,464,419 | 3,270,172 | 1,295,656 |
| Specialization loans | 717 | - | - | - |
| Other Receivables | 9,441 | - | - | - |

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I. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED ASSETS (Continued)

Consumer loans, retail credit cards, personnel loans and personnel credit cards

| | Short-Term | Medium and Long-Term | Total |
|---|------------------|-------------------------|-------------------|
| Consumer loans – TL | 435,289 | 33,910,437 | 34,345,726 |
| Housing loans | 9,769 | 16,973,350 | 16,983,119 |
| Automobile loans | 4,568 | 407,802 | 412,370 |
| General purpose loans | 420,952 | 16,529,285 | 16,950,237 |
| Other | - | - | - |
| Consumer loans – FC indexed | - | - | - |
| Housing loans | - | - | - |
| Automobile loans | - | - | - |
| General purpose loans | - | - | - |
| Other | - | - | - |
| Consumer loans – FC | 1,490 | 5,197 | 6,687 |
| Housing loans | - | - | - |
| Automobile loans | - | - | - |
| General purpose loans | 1,490 | 5,197 | 6,687 |
| Other | - | - | - |
| Retail credit cards – TL | 4,309,521 | 98,976 | 4,408,497 |
| With instalment | 1,939,141 | 90,057 | 2,029,198 |
| Without instalment | 2,370,380 | 8,919 | 2,379,299 |
| Retail credit cards – FC | 11,814 | - | 11,814 |
| With instalment | - | - | - |
| Without instalment | 11,814 | - | 11,814 |
| Personnel loans – TL | 3,607 | 48,173 | 51,780 |
| Housing loans | - | - | - |
| Automobile loans | - | - | - |
| General purpose loans | 3,607 | 48,173 | 51,780 |
| Other | - | - | - |
| Personnel loans – FC indexed | - | - | - |
| Housing loans | - | - | - |
| Automobile loans | - | - | - |
| General purpose loans | - | - | - |
| Other | - | - | - |
| Personnel loans – FC | 488 | - | 488 |
| Housing loans | - | - | - |
| Automobile loans | - | - | - |
| General purpose loans | 488 | - | 488 |
| Other | - | - | - |
| Personnel credit cards – TL | 64,461 | 459 | 64,920 |
| With instalment | 25,745 | 430 | 26,175 |
| Without instalment | 38,716 | 29 | 38,745 |
| Personnel credit cards – FC | 356 | - | 356 |
| With instalment | - | - | - |
| Without instalment | 356 | - | 356 |
| Overdraft Checking Accounts – TL (Real person) | 2,153,837 | - | 2,153,837 |
| Overdraft Checking Accounts – FC (Real person) | 167 | - | 167 |
| Total | 6,981,030 | 34,063,242 | 41,044,272 |

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I. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED ASSETS (Continued)

Instalment based commercial loans and corporate credit cards

| | Short-Term | Medium and Long-Term | Total |
|---|------------------|----------------------|-------------------|
| Instalment-based commercial loans – TL | 1,108,714 | 25,693,806 | 26,802,520 |
| Real estate loans | 2,604 | 921,104 | 923,708 |
| Automobile loans | 72,188 | 1,545,597 | 1,617,785 |
| General purpose loans | 1,033,922 | 23,227,105 | 24,261,027 |
| Other | - | - | - |
| Instalment-based commercial loans – FC indexed | 28,251 | 1,448,225 | 1,476,476 |
| Real estate loans | - | - | - |
| Automobile loans | - | 23,316 | 23,316 |
| General purpose loans | 28,251 | 1,424,909 | 1,453,160 |
| Other | - | - | - |
| Instalment-based commercial loans – FC | 869,367 | 8,331,644 | 9,201,011 |
| Real estate loans | - | - | - |
| Automobile loans | - | - | - |
| General purpose loans | 869,367 | 8,331,644 | 9,201,011 |
| Other | - | - | - |
| Corporate credit cards – TL | 1,487,374 | 292 | 1,487,666 |
| With instalment | 388,896 | 292 | 389,188 |
| Without instalment | 1,098,478 | - | 1,098,478 |
| Corporate credit cards – FC | 899 | - | 899 |
| With instalment | - | - | - |
| Without instalment | 899 | - | 899 |
| Overdraft Checking Accounts – TL (Corporate) | 1,041,146 | - | 1,041,146 |
| Overdraft Checking Accounts – FC (Corporate) | - | - | - |
| Total | 4,535,751 | 35,473,967 | 40,009,718 |

Allocation of loan customers

| | Current Period | Prior Period |
|----------------|--------------------|--------------------|
| Public Sector | 2,537,136 | 990,679 |
| Private Sector | 145,867,358 | 124,060,066 |
| Total | 148,404,494 | 125,050,745 |

Allocation of domestic and overseas loans

| | Current Period | Prior Period |
|----------------|--------------------|--------------------|
| Domestic loans | 147,783,305 | 124,574,596 |
| Foreign loans | 621,189 | 476,149 |
| Total | 148,404,494 | 125,050,745 |

Loans to associates and subsidiaries

| | Current Period | Prior Period |
|---|----------------|--------------|
| Direct loans to associates and subsidiaries | 10 | 1,071 |
| Indirect loans to associates and subsidiaries | - | - |
| Total | 10 | 1,071 |

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DISCLOSURE AND FOOTNOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED ASSETS (Continued)

Specific provisions for loans

| Specific Provisions | Current Period | Prior Period |
|--|------------------|------------------|
| Loans and receivables with limited collectability | 389,259 | 99,970 |
| Loans and receivables with doubtful collectability | 553,966 | 388,461 |
| Uncollectible loans and receivables | 4,589,383 | 3,740,748 |
| Total | 5,532,608 | 4,229,179 |

Information on non-performing loans (Net)

Information on non-performing loans and other receivables restructured or rescheduled

| | Group III Loans and receivables with limited collectability | Group IV Loans and receivables with doubtful collectability | Group V Uncollectible loans and receivables |
|--|---|---|--|
| Current period | 137,005 | 176,551 | 78,606 |
| (Gross amounts before the specific reserves) | - | - | - |
| Loans and other receivables which are restructured | - | - | - |
| Rescheduled loans and other receivables | 137,005 | 176,551 | 78,606 |
| Prior period | 51,611 | 88,881 | 59,591 |
| (Gross amounts before the specific reserves) | - | - | - |
| Loans and other receivables which are restructured | - | - | - |
| Rescheduled loans and other receivables | 51,611 | 88,881 | 59,591 |

Movements in non-performing loan groups

| | Group III Loans and receivables with limited collectability | Group IV Loans and receivables with doubtful collectability | Group V Uncollectible loans and receivables |
|--|---|---|--|
| Balance at the beginning of the period | 501,060 | 784,848 | 3,852,205 |
| Additions (+) | 2,864,977 | 24,217 | 68,181 |
| Transfers from other categories of loans under follow-up (+) | - | 2,100,561 | 1,501,355 |
| Transfers to other categories of loans under follow-up (-) (*) | 2,123,723 | 1,525,674 | 151,752 |
| Collections (-) | 295,618 | 277,426 | 630,110 |
| Write-offs (-) | - | - | 1,341 |
| Corporate and commercial loans | - | - | - |
| Retail loans | - | - | - |
| Credit cards | - | - | - |
| Other | - | - | 1,341 |
| Currency differences | - | - | 11,623 |
| Balance at the end of the period | 946,696 | 1,106,526 | 4,650,161 |
| Specific provisions (-) (**) | 389,259 | 553,966 | 4,589,383 |
| Net balance on balance sheet | 557,437 | 552,560 | 60,778 |

(*) Loans that are transferred from non-performing loans to restructured loans are presented in the transfers to other categories of loans under follow-up lines.

(**) As of December 31, 2016, the Parent Bank reserved 100% provision within additional TL 199,075 provision rather than 20% for TL 248,844 after the date it was placed in the 3rd Group.

Uncollectible loans and other receivables are collected through liquidation of collaterals and legal follow-up.

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I. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED ASSETS (Continued)

Information on non-performing loans and other receivables in foreign currencies

| | Group III Loans and receivables with limited collectability | Group IV Loans and receivables with doubtful collectability | Group V Uncollectible loans and receivables |
|-------------------------------------|---|---|--|
| Current Period | | | |
| Balance at the end of the period | 64,048 | 17,087 | 423,134 |
| Specific provision (-) | 52,069 | 8,807 | 382,751 |
| Net balance on balance sheet | 11,979 | 8,280 | 40,383 |
| Prior Period | | | |
| Balance at the end of the period | 24,405 | 88,660 | 380,742 |
| Specific provision (-) | 5,902 | 44,296 | 340,558 |
| Net balance on balance sheet | 18,503 | 44,364 | 40,184 |

Non-performing loans due to foreign currency denominated loans provided by the Parent Bank or domestic financial subsidiaries are followed in TL accounts, while non-performing loans provided by subsidiaries in abroad are followed in foreign currency accounts.

Explanation on Write-off Policy

The Group writes off a loan balance (and any related allowances for impairment losses) when it is concluded that those loans are uncollectible. This conclusion is given after considering information such as the occurrence of significant changes in the borrower / issuer’s financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, charge off decisions generally are based on a product specific past due status.

The gross and net amounts of non-performing loans according to user groups

| | Group III Loans and receivables with limited collectability | Group IV Loans and receivables with doubtful collectability | Group V Uncollectible loans and receivables |
|--|---|---|--|
| Current Period (Net) | | | |
| Consumer and Commercial Loans (Gross) | 946,563 | 1,097,026 | 4,551,110 |
| Specific Provision (-) | 389,232 | 549,216 | 4,490,332 |
| Consumer and Commercial Loans (Net) | 557,331 | 547,810 | 60,778 |
| Banks (Gross) | - | - | 8,761 |
| Specific Provision (-) | - | - | 8,761 |
| Banks (Net) | - | - | - |
| Other Loans and Receivables (Gross) | 133 | 9,500 | 90,290 |
| Specific Provision (-) | 27 | 4,750 | 90,290 |
| Other Loans and Receivables (Net) | 106 | 4,750 | - |
| Prior Period (Net) | | | |
| Consumer and Commercial Loans (Gross) | 494,639 | 775,650 | 3,773,247 |
| Specific Provision (-) | 98,686 | 383,862 | 3,661,790 |
| Consumer and Commercial Loans (Net) | 395,953 | 391,788 | 111,457 |
| Banks (Gross) | - | - | 7,517 |
| Specific Provision (-) | - | - | 7,517 |
| Banks (Net) | - | - | - |
| Other Loans and Receivables (Gross) | 6,421 | 9,198 | 71,441 |
| Specific Provision (-) | 1,284 | 4,599 | 71,441 |
| Other Loans and Receivables (Net) | 5,137 | 4,599 | - |

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I. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED ASSETS (Continued)

6. Information on held-to-maturity investments

Held-to-maturity debt securities issued by the governments

| | Current Period | | Prior Period | |
|--|------------------|----------|------------------|----------|
| | TL | FC | TL | FC |
| Government bonds | 8,039,914 | - | 7,546,748 | - |
| Treasury bills | - | - | - | - |
| Other securities issued by the governments | - | - | - | - |
| Total | 8,039,914 | - | 7,546,748 | - |

Information on held-to-maturity investment securities

| | Current Period | Prior Period |
|------------------------------------|------------------|------------------|
| Debt Securities | 8,187,293 | 7,683,950 |
| <i>Quoted at stock exchanges</i> | 8,046,672 | 7,552,969 |
| <i>Unquoted at stock exchanges</i> | 140,621 | 130,981 |
| Impairment losses (-) | 6,758 | 6,221 |
| Total | 8,180,535 | 7,677,729 |

The movement table of the held-to-maturity investments

| | Current Period | Prior Period |
|---|------------------|------------------|
| Balances at the beginning of the period | 7,677,729 | 6,854,593 |
| Foreign currency differences on monetary assets | 7,371 | 44,702 |
| Purchases during the period | 1,873,688 | 1,610,704 |
| Transfers to available for sale portfolio | - | - |
| Disposals through sales/redemptions | (1,673,758) | (1,129,187) |
| Impairment losses | (537) | (366) |
| Change in amortized costs of the securities (*) | 296,042 | 297,283 |
| Balances at the end of the period | 8,180,535 | 7,677,729 |

(*) Changes in the amortized costs of the marketable securities also include rediscount differences in marketable securities.

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I. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED ASSETS (Continued)

Information on held-to-maturity investments

| Current Period | Cost | | Carrying Value | |
|--|------------------|----------------|------------------|----------------|
| | TL | FC | TL | FC |
| Collateralized/blocked investment securities | 556,248 | 140,600 | 576,573 | 140,621 |
| Investments subject to repurchase agreements | 4,680,338 | - | 5,323,556 | - |
| Held for structural position | - | - | - | - |
| Receivable from security borrowing markets | - | - | - | - |
| Collateral for security borrowing markets | - | - | - | - |
| Other (*) | 1,821,464 | - | 2,139,785 | - |
| Total | 7,058,050 | 140,600 | 8,039,914 | 140,621 |

| Prior Period | Cost | | Carrying Value | |
|--|------------------|----------------|------------------|----------------|
| | TL | FC | TL | FC |
| Collateralized/blocked investment securities | 495,970 | 130,950 | 527,655 | 130,981 |
| Investments subject to repurchase agreements | 5,428,798 | - | 6,050,350 | - |
| Held for structural position | - | - | - | - |
| Receivable from security borrowing markets | - | - | - | - |
| Collateral for security borrowing markets | - | - | - | - |
| Other (*) | 935,631 | - | 968,743 | - |
| Total | 6,860,399 | 130,950 | 7,546,748 | 130,981 |

(*) The securities held as free that are not subject to collateral/blockage or other transactions are presented in the “Other” line.

7. Investments in associates

Unconsolidated investments in associates

| Title | Address (City/ Country) | Parent Bank’s Share – If Different, Voting Bank Risk Group’s Share | |
|--|-------------------------|---|-----------------------------|
| | | Rights (%) | Bank Risk Group’s Share (%) |
| 1 Roketsan Roket Sanayi ve Ticaret A.Ş. (*) | Ankara/Turkey | 9.93 | 9.93 |
| 2 Bankalararası Kart Merkezi A.Ş. | İstanbul/Turkey | 9.70 | 9.70 |
| 3 KKB Kredi Kayıt Bürosu A.Ş. (*) | İstanbul/Turkey | 9.09 | 9.09 |
| 4 Güçbirliği Holding A.Ş. | İzmir/Turkey | 0.07 | 0.07 |
| 5 İzmir Enternasyonal Otelcilik A.Ş. | İstanbul/Turkey | 5.00 | 5.00 |
| 6 İstanbul Takas ve Saklama Bankası A.Ş. (*) | İstanbul/Turkey | 4.37 | 4.37 |
| 7 Kredi Garanti Fonu A.Ş. (*) | Ankara/Turkey | 1.69 | 1.69 |
| 8 Tasfiye Halinde World Vakıf UBB Ltd. | Lefkoşa/NCTR | 82.00 | 85.33 |

| | Total Assets | Equity | Tangible Assets | Interest Income | Income on Securities Portfolio | Current Year’s Profit/(Loss) | Prior Period’s Profit/Loss | Fair Value |
|---|--------------|-----------|-----------------|-----------------|--------------------------------|------------------------------|----------------------------|------------|
| 1 | 3,378,510 | 905,733 | 559,578 | 10,028 | - | 128,591 | (50,090) | - |
| 2 | 80,262 | 39,897 | 50,021 | 1,068 | - | 10,403 | 3,869 | - |
| 3 | 185,448 | 129,647 | 135,578 | 2,817 | - | 16,458 | 26,782 | - |
| 4 | 141,180 | (35,523) | 87,993 | 623 | - | (3,360) | (17,521) | - |
| 5 | 102,529 | (30,230) | 87,135 | 7 | - | (30,601) | (18,136) | - |
| 6 | 7,494,521 | 994,440 | 103,049 | 216,309 | 5,881 | 162,178 | 132,453 | - |
| 7 | 324,489 | 298,991 | 7,563 | 12,390 | - | 17,738 | 19,899 | - |
| 8 | 1,631 | (104,975) | - | 13,833 | - | (8,988) | (7,452) | - |

(*)The financial statement information provided for these associates is taken from the financial statements dated September 30, 2016.

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I. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED ASSETS (Continued)

In the prior period, subsequent to the approval of the decision of the capital of Kredi Garanti Fonu A.Ş. in the Ordinary Meeting of General Assembly of the Company dated 31 March 2015, an associate of the Bank, has been increased from TL 240,000 to TL 278,439, TL 29,000 is paid from company’s own resources and TL 9,439 is paid cash by two new shareholders and registered to commercial register on 10 April 2015. After the capital increase, Bank’s current nominal share has been increased from TL 4,211 to TL 4,719 by a bonus increase of TL 509 and Bank’s share percentage will be decreased from 1.75% to 1.69% after the involvement of two shareholders as at 10 April 2015.

The title of World Vakıf Off Shore Banking Ltd, a subsidiary of the Bank, was changed as World Vakıf UBB. Ltd. on 4 February 2009. Pursuant to the 4 March 2010 dated and 764 numbered decision of Board of Directors of Central Bank of Turkish Republic of Northern Cyprus, the official authorisation of World Vakıf UBB Ltd., operating in NCTR, is abrogated due to incompliance with the 7th and 9th articles of 41/2008 numbered Law of International Banking Units. According to 24 May 2010 dated decision of the Nicosia Local Court, World Vakıf UBB Ltd. will be liquidated and NCTR Company Registrar is appointed to carry out liquidation process. In year 2010, due to loss of control over Company, World Vakıf UBB Ltd. has been reclassified as “Investments in associates”. The liquidation process of World Vakıf UBB Ltd, an associate of the Bank, has been carried out by NCTR Collecting and Liquidation Office. The application of the company for cancellation of the liquidation has been rejected and the decision of liquidation has been agreed on 27 August 2013. Thus, the company’s title has been changed as “World Vakıf UBB Ltd in Liquidation”.

Unconsolidated associates, reasons for not consolidating such investments and accounting treatments applied for such investments:

İstanbul Takas ve Saklama Bankası A.Ş. and Kredi Garanti Fonu A.Ş. have not been consolidated since their total assets and net operating profit/loss) individually or as a whole, do not comprise a material portion within the consolidated totals. Since Bankalararası Kart Merkezi A.Ş., Kredi Kayıt Bürosu A.Ş., Roketsan Roket Sanayi ve Ticaret A.Ş., Güçbirliği Holding A.Ş. and İzmir Enternasyonal A.Ş. are not financial associates; these associates have not been consolidated. These associates have been accounted for as per TAS-39 in the consolidated financial statements.

Consolidated investments in associates

| Title | Address (City/ Country) | Parent Bank’s Share – If Different, Voting Rights (%) | | Bank Risk Group’s Share (%) | |
|---------------------------------------|----------------------------|---|--|--------------------------------|--|
| | | | | | |
| 1 Kıbrıs Vakıflar Bankası Ltd. (*) | Lefkoşa/NCTR | 15.00 | | 15.00 | |
| 2 Türkiye Sınai Kalkınma Bankası A.Ş. | İstanbul/Turkey | 8.38 | | 8.38 | |

| | Total Assets | Equity | Tangible Assets | Interest Income | Income on Securities Portfolio | Current Year’s Profit/Loss | Prior Period’s Profit/Loss | Fair Value |
|---|--------------|-----------|--------------------|--------------------|--------------------------------------|----------------------------------|----------------------------------|---------------|
| 1 | 857,279 | 85,887 | 6,521 | 51,689 | 2,679 | 3,640 | 5,285 | - |
| 2 | 24,875,486 | 3,143,053 | 793,595 | 1,056,021 | 357,490 | 443,431 | 407,231 | 2,897,829 |

(*) The financial statement information provided for these associates is taken from the financial statements dated September 30, 2016.

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DISCLOSURE AND FOOTNOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED ASSETS (Continued)

In the current period, subsequent to the approval of the decision to increase the paid-in capital of Kıbrıs Vakıflar Bankası LTD. from TL 40,000 to TL 70,000 in the Extraordinary Meeting of the General Assembly of the Company dated 12 May 2016. The share of the Bank amounting to TL 4,500 is presented in the movement table of investments in associates as bonus shares received.

In the current period, subsequent to the approval of the decision to increase the paid-in capital of Türkiye Sınai Kalkınma Bankası AŞ from TL 1,750,000 to TL 2,050,000 in the Ordinary Meeting of General Assembly of the Company dated 24 March 2016, the share of the Bank amounting to TL 25,132 is presented in the movement table of investments in associates as bonus shares received.

In the prior period, subsequent to the approval of the decision to increase the paid-in capital of Türkiye Sınai Kalkınma Bankası AŞ from TL 1,500,000 to TL 1,750,000 in the Ordinary Meeting of General Assembly of the Company dated 26 March 2015, the share of the Bank amounting to TL 20,944 is presented in the movement table of investments in associates as bonus shares received.

Movement of consolidated investments in associates

| | Current Period | Prior Period |
|--|-----------------------|---------------------|
| Balance at the beginning of the period | 224,269 | 259,957 |
| Movements during the period | 29,188 | (35,688) |
| Transfers | - | - |
| Acquisitions | - | - |
| Bonus shares received | 29,632 | 20,944 |
| Share of current year profit | - | - |
| Sales/liquidations | - | - |
| Fair value changes | (444) | (56,632) |
| Impairment losses | - | - |
| Balance at the end of the period | 253,457 | 224,269 |
| Capital commitments | - | - |
| Share percentage at the end of period (%) | - | - |

Sectoral distribution of consolidated investments and associates

| | Current Period | Prior Period |
|----------------------------|-----------------------|---------------------|
| Banks | 253,457 | 224,269 |
| Insurance companies | - | - |
| Factoring companies | - | - |
| Leasing companies | - | - |
| Financing companies | - | - |
| Other financial associates | - | - |
| Total | 253,457 | 224,269 |

Quoted associates

| | Current Period | Prior Period |
|---|-----------------------|---------------------|
| Quoted at domestic stock exchanges | 242,838 | 218,150 |
| Quoted at international stock exchanges | - | - |
| Total | 242,838 | 218,150 |

Investments in associates disposed during the period

There is not any associate disposed by the Parent Bank in the current period.

Investments in associates acquired during the period

There is not any associate acquired by the Parent Bank in the current period.

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DISCLOSURE AND FOOTNOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED ASSETS (Continued)

8. Investments in subsidiaries

Information on significant subsidiaries

| | Vakıfbank International AG | Vakıf Finansal Kiralama A.Ş. | Vakıf Yatırım Menkul Değerler A.Ş. | Vakıf Faktoring A.Ş. | Güneş Sigorta A.Ş. | Vakıf Emeklilik A.Ş. | Vakıf Portföy Yönetimi A.Ş. | Vakıf Gayrimenkul Yat. Ort. A.Ş. | Vakıf Menkul Kıymet Yat. Ort. A.Ş. |
|--|----------------------------------|---------------------------------|---|----------------------------|-----------------------|----------------------------|--------------------------------|--|---|
| Paid in Capital | 114,483 | 87,000 | 35,000 | 22,400 | 270,000 | 26,500 | 12,000 | 213,000 | 20,000 |
| Share Premium | - | - | - | - | 655 | - | - | 246,731 | - |
| Adjustment to paid-in capital | - | 255 | (271) | 28,882 | (2,011) | 6,881 | 56 | 21,619 | 62 |
| Valuation changes in marketable securities | 27,447 | 3,470 | 66,346 | 347 | 275,328 | 468 | - | - | - |
| Profit on sale of associates, subsidiaries and buildings | - | 17,517 | - | - | 204,865 | 50,005 | - | 547 | - |
| Bonus shares from investment and associates, subsidiaries and joint ventures (business partners) | - | - | - | - | 59 | 191 | - | - | - |
| Legal Reserves | 9,279 | 5,110 | 5,644 | 5,824 | 17,179 | 18,385 | 965 | 6,390 | 395 |
| Extraordinary Reserves | - | 33,398 | 7,368 | 48,296 | 19,246 | 68,476 | 1,577 | 97,360 | - |
| Other Profit Reserves | 241,123 | - | 2,308 | - | - | - | - | - | - |
| Profit/Loss | 131,119 | 23,281 | 3,981 | 16,097 | (436,362) | 134,798 | 6,855 | 16,418 | (3,008) |
| <i>Prior Period's Profit/Loss</i> | <i>106,801</i> | <i>-</i> | <i>(4,587)</i> | <i>-</i> | <i>(384,215)</i> | <i>82,533</i> | <i>-</i> | <i>1,015</i> | <i>(2,771)</i> |
| <i>Current Period's Profit/Loss</i> | <i>24,318</i> | <i>23,281</i> | <i>8,568</i> | <i>16,097</i> | <i>(52,147)</i> | <i>52,265</i> | <i>6,855</i> | <i>15,403</i> | <i>(237)</i> |
| Minority Rights | - | 70 | - | - | - | - | - | - | - |
| Total Core Capital | 523,451 | 170,101 | 120,376 | 121,846 | 348,959 | 305,704 | 21,453 | 602,065 | 17,449 |
| SUPPLEMENTARY CAPITAL | - | - | - | - | - | - | - | - | - |
| CAPITAL | 523,451 | 170,101 | 120,376 | 121,846 | 348,959 | 305,704 | 21,453 | 602,065 | 17,449 |
| NET AVAILABLE EQUITY | 523,451 | 170,101 | 120,376 | 121,846 | 348,959 | 305,704 | 21,453 | 602,065 | 17,449 |

Reviewed BRSA financial statements as of December 31, 2016 are considered.

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DISCLOSURE AND FOOTNOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED ASSETS (Continued)

Vakıf Yatırım Menkul Değerler A.Ş., which is one of the consolidated subsidiaries of the Parent Bank, calculates capital adequacy in accordance with “Communiqué on Capital and Capital Adequacy of Intermediary Firms” of Capital Markets Board as six months periods. Güneş Sigorta A.Ş. and Vakıf Emeklilik A.Ş., which are the consolidated subsidiaries of the Parent Bank operating in insurance sector, calculate capital adequacy in accordance with “Communiqué on Capital Adequacy Measurement and Assessment for Insurance, Reinsurance and Pension Firms” published by Republic of Turkey Undersecretariat of Treasury as six months periods. According to the calculations at December 31, 2016, there is no capital requirement for the subsidiaries mentioned.

Unconsolidated investments in subsidiaries

| Title | Address (City / Country) | Bank’s Share –If | Bank’s Risk Group |
|--|--------------------------|------------------------------|-------------------|
| | | Different, Voting Rights (%) | Share (%) |
| 1 Vakıf Enerji ve Madencilik AŞ (**) | Ankara/Turkey | 65.50 | 85.53 |
| 2 Taksim Otelcilik AŞ (*) | İstanbul/Turkey | 51.00 | 51.69 |
| 3 Vakıf Pazarlama Sanayi ve Ticaret AŞ (***) | İstanbul/Turkey | 69.33 | 76.20 |
| 4 Vakıf Gayrimenkul Değerleme AŞ (*) | Ankara/Turkey | 54.29 | 58.73 |

| Total Assets | Equity | Tangible Assets | Interest Income | Income on | Current | Prior Years’ Profit/(Loss) | Fair Value |
|--------------|---------|-----------------|-----------------|----------------------|----------------------|----------------------------|------------|
| | | | | Securities Portfolio | Year’s Profit/(Loss) | | |
| 1 25,406 | 5,916 | 1,042 | 388 | - | 280 | (1,745) | 14,466 |
| 2 366,961 | 354,338 | 234,212 | 6,517 | - | 504 | 9,112 | 400,560 |
| 3 51,313 | 42,516 | 723 | 3,351 | 57 | 3,587 | 3,861 | 58,797 |
| 4 31,687 | 26,423 | 304 | 2,401 | - | 1,269 | 829 | 26,471 |

(*) The financial statement information provided for these subsidiaries is from the financial statements dated September 30, 2016.

(**) The financial statement information provided for these subsidiaries is taken from the financial statements as of June 30, 2016.

(***) The financial statement information provided for these subsidiaries is taken from the financial statements as of December 31, 2015.

Unconsolidated subsidiaries, reasons for not consolidating such investments and accounting treatments applied for such investments:

Vakıf Enerji ve Madencilik A.Ş., Taksim Otelcilik A.Ş., Vakıf Pazarlama Sanayi ve Ticaret A.Ş. and Vakıf Gayrimenkul Değerleme A.Ş. have not been consolidated since they are not among the financial subsidiaries of the Bank. Therefore, the subsidiaries whose fair value can be reliably measured are reflected in the consolidated financial statements at their fair values.

In the previous period, subsequent to the approval of the decision to increase the paid-in capital of Vakıf Gayrimenkul Değerleme A.Ş. from TL 7,000 to TL 14,000 by a bonus increase of TL 7,000 in the Ordinary Meeting of General Assembly of the Company dated 20 March 2015. After the capital increase, The Parent Bank’s current nominal share has been increased from TL 3,800 to TL 7,600 by TL 3,800 and The Parent Bank’s share percentage has been remained the same as 54.29%.

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DISCLOSURE AND FOOTNOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED ASSETS (Continued)

Investments in consolidated subsidiaries

| Title | Address(City / Country) | Bank's Share –If Different Voting Rights (%) | Bank's Risk Group Share (%) |
|---|-------------------------|--|--------------------------------|
| 1 Güneş Sigorta AŞ (**) | İstanbul/Turkey | 48.20 | 48.20 |
| 2 Vakıf Emeklilik AŞ (*) | İstanbul/Turkey | 53.90 | 79.74 |
| 3 Vakıf Faktoring AŞ (*) | İstanbul/Turkey | 78.39 | 88.70 |
| 4 Vakıf Finansal Kiralama AŞ | İstanbul/Turkey | 58.71 | 66.26 |
| 5 Vakıf Yatırım Menkul Değerler AŞ | İstanbul/Turkey | 99.00 | 99.48 |
| 6 Vakıfbank International AG | Vienna/Austria | 90.00 | 90.00 |
| 7 Vakıf Portföy Yönetimi AŞ | İstanbul/Turkey | 100.00 | 100.00 |
| 8 Vakıf Menkul Kıymet Yatırım Ortaklığı AŞ (**) | İstanbul/Turkey | 22.89 | 34.57 |
| 9 Vakıf Gayrimenkul Yatırım Ortaklığı AŞ (**) | İstanbul/Turkey | 38.70 | 40.87 |

| | Total Assets | Equity | Tangible Assets | Interest Income | Income on Securities Portfolio | Current Year's | | Fair Value |
|---|--------------|---------|--------------------|--------------------|--------------------------------------|-----------------|-----------------------------------|---------------|
| | | | | | | Profit / (Loss) | Prior Period's Profit / (Loss) | |
| 1 | 1,756,036 | 433,195 | 565,250 | 45,783 | 2,905 | (50,762) | (162,569) | 282,966 |
| 2 | 5,130,134 | 237,764 | 111,658 | 24,811 | 104 | 38,512 | 25,890 | 800,926 |
| 3 | 919,199 | 118,651 | 2,784 | 77,923 | - | 12,943 | 10,116 | 95,035 |
| 4 | 1,686,534 | 170,103 | 22,015 | 110,521 | - | 23,284 | 23,637 | 134,594 |
| 5 | 437,066 | 120,375 | 1,573 | 18,653 | 142 | 8,568 | (5,459) | 106,298 |
| 6 | 3,513,385 | 493,263 | 1,462 | 75,410 | 19,780 | 23,544 | 8,957 | 482,346 |
| 7 | 22,510 | 21,453 | 110 | 2,077 | 66 | 6,855 | 3,302 | 72,525 |
| 8 | 18,131 | 17,448 | 34 | 295 | 1,211 | (237) | (281) | 22,483 |
| 9 | 1,029,304 | 864,983 | 609,650 | 29,080 | - | 42,425 | 74,144 | 489,932 |

(*) Financial information as at 30 September 2016 has been presented for these subsidiaries.

(**) Although the Bank has ownership of less than 50% of these subsidiaries, the Bank has power to exercise control over the financial and operating policies of the companies

Movement table of consolidated investments in subsidiaries in consolidated financial statements

| | Current Period | Prior Period |
|--|------------------|------------------|
| Balance at the beginning of the period | 1,350,170 | 1,187,597 |
| Movements during the period | 178,058 | 162,573 |
| Transfers | - | - |
| Acquisitions | 76,155 | - |
| Bonus shares received | 24,858 | 805 |
| Share of current year profit | (1,314) | (24,557) |
| Sales and liquidations | - | - |
| Fair value changes | 72,033 | 198,150 |
| Impairment losses | 6,326 | (11,825) |
| Balance at the end of the period | 1,528,228 | 1,350,170 |
| Capital commitments | - | - |
| Share percentage at the end of the period (%) | - | - |

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DISCLOSURE AND FOOTNOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED ASSETS (Continued)

Valuation of consolidated subsidiaries in unconsolidated financial statements

| | Current Period | Prior Period |
|-----------------------------|-----------------------|---------------------|
| Measured at cost | - | - |
| Measured at fair value | 1,528,228 | 1,350,170 |
| Equity method of accounting | - | - |
| Total | 1,528,228 | 1,350,170 |

Sectoral distribution of consolidated investments in financial subsidiaries

| | Current Period | Prior Period |
|------------------------------|-----------------------|---------------------|
| Banks | 434,112 | 434,144 |
| Insurance companies | 568,089 | 480,532 |
| Factoring companies | 74,498 | 62,163 |
| Leasing companies | 79,019 | 45,681 |
| Financing companies | - | - |
| Other financial subsidiaries | 372,510 | 327,650 |
| Total | 1,528,228 | 1,350,170 |

Quoted consolidated subsidiaries

| | Current Period | Prior Period |
|---|-----------------------|---------------------|
| Quoted at domestic stock exchanges | 410,160 | 330,703 |
| Quoted at international stock exchanges | - | - |
| Total | 410,160 | 330,703 |

Consolidated subsidiaries disposed during the period

There is not any disposal in the consolidated subsidiaries in the current year.

Consolidated investments in subsidiaries acquired during the period

The Parent Bank does not have any subsidiary that are purchased in the current period in the scope of consolidation.

In the current period, within the registered capital ceiling of TL 300,000 of Güneş Sigorta A.Ş., the paid-in capital increased from TL 150,000 to TL 270,000 by increasing TL 120,000. In this context, our fair value was fully used in the capital increase of the Company and our Bank's current nominal share was TL 43,619. In addition, TL 32,536 has been paid for the premiums not used by other shareholders (from the shares offered to the public on the BİAŞ share market) for the nominal 32.000.000 shares purchased from the prices formed in the BİST Primary Market. Total share capital of the Bank amounting to TL 76,155 is included in Purchases in the movement table of subsidiaries. After the capital increase, our nominal share of TL 54,524 in the capital of Güneş Sigorta A.Ş. has increased to TL 130,143 and our share of 36.35% has increased to 48.20%.

In the current period, Vakıf Portföy Yönetimi A.Ş.'s capital of TL 3,000 was increased by TL 9,000 through a bonus issue, reaching TL 12,000. Following the bonus issue, the Bank's existing nominal share of TL 3,000 was raised to TL 12,000, representing an increase of TL 9,000, with its shareholding percentage remaining the same (100.00%). Capital amounting to TL 9,000, corresponding to the Bank is booked under Bonus Shares Received in the table of movement of investments in associates.

In the current period, subsequent to the approval of the decision to increase the paid-in capital of Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. from TL 205,400 to TL 213,000 by a bonus increase of TL 7,600 in the Ordinary Meeting of General Assembly of the Company dated 15 April 2016. After the capital increase, Bank's current nominal share has been increased from TL 79,495 to TL 82,436 by bonus increase of 2,941 and Bank's share percentage has been remained the same 38.70%. The share of the Bank amounting to TL 2,941 is presented as bonus shares received in the movement table of investments in subsidiaries.

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I. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED ASSETS (Continued)

In the current period, subsequent to the approval of the decision to increase the paid-in capital of Vakıf Finansal Kiralama A.Ş. from TL 65,000 to TL 87,000 by a bonus increase of TL 22,000 in the Ordinary Meeting of General Assembly of the Company dated 12 April 2016. After the capital increase, Bank’s current nominal share has been increased from TL 38,163 to TL 51,080 by bonus increase of TL 12,917 and Bank’s share percentage has been remained the same 58.71%. The share of the Bank amounting to TL 12,917 is presented as bonus shares received in the movement table of investments in subsidiaries.

In the previous period, the title of Vakıf Finans Factoring Hizmetleri A.Ş. has been changed to Vakıf Faktoring A.Ş., the aforementioned change of title has been registered on 13 April 2015.

In the previous period, subsequent to the approval of the decision to increase the paid-in capital of Vakıf Gayrimenkul Yatırım Ortaklığı A.Ş. from TL 203,320 to TL 205,400 by a bonus increase of TL 2,080 in the Ordinary Meeting of General Assembly of the Company dated 31 March 2015. After the capital increase, Bank’s current nominal share has been increased from TL 78,690 to TL 79,495 by bonus increase of TL 805 and Bank’s share percentage has been remained the same 38.70%. The share of the Bank amounting to TL 805 is presented as bonus shares received in the movement table of investments in subsidiaries.

In the previous period, in total full TL 12 nominal share of Vakıf Portföy Yönetimi A.Ş. has been purchased by Bank from other real person shareholders and Bank has signed share transfer contract with real person shareholders on 11 February 2015. Thus, Bank’s nominal share has been increased from full TL 2,999,988 to full TL 3,000,000. Bank’s share percentage has been increased from 99.99% to 100.00%.

9. Investments in joint-ventures

There is not any investment in joint-ventures of the Group within current and prior period.

10. Information on finance lease receivables (net)

Finance lease receivables disclosed according to remaining maturities

| | Current Period | | Prior Period | |
|---------------------|------------------|------------------|------------------|------------------|
| | Gross | Net | Gross | Net |
| Less than 1 year | 127,815 | 124,560 | 82,589 | 78,324 |
| Between 1-4 years | 1,069,370 | 940,008 | 782,065 | 694,895 |
| Longer than 4 years | 591,496 | 481,841 | 671,417 | 552,606 |
| Total | 1,788,681 | 1,546,409 | 1,536,071 | 1,325,825 |

Net investments in finance lease receivables

| | Current Period | Prior Period |
|--|------------------|------------------|
| Gross finance lease receivables | 1,788,681 | 1,536,071 |
| Unearned income on finance lease receivables (-) | 242,272 | 210,246 |
| Terminated lease contracts (-) | - | - |
| Net finance lease receivables | 1,546,409 | 1,325,825 |

Finance lease agreements

Sum of the minimum lease payments including interest and principal amounts are stated under the “finance lease receivables” as gross. The difference between the total of rent payments and the cost of the related fixed assets is reflected to the “unearned income” account. If the lease payments are made, the lease principal amount is deducted from the “finance lease receivables” as the interest component of the payment is reflected to interest income on the consolidated statement of income.

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I. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED ASSETS (Continued)

11. Information on hedging purpose derivatives

Positive differences on derivative financial instruments held for risk management purposes

None.

12. Information on tangible assets

| | Real Estates | Leased Tangible Assets | Vehicles | Other Tangible Assets | Total |
|--|------------------|------------------------------|--------------|-----------------------------|------------------|
| Balance at the end of the prior year: | | | | | |
| Cost | 1,197,578 | 130,802 | 36,781 | 1,144,069 | 2,509,230 |
| Accumulated depreciation(-) | 6,784 | 121,896 | 32,086 | 687,871 | 848,637 |
| Impairment(-) | 6,475 | - | - | - | 6,475 |
| Net book value | 1,184,319 | 8,906 | 4,695 | 456,198 | 1,654,118 |
| Balance at the end of the current year: | | | | | |
| Net book value at the beginning of the current year | 1,184,319 | 8,906 | 4,695 | 456,198 | 1,654,118 |
| Additions | 70,907 | 2,749 | 2,967 | 177,923 | 254,546 |
| Cost of the disposals | 71,744 | 12,820 | 10,588 | 8,468 | 103,620 |
| Depreciation of the disposals (-) | 2,598 | 12,165 | 10,094 | 7,114 | 31,971 |
| Depreciation of the current year | 7,213 | 3,491 | 2,099 | 125,653 | 138,456 |
| Impairment (-) | (244) | - | - | - | (244) |
| Exchange differences related to foreign associates | 88 | - | (20) | 4,232 | 4,300 |
| Cost at the end of the current year | 1,196,829 | 120,731 | 29,140 | 1,317,756 | 2,664,456 |
| Accumulated depreciation at the end of the year (-) | 11,399 | 113,222 | 24,091 | 806,410 | 955,122 |
| Impairment (-) | 6,231 | - | - | - | 6,231 |
| Net book value at the end of the current year | 1,179,199 | 7,509 | 5,049 | 511,346 | 1,703,103 |

13. Information on intangible assets

Group’s intangible assets consist of computer softwares and licenses. The estimated useful life of intangible assets is five years. Intangible assets are amortized on a straight-line basis through the estimated useful lives over their costs adjusted for inflation for the items purchased before 31 December 2004, over their initial costs for the items purchased after 31 December 2004.

In the current year an intangible asset that presents severity for the financial statements does not exist.

Additionally the Group does not have intangible assets, which are obtained by government incentives, recorded at fair value, have utilisation restrictions or have been pledged.

The Group has not declared a commitment to purchase intangible assets.

14. Information on investment properties

As of December 31, 2016, the Group has investment properties that have book amount of its subsidiaries which are operating in the insurance business is TL 8,877 (December 31, 2015: TL 9,924) and its subsidiaries which are operating in real estate investment business is TL 345,508 (December 31, 2015: TL 277,802).

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I. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED ASSETS (Continued)

15. Information on tax assets

(a) Current tax assets

As at December 31, 2016 the current tax asset of the Group amounts to TL 835 (December 31, 2015: TL 3,731).

(b) Deferred tax assets

Items generating deferred tax assets or liabilities are listed below as at December 31, 2016 and December 31, 2015:

| | Current Period | Prior Period |
|---|----------------|----------------|
| Provision for employee termination benefits and unused vacations | 97,828 | 91,563 |
| Other provisions | 93,646 | 81,175 |
| Valuation differences of associates and subsidiaries | 27,488 | 27,704 |
| Deductible financial losses | 26,418 | 26,418 |
| Investment incentives | 4,314 | 9,697 |
| Valuation differences of financial assets and liabilities | 82,263 | 78,160 |
| Reporting Standards - Tax Code depreciation differences | 6,330 | 7,252 |
| Other differences | 16,268 | 5,209 |
| Deferred tax assets | 354,555 | 327,178 |
| Net-off of the deferred tax assets and liabilities from the same entity | (157,468) | (187,993) |
| Deferred tax assets, (net) | 197,087 | 139,185 |
| Valuation differences of financial assets and liabilities | 119,153 | 133,654 |
| Valuation difference for associates and subsidiaries | 17,511 | 18,421 |
| Valuation differences of properties | 39,593 | 47,351 |
| Other differences | 4,235 | 11,657 |
| Deferred tax liabilities | 180,492 | 211,083 |
| Net-off of the deferred tax assets and liabilities from the same entity | (157,468) | (187,993) |
| Deferred tax liabilities, (net) | 23,024 | 23,090 |

As at December 31, 2016 and December 31, 2015, items generating deferred tax assets or liabilities movement table is listed below:

| | Current Period | Previous Period |
|---|----------------|-----------------|
| As of 1 January | 116,095 | 157,751 |
| Deferred tax income/loss | 17,554 | (109,715) |
| Deferred tax that is accounted under equity | 44,360 | 70,314 |
| Other | (3,946) | (2,255) |
| Deferred tax asset/(liability) | 174,063 | 116,095 |

The reconciliation of the deferred tax on the assets directly related to the equity is as follows as of 31 December 2016 and 31 December 2015:

| | Current period | Prior Period |
|-------------------------------|----------------|---------------|
| Securities available for sale | 48,081 | 116,514 |
| Associates and subsidiaries | (1,371) | 1,638 |
| Tangible assets | (1,911) | (47,351) |
| Actuarial gains and losses | (439) | (487) |
| Total | 44,360 | 70,314 |

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I. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED ASSETS (Continued)

16. Information on assets held for sale and assets related to the discontinued operations

As at December 31, 2016, net book value of assets held for sale of the Group is amounting to TL 1,228,102 (December 31, 2015: TL 994,991).

17. Information on other assets

As at December 31, 2016 and December 31, 2015, the details of other assets are as follows:

| | Current Period | Prior Period |
|---|-----------------------|---------------------|
| Receivables from insurance operations | 928,905 | 1,002,182 |
| Receivables from credit card payments | 988,257 | 923,489 |
| Prepaid expenses | 522,306 | 669,777 |
| Guarantees given for repurchase agreements | - | 143,978 |
| Guarantees given for derivative financial instruments | 1,876,321 | 501,035 |
| Receivables from term sale of assets | 21,746 | 44,567 |
| Receivables from reinsurance companies | 27,240 | 23,311 |
| Deferred commission expenses | 59,891 | 68,427 |
| Other | 1,158,351 | 675,587 |
| Total | 5,583,017 | 4,052,353 |

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II. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED LIABILITIES

1. Information on maturity profile of deposits

| Current Period | Demand | 7 Days Notice | Up to 1 Month | 1-3 Months | 3-6 Months | 6-12 Months | 1 Year and Over | Accumulating Deposit Accounts | Total |
|------------------------------|-------------------|------------------|-------------------|-------------------|------------------|------------------|--------------------|-------------------------------------|--------------------|
| Saving deposits | 5,705,688 | - | 1,680,889 | 25,414,440 | 1,642,146 | 289,813 | 164,353 | 268 | 34,897,597 |
| Foreign currency deposits | 5,459,945 | - | 2,646,284 | 18,828,852 | 1,782,652 | 1,397,067 | 5,744,196 | - | 35,858,996 |
| Residents in Turkey | 4,811,159 | - | 2,639,895 | 18,521,686 | 1,479,501 | 544,129 | 943,203 | - | 28,939,573 |
| Residents in abroad | 648,786 | - | 6,389 | 307,166 | 303,151 | 852,938 | 4,800,993 | - | 6,919,423 |
| Public sector deposits | 5,358,931 | - | 5,219,406 | 6,965,059 | 768,349 | 2,589,066 | 115,942 | - | 21,016,753 |
| Commercial deposits | 2,896,213 | - | 6,103,794 | 7,131,196 | 1,488,185 | 312,555 | 9,299 | - | 17,941,242 |
| Other | 4,168,961 | - | 1,901,192 | 3,401,011 | 881,451 | 85,146 | 20,450 | - | 10,458,211 |
| Precious metal deposits | 1,010,609 | - | - | - | - | - | - | - | 1,010,609 |
| Bank deposits | 243,644 | - | 3,239,174 | 1,395,631 | 98,703 | 23,363 | 75,386 | - | 5,075,901 |
| Central Bank | 1,117 | - | - | - | - | - | - | - | 1,117 |
| Domestic banks | 10,075 | - | 2,934,647 | 913,292 | 98,703 | 2,144 | 4,323 | - | 3,963,184 |
| Foreign banks | 169,476 | - | 93,469 | 288,852 | - | 21,219 | 71,063 | - | 644,079 |
| Participation banks | 62,976 | - | 211,058 | 193,487 | - | - | - | - | 467,521 |
| Other | - | - | - | - | - | - | - | - | - |
| Total | 24,843,991 | - | 20,790,739 | 63,136,189 | 6,661,486 | 4,697,010 | 6,129,626 | 268 | 126,259,309 |

| Prior Period | Demand | 7 Days Notice | Up to 1 Month | 1-3 Months | 3-6 Months | 6-12 Months | 1 Year and Over | Accumulating Deposit Accounts | Total |
|------------------------------|-------------------|------------------|-------------------|-------------------|------------------|------------------|--------------------|-------------------------------------|--------------------|
| Saving deposits | 4,424,092 | - | 471,519 | 22,041,396 | 1,027,318 | 255,301 | 124,971 | - | 28,344,597 |
| Foreign currency deposits | 4,479,182 | - | 3,412,030 | 15,859,982 | 1,497,162 | 1,127,496 | 5,403,554 | - | 31,779,406 |
| Residents in Turkey | 3,847,197 | - | 3,409,099 | 15,546,772 | 1,235,166 | 611,274 | 942,705 | - | 25,592,213 |
| Residents in abroad | 631,985 | - | 2,931 | 313,210 | 261,996 | 516,222 | 4,460,849 | - | 6,187,193 |
| Public sector deposits | 4,504,470 | - | 4,869,059 | 6,958,081 | 843,503 | 1,879,924 | 205,243 | - | 19,260,280 |
| Commercial deposits | 2,457,798 | - | 3,735,859 | 11,025,533 | 146,767 | 50,949 | 1,336 | - | 17,418,242 |
| Other | 3,751,277 | - | 1,772,094 | 3,170,500 | 242,340 | 41,669 | 25,525 | - | 9,003,405 |
| Precious metal deposits | 625,592 | - | - | - | - | - | - | - | 625,592 |
| Bank deposits | 392,993 | - | 3,804,547 | 886,665 | 230,210 | 118,489 | 145,571 | - | 5,578,475 |
| Central Bank | 1,116 | - | - | - | - | - | - | - | 1,116 |
| Domestic banks | 6,431 | - | 3,645,258 | 553,924 | 212,223 | - | - | - | 4,417,836 |
| Foreign banks | 230,898 | - | 159,289 | 332,741 | 17,987 | 118,489 | 145,571 | - | 1,004,975 |
| Participation banks | 154,548 | - | - | - | - | - | - | - | 154,548 |
| Other | - | - | - | - | - | - | - | - | - |
| Total | 20,635,404 | - | 18,065,108 | 59,942,157 | 3,987,300 | 3,473,828 | 5,906,200 | - | 112,009,997 |

Information on saving deposits insured by Saving Deposit Insurance Fund and the total amounts of the deposits exceeding the insurance coverage limit

| | Covered by Deposit Insurance Fund | | Exceeding the Deposit Insurance Limit | |
|--|---|-------------------|---|-------------------|
| | Current Period | Prior Period | Current Period | Prior Period |
| Saving deposits | 19,306,192 | 15,480,662 | 15,591,405 | 12,863,935 |
| Foreign currency saving deposits | 5,092,943 | 4,788,666 | 14,160,086 | 11,939,036 |
| Other saving deposits | - | - | - | - |
| Foreign branches' deposits under foreign insurance coverage | - | - | - | - |
| Off-Shore deposits under foreign insurance coverage | - | - | - | - |
| Total | 24,399,135 | 20,269,328 | 29,751,491 | 24,802,971 |

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II. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED LIABILITIES (Continued)

Saving deposits out of insurance coverage limits

| | Current Period | Prior Period |
|--|----------------|--------------|
| Deposits and other accounts at foreign branches | 37,431 | 24,839 |
| Deposits and other accounts, which belong to controlling shareholders, their parents, wives/husbands, and children | - | - |
| Deposits and other accounts, which belong to Board of Director members, chairman, general manager, his/her assistants, their parents, wives/husbands, and children | 4,957 | 5,438 |
| Deposits and other accounts under scope of TCC law 5237 article no 282, dated 26/9/2004 | - | - |
| Deposits in Deposit Banks of Turkey, which are solely established for off-shore banking | - | - |

2. Information on derivative financial liabilities held for trading purpose

Negative differences related to the derivative financial liabilities held for trading purpose

| | Current Period | | Prior Period | |
|--------------|----------------|----------------|----------------|----------------|
| | TL | FC | TL | FC |
| Forwards | 22,407 | 4,202 | 1,508 | 594 |
| Swaps | 894,453 | 194,876 | 123,057 | 150,342 |
| Futures | - | - | - | - |
| Options | 38,159 | 327 | 28,612 | 239 |
| Other | - | - | - | - |
| Total | 955,019 | 199,405 | 153,177 | 151,175 |

3. Information on banks and other financial institutions

| | Current Period | | Prior Period | |
|---------------------------------------|------------------|-------------------|----------------|-------------------|
| | TL | FC | TL | FC |
| Central Bank of Republic of Turkey | - | - | - | - |
| Domestic banks and institutions | 1,081,208 | 1,023,229 | 567,038 | 609,386 |
| Foreign banks, institutions and funds | 639,606 | 23,555,387 | 365,313 | 18,653,310 |
| Total | 1,720,814 | 24,578,616 | 932,351 | 19,262,696 |

Maturity information of funds borrowed

| | Current Period | | Prior Period | |
|--------------------------|------------------|-------------------|----------------|-------------------|
| | TL | FC | TL | FC |
| Short-term (*) | 715,655 | 2,342,821 | 479,073 | 2,024,300 |
| Medium and Long-term (*) | 1,005,159 | 22,235,795 | 453,278 | 17,238,396 |
| Total | 1,720,814 | 24,578,616 | 932,351 | 19,262,696 |

(*) Maturity profile of funds borrowed has been prepared in accordance with their original maturities.

Funds borrowed comprise syndication and securitization loans bearing various interest rates and maturities and account for 13.08% (December 31, 2015: 11.70%) of the Group’s liabilities. There is no risk concentration on funding sources of the Group.

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II. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED LIABILITIES (Continued)

On 17 April 2015, the Parent Bank has obtained syndicated loan amounting to US Dollar 204 million and Euro 763 million with interest rates of US Libor + 0.80% and Euribor + 0.80% at a maturity of 367 days, with the participation of 35 banks, Wells Fargo Bank N.A., London Branch and National Bank of Abu Dhabi PJSC acting as coordinator and agent bank. On 20 April 2016, the loan has been renewed with a new syndicated loan amounting to US Dollar 207 million and Euro 631.5 million with the interest rate of US Libor + 0.85% and Euribor + 0.75% at a maturity of 367 days with participation of 30 banks, Wells Fargo Bank, London Branch acting as coordinator and agent bank.

On 22 September 2014, the Parent Bank has obtained syndicated loan amounting to US Dollar 168.5 million and Euro 528.75 million with interest rates of US Libor + 0.90% and Euribor + 0.90% at a maturity of one year, with the participation of 26 banks, ING Bank, London Branch acting as coordinator and agent bank. On 14 September 2015, the loan has been renewed with a new syndicated loan amounting to US Dollar 168.5 million and Euro 679.5 million with the interest rate of US Libor + 0.75% and Euribor + 0.75% at a maturity of one year with participation of 30 banks, ING Bank, London Branch acting as coordinator and agent bank. On 26 September 2016, the loan has been renewed with a new syndicated loan amounting to 224.5 million US Dollar and 544 million Euros with the interest rate of US Libor + 1.10% and Euribor + 1.00% at a maturity of 367 days with participation of 22 banks, ING Bank, London Branch and National Bank of Abu Dhabi PJSC acting as coordinator and ING Bank, London Branch acting as agent bank.

On 19 December 2014, the Parent Bank has obtained securitization loan at the amount of US Dollar 928.6 million related to foreign transfers and treasury transactions in Euro and US Dollar. Loan amounting to US Dollar 500 million has been obtained related to foreign transfers at a maturity of five years and loan at the amount of US Dollar 428.6 million has been obtained related to treasury transactions at a maturity of seven years in seven different segments in total.

The loan obtained from European Bank for Reconstruction and Development (EBRD) amounting to US Dollar 125 million in 2014-A segment in order to finance medium term loans including to meet the needs of agricultural enterprises and support woman entrepreneurs. 2014-B segment of the loan has been obtained from Wells Fargo Bank, N.A., 2014-C segment of the loan has been obtained from Raiffeisen Bank International AG, 2014-D segment of the loan has been obtained from Standard Chartered Bank, 2014-E segment of the loan has been obtained from Societe Generale, 2014-G segment of the loan has been obtained from Bank of America, N.A. and 2014-F segment of the loan related to treasury transactions has been obtained from JP Morgan Securities plc. in the scope of programme.

On 4 October 2016, the Bank carried out a securitization transaction in the amount of US Dollar 890 million equivalent in Euros and US Dollar based on foreign money transfers and treasury transactions as part of the securitization program. A total of US Dollar 310 million was provided for 5 years and US Dollar 535 million based on treasury financing transactions was provided with 7 years maturity, based on foreign delegations of the loan provided in seven separate segments. Within the program, 2016-A segment was collected from SMBC, 2016-B segment from Wells Fargo Bank, 2016-C segment from Credit Suisse, 2016-D segment from Standard Chartered Bank, 2016-E segment from EBRD, 2016-F segment from JP Morgan and 2016-G segment from ING Bank. EBRD participated in the securitization loan with the TurSEFF II and TurSEFF III projects. As of December 31, 2016, the sum of the securitization loans amounted to US Dollar 1.544 million and EUR 335 million.

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II. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED LIABILITIES (Continued)

Information on securities issued

Within the context of Global Medium Term Notes (GMTN), the Parent Bank has issued Turkey’s first Eurobond apart from Republic of Turkey Undersecretariat of Treasury. The bond has been issued in GMTN programme on 17 June 2014 has a nominal value of Euro 500 million, maturity date on 17 June 2019 with fixed rate, 5 years maturity and annually coupon paid with 3.65% return and coupon rate 3.50%.

Within the context of Global Medium Term Notes (GMTN), the Bank has issued Eurobond. The bond has been issued in GMTN programme on October 27, 2016 has a nominal value of US Dollar 500 million, maturity date on October 27, 2021 with fixed rate, 5 years maturity and semi-annually coupon paid and coupon rate 5.50%.

Within the context of Global Medium Term Notes (GMTN), the Parent Bank has issued 220 private placements with 17 different banks from June 2013 on .These private placements have been issued in several currencies as of (US Dollar, Euro, Swiss Frank and Japanese Yen) and with maturities of are 3-month, 6-month, 1-year and 2-year. The Parent Bank has issued US Dollar 4,663 million US private placements as of December 31, 2016. The total private placement is US Dollar 370 million as of the same date.

The Parent Bank has issued Turkey’s first Euro covered bond on 4 May 2016. The bond has been issued on 4 May 2016 has nominal value of Euro 500 million, maturity date on 4 May 2021 with fixed rate, 5 years maturity and annually interest paid with coupon rate 2.375% and 2.578% return.

| Current Period | TL | | FC | |
|-----------------------|-------------------|-------------------------|-------------------|-------------------------|
| | Short Term | Medium-Long Term | Short Term | Medium-Long Term |
| Nominal | 3,437,915 | - | 152,903 | 11,060,179 |
| Cost | 3,320,629 | - | 152,903 | 10,979,708 |
| Net Book Value | 3,373,519 | - | 154,695 | 11,154,610 |

| Prior Period | TL | | FC | |
|---------------------|-------------------|-------------------------|-------------------|-------------------------|
| | Short Term | Medium-Long Term | Short Term | Medium-Long Term |
| Nominal | 3,332,669 | - | 946,566 | 6,388,240 |
| Cost | 3,198,134 | - | 946,565 | 6,341,816 |
| Net Book Value | 3,257,620 | - | 949,615 | 6,439,473 |

4. Components of “other external resources payable” in the consolidated financials that comprise at least 20% of the account, if the account exceeds 10% of total liabilities and equity excluding off-balance sheet commitments.

Other external resources payable in the consolidated financials do not exceed 10% of total liabilities and equity.

5. Criteria used in the determination of lease instalments in the finance lease contracts, renewal and purchase options, restrictions, and significant burdens imposed on the bank on such contracts

Obligations under finance leases

None.

6. Information on derivative financial liabilities held for risk management purpose

Negative differences related to the derivative financial liabilities held for risk management purpose

None.

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II. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED LIABILITIES (Continued)

7. Information on provisions

Information on general provisions

| | Current Period | Prior period |
|---|---------------------------|-------------------------|
| Provisions for loans and receivables in Group I | 1,796,316 | 1,606,200 |
| -Additional provision for loans with extended payment plans | 50,986 | 26,422 |
| Provisions for loans and receivables in Group II | 222,879 | 231,853 |
| -Additional provision for loans with extended payment plans | 33,725 | 21,057 |
| Provisions for non-cash loans | 124,718 | 106,422 |
| Other | 23,530 | 13,128 |
| Total | 2,167,443 | 1,957,603 |

Information on employee rights

According to the TAS-19- Judgments of benefits that are provided to employees, bank accounts and calculate provision to obligations of severance pay and allowance rights.

As of December 31, 2016, TL 395,650 (December 31, 2015: TL 369,078) provision for severance pay and TL 98,026 (December 31, 2015: TL 90,553) provision for unused vacation are stated in financial statements under employee rights provision.

Movement of severance pay provision in the period:

| | Current Period | Prior Period |
|--|-----------------------|---------------------|
| Opening balance | 369,078 | 344,858 |
| Current service cost | 43,060 | 33,928 |
| Previous service cost | - | - |
| Interest cost | 35,121 | 27,396 |
| Paid compensation | (51,300) | (34,984) |
| Payment/Reduction of benefits/Layoff accordingly composed loss/(gain) | 1,637 | 214 |
| Actuary loss/(gain) | (2,107) | (2,382) |
| Net foreign exchange differences from foreign subsidiaries | 161 | 48 |
| Closing balance | 395,650 | 369,078 |

Provision for currency exchange loss on foreign currency indexed loans

| | Current Period | Prior Period |
|---|-----------------------|---------------------|
| <i>Provision for currency exchange loss on foreign currency indexed loans</i> | 297 | 17,160 |

The Group has recorded provision amounting to TL 297 (December 31, 2015: TL 17,160) for foreign exchange losses on principal amounts of foreign currency indexed loans and reflected the related foreign exchange loss amount in the financial statements by offsetting from related loans.

Provisions for non-cash loans that are not indemnified and not converted into cash

As of December 31, 2016, the Parent Bank has recorded TL 59,816 (December 31, 2015: TL 40,930) as provisions for non-cash loans that are not indemnified or converted into cash.

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Information on insurance technical provisions

| | Current Period | Prior Period |
|-----------------------------|-----------------------|---------------------|
| Unearned Premium Reserves | 791,429 | 715,692 |
| Outstanding Claims Reserves | 1,232,257 | 1,108,017 |
| Life Mathematical Reserves | 273,162 | 265,760 |
| Other | 21,497 | 2,086 |
| Total | 2,318,345 | 2,091,555 |

Information on other provisions

Information on other provisions exceeding 10% of total provisions

| | Current Period | Prior period |
|--|-----------------------|---------------------|
| Provisions for credits | 184,902 | 182,585 |
| Specific provisions for non-cash loans | 59,816 | 40,930 |
| Provision for cheques | 7,662 | 9,316 |
| Provisions for lawsuits against the Bank | 66,959 | 47,020 |
| Provisions for credit card promotions | 9,595 | 9,100 |
| Other provisions | 52,976 | 16,258 |
| Total | 381,910 | 305,209 |

8. Taxation

Current Taxes

As at and for the year ended December 31, 2016, the tax liability of the Group is amounting to TL 157,549 (December 31, 2015: TL 233,004).

Information on taxes payable

| | Current Period | Prior Period |
|--|-----------------------|---------------------|
| Corporate taxes payable | 157,549 | 233,004 |
| Taxation on securities | 151,546 | 151,721 |
| Capital gains tax on property | 2,676 | 2,477 |
| Banking and Insurance Transaction Tax (BITT) | 92,730 | 77,808 |
| Taxes on foreign exchange transactions | - | - |
| Value added tax payable | 5,937 | 4,879 |
| Other | 49,051 | 41,348 |
| Total | 459,489 | 511,237 |

Information on premiums payable

| | Current Period | Prior Period |
|---|-----------------------|---------------------|
| Social security premiums- employee share | 1,000 | 811 |
| Social security premiums- employer share | 3,689 | 2,095 |
| Bank pension fund premium- employee share | - | - |
| Bank pension fund premium- employer share | 25 | - |
| Pension fund membership fees and provisions- employee share | - | 10 |
| Pension fund membership fees and provisions- employer share | - | - |
| Unemployment insurance- employee share | 763 | 695 |
| Unemployment insurance- employer share | 1,768 | 1,503 |
| Other | 29 | 8 |
| Total | 7,274 | 5,122 |

Information on deferred tax liabilities

Information on deferred tax liabilities is presented in disclosure 13 of information and disclosures related to Group’s assets.

9. Information on payables for assets held for resale and tangible assets related to discounted activities

None.

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DISCLOSURE AND FOOTNOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED LIABILITIES (Continued)

10. Information on subordinated loans

The Parent Bank has issued bond having the secondary subordinated loan quality to be sold to non-resident natural and legal persons. The bond has been issued at the nominal value of US Dollar 500 million with the maturity of 10 years and 6.0% coupon rate. In addition to the bond issued on 1 November 2012, on 3 December 2012 the Bank has realized second tranche at nominal value of US Dollar 400 million, has the same due date and maturity of 10 years and 5.5% coupon rate.

The Parent Bank has issued secondary subordinated loan (Tier II bond) as at January 2015 which contains Basel-III criteria. In this context, the bond has been issued at the nominal value of US Dollar 500 million with the maturity date of 3 February 2025 and early call option date of 3 February 2020. The bond has fixed interest, 10 years and one day maturity, two times interest payment in a year with coupon rate of 6.875% and issue yield of 6.95%.

Stated bonds’ total balance sheet value is TL 5,014,700 as of December 31, 2016 (December 31, 2015: TL 4,155,551).

11. Information on shareholders’ equity

Paid-in capital

| | Current Period | Prior Period |
|-----------------|-----------------------|---------------------|
| Common stock | 2,500,000 | 2,500,000 |
| Preferred stock | - | - |

Paid-in capital of the Parent Bank amounted to TL 2,500,000 is divided into groups comprised of 43.0% Group (A), 15.6 % Group (B), 16.2% Group (C) and 25.2% Group (D).

Board of Directors’ members; one member is appointed by the Prime Minister representing The General Directorate of the Foundations (Group A), three members are appointed representing Group (A), one member is appointed representing Group (B), and two members are appointed representing Group (C), and one member is appointed among the nominees offered by the shareholders at the General Assembly. Preference of Group (D) is primarily taken into account in the selection of the last mentioned member.

Paid-in capital amount, explanation as to whether the registered share capital system is applicable at the parent bank; if so the amount of registered share capital

| Capital System | Paid-in Capital | Ceiling per Registered Share Capital |
|---------------------------|------------------------|---|
| Registered capital system | 2,500,000 | 10,000,000 |

At the resolutions of Board of Directors dated 2 January 2015 and 61st Ordinary Meeting of the General Assembly dated 30 March 2015, the Parent Bank’s ceiling per registered share capital has been increased from TL 5,000,000 to TL 10,000,000.

Information on share capital increases and their sources; other information on any increase in capital shares during the current period

There is no share capital increase in the current year and previous year.

Information on share capital increases from revaluation funds

None.

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DISCLOSURE AND FOOTNOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

II. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED LIABILITIES (Continued)

Capital commitments for current financial year and following period and its general purpose and estimated sources that are required for commitments

None

Prior period indicators of the Parent Bank’s income, profitability and liquidity; and possible effects of the predictions on equity, considering the ambiguity of the indicators

No negative impact of the predictions on the Bank's equity is expected in the future.

Information on the privileges given to stocks representing the capital

None.

Valuation differences of the marketable securities

| | Current Period | | Prior Period | |
|---|------------------|---------------|------------------|----------------|
| | TL | FC | TL | FC |
| Associates, subsidiaries and joint ventures | 64,288 | - | 39,342 | - |
| Fair value differences of available-for-sale securities | (245,897) | 50,440 | (266,736) | 257,405 |
| Foreign exchange differences | - | - | - | - |
| Total | (181,609) | 50,440 | (227,394) | 257,405 |

III. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED OFF-BALANCE SHEET ITEMS

1. Disclosures related to other contingent liabilities

Type and amount of consolidated irrevocable commitments

| | Current Period | Prior Period |
|------------------------------------|-------------------|-------------------|
| Commitments for credit card limits | 8,682,835 | 7,399,361 |
| Loan granting commitments | 9,851,597 | 8,494,747 |
| Commitments for cheque payments | 2,154,102 | 1,805,569 |
| Asset purchase sale commitments | 2,864,752 | 3,843,373 |
| Other | 2,184,230 | 1,507,923 |
| Total | 25,737,516 | 23,050,973 |

Type and amount of possible losses from off-balance sheet items

Guarantees, bills of exchange and acceptances and other letters of credit which can be counted as financial collateral

The Parent Bank provided specific provision amounting to TL 165,159 (December 31, 2015: TL 97,721) for non-cash loans that are not indemnified or converted to cash recorded under off-balance sheet items, amounting to TL 59,816 (December 31, 2015: TL 40,930).

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DISCLOSURE AND FOOTNOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

III. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED OFF-BALANCE SHEET
ITEMS (Continued)

Final guarantees, provisional guarantees, sureties and similar transactions

| | Current Period | Prior Period |
|--|-------------------|-------------------|
| Final letters of guarantee | 11,547,141 | 9,289,202 |
| Letters of guarantee for advances | 4,843,148 | 3,438,136 |
| Letters of guarantee given to custom offices | 1,059,516 | 1,030,530 |
| Provisional letters of guarantee | 994,372 | 935,981 |
| Other letters of guarantee | 13,872,150 | 12,103,744 |
| Total | 32,316,327 | 26,797,593 |

2. Non-cash loans

| | Current Period | Prior Period |
|---|-------------------|-------------------|
| Non-cash loans given for cash loan risks | 2,788,811 | 2,899,661 |
| <i>With original maturity of 1 year or less</i> | <i>1,126,734</i> | <i>1,176,515</i> |
| <i>With original maturity of more than 1 year</i> | <i>1,662,077</i> | <i>1,723,146</i> |
| Other non-cash loans | 37,871,540 | 30,220,240 |
| Total | 40,660,351 | 33,119,901 |

3. Sectoral risk concentrations of non-cash loans

| | Current Period | | | | Prior Period | | | |
|----------------------------|-------------------|---------------|-------------------|---------------|-------------------|---------------|-------------------|---------------|
| | TL | % | FC | % | TL | % | FC | % |
| Agricultural | 81,809 | 0.30 | 382,403 | 2.79 | 87,249 | 0.39 | 132,021 | 1.20 |
| Farming and cattle | 69,203 | 0.26 | 378,930 | 2.76 | 82,686 | 0.37 | 132,021 | 1.20 |
| Forestry | 11,601 | 0.04 | 3,473 | 0.03 | 3,528 | 0.02 | - | - |
| Fishing | 1,005 | - | - | - | 1,035 | - | - | - |
| Manufacturing | 10,907,710 | 40.35 | 7,157,290 | 52.18 | 9,811,692 | 44.34 | 5,696,876 | 51.82 |
| Mining | 1,157,275 | 4.29 | 144,199 | 1.05 | 1,252,878 | 5.66 | 106,628 | 0.97 |
| Production | 6,697,549 | 24.73 | 6,606,838 | 48.17 | 5,526,001 | 24.97 | 5,309,883 | 48.30 |
| Electric, gas and water | 3,052,886 | 11.33 | 406,253 | 2.96 | 3,032,813 | 13.71 | 280,365 | 2.55 |
| Construction | 4,216,428 | 15.77 | 2,323,864 | 16.96 | 3,374,531 | 15.25 | 2,224,897 | 20.24 |
| Services | 9,412,571 | 34.94 | 2,602,185 | 18.97 | 8,030,112 | 36.30 | 2,523,158 | 22.95 |
| Wholesale and retail trade | 4,056,016 | 15.05 | 1,556,974 | 11.35 | 3,444,760 | 15.57 | 1,584,849 | 14.41 |
| Hotel, food and beverage | 112,775 | 0.42 | 663 | - | 110,961 | 0.50 | 1,778 | 0.02 |
| services | | | | | | | | |
| Transportation and | | | | | | | | |
| Telecommunication | 1,330,694 | 4.94 | 876,095 | 6.39 | 1,172,317 | 5.30 | 736,976 | 6.70 |
| Financial institutions | 2,492,659 | 9.25 | 66,679 | 0.49 | 2,090,603 | 9.45 | 38,056 | 0.35 |
| Real estate and renting | | | | | | | | |
| services | 358,074 | 1.33 | 28,456 | 0.21 | 325,256 | 1.47 | 33,758 | 0.31 |
| Self-employment services | 700,053 | 2.60 | 66,033 | 0.48 | 610,338 | 2.76 | 110,414 | 1.00 |
| Education services | 18,627 | 0.07 | 1,588 | 0.01 | 23,752 | 0.11 | 4,018 | 0.04 |
| Health and social services | 343,673 | 1.28 | 5,697 | 0.04 | 252,125 | 1.14 | 13,309 | 0.12 |
| Other | 2,327,606 | 8.64 | 1,248,485 | 9.10 | 822,779 | 3.72 | 416,586 | 3.79 |
| Total | 26,946,124 | 100.00 | 13,714,227 | 100.00 | 22,126,363 | 100.00 | 10,993,538 | 100.00 |

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III. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED OFF-BALANCE SHEET
ITEMS (Continued)

4. Information on the non-cash loans classified as first and second group

| Current Period | Group I | | Group II | |
|---|-------------------|-------------------|----------------|---------------|
| | TL | FC | TL | FC |
| Letters of guarantee | 26,226,670 | 5,580,727 | 308,947 | 45,257 |
| Confirmed bills of exchange and acceptances | 53,702 | 1,142,668 | - | 272 |
| Letters of credit | 1,762 | 6,887,315 | - | 16,960 |
| Endorsements | - | - | - | - |
| Purchase guarantees for securities issued | - | - | - | - |
| Factoring guarantees | 202,668 | 7,682 | - | - |
| Other guarantees and sureties | - | 20,562 | - | - |
| Total Non-Cash Loans | 26,484,802 | 13,638,954 | 308,947 | 62,489 |

| Prior Period | Group I | | Group II | |
|---|-------------------|-------------------|----------------|---------------|
| | TL | FC | TL | FC |
| Letters of guarantee | 21,714,478 | 4,793,867 | 173,386 | 20,949 |
| Confirmed bills of exchange and Letters of credit | 86,762 | 1,388,757 | - | - |
| Letters of credit | 16,306 | 4,761,086 | - | 11,317 |
| Endorsements | - | - | - | - |
| Purchase guarantees for securities issued | - | - | - | - |
| Factoring guarantees | 42,526 | 2,224 | - | - |
| Other guarantees and sureties | - | 10,522 | - | - |
| Total Non-Cash Loans | 21,860,072 | 10,956,456 | 173,386 | 32,266 |

5. Information on derivative transactions

| | Current Period | Prior Period |
|---|-------------------|-------------------|
| Trading Derivatives | | |
| Foreign Currency Related Derivative Transactions (I) | 39,674,975 | 28,241,368 |
| Currency Forwards | 1,615,985 | 468,760 |
| Currency Swaps | 37,185,682 | 27,259,078 |
| Currency Futures | - | - |
| Currency Options | 873,308 | 513,530 |
| Interest Rate Derivative Transactions (II) | 17,066,824 | 13,313,758 |
| Interest Rate Forwards | - | - |
| Interest Rate Swaps | 17,066,824 | 13,313,758 |
| Interest Rate Options | - | - |
| Securities Call Put Options | - | - |
| Interest Rate Futures | - | - |
| Other Trading Derivatives (III) | 11,037,611 | 8,954,555 |
| A. Total Trading Derivatives (I+II+III) | 67,779,410 | 50,509,681 |
| Hedging Derivatives | | |
| Fair Value Hedges | - | - |
| Cash Flow Hedges | - | - |
| Hedges for Foreign Currency Investments | - | - |
| B. Total Hedging Derivatives | - | - |
| Derivative Transactions (A+B) | 67,779,410 | 50,509,681 |

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DISCLOSURE AND FOOTNOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

III. INFORMATION AND DISCLOSURES RELATED TO CONSOLIDATED OFF-BALANCE SHEET
ITEMS (Continued)

| | 31 December 2016 | | | | | |
|--|-------------------|------------------|------------------|-------------------|---------------------|-------------------|
| | Up to 1 Month | 1-3 Months | 3-12 Months | 1-5 Years | 5 Years and Over | Total |
| Currency swaps: | | | | | | |
| Purchase | 8,131,383 | 4,142,976 | 59,393 | 333,432 | - | 12,667,184 |
| Sale | 5,967,447 | 3,320,505 | 57,412 | 406,566 | - | 9,751,930 |
| Currency forwards: | | | | | | |
| Purchase | 91,264 | 240,192 | 436,920 | 39,781 | - | 808,157 |
| Sale | 91,595 | 240,137 | 436,440 | 39,656 | - | 807,828 |
| Cross currency interest rate swaps: | | | | | | |
| Purchase | - | - | 826,025 | 7,055,829 | - | 7,881,854 |
| Sale | - | - | 434,479 | 6,450,235 | - | 6,884,714 |
| Interest rate swaps: | | | | | | |
| Purchase | - | - | 1,231,927 | 3,384,843 | 3,916,642 | 8,533,412 |
| Sale | - | - | 1,231,927 | 3,384,842 | 3,916,643 | 8,533,412 |
| Options: | | | | | | |
| Purchase | 407,926 | 20,002 | - | - | - | 427,928 |
| Sale | 424,764 | 20,616 | - | - | - | 445,380 |
| Other trading derivatives: | | | | | | |
| Purchase | 70,300 | 210,900 | 246,049 | 1,922,502 | 1,883,038 | 4,332,789 |
| Sale | 2,700,249 | 1,037,023 | 215,525 | 1,521,775 | 1,230,250 | 6,704,822 |
| Total purchases | 8,700,873 | 4,614,070 | 2,800,314 | 12,736,387 | 5,799,680 | 34,651,324 |
| Total sales | 9,184,055 | 4,618,281 | 2,375,783 | 11,803,074 | 5,146,893 | 33,128,086 |
| Total | 17,884,928 | 9,232,351 | 5,176,097 | 24,539,461 | 10,946,573 | 67,779,410 |

| | 31 December 2015 | | | | | |
|--|-------------------|------------------|------------------|-------------------|---------------------|-------------------|
| | Up to 1 Month | 1-3 Months | 3-12 Months | 1-5 Years | 5 Years and Over | Total |
| Currency swaps: | | | | | | |
| Purchase | 10,038,294 | 3,520,445 | 242,757 | - | - | 13,801,496 |
| Sale | 4,394,944 | 3,535,470 | 251,525 | - | - | 8,181,939 |
| Currency forwards: | | | | | | |
| Purchase | 21,330 | 60,137 | 107,684 | 45,556 | - | 234,707 |
| Sale | 21,304 | 60,054 | 107,359 | 45,336 | - | 234,053 |
| Cross currency interest rate swaps: | | | | | | |
| Purchase | - | - | 186,709 | 2,732,075 | - | 2,918,784 |
| Sale | - | - | 120,583 | 2,236,276 | - | 2,356,859 |
| Interest rate swaps: | | | | | | |
| Purchase | - | - | 218,250 | 2,763,121 | 3,675,508 | 6,656,879 |
| Sale | - | - | 218,250 | 2,763,121 | 3,675,508 | 6,656,879 |
| Options: | | | | | | |
| Purchase | 229,308 | 13,086 | 8,586 | - | - | 250,980 |
| Sale | 239,124 | 13,526 | 9,900 | - | - | 262,550 |
| Other trading derivatives: | | | | | | |
| Purchase | - | - | 625,650 | - | 1,247,145 | 1,872,795 |
| Sale | 5,597,158 | - | 611,602 | - | 873,000 | 7,081,760 |
| Total purchases | 10,288,932 | 3,593,668 | 1,389,636 | 5,540,752 | 4,922,653 | 25,735,641 |
| Total sales | 10,252,530 | 3,609,050 | 1,319,219 | 5,044,733 | 4,548,508 | 24,774,040 |
| Total | 20,541,462 | 7,202,718 | 2,708,855 | 10,585,485 | 9,471,161 | 50,509,681 |

6. Contingent assets and liabilities

Group allocates TL 7,662 as provision for lawsuits against the Group (December 31, 2015: TL 9,316).

7. Services rendered on behalf of third parties

The Parent Bank acts as an investment agent for banking transactions on behalf of its customers and provides custody services. Such transactions are followed under off-balance sheet accounts. The Parent Bank's custody services and banking transactions on behalf of individuals and corporate customers do not present a material portion.

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DISCLOSURE AND FOOTNOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

IV. INFORMATION ON DISCLOSURES RELATED TO THE CONSOLIDATED STATEMENT OF
INCOME

1. Interest income

Information on interest income received from loans

| | Current Period | | Prior Period | |
|--|-------------------|------------------|------------------|------------------|
| | TL | FC | TL | FC |
| Short-term loans | 4,375,361 | 207,352 | 3,425,419 | 164,210 |
| Medium and long-term loans | 7,535,971 | 1,880,672 | 6,368,458 | 1,501,065 |
| Non-performing loans | 269,572 | - | 139,185 | - |
| Premiums received from resource utilization support fund | - | - | - | - |
| Total | 12,180,904 | 2,088,024 | 9,933,062 | 1,665,275 |

Information on interest income received from banks

| | Current Period | | Prior Period | |
|------------------------------------|----------------|---------------|---------------|--------------|
| | TL | FC | TL | FC |
| Central Bank of Republic of Turkey | - | 198 | - | - |
| Domestic Banks | 95,516 | 1,851 | 68,564 | 881 |
| Foreign Banks | 342 | 23,274 | 322 | 8,957 |
| Foreign Head Office and Branches | - | - | - | - |
| Total | 95,858 | 25,323 | 68,886 | 9,838 |

Information on interest income received from marketable securities portfolio

| | Current Period | | Prior Period | |
|--|------------------|----------------|------------------|----------------|
| | TL | FC | TL | FC |
| Financial assets held for trading | 7,891 | 1055 | 5,782 | 993 |
| Financial assets where fair value change is reflected to income statement | - | - | - | - |
| Financial assets available for sale | 1,225,597 | 287,852 | 1,158,698 | 250,891 |
| Investments held to maturity | 706,281 | 1,463 | 655,344 | 500 |
| Total | 1,939,769 | 290,370 | 1,819,824 | 252,384 |

Information on interest income received from associates and subsidiaries

| | Current Period | Prior Period |
|--|----------------|--------------|
| Interest Received from Associates and Subsidiaries | 8 | 2 |

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IV. INFORMATION ON DISCLOSURES RELATED TO THE CONSOLIDATED STATEMENT OF
INCOME (Continued)

2. Interest Expense

Interest expense on funds borrowed

| | Current Period | | Prior Period | |
|------------------------------------|----------------|----------------|---------------|----------------|
| | TL | FC | TL | FC |
| Banks | 134,386 | 329,113 | 94,417 | 239,603 |
| Central Bank of Republic of Turkey | - | - | - | - |
| Domestic Banks | 59,952 | 19,416 | 54,053 | 11,687 |
| Foreign Banks | 74,434 | 309,697 | 40,364 | 227,916 |
| Foreign Head Offices and Branches | - | - | - | - |
| Other Institutions | - | 44,617 | - | 28,480 |
| Total | 134,386 | 373,730 | 94,417 | 268,083 |

Interest expense paid to associates and subsidiaries

| | Current Period | Prior Period |
|---|----------------|--------------|
| Interests paid to the associates and subsidiaries | 24,678 | 16,091 |

Interest expense on securities issued

As at and for the year ended at December 31, 2016, interest paid to securities issued is TL 691,897 (December 31, 2015: TL 595,176).

| | Current Period | | Prior Period | |
|---------------------------------------|----------------|---------|--------------|---------|
| | TL | FC | TL | FC |
| Interest expense on securities issued | 321,968 | 369,929 | 273,381 | 321,795 |

Maturity structure of the interest expense on deposits

| Current Period | Demand Deposits | Time Deposits | | | | | Cumulative deposit | Total |
|-----------------------------------|-----------------|----------------|------------------|----------------|----------------|------------------|--------------------|------------------|
| | | Up to 1 Month | Up to 3 Months | Up to 6 Months | Up to 1 Year | More than 1 Year | | |
| TL | | | | | | | | |
| Interbank deposits | - | 50,936 | 124,957 | - | 5,449 | 12,337 | - | 193,679 |
| Saving deposits | - | 60,356 | 2,763,745 | 172,556 | 29,617 | 12,540 | - | 3,038,814 |
| Public sector deposits | 22,342 | 356,076 | 662,052 | 62,623 | 179,128 | 21,863 | - | 1,304,084 |
| Commercial deposits | 89 | 412,802 | 938,081 | 140,868 | 15,856 | 450 | - | 1,508,146 |
| Other deposits | 4 | 89,305 | 324,753 | 91,558 | 7,164 | 1,849 | - | 514,633 |
| Deposits with 7 days notification | - | - | - | - | - | - | - | - |
| Total | 22,435 | 969,475 | 4,813,588 | 467,605 | 237,214 | 49,039 | - | 6,559,356 |
| FC | | | | | | | | |
| Foreign Currency deposits | 24,182 | 25,417 | 410,909 | 31,379 | 19,459 | 98,917 | - | 610,263 |
| Interbank deposits | 663 | 1,730 | 12,364 | 2,147 | 1,184 | 7,060 | - | 25,148 |
| Deposits with 7 days notification | - | - | - | - | - | - | - | - |
| Precious metal deposits | - | - | - | - | - | - | - | - |
| Total | 24,845 | 27,147 | 423,273 | 33,526 | 20,643 | 105,977 | - | 635,411 |
| Grand Total | 47,280 | 996,622 | 5,236,861 | 501,131 | 257,857 | 155,016 | - | 7,194,767 |

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IV. INFORMATION ON DISCLOSURES RELATED TO THE CONSOLIDATED STATEMENT OF
INCOME (Continued)

| Prior Period | Demand Deposits | Time Deposits | | | | | Cumulative deposit | Total |
|-----------------------------------|-----------------|----------------|------------------|----------------|----------------|------------------|--------------------|------------------|
| | | Up to 1 Month | Up to 3 Months | Up to 6 Months | Up to 1 Year | More than 1 Year | | |
| TL | | | | | | | | |
| Interbank deposits | - | 76,403 | 51,103 | 46,028 | - | - | - | 173,534 |
| Saving deposits | - | 41,192 | 2,043,895 | 111,066 | 26,299 | 10,482 | - | 2,232,934 |
| Public sector deposits | 13,522 | 261,548 | 637,109 | 60,262 | 251,165 | 15,948 | - | 1,239,554 |
| Commercial deposits | 118 | 407,439 | 1,042,271 | 44,640 | 14,516 | 423 | - | 1,509,407 |
| Other deposits | 1 | 80,376 | 305,671 | 27,244 | 7,628 | 1,488 | - | 422,408 |
| Deposits with 7 days notification | - | - | - | - | - | - | - | - |
| Total | 13,641 | 866,958 | 4,080,049 | 289,240 | 299,608 | 28,341 | - | 5,577,837 |
| FC | | | | | | | | |
| Foreign Currency deposits | 23,493 | 37,718 | 300,902 | 33,598 | 21,808 | 105,486 | - | 523,005 |
| Interbank deposits | 96 | 93 | 1,883 | 308 | 12,111 | 366 | - | 14,857 |
| Deposits with 7 days notification | - | - | - | - | - | - | - | - |
| Precious metal deposits | - | - | - | - | - | - | - | - |
| Total | 23,589 | 37,811 | 302,785 | 33,906 | 33,919 | 105,852 | - | 537,862 |
| Grand Total | 37,230 | 904,769 | 4,382,834 | 323,146 | 333,527 | 134,193 | - | 6,115,699 |

3. Dividend Income

| | Current Period | Prior Period |
|---|----------------|---------------|
| Trading Purpose Financial Assets | 73 | 27 |
| Financial Assets at Fair Value through Profit or Loss | - | - |
| Available-for-Sale Financial Assets | 22,443 | 89 |
| Others | 39,220 | 37,053 |
| Total | 61,736 | 37,169 |

4. Information on trading income/losses

| | Current Period | Prior Period |
|--|--------------------|--------------------|
| Income | 9,373,771 | 6,526,873 |
| Income from capital market operations | 3,246,495 | 2,489,490 |
| Income from derivative financial instruments | 3,364,513 | 1,588,784 |
| Foreign exchange gains | 2,762,763 | 2,448,599 |
| Losses | (8,868,733) | (6,386,942) |
| Loss from capital market operations | (3,222,444) | (2,442,729) |
| Loss from derivative financial instruments | (3,009,715) | (1,617,913) |
| Foreign exchange loss | (2,636,574) | (2,326,300) |
| Net trading profit/loss | 505,038 | 139,931 |

Net profit arising from changes in foreign exchange rate that relate to the Group's derivative financial instruments based on foreign exchange rate is TL 345,690 as at and for the year ended December 31, 2016 (December 31, 2015: net loss of TL 31,762).

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**IV. INFORMATION ON DISCLOSURES RELATED TO THE CONSOLIDATED STATEMENT OF
INCOME (Continued)**

5. Other operating income

| | Current Period | Prior Period |
|--|-----------------------|---------------------|
| Income from reversal of the specific provisions | | |
| for loans from prior periods | 668,315 | 763,294 |
| Earned insurance premiums (net of reinsurance share) | 892,467 | 767,881 |
| Communication income | 40,316 | 50,723 |
| Gain on sale of assets(*) | 165,307 | 109,681 |
| Income from private pension business | 78,307 | 64,583 |
| Rent income | 987 | 80,490 |
| Other income | 158,637 | 199,996 |
| Total | 2,004,336 | 2,036,648 |

(*) Group Bank’s share of TL 63,687 cash payment due to the Visa Europe Ltd’s transfer to the Visa Inc. which operates in the same business has been presented in the Gain on sale of the Group’s assets line on the information on other operating income table.

6. Provision expenses for losses on loans and other receivables

| | Current Period | Prior Period |
|--|-----------------------|---------------------|
| Specific provisions on loans and other receivables | 1,963,013 | 1,085,809 |
| <i>Loans and receivables in Group III</i> | 743,731 | 339,638 |
| <i>Loans and receivables in Group IV</i> | 526,966 | 449,252 |
| <i>Loans and receivables in Group V</i> | 692,316 | 296,919 |
| Non-performing commissions and other receivables | - | - |
| General provision expenses | 213,855 | 354,951 |
| Provision for possible losses | - | - |
| Impairment losses on securities | 4,688 | 3,459 |
| <i>Trading securities</i> | 6 | 16 |
| <i>Investment securities available-for-sale</i> | 4,682 | 3,443 |
| Impairment losses from associates, subsidiaries, joint ventures and marketable securities held to maturity | 25,297 | 24,337 |
| <i>Associates</i> | - | - |
| <i>Subsidiaries</i> | - | - |
| <i>Joint ventures</i> | - | - |
| <i>Investment securities held-to-maturity</i> | 25,297 | 24,337 |
| Other (*) | 126,756 | 167,304 |
| Total | 2,333,609 | 1,635,860 |

(*) Other provision expenses amounting to TL 126,756 (December 31, 2015: TL 167,304) is comprised of provision for non-cash loans that are not indemnified or converted into cash and provision for cheques amounting to TL 44,085 (December 31, 2015: TL 41,616), other provision expenses related to loans amounting to TL 22,896 (December 31, 2015: TL 82,415) and other provision expenses amounting to TL 59,775 (December 31, 2015: TL 43,273).

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**IV. INFORMATION ON DISCLOSURES RELATED TO THE CONSOLIDATED STATEMENT OF
INCOME (Continued)**

7. Other operating expenses

| | Current Period | Prior Period |
|--|-----------------------|---------------------|
| Personnel costs | 1,663,884 | 1,539,206 |
| Reserve for employee termination benefits | 30,847 | 27,419 |
| Provision for deficit in pension funds | - | - |
| Impairment losses on tangible assets | - | 6,475 |
| Depreciation expenses on tangible assets | 140,921 | 133,210 |
| Impairment losses on intangible assets | 409 | - |
| Amortization expenses on intangible assets | 25,756 | 20,994 |
| Impairment losses on assets to be disposed | 5,278 | 5,747 |
| Depreciation expenses on assets to be disposed | 19,723 | 15,291 |
| Impairment losses on assets held for sale | - | - |
| Other operating expenses | 1,984,578 | 2,046,058 |
| <i>Operational lease related expenses</i> | 232,514 | 214,645 |
| <i>Repair and maintenance expenses</i> | 52,947 | 41,636 |
| <i>Advertisement expenses</i> | 94,760 | 82,270 |
| <i>Other expenses</i> | 1,604,357 | 1,707,507 |
| Loss on sale of assets | 3,351 | 1,231 |
| Other ^(*) | 1,031,957 | 1,021,447 |
| Total | 4,906,704 | 4,817,078 |

(*) Other operating expenses amounting to TL 1,031,957 (December 31, 2015: TL 1,021,447) is comprised of provision expenses for dividends to the personnel amounting to TL 147,970 (December 31, 2015: TL 144,017), tax, fees and funds expenses amounting to TL 141,588 (December 31, 2015: TL 125,706), Saving Deposits Insurance Fund expenses amounting to TL 138,469 (December 31, 2015: TL 115,916), Compensation pensions amounting to TL 47,034 (December 31, 2015: TL 46,802), cumulative/noncumulative commission expenses amounting to TL 79,694 (December 31, 2015: TL 8,119), production commission expenses to TL 240,676 (December 31, 2015: TL 239,952) and other expenses amounting to TL 236,526 (December 31, 2015: TL 340,935).

8. Information on income/loss from discontinued and continuing operations

Information and detailed tables on profit before tax from continuing operations are presented in disclosures 1-7 in this section. The Group has no discontinued operations.

9. Information on tax provision from discontinued and continuing operations

Information on provision for taxes on income from continuing operations is presented in disclosure 11 in this section. The Group has no discontinued operations.

10. Information on net profit/loss from discontinued and continuing operations

Information on net profit/loss from continuing operations is presented in disclosures 1-12 in this section. The Group has no discontinued operations.

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V. INFORMATION ON DISCLOSURES RELATED TO THE CONSOLIDATED STATEMENT OF
INCOME (Continued)

11. Provision for taxes

Current year taxation benefit or charge and deferred tax benefit or charge

In the current period, the Group recorded a tax provision of TL 709,347 (December 31, 2015: TL 417,396) from the operating profit in accordance with the Corporate Tax Law and other laws and regulations.

Deferred tax charge arising from temporary differences, tax losses and unused tax credits

| Sources of deferred tax benefit/charge | Current Period | Prior Period |
|--|---------------------------|-------------------------|
| Arising from Origination/ (Reversal) of Deductible Temporary Differences | 26,473 | (33,782) |
| Arising from (Origination)/ Reversal of Taxable Temporary Differences | (8,919) | (75,933) |
| Arising from Origination/ (Reversal) of Tax Losses | - | - |
| Arising from Tax Rate Change | - | - |
| Total | 17,554 | (109,715) |

12. Net profit and loss

The nature and amount of certain income and expense items from ordinary operations is disclosed if the disclosure for nature, amount and repetition rate of such items is required for the complete understanding of the Group’s performance for the period

Group has incurred TL 16,964,189 interest income and TL 9,727,956 interest expense, also incurred TL 912,483 amount of net fee and commission income from its ordinary banking operations (December 31, 2015: TL 13,973,432 interest income, TL 8,238,164 interest expense, TL 870,329 net fee and commission income).

Any changes in estimations, that might have a material effect on current and subsequent period, is indicated

None.

13. Income/loss related to non-controlling interest

| | Current Period | Prior Period |
|---|-----------------------|---------------------|
| Income/(losses) related to non-controlling interest | 2,528 | (74,675) |

14. Information related to the sub-accounts which constitute at least 20% of other items, in case of the components of other items in the income statement exceeding 10% of the group total

Other fees and commission income of the Group mainly consist of credit card fees and commissions, money transfer commissions, research fees.

Other fees and commission expenses of the Group mainly consist of credit card fees and commissions, commission paid for funds borrowed from foreign banks.

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DISCLOSURE AND FOOTNOTES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

V. INFORMATION AND DISCLOSURES RELATED TO STATEMENT OF CHANGES IN
SHAREHOLDERS’ EQUITY

1. Information on increases that occur after revaluation of available-for-sale investments

Movement tables related to revaluation differences of available-for-sale investments where valuation differences arising from the fair value measurement of available-for-sale assets, subsidiaries and affiliates are recorded are as follows:

| Valuation Differences of Marketable Securities | Current Period | Prior Period |
|--|-----------------------|---------------------|
| Valuation differences at the beginning of the year | (9,331) | 459,241 |
| Fair value changes in the current year | (227,237) | (630,217) |
| Valuation differences transferred to the statement of income | (6,970) | 45,131 |
| Effect of deferred and corporate taxes | 48,081 | 116,514 |
| Valuation differences at the end of the year | (195,457) | (9,331) |

| Valuation Difference of the Subsidiaries and Affiliates | Current Period | Prior Period |
|--|-----------------------|---------------------|
| Valuation differences at the beginning of the year | 39,342 | 62,289 |
| Fair value changes in the current year | 26,317 | (24,585) |
| Valuation differences transferred to the statement of income | - | - |
| Effect of deferred and corporate taxes | (1,371) | 1,638 |
| Valuation differences at the end of the year | 64,288 | 39,342 |

2. Information on increases in cash flow hedges

None.

3. Reconciliation of the beginning and end of the year balances of foreign exchange differences

As of December 31, 2016, foreign currency translation differences of TL 59,217 (December 31, 2015: TL 42,762), which occurred from converting abroad subsidiaries’ financial statements to TL for consolidation purpose, is accounted under other reserves in the enclosed consolidated financial statements.

4. Information on correction differences of shareholders’ equity accounts due to inflation

In compliance with BRSA’s Circular on 28 April 2005 on ceasing the inflation accounting application, the balances resulted from the inflation accounting application as at 31 December 2004 and booked according to the Uniform Chart of Accounts and the related Articles, are transferred to the main accounts that were subject to the inflation accounting adjustments except for “capital reserves from inflation adjustments”. The balance of “capital reserves from inflation adjustments” account is transferred to “other capital reserves” account. In 2006, the Bank has increased its paid in capital through “other capital reserves” by TL 605,763.

5. Information on profit distribution

As per the resolution of 62 Annual General Assembly held on 29 March 2016, the net profit of the year 2015 which amounts to TL 1,930,109 after deferred tax income deducted is decided to be distributed as legal reserves amounting to TL 193,012, extraordinary reserves amounting to TL 1,635,437, special funds amounting to TL 1,660 and dividends to equity holders of the Parent Bank amounting to TL 100,000.

6. Information on decreases of revaluation of available-for-sale investments

Revaluation differences of available-for-sale investments has resulted with increase in the current year. Detailed information about the increases is explained above in Note 1.

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DISCLOSURE AND FOOTNOTES ON CONSOLIDATED FINANCIAL STATEMENTS (Continued)

VI. INFORMATION AND DISCLOSURES ON STATEMENT OF CASH FLOWS

1. Disclosures for “other” items in statement of cash flows and effect of change in foreign currency rates cash and cash equivalents

Other” item under the “operating profit before changes in operating assets and liabilities” amounting to TL (2,889,842) (December 31, 2015: TL (2,899,768)) is comprised of other operating expense in the balance sheet, fees and commission expense, and cash amount of trading profit/loss.

“Net increase/decrease in other liabilities” amounting to TL 779,053 (December 31, 2015: TL (2,436,988)) under “changes in operating assets and liabilities” is mainly comprised of find based cash outflows from repurchase agreements.

“Other” balance under “net cash flow from investing activities” amounting to TL (56,519) (December 31, 2015: TL (51,353)) is comprised of purchases of intangible assets.

When calculating exchange rate effect on cash and cash equivalents, related assets’ high turnover rate are taken into consideration. Each exchange rate’s arithmetic average of the last five days before the report date and provision of average TL that is calculated from the difference from current period’s exchange rate are reflected as an effect of exchange rate change on the cash flow statement. Except for the above-mentioned, banks that have less than three months to maturity are accepted as cash equivalents and average TL provision is calculated by difference between related operation’s per term exchange rate and current period’s exchange rate. As of December 31, 2016 impact of the exchange rate change on cash and cash equivalents is TL 53,516 (December 31, 2015: TL (30,472)).

2. Cash flows from acquisition of associates, subsidiaries and joint-ventures

There is not any cash flow that is related with Bank’s subsidiaries in the current and previous periods.

3. Cash flows from the disposal of associates, subsidiaries and joint-ventures

There is no disposal in associates, subsidiaries and joint-ventures in the current year.

4. Information on cash and cash equivalents

Information on cash and cash equivalents at the beginning of the year

| | Prior Period December 31, 2015 | Prior Period December 31, 2014 |
|---|---|---|
| Cash on hand | 1,439,972 | 1,376,838 |
| Cash in TL | 1,162,866 | 1,014,282 |
| Cash in foreign currency | 277,106 | 362,556 |
| Cash equivalents | 7,617,155 | 7,814,067 |
| CBRT | 19,834,346 | 20,440,692 |
| Banks | 6,176,019 | 3,568,508 |
| Receivables from money markets | 6,699 | 9,502 |
| Other | 215,596 | 73,551 |
| Loans and advances to banks having maturity of more than 3 months | (90,084) | (6,045) |
| Restricted cash and cash equivalents | (18,518,574) | (16,266,786) |
| Unrealized foreign exchange rate differences on cash equivalents | (6,847) | (5,355) |
| Total | 9,057,127 | 9,190,905 |

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VI. INFORMATION AND DISCLOSURES ON STATEMENT OF CASH FLOWS (Continued)

Information on cash and cash equivalents at the end of the year

| | Current Period December 31, 2016 | Prior Period December 31, 2015 |
|---|-------------------------------------|-----------------------------------|
| Cash on hand | 1,789,993 | 1,439,972 |
| Cash in TL | 1,285,044 | 1,162,866 |
| Cash in foreign currency | 504,949 | 277,106 |
| Cash equivalents | 10,631,411 | 7,617,155 |
| CBT - Unrestricted demand deposit | 22,325,509 | 19,834,346 |
| Banks | 5,275,489 | 6,176,019 |
| Receivables from money markets | 5,232 | 6,699 |
| Other | 253,813 | 215,596 |
| Loans and advances to banks having maturity of more than 3 months | (97,573) | (90,084) |
| Restricted cash and cash equivalents | (17,124,659) | (18,518,574) |
| Unrealized foreign exchange rate differences on cash equivalents | (6,400) | (6,847) |
| Total | 12,421,404 | 9,057,127 |

5. Management comment on restricted cash and cash equivalents due to legal requirements or other reasons taking materiality principle into account

Reserve requirements at CBRT amounting to TL 16,815,760 as at December 31, 2016 (December 31, 2015: TL 18,441,256) has not been included in cash and cash equivalents.

Deposits of the Group amounting to TL 308,711 (December 31, 2015: TL 77,318) is blocked due to securitization loans and other ordinary operations of the Group.

VII. INFORMATION AND DISCLOSURES RELATED TO THE PARENT BANK’S RISK GROUP

1. Information on the volume of transactions with the Parent Bank’s risk group, lending and deposits outstanding at year end and income and expenses in the current year

Information on loans and other receivables held by Parent Bank’s risk group

| Current Period | Associates and Subsidiaries and Joint-Ventures | | Bank’s Direct and Indirect Shareholders | | Other Components in Risk Group | |
|--------------------------------------|--|-----------|---|----------|--------------------------------|----------|
| | Cash | Non-Cash | Cash | Non-Cash | Cash | Non-Cash |
| Loans and other receivables | | | | | | |
| Balance at the beginning of the year | 1,071 | 811,349 | - | 28,550 | 822 | 15,858 |
| Balance at the end of the year | 10 | 1,024,338 | - | 31,720 | 37,507 | 22,446 |
| Interest and commission income | 8 | 651 | - | 32 | 424 | 105 |

| Prior Period | Associates and Subsidiaries and Joint-Ventures | | Bank’s Direct and Indirect Shareholders | | Other Components in Risk Group | |
|--------------------------------------|--|----------|---|----------|--------------------------------|----------|
| | Cash | Non-Cash | Cash | Non-Cash | Cash | Non-Cash |
| Loans and other receivables | | | | | | |
| Balance at the beginning of the year | 16 | 657,200 | - | 10,174 | 6,239 | 13,086 |
| Balance at the end of the year | 1,071 | 811,349 | - | 28,550 | 822 | 15,858 |
| Interest and commission income | 2 | 388 | - | 29 | 94 | 17 |

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VII. INFORMATION AND DISCLOSURES RELATED TO THE PARENT BANK’S RISK GROUP
(Continued)

Information on deposits held by the Parent Bank’s risk group

| The Parent Bank’s Risk Group | Associates and Subsidiaries and Joint-Ventures | | Bank’s Direct and Indirect Shareholders | | Other Components in Risk Group | |
|--------------------------------------|--|-----------------|--|-----------------|-----------------------------------|-----------------|
| | Current Period | Prior Period | Current Period | Prior Period | Current Period | Prior Period |
| Deposits | | | | | | |
| Balance at the beginning of the year | 475,233 | 187,127 | 740,156 | 713,966 | 104,508 | 115,831 |
| Balance at the end of the year | 661,402 | 475,233 | 977,319 | 740,156 | 164,132 | 104,508 |
| Interest on deposits | 24,678 | 16,091 | 46,267 | 45,805 | 288 | 1,005 |

Information on forwards, options and other derivative transactions held by the Parent Bank’s risk group

None.

2. Disclosures of transactions with the Parent Bank’s risk group

Relations with entities in the risk group of / or controlled by the Parent Bank regardless of the nature of relationship among the parties

Transactions with the risk group are made on an arms-length basis; terms are set according to the market conditions and in compliance with the Banking Law.

The branches of the Bank are agencies of Güneş Sigorta A.Ş. and Vakıf Emeklilik A.Ş.. Vakıf Yatırım Menkul Değerler A.Ş. engages with the management of the funds established by the Bank.

In addition to the structure of the relationship, type of transaction, amount, and share in total transaction volume, amount of significant items, and share in all items, pricing policy and other

The pricing of transactions with the risk group companies is set in compliance with the market prices. The ratio of cash and non-cash loans extended to the risk group to the overall cash and non-cash loans are 0.025 (December 31, 2015: 0.001) and 2.652 (December 31, 2015: 2.584) respectively.

| Current Period | Amount | Compared with the Financial Statement | |
|-------------------------------|-----------|---------------------------------------|-------|
| | | Amount | % |
| Cash Loans | 37,517 | | 0.025 |
| Non-Cash Loans | 1,078,504 | | 2.652 |
| Deposits | 1,802,853 | | 1.428 |
| Forward and Option Agreements | - | | - |
| Prior Period | Amount | Compared with the Financial Statement | |
| Cash Loans | 1,893 | | 0.001 |
| Non-Cash Loans | 855,757 | | 2.584 |
| Deposits | 1,319,897 | | 1.178 |
| Forward and Option Agreements | - | | - |

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VIII. INFORMATION ON DOMESTIC, FOREIGN AND OFF-SHORE BRANCHES OR INVESTMENTS
AND FOREIGN REPRESENTATIVE OFFICES OF THE PARENT BANK

Domestic and foreign branches and representative offices

| | Number of Branches | Number of Employees | | | |
|----------------------------------|-----------------------|------------------------|---------|----------------|------------------------------------|
| Domestic Branches ^(*) | 921 | 15,574 | | | |
| | | | | <u>Country</u> | |
| Foreign Representative Offices | | | | | |
| | | | | | <u>Total Assets</u> <u>Capital</u> |
| Foreign Branches | 1 | 22 | USA | 5,066,689 | 57,998 |
| | | | Iraq | 242,071 | 24,605 |
| Off-shore Branches | 1 | 4 | Bahrain | 12,040,864 | - |

(*) Free zone branches in Turkey is included to domestic branches.

*Opening or closing of domestic and foreign branches and representative offices and significant changes in
organizational structure*

During 2016, 8 new domestic branches (2015: 27 domestic branches) have been opened and 4 have been closed (2015: None).

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SECTION SIX

OTHER DISCLOSURES AND FOOTNOTES

I. OTHER DISCLOSURES ON THE PARENT BANK’S ACTIVITY

As per the resolution of 62nd Annual General Assembly held on 29 March 2016, the net profit of year 2015 has been decided to be distributed as follows:

| | Profit Distribution Table of Year 2015 |
|---|---|
| Bank’s unconsolidated profit in its statutory financial statements | 1,930,109 |
| Net profit of the year subject to distribution | 1,930,109 |
| Legal reserves | 193,012 |
| <i>First Legal Reserves</i> | 96,506 |
| <i>Reserves allocated according to banking law and articles of association.</i> | 96,506 |
| Net profit of the year subject to distribution | 1,737,097 |
| Gain on sale of immovable and shares of associates and subsidiaries | 1,660 |
| Extraordinary reserves | 1,635,437 |
| Dividends to shareholders | 100,000 |

II. INFORMATION ON THE PARENT BANK’S RATING GIVEN BY INTERNATIONAL CREDIT RATING INSTITUTIONS

| February 2017 (*) | Fitch Ratings |
|---|-----------------------------------|
| Long Term Foreign Currency | BB+ |
| Short Term Foreign Currency | B |
| Foreign Currency Outlook | Stable |
| Long Term Local Currency | BBB- |
| Short Term Local Currency | F3 |
| Local Currency Outlook | Stable |
| National Long Term | AAA (tur) |
| National Outlook | Stable |
| Support | 3 |
| Support Rating Floor | BB+ |
| Viability Note | bb+ |
| October 2016 (*) | Moody’s Investors’ Service |
| Baseline Credit Assessment | ba2 |
| Local Currency Deposit Rating | Ba1/NP |
| Local Currency Outlook | Stable |
| Foreign Currency Deposit Rating | Ba2/NP |
| Foreign Currency Outlook | Stable |
| February 2017 (*) | Standard&Poors |
| Foreign Currency Counterparty Credit Rating | BB/B |
| Foreign Currency Outlook | Negative |
| Local Currency Counterparty Credit Rating | BB/B |
| Local Currency Outlook | Negative |
| Turkey National Scale | trAA- / trA-1 |

(*) Dates represent last report dates.

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL
ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE I. OF SECTION THREE**

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS FINANCIAL SUBSIDIARIES
EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

OTHER DISCLOSURES AND FOOTNOTES (Continued)

**III. SIGNIFICANT EVENTS AND MATTERS SUBSEQUENT TO BALANCE SHEET DATE THAT ARE
NOT RESULTED**

The Parent Bank bonds of which value date are January 20, 2017 have been issued and offered to public through book-building totally 400 million (Full TL) on January 16-17-18, 2017, amounting TL 300 million (Full TL) with 126 days maturity and maturity date of which is May 26, 2017, amounting TL 100 million (Full TL) with 217 days maturity and maturity date of which is August 25, 2017.

The Parent Bank bond with the ISIN Code TRQVKFB51735 which has 11.2893% annual compound interest, 10.8962% simple interest and issue price was TL 96,375 with amounting TL 313,381,865 (Full TL) with 126 days maturity and maturity date of which is May 26, 2017.

The Parent Bank bond with the ISIN Code TRQVKFB81716 which has 11.3701% annual compound interest, 11.1210% simple interest and issue price was TL 93,798 with amounting TL 20,354,023 (Full TL) with 217 days maturity and maturity date of which is August 25, 2017.

In 2012, the Parent Bank carried out the sale of bond issued abroad with a maturity of 2022 maturities of USD 900 million. Regulations and amendments made within the scope of BRSA's Regulation on Equities of Banks have made it possible to comply with Basel III regulations in the capital adequacy calculations of banks as contributions capital. In this context, the effect on the capital of the Bank which has issued Basel II compliant subordinated loan provisions issued in 2012 has decreased.

In this context, the operational process of the swap transaction of bonds with a total nominal value of USD 227,605,000 which issued abroad, with the new Basel III compliant conditions, was completed on 13 February 2017 and the redemption date of the bonds to be exchanged was determined as November 1, 2027, with a maturity of 10 years (recall option in 2022) and coupon rate as 8.00%.

**CONVENIENCE TRANSLATION OF PUBLICLY ANNOUNCED CONSOLIDATED FINANCIAL
ORIGINALLY ISSUED IN TURKISH, SEE IN NOTE I. OF SECTION THREE**

**TÜRKİYE VAKIFLAR BANKASI TÜRK ANONİM ORTAKLIĞI AND ITS FINANCIAL SUBSIDIARIES
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(Amounts expressed in thousands of Turkish Lira (“TL”) unless otherwise stated.)

SECTION SEVEN

INDEPENDENT AUDITORS’ AUDIT REPORT

I. INFORMATION ON INDEPENDENT AUDITORS’ REPORT

The consolidated financial statements and footnotes of the Bank and its financial subsidiaries as at and for the year ended December 31, 2016 have been audited by PwC Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ. It was noted in their review report dated 9 August 2016 that nothing material has come to their attention that caused them to believe that the accompanying consolidated financial statements do not give a true and fair view of the Group’s financial position and results of its operations as at and for the year ended December 31, 2016.

II. EXPLANATIONS AND FOOTNOTES PREPARED BY INDEPENDENT AUDITOR

There are no significant issues and necessary disclosures and footnotes related to the activities of the Bank that are not mentioned in the above sections.

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