

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

**Consolidated financial statements for the period
January 1 - December 31, 2016 together with
independent auditor's report**

**(Convenience translation of financial statements and auditor's report
originally issued in Turkish, see note 2.7)**

(Convenience translation of financial statements originally issued in Turkish, see note 2.7)

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

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(Convenience translation of independent auditor's report originally issued in Turkish)

**Independent auditor's report on consolidated financial statements for the year ended
December 31, 2016**

To the Board of Directors of
Yapı Kredi Yatırım Menkul Değerler A.Ş.

Introduction

We have audited the accompanying consolidated statement of financial position of Yapı Kredi Yatırım Menkul Değerler A.Ş. (the "Company") and its consolidated subsidiary (together the "Group") which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and explanatory notes.

Management's responsibility for the consolidated financial statements

The Group's management is responsible for the preparation and fair presentation of these (consolidated) financial statements in accordance with the Turkish Accounting Standards ("TAS") published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the independent auditor

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our audit was conducted in accordance with Standards on Auditing as issued by the Capital Markets Board of Turkey and Auditing Standards which are part of the Turkish Auditing Standards as issued by Public Oversight Accounting and Auditing Standards Authority of Turkey. Those standards require that ethical requirements are complied with and that the independent audit is planned and performed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Independent audit involves performing independent audit procedures to obtain independent audit evidence about the amounts and disclosures in the financial statements. The independent audit procedures selected depend on our professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error and/or fraud. In making those risk assessments, the Company's internal control system is taken into consideration. Our purpose, however, is not to express an opinion on the effectiveness of internal control system, but to design independent audit procedures that are appropriate for the circumstances in order to identify the relation between the financial statements prepared by the Group and its internal control system. Our independent audit includes also evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Company's management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained during our independent 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 Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiaries as at December 31, 2016 and their financial performance and cash flows for the year then ended in accordance with the Turkish Accounting Standards.

Reports on other responsibilities arising from regulatory requirements

- 1) In accordance with paragraph 4 of Article 402 of the TCC, no significant matter has come to our attention that causes us to believe that the Company's bookkeeping activities for the period 1 January – 31 December 2016 and financial statements are not in compliance with the code and provisions of the Company's articles of association in relation to financial reporting.
- 2) In accordance with paragraph 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 into English of financial statements originally issued in Turkish

As at December 31, 2016, the accounting principles described in Note 2 (defined as Turkish Accounting Standards/Turkish Financial Reporting Standards) to the accompanying consolidated financial statements differ from International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board with respect to the application of inflation accounting, certain reclassifications and also for certain disclosures requirement of the POA/CMB. Accordingly, the accompanying consolidated financial statements are not intended to present the financial position and results of operations in accordance with IFRS.

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



Yaşar Bivas, SMMM
Partner

January 31, 2017
İstanbul, Türkiye

Convenience translation of financial statements originally issued in Turkish, see note 2.7

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Consolidated statement of financial position as of December 31, 2016 and 2015
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

Asset	Notes	(Audited)	(Audited)
		December 31, 2016	December 31, 2015
Current assets		4.644.427.252	3.281.319.208
Cash and cash equivalents	6	4.066.342.016	2.924.820.319
Financial investment	7	64.890.270	73.298.566
Trade receivable	10	422.608.809	220.895.660
- Due from related parties	28	22.449	19.938
- Due from other parties		422.586.360	220.875.722
Receivables from financial activities	11	11.102.981	7.681.847
- Due from related parties	28	11.085.928	7.642.401
- Due from other parties		17.053	39.446
Other receivables	12	32.752.156	22.504.542
- Due from related parties	28	-	-
- Due from other parties		32.752.156	22.504.542
Derivative financial instruments	16	10.162.301	17.129.240
Prepaid expenses	19	4.127.062	2.611.790
Current period tax assets	22	32.438.803	12.321.329
Other current asset	20	2.854	55.915
Sub total		4.644.427.252	3.281.319.208
Assets classified as held for sale	8	-	-
Total current assets		4.644.427.252	3.281.319.208
Non-current assets			
Financial investments	7	32.192.533	32.192.533
Property and equipment	13	9.010.160	9.847.677
Intangible assets	14	20.486.897	16.348.218
- Other intangible assets	14	20.486.897	16.348.218
Deffered tax assets	22	7.747.772	10.413.304
Total non-current assets		69.437.362	68.801.732
Total assets		4.713.864.614	3.350.120.940

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

Convenience translation of financial statements originally issued in Turkish, see note 2.7

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Consolidated statement of financial position as of December 31, 2016 and 2015
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

Liabilities	Notes	(Audited) December 31, 2016	(Audited) December 31, 2015
Short term liabilities		4.190.945.756	2.825.320.510
Short term financial liabilities	9	3.874.184.964	2.660.507.987
Due to related parties	28	-	-
Due to other parties	9	3.874.184.964	2.660.507.987
- Bank loans	9	-	20.028.055
- Marketable securities issued	9	942.954.793	671.882.616
- Other	9	2.931.230.171	1.968.597.316
Trade payables	10	221.873.484	87.908.417
- Due to related parties	28	3.033.826	3.189.477
- Due to other parties		218.839.658	84.718.940
Payables due to employee benefits	18	1.955.580	1.392.990
Other payables	12	28.138.705	26.209.904
- Due to related parties	28	217.519	110.924
- Due to other parties		27.921.186	26.098.978
Derivative financial instruments	16	43.808.926	30.041.714
Current income taxes payable	22	-	-
Short term provisions		16.118.117	14.174.131
- Short term provisions for employee benefits	17	14.601.960	12.920.400
- Other short term provisions	15	1.516.157	1.253.731
Other short term liabilities	20	4.865.980	5.085.369
Total short term liabilities		4.190.945.756	2.825.320.510
Long term liabilities		7.169.539	7.412.310
Long term provisions	17	7.169.539	7.412.310
- Provision for employee benefits	17	7.169.539	7.412.310
Deferred tax liability	22	-	-
Total long term liabilities		7.169.539	7.412.310
Total liabilities		4.198.115.295	2.832.732.820
Equity			
Paid-in share capital	21	98.918.083	98.918.083
Adjustment to share capital	21	63.078.001	63.078.001
Other comprehensive income and expenses to be reclassified in profit or loss		(11.848.357)	(11.913.521)
- Revaluation and measurement gains/losses		(12.139.553)	(12.104.538)
- Other gains/losses		291.196	191.017
Restricted reserves	21	236.738.667	235.511.667
Retained earnings		55.545.320	62.545.052
Net profit/(loss) for the year		66.470.179	62.927.268
Equity attributable to equity holders of the Parent		508.901.893	511.066.550
Non-controlling interest	21	6.847.426	6.321.570
Total equity		515.749.319	517.388.120
Total liabilities		4.713.864.614	3.350.120.940

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

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Consolidated statement of income for the years ended December 31, 2016 and 2015
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Notes	(Audited) December 31, 2016	(Audited) December 31, 2015
Profit and loss			
Revenue	23	11.558.219.911	15.265.796.691
Cost of sales(-)	23	(11.502.623.893)	(15.212.171.672)
Gross profit from commercial activities		55.596.018	53.625.019
Revenue from financial activities	24	63.133.870	57.477.651
Cost of financial activities (-)	24	(6.355.679)	(4.293.340)
Gross profit from financial activities		56.778.191	53.184.311
Gross profit/(loss)		112.374.209	106.809.330
General administrative expenses (-)	25	(97.272.039)	(91.342.858)
Selling, marketing and distribution expenses (-)	25	(12.317.168)	(8.499.032)
Other operating income	26	528.231.226	412.207.033
Other operating expense (-)	27	(444.381.537)	(337.293.224)
Operating profit/(loss)		86.634.691	81.881.249
Profit/(loss) before tax from continuing operations		86.634.691	81.881.249
Tax (income)/expense for continuing operations			
- Current tax expense/(income)	22	(13.693.533)	(6.212.636)
- Deferred tax income/(expense)	22	(2.649.241)	(9.211.418)
Profit/(loss) before tax from continuing operations		70.291.917	66.457.195
Net profit for the year		70.291.917	66.457.195
Distribution of profit/loss		70.291.917	66.457.195
Non-controlling interest	21	3.821.738	3.529.928
Attributable equity holders of the parent		66.470.179	62.927.267
Earnings per share		0,007106	0,006718

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

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

**Consolidated statement of comprehensive income
for the years ended December 31, 2016 and 2015**

(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

	(Audited)	(Audited)
	January 1- December 31, 2016	January 1- December 31, 2015
Notes		
Net profit/loss for the period	70.291.917	66.457.195
Other comprehensive income:		
Adjustments to net income/(loss) reconciliation		
Change in foreign currency translation differences	-	-
Adjustments/revaluation in financial assets available for sale	(43.769)	(8.595)
Profit/loss on cash flow hedges (effective part of the fair value changes)	-	-
Profit/loss on foreign net investment hedges (effective part of the fair value changes)	-	-
Adjustment of investments carried at equity method from other comprehensive income in profit/loss	-	-
Other comprehensive income elements adjusted as other profit or loss	125.224	356.434
Tax income/expense in other comprehensive income adjusted in profit or loss	(16.291)	(74.076)
- Current tax expense/income	-	-
- Deferred tax expense/income	22 (16.291)	(74.076)
Other comprehensive income	65.164	273.763
Total comprehensive income	70.357.081	66.730.958
Distribution of total comprehensive income		
Non-controlling interest	3.821.738	3.529.928
Attributable equity holders of the Parent	66.535.343	63.201.030

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

Convenience translation of financial statements originally issued in Turkish, see note 2.7

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Consolidated statement of changes in equity for the years ended December 31, 2016 and 2015
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Other comprehensive income and expenses not to be reclassified in profit or loss									
	Paid -in share capital	Adjustment to share capital	Revaluation and measurement gains/losses	Other gains /losses	Restricted reserves	Retained earnings	Net profit for the year	Equity attributable to equity holders of the parent	Non-controlling interest	Total equity
Balance as at January 1, 2015										
(Beginning of the period)	98.918.083	63.078.001	(12.093.153)	(94.131)	238.768.671	55.481.121	60.236.932	504.295.524	5.833.994	510.129.518
Transfers	-	-	-	-	-	-	(60.236.932)	-	-	-
Dividends	-	-	-	-	(3.257.004)	(53.173.001)	(60.236.932)	(56.430.005)	(3.042.352)	(59.472.357)
Total comprehensive income	-	-	-	-	-	-	62.927.268	62.927.268	3.529.928	66.457.196
Other	-	-	(11.385)	285.148	-	-	-	273.763	-	273.763
Balance as at December 31, 2015										
(End of the period)	98.918.083	63.078.001	(12.104.538)	191.017	235.511.667	62.545.052	62.927.268	511.066.550	6.321.570	517.388.120
Balance as at January 1, 2016										
(Beginning of the period)	98.918.083	63.078.001	(12.104.538)	191.017	235.511.667	62.545.052	62.927.268	511.066.550	6.321.570	517.388.120
Transfers	-	-	-	-	-	-	(62.927.268)	-	-	-
Dividends	-	-	-	-	1.227.000	(69.927.000)	(62.927.268)	(68.700.000)	(3.295.882)	(71.995.882)
Total comprehensive income	-	-	-	-	-	-	66.470.179	66.470.179	3.821.738	70.291.917
Other	-	-	(35.015)	100.179	-	-	-	65.164	-	65.164
Balance as at December 31, 2016										
(End of the period)	98.918.083	63.078.001	(12.139.553)	291.196	236.738.667	55.545.320	66.470.179	508.901.893	6.847.426	515.749.319

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

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Consolidated statement of cash flows for the years ended December 31, 2016 and 2015
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

	Notes	December 31, 2016	December 31, 2015
Cash flows from operating activities:			
Current period profit		70.291.917	66.457.196
Adjustments to net income/(loss) reconciliation			
- Adjustments related to depreciation and amortization	13,14	2.928.609	2.447.139
- Adjustments related to provisions		30.445.539	35.452.085
- Adjustments related with interest income and expense		382.136.890	270.308.640
- Adjustments related to fair value losses/gains		45.022.192	53.188.026
- Adjustments related to tax expenses/incomes	22	13.693.533	6.286.712
- Adjustments in other components related with the investments or financial activities		20.257.167	(26.731.110)
Changes in working capital			
- Change in trade receivables		(200.820.749)	(27.711.267)
- Change in other receivables related to operations		(4.742.884)	67.002.015
- Change in trade payables		133.965.065	(1.572.054)
- Change in other payables related to operations		(12.341.969)	(5.833.137)
Cash Flow from operating activities			
Taxes paid	22	(46.151.934)	(19.377.878)
Cash flow from operating activities		434.683.376	419.916.367
Cash flows from investing activities:			
Cash outflow for acquisition of tangible and intangible assets	13,14	(6.229.771)	(16.057.750)
Cash outflow from purchase of securities	7	45.000.000	45.357.000
Cash inflow from sale of securities	7	(56.800.000)	(48.000.000)
Cash flows from investing activities		(18.029.771)	(18.700.750)
Cash flows from investing activities:			
Cash provided from financial liabilities		1.194.649.219	55.853.814
Interest paid		(353.909.905)	(272.769.882)
Dividend paid	21	(71.995.882)	(59.472.357)
Cash flows from financial activities		768.743.432	(276.388.425)
Net increase in cash and cash equivalents		1.185.397.037	124.827.192
Cash and cash equivalents at the beginning of the period		2.844.286.573	2.719.459.381
Cash and cash equivalents at the end of the period		4.029.683.610	2.844.286.573

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

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

1 - Organization and nature of operations

Yapı Kredi Yatırım Menkul Değerler A.Ş. (named as "the Company" or the "Group" with its subsidiary in these consolidated financial statements) was established on September 15, 1989 under the name of Finanscorp Finansman Yatırım Anonim Şirketi, to engage in capital markets transactions and to serve as a brokerage company in accordance with the Law No. 2499 "Capital Market Law" and related legislation. In 1996, 99,6% of the shares of the Company were transferred to Yapı ve Kredi Bankası Anonim Şirketi ("Bank"). The name of the Company was changed to Yapı Kredi Yatırım Anonim Şirketi on September 9, 1996 and Yapı Kredi Yatırım Menkul Değerler Anonim Şirketi on October 5, 1998.

As of September 28, 2005, 57,4% of the shares of Yapı ve Kredi Bankası A.Ş., the main shareholder of the Company, were sold in accordance with the share purchase agreement between Çukurova Holding A.Ş., several Çukurova Group Companies, Mehmet Emin Karamehmet and Koç Finansal Hizmetler A.Ş. ("KFH"), Koçbank N.V. and Koçbank A.Ş. In the framework of the agreement, KFH became the ultimate parent company of Yapı ve Kredi Bankası A.Ş. with 57,4% shares. The main shareholder of the Company is Yapı ve Kredi Bankası A.Ş.(YKB) and ultimate parent of the Company is KFH.

At the Extraordinary General Assembly of the Company at December 29, 2006 the decision to legally merge with Koç Yatırım Menkul Değerler A.Ş. ("Koç Yatırım") in accordance with the related articles of Turkish Commercial Code, Corporate Tax Law, and Capital Market Law and permission of Capital Markets Board No. B.02.1.SP.K.0.16-1955 dated December 15, 2006 and to approve the merger agreement has been taken. Accordingly, all rights, receivables, liabilities and obligations were transferred to the Company due to consequential dissolution without liquidation of Koç Yatırım Menkul Değerler A.Ş.

Commercial Registration Office of Istanbul has registered the Extraordinary General Assembly decision dated December 29, 2006 and the merger agreement as of January 12, 2007 and announced the registration at Trade Registry Gazette No. 6724 and dated January 16, 2007.

Approval of Financial Statements:

Consolidated financial statements prepared as of December 31, 2016 have been approved by the Board of Directors of the Company at January 31, 2017. General Assembly and regulatory bodies have the right to amend the approved financial statements.

The main operations of the Company can be summarized as follows without lending money, except where legislation allows:

- a) Buying and selling of capital market instruments within the scope of Capital Market Legislation in the name and account of the customer, in their own name and account or in their own name and in the account of the customer,
- b) According to the Capital Market Law and Capital Market Board's Regulations ("SPK or Board")
 - Execution of orders (In domestic and cross-border markets)
 - Shares,
 - Other securities,
 - Derivatively financial instruments of shares specific,
 - Derivatively financial instruments of shares index specific,
 - Other derivative financial instruments,
 - Intermediary activities dealing on own account (In domestic markets),
 - Shares,
 - Other securities,

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

1 - Organization and nature of operations (continued)

- Leveraged buying and selling transactions,
 - Derivatively financial instruments of shares specific,
 - Derivatively financial instruments of shares index specific,
 - Other derivative instruments,
 - Investment advice related activities,
 - Intermediation for public offer transactions,
 - Ancillary service,
 - Best effort ancillary service,
 - Limited custodian service,
- c) Performing transactions in exchange markets by being a member of exchanges,
- d) Buying and selling instruments with repurchase agreement
- e) Providing services of collection, payment of principal, interest, dividends and related income and to obtain shares through gratis issue in the name and account of customers on the basis of authorization taken from them.
- g) Margin trading, short selling and borrowing and lending the financial instruments

The Company has 35 funds (December 31, 2015: 10) which are established by the Company itself founded by the Group. As of December 31, 2015 Group has 298 employees (December 31, 2015:299).

The head office of the Company is located at; Yapı Kredi Plaza A Blok Kat: 11 Büyükdere Cad. Levent – Istanbul

As of December 31, 2016 and 2015, details of the subsidiary of the Group are as follows:

Company Name	December 31, 2016	December 31, 2015	Principal activity
	Share in capital	Share in capital	
Yapı Kredi Portföy Yönetimi A.Ş. (Subsidiary)	87,32%	87,32%	Portfolio Management

Subsidiary

Yapı Kredi Portföy Yönetimi A.Ş. ("Yapı Kredi Portföy" or "subsidiary") is subject to full consolidation as the Company is the main shareholder and has control rights over subsidiary.

The Company's subsidiary Koç Portföy Yönetimi A.Ş. ("Koç Portföy") has legally merged with Yapı Kredi Portföy Yönetimi A.Ş. on December 29, 2006. Accordingly, all rights, receivables, liabilities and obligations of Yapı Kredi Portföy were transferred to Koç Portföy. After merger, the Subsidiary has changed its title as Yapı Kredi Portföy Yönetimi A.Ş. and accordingly the Company has an interest of 87,32% (December 31, 2015: 87,32%) of the voting rights.

Within the context of the Capital Markets Board regulations, the Subsidiary's principal activities are managing mutual and private funds and performing discretionary portfolio management ("DPM") for institutions, endowments and individuals.

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

2 - Basis of presentation of financial statements

2.1 Basis of presentation

2.1.1 Applicable accounting standards

The accompanying financial statements have been prepared in accordance with the Turkish Accounting Standards ("TAS") promulgated by the Public Oversight Accounting and Auditing Standards Authority ("POA") in compliance with the communiqué numbered II-14.1 "Communiqué on the Principles of Financial Reporting In Capital Markets" (the Communiqué) announced by the CMB on June 13, 2013 which is published on Official Gazette numbered 28676. TAS consists of the Turkish Accounting Standards, Turkish Financial Reporting Standards and related supplements and interpretations.

The consolidated financial statements were based on the legal records of the Group and expressed in Turkish Lira; and they have been subject to certain adjustments and classifications in order to fairly present the financial position of the Group in accordance with the Turkish accounting standards issued by POA.

The Group's accompanying financial statements prepared in accordance with 2016 TAS Taxonomy approved by No. 30 Board decision dated June 2, 2016 developed on the basis of (b) subparagraph of 9th article of statutory decree No. 660 of POA.

2.1.2 Adjustments to financial statements in hyperinflationary periods

With the decision taken on March 17, 2005, the CMB announced that, effective from January 1, 2005, the application of inflation accounting is no longer required for listed companies in Turkey. The Group's financial statements have been prepared in accordance with this decision.

2.1.3 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.1.4 Going concern

The Group prepared its financial statements according to the going concern assumption.

2.1.5 Functional currency

Transactions recognized in foreign currencies are converted into Turkish lira at the exchange rates prevailing at the dates of the transactions. Balances in foreign currency are valued at balance sheet exchange rates. As of December 31, 2016, USD and EUR exchange rate is 3,5192 and 3,7099 respectively (31 December 2015: 1 USD: 2,9076 TL, 1 EUR: 3,1776 TL).

2.2. Change in accounting policies and errors

Accounting policy changes taking place as a result of a new TAS/IFRS's first time use are applied in line with the transition rules if there is any, retrospective or prospectively. If transition rules are absent for such changes, intended significant changes regarding the accounting policy or identified accounting mistakes are applied retrospectively and financial statements of prior period are revised accordingly.

2.3 Change in accounting estimations

If the application of changes in the accounting estimates affects the financial results of a specific period, the accounting estimate change is applied in that specific period, if they affect the financial results of current and following periods; the accounting estimate is applied prospectively in the periods in which such change is made.

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

2 - Basis of presentation of financial statements (continued)

2.4 Changes in accounting policies and interpretations

The new standards, amendments and interpretations

The accounting policies adopted in preparation of the consolidated financial statements as at December 31, 2016 are consistent with those of the previous financial year, except for the adoption of new and amended TFRS and TFRIC interpretations effective as of January 1, 2016. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs.

i) The new standards, amendments and interpretations which are effective as at January 1, 2016 are as follows:

IFRS 11 Acquisition of an Interest in a Joint Operation (Amendment)

IFRS 11 is amended to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. This amendment clarifies that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 Business Combinations, to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs except for those principles that conflict with the guidance in this IFRS. In addition, the acquirer shall disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments did not have an impact on the financial position or performance of the Group.

IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)

The amendments to IAS 16 and IAS 38, have prohibited the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortisation for intangible assets. The amendments did not have an impact on the financial position or performance of the Group.

IAS 16 Property, Plant and Equipment and IAS 41 Agriculture (Amendment) – Bearer Plants

IAS 16 is amended to provide guidance that bearer plants, such as grape vines, rubber trees and oil palms should be accounted for in the same way as property, plant and equipment in IAS 16. Once a bearer plant is mature, apart from bearing produce, its biological transformation is no longer significant in generating future economic benefits. The only significant future economic benefits it generates come from the agricultural produce that it creates. Because their operation is similar to that of manufacturing, either the cost model or revaluation model should be applied. The produce growing on bearer plants will remain within the scope of IAS 41, measured at fair value less costs to sell. The amendment is not applicable for the Group and did not have an impact on the financial position or performance of the Group.

IAS 27 Equity Method in Separate Financial Statements (Amendments to IAS 27)

IASB issued an amendment to IAS 27 to restore the option to use the equity method to account for investments in subsidiaries and associates in an entity's separate financial statements. Therefore, an entity must account for these investments either:

- At cost
- In accordance with IFRS 9,
- Or
- Using the equity method defined in IAS 28

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

2 - Basis of presentation of financial statements (continued)

The entity must apply the same accounting for each category of investments. The amendment is not applicable for the Group and did not have an impact on the financial position or performance of the Group.

TFRS 10 and TAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)

Amendments issued to TFRS 10 and TAS 28, to address the acknowledged inconsistency between the requirements in TFRS 10 and TAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture, to clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in TFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary should be recognised only to the extent of unrelated investors' interests in that former subsidiary. The amendment is not applicable for the Group and did not have an impact on the financial position or performance of the Group.

TFRS 10, TFRS 12 and TAS 28: Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10 and IAS 28)

Amendments issued to TFRS 10, TFRS 12 and TAS 28, to address the issues that have arisen in applying the investment entities exception under TFRS 10 Consolidated Financial Statements. The amendment is not applicable for the Group and did not have an impact on the financial position or performance of the Group.

TAS 1: Disclosure Initiative (Amendments to TAS 1)

The amendments issued to TAS 1. Those amendments include narrow-focus improvements in the following five areas: Materiality, Disaggregation and subtotals, Notes structure, Disclosure of accounting policies, Presentation of items of other comprehensive income (OCI) arising from equity accounted investments. These amendments did not have significant impact on the notes to the consolidated financial statements of the Group.

Annual Improvements to TFRSs - 2012-2014 Cycle

POA issued, Annual Improvements to TFRSs 2012-2014 Cycle. The document sets out five amendments to four standards, excluding those standards that are consequentially amended, and the related Basis for Conclusions. The standards affected and the subjects of the amendments are:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – clarifies that changes in methods of disposal (through sale or distribution to owners) would not be considered a new plan of disposal, rather it is a continuation of the original plan
- IFRS 7 Financial Instruments: Disclosures – clarifies that i) the assessment of servicing contracts that includes a fee for the continuing involvement of financial assets in accordance with IFRS 7; ii) the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report
- IAS 19 Employee Benefits – clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located
- IAS 34 Interim Financial Reporting –clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report

The amendment did not have significant on the financial position or performance of the Group.

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

2 - Basis of presentation of financial statements (continued)

ii) Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the consolidated financial statements are as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the consolidated financial statements and disclosures, when the new standards and interpretations become effective.

IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15 Revenue from Contracts with Customers. The new five-step model in the standard provides the recognition and measurement requirements of revenue. The standard applies to revenue from contracts with customers and provides a model for the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., the sale of property, plant and equipment or intangibles). IFRS 15 effective date is 1 January 2018, with early adoption permitted. Entities will transition to the new standard following either a full retrospective approach or a modified retrospective approach. The modified retrospective approach would allow the standard to be applied beginning with the current period, with no restatement of the comparative periods, but additional disclosures are required. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

IFRS 9 Financial Instruments

In January 2017, POA issued the final version of TFRS 9 Financial Instruments. The final version of TFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. TFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, TFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. TFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted by applying all requirements of the standard. Alternatively, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL without applying the other requirements in the standard. The Group is in the process of assessing the impact of the standard on financial position or performance of the Group.

iii) The new standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) but not issued by Public Oversight Authority (POA)

The following standards, interpretations and amendments to existing IFRS standards are issued by the IASB but not yet effective up to the date of issuance of the financial statements. However, these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued by the POA, thus they do not constitute part of TFRS. The Group will make the necessary changes to its consolidated financial statements after the new standards and interpretations are issued and become effective under TFRS.

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

2 - Basis of presentation of financial statements (continued)

IFRS 10 and TAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments)

In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. Early application of the amendments is still permitted.

Annual Improvements – 2010–2012 Cycle

IFRS 13 Fair Value Measurement

As clarified in the Basis for Conclusions short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. The amendment is effective immediately.

Annual Improvements – 2011–2013 Cycle

IFRS 16 Leases

The IASB has published a new standard, IFRS 16 'Leases'. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The amendment are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)

The IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. These amendments are to be retrospectively applied for annual periods beginning on or after January 1, 2017 with earlier application permitted. However, on initial application of the amendment, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. If *the Group* applies this relief, it shall disclose that fact. The amendment are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

IAS 7 Statement of Cash Flows (Amendments)

The IASB issued amendments to IAS 7 'Statement of Cash Flows'. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The improvements to disclosures require companies to provide information about changes in their financing liabilities. These amendments are to be applied for annual periods beginning on or after January 1, 2017 with earlier application permitted. When the Group first applies those amendments, it is not required to provide comparative information for preceding periods. The amendment are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

2 - Basis of presentation of financial statements (continued)

IFRS 2 Classification and Measurement of Share-based Payment Transactions (Amendments)

The IASB issued amendments to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments, provide requirements on the accounting for:

- a. the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- b. share-based payment transactions with a net settlement feature for withholding tax obligations; and
- c. a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The Group is in the process of assessing the impact of the amendments on financial position or performance of the Group.

IFRS 4 Insurance Contracts (Amendments)

In September 2016, the IASB issued amendments to IFRS 4 Insurance Contracts. The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard will:

- a. give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 Financial instruments is applied before the new insurance contracts Standard is issued; and
- b. give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 Financial instruments until 2021. The entities that defer the application of IFRS 9 Financial instruments will continue to apply the existing financial instruments Standard—IAS 39.

These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendment are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

IAS 40 Investment Property: Transfers of Investment Property (Amendments)

The IASB issued amendments to IAS 40 'Investment Property '. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendment are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

The interpretation states that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. An entity is not required to apply this interpretation to income taxes; or insurance contracts (including reinsurance contracts) it issues or reinsurance contracts that it holds.

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

2 - Basis of presentation of financial statements (continued)

The interpretation is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted. The interpretation is not applicable for the Group and will not have an impact on the financial position or performance of the Group.

Annual Improvements to IFRSs - 2014-2016 Cycle

The IASB issued Annual Improvements to IFRS Standards 2014–2016 Cycle, amending the following standards:

- IFRS 1 First-time Adoption of International Financial Reporting Standards: This amendment deletes the short-term exemptions about some IFRS 7 disclosures, IAS 19 transition provisions and IFRS 10 Investment Entities. These amendments are to be applied for annual periods beginning on or after 1 January 2018.
- IFRS 12 Disclosure of Interests in Other Entities: This amendment clarifies that an entity is not required to disclose summarised financial information for interests in subsidiaries, associates or joint ventures that is classified, or included in a disposal group that is classified, as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. These amendments are to be applied for annual periods beginning on or after 1 January 2017.
- IAS 28 Investments in Associates and Joint Ventures: This amendment clarifies that the election to measure an investment in an associate or a joint venture held by, or indirectly through, a venture capital organisation or other qualifying entity at fair value through profit or loss applying IFRS 9 Financial Instruments is available for each associate or joint venture, at the initial recognition of the associate or joint venture. These amendments are to be applied for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

The amendment are not applicable for the Group and will not have an impact on the financial position or performance of the Group.

2.5 Critical accounting judgements, estimates and assumptions

The significant accounting policies followed in the preparation of these financial statements are summarized below:

(a) Consolidation principles

The consolidated financial statements include the financial statements of the Company and its Subsidiary. Control is exercised when a company has power over financial and operational policies of a business with the purpose of benefiting from the business' operations.

As of December 31, 2016 and 2015, details of the subsidiary and associate of the Group are as follows:

Company Name	2016 Share in capital	2015 Share in capital	Principal activity
Yapı Kredi Portföy Yönetimi A.Ş. (Subsidiary)	87,32%	87,32%	Portfolio Management

Subsidiary

Yapı Kredi Portföy Yönetimi A.Ş. ("Yapı Kredi Portföy" or "subsidiary") is subject to full consolidation as the Company is the main shareholder and has control rights over subsidiary.

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

2 - Basis of presentation of financial statements (continued)

The Company's subsidiary Koç Portföy Yönetimi A.Ş. ("Koç Portföy") has legally merged with Yapı Kredi Portföy Yönetimi A.Ş. on December 29, 2006. Accordingly, all rights, receivables, liabilities and obligations of Yapı Kredi Portföy were transferred to Koç Portföy. After merger, the Subsidiary has changed its title as Yapı Kredi Portföy Yönetimi A.Ş. and accordingly the Company has an interest of 87,32% (December 31, 2015: 87,32%) of the voting rights.

Within the context of the Capital Markets Board regulations, the Subsidiary's principal activities are managing mutual and private funds and performing discretionary portfolio management ("DPM") for institutions, endowments and individuals.

The balance sheets and statements of income of the subsidiary are consolidated on a line-by-line basis and the carrying value of the investment held by the Company is eliminated against the related equity.

The minority shares in net assets and operating results are classified as minority interest. Intercompany transactions and balances between the Company and the subsidiary are eliminated during consolidation. Subsidiary is consolidated from the date on which control is transferred to the Company and will no longer be consolidated from the date that control ceases.

Where necessary, accounting policies of the subsidiary have been changed to ensure consistency with the policies adopted by the Company.

(b) Revenue recognition

(i) Fee and commission income and expenses

Fees and commissions are recognized in the income statement when they are collected or paid. However, fund management, investment consulting fees, intermediary commissions and portfolio management commissions are recognized on an accrual basis. Common stock transaction commissions are netted off with commission rebates (Note 23).

(ii) Interest income/expense and dividend income

Interest income and expense are recognized on an accrual basis in the relevant period's income statement. Income includes coupon income from fixed and floating income securities and discounted treasury bills valued by amortized cost, income from reverse repo and stock exchange money market transactions.

Dividend income from common stock investments is recognized when shareholders are entitled to receive dividend.

(c) Trade receivables

Trading receivables that arise as a result of providing services to the receiver by the Group are disclosed by offsetting unearned financing income. After the unearned financing income, trading receivables are calculated with the discounted amounts of receivables that are recorded with their original invoice value and realized in next periods with the effective interest method. Short term receivables that do not have any specified interest rate are disclosed with their cost values when there is no major effect of using original effective interest rate.

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

2 - Basis of presentation of financial statements (continued)

(d) Financial assets

The Group classifies and accounts its financial assets as "Fair value through profit or loss", "Available-for-sale", "Loans and receivables" or "Held-to-maturity".

Sales and purchases of the financial assets mentioned above are recognized at the "settlement dates"

The appropriate classification of financial assets of the Group is determined at the time of purchase and according to the "market risk policies" by the Group management, taking into consideration the purpose of holding the investment.

All financial assets initially are recognized at fair value with purchase expenses of investment, except financial assets at fair value through profit or loss.

(i) *Financial assets at fair value through profit and loss*

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

Trading financial assets are initially recognized at fair value and are subsequently re-measured at their fair value. It is accepted that the fair value is recognized as the best buy order as of the balance sheet date. However, if fair values cannot be obtained from the market transactions, it is accepted that the fair value cannot be measured reliably and that the financial assets are carried at "amortized cost" using the effective interest method. All gains and losses arising from these evaluations are recognized in the income statement.

All gains and losses arising from these evaluations, coupon and interest income are recognized in "Financial income" account in the income statement.

The assets in this category are classified as current assets.

(ii) *Available for sale financial assets*

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

Available-for-sale financial assets are subsequently re-measured at fair value. When fair value calculations, based on market prices, cannot be obtained reliably, the available-for-sale financial assets are carried at amortized cost using the effective interest method.

"Unrealized gains and losses" arising from changes in the fair value of financial assets classified as available-for-sale are recognized in the equity as "Revaluation fund", until there is a permanent decline in the values of such assets or they are disposed of.

When these financial assets are disposed of or impaired, the related fair value differences accumulated in the equity are transferred to the income statement.

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

2 - Basis of presentation of financial statements (continued)

(iii) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets that are not classified under loans and receivables or held-for-trading at the time of acquisition and are not included in available-for-sale financial assets, with fixed maturities and fixed or determinable payments where management has the intent and ability to hold the financial assets to maturity. Held-to-maturity financial assets are initially recognized at cost which is considered as their fair value. The fair values of held-to-maturity financial assets on initial recognition are either the transaction prices at acquisition or the market prices of similar financial instruments. Held-to-maturity securities are carried at "amortized cost" using the "effective interest method" after their recognition. Interest income earned from held-to-maturity financial assets is reflected to the statement of income.

There are no financial assets of the Group that were previously classified as held-to-maturity but cannot be subject to this classification for two years due to the breaching of classification principles.

(iv) Loans and other receivables

Loans and receivables of the Group which are given with the purpose of providing cash to the debtor are carried at amortized cost. All loans are recognized in financial statements after transferring the cash amounts to debtors.

The Group provides loans to the customers for the share certificate takings.

(v) Reverse repurchase agreements

Funds given against securities purchased under agreements ("Reverse Repo") to resell are accounted under "Cash and cash Equivalents" on the balance sheet. The difference between the purchase and determined resell price is accrued over the life of repurchase agreements using the effective interest method and is recorded as receivables from reverse repo transactions.

(e) Property and equipment

Property and equipment are carried at cost less accumulated depreciation (Note 13).

Depreciation on the tangible assets is provided on straight-line method according to their useful lives from the date of recognition or assembly of the related asset. The estimated useful lives of assets are as follows:

Buildings	50 years
Furnitures and fixtures	4-5 years
Motor vehicles	4-5 years
Leasehold improvements	4-5 years

Estimated useful life and depreciation method are reviewed at each balance sheet date in order to detect the effects of changes in the estimates and if appropriate, the changes in estimates are accounted.

Where the carrying amount of an asset is greater than its estimated "recoverable amount", it is written down to its "recoverable amount" and the provision for the impairment in value is charged to the income statement.

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

2 - Basis of presentation of financial statements (continued)

Gains and losses on the disposal of assets are determined by deducting the net book value of the assets from its sales proceeds and charged to the income statement in the current period.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

(f) Intangible assets

Intangible assets consist of acquired rights, information systems and softwares. These assets are recorded at original costs and amortized over their estimated useful lives, approximately 3-5 years, using the straight-line method (Note 14). The useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet

The Book value of intangible assets are reduced to recoverable value, if impairment exists.

(g) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss are subject to impairment testing at each balance sheet date to determine whether there is any indication of impairment of financial asset or financial asset group. A financial asset or group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets. That loss event or events must also have an impact on the estimated future cash flows of the financial asset or group of financial assets.

The Group books a provision for the doubtful receivables when there is an objective evidence that trade receivables are not fully collectible. The correspondent provision amount is the difference between the book value and collectible receivable amount. The collectible amount is the discounted value of trade receivables by effective interest rate including the collectible guarantees and securities. In the event of the collections of the doubtful receivables whether the whole amount or some part of it, after booking the provision for the doubtful receivables, the collected amount is deducted from the doubtful receivables provision and recorded as income.

The carrying amount of the financial asset is reduced by impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Changes in allowance accounts are recognized in income statement.

With the exception of available for sale equity instruments, if, in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, previously recognized impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

2 - Basis of presentation of financial statements (continued)

(h) Financial liabilities

(i) Repurchase agreements

Securities subject to repurchase agreements ("Repos") are classified as "at fair value through profit or loss", "available-for-sale" and "held-to-maturity" according to the investment purposes of the Group and measured according to the portfolio to which they belong. Funds obtained from repurchase agreements are accounted under "Financial Liabilities" in liabilities and the difference between the sale and repurchase price is accrued over the life of the repurchase agreements using the "effective interest method" and is added to the cost of the financial assets which are subject to repurchase agreements.

The Group has no securities lending transactions

(ii) Other financial liabilities

Other financial liabilities are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method.

(i) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in the profit or loss in the period in which they are incurred.

(i) Foreign Currency Transactions

Transactions denominated in foreign currencies are accounted for at the exchange rates prevailing at the date of the transactions; monetary assets and liabilities are accounted for at the period-end bid rate of Central Bank of the Republic of Turkey ("CBRT") (Note 29). Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

(j) Provisions and contingent assets and liabilities

Provisions are recognized when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. When the amount of the obligation cannot be estimated and an outflow of resources is not probable, it is considered that a "contingent" liability exists and it is disclosed in the related notes to the financial statements (Note 15).

Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the entity. Contingent assets are not recognized in financial statements since this may result in the recognition of income that may never be realized. Contingent assets are disclosed where an inflow of economic benefits is probable.

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

2 - Basis of presentation of financial statements (continued)

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 in the period in which the change occurs.

(k) Finance leases - the Group as lessee

Assets acquired under finance lease agreements are capitalized at the inception of the lease at the amount of lower of the fair value of the leased asset, and the present value of the lease payment. Assets acquired under finance lease agreements are classified under property and equipment and depreciated as per assets useful lives. Liabilities arising from financial lease agreements are followed under the "Financial lease payables" account in the balance sheet.

(l) Operational lease - the Group as lessee

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

Operating lease payments are recognized in the consolidated income statements as an expense on a straight line basis over the lease term. Benefits obtained or to be obtained are also recorded on a straight line basis over the lease term.

(m) Subsequent events

Subsequent events cover any events which arise between the date of approval of the financial statements and the balance sheet date, even if they occurred after declaration of the net profit for the period or specific financial information is publicly disclosed. The Group adjusts its financial statements if such subsequent events require an adjustment to the financial statements.

(n) Related parties

For the purpose of these consolidated financial statements, shareholders, subsidiaries of Yapı ve Kredi Bankası A.Ş. with indirect capital relation, Koç Holding A.Ş. and Unicredito Italiano S.p.A group companies, key management personnel and board members, their families and companies are considered as "related parties".

(o) Taxes calculated on corporate income

Corporate tax

Corporation tax is calculated in conformity with Tax Procedural Law and tax expenses other than corporation tax are accounted for in operating expenses (Note 22).

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

If there is a legal right for offsetting of current tax assets and liabilities or taxation of these assets and liabilities are determined by the same authority, offsetting is realized.

Deferred tax

Deferred tax is calculated, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. Currently enacted tax rates are used to determine deferred income tax at the balance sheet date.

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

2 - Basis of presentation of financial statements (continued)

Deferred tax assets and liabilities related to income taxes levied by the same taxation authority are offset accordingly.

Significant temporary differences arise from provision for employment termination benefits, provision for unused vacation rights, valuation differences of buildings and other fixed assets, valuation differences of available-for-sale financial assets and various expense provisions.

Deferred tax liabilities are recognized for all taxable temporary differences, where deferred tax assets resulting from deductible temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilized.

Current tax and deferred tax are accounted as income or expense in the income statement, except those related to items accounted under "Revaluation fund" in equity

(ö) Employee benefits

Defined benefit plans

The Group accounts for employee termination benefits, vacation rights and other benefits to employees in accordance with "Turkish Accounting Standard for Employee Rights" ("TAS 19") and they are classified under "provision for employee benefits" in the balance sheet.

Under the Turkish Labour Law, the Group is required to pay a specific amount to the employees who have retired or whose employment is terminated other than for the reasons specified in the Turkish Labour Law. The reserve for employment termination benefits represents the present value of the estimated total reserve for the future probable obligation of the Company arising from this liability regarding the actuarial projections and reflected to financial statements (Note 17).

Defined contribution plans

The Group has to pay contribution to Social Security Institution (Institution) for its employees within the contribution margin decided by the law. The Group does not have other liabilities to its employees or to Institution other than the contribution for its employees. Those contributions are expensed on the date of accrual.

(p) Capital and dividends

Ordinary shares are classified in equity. Dividends over ordinary shares are classified as dividend payable by deducting from accumulated profits, when the decision of dividend distribution is taken.

(r) Statement of cash flows

For the purposes of statement of cash flows, cash and cash equivalents include due from banks with maturity less than three months, receivables from reverse repo transactions and investment funds.

(s) Share certificates and issuance

At capital increases, the Group accounts the difference between the issued value and nominal value as share issue premium under equity, in the case where the issued value is higher than the nominal value. The Group has no decision for profit distribution after the balance sheet date.

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Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

2 - Basis of presentation of financial statements (continued)

(s) Assets held for resale and discontinued operations

Discontinued operation is defined as a part of the Group with distinguished operations and cash flows that is disposed of or classified as held for sale. Results of discontinued operations are disclosed separately in the income statement.

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

(t) Derivative financial instruments

The Group's derivative transactions are composed of foreign currency/interest rates swaps, forward contracts and future transactions. Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting periods.

2.6 Critical accounting judgements, estimates and assumptions

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities or amounts of contingent assets and liabilities, and income and expense reported in the related period. Even though these assumptions and estimates are based on the best estimates of the Group's management, the actual results might differ from them.

Judgements that have the most significant effect on the amounts recognized in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorized as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than for certain specific circumstances – for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortized cost.

Impairment of available for-sale equity investments. The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgement. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows. Had all the declines in fair value below cost been considered significant or prolonged, the Group would not suffer any additional loss, being the transfer of the total debit balance in the revaluation reserve to profit or loss.

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

Convenience translation of financial statements originally issued in Turkish, see note 2.7

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

2 - Basis of presentation of financial statements (continued)

2.7 Convenience translation into English of financial statements originally issued in Turkish

The accounting principles described above (defined as Turkish Accounting Standards/Turkish Financial Reporting Standards) differ from International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board with respect to the application of inflation accounting, certain reclassifications and also for certain disclosures requirement of the POA/CMB. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with IFRS.

3 - Business Combinations

None (December 31, 2015 - None).

4 - Joint ventures

None (December 31, 2015 - None).

5 - Segment reporting

The main operations of the Grup is purchasing and selling of capital market instruments. the Group's operates in a single geographical region, therefore there is no separate segment reporting disclosed in December 31, 2016 year-end financial statements.

6 – Cash and cash equivalents

	December 31, 2016	December 31, 2015
Banks		
- Demand Deposits	52.583.368	49.153.392
- Time Deposits	4.013.506.914	2.875.655.602
Receivables from reverse repurchase agreements	251.734	11.325
	4.066.342.016	2.924.820.319

For the purpose of statement of cash flows, details of cash and cash equivalents are as follows:

	December 31, 2016	December 31, 2015
Time deposits with maturity less than 3 months	4.013.506.914	2.826.975.562
Demand Deposits	15.924.962	17.299.686
Receivables from reverse repurchase agreements	251.734	11.325
	4.029.683.610	2.844.286.573

Cash and cash equivalents belonging to the customers of the Group consist of demand deposit amounting of TL 36.658.406 as of December 31, 2016 (December 31, 2015: TL 31.853.706 demand).

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

7 – Financial investments

Short term financial assets	December 31, 2016	December 31, 2015
<i>Financial assets at fair value through profit and loss</i>		
- Share certificates quoted to BIST	6.634.877	8.040.334
<i>Available for sale financial assets</i>		
- Private sector bonds and bills	31.557.102	25.108.995
<i>Held to maturity financial assets</i>		
- Government bonds and treasury bills	26.698.291	40.149.237
	64.890.270	73.298.566
Long term financial assets		
<i>Available for sale financial assets</i>		
- Share certificates	32.192.533	32.192.533
	32.192.533	32.192.533
Total financial investments	97.082.803	105.491.099

Held-to-maturity financial investments, with the fair value of TL 16.816.407 and the carrying value of TL 16.857.745 are held as collateral in the CBRT, BIST and Takas ve Saklama Bankası A.Ş. ("Takasbank") as of December 31, 2016 (December 31, 2015: held-to-maturity financial investments, with the fair value TL 31.099.144 and the carrying value of TL 30.844.032).

Maturity distribution of held-to-maturity financial assets is as follows:

	December 31, 2016	December 31, 2015
3 months - 1 year	26.698.291	40.149.237
	26.698.291	40.149.237
	December 31, 2016	
	Cost	Fair value
		Carrying value
<i>Financial assets at fair value through profit or loss</i>		
- Government bonds and treasury bills	-	-
- Share certificates quoted to BIST	6.549.335	6.634.877
<i>Available-for-sale financial assets</i>		
- Private sector bonds and bills	31.297.809	31.557.102
<i>Held to maturity financial investments</i>		
- Government bonds and treasury bills	26.752.578	26.650.454
	64.599.722	64.842.433
		64.890.270

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

7 - Financial investments (continued)

	December 31, 2015		
	Cost	Fair Value	Carrying value
<i>Financial assets at fair value through profit/loss</i>			
- Share certificates quoted to BIST	-	-	-
- Government bonds and treasury bills	8.065.246	8.040.334	8.040.334
<i>Available-for-sale financial assets</i>			
- Private sector bonds and bills	24.300.000	25.108.995	25.108.995
<i>Held to maturity financial investments</i>			
- Government bonds and treasury bills	39.620.745	40.105.859	40.149.237
	71.985.991	73.255.188	73.298.566

Long term financial investments

	December 31, 2016		
	Cost	Fair value	Carrying value
<i>Available-for-sale financial asset</i>			
- Share certificates	32.192.533	32.192.533	32.192.533
	32.192.533	32.192.533	32.192.533

	December 31, 2015		
	Cost	Fair value	Carrying value
<i>Available-for-sale financial assets</i>			
- Share certificates	32.192.533	32.192.533	32.192.533
	32.192.533	32.192.533	32.192.533

Movements of the held-to-maturity financial assets during the years ended December 31, 2016 and 2015 are as follows:

	December 31, 2016	December 31, 2015
January 1	40.149.237	40.542.140
Purchases during the period	45.000.000	45.357.000
Valuation increase/decrease (rediscount rate is included)	(1.650.946)	2.250.097
Disposals in the period	(56.800.000)	(48.000.000)
December 31	26.698.291	40.149.237

As of December 31, 2015, available-for-sale financial assets subject to repurchase agreement is amounting to TL 251.734 (December 31, 2015 - TL 11.325).

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

7 - Financial investments (continued)

Details of share certificates, that are classified as short-term available-for-sale financial assets are as follows;

Type	December 31, 2016		December 31, 2015	
	Amount TL	Shareholding %	Amount TL	Shareholding %
Not quoted to stock exchange				
Takasbank	31.488.051	4,38	31.488.051	4,38
Borsa İstanbul	574.287	0,08	574.287	0,08
Yapı Kredi Azerbaycan Ltd	92.064	0,10	92.064	0,10
Allianz Emeklilik A.Ş.	26.432	0,04	26.432	0,04
Koç Kültür Sanat ve Tanıtım Hiz. Tic. A.Ş.	11.699	4,90	11.699	4,90
	32.192.533		32.192.533	

As of December 31, 2016 and 2015, the Group has 4,38% of the shares of Takasbank. The Group has TL 26.280.000 shares with a nominal value of TL 26.280.000.

The above unquoted and unlisted available-for-sale equity investments whose fair value cannot be reliably measured are stated at cost less impairment, if any.

8 – Assets held for sale

None (December 31, 2015 - None).

9 – Short term trade payables

	December 31, 2016	December 31, 2015
Payables to stock exchange money market	2.904.116.758	1.956.315.696
Short-term Bonds issued	942.954.793	671.882.615
Bank loans (*)	27.113.413	4.122.500
Due to short selling transactions	-	20.028.055
Funds from repo transactions	-	8.159.121
	3.874.184.964	2.660.507.987

(*) Bank loans consist of borrowings from Takasbank.

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

9 – Short term trade payables (continued)

Bonds issued as 31 December 2016 as follows:

	December 31, 2016	December 31, 2015
Bonds issued	942.954.793	671.882.616
	942.954.793	671.882.616

Type	Nominal Amount	Currency	Issue Date	Maturity Date	Simple Interest Rate	Compound Interest Rate	Interest Rate Type
Bond	190.680.000	TL	October 19, 2016	January 18, 2017	10,30%	10,71%	Fixed
Bond	15.000.000	TL	October 25, 2016	January 23, 2017	11,17%	11,65%	Fixed
Bond	268.980.000	TL	October 27, 2016	January 26, 2017	10,20%	10,60%	Fixed
Bond	80.000.000	TL	November 8, 2016	February 6, 2017	10,05%	10,44%	Fixed
Bond	167.130.000	TL	November 18, 2016	February 17, 2017	10,10%	10,49%	Fixed
Bond	179.000.000	TL	December 9, 2016	March 9, 2017	10,65%	11,09%	Fixed
Bond	52.000.000	TL	December 13, 2016	January 27, 2017	12,16%	12,83%	Fixed

Bonds issued as 31 December 2015 as follows:

Type	Nominal Amount	Currency	Issue Date	Maturity Date	Simple Interest Rate	Compound Interest Rate	Interest Rate Type
Bond	170.000.000	TL	2 October 2015	2 January 2016	11,50%	12,00%	Fixed
Bond	200.000.000	TL	5 November 2015	1 February 2016	11,40%	11,90%	Fixed
Bond	128.200.000	TL	18 November 2015	1 February 2016	11,40%	11,90%	Fixed
Bond	100.000.000	TL	30 November 2015	1 March 2016	11,50%	12,00%	Fixed
Bond	20.626.301	TL	9 December 2015	8 March 2016	12,75%	13,38%	Fixed
Bond	62.000.000	TL	14 December 2015	15 March 2016	11,50%	12,00%	Fixed

10 – Trade receivables and payables

Trade receivables:

Short term trade receivables

	December 31, 2016	December 31, 2015
Receivables from loan customers	183.040.394	143.900.456
Receivables from clearing and settlement center	193.353.075	-
Receivables customers	44.745.696	75.214.050
Project receivables	-	338.026
Commission receivables	1.469.644	1.443.130
Doubtful receivables	943.693	1.003.693
Doubtful receivables provisions	(943.693)	(1.003.693)
	422.608.809	220.895.662

The Group provides loans to customers for using in share certificate transactions. The Group has quoted share certificates as collateral against loans given whose total market value amounts to TL 358.432.341 (December 31, 2015: 274.923.261 TL).

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

10 – Trade receivables and payables (continued)

Trade payables:

Short term trade payables

	December 31, 2016	December 31, 2015
Payables to customers	218.556.414	42.021.432
Payables to clearing and settlement center	-	42.174.201
Agent commissions payable	1.670.179	2.513.099
Expense accruals	814.629	433.843
Taxes and funds payables	558.738	424.292
Other trade payables	273.524	341.550
	221.873.484	87.908.417

11 – Receivables and payables from financial sector activities

Receivables and payables from financial activities consists of the the transactions of the consolidated subsidiary.

Receivables from financial sector activities

	December 31, 2016	December 31, 2015
Fund management fee receivables	4.426.383	3.673.667
Individual pension fund performance management receivables	4.448.863	1.734.922
Investment advisory receivables	1.196.285	1.311.728
Individual pension fund management receivables	1.014.397	853.835
Private portfolio management fee receivables	11.319	2.453
Private portfolio management success fee receivables	2.826	23.867
Other	2.908	81.375
	11.102.981	7.681.847

Portfolio management fee receivable amounting to TL 4.426.383 managed by the subsidiary, consists of management fee receivables from 35 (December 31, 2015: 32) investment funds and 21 (December 31, 2015: 20) pension funds, which were established according to the Capital Market Law and related legal provisions.

Management fee receivables are recognized on accrual basis and collected every month.

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

12 – Other receivables and payables

Other receivables		
	December 31, 2016	December 31, 2015
Collaterals from Takasbank	13.351.571	6.510.840
Deposits and collaterals given	19.400.585	15.993.702
	32.752.156	22.504.542

Other payables		
	December 31, 2016	December 31, 2015
Deposits and collaterals received	25.725.086	25.718.560
Payables to marketable securities disposal fund	491.344	491.344
Payables to parties other than suppliers or customers	1.922.275	-
	28.138.705	26.209.904

13 – Property and equipment

December 31, 2016	Buildings	Vehicles	Furniture and fixtures	Leasehold improvements	Total
Net book value, January 1	5.672.614	-	3.215.128	959.935	9.847.677
Additions	-	-	635.906	25.340	661.246
Disposals	-	-	-	-	-
Depreciation expense	(294.659)	-	(968.956)	(235.148)	(1.498.763)
Net book value, December 31	5.377.955	-	2.882.078	750.127	9.010.160
Cost	11.026.598	-	16.887.460	4.873.497	32.787.555
Accumulated depreciation	(5.648.643)	-	(14.005.382)	(4.123.370)	(23.777.395)
Net book value, December 31	5.377.955	-	2.882.078	750.127	9.010.160

December 31, 2015	Buildings	Vehicles	Furniture and fixtures	Leasehold improvements	Total
Net book value, January 1	3.359.558	-	3.020.730	458.848	6.839.136
Additions	2.520.243	-	1.039.081	666.846	4.226.170
Disposals	-	-	-	-	-
Depreciation expense	(207.187)	-	(844.683)	(165.759)	(1.217.629)
Net book value, December 31	5.672.614	-	3.215.128	959.935	9.847.677
Cost	11.026.598	-	16.251.556	4.848.157	32.126.311
Accumulated depreciation	(5.353.984)	-	(13.036.428)	(3.888.222)	(22.278.634)
Net book value, December 31	5.672.614	-	3.215.128	959.935	9.847.677

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

14 – Intangible assets

	December 31, 2016
Net book value, January 1	16.348.218
Additions	5.568.525
Amortization	(1.429.846)
Net book value, December 31	20.486.897
Cost	32.246.822
Accumulated amortization	(11.759.925)
Net book value, December 31	20.486.897
	December 31, 2015
Net book value, January 1	5.746.148
Additions	11.831.579
Amortization	(1.229.509)
Net book value, December 31	16.348.218
Cost	26.678.299
Accumulated amortization	(10.330.081)
Net book value, December 31	16.348.218

15 – Provisions, contingent assets and liabilities

	December 31, 2016	December 31, 2015
Short Term Provisions		
Legal Provisions	1.516.157	1.253.731
	1.516.157	1.253.731

i) Legal Provisions

Several outstanding legal cases against the Group have been considered and provision amounting to TL 1.516.157 based on the best estimates has been reflected to the consolidated financial statements as of December 31, 2016 (December 31, 2015: TL: 1.253.731).

ii) Guarantees Given

	December 31, 2016	December 31, 2015
Letters of Guarantee	3.351.157.557	2.500.629.223

Letters of guarantee are given to BIST, CMB and to Takasbank for Stock Exchange Money Market transactions. Foreign currency denominated letters of guarantee amount to TL 337.880.299 (December 31, 2015: TL 322.775.376).

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
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16. Derivative transactions

As of December 31, 2016 and December 31, 2015, the details of TL nominal amounts of derivative transaction are as follows:

	December 31, 2016			December 31, 2015	
	USD	EUR	TL	USD	EUR
Forward transactions(buy)	890.334	7.073.219		-	4.979.609
Forward transactions(sell)	954.149	7.079.023		-	4.960.812
Swap transactions(buy)	127.238.103	3.351.651.619		10.597.188	2.435.395.094
Swap transactions(sell)	136.461.809	3.354.386.078		10.525.512	2.432.764.205
	265.544.395	6.720.189.939		21.122.700	4.878.099.720

Receivables from derivative transactions

	December 31, 2016	December 31, 2015
Forward transactions	19.833	36.722
Swap transactions	10.142.468	17.092.518
	10.162.301	17.129.240

Payables to derivative transactions

	December 31, 2016	December 31, 2015
Forward transactions	144.332	56.908
Swap transactions	43.664.594	29.984.806
	43.808.926	30.041.714

17 – Provision for employee benefits

	December 31, 2016	December 31, 2015
Short-term provisions		
Provision for personnel premiums	14.601.960	12.920.400
	14.601.960	12.920.400
Long-term provisions		
Provision for employment termination benefits	3.499.840	3.227.685
Provision for unused vacations	3.669.699	4.184.625
	7.169.539	7.412.310

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

17 – Provision for employee benefits (continued)

Provision for employment termination benefits

Under the Turkish Labour Law, the Group required to pay the employment termination benefits to each employee who have completed one year of service at the Group when they retire (for women 58, for men 60) and when they are dismissed or called up for military services or die. Due to changes in the Law on September 8, 1999, some sections regarding the temporary period related with the working period before retirement have been removed. The indemnity is one month's salary for each working year and is limited to TL 4.426,16 as of December 31, 2016 (December 31, 2015 - TL 4.092,53).

The liability is not funded as there is no funding requirement.

The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of employees.

TFRS requires actuarial valuation methods to be developed to estimate the Group's obligation under defined benefit plans. Accordingly the following actuarial assumptions have been used in the calculation of the total liability.

	December 31, 2016	December 31, 2015
Discount rate (%)	4,50	4,60
Turnover rate to estimate retirement probability (%) (*)	96,38	97

(*) The rate reflects the parent company's rate.

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. The liability is revised two times in a year and in the year end calculation, the effective amount as of January 1, 2016 of TL 4.426,16 TL (January 1, 2015 - TL 4.092,53).

Movements in the provision for employment termination benefits as of December 31, 2016 and 2015 are as follows:

	December 31, 2016	December 31, 2015
Balance at January 1	3.227.685	2.359.636
Service cost and actuarial gain and loss	(125.224)	356.434
Interest cost	384.204	235.277
Provisions during the period	619.186	796.027
Payments during the period	(606.010)	(519.689)
Balance at December 31	3.499.841	3.227.685

18- Liabilities for employee benefits

	December 31, 2016	December 31, 2015
Taxes payable and liabilities	1.063.441	958.474
Social security premiums payables	892.139	434.516
	1.955.580	1.392.990

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Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

19- Prepaid expenses

	December 31, 2016	December 31, 2015
Commissions for letters of guarantees	2.029.325	1.049.216
Prepaid expenses	2.097.737	1.562.574
	4.127.062	2.611.790

20 – Other assets and liabilities

Other current assets

	December 31, 2016	December 31, 2015
Due from personnel	2.000	5.740
Other	854	50.175
	2.854	55.915

	December 31, 2016	December 31, 2015
Other payable taxes and funds	1.915.634	1.801.665
Blocked client account amounts	1.167.931	2.033.764
Other expense accruals	857.415	567.384
Takasbank-BIST commission provision	900.000	430.000
Other	25.000	252.556
	4.865.980	5.085.369

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Notes to the financial statements for the year ended December 31, 2016 (continued)
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21 - Equity

Paid-in capital and adjustment differences

The paid-in capital of the Group is TL 98.918.083 (December 31,2015: TL 98.918.083) and consists of 9.891.808.346 (December 31, 2015: 9.891.808.346) authorized shares with a nominal value of kr 1 each.The Group has no preferred share as of December 31, 2016.

The shareholders and their shares in capital with historic values as of December 31, 2016 and December 31, 2015 are as follows:

Shareholders	December 31, 2016		December 31, 2015	
	TL	Share %	TL	Share %
Yapı ve Kredi Bankası A.Ş.	98.895.466	99,98	98.895.466	99,98
Temel Ticaret ve Yatırım A.Ş.	20.951	0,02	20.951	0,02
Other	1.666	0,00	1.666	0,00
	98.918.083		98.918.083	
Adjustment to share capital	63.078.001		63.078.001	
Total paid-in capital	161.996.084		161.996.084	

"Adjustment to share capital" represents the difference between total restatement effect of cash and cash equivalent contributions to share capital due to the inflation adjustments and total amount before the inflation adjustment. There is no use of the adjustment to share capital other than to be added to the capital.

According to Turkish Commercial Code, legal reserves consist of primary and secondary reserves. Primary reserves are reserved at 5% rate of legal profit in the period until they reach a level of 20% of the group capital. Secondary reserves are reserved at a rate of 10% of all dividend distribution exceeding 5% of group capital. Primary and secondary reserves cannot be distributed until they exceed 50% of the total capital, however, they can be used to cover losses when voluntary reserves are exhausted.

As of December 31, 2015, restricted reserves are amounting to TL 236.739.667 (December 31, 2015: TL 235.511.667).

Restricted reserves and previous years' profits/losses

	December 31, 2016	December 31, 2015
First legal reserves	18.891.100	18.891.100
Second legal reserves	36.943.350	35.716.350
Special reserves(*)	180.904.217	180.904.217
Total restricted reserves	236.738.667	235.511.667

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

21 – Equity (continued)

The Group performs dividend distribution in accordance with the Communiqué on Dividends II-19.1 of the Capital Market Board effective as of February 1, 2014.

In accordance with the Communiqué on Dividends II-19.1 of the Capital Market Board effective as of February 1, 2014, the dividend distribution rate for non-listed companies may not be less than twenty percent of the net distributable profit for the period including donations. In accordance with the same communiqué, non-listed companies are required to distribute the profit share in whole and in cash; and they cannot benefit from the practice of profit distribution by installments, which is granted to listed companies.

In accordance with the provisions of the said communiqué, non-listed companies may choose not to distribute dividends in the event that the calculated profit share is less than five percent of the capital stock in the most recent annual financial statements to be presented to the general assembly or in the event that the net distributable profit for the period is less than TL 100.000 according to these financial statements. In this case, the undistributed dividends are distributed in subsequent periods.

Ordinary General Meeting held on March 17, 2016 in the amount of TL 71.995.882 be distributed as cash dividends to the shareholders.

Changes in the minority interest during the period are as follows:

	December 31, 2016	December 31, 2015
Beginning of the period	6.321.570	5.833.994
Minority interest decrease due to dividend payment	(3.295.882)	(3.042.352)
Minority interest net income	3.821.738	3.529.928
End of the period	6.847.426	6.321.570

Distribution of minority interest net income is as follows:

Minority interest income from continuing operations	3.821.738	3.529.928
	3.821.738	3.529.928

22 – Tax assets and liabilities

Corporate Tax

	December 31, 2016	December 31, 2015
Corporate taxes payable	13.713.131	7.056.549
Less: prepaid taxes	(46.151.934)	(19.377.878)
Taxes payable-net	(32.438.803)	(12.321.329)
Current tax expenses	13.693.533	6.212.636
Deferred tax income/(expense)	2.649.241	9.211.418
Total tax expense	16.342.774	15.424.054

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

22 – Tax assets and liabilities (continued)

Deferred tax assets and liabilities

	December 31, 2016	December 31, 2015
Deferred tax assets	11.148.560	14.925.445
Deferred tax liabilities	(3.400.788)	(4.512.141)
Deferred tax (liabilities) / assets - net	7.747.772	10.413.304

Reconciliation of current year tax expense and calculated theoretical tax expense with statutory tax rate by the Group:

	December 31, 2016	December 31, 2015
Net profit before taxes	86.634.691	81.713.765
Theoretical tax expense with 20% tax rate	(17.326.938)	(16.342.753)
Non-deductible expenses	(486.543)	(1.494.257)
Non taxable income	5.821.779	388.291
Other	(4.351.072)	2.024.665
Current year tax expense	(16.342.774)	(15.424.054)

The Corporate Tax Law was altered by Law No.5520 on June 21, 2006 and published in the Official Gazette No.26205. The majority of regulations in Corporate Tax Law No.5520 became effective as of January 1, 2006. According to this Law, the corporation tax rate of the fiscal year 2016 is 20% (2015: 20%). Corporation tax is payable at a rate of 20% on the total income of the Group after adjusting for certain disallowable expenses, corporate income tax exemptions (participation exemption, investment allowance, etc) and corporate income tax deductions (e.g. research and development expenditures deductions). No further tax is payable unless the profit is distributed (except withholding tax at the rate of 19.8% on the investment incentive allowance amount utilized within the scope of the Income Tax Law transitional article 61).

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 10% in accordance with 94th article of Income Tax Law. Addition of profit to share capital is not considered a profit distribution.

Corporations are required to pay advance corporation tax quarterly at the rate of 20% on their corporate income. Advance tax is declared by the 14th and is payable by the 17th of the second month following each calendar quarter end. Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to set off against other liabilities to the government.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns by the 25th of the fourth month following the close of the financial year to which they relate.

Tax returns are open for 5 years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

Under the Turkish taxation system, tax losses can be carried forward to be offset against future taxable income for up to 5 years. Tax losses cannot be carried back to offset profits from previous periods.

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

22 – Tax assets and liabilities (continued)

There are numerous exemptions in Corporate Tax Law concerning corporations. Accordingly, earnings of the above mentioned nature, which are in the commercial profit/loss figures, have been taken into account in the calculation of corporate tax.

In addition to exemptions explained above, tax deductions specified in Corporation Tax Law articles 8, 9, 10, and Income Tax Law article 40, are also considered in the assessment of the corporation tax base.

Deferred tax assets and liabilities based upon temporary differences are as follows:

	December 31, 2016		December 31, 2015	
	Cumulative temporary differences	Deferred tax assets / (liabilities)	Cumulative temporary differences	Deferred tax assets / (liabilities)
Valuation differences in financial assets	-	-	162.937	32.587
Provision for unused vacations	3.575.560	715.112	4.090.485	818.097
Provision for employment termination benefits	3.499.840	699.968	3.227.685	645.537
Provision for personnel premium	387.427	77.485	1.170.000	234.000
Legal cases provision	1.516.157	303.231	1.253.731	250.746
Derivatives	43.808.926	8.761.785	30.041.714	6.008.343
Tax Loss	-	-	31.836.548	6.367.310
Expense provision	510.095	102.019	227.720	45.544
Other	2.444.800	488.960	2.616.403	523.281
Deferred tax assets		11.148.560		14.925.445
Net difference between the tax base and carrying amount of property	2.147.653	429.531	3.542.668	708.534
Investment in progress	4.045.398	809.080	1.245.235	249.047
Valuation differences in financial assets	246.231	49.246	287.128	57.426
Derivatives	10.162.301	2.032.460	17.129.239	3.425.848
Other	402.355	80.471	356.434	71.286
Deferred tax liabilities		3.400.788		4.512.141
Deferred tax (liabilities) / assets, net		7.747.772		10.413.304

Starting from January 1, 2006 the treatment of tax exemption of capital gains from sales of property and participations as per the new Corporate Tax Law numbered 5520 and old Corporate Tax Law numbered 5422 was amended. According to the amendment, 75% of the gains from sales of property and shares of participation are exempted from corporate tax for property and shares that were held for at least two full years in the group's financial statements. However, for the exemption to be utilized, the exempted amounts should be accounted under a special fund account in liabilities for a period for 5 years. The remaining portion is subject to corporate tax.

	December 31, 2016	December 31, 2015
Beginning deferred tax assets / (liabilities), net	10.413.304	19.698.798
Deferred tax income / (expense)	(2.649.241)	(9.211.418)
Deferred tax (expense) / income netted in revaluation fund	(16.291)	(74.076)
Deferred tax (liabilities) / assets at period end, net	7.747.772	10.413.304

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

23 – Revenue and cost of sales

	December 31, 2016	December 31, 2015
Revenue		
Share certificates sales	10.459.544.367	14.508.750.538
Treasury bills and government bonds sales	1.031.503.258	698.000.696
Commissions on intermediary activities on share certificates	48.587.108	49.671.138
Intermediary commissions on futures market	8.251.932	8.517.228
Fund management fees	2.187.964	2.270.794
Consultancy services	1.175.191	1.091.329
Custody commissions	904.794	1.220.058
Repo intermediary commissions	245.687	390.411
Outright purchase-sale transactions intermediary commissions	55.460	138.699
Other service revenues	20.670.901	15.721.639
Other intermediary commissions	8.395.550	8.127.880
Total revenue	11.581.522.212	15.293.900.410
Service income discounts and allowances		
Commissions paid to agencies	21.517.493	26.796.112
Commission returns	1.784.808	1.307.607
Total discounts and allowances	23.302.301	28.103.719
Revenue	11.558.219.911	15.265.796.691
Cost of sales		
Costs of treasury bills and government bond sales	10.471.972.948	14.514.072.782
Costs of share certificate sales	1.030.650.945	698.098.890
Total cost of sales	11.502.623.893	15.212.171.672
Gross operating profit	55.596.018	53.625.019

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

24 – Revenue and cost of financial activities

	December 31, 2016	December 31, 2015
Revenue from financial activities		
Investment funds management fee	43.841.133	42.213.973
Individual pension funds management fee	10.665.798	8.874.885
Individual pension funds performance fee	4.237.012	1.652.307
Fund management fee	58.743.943	52.741.165
Discretionary portfolio management commission	2.756.752	2.993.917
Portfolio achievement premiums	458.042	454.035
Discretionary portfolio management income	3.214.794	3.447.952
Investment consultancy revenues	1.175.133	1.288.534
Other revenues from financial activities	1.175.133	1.288.534
Financial activities revenue	63.133.870	57.477.651
Financial activities revenue		
Commission expenses	(5.148.633)	(3.791.528)
Fund management commission expense	(1.207.046)	(501.812)
Financial activities cost	(6.355.679)	(4.293.340)
Gross profit/(loss) from financial sector activities	56.778.191	53.184.311

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

25- General administrative expenses

	December 31, 2016	December 31, 2015
Personnel expenses	65.330.296	60.664.293
Information services expenses	7.286.453	6.429.289
Data processing expenses	5.946.997	5.031.143
Duties, taxes and levies	2.928.609	2.447.140
Depreciation and amortization expenses	2.602.135	3.406.480
Rent expenses	2.409.134	2.133.921
Audit and advisory expenses	1.967.293	1.545.922
Communication expenses	1.200.703	1.409.356
IT restructuring expenses	1.044.320	1.771.702
Vehicle expenses	914.854	879.316
Meeting and travelling expenses	619.825	684.330
Maintenance service expenses	574.296	447.072
Cleaning expenses	554.194	753.526
Stationary expenses	448.954	352.249
Insurance expenses	346.051	388.777
Representation expenses	268.122	333.209
Membership and subscription fees	27.090	930
Other	2.802.713	2.664.203
	97.272.039	91.342.858

Marketing, sales and distribution expenses:

	December 31, 2016	December 31, 2015
Brokerage and operation fees	8.971.585	5.786.367
Advertisement expenses	2.940.095	1.636.699
Custody commissions	405.488	1.075.967
	12.317.168	8.499.032

26- Other income from operating activities

	December 31, 2016	December 31, 2015
Interest income on deposit at banks	271.968.861	77.977.260
Income due to derivative operations	203.626.324	252.792.189
Foreign Exchange gains	21.355.130	51.340.478
Interest income on loans	17.852.449	19.289.409
Interest income on treasury bills and government bonds	6.645.802	5.464.230
Dividend income	6.058.295	2.905.503
Other interest income	430.414	261.430
Other income	293.951	2.176.534
	528.231.226	412.207.033

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

27 - Other expense from operating activities

	December 31, 2016	December 31, 2015
Interest expense	372.937.664	293.123.352
Derivative loss	49.331.438	30.041.943
Commissions paid for guarantee letters	11.439.455	8.106.731
Commission expenses	8.361.748	2.603.451
Other expenses	2.309.331	2.431.163
Foreign Exchange loss	1.901	2.195
Banking and insurance transactions tax expense on money market transactions	-	959.476
Impairment of financial investments	-	24.912
	444.381.537	337.293.223

28 – Related party explanations

Bank deposits in related parties

	December 31, 2016	December 31, 2015
Yapı ve Kredi Bankası A.Ş. - shareholder	2.801.930.678	1.818.373.987
Yapı Kredi Nederland N.V. - other related party	100	100
	2.801.930.778	1.818.374.087

The customer deposits that are deposited in Yapı ve Kredi Bankası A.Ş are amounting to TL 36.548.406 TL (December 31, 2015: TL 31.853.706).

Receivables from related parties

Trade receivables

	December 31, 2016	December 31, 2015
Yapı ve Kredi Bankası A.Ş.	22.449	19.938
	22.449	19.938

Commission and portfolio management fee receivables

	December 31, 2016	December 31, 2015
Yapı ve Kredi Bankası A.Ş. Investment funds - other related party	4.426.383	3.741.916
Allianz Emeklilik A.Ş. Pension funds - other related party	5.463.260	2.588.757
Yapı ve Kredi Bankası A.Ş. - shareholder	1.196.285	1.311.728
	11.085.928	7.642.401

Due to related parties

	December 31, 2016	December 31, 2015
Trade Payables		
Yapı ve Kredi Bankası A.Ş.- shareholder	3.033.826	3.189.477
	3.033.826	3.189.477

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

28 – Related party explanations (continued)

Financial and other payables

	December 31, 2016	December 31, 2015
Allianz Emeklilik –other related party	174.366	87.627
Avis A.Ş. – other related party	25.307	-
Setur Servis Turistik A.Ş. – other related party	6.937	1.031
Zer Merkezi Hizmetler ve Ticaret A.Ş.- other related party	4.596	8.767
Koç Holding A.Ş. - other related party	-	7.434
Opet Petrolcülük A.Ş. – other related party	2.000	2.274
YKS Tesis Yönetimi Hizmetleri A.Ş. – other related party	4.313	-
Diğer– other related party	-	3.791
	217.519	110.924

Operating income from related parties

	December 31, 2016	December 31, 2015
Allianz Hayat ve Emeklilik AŞ Emek. Fon. - other related party	10.665.798	8.874.885
Allianz Hayat ve Emeklilik AŞ – other related party	4.237.012	1.652.307
Koç Finansman A.Ş. – other related party	872.500	540.214
Yapı ve Kredi Bankası A.Ş. Yatırım Fonları - other related party	697.199	40.301.553
Aygaz A.Ş. – other related party	277.489	491.811
Tat Konserve ve Sanayi A.Ş. – other related party	189.989	11.811
Marmaris Altinyunus Turistik Tesisleri A.Ş. – other related party.	49.989	11.811
Koç Holding A.Ş. - other related party	14.989	11.811
Ford Otosan Otomotiv San. A.Ş. – other related party	14.989	11.811
Türkiye Petrol Rafinerileri A.Ş. – other related party	14.989	11.811
Türk Traktör A.Ş. – other related party	14.989	11.811
Tofaş Türk Otomobil Fabrikaları A.Ş. – other related party	14.989	11.811
Arçelik A.Ş. – other related party	14.989	11.811
Otokar Otobüs Karoseri A.Ş. – other related party	14.989	11.811
Yapı Kredi Yatırım Menkul Değ. A.Ş. Yat. Fon. - other related party.	-	3.150.333
Diğer – other related party	519.437	597.876
	17.614.336	55.715.278

Other income from related parties

Interest income

	December 31, 2016	December 31, 2015
Yapı ve Kredi Bankası A.Ş. – shareholder	159.638.239	37.724.943
	159.638.239	37.724.943

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

28 – Related party explanations (continued)

Commission income

	December 31, 2016	December 31, 2015
Yapı ve Kredi Bankası A.Ş.-shareholder	3.487.240	1.400.005
	3.487.240	1.400.005

Operating expenses paid to related parties

	December 31, 2016	December 31, 2015
Zer Merkezi Hizmetler ve Tic. A.Ş. – other related party	2.316.536	612.908
Koç Sistem Bilgi ve İletişim Hizm. A.Ş. - other related party	849.536	663.179
YKS Tesis Yönetimi	481.521	1.521.003
Yapı ve Kredi Bankası A.Ş.	480.557	782.422
Setur Servis Turistik A.Ş. – other related party	472.930	323.548
Otokoç Otomotiv Tic. ve San. A.Ş. – other related party	334.166	395.468
Avis AŞ – other related party	272.844	207.904
Opet Petrolcülük A.Ş. – other related party	114.455	52.025
Koç Holding A.Ş. – other related party	105.095	112.869
Allianz Sigorta A.Ş.	63.676	140.924
Other	630.584	710.278
	6.121.900	5.522.528

Financial expense

	December 31, 2016	December 31, 2015
Yapı ve Kredi Bankası A.Ş.	298.457	2.022.766
	298.457	2.022.766

Commission paid to related parties

	December 31, 2016	December 31, 2015
Yapı ve Kredi Bankası A.Ş.-shareholder	24.640.591	25.926.346
Allianz Emeklilik A.Ş.	174.366	87.627
	24.814.957	26.013.973

Benefits provided to key management

	December 31, 2016	December 31, 2015
Benefits provided to key management		5.706.381
		5.706.381

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

28 – Related party explanations (continued)

Related Party Dividend Income

	December 31, 2016	December 31, 2015
Allianz Yaşam ve Emeklilik A.Ş.	36.308	31.225
Takasbank Takas ve Saklama Bankası A.Ş.	3.285.000	2.628.000
	3.321.308	2.659.225

29 – Nature and level of risks arising from financial instruments

The Group is subject to risks as a result of its commercial activities. The details and management of these risks are explained below. The Group management is fully responsible for the management of financial risk.

a. Credit risk

Credit risk is the risk that one party to a financial instrument will fail to meet the terms of their agreements as foreseen and cause the other party to incur a financial loss.

For the loans provided, a default risk that the counterparty will not be able to fulfill the liabilities associated with the loan is present. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Group also manages credit risk by keeping equity shares obtained from loan customers as collateral. Credit risk is fully concentrated in Turkey where the Group mainly operates.

Limits of new credits and additional credit limits are bound by the limits approved by Credit Committee and Board of Directors. Limits to be provided to customers are initially proposed by the Credit Committee and approved by the Board of Directors.

The Group makes a regular collateral/equity check for credit transactions where the current equity and benchmark equity is compared. If the collateral amount falls below the benchmark amount, additional collateral is requested from the customer.

The common stocks which the customers would like to buy using credit are bound to be in the "Marketable Securities Accepted for Credit Purchase" list. The items to be included in this list are determined by considering factors like transaction volume, changes in transaction volume, free float rate, liquidity and amount of shares in circulation. The common stocks in the customer's portfolio are accepted as collateral if the customer would like to buy common stocks other than the stocks listed in "Marketable Securities Accepted for Credit Purchase".

The share of the receivables from the biggest 10 credit customers in the total receivables from credit customers of the Group is 77% (December 31, 2015: 66%).

The table below shows credit risk exposure based on financial instruments as of December 31, 2016 and 2015. In the determination of the maximum amount of credit risk exposure, in addition to the collaterals received, factors that lead to credit enhancement are not taken into account.

Convenience translation of financial statements originally issued in Turkish, see note 2.7

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

29 – Nature and level of risks arising from financial instruments (continued)

	Receivables					
	Trade receivables			Other receivables		
December 31, 2016	Related party	Other	Related party	Other	Bank deposit	Financial investments
Total credit risk exposure (A+B+C)	11.108.377	422.603.413	-	32.752.156	4.066.342.016	97.082.803
- Amount of risk that is guaranteed with collateral *	-	183.040.394	-	-	-	-
A. Net book value of financial assets that are not past due or impaired	11.108.377	422.603.413	-	32.752.156	4.066.342.016	97.082.803
B. Net book value of impaired assets	-	-	-	-	-	-
- Past due (gross book value)	-	943.693	-	-	-	-
- Impairment	-	(943.693)	-	-	-	-
- Part of net amount that is guaranteed by collateral	-	-	-	-	-	-
C. Off balance sheet items with credit risk	-	-	-	-	-	-
						10.162.301
December 31, 2015	Related party	Other	Related party	Other	Bank deposit	Financial investments
Total credit risk exposure (A+B+C)	7.662.339	220.915.170	-	22.504.542	2.924.820.319	105.491.099
- Amount of risk that is guaranteed with collateral *	-	143.900.456	-	-	-	-
A. Net book value of financial assets that are not past due or impaired	7.662.339	220.915.170	-	22.504.542	2.924.820.319	105.491.099
B. Net book value of impaired assets	-	-	-	-	-	-
- Past due (gross book value)	-	1.003.692	-	-	-	-
- Impairment	-	(1.003.692)	-	-	-	-
- Part of net amount that is guaranteed by collateral	-	-	-	-	-	-
C. Off balance sheet items with credit risk	-	-	-	-	-	-
						17.129.240

(*) Related collaterals consist of common stocks that are traded at BIST and the values that are shown in the above table are amounts valued by the "best bid" price at the balance sheet date.

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

29 – Nature and level of risks arising from financial instruments (continued)

b. Information on market risk

Interest rate risk

The need of Group's dealing ways with interest risk rate arises from effects of interest rates changes on the financial instruments. The sensitivity of the Group to interest rate risk is related with maturity mismatch of assets and liabilities. This risk is managed through corresponding assets that are sensitive to interest rates with similar liabilities.

On the balance sheet of the Group, available for sale and variable interest rate held to maturity financial assets are subject to price risk due to changes in interest rates. Also, the Group is subject to reinvestment rate risk when the cash resulting from the redemption of fixed interest held to maturity investment securities are reinvested.

The table below shows the interest rate position details and sensitivity analysis as of December 31, 2016 and 2015:

Interest Rate Position Table

Financial instruments with fixed interest rates	December 31, 2016	December 31, 2015
Financial assets		
Financial assets held to maturity *	26.698.291	40.149.237
Financial Assets available for sale	31.557.102	25.108.995
Banks	4.013.506.914	2.875.655.602
Receivables from reverse repo transactions	251.734	11.325
Financial liabilities		
Funds generated from repo transactions	-	8.159.121
Funds generated from Takasbank Money Market	2.904.116.758	1.956.315.696
Marketable securities issued	942.954.793	671.882.615
Bank loans	-	20.028.055

(*) Financial assets that bear an interest rate and are classified as held to maturity.

Financial liabilities and held to maturity investments with fixed interest rates are assumed to be insensitive to changes in interest rates. Reinvestment risk arises when the cash generated due to redemption of fixed interest held to maturity investment securities is reinvested.

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

29 – Nature and level of risks arising from financial instruments (continued)

As of December 31, 2016 and 2015, average interest rates of financial instruments:

	December 31, 2016		December 31, 2015	
	TL (%)	EUR (%)	TL (%)	USD (%)
Assets				
Cash and cash equivalents	11,00	2,00	13,70	1,72
Available for sale financial assets	12,20	-	10,75	-
Held to maturity financial assets	10,90	-	10,10	-
Credits originated by the Group	-	-	13,60	-
Liabilities				
Payables to Stock Exchange Money Market	11,00	-	13,50	-
Bank loans	12,15	-	13,50	-
Funds generated from repo transactions	9,4	-	9,4	-
Issued securities	10,00	-	11,00	-

The Group's assets and liabilities are grouped based on their repricing maturities as follows as of December 31, 2016 and 2015:

	December 31, 2016					Total
	Up to 1 month	Up to 3 months	3 months to 1 year	1 year to 5 years	Non-interest bearing	
Cash and cash equivalents	2.915.217.758	1.098.540.890	-	-	52.583.368	4.066.342.016
Financial investments	-	-	36.007.079	22.248.314	38.827.410	97.082.803
Trade receivables	183.040.394	-	-	-	239.568.415	422.608.809
Derivative financial assets held for trading	-	-	-	-	10.162.301	10.162.301
Other receivables	-	-	-	-	117.668.685	117.668.685
	2.098.258.152	1.098.540.890	36.007.079	22.248.314	458.810.179	4.713.864.614
Financial liabilities	2.845.818.318	1.028.366.646	-	-	-	3.874.184.964
Trade payables	-	-	-	-	222.091.003	222.091.003
Other payables	-	-	-	-	101.839.328	101.839.328
	2.845.818.318	1.028.366.646	-	-	323.930.331	4.198.115.295
	252.439.834	70.174.244	36.007.079	22.248.314	134.879.848	515.749.319
	December 31, 2015					Total
	1 Up to 1 month	Up to 3 months	3 months to 1 year	1 year to 5 years	Non-interest bearing	
Cash and cash equivalents	2.438.428.517	437.238.410	-	-	49.153.392	2.924.820.319
Financial investments	-	27.112.941	13.036.296	25.108.996	40.232.867	105.491.100
Trade receivables	143.900.456	-	-	-	76.995.206	220.895.662
Derivative financial assets held for trading	-	-	-	-	17.129.240	17.129.240
Other receivables	-	-	-	-	81.784.621	81.784.621
	2.582.328.973	464.351.351	13.036.296	25.108.996	265.295.326	3.350.120.942
Financial liabilities	2.492.219.253	168.288.734	-	-	-	2.660.507.987
Trade payables	-	-	-	-	87.908.417	87.908.417
Other payables	-	-	-	-	84.316.416	84.316.416
	2.492.219.253	168.288.734	-	-	172.224.833	2.832.732.820
	90.109.720	296.062.617	13.036.296	25.108.996	93.070.493	517.388.122

Convenience translation of financial statements originally issued in Turkish, see note 2.7

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
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29 – Nature and level of risks arising from financial instruments (continued)

a. Exchange rate risk

As of December 31, 2016 and 2015, the Group's assets and liabilities denominated in foreign currencies are as follows:

	December 31, 2016			December 31, 2015				
	TL Equivalent	USD	EURO	Other	TL Equivalent	USD	EURO	Other
Monetary financial assets	3.523.848.463	47.489.957	904.775.706	33.881	2.474.844.211	13.058.792	766.846.138	49.244
Current assets	3.523.848.463	47.489.957	904.775.706	33.881	2.474.844.211	13.058.792	766.846.138	49.244
Financial liabilities	(33.786.882)	(9.000.845)	(545.543)	(31.515)	(28.408.077)	(8.937.712)	(722.288)	(44.266)
Short-term financial liabilities	(33.786.882)	(9.000.845)	(545.543)	(31.515)	(28.408.077)	(8.937.712)	(722.288)	(44.266)
Off-balance sheet derivative instruments denominated in foreign currency	(3.490.847.886)	(38.776.372)	(904.171.562)	-	(2.443.289.717)	(3.620.000)	(765.598.000)	-
Derivative instruments								
Total Net foreign currency position(*)	(786.305)	(287.260)	58.600	2.367	3.146.418	501.080	525.850	4.978

(*) Foreign currency position of derivative instruments are solely considered in the net foreign currency position calculation in the above table.

Foreign currency assets consist of deposits and collaterals given to foreign markets.

Foreign currency liabilities consist of liabilities to customers.

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Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

29 – Nature and level of risks arising from financial instruments (continued)

Off-balance sheet liabilities in foreign currencies consist of letter of guarantees and derivative transactions (Note 16).

According to the analyses of the Group's sensitivity where, all other variables are kept as constant, the effects of a 10% increase/decrease in the carrying value of common stocks, revaluation fund, net income for the period and equity are as follows:

	Exchange Rate Sensitivity Analysis Table			
	Profit/Loss		Equity	
December 31, 2016	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency
In case of a 10% change in USD exchange rates:				
USD net asset/liability effect	101.092	(101.092)	-	-
In case of a 10% change in EURO exchange rates:				
EURO net asset/liability effect	(21.740)	21.740	-	-
In case of a 10% change in other exchange rates:				
Other foreign currency net effect	(716)	716	-	-
Total	78.636	(78.636)	-	-

	Exchange Rate Sensitivity Analysis Table			
	Profit/Loss		Equity	
December 31, 2015	Depreciation of foreign currency	Appreciation of foreign currency	Depreciation of foreign currency	Appreciation of foreign currency
In case of a 10% change in USD exchange rates:				
USD net asset/liability effect	(145.694)	145.694	-	-
In case of a 10% change in EURO exchange rates:				
EURO net asset/liability effect	(167.094)	167.094	-	-
In case of a 10% change in other exchange rates:				
Other foreign currency net effect	(1.854)	1.854	-	-
Total	(314.642)	314.642	-	-

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
(Amounts expressed in Turkish Lira ("TL") unless otherwise indicated.)

29 – Nature and level of risks arising from financial instruments (continued)

b. Common stock price risk

Majority of the equity shares classified in the balance sheet of the Group at fair value through profit or loss and available for sale financial assets are traded on BIST. According to the analyses of the Group where, all other variables are kept as constant, the effects of a 10% increase/decrease in the carrying value of common stocks, revaluation fund, net income for the period and equity are as follows:

December 31, 2016

Balance sheet item	Rate of change	Change direction	Effect on carrying value	Effect on revaluation fund	Effect on net income	Effect on equity
Common stocks						
Financial assets available for sale	10%	Increase	-	-	-	-
Financial assets available for sale	10%	Decrease	-	-	-	-
Financial assets at a fair value through profit/loss		Increase	663.488	-	663.488	-
Financial assets	10%	Decrease	(663.488)	-	(663.488)	-

December 31, 2015

Balance sheet item	Rate of change	Change direction	Effect on carrying value	Effect on revaluation fund	Effect on net income	Effect on equity
Common stocks						
Financial assets available for sale	%10	Increase	-	-	-	-
Financial assets available for sale	%10	Decrease	-	-	-	-
Fair value through profit/loss		Increase	804.033	-	804.033	-
Financial assets	%10	Decrease	(804.033)	-	(804.033)	-

c. Liquidity risk

Liquidity risk is the possibility that the Group is unable to meet its net funding commitments and is defined as the risk of loss as a result of not being able to close positions at all or at an appropriate price because of barriers in the market. Liquidity risk stems from deterioration in markets or occurrence of events resulting in diminution of fund resources such as fall of credit ratings. The management of the Group controls liquidity risk by allocating fund resources and keeping a sufficient level of cash and cash equivalents to meet its existing and possible obligations.

December 31, 2016					
	Carrying value	Up to 1 month	1 month to 1 year	1 year to 5 years	Total of contractual cash outflows
Financial liabilities	3.874.184.964	2.854.830.066	1.040.742.427	-	3.895.572.493
Trade payables	222.091.003	222.091.003	-	-	222.091.003
Other payables	27.921.186	27.921.186	-	-	27.921.186
December 31, 2015					
	Carrying value	Up to 1 month	1 month to 1 year	1 year to 5 years	Total of contractual cash outflows
Financial liabilities	2.149.681.686	520.130.542	-	2.669.812.228	2.660.507.987
Trade payables	87.908.417	87.908.417	-	-	87.908.417
Other payables	26.209.904	26.209.904	-	-	26.209.904

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Notes to the financial statements for the year ended December 31, 2016 (continued)
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30 - Financial instruments

Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction.

The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to estimate the fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange.

The following methods and assumptions were used to estimate the fair value of the financial instruments for which it is practicable to estimate fair value:

i. Financial assets:

The fair values of financial assets carried at cost, including cash and cash equivalents and other financial assets, are considered to approximate their respective carrying values due to their short-term nature and their insignificant credit risk.

Market prices are used on the determination of the fair values of government bonds and common stocks.

Financial investments' costs, fair value and carrying values are disclosed in Note 7.

ii. Financial liabilities:

The fair values of monetary liabilities are considered to approximate their respective carrying values due to their short-term nature.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly,
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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Notes to the financial statements for the year ended December 31, 2016 (continued)
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30 - Financial instruments (continued)

Financial assets and financial liabilities carried at fair value:

December 31, 2016	Level 1	Level 2	Level 3
Financial assets designated at fair value through profit/loss	6.634.877	-	-
<i>Share certificates trading on BIST</i>	6.634.877	-	-
<i>Public sector bonds, notes and bills</i>	-	-	-
Available for sale financial assets	-	63.749.635	-
<i>Share certificates</i>	-	32.192.533	-
<i>Public sector bonds, notes and bills</i>	-	-	-
<i>Private sector bonds and bills</i>	-	31.557.102	-
Derivative receivables held for trading	-	10.162.301	-
Derivative liabilities held for trading	-	43.808.926	-
December 31, 2015	Level 1	Level 2	Level 3
Financial assets designated at fair value through profit/loss	8.040.334	-	-
<i>Share certificates trading on BIST</i>	8.040.334	-	-
<i>Government bonds and treasury bills</i>	-	-	-
Available for sale financial assets	-	57.301.528	-
<i>Share certificates</i>	-	32.192.533	-
<i>Public sector bonds, notes and bills</i>	-	-	-
<i>Private sector bonds and bills</i>	-	25.108.995	-
Derivative receivables held for trading	-	17.129.240	-
Derivative liabilities held for trading	-	30.041.714	-

31 - Other explanations on operations and other matters

a. Explanation on portfolio management operations:

At December 31, the Group managed 35 mutual funds and 21 pension funds (December, 31 2015 - 32 mutual funds and 20 pension funds) In accordance with the Funds' statute, the Group purchases and sells securities and share certificates for the Funds, markets their participation certificates and provides other services and charges daily management fees. At December 31, 2016 the Group earned a management fee of TL 57.536.897 (December 31, 2015 – 51.088.858 TL).

Yapı Kredi Yatırım Menkul Değerler A.Ş. and its Subsidiary

Notes to the financial statements for the year ended December 31, 2016 (continued)
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31 - Other explanations on operations and other matters (continued)

b. Capital management and capital adequacy requirements

The Group aims to increase its profit by using liability and equity balance in the most efficient way. The Group's funding structure is mainly composed of equity items.

The Group defines and manages its capital in accordance with CMB's Communiqué Series:V No:34 on capital and capital adequacy of intermediary institutions. According to the related communiqué, the equity of intermediary institutions is composed of the portion of total assets, which are valued according to the valuation principles discussed in Communiqué Series:V No:34 and are present in the balance sheet prepared as of the valuation date. According to the Communiqué Series: V No: 34 8th clause, capital adequacy base of intermediary institutions cannot be lower than any of the following: minimum equity amounts corresponding to the certificates of authorization, risk provisions discussed in Communiqué Series: V No: 34 or the operating expenses incurred in the 3 months prior to valuation date. In this respect, the required equity for the Group is TL 25.000.000 (December 31, 2015: TL 2.139.000).

32 - Subsequent events

None.

