

Long ago, in a place not so far a bank was established in Turkey. Deriving its name from the word for “people,” this bank continuously grew and provided support to the public. Ranking among the biggest banks in the world today, Halkbank is moving forward into the future with its thousands of heroic employees who remain eager to help make happy scenes in people’s lives.



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*In Halkbank,
our each customer
has a story with
full of happiness.*

For 78 years, we have strived to make our customers happy. For us, supporting productive Turkey means meeting customer needs and expectations, developing new products and services to make customers' lives easier or help their businesses grow, and creating new stories-each filled with happiness.

**Therefore we say, "When people demand, Halkbank delivers."
We do our utmost to ensure the happiness of our customers.**

**All roads leading to the
outside world seemed blocked.**

**Keen to further expand his company, Egemen wanted to export his
products so that he could reach out to the world, while boosting his
production capacity and profitability.**

He was in search of a stronger force.



HALKBANK
PRESENTS

EGEMEN



EGEMEN KRİPTAN

ENTREPRENEUR

HASAN MERTCAN

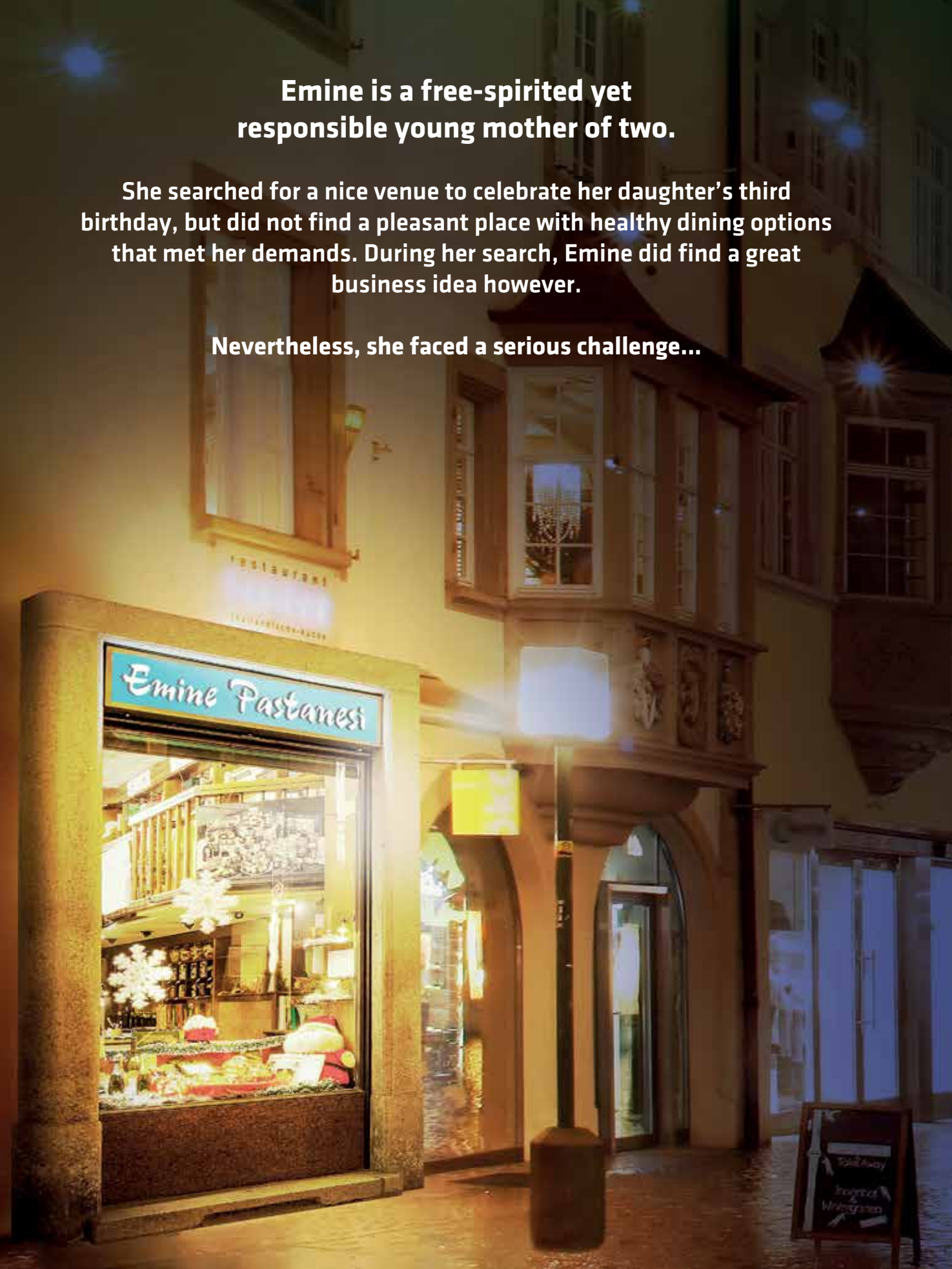
SME REPRESENTATIVE

BY COLLABORATING WITH HALKBANK TO REACH OUT TO THE LARGER WORLD, EGEMEN DISCOVERED THAT STRONGER FORCE WITHIN HIMSELF. HE OBTAINED AN SME EXPORT LOAN TO OVERCOME ALL THE OBSTACLES BLOCKING HIS WAY, AND TO BOOST HIS SALES PERFORMANCE. AS A RESULT, HE BECAME THE SUPER HERO OF THE COMPANY.

Emine is a free-spirited yet responsible young mother of two.

She searched for a nice venue to celebrate her daughter's third birthday, but did not find a pleasant place with healthy dining options that met her demands. During her search, Emine did find a great business idea however.

Nevertheless, she faced a serious challenge...



HALKBANK
PRESENTS

EMİNE ŞENGÜZ

AN ENTREPRENEUR WOMAN

BAHADIR AKSU

SME CUSTOMER REPRESENTATIVE

*Adventures of an
entrepreneurial spirit*

Emine

EMİNE CAME TO HALKBANK-THE BANK OF SMEs. SHE SHARED WITH US HER IDEA OF A PATISSERIE THAT WOULD USE ONLY ORGANIC INGREDIENTS. WE AGREED WITH HER THAT THIS WOULD BE A MUCH-NEEDED, RATIONAL VENTURE. EMİNE OBTAINED A SPECIAL SME LOAN TO SET UP HER SHOP; NOW, SHE IS ALREADY MAKING PLANS TO OPEN A SECOND BRANCH...



**The world's energy resources
were depleting fast.**

**Someone had to do something before the world became doomed to cold
and darkness. Two brave men sat down to draw up a plan. They decided to
tap into wind energy!**

**However, they were faced with a major hurdle: they lacked sufficient
monetary resources.**

When they were about to lose hope, they met Halkbank.

Mehmet
SARIKAYA

ENTREPRENEUR - ENERGY EFFICIENCY SPECIALIST

Erdal
KARAHASAN

ENTREPRENEUR - ENGINEER

HALKBANK
PRESENTS

SING A SONG FOR TOMORROW

MEHMET SARIKAYA AND ERDAL KARAHASAN CAME TO HALKBANK. THEY PROVIDED COMPREHENSIVE INFORMATION ABOUT THEIR WIND FARMS PROJECT-ITS INSTALLATION COSTS, PRODUCTION POTENTIAL AND ENVIRONMENTAL IMPACT. THE HALKBANK PROJECT FINANCING TEAM EVALUATED THE MERITS OF THE PROJECT AND RAPIDLY APPROVED A SUPPORT LOAN. VERY SOON, THE TWO ENTREPRENEURS WILL INAUGURATE THEIR POWER PLANT, WHICH IS CALLED WIND FARMS.

**They needed a place to stay,
a home-yet they were out of money...**

What brought them together was sheer coincidence-it was love at first sight. They decided to bare it all, face their challenges, and get married.

However, it was not as easy as they expected it to be.

Until they came upon Halkbank...



MAHİR
KENTEL
ACCOUNTANT

FATOŞ
KENTEL
TEACHER

HALKBANK
PRESENTS

"Karsıyaka"

BURDENED BY A WEDDING CEREMONY AND WHITE GOODS EXPENSES, MAHİR AND FATOŞ KNOCKED ON HALKBANK'S DOOR TO PURCHASE THE HOME THEY HAD ALWAYS DREAMED OF. AFTER LISTENING CAREFULLY TO THE YOUNG COUPLE, HALKBANK SPECIALISTS OFFERED THEM A MORTGAGE LOAN BEST SUITED TO MEET THEIR NEEDS. SOON ENOUGH, THE YOUNG COUPLE PURCHASED THEIR HOME. AS A RESULT, THERE WERE NO MORE BARRIERS TO THEIR BLISS.

CORPORATE PROFILE

Founded in 1938 to help support shopkeepers and artisans and fuel steady economic growth, Halkbank has remained loyal to its core business strategy over the last 78 years.



SUPPORT TO THE REAL ECONOMY

Believing that the social conditions and prosperity of Turkey can best improve in a robust, productive environment, we have continued to support the real economy since day one.

SUPPORT TO SOCIAL WELFARE

We see our clients as the most important players in the real economy; we conduct our operations understanding that they are the drivers of the economic growth that has increased national income and raised living standards in Turkey in recent years.

**KOBİ KREDİLERİNE
AĞIRLIĞIMIZI
KOYDUK!**

2016 yılının ilk dokuz aylık döneminde, sektördeki toplam KOBİ kredilerindeki artışın %42'sini tek başımıza gerçekleştirilmekten gurur duyuyoruz.

KOBİ ister, Halkbank yapar!

halkbank.com.tr | 0850 222 0 401 KOBİ Öncelik

HALKBANK

**KOBİ ister
Halkbank yapar.**

KOBİ'lerin her ihtiyacında yüzünü güldürmek için tüm gücümüzle çalışıyoruz, her zaman yanlarında olmaktan gurur duyuyoruz.

halkbank.com.tr | 0850 222 0 401 KOBİ Öncelik

HALKBANK

SUPPORT FOR CUSTOMERS

Our activities are based on the principle of standing by our clients and providing support at all times and under all circumstances. The best proof of this commitment is our steadily increased lending and new branch openings, even during the economic crisis.

SUPPORT FOR SMEs

SMEs in Turkey are producing, growing and looking to the future with hope. Their success is our success... Halkbank's success is the success of growing and developing Turkey.

HALKBANK IN BRIEF

With its global vision, Halkbank serves customers with 959 domestic branch locations, five overseas branches, three overseas representative offices, 3,741 ATMs, telephone and internet banking channels, mobile banking applications, innovative products and services.

Halkbank was founded in 1938 to support craftsmen and tradesmen and to accelerate the country's economic development. The Bank's core business strategy has not changed during its 78-year history. Halkbank sees every craftsman, farmer and small, medium or large size enterprise owner that creates value and generates employment as a business partner. The Bank firmly believes that it has the responsibility to support these economic producers with its entire financing capability, both in good

days and bad. Allocating 36.8% of the Bank's total loan portfolio to SMEs, Halkbank continues to be their primary supporter in Turkey.

As of year's end 2016, Halkbank operates with a global approach, through 959 domestic and 5 overseas branches, 3 overseas representative offices, 3,741 ATMs, telephone and internet banking platforms and mobile banking applications. The Bank's innovative products and services provide customers with an unparalleled

banking experience. Halkbank ranks among the sector's most efficient banks in terms of return on equity. Some 48.9% of Halkbank's outstanding shares are publicly held.

Halkbank is a steadily growing institution that ranks among the longest established, pioneering and most respected brands in progressing Turkey.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION IN 2016

In 2016, there were no changes to the Articles of Association.

SHAREHOLDING STRUCTURE

Halkbank's shareholder with qualified shares is the Turkish Republic's Privatization Administration, which has a 51.10604% stake in the Bank. Some 48.93% of the Bank's capital is in free float.

Türkiye Halk Bankası A.Ş. has shifted to the registered capital system, upon a resolution adopted at its Ordinary General Assembly dated March 27, 2015. The Bank's registered capital ceiling is TRY 7,500,000,000 and its issued capital is TRY 1,250,000,000.

99.999996207% of the Bank's shares, originally held by the Undersecretariat of Treasury of the Prime Ministry of the Republic of Turkey, was transferred to the ownership of the Privatization Administration of Turkey. Pursuant

to Resolution No. 2007/08 of the Privatization High Council dated February 5, 2007; the Resolution of the Bank's General Assembly dated April 19, 2007; and Resolution No. 16/471 of the Capital Markets Board of Turkey dated April 26, 2007, 24.98% of these shares were publicly listed on May 10, 2007.

As part of the secondary public offering of the Bank's shares pursuant to Resolution No. 2012/150 of the Privatization High Council dated October 4, 2012, shares owned by the Privatization

Administration of Turkey, representing 23.92% of the Bank's capital, were successfully floated on November 21, 2012.

The Bank's controlling shareholder is the Privatization Administration of Turkey with an equity stake of 51.10604% (Address: Ziya Gökalp Cad. No: 80 Kurtuluş/ Ankara). Neither the Chairman, Vice Chairman, General Manager nor the Members of the Board of Directors hold shares in the Bank.

SHAREHOLDER	PAID-IN CAPITAL (TRY)	SHAREHOLDING (%)
Privatization Administration*	638,825,500	51.1060400
Free Float**	611,089,714	48.8871771
Other***	84.786	0.0067829
Total	1,250,000,000	100.0000000

* After the High Council for Privatization removed the Privatization Administration's 51.1% stake worth TRY 638,825,500 in the Bank's paid-in capital outside of the scope and program of privatization, it was decided that this stake will be transferred to the Turkey Wealth Fund managed by Turkey Wealth Fund Management Company.

** TRY 549,932 shares out of total shares belonging to Privatization Administration are eligible to be traded at Borsa İstanbul. The free float rate corresponds to 48.93%.

*** The shares in the amount of TRY 82,165 under the "Other" group belong to our shareholders whose shares do not trade on the Exchange (though these shareholders have been dematerialized them in their own accounts); TRY 2,621 of the shares in the "Other" group belong to the shareholders whose shares are monitored under the DESA - Dematerialized Unknown Shareholder Account (KAYDBOH) due to the ongoing legal action.

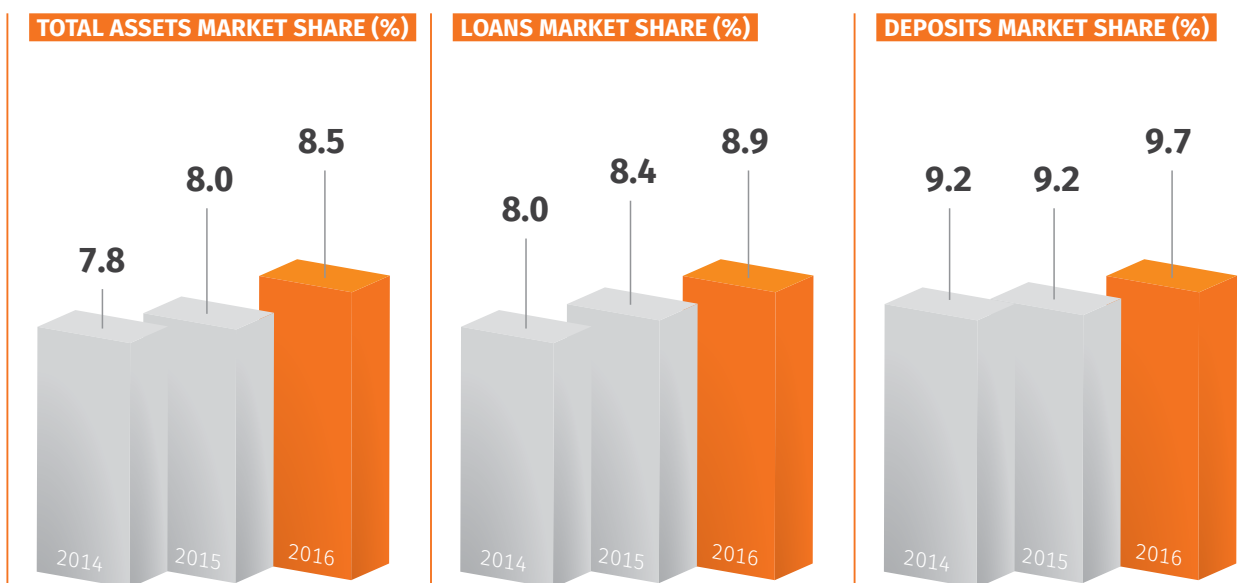
Pursuant to Law No. 6327 dated June 13, 2012, as well as Provision 3 of Article 2 that was added to Law No. 4603, until their sale is finalized, these public sector-owned shares in the Bank shall be governed and represented by the Minister that the Bank reports to in accordance with the Turkish Commercial Code.

KEY FINANCIAL INDICATORS AND RATIOS

In 2016, Halkbank increased its total assets to TRY 231.4 billion. The Bank recorded total deposits of TRY 150.3 billion, loans of TRY 158.4 billion and net profit of TRY 2 billion 558 million for the year.

HALKBANK'S POSITION IN THE SECTOR

MARKET SHARE (%)	2015	2016
Total Assets	8.0	8.5
Loans	8.4	8.9
Securities	7.8	8.8
Deposits	9.2	9.7
Shareholders' Equity	7.4	7.1
Profit	8.9	6.8

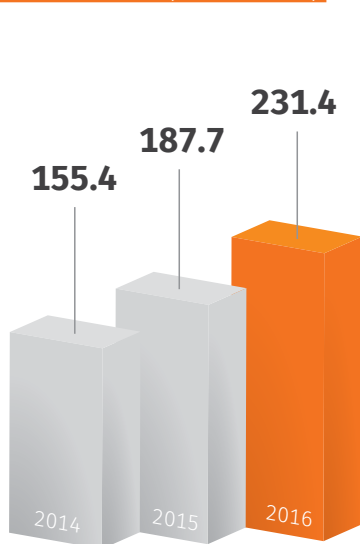


* Sector data dated December 31, 2016 and featured in the report was disclosed by BRSA on January 30, 2017.

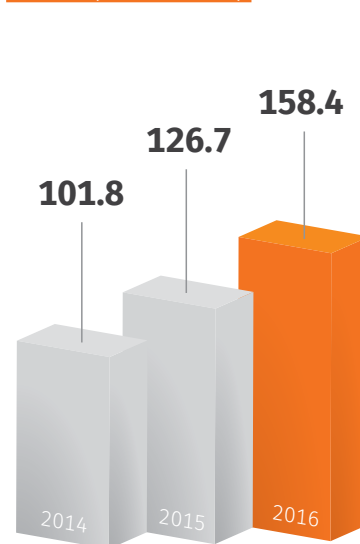
KEY FINANCIAL INDICATORS (TRY MILLION)	2015	2016	CHANGE (%)
Total Assets	187,729	231,441	23.3
Liquid Assets	25,838	31,660	22.5
Loans	126,745	158,354	24.9
Securities	27,908	33,216	19.0
Total Deposits	122,146	150,263	23.0
Shareholders' Equity	19,424	21,317	9.7
Net Interest Income	5,663	6,957	22.8
Net Fee and Commission Income	1,194	1,375	15.2
Gross Profit	2,856	3,352	17.4
Net Profit	2,315	2,558	10.5

KEY RATIOS (%)	2015	2016
Interest Bearing Assets/Total Assets	82.9	82.5
Loans/Total Assets	67.5	68.4
Non-performing Loans/Total Loans (Gross)	3.06	3.17
Demand Deposits/Total Deposits	16.8	19.2
Loans/Deposits	103.8	105.4
Average Return on Assets	1.3	1.2
Average Return on Equity	12.9	12.6
Capital Adequacy Ratio	13.8	13.1

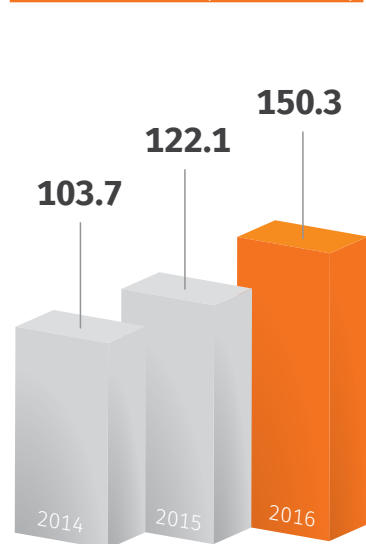
TOTAL ASSETS (TRY BILLION)



LOANS (TRY BILLION)



TOTAL DEPOSITS (TRY BILLION)



HALKBANK'S HISTORICAL DEVELOPMENT

Committed to offering financing to productive individuals and adding value to Turkey, Halkbank meets all kinds of demands with its wide variety of loans in investment, production, domestic and foreign trade, and personal consumption.

During the early years of the Republic of Turkey, economic difficulties resulted from the lack of capital, scarcity of production facilities and an under-developed private sector. These factors prevented the emergence of institutions that were able to lend to small enterprises, artisans and tradesmen.

The Great Depression of 1929 led to a very challenging economic environment in Turkey. During this period, the commercial activities of artisans and tradesmen contracted across the country.

Banks and other state enterprises that started operations in the years after the founding of the Turkish Republic were unable to address the unique problems facing small scale artisans and tradesmen, which made up the largest segment of the economy. As a result, Halkbank's establishment was decided to lend specifically to artisans, tradesmen and small businesses at favorable terms in order to achieve lasting economic development, social stability and peace.

Mustafa Kemal Atatürk, who stated, "It is extremely essential to create an organization that will provide small business owners and large industrial enterprises with the loans they so desperately need, easily obtainable and inexpensively priced, and to lower the cost of credit under normal circumstances," paved the way for the inception of Halkbank.

Subsequently, Atatürk provided guidance for the newly founded Bank's objectives by proclaiming, "My bliss will rise to the highest level when I see the small shops of tradesmen replaced with glorious factories."

Halkbank and the People's Funds Law

Halkbank was founded pursuant to the Halkbank and Public Funds Law enacted in 1933.

This legislation promoted development of a hybrid system with a dual structure that included an occupation-based microcredit facility that Turkey lacked at the time. Under this system, Halkbank would manage micro-lending centrally while public funds would be set up to assume the principal function in the areas deemed

appropriate by the Bank. However, it took five years to implement this hybrid system.

Halkbank provided credit services through the Public Funds channel, from which it received financing, from 1938 to 1950. From the beginning of 1964, the Bank started working actively to expand both the deposit base and lending.

Halkbank acquired Türkiye Öğretmenler Bankası T.A.Ş. (Töbank) in 1992, Sümerbank in 1993, and Etibank in 1998. Growing more diversified and stronger with each acquisition, Halkbank entered into the process of reorganization in 2000 to operate more effectively in the current, internationally competitive banking environment while preparing itself for privatization. In 2001, the Bank acquired Emlak Bankası with its 96 branches, personnel and balance sheet.

Pamukbank was merged into Halkbank in the second half of 2004. Finalized in only half the time of the originally estimated nine months, this integration went down in world banking history as a bank merger that was successfully completed in a very short period of time.



The first bank to establish an Entrepreneur Information Center in 1995 and the first bank in Turkey to offer a Women's Entrepreneur Loan in 2007, Halkbank has always been a pioneer in the industry. It was also the first state-owned bank to use TV banking and to open an offshore branch abroad.

Record Demand for Public Offering

Halkbank's share flotation in 2007 generated record demand as the largest ever public offering in Turkey at that time. Some 24.98% of the Bank's outstanding shares were sold for USD 1.8 billion. Bids placed by domestic and international investors for the Bank's floated shares totaled TRY 17.3 billion (USD 12.9 billion), eight times the size of the offering. Halkbank's successful flotation received the "Best Public Offering" award for the year from Sweden-based East Capital, a leading independent European investment company.

In 2012, Halkbank carried out a secondary public offering of its shares that increased its free-float ratio to 48.9%. The highly successful transaction raised TRY 4.5 billion for the Bank. Of the total offering, 80% of the shares were sold to foreign investors while domestic corporate investors and domestic individual investors were each allocated 10%. Halkbank completed its secondary offering, recorded as the largest public offering on the Borsa İstanbul A.Ş. and the third-largest in Europe, with the smallest discount to date, marking yet another notable achievement for the Bank.

Prestigious Position in the Industry

Since its establishment, Halkbank has always prioritized those investments that contribute to both Turkey's economic and social development. Thanks to major strides taken in recent years, the Bank continues to strengthen its well-respected position in the

WITH ITS WIDESPREAD BRANCH NETWORK, EXCEPTIONAL PRODUCT AND SERVICE QUALITY AND PROFESSIONAL APPROACH TO SME BANKING, HALKBANK HAS CONTINUED TO BOLSTER ITS PRESTIGIOUS POSITION IN THE BANKING INDUSTRY WITH MAJOR BREAKTHROUGHS IN RECENT YEARS.

HALKBANK'S HISTORICAL DEVELOPMENT

Halkbank's retail lending product portfolio has been enriched with loans featuring favorable conditions that respond to all kinds of needs.

banking industry attained through a countrywide branch network, high quality products and services, and a professional approach to SME banking.

Striving to extend resources to productive enterprises and to create value for Turkey, Halkbank meets all funding demand with competitive interest rates thanks to its diversified range of loan products for investment, production, domestic and foreign trade, and retail financing. In addition to its domestic funding sources, the Bank also cooperates with international financial institutions including the World Bank, European Investment Bank, the Council of Europe Development Bank and the French Development Agency. Furthermore, Halkbank offers a wide range of conveniences to SMEs including special loans and products tailored to their specific requirements, local and regional needs through credit agreements with chambers of commerce and industry throughout Turkey.

Halkbank works to increase cooperation with regional development agencies; increase the loans extended through KOSGEB (Small and Medium Enterprises Development Organization); and

bolster the amount and variety of funding sources secured from international financial institutions. Additionally, Halkbank is constantly evolving and implements organizational change strategies to provide better service to SMEs and meet their specific needs with fast, effective, high-quality solutions that ultimately aim to contribute to the country's economic development by strengthening SMEs, the foundation of Productive Turkey.

The Bank of "Firsts" in Retail Banking

Upon the leap taken into the retail banking segment, Halkbank enriched its consumer loan portfolio with offerings that meet every type of need with attractive terms. In addition to general purpose loans for education, healthcare and vacations, the Bank added retail loans with convenient repayment options for target occupational groups to its existing product portfolio.

Thanks to a partnership agreement between Halkbank and HSBC in 2007, Halkbank credit cards were enhanced with Advantage features. As a result, Halkbank enabled cardholders to benefit from the installment and CashPoint features of the Advantage card.

Europe's first prepaid contactless debit card launched thanks to a partnership between Halkbank and Visa. Bank24 Jet combines many functions including a contactless payment card for small-sum purchases, a public transit card, KGS, a self-service payment card and a pass card.

With its initiative that shortened the process of receiving and evaluating credit card applications and delivering cards to customers, Halkbank became the first bank in Turkey to receive ISO 9001 Quality Management Systems Certification in 2008.

In December 2012, Halkbank terminated its Advantage card partnership with HSBC and launched a new credit card brand, Paraf, with the slogan, "Paraf: Home of Benefits." Having introduced numerous firsts to the sector with distinctive promotional campaigns and innovative features, Paraf posted significant increases in card numbers and market share. At the Visa 2014 Achievement Awards, Halkbank was designated "The Bank with the Largest Growth in Visa Credit Card Shopping Volume." As of year-end 2016, Paraf boasted 3.9 million credit cards, 317 thousand

Halkbank ensures that its customers can perform banking transactions on any platform, by adopting technology systems and practices in line with the latest economic and sector developments.

POS devices and 297 thousand contracted merchants.

With Paraf, which is not only a credit card product but also a platform that enables partnerships with other banks, Halkbank plans to offer services customized to according to the personal preferences and needs of customers.

Strong Technological Infrastructure

Halkbank's use of advanced technology serves as a powerful competitive advantage. Thanks to a revamped technological infrastructure, centralized database and automated operations facilities, the Bank significantly reduced the operational task workload performed by the branches for settlement and reconciliation purposes. Halkbank has launched a wide variety of technology related initiatives, including "data warehousing, data mining and customer relationship management;" these projects help facilitate the Bank's business strategy development and decision-making processes, identification of customer profiles and needs, and product and service offerings.

Halkbank implemented the Identity Management System (IdM), developed in cooperation with Koç Sistem, at the Bank's headquarters and branch locations in 2008. The Identity Management System allows employees to conduct all banking transactions as well as to receive healthcare and social security services using a single ID number or card.

In order to facilitate customer banking transactions across all platforms, Halkbank uses all technology infrastructure and processes as needed in today's world and financial services industry.

A Powerful Regional Player

Halkbank is striving to extend its robust domestic performance to overseas markets and to become a strong regional bank in Turkey's surrounding geography. In 2011, Halkbank acquired the shares of Export and Credit Bank Inc., the SME bank of Macedonia. Aiming to be one of Macedonia's top three banks, Halkbank operates in the country under the name Halk Banka A.D., Skopje. In 2012, Halk Banka A.D., Skopje acquired Ziraat Banka A.D., Skopje along with all of its assets, liabilities, branches and personnel.

In 2015, Halkbank bought a 76.76% stake in Cacanska Banka and renamed it Halkbank A.D. Beograd. Halkbank continues to make long-term investments in Serbia. After the capital increase, Halkbank holds an 82.47% stake in Halkbank A.D. Beograd. It has opened the subsidiary's 28th branch in Novi Pazar as the latest stage of its growth strategy in the Serbian market.

In the coming years, Halkbank plans to continue seizing opportunities that arise in the Balkans, to establish a strong regional presence there, and function as a bridge between Turkey and that burgeoning area.

Halkbank Headquarters Moves to Istanbul

At Halkbank's Ordinary General Assembly Meeting held on March 29, 2013, the Bank's headquarters was relocated from Ankara to Istanbul, with the approved amendments made to the Articles of Association.

Halkbank's Human Resources

Under a reorganization initiative, Halkbank upgraded its employee profile as well as the Bank's organizational structure. As of year-end 2016, the Bank's number of employees totaled 16,956.

HALKBANK MILESTONES

Thanks to the leaps and bounds it has made since its founding, Halkbank has become the leading bank of the region and Turkey. On the 78th year of its success journey, the Bank took its efforts in the field of sustainability to the next level, and joined the BIST Sustainability Index.

1933

Founded pursuant to the Halkbank and Public Funds Law, Halkbank carried out credit services through the Public Funds channel for which it provided financing from 1938 to 1950.

1940

Halkbank extended its first SME loans to small and medium-size enterprises.

1950

Having conducted credit services through the Public Funds channel since 1938, Halkbank was authorized to open branches and lend directly in 1950.

1964

Halkbank created the first fund for the construction of small industrial parks and marketplaces. That same year, the Bank started working actively to expand the deposit base and lending volume.

1975

Halkbank became the bank of larger industrial enterprises as well with the launch of industrial investment and working capital loans.

1992

Halkbank grew with the acquisition of a number of banks starting in 1992. As part of this process, Türkiye Öğretmenler Bankası (Töbank) was merged into Halkbank during the year with all of its personnel, branches, assets and liabilities.

1993

Halkbank acquired Sümerbank's assets and liabilities in 1993.

1995

The first Entrepreneur Information Center was established.

1998

Etibank was merged into Halkbank in 1998, with only the acquisition target's assets and liabilities.

2000

Halkbank launched restructuring initiatives pursuant to Law No. 4603 on the restructuring of state-owned banks to operate in accordance with the requirements of the current globally competitive banking environment and to prepare for privatization.

2001

Halkbank acquired Türkiye Emlak Bankası, with the target company's 96 branches, personnel and balance sheet.

2004

In the second half of 2004, Pamukbank was successfully merged into Halkbank with all the target company's assets, liabilities, branches and employees.

2007

Halkbank's public offering in 2007, which met with record demand, was registered in the history of the Borsa İstanbul A.Ş. as the largest public offering carried out in Turkey at that time. 24.98% of Halkbank shares were floated. Thanks to this successful public offering, Halkbank received the annual "Best Public Offering" award from East Capital, a leading European investment company. Under an agreement between Halkbank and HSBC that year, Halkbank credit cards were enhanced with Advantage features.

2008

Halkbank credit cards were redesigned to offer all benefits of Advantage and launched under the Halkbank Advantage brand.

With an initiative that shortened the process of receiving and evaluating credit card applications and delivering cards to customers, Halkbank became the first bank in Turkey to receive ISO 9001 Quality Management Systems Certification in 2008.

In addition, Europe's first prepaid contactless debit card launched thanks to a partnership between Halkbank and Visa; Bank24 Jet combined a large number of diverse functions in one single card.

In 2008, Halkbank launched the SME Transformation Project to help SMEs comply with domestic and international regulatory requirements and practices with regard to corporate social responsibility, environment, occupational health and safety and energy efficiency.

2009

Entering into cooperation agreements with development agencies, Halkbank started collaborating with these agencies, the first bank to become a solutions partner to this segment.

2011

Halk Academy, an in-house banking school, was restructured to provide the highest quality training for Halkbank employees. The Academy administered programs that generally related to banking, personal development and social responsibility.

Halkbank Operations Center was established as part of the Operational Transformation Project that was initiated to increase the Bank's efficiency and accelerate growth.

Striving to extend its successful domestic performance to overseas markets and become a powerful regional bank, Halkbank acquired the shares of Export and Credit Bank Inc./Skopje, the SME bank of Macedonia in 2011. Aiming to be one of Macedonia's top three banks, Halkbank operates in the country under the name Halk Banka A.D., Skopje.

2012

Halkbank launched the credit card brand Paraf with the slogan, "Paraf: Home of Benefits" in 2012.

Halkbank shares were floated in 2012 through a secondary public offering, raising the Bank's free-float percentage to 48.9%.

In 2012, Halkbank secured a syndicated loan amounting to EUR 558 million and USD 207.5 million with the participation of 46 banks from 23 countries and successfully completed a USD 750 million Eurobond issue, confirming the Bank's strong reputation in the eyes of international investors. The Bank also issued TRY 1.5 billion in bank bonds.

2013

At Halkbank's Ordinary General Assembly Meeting held on March 29, 2013, the Bank's official headquarters was relocated from Ankara to Istanbul, with the approved amendments made to the Articles of Association.

Halkbank expanded the Paraf card product portfolio in 2013 and introduced Parafly, a credit card designed specifically for travel spending. Reaching its year-end target after just six months, the Bank issued some 3.2 million Paraf cards to customers in 2013.

Halkbank rolled over its syndicated loan of EUR 562 million and USD 259 million with the participation of 41 banks from 19 countries and placed the Bank's second Eurobond issue which amounted to USD 750 million. The Bank also issued TRY 2.5 billion in bank bonds.

2014

Halkbank revolved its EUR 511.5 million and USD 112 million syndicated loan through a consortium comprising 34 banks from 17 countries in 2014. It also carried out a third Eurobond issue with a nominal value of USD 500 million. Additionally, the Bank issued TRY 2.75 billion in corporate bonds.

Paraf Credit Card garnered Halkbank the "Bank with the Largest Growth in Visa Credit Card Shopping Volume" designation at the Visa 2014 Achievement Awards.

2015

In March 2015, Halkbank acquired a 76.76% stake in Cacanska Banka A.D., Cacak, which has branches in various regions of Serbia. Halkbank renamed the newly acquired bank Halkbank A.D., Beograd.

Halkbank ranked high in The Banker's survey on the world's most reliable banks. Halkbank placed 102nd on the list which ranks 250 world banks for robustness and reliability, based on a range of criteria that includes asset quality, liquidity, risk environment, and profitability.

In 2015, Halkbank once again rolled over its syndication loan, securing EUR 640 million and USD 179 million. Furthermore, the Bank issued its fourth bond (Eurobond) worth USD 500 million in international markets, and a bond worth TRY 3.5 billion in the domestic markets.

2016

Halkbank's Mobile Banking app, upgraded in early 2016, garnered the Bronze Award in the "Most Innovative Mobile Banking Application" category at the Stevie Awards, which recognizes excellence in the business world at the international level.

Continuing to undersign new cooperations with its financial stability and reliable reputation internationally, Halkbank raised funds by issuing bills with a nominal value of USD 500 million (its fifth Eurobond) in international markets, bonds worth TRY 4.7 billion in the domestic market, while also reaching a syndication deal of USD 175 million and EUR 476.5 million.

Following completion of the registration process in Singapore, the Bank inaugurated its Singapore representative office.

In 2016, Halkbank took its efforts in the area of sustainability to the next level, and joined the BIST Sustainability Index.

HALKBANK'S VISION, MISSION, OBJECTIVES AND CORPORATE VALUES



OUR VISION

FULFILLING ALL THE REQUIREMENTS OF UNIVERSAL BANKING TO BECOME A BANK STRONG IN THE RETAIL SEGMENT AND THE LEADER OF SME SERVICES ACROSS THE REGION.



OUR MISSION

FULLY AWARE OF ITS SOCIAL RESPONSIBILITY AND PROFESSIONAL MISSION, PERFORMING ALL BANKING SERVICES IN AN EFFICIENT MANNER, CREATING PERMANENT VALUE FOR CUSTOMERS, SHAREHOLDERS AND EMPLOYEES, CONTRIBUTING TO THE DEVELOPMENT OF THE BANKING INDUSTRY AND CAPITAL MARKETS, AND ASSUMING A PRESTIGIOUS POSITION IN REGIONAL AND GLOBAL BANKING.



OUR TARGETS

- BECOMING THE LEADING SME BANK OF THE REGION,
- BECOMING THE BANK OF CHOICE FOR SME AND RETAIL CUSTOMERS ALIKE,
- BECOMING THE EMPLOYER OF CHOICE FOR HIGHLY QUALIFIED BANKING PROFESSIONALS,
- DELIVERING CUSTOMER SATISFACTION IN ALL BUSINESS PROCESSES BY REACHING THE HIGHEST QUALITY AND FASTEST SERVICE LEVELS IN THE SECTOR,
- BECOMING A BANK THAT GROWS IN A BALANCED FASHION AND REGULARLY POSTS SUSTAINABLE PROFITS.



OUR CORPORATE VALUES

- CUSTOMER FOCUS
- RELIABILITY
- INTEGRITY
- CREATIVITY
- DYNAMISM
- RATIONALITY
- TEAMWORK
- PRODUCTIVITY
- TRANSPARENCY
- SENSITIVITY
- SELF-CONFIDENCE
- OPENNESS TO CHANGE
- SOCIAL RESPONSIBILITY
- SHARING INFORMATION AND EXPERIENCE

HALKBANK'S STRATEGIES



OUR STRATEGIES

1. EXPANDING THE RANGE OF TRADITIONAL BANKING ACTIVITIES AND SPECIALLY DESIGNED NEW PRODUCT AND SERVICE OPTIONS
2. OFFERING SME AND RETAIL CUSTOMERS IN THE MIDDLE AND HIGHER INCOME SEGMENTS VARIOUS EXCLUSIVE PRODUCTS AND SERVICES, AS PART OF CUSTOMER SEGMENTATION EFFORTS
3. PROVIDING TOP QUALITY SERVICES WITH A CUSTOMER FOCUS
4. CREATING EFFICIENCY IN CRITICAL PROCESSES, IN PARTICULAR LOAN AND FINANCIAL RISK MANAGEMENT
5. ENSURING PRODUCTIVITY IN ALL BUSINESS PROCESSES TO PROVIDE A WIDE RANGE OF PRODUCTS, TRANSACTIONAL AND SYSTEMIC SECURITY, SWIFT AND HIGH QUALITY TRANSACTIONS, AS WELL AS COMPETITIVE PRICES
6. GUARANTEEING THE CONTINUOUS DEVELOPMENT AND MOTIVATION OF EMPLOYEES VIA CAREER AND PERFORMANCE MANAGEMENT SYSTEMS
7. ENSURING THAT INTERNAL AND EXTERNAL CUSTOMERS EMBRACE THE CORPORATE IDENTITY
8. DELIVERING TOP NOTCH INTERNATIONAL BANKING SERVICES THROUGH ITS OVERSEAS BRANCH NETWORK, REPRESENTATIVE OFFICES AND PARTNERSHIPS

CHAIRMAN'S ASSESSMENT

Figuring among the strongest financial institutions not only in Turkey but across the entire region, Halkbank has once again demonstrated its strength during the challenging times that we experienced in 2016.

Esteemed Stakeholders,

The adverse impact of uncertainties in the global economy, especially in the financial markets, led to a contraction in world trade volume, triggering debt to climb among both countries and private corporations. In 2016, as monetary easing policies came to an end while regional conflicts and a crisis in confidence dragged on, turmoil in international relations prompted capital outflows from emerging markets and further aggravated the refugee problems.

Due to the Fed's decision to raise interest rates in late 2015 for the first time in nine years, financial markets entered 2016 in a downtrend, with indicators shaped by the expectation that four rate rises would take place during the year. Despite the signals of a recovery in the US economy, and owing to the upcoming American presidential elections, the British referendum and volatility in global markets, the Fed refrained from raising rates as expected. The first half of the year saw international financial institutions such as the IMF and OECD revise down their forecasts regarding the global economy, while China's economy demonstrated its weakest growth performance since 2009, making headlines across the world.

Turkey started off the year as one of the fastest expanding European economies, posting growth of 4.5% in the first half of 2016. In the second half of the year, however, a number of revisions had to be made to the Medium Term Program due to domestic and international developments. On July 15, groups with neither loyalty to the nation nor commitment to the country dared to stage a military coup, which further aggravated the challenges faced by the Turkish economy. Nonetheless, leveraging its robust foundation, the nation overcame these domestic and international attempts to destabilize it, and maintained a steady course across the board. Turkey did not experience any liquidity problems during this tumultuous period; indeed, the markets returned to normalcy in a very short time. Thankfully, the government took measures to prevent any serious financial volatility and confirmed the nation's resolve to maintain economic stability.



R. SÜLEYMAN ÖZDİL
Chairman



CONTRACTION IN WORLD TRADE

The adverse impact of global economic uncertainties, especially those in the financial markets, on investors led to a contraction in the volume of global trade.



TURKEY MAINTAINED ITS GROWTH MOMENTUM...

Turkey started the year as one of the fastest expanding European economies with a growth rate of 4.5% in the first half of 2016. In the second half, however, a number of revisions had to be made to the Medium Term Program due to domestic and international developments.



VOLATILITY IN GLOBAL MARKETS

Despite the signs of a recovery in the US economy, and owing to the upcoming American presidential elections, the British referendum and general volatility in global markets, the Fed refrained from raising rates as much as expected.

CHAIRMAN'S ASSESSMENT

Halkbank powers ahead with the high motivation, ambition and creativity of its employees, and the unfaltering trust of all its stakeholders-customers and shareholders in particular.

The Turkish banking industry remained the engine of economic growth by capitalizing on its robust financial structure. According to BRSA data, the total assets of the Turkish banking rose to TRY 2,731 billion as of year-end 2016, up TRY 374 billion compared to year-end 2015. Sector data also shows an increase of 16.8% in total cash loan volume, year-on-year. Despite an extraordinary external shock such as the coup attempt of July 15 and international volatility, Turkey's banking industry closed fiscal year 2016 with double-digit growth, yet another confirmation of its strong position.

Figuring among the strongest financial institutions not only in Turkey but across the entire region, Halkbank once again demonstrated its strength during this challenging period. I am proud to state that the Bank not only maintained its profitability in 2017, but also firmly stood by our nation at every critical juncture, including the failed coup attempt, whenever there was need for its services.

Esteemed stakeholders, We must respond to these challenging agenda items, and directly address the various threats we face, not only regional problems but also attacks by terrorist groups residing within the country. We must continue to move forward with our strong belief in the values of our country and hope for a bright future for our nation. As the driving engine of Turkey's economy, the banking industry will protect the domestic economic environment against external shocks thanks to its prior crisis experience, strong fiscal structure and discipline, thereby underpinning the real economy with its sector-specific know-how.

As always, Halkbank will continue to implement a rigorous and prudent risk management approach.

The Bank moves ahead to the future with its highly motivated, ambitious and creative employees, and the unfaltering trust of its stakeholders-customers and shareholders in particular. Halkbank strives to live up to your confidence in us as we build the Turkey of tomorrow all together.

Sincerely,

R. SÜLEYMAN ÖZDİL
Chairman



GENERAL MANAGER'S ASSESSMENT

The Bank plans to increase its support to SMEs via new products and services, to boost Turkey's economic engines and help the manufacturing industry to develop new technologies. We believe that our support to SMEs for new investments will substantially help our country achieve its economic growth targets.

Esteemed stakeholders,

In the coming year, uncertainties across the world will persist to a large extent. However, Turkey will take a more optimistic path as the dust begins to settle in both the political and economic arena.

The global economy passed the year 2016 in a slow growth environment and the arrival of 2017 did not bring about much of a revitalization. After the end of monetary easing in the USA, the Fed decided to raise interest rates, economic and political woes in the Euro zone stoked concerns about the future of the EU and Donald Trump gained a surprising victory in the US elections, leading to uncertainties about his possible economic and political strategies. Due to all these factors, the world economy has been surrounded by a cloud of smoky haze since the start of 2017.

As for domestic markets, the failed coup attempt of July 15 and the rise of terrorist threats fueled by various regional conflicts were key developments that had negative effects not only on the political and social peace within the country, but also on the economy and corporate financial results in 2016.

Adverse events within and outside Turkey created palpable pressure on investments, exports and tourism. However, in contrast with the uncertain world situation, Turkey has ushered in 2017 with optimism even if coupled with some caution. We expect that the violent regional situation will be settled to some extent, and the disastrous effects of the failed coup of 2016 will be alleviated, thereby leading to a normalization in the overall economic picture of the country.

Despite all the adversity the country has faced, Turkey's key macroeconomic indicators for public finance, budget performance, balance of payments and inflation have stayed on a rather healthy trajectory.

Although borrowing costs are expected to increase somewhat owing to developments in the global economy, the current environment will make Turkey a more attractive destination in the eyes of investors seeking higher returns in 2017. During this period, the government's actions to improve the investment climate and boost individual savings rates will undoubtedly have positive effects on our economy.



ALİ FUAT TAŞKESENLIOĞLU
General Manager



CONCERNS ABOUT THE EU'S FUTURE

After the end of monetary easing in the USA, the Fed decided to raise interest rates as economic and political woes in the Euro zone stoked concerns about the future of the EU. As a result, the world economy has been surrounded by a cloud of smoky haze since the start of 2017.



HEALTHY MACROECONOMIC INDICATORS

Despite all the adversity the country has faced, Turkey's key macroeconomic indicators for public finance, budget performance, balance of payments and inflation have stayed on a rather healthy trajectory.



TURKEY: AN ATTRACTIVE DESTINATION FOR INVESTORS

Although borrowing costs are expected to increase somewhat owing to developments in the global economy, the current environment will make Turkey a more attractive destination in the eyes of investors seeking higher returns in 2017.

GENERAL MANAGER'S ASSESSMENT

The Bank closed fiscal year 2016 with net profit of TRY 2,558 million and a return on equity (ROE) of 12.6%. Our total assets increased 23.3% over the prior year to TRY 231.4 billion, while total deposits amounted to TRY 150.3 billion.

The Medium Term Program, announced in the fourth quarter of 2016, projected that the economic growth rate will increase in the period 2017-2019, climbing to at least 5%. We believe that the program outlines an effective road map for Turkey, centered around targets such as establishing economic and political stability, tripling Eximbank support, bringing the budget deficit below 2% and boosting the national economy's competitive edge and productivity. The Turkish economy's priority in the coming year will be speeding up structural reforms while maintaining fiscal discipline. We believe that the importance of this mobilization effort for the economy should be underlined at every occasion to create a common awareness in all economic actors. Our banks are very keen to extend loans and energize the markets. We believe that this positive trend will become even stronger in the second half of 2017 and that the process will yield favorable outcomes if we seize the opportunities.

Considering the low level of the savings rate in Turkey, we state with confidence that new savings in the future will play a key role in financing investments and accelerating growth. To this end, Halkbank will continue encouraging its clients to save with the new products it has developed. In line with our motto, "The people demand, Halkbank delivers," we shall continue devising new mechanisms that will lower lending costs and boost Turkish growth.

The Bank plans to increase its support to SMEs via new products and services, to boost Turkey's economic engines and help the manufacturing industry to develop new technologies. In our opinion, providing support to high and medium-to-high tech investments, which will bring about rapid transformation in the industry, is needed for Turkey to bolster its international competitive edge. We believe that our support to SMEs for new investments will substantially help our country achieve its economic growth targets.

Esteemed stakeholders,

The Bank closed fiscal year 2016 with net profit of TRY 2,558 million and a return on equity (ROE) of 12.6%. Our total assets increased 23.3% over the prior year to TRY 231.4 billion, while total deposits amounted to TRY 150.3 billion. The Bank expanded its cash loan portfolio by 24.9% to TRY 158.4 billion, without compromising the quality of its balance sheet in 2016.

During the year, we maintained our pioneering position in SME Banking. In addition, we were pleased to see our activities in this segment reflected in our financial results. The Bank's commercial credit volume, which includes SME loans, expanded by 26.8% as of year-end 2016 to total TRY 126.5 billion. Meanwhile, our cooperative loan volume amounted to TRY 20.4 billion. We shall continue to grow in this area with our innovative products and unique service approach.



Developing special products for customers in every aspect of banking with a customer satisfaction-centered approach, the Bank once again demonstrated a successful performance in retail banking this year. Our retail loans rose by 31.9% as of year-end 2016 to TRY 31.9 billion, while the number of Paraf credit cards issued reached 3.9 million. Our POS devices in use went up to 317 thousand while our contracted merchant portfolio jumped to 297 thousand.

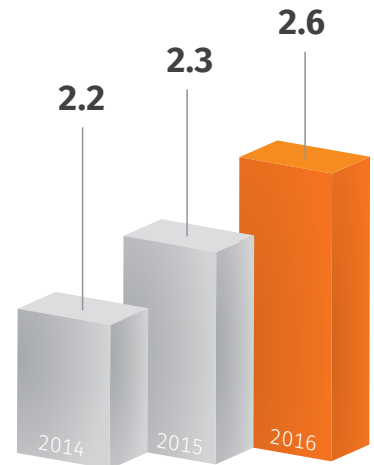
At Halkbank, we plan to continue working with our strong commitment to the values of our country and future of the nation, doing our utmost in 2017 to achieve our targets for the year.

Sincerely,

ALİ FUAT TAŞKESENLIOĞLU

General Manager

NET PROFIT (TRY BILLION)



BOARD OF DIRECTORS AND THE SUPERVISORY BOARD



RECEP SÜLEYMAN ÖZDİL (1)

Chairman

SADIK TILTAK (2)

Vice Chairman

Independent Board Member

ALİ FUAT TAŞKESENLIOĞLU (3)

Board Member and General

Manager

YUNUS KARAN (4)

Independent Board Member

CENAP AŞCI (5)

Board Member

ÖMER AÇIKGÖZ (6)

Board Member

MEHMET AYTEKİN (7)

Board Member

YAHYA BAYRAKTAR (8)

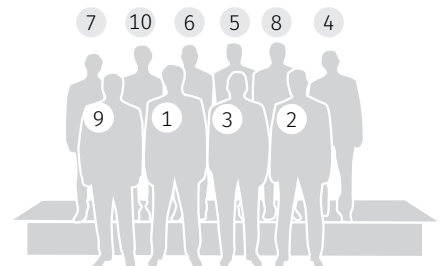
Independent Board Member

FARUK ÖZÇELİK (9)

Member of the Supervisory Board

ZEKERİYA KAYA (10)

Member of the Supervisory Board



* MEHMET ALİ GÖKCE resigned from his post as member of the Bank's Board of Directors as of January 23, 2017.

EXECUTIVE MANAGEMENT

**ALİ FUAT TAŞKESENLİOĞLU (1)**

General Manager

MURAT OKTAY (2)

Deputy General Manager

MEHMET AKİF AYDEMİR (3)

Deputy General Manager

ERDAL ERDEM (4)

Deputy General Manager

HASAN ÜNAL (5)

Deputy General Manager

MEHMET SEBAHATTİN BULUT (6)

Deputy General Manager

MEHMET HAKAN ATILLA (7)

Deputy General Manager

SELAHATTİN SÜLEYMANOĞLU (8)

Deputy General Manager

MUSTAFA AYDIN (9)

Deputy General Manager

ÖMER FARUK ŞENEL (10)

Deputy General Manager

SALİM KÖSE (11)

Deputy General Manager

ALİ ULVİ SARGON (12)

Chairman of the Board of Inspectors



PIONEERING PRODUCTS

In line with the mission it has upheld since its founding, Halkbank developed new products and services in 2016 to meet customer needs and demands, thereby making a significant contribution to revitalizing the nation's economy.



EIB SME-5 Loan

As a result of the loan agreement signed between the Bank and the European Investment Bank, the "EIB SME-5 Loan" was created for firms that require financing.



FDA Energy Efficiency Loan

As part of the loan agreement executed between the French Development Agency and the Bank, the "FDA Energy Efficiency Loan" was developed to finance energy and energy efficiency projects.



SME Support Packages

The Bank provided solutions to meet both the financial and non-financial needs of SMEs with its specially-designed SME Support Packages.



Entrepreneur Loan

“The Entrepreneur Loan” was designed to encourage entrepreneurial activity, boost employment, facilitate the start-up process and aid economic growth.



Tradesmen Zero Interest Loan

“The Tradesmen Zero Interest Loan” was developed to support professions that are on the verge of disappearing by providing funds to entrepreneurs lacking sufficient capital, well-educated tradesmen, artisans and craftsmen.



My Economical Home Mortgage Loan

Aiming to meet the mortgage finance needs of customers, the Bank launched the “My Economical Home Mortgage Loan” product.



Halk Day General Purpose Loan

On the 78th anniversary of the founding of the Bank, the “Halk Day General Purpose Loan” campaign was conducted to provide loans at interest rates from 1.25% and up to TRY 50,000.



Holiday Celebration Loan

“Holiday Celebration Loan”, which became traditional, was launched to meet customers’ seasonal cash needs.



Dowry Account

“The Dowry Account” product was rolled out to help marrying couples grow their savings with a government contribution.

REVIEW OF OPERATIONS IN 2016

During the year, Halkbank's total loans extended to corporate and commercial customers jumped 32.1% to TRY 67.9 billion exclusive of rediscount, while non-cash lending went up 17.5% to TRY 40.5 billion.

CORPORATE AND COMMERCIAL BANKING

Halkbank's marketing strategy is built on a customer-focused service approach and the principle of continuous customer satisfaction. In its relations with customers, the Bank first identifies their needs, and then provides products that effectively respond to these needs in order to ensure customer satisfaction.

In accordance with this policy, the Bank continued to serve the corporate and commercial segment in 2016, while evaluating and concluding customers' financing options for large scale projects.

Rapid Growth in Corporate and Commercial Loans

The Bank's corporate and commercial branches, SME branch locations, and mixed branches that report to regional offices continued to provide services with a workforce and product range suited to their customer profile.

The rapid growth in the corporate and commercial banking segment continued in 2016, with lending reaching a wider customer base thanks to new customers in the portfolio. During the year, Halkbank extended to registered corporate and commercial segment customers a total of TRY 67.9 billion in cash loans, up 32.1% over the prior year, excluding rediscount. The Bank also provided non-cash loans of TRY 40.5 billion, up 17.5% year-on-year.

Relationships with International Financial Institutions

In 2016, Halkbank maintained business relationships with international financial institutions including the European Investment Bank, the World Bank and the

French Development Agency, from which it has obtained long-term, low-cost funding. As a result, the Bank was able to provide financing cost-effectively for the investments of many clients.

Successful Project Finance Initiatives

Halkbank continued to perform marketing and feasibility studies as well as technical and fiscal analyses for a wide range of client projects. These included energy production, transmission and distribution projects (e.g. natural gas transmission and distribution; electricity transmission and distribution; hydroelectric, solar and wind power plants; geothermal power plants; thermal power stations); port, airport, toll road, highway and railway, rail system and metro transportation projects; hospital, shopping center, convention center, hotel with more than 800 beds, holiday resort, exhibition center construction projects; and build-operate-transfer, build-lease and operating right transfer projects.



HALKBANK CONTINUED ITS FINANCIAL SUPPORT FOR PUBLIC WORKS PROJECTS SUCH AS İSTANBUL NEW AIRPORT AND THE GEBZE-İZMİR HIGHWAY IN 2016.



STRONG CORPORATE STRUCTURE

Halkbank makes a difference vis-a-vis the competition thanks to its robust corporate structure.

DIVERSIFIED PRODUCT PORTFOLIO

Halkbank diversifies its product portfolio in response to evolving customer needs and expectations.



EXTENSIVE SERVICE NETWORK

Halkbank's service network extends across Turkey.

REVIEW OF OPERATIONS IN 2016

As of year-end 2016, the Bank originated a total of USD 917 million in structured finance loans as cash and non-cash for 19 projects that passed feasibility and creditworthiness assessments.

CORPORATE AND COMMERCIAL BANKING

TARGETING CUSTOMER SATISFACTION AND PROFITABILITY, HALKBANK CONTINUED TO DELIVER HIGH QUALITY BANKING SERVICES TO BUSINESS CUSTOMERS WITH 6 CORPORATE AND 36 COMMERCIAL BRANCHES IN 2016.

As an industry heavyweight and a major player in Turkey's economy, Halkbank has participated in the financing of numerous projects with significant public benefit. These include the Istanbul New Airport, the Gebze-Izmir Highway and Bridge Crossing, Northern Marmara Highway and Bridge Crossing. Halkbank favors Build-Operate-Transfer projects in particular in the mega projects, a model in line with the Bank's lending policies.

Structured and Project Finance Loan Portfolio of USD 6.3 Billion

Within the Bank's project finance business, which serves the merger, acquisition, takeover, and other corporate finance needs of clients, Halkbank continued to be an active player in the structured finance market in 2016 through direct lending relationships with individual

companies and participation in bank consortiums. In 2016, the Bank remained an active market player. As of year's end, as part of its restructured financing activities, the Bank extended loans worth a total of USD 917 million to 19 projects that met the criteria of feasibility and creditworthiness. Halkbank's structured financing loans portfolio-cash and non-cash-totaled USD 6.3 billion as of year-end 2016.

Top Quality Banking Services

Aiming at customer satisfaction and profitability, Halkbank continued delivering top quality banking services to its corporate and commercial clients in 2016 at six corporate and 36 commercial branch locations.



**HALKBANK ADAPTS THE LATEST
TECHNOLOGICAL DEVELOPMENTS IN THE
BANKING INDUSTRY TO ITS BUSINESS
PROCESSES QUICKLY AND EFFICIENTLY.**

REVIEW OF OPERATIONS IN 2016

Despite the intensive competition in SME Banking, Halkbank boosted its market share in SME loans from 12.42% at year-end 2015 to 13.54% at year-end 2016 by making additional efforts in SME Banking.

SHOPKEEPER-SME BANKING

For 78 years, Turkey's pioneering SME bank Halkbank has maintained its support to tradesmen, artisans and SMEs in line with its customer-centered banking approach.

Thanks to its strong ties with SMEs, Halkbank identifies their financial and/or non-financial needs onsite and delivers innovative solutions for SME clients with its expertise, deeply rooted experience and vast branch network.

As a result, despite the intensive competition in SME Banking, Halkbank achieved a huge success by increasing its market share in SME loans from 12.42% in 2015 to 13.54% as of year-end 2016.

In 2016, Halkbank's SME loans accounted for 36.8%* of the Bank's total cash loans.

* Calculations based on the definition of small- and medium-sized enterprises provided by the relevant regulation of the Ministry of Science, Industry and Technology.

PRODUCTS AND SERVICES

Delivering all the banking products and services that SMEs need, Halkbank continues to support SME clients by working continuously to develop fast solutions in line with ever-changing market conditions and needs, expand its product range, and establish partnerships with various institutions and organizations.

Supporting the Entrepreneurial Spirit

In keeping with its long-standing mission of supporting entrepreneurs and social responsibility awareness, Halkbank places a great emphasis on fostering entrepreneurship, boosting employment, supporting entrepreneurs to start new businesses, and helping young people to actively participate in the economy.

Halkbank offers the Young, Bold, Master and Inventor Entrepreneur Loan products to those who want to start their own enterprises. These loans are designed according to key criteria such as educational level, age and work experience. Additionally, the Bank provides its Franchising Loan product to those entrepreneurs seeking to enter the franchising business.

Halkbank extended about TRY 20 million in loans to around 550 entrepreneurs via this platform in 2016.

Collaboration with Gebze Technical University

In order to foster entrepreneurship, encourage entrepreneurs and create new employment opportunities in the economy, the Bank executed the "Business Partnership with Entrepreneurs" agreement with Gebze Technical University. Under this agreement, the Bank continued to extend loans to those individuals who engage in commercial activity or who want to establish their first business, with a maximum term of one year.



International Loans

In addition to the loans funded by its own resources, Halkbank has secured funds for SMEs as part of the agreements it has reached with international financial institutions such as World Bank, European Investment Bank (EIB) and French Development Agency. The Bank obtained EUR 100 million from EIB for financing the working capital and investment loan demands of SMEs and large scale enterprises.

French Development Agency – Organized Industrial Zone and Environment Loans

Aiming to fund environment-related investments by companies operating within or outside Organized Industrial Zones, the Bank collaborated with the French Development Agency. The resulting lending program is designed to help these enterprises to improve their energy efficiency and slash resource consumption so that Turkey can use its resources in a sustainable, efficient and productive manner and pursue a low-carbon growth strategy. This loan facility can be extended to SMEs as well.

Support for Exporter SMEs

Aware of the prime importance that exports play in Turkey's economic development, Halkbank supports the efforts of exporters to enter new markets and hone their exporting skills, delivering products and services in response to the needs identified.

Special Platform for SMEs

The www.halkbankkobi.com.tr website was established as a free platform that all SMEs can access, bridging a crucial gap in this segment. As such, Halkbank's strong ties with SMEs were further bolstered via this online resource.

REVIEW OF OPERATIONS IN 2016

Providing all the banking products needed by SME clients, Halkbank formulates new solutions in response to ever-changing market conditions and needs, adds new products to its portfolio and thereby constantly expands its product range.

SHOPKEEPER-SME BANKING

Over the portal www.halkbankkobi.com.tr, designed by Halkbank with the awareness that platforms to support SMEs are crucial for the development of SME banking, Halkbank not only promotes its products and services but also allows customers to easily and rapidly apply for these offerings.

The platform also features a bookkeeping program that allows SME users to easily keep track of their sales, collection, payment and inventory data, making business processes easier for SMEs.

As investment-related decisions are critically important for SMEs, financial literacy and awareness concepts are emphasized on the platform. One aim here is to raise the financial awareness of SMEs, the driving engine of Turkish economy.

Nearly 35 thousand SME members are served via this platform. According to internet traffic and ranking statistics, www.halkbankkobi.com.tr ranks first among similar platforms in Turkey.

The page titled "Ask an Expert" in the platform, provides rapid responses to SMEs on issues of concern that require expertise. Halkbank SME Experts respond to the inquiries of those who visit the platform. These experts also author monthly magazines with articles of relevance to the platform's members, providing guidance to SMEs and entrepreneurs.

Support for Technological Transformation

Currently, Industry 4.0 is making headlines both in Turkey and across the world, suggesting that that SMEs must keep up with this technology transformation in order not to fall behind in global competition. Halkbank continues to encourage and support SMEs to realize this transformation. The

Bank emphasizes the importance of Industry 4.0, innovation and R&D investments on every platform. Halkbank underscores that SMEs should focus their attention in these key areas while it continues work to finance these investments.

POS Business Package

Halkbank created the POS Business Package to offer instant solutions that meet the cash needs of micro enterprises which employ POS devices. This package provides clients with POS, overdraft accounts, Paraf Business Card, cheque books, Internet branch subscription, automatic bill payments orders, in addition to SME Economical Banking Tariffs at favorable terms.

In addition, Halkbank provides round-the-clock support to SMEs over the dedicated phone line 0850 222 0 401 SME Dialog. This hot line allows clients to obtain information on the Bank's products and services, make appointments, and receive other support services without visiting a branch.

**KOSGEB 2016 Urgent Support Loan**

Halkbank and the Small and Medium Enterprises Development Organization (KOSGEB) signed the KOSGEB 2016 Urgent Support Loan agreement to offer financing support at favorable terms to enterprises with special needs. These SMEs should prove with official documentation that they were adversely affected by natural catastrophes (e.g. flood, blizzard, earthquake, severe drought, violent storms), general strikes, fires, mass protests or terrorism beginning from January 1, 2015 in Turkey.

KOSGEB 2016 Machinery and Equipment Loan

Halkbank and KOSGEB signed an agreement for the KOSGEB 2016 Machinery and Equipment Loan. Under this agreement, Halkbank offers financial support at favorable terms to manufacturing enterprises registered in the KOSGEB database, which are not banned from KOSGEB support, in their procurement of new domestic machinery and equipment.

KOSGEB Zero-Interest Enterprise Loan Interest Support

Halkbank and KOSGEB executed the KOSGEB Zero-Interest Enterprise Loan Interest Support agreement so that enterprises registered in the KOSGEB database and with up-to-date SME Statements may be granted financial support at favorable terms.

HALKBANK OFFERS CUSTOMERS POS, OVERDRAFT ACCOUNTS, PARAF BUSINESS CARD, CHEQUE BOOKS, INTERNET BRANCH SUBSCRIPTION, AUTOMATIC BILL PAYMENTS ORDERS, AS WELL AS SME ECONOMIC BANKING TARIFFS AT FAVORABLE TERMS.

REVIEW OF OPERATIONS IN 2016

Halkbank provides the Young, Bold, Master and Inventor Entrepreneur Loan products to those who want to start their own enterprise. In addition, the Bank's Franchising Loan product targets those entrepreneurs seeking to enter the franchising business.

SHOPKEEPER-SME BANKING

Halkbank-TİM Export Mobilization Protocol

Halkbank signed an agreement with the Turkish Exporters' Assembly (TİM) to provide SMEs with favorable financing facilities to start exporting, expand their foreign markets, and boost competitiveness in these markets. Under the partnership, the Bank and TİM held joint Target Market and Shared Intelligence Meetings to offer guidance to export-oriented firms. Furthermore, TİM-member companies can enjoy complimentary English courses and advisory services from experts at www.halkbankkobi.com.tr.

TMO Loan (2016/2017 Campaign Period)

Under an agreement signed between Halkbank and the Turkish Grain Board (TMO), real and legal persons delivering to TMO their domestic corn, rice, wheat and barley harvest produced in 2016 can obtain loans from the Bank upon submitting their TMO receipt.

Collaboration with Development Agencies

The very first bank to cooperate with development agencies to bolster regional economic growth and social development, Halkbank recently signed partnership agreements with Eastern Marmara Development Agency, Central Black Sea Region Development Agency, İpekyolu Development Agency and Fırat Development Agency.

Organized Industrial Zones

In Turkey, Organized Industrial Zones (OSB) play a crucial role in boosting industrial investments and enhancing company productivity. As such, the Bank signs agreements with the Organized Industrial Zones. Recently, a workplace construction financing agreement was executed between Ferizli Organized Industrial Zone, Credit Guarantee Fund and Halkbank.

BTSO Support Loan

Halkbank signed an agreement with Bursa Chamber of Commerce and Industry (BTSO) to extend loans to BTSO-member firms so that they can meet their working capital, noncash and export loan demands.

Halkbank-Çanakkale Chamber of Commerce and Industry Agreement

Under the agreement signed between Çanakkale Chamber of Commerce and Industry and Halkbank, member companies of the chamber meet their various requirements-such as greenfield investments, renovation, modernization, level upgrade and energy efficiency and other environmentally-friendly investments in addition to working capital and non-cash loans-under flexible repayment conditions.

Halkbank-İzmir Chamber of Dentists Agreement

Halkbank and İzmir Chamber of Dentists executed an agreement whereby dentists with private clinics can purchase the equipment mandated by recent piece dental legislation via packages dubbed Medi Loan and Entrepreneur Loan. They may also enjoy other banking products and services at favorable terms if they are members of the referenced chamber.

Loans with Treasury-subsidized Interest

In line with its founding mission, Halkbank continues to meet the financing needs of tradesmen,

craftsmen and artisans, who make up an important part of society today, under the most favorable terms possible, while providing them with effective, top-quality banking services.

The Bank continues its support to tradesmen and artisans to meet the financial requirements of this key social group in the fastest, most efficient way by using cutting edge technologies.

Halkbank offers working capital loans with Treasury-subsidized interest to artisans and tradesmen with monthly, quarterly and semi-annual repayment period options up to a five-year term.

Halkbank's Loans with Treasury-subsidized interest for artisans and tradesmen are offered with attractive interest rates and favorable terms. These loans are extended under the guarantee of the 981 Artisans and Tradesmen Loan and Guarantee Cooperatives (ESKKK) or directly by the Bank without a cooperative's guarantee.

Under the initiative in which loans with Treasury-subsidized interest rate payments are extended by Halkbank to tradesmen and artisan customers, those active in professions that are near extinct and those with certificates of mastership who set up new businesses will enjoy a 100% interest rate discount in 2016. Tradesmen and artisans who secure loans of up to TRY 30,000 to finance machinery, equipment, fixture purchases, workplace modernization, raw materials or working capital purchases – as well as “Young Entrepreneur” tradesmen and artisans – will enjoy a 100% interest rate discount with zero interest. Besides, tradesmen and artisans received 50% interest rate payment support from the Treasury for working loans.

Under the Treasury-supported loans for tradesmen and artisans program in 2016, loans with a maximum maturity of one year had an interest rate of 8% and those with a longer maturity term had an interest rate of 10%.

In addition, loans with Treasury-subsidized interest for tradesmen and craftsmen are exempt from the banking insurance transaction tax (BSMV)*, stamp duty, and resource utilization support fund tax (KKDF).

* In Treasury-subsidized direct loan allocations, non-manufacturing firms cannot enjoy exemption from the BSMV tax.

HALKBANK OFFERS WORKING CAPITAL LOANS WITH TREASURY-SUBSIDIZED INTEREST TO ARTISANS AND TRADESMEN WITH MONTHLY, QUARTERLY AND SEMI-ANNUAL REPAYMENT PERIOD OPTIONS UP TO A FIVE-YEAR TERM.

Üreten Türkiye için AYB KOBİ-5 Kredisi Halkbank'ta!



Avrupa Yatırım Bankası ve Halkbank'ın işbirliğiyle, çalışan sayısı 1.500'ün altında olan firmalara 12.500.000 Euro'ya kadar, yenilenebilir enerji ve enerji verimliliği projelerine 25.000.000 Euro'ya kadar, 3 yıla varan anapara ödemesiz dönem ve 10 yıla kadar vadelerde, yatırım ve işletme kredileri sizleri bekliyor!



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REVIEW OF OPERATIONS IN 2016

Total Treasury-subsidized loans to tradesmen and artisans rose from TRY 16,159 million at end-2015 to TRY 20,359 million at end-2016, up 26%.

SHOPKEEPER-SME BANKING

Loans to 432,826 Tradesmen and Artisans

Total Treasury-subsidized loans to tradesmen and artisans rose from TRY 16,159 million at end-2015 to TRY 20,359 million at end-2016, up 26%.

As of year-end 2016, total Treasury-supported loans extended to tradesmen and craftsmen under ESKKK guarantee amounted to TRY 19,338 million, while Treasury-subsidized loans without ESKKK guarantee granted directly by the Bank totaled TRY 1,021 million.

In 2016, the Bank extended 100%-interest rate discount or zero interest rate loans totaling TRY 1,002 million. Of this total, TRY 993 million went to those in this segment who took out zero interest rate loans of up to TRY 30,000; TRY 4.7 million was allocated to craftsmen and artisans with mastership certification who were setting up new businesses; TRY 2.9

million was obtained by tradesmen and craftsmen operating in professions nearing extinction, with 36% extended; TRY 800 thousand went to terrorism-victim tradesmen and artisans active in the Sur district of Diyarbakır province; and TRY 700 thousand was extended to young entrepreneurial tradesmen and artisans.

The Bank carried out systems infrastructure work in loan allocation processes so that the operation codes identified in the NACE Rev. 2 (Six-Level) Economic Activity Classification announced by the Turkish Statistical Institute and the Tradesman and the Artisan Vocation Groups NACE Codes published after Ministry of Customs and Commerce's harmonization efforts can be accessed online via the Ministry of Finance database. With this upgrade, shopkeepers and artisans whose data is harmonized have started to take out loans.

The Bank created the TESKOMB Interest Supported ESKKK Loan product in order to meet-under favorable terms and at little cost-the financing needs of tradesmen and craftsmen whose businesses were damaged by the terror attacks in Diyarbakır's Sur district. Under this model, the tradesmen's interest expenses are covered by TESKOMB and the guarantee is provided by the Diyarbakır Tradesmen and Craftsmen Loan and Guarantee Cooperative.

The individual upper limits of Treasury-supported operating loans to ESKKK partners were set at TRY 75 thousand to TRY 150 thousand according to the risk groups of the cooperatives in 2016. Meanwhile, the individual upper limits of direct, Treasury-supported allocations remained at TRY 100 thousand to TRY 150 thousand according to the customers' risk groups.



**HALKBANK SME BANKING AIMS TO
SUPPORT SME CLIENTS TO STRENGTHEN
THEIR COMPETITIVE EDGE.**

REVIEW OF OPERATIONS IN 2016

Keen to deliver numerous financial products and services that meet its customers' needs alongside retail banking services, Halkbank's retail loan volume rose to TRY 31.9 billion, accounting for 20% of total cash loans.

RETAIL BANKING

With an advanced technology infrastructure upgraded every fiscal year, an extensive service network, and 78 years of banking experience, Halkbank embraces a customer-focused approach to retail banking, and delivers the solutions best suited to meet rapidly changing needs.

Aiming to provide conventional retail banking products in addition to numerous financial products and services designed to meet customer needs, Halkbank's retail loan volume increased to TRY 31.9 billion, accounting for 20% of total cash loans.

Ground-breaking Differentiated General Purpose Loans

A central pillar of Halkbank's Retail Banking operations is developing new products that respond to ever-changing customer needs and fluctuating market dynamics while meeting the Bank's performance objectives. Halkbank's strategic priorities include boosting product and service quality, and diversifying the product offering to capture more market share.

In 2016, the Bank rolled out an array of diversified loan products. These include the "Medicine Festival Loan" for the healthcare sector, "Loan 155" for police officers, and "Halk Day General Purpose Loan." In addition to traditional general purpose loan promotional campaigns such as "Bayram Ettiren Kredi (Holiday Celebration Loan)" and the consumer lending product "Loan 2017" launched in the last months of 2016. Other general purpose loan products priced according to specific customer segments were Payroll 24, Public Sector, Pensioners and Private Sector employees.

Halkbank specially designed the "Fidelity Loan" package for war veterans and relatives of martyred soldiers. This offering helps these groups meet their loan needs under special conditions as part of the Bank's social responsibility efforts, in gratitude for their sacrifice to the nation. As part of an agreement signed with the Turkish Presidency of Religious Affairs, customers who want to make hajj and umrah trips were offered the Interest-Free Loan for Hajj/Umrah Expenses product.

Designed to help the country close its energy deficit, Halkbank launched the Energy Support Loan for customers who seek to limit their energy consumption.

In June 2016, the Bank rolled out the Education Loan for university students and their parents to help them meet their fees and expenses at educational and cultural institutions.

Retail Banking Products for Pensioners

Halkbank offers exclusive loans to pensioner customers in order to foster their trust in the Bank and meet their expectations.

Retirees whose pension payment accounts are at Halkbank or who promise to transfer their pension account to the Bank were offered the "Smiling Pensioner Loan."

AS PART OF ITS SOCIAL RESPONSIBILITY EFFORTS, THE BANK LAUNCHED THE FIDELITY LOAN PACKAGE FOR WAR VETERANS AND RELATIVES OF MARTYRED SOLDIERS. THIS OFFERING HELPS THESE GROUPS MEET THEIR LOAN NEEDS UNDER SPECIAL CONDITIONS UNDER THE BANK'S CORPORATE SOCIAL RESPONSIBILITY ACTIVITIES, IN GRATITUDE FOR THEIR SACRIFICE TO THE NATION.

Special Solutions for Salary Payment Clients

The Bank specially designed the Payroll 24 Consumer Loan with a low interest rate for those customers who collect their salary from Halkbank.

Furthermore, these clients have been offered the customized Instant Package, which includes credit card, overdraft account and loan solutions in a bundled offering. For salary-payment customers, the Bank developed the Instant Salary Advance and Instant Loan products.

Financial Solutions in Housing Loans

Halkbank has become one of the most preferred banks in mortgage lending thanks to a broad product range, flexible repayment options customized for each customer, and attractive promotional campaigns.

Halkbank views housing loans as the basis of a long-term relationship of trust with customers. To this end, the Bank continued with the "My Sweet Home" scheme and the Bank launched the My Economical Home Mortgage Loan on August 11, 2016

Ev sahibi olmanız için para biriktiren hesap: KONUT MEVDUAT HESABI

İster sizin ister çocuğunuzun ilk evine sahip olmanız için siz de hemen Konut Mevduat Hesabı açtın. Hem **%20'ye varan devlet katkısından** hem de **faiz getirisinden** yararlan. Ev sahibi olmanın kolay yolu Konut Mevduat Hesabı. Halkbank Şubeleri'nde sizi bekliyor.

%20'ye varan devlet katkısı

Devlet katkısı oranları

- *36-47 ay vade için birikim tutarının %15'i (Jazami 13.725,40 TL)
- *48-59 ay vade için birikim tutarının %18'i (Jazami 14.781,20 TL)
- *60 ay ve üzeri vade için birikim tutarının %20'si (Jazami 15.837 TL)

Devlet katkısı azami tutarı, 2015 yılı için belirlenen en yüksek değere kadar sınırlıdır. Devlet katkısı, hesapta biriken tutarın %20'si olarak (01.01.2016) tarihli ve 21.1.2016 tarihli Vergü Dairesi Başkanlığı tarafından açıklanmıştır. Devlet katkısı, yurtdışı hesaplar için geçerli değildir.

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HALKBANK

to offer individuals payment plans at attractive interest rates so that they can become homeowners.

Halkbank developed differentiated solutions at the request of retail homebuyers as well as residential construction companies. The Bank participated in nearly 150 branded residential development projects in Istanbul and other large metropolitan areas.

Retail Loan Decision Module

Halkbank aims to increase its market share and ultimately improve profitability by making swift and accurate lending decisions, in line with the Bank's retail loan

growth targets, and given the current market and competitive environment.

To this end, the Bank continued systems development efforts during the year on the NBSM Retail Loan Decision Module-adopted by all Halkbank branches in 2014-in order to standardize the Bank's retail lending allocation strategies for all loan applicants or existing lending clients in a given channel. The module analyzes the loan applicant by using the most comprehensive information available in line with Halkbank's lending policies. As a result, the Bank can communicate loan decisions to customers within a matter of minutes.

REVIEW OF OPERATIONS IN 2016

Halkbank figures among the most preferred banks in mortgage loans, thanks to its wide range of products, personalized and flexible payment options, and promotional campaigns that feature favorable terms.

RETAIL BANKING

Retail Loan Application over ADC

Halkbank helps customers make swift applications for the loans they need over alternative distribution channels – such as SMS, Internet Branch, Dialogue and the website – and thus receive rapid responses. In addition, work is ongoing to ensure that customers who use the fast loan application channels can obtain their loans via alternative distribution channels outside the physical branches.

Corporate Salary Payment

Halkbank continued to grow the salary payment intermediation business and gained new clients with high potential in 2016.

As of year-end 2015, 1.2 million individuals received their salary payments via Halkbank.

Innovative Insurance Products

Insurance products that are developed in line with the banking industry's corporate structure, financial support, vast product range, customer trust and multiple distribution channel strategies, are offered to customers via the Bank and its subsidiaries Halk Sigorta A.Ş. and Halk Hayat ve Emeklilik A.Ş.

During the year, the Bank revised insurance products-such as Long Term Life Insurance, Education Insurance, Critical Illness Insurance, Halk Urgent Support, SME Urgent Support and Tradesmen Urgent Support-in response to customer needs.

Halkbank rolled out the Campus Retirement Plan to acquire new customers among the youth who are soon to become professionals and to encourage them to save more. Meanwhile, Pensioner Protection Insurance aims to boost the product ownership rate, customer loyalty and profitability among the Bank's pension customers.

In order for tradesmen and merchants to continue with their Treasury-sponsored loans they obtain from the Bank, the following products continued to be offered: "Loan Life Insurance to Tradesmen," which covers death and disability risks and "Extended Tradesmen Casco Insurance", "Medical Fiscal Responsibility Insurance" and "Complementary Health Insurance."

As part of efforts to integrate the systems of Halkbank and Halk Hayat ve Emeklilik A.Ş., the Bank started to execute policy insurance, extension and collection transactions for Loan Life Insurance and Optional Life Insurance products through a single channel.

Paraf Era in Credit Cards

In December 2012, Halkbank launched its new in-house credit card brand Paraf to boost the Bank's credit card business.

Beginning to carve out a distinct niche in the market with the "Paraf: Home of Benefits" concept, Paraf aimed to offer customers innovative and competitive products worthy of its tagline while capturing more market share in 2016.

Paraf is the first credit card brand in Turkey to allow cardholders to pick a specific day of the month as their own personal promotional campaign day. On the selected day, customers can take advantage of one or more of the options on offer, such as additional discount, installment, rewards points or deferred payment. Under the Increasing ParafPara scheme, customers win 50% more bonus points from their monthly expenses.

Halkbank added to Paraf's long list of "firsts" and partnered with İSPARK, a subsidiary company of the Istanbul Metropolitan Municipality, to offer a free car parking benefit. Paraf cardholders can now also use İSPARK's parking lots, multistory parking garages free of charge during the month.

After introducing Paraf, Halkbank launched Parafly, a credit card brand designed specifically for travel charges, with the slogan "Fly All You Can" in June 2013.

The ParafPara (ParafCash) balances of Parafly cardholders can be used for a multiple of the face value, where the amount of the multiple applied depends on the type of service, for those charges made through the dedicated Travel Line, which was set up for the exclusive use of cardholders.



Introducing a significant number of trailblazing practices in the credit cards sector, Parafly offers many unique benefits to cardholders. The Lounge Everywhere product, introduced to the sector by Halkbank, gives Parafly customers a TRY 25 discount on their dining expenses at both domestic and overseas airports on days they have a flight five times a month. Furthermore, clients enjoy a 50% discount on the valet parking service at Sabiha Gökçen Airport.

Bank customers can make automatic payments to their HGS (Fast Pass System) stickers with an auto-pay order on their Halkbank credit cards.

ParafÜstü allows Paraf and Parafly cardholders to earn up to TRY 25 in discounts with their purchases at contracted merchants.

Additionally, Parafly Platinum cardholders can receive discounts of up to TRY 100 when they purchase domestic or overseas flight tickets for infants by using their ParafPara or Avans ParafPara points via the Seyahat Hattı (Travel Line).

REVIEW OF OPERATIONS IN 2016

Having entered the market with the slogan “Privileges Await You at Paraf,” Paraf aimed to boost its market share while introducing innovative and competitive products to its customers in 2016.

RETAIL BANKING

Under the sponsorship agreement signed in second quarter 2016, the www.paraflytravel.com web site functions as a travel portal where Paraf card holders can use their ParafPara points.

The Turkish payment scheme TROY was included in the Paraf credit card range as of third quarter 2016.

As of fourth quarter 2016, Halkbank’s new brand ambassador Şahan Gökbağar is breathing new life into the Paraf brand.

Second in Bank Card Market Share

During the year, Halkbank rose to second place in terms of bank card market share (units).

In fourth quarter 2016, the Bank rolled out two anonymous bank card products for its clients. Halkbank joined forces with Turkish Red Crescent to launch the Red Crescent Card, whereby international aid organizations can make payments to Syrian beneficiaries under the Emergency Social Safety Net (ESSN) umbrella.

Furthermore, the Bank designed a new bank card which is instantly issued to customers; these cards are sent to branches without any name on them and are then personalized at the branch location.

ParafPOS

Following the launch of Paraf Card in the market in 2012, the Bank has worked to boost the number of its POS devices, ensure that its bank cardholders can easily access special offers at more contact points, and increase its market share in terms of turnover. To this end, Halkbank offers a diversified range of options that includes the Cash Register POS, Fixed POS, Mobile POS, Virtual POS and Dial-Up POS products.

In order to have a presence in the Cash Register POS market and to prevent contracted merchants from encountering problems, the Bank pioneers the sales of Committed Cash Register POS devices through various promotional campaigns. The Bank has reached the fifth place position with a 9% market share

in the payment registry devices category. Halkbank’s market share in terms of POS turnover is 4.7%; in terms of POS devices, the Bank’s market share is 6.8%.

91% of Banking Transactions Pass through ADCs

Halkbank used non-branch delivery channels intensively in 2016 in order to increase customer satisfaction, reduce the operational workload at the branch level, deepen customer relationships and acquire new clients. During the reporting year, 91% of Halkbank’s banking transactions were performed through alternative distribution channels (ADC). Halkbank continually undertakes efforts to improve and expand its alternative distribution channels, which save time and reduce costs both for customers and for the Bank. In 2016, Halkbank plans to further increase the percentage of transactions performed through ADCs while launching new services to improve Halkbank’s service quality, accelerate new customer acquisition, and increase the loyalty of existing customers.

Halk ister, Halkbank yapar.



EMBRACING A CUSTOMER-FOCUSED RETAIL BANKING APPROACH, HALKBANK AIMS TO DELIVER THE SOLUTIONS BEST SUITED TO MEET CUSTOMERS' EVER-CHANGING NEEDS.

REVIEW OF OPERATIONS IN 2016

The number of incoming calls to the Halkbank Call Center went up 23% while the number of transactions rose 16% over the prior year. By using in-house and external resources, the Bank performed a total of outgoing calls to 14.7 million customers.

RETAIL BANKING

Intensive ADC Sales and Marketing Efforts

Halkbank also made extensive use of ADCs in the Bank's sales and client activation initiatives. During the reporting year, the Bank's activities in these areas included welcome calls for new salary direct-deposit customers; activations for inactive ADC clients; in addition to activations of credit card recovery, returned card, credit card and overdraft account limit monitoring; contact information updating; pre-approved loan/card product offers, product activation, limit extension and automatic bill payment instruction offers; deposit-related information; channel activities; and insurance sales. During the year, Halkbank engaged in intensive efforts to market services such as Cash Advance with Installments, Post-Facto Installments, Installments, and Overdraft Accounts (KMH). Furthermore, the Bank carried out proactive work such as updating the contact data of customers whose cards have expired.

Halkbank used the ATM channel frequently in product marketing and activation, New Limits and Limit Increases in Overdraft Accounts related work. As part of channel membership and activation efforts, the Bank extended offers via ATMs rather than through outgoing calls. At the ATMs, the Bank offers those customers whose credit cards are not connected to their account the option to link their accounts, thus preventing them from encountering problems while withdrawing cash.

The Bank continued monitoring activities for credit cards, overdraft deposit accounts and retail loans. The Bank has recorded a positive trend in close monitoring and non-performing loan ratios. In addition, work is underway on the "Collection Management System," which will help the Bank manage all its collection processes end-to-end.

During the year, Halkbank placed outgoing calls to customers to update their e-mail address information. It also collected e-bank statement orders from credit cardholders to reduce bank statement postal delivery costs. Halkbank undertook intensive book building efforts for product sales via SMS and e-mail channels, thereby slashing telephone call expenses.

17% Increase in Call Center Utilization

In 2016, the Call Center's inbound call volume rose 23% over the year, and its workforce increased 16%. Using both in-house and external resources, nearly 14.7 million outbound calls were made to inform customers about the Bank's product and service offering; to market and sell products and services; and to collect payments.

Work is ongoing to extend personalized offers to customers who call Halkbank, based on estimations of their reasons for calling and various scenarios. This initiative has helped customers access the information they need in the easiest manner. For the reacquisition of customers who want to cancel their cards, the Bank integrated the system with the campaign module which makes new offers to these customers. As a result, the Bank can now formulate offers customized according to the customer and their reason for cancellation, thus boosting customer reacquisition.

The Bank completed integration of the Call Center social media structure. Work continues to conduct marketing activities over social media and integrating customer data to the Bank's database to provide input for customer analyses. In 2016, the Social Media Team registered 118 thousand posts. Around 6 thousand of which were deemed to be customer complaints and were responded to in an average of 11 minutes.

In 2016, the Happy Customer Center received over 600 thousand customer issues, complaints, and demands, which were resolved in an average of 29 hours. Of these demands, 19% were received via mail, 52% via Dialog, 17% via the branches, 2% via the Head Office, 3% via fax and 7% via online channels.

Number of Digital Banking

Customers Climbs to 1.2 Million

Halkbank continued to focus on Internet Banking operations in 2016. As of year-end, the Bank's active customer base grew to 784 thousand. The Mobile Banking channel, revamped in 2016, recorded a huge expansion in its active customer base, which reached 630 thousand. The number of Digital Banking customers totaled 1.2 million as of year-end 2016.

In 2016, the Bank rolled out the Mobile Banking app for devices running on the Android and iOS operating systems. Upon completion of this project, Mobile Banking now serves tablets with a customized design and interface.

During the year, the Bank made upgrades for sending SMS messages connected to a specific service or event; accordingly, location-based SMS messages were sent.

www.paraflytravel.com

The Bank's travel credit card, Parafly, initiated a project to allow cardholders to use their ParafPara points with ease, and thus established the travel portal www.paraflytravel.com.

ATM

With the addition of 156 new ATMs, the Bank's ATM network grew 4.4% with the total number of ATMs reaching 3,741 in 2016.

In 2016, the annual transaction volume performed on the Bank's ATMs increased 1.7%, to 305 million transactions; in addition, the network's total annual transaction turnover was up 16.4%, to TRY 78 billion. With the newly installed and replaced automated teller machines, the number of Cash-Deposit ATMs rose to 2,896, up by 7.3%. Halkbank's Internet Branch was upgraded in the first half of 2016. The Internet Branch now boasts a user-friendly interface and delivers services perfectly compatible with mobile devices. Some 77% of all Halkbank ATMs have the cash deposit feature with all the new Off-Site ATMs coming equipped with this feature.

In order to enhance urban landscape aesthetics while expanding the ATM network, Halkbank upgraded 43 taxi stands with ATMs while working in conjunction with local municipalities. Thanks to the Bank's efforts to expand its footprint within shopping mall centers, Halkbank now operates ATMs in 243 malls in total.

The Bank's Mobile Collection and Payment Desks in the form of buses and minibuses also continue their activities. Additionally, the Bank expanded its handicapped-friendly ATM network to 345. The Bank established ATMs in seven breast-feeding cabins. The Bank closely monitors new breast-feeding cabin projects so that it can meet the ATM needs of its customers while also providing support to various social responsibility initiatives.

REVIEW OF OPERATIONS IN 2016

Halkbank amends its credit policies in line with the latest legislation. In 2016, these were once again updated in response to legal and regulatory requirements, the Bank's objectives, strategies, risk appetite and the economic environment.

LOAN POLICIES AND RISK MONITORING

Halkbank amends its credit policies in line with the latest legislation. In 2016, these were once again updated in response to legal and regulatory requirements, the Bank's objectives, strategies, risk appetite and the economic environment. In order to streamline and simplify the Bank's loan allocation processes, and be better able to contribute to growth and profitability targets, Halkbank undertook efforts to update implementation directives and instructions.

In keeping with Halkbank's goals and the needs that arise while aiming to compete more efficiently and contribute to the Bank's growth and profitability targets, the Bank launched an exceptional practice whereby a loan allocation is approved if unfulfilled loan allocation and extension conditions (documentation, letter of undertaking, KÇS and collaterals) are completed within a specified period of time.

Halkbank modified and improved the Bank's product-based collateralization and in the relevant allocation and collateral screens, and in flow processes structure. As a result, Halkbank now conducts an objective assessment of the creditworthiness of customers and strikes a more effective and competitive balance between risk and collateral and efforts were made to harmonize these processes with the overall policies.

In the assessment reports for customers applying for investments above a certain limit, the Bank has included various criteria related to corporate social responsibility in addition to criteria regarding environmental impact assessment of the investment.

In order to enhance the efficiency of lending assessment procedures for customers who demand working capital and/or investments loans above a certain limit, Intelligence and Financial Analysis teams analyzed financial and non-financial data including visits to the firm investment site to prepare their loan and project assessment reports.

In order to assess firms in the SME segment; for the evaluation of loan applications above a certain limit, the rating model (KOBİ KDR), which was implemented in pilot branches in 2015, was expanded to include the marketing officers who completed training programs on the topic.



In order to boost the efficiency of loan demand assessments of firms that issue financial statements in line with TFRS (Turkish Financial Reporting Standards), the Bank added a TFRS-compliant accounting plan to the assessment model, made the necessary systematic amendments, and put the system into practice.

The Bank completed the development of the rating module designed for use in the loan assessment processes of its subsidiary Halkbank A.D.

Halkbank closely monitored macroeconomic, financial and legislative developments in the country, and issued reports on the possible effects of such developments on the real economy and the banking sector. In addition, the Bank completed various reports and studies to boost the financial know-how and competence of its employees.

Aiming to preserve Halkbank's asset quality, ensure the repayment of its loans, and uphold loan quality, the IT-based Loan Risk Monitoring System continued to be employed during the year. The system is used to classify loans based on rules identified pursuant to legal regulations; initiate the early warning mechanism according to the risk measurement and perception criteria designated by the Bank; and review and assess the loans on a periodic basis.

Under applicable legislation and the Bank's policies and practices, Halkbank restructured the maturity of its loan risks at firms that experience a temporary liquidity problem although their credibility is otherwise maintained, considering that these firms can repay their loans without difficulty if a new payment plan is put in place.

AIMING TO ENHANCE AND SIMPLIFY THE LENDING PROCESSES AT HALKBANK WHILE CONTRIBUTING TO GROWTH AND PROFITABILITY TARGETS, THE BANK CONTINUED WORK TO UPDATE THE DIRECTIVES AND PRACTICE GUIDELINES IN 2016.

REVIEW OF OPERATIONS IN 2016

The economic incentives unveiled in the recent period suggest that growth will be higher in 2017 than in 2016. The incentives disclosed by the decisions of the Economic Coordination Board are expected to rekindle economic activity.

TREASURY MANAGEMENT

Global Overview

The global economic recovery continues at a rather subdued pace. As a result, the world's central banks have largely maintained their pro-market stance. Most recently, the ECB extended its bond purchase program until December 2017, and announced that it will lower the monthly purchase amount from EUR 80 billion to EUR 60 billion as of April 2017. Furthermore, the ECB indicated that, if deemed necessary, the bond purchase program can once again be extended, and that interest rates will be kept at the current low levels for a long period. Meanwhile, a significant aggravation in uncertainties regarding the future of the European Union occurred during the year. On top of Brexit, the Italian constitutional referendum which brought about the resignation of the PM had an adverse impact on the markets. The elections that will take place in 2017 in France and Germany could well increase the volatility in global markets in the coming year.

Since the time that Donald Trump won the US presidential elections, global market fluctuations have risen. Upon taking office on January 20, 2017, Trump is expected to ramp up public spending. Such a rise in public expenditures is in turn anticipated to boost growth as well as inflation. As a result, expectations have increased that the Fed will hike its benchmark rate further to prevent a greater rise in inflation. However, current market prices suggest that Fed will raise rates only twice in 2017. The Fed's announcements confirm such a gradual increase in rates. The relatively low rise in US productivity, the strength of the US dollar and weakness of global growth create downside risks associated with the Fed's rate hikes. Meanwhile, the expansionary fiscal policies expected from the new US administration create upside risks. On the other hand, the Trump administration expresses its unease with the strength of the dollar at every occasion, and suggests that a strong dollar benefits nations

such as China, Japan and Germany, which heighten the uncertainties surrounding Trump's policies. As such, uncertainties concerning the Fed's monetary policy stance are expected to subside once the US administration clarifies its economic policies.

In 2016, emerging markets have been negatively affected by the rise in the value of the US dollar in general. However, the rise in commodity prices, especially oil, helped commodity-exporting developing economies to fare better than the rest. Furthermore, the results of the US elections and the various political developments that urged observers to question the longevity of the European Union increased volatility in emerging countries' markets. The elections to take place in 2017 in France and Germany, and the UK's official initiation in 2017 of its departure from the EU as per Article 50 of the Lisbon Treaty are expected to further stoke market volatility in developing nations.



When OPEC and non-OPEC oil producers reached an agreement to curb oil production, a rise in the oil prices resulted. However, the current level of oil prices is convenient for shale gas manufacturers in the US, which in turn limits the rise in the price of oil. Against this backdrop, the price of oil is forecast to hover around USD 50-60 per barrel.

Turkey's Economy

In third quarter 2016, the Turkish economy contracted by 1.8% due to a fall in both household spending and goods and services exports. The strong rise in government expenditures limited the economic contraction. Meanwhile, under the accounting method revisions effected to comply with EU regulations (ESA 2010), the first quarter economic growth rate was changed from 4.7% to 4.5%, and the second quarter rate went from 3.1% to 4.5%. Following these revisions, real growth in the first three

quarters of the year turned out to be 2.4%. After contracting in the third quarter, the Turkish economy is expected to recover gradually. The first indicators for the fourth quarter suggest that economic activity continues to expand though at a limited pace. The recently unveiled economic incentives show that growth is projected to be better in 2017 than in 2016. In particular, incentives proposed by the Economic Coordination Board resolutions are expected to rekindle economic activity in the coming period.

The current level of oil prices favors the improvement trend in the Turkish current account deficit. However, the current account gap has started to widen again due to the decline in tourism revenue in recent months. Nevertheless, tourism revenue may pick up owing to the recent normalization of Turkey's political ties with Russia.

IN 2016, HALKBANK CONTINUED TO EXPAND ITS TRADE VOLUME IN FOREIGN CURRENCY AND COMMODITIES MARKETS AND BOOST ITS PRODUCTIVITY THANKS TO ITS VAST BRANCH NETWORK ACROSS TURKEY, LARGE CUSTOMER PORTFOLIO, AND A CLIENT PROFILE CONSISTING MAINLY OF SMES AS WELL AS LARGE CORPORATE ENTERPRISES.

REVIEW OF OPERATIONS IN 2016

In line with its risk- and return-centered management approach, Halkbank closely monitored domestic and overseas macroeconomic events and formulated dynamic management strategies throughout the year.

TREASURY MANAGEMENT

The Producer Price Index (PPI) closed the year at 8.53% due to the rise in food prices stemming from adverse weather, tax hikes on alcohol and tobacco products, and the recent increase in oil prices. The CBRT, in its first inflation report of the year, revised its end-2017 inflation estimate up from 6.5% to 8%, given the expected increase in TRY prices of imported products and the effect of adverse weather conditions on food prices. On the other hand, CBRT also anticipates that the sluggish economic activity of 2017 will alleviate the upside risks on the Consumer Price Index (CPI). Meanwhile, at its first Monetary Policy Board meeting of 2017, CBRT lowered the overnight borrowing rate and Late Liquidity Window (GLP) in response to the volatility observed in TRY and TRY-denominated assets. CBRT has started to provide funding to the markets not with its weekly

repo tender, but rather via the BIST repo market and GLP, thereby strengthening its tight monetary stance. Furthermore, in addition to its TRY liquidity measures, CBRT has initiated a foreign currency depo market in return for its TRY depo, thus increasing the banks' foreign currency liquidity in the market. Against that backdrop, and owing to the low base effect, inflation will likely rise to double-digits in the coming months with CBRT maintaining its tight monetary stance for a while more. Given the tendency of public agencies to fully spend their allocated budget in the last month of the year, the budget had a deficit of TRY 27 billion in December. In total, the budget deficit for 2016 came in at below the Medium Term Program target of TRY 34.6 billion. We believe that fiscal discipline will be maintained in 2017, although the government aims to boost public spending to prime the national economy.

Dynamic Treasury Management Strategies

Under its risk/income oriented management approach, Halkbank determined specific treasury management strategies by closely monitoring domestic and international macroeconomic developments throughout 2016. Capable of adapting itself to the changing economic conditions with the support of a strong capital and financial structure, the Bank maintains its profitability and growth momentum as a consequence of the dynamic policies it pursues.

Having successfully maintained the title “Turkish GDS Market Maker” since 2003, Halkbank remains an active player in primary and secondary capital markets in also 2016. With a well-balanced securities portfolio strategy, the Bank continued to eliminate the impact of market risks on its balance sheet and improved profitability.

Aiming to raise alternative funding and extend the maturity of its outstanding funds, Halkbank continued to issue securities in 2016. On the domestic front, in addition to the public offering-type issuances, the Bank continued to issue securities targeting qualified investors without public offering. The demand for bank bonds and private sector bills is expected to continue as the Undersecretariat of Treasury’s borrowing needs subside. The Bank plans to issue borrowing instruments and diversify its issuance profile, in response to its balance sheet needs.

Efficient Liquidity Management

Halkbank performs balance sheet management in light of the Assets & Liabilities Committee’s strategy decisions, which take into consideration macroeconomic analyses, stress tests and risk management reports. As a result of these market analyses, the Bank effectively provided short term funding via money market transactions, efficiently utilized funds surpluses, while TRY and FX liquidity management was performed in the most efficient way possible by using various derivatives and other debt instruments.

Increasing Trade Volume and Profitability

In 2016, Halkbank continued to improve its operations in terms of both products and technology in parallel with customer needs. The Bank offers both fixed income and hedging products in the rapidly developing derivatives markets in Turkey. Expanding its offering of products that will meet the need of import/export companies to protect against FX and interest rate risk in this period, Halkbank continued to provide support to clients especially in hedging transactions related to project finance.

During the year, the Bank increased its transaction volume and profitability especially in the FX and commodity markets by means of a widespread branch network throughout Turkey, an extensive customer portfolio composed primarily of SMEs and a significant corporate client base. With the marketing strategies specially formulated for its customer base, the Bank has bolstered its position among the most effective players in the foreign currency and commodity markets.

REVIEW OF OPERATIONS IN 2016

In 2016, Halkbank continued to offer customers import and export services on a global scale, working tirelessly as a major supporter of Turkish exporters.

INTERNATIONAL BANKING

Vast Correspondent Bank Network

With its vast correspondent bank network, Halkbank provides top-quality and high value added products and services to its clients. In line with evolving customer needs in 2016, the Bank continued to develop new products, innovate its operations, participate in different markets, and provide financing under the most favorable terms possible. The Bank continued to offer customers import and export services on a global scale, working tirelessly as a major supporter of Turkish exporters.

During the year, Halkbank effectively managed its extensive correspondent bank network comprised of some 1,800 banks in 134 countries. The Bank also enriched its range of basic foreign trade products with syndication loans, structured financing products and new financing alternatives secured from international markets. As a result, Halkbank remained one of Turkey's most important and efficient banks in meeting customers' demand for funding. Factors underlying the Bank's success are customer trust towards Halkbank, its strong relationship management capabilities, extensive know-how, sustainable trade volumes directed to correspondent banks, ever-increasing service quality in overseas operations and customer satisfaction arising from its diversified product portfolio.

As part of its correspondent bank relations efforts, Halkbank continuously monitored country risks and financial indicators, and performed all trading in meticulous fashion. The Bank reviewed limits on a regular basis and managed correspondent bank risks effectively. Halkbank kept a watchful eye on geopolitical developments and the global economic environment, while avoiding all negative country or bank related risks.

In the coming year, Halkbank plans to deliver the best solutions that meet customer financing needs and expectations. The Bank also aims to establish new, long-term collaborations in order to develop products that make a difference in the market.



By means of bilateral foreign trade financing agreements and insurance and guarantees from Export Credit Agencies, Halkbank offered long- and medium-term funds to its customers, in collaboration with numerous correspondent banks.

Halkbank boasts one of the largest credit lines within the GSM-102 Program of the US Department of Agriculture and continued to make this facility available to customers that import agricultural products from the United States.

Halkbank became a sponsor to the Bond, Loans & Sukuk conferences held on April 19-20, 2016 in Dubai and on November 16-17, 2016 in Istanbul. At these events, the Bank informed participating bond and other investors about its operations and services. At SIBOS (SWIFT International Banking Operations Seminar) held in Singapore by SWIFT on September 26-29, 2016 in the Swiss city of Geneva, Halkbank opened a booth for the fourth year in a row and attracted immense attention. During the event, Bank officials provided information to the representatives of numerous banks and seized various opportunities for mutual collaboration.

Efficient Communication with Stakeholders and Investors

In 2016, Halkbank continued to keep all business partners, existing and potential investors in both equities and fixed income securities informed and up-to-date, in order to increase the Bank's value in the eyes of investors over the long run. The Bank made its disclosures in an efficient, consistent and reliable manner.

Halkbank met with investors, analysts and asset managers in individual and group meetings. The Bank also attended a large number of conferences and meetings in Turkey as well as overseas, especially in financial centers where international institutional investors are based.

REVIEW OF OPERATIONS IN 2016

As a result of efficient, ongoing communications with international institutional investors, Halkbank maintained its leading position among all publicly-listed banks in terms of its share of the overseas corporate investors market.

INTERNATIONAL BANKING

During investor meetings, Halkbank discussed its financial and corporate governance structure, market position within the domestic banking industry and internationally, corporate strategies, and expectations for the upcoming period.

Halkbank prepared quarterly presentations related to its capital structure based on the Bank's financial results disclosed to the public, published these on the corporate website and simultaneously presented them to domestic and overseas investors via teleconferences. The Bank addressed questions related to the financial results in detail as promptly as possible. In addition, Halkbank maintained open communications channels with investors throughout the year; evaluated all questions, comments and requests conveyed to the Bank; and regularly made disclosures regarding material issues and significant developments in areas that could affect investment decisions.

Thanks to strong relationships with the foreign institutional investment community, Halkbank maintained its top position among publicly traded banks in terms of the Bank's share of international institutional investors.

Borrowings from International Markets and Financial Institutions

In order to further diversify its product portfolio for long term foreign financing purposes, Halkbank placed its fifth Eurobond issue, denominated in US dollars. The issuance was well oversubscribed. At the end of the process, USD 500 million worth of 5-year, fixed-interest bonds were issued. This issuance brought up the total bills issued on the international markets to USD 3 billion.

Halkbank continues to secure long-term funding facilities from the international markets to provide alternative financing to its clients. To this end, the Bank signed a

new syndicated loan agreement of EUR 476.5 million and USD 175 million with the participation of 33 banks from 18 countries. Banks from Europe, America as well as the Middle East participated in the syndication loan.

In keeping with its historical mission, Halkbank establishes business partnerships in the international arena to provide more support in SME Banking. Halkbank continued to secure long-term funding facilities under bilateral agreements with numerous international investment and development banks– European Investment Bank, World Bank, French Development Agency, Council of Europe Development Bank, among others – to finance the investment and working capital needs of SMEs. The long-term nature of the overseas-sourced loans not only provided medium and long term financing facilities for SMEs but also had a positive impact on the maturity composition of the Bank's balance sheet.

In line with its historical mission, Halkbank establishes business partnerships in the international arena to provide more support in SME Banking.

Halkbank signed a French Development Agency-Organized Industrial Zone and Environment Loan agreement worth EUR 100 million with the French Development Agency to finance Organized Industrial Zones and companies active in these zones.

Furthermore, the Bank signed the EUR 100 million EIB SME and Large-Scale Company Finance Loan IV with European Investment Bank, under a new EUR 300 million loan program for financing of SMEs and large-scale companies.

Following the agreement, which is the 26th such agreement signed with international investment and development banks, the Bank brought the total funds secured in this manner up to EUR 2.9 billion.

Overseas Branches

Halkbank's current overseas organization consists of four branches in the Turkish Republic of Northern Cyprus (TRNC), one branch in Bahrain, and liaison offices in London, Singapore and Iran.

Halkbank operates branches in the Turkish Republic of Northern Cyprus (TRNC) and in Bahrain. The Bank conducts operations in TRNC via a four-branch network located in Lefkoşa (Nicosia), Gazimağusa (Famagusta), Girne (Kyrenia) and a satellite office in Paşaköy (Asia). The Bank's Northern Cyprus branches provide all banking services that are offered at Halkbank branches in Turkey. Halkbank plans to increase its market share in TRNC by expanding the existing branch network and developing a product portfolio suitable for that market.

Halkbank's Bahrain Branch, which commenced operations in 1994, is located in Bahrain, the financial center of the Gulf Region. Through the Bahrain Branch, the Bank aims to make Gulf Region funds available, both to Halkbank clients and to Turkey in general, as financing facilities; enter into strategic

partnerships with the major banks in the region; fund foreign trade transactions that take place as a result of the increasing business volume between the Gulf Region and Turkey; and finance the projects planned for the region.

The London Representative Office, founded in 2014, works to establish more effective and sustainable business relations in the global finance markets; boost existing relations with current investors; and support access to business opportunities with new investors.

In order to improve cooperation with both international institutional investors and correspondent banks in the Asia-Pacific region, in 2016, a Representative Office was inaugurated in Singapore.

REVIEW OF OPERATIONS IN 2016

During the year, 722 individuals joined the Halkbank family, bringing the total to 16,956 employees. As of end-2016, the staff's average tenure was 10.14 years and average age was 34.33.

HUMAN RESOURCES AND ORGANIZATION

Halkbank provides employees with continuous training, expansive career opportunities and modern work spaces while taking heed of employee satisfaction.

Number of Employees 16,956

Some 722 new employees joined the Halkbank family in 2016, bringing the Bank's total workforce up to 16,956 personnel. As of year-end, the average job tenure of Halkbank employees stood at 10.14 years and the average age of the staff was 34.33 years. Of the Bank's personnel, 83.4% have university undergraduate or post-graduate degrees while the remaining 16.6% are high school graduates.

Career and Self-Improvement Days

Halkbank continued to engage in active dialogue with university students in 2014 with the dual objective of promoting the Bank to potential candidates for recruiting purposes and undertaking corporate social responsibility activities. As part of these efforts, the Bank participated in the Career and Self-Improvement Days held at select universities during 2016.

Halk Academy

In September 2009, Halkbank began administering all training activities under the umbrella of Halk Academy.

In 2016, Halk Academy conducted 2,655 days of in-class training, consisting of 2,053 training sessions for the Bank's employees. Of these, 50.6% were in-house training while the remaining 49.4% were administered by external training firms/instructors. In keeping with the Bank's strategy, the in-class and on-the-job training programs focused on portfolio management and profitability in order to enhance the staff's technical know-how and skills. On average, each employee participated in 3.27 days of training during the year.

In order to support in-class training in 2016, Halk Academy made an extensive e-learning catalogue available to employees; the catalogue consists of 1,400 e-learning programs, training videos, articles, book summaries and podcasts on the topics of technical banking, bank applications, personal and professional development, IT trainings.

In 2016, each Bank employee received an average of 5.47 days of e-learning. Employees can access these e-learning programs not only over the web, but also via their mobile phones and tablets. During the year, in-house trainers produced 29 educational videos and put these to the service of the staff.



The average number of training activities was 8.74 people / day.

In addition to e-learning activities, the Bank also organizes preparatory tests on legally required topics such as Private Pension System (BES), Capital Markets Board (SPK) and Insurance Training Center (SEGEM), thanks to its vast question bank.

Halkbank's Vast Branch Network

In 2016, Halkbank continued to operate top quality banking services through the Head Office departments and a vast branch network of domestic and overseas branches.

Halkbank's branch network includes 959 branches in Turkey (884 branches, 6 corporate, 36 commercial, 3 free-zone, 30 satellite branches), 25 regional offices, 5 overseas branches and 3 overseas representative offices.

HALK ACADEMY ORGANIZED 2,053 SESSIONS AND 2,655 DAYS OF IN-CLASS TRAINING FOR EMPLOYEES IN 2016. OF THIS TOTAL, 50.6% CONSISTED OF IN-HOUSE TRAINING AND THE REMAINING 49.4% WAS TRAINING BY EXTERNAL COMPANIES AND SPECIALISTS.

REVIEW OF OPERATIONS IN 2016

2016 was a period when the Bank implemented new solutions, methods and hardware, upgraded certain procedures and expanded the central operation transaction volume.

OPERATIONAL TRANSACTIONS

Halkbank's operational transactions are conducted with the continuous improvement approach and in line with the principles of operational productivity and quality enhancement. Work is ongoing to improve, simplify and centralize operations that create an added work burden. 2016 was a period when the Bank implemented new solutions, methods and hardware, upgraded certain procedures and expanded the central operation transaction volume.

17% Increase in Transaction Volume

The Operation Center, designed to provide top quality, standardized and swift services at low operational risk to the branch network, performs 55 different types of transactions in 32 business lines, including foreign trade and foreign currency exchange for the branches. The number of transactions realized at the Operation Center rose by 17% over the prior year to 16.5 million.

As part of efforts to centralize foreign trade transactions, the Bank put an end to the practice of branches with foreign exchange authorization. Instead, the Bank started to deliver the foreign trade demands of all branches via four Foreign Exchange Operation Center, in a centralized fashion.

In 2016, loan collateral entries were all performed in a centralized manner via an effective control structure, and loan allocation data started being entered in parametric tax slots-important strides toward conducting the allocation of loans centrally.

Output Management

The Operation Center integrated its processes with the Output Management solution, which operates in line with the Bank's Document and Work Flow Management system to issue notifications, contracts and similar outputs in an automated and personalized manner.

The Veznematik (TCR) hardware renders the branch main vault operation more effective by eliminating the intermediary vault function and automating the end-day vault reconciliation process. The Bank established the hardware in 220 branches and it started to function in integration with the core banking system.

The Bank upgraded the program infrastructure to control and filter the individuals and firms in the SWIFT messages according to international black lists.

Business scenarios were created to identify possible fraud attempts in the branch and distribution channels and take the necessary measures. An efficient monitoring infrastructure was set up with the creation of a real-time warning and alarm mechanism. To prevent ATM fraud, security hardware such as devices to prevent card copying and shutters to prevent cash jamming started being installed at Halkbank ATMs.

BTOM Integration

Halkbank has established integration with Interbank Check Clearing House (BTOM), which shares the images of the cheques in clearance with its member banks, so that the images of cleared cheques can be archived in the system. As these images are no longer shared by email among banks and branches, operational productivity received a boost.

Following the agreement signed on June, 2015 between the Ministry of Finance and the US management pertaining to the US Foreign Account Tax Compliance Act (FATCA), the Bank made upgrades to its banking system to ensure compliance with the agreement.

THE OPERATION CENTER, DESIGNED TO PROVIDE TOP QUALITY, STANDARDIZED AND SWIFT SERVICES AT LOW OPERATIONAL RISK TO THE BRANCH NETWORK, PERFORMS 55 DIFFERENT TYPES OF TRANSACTIONS IN 32 BUSINESS LINES INCLUDING FOREIGN TRADE AND FOREIGN CURRENCY EXCHANGE FOR THE BRANCHES.

REVIEW OF OPERATIONS IN 2016

The Bank enhanced the current ATM transaction flows to provide more ease of use and better performance, added new functionality and redesigned all screens from scratch to ensure a better user experience.

INFORMATION SYSTEMS AND TECHNICAL SERVICES

Following version upgrades in the systems that run the core banking applications on the main systems platform, the Bank started employing the latest version supported by the manufacturer firm, using system resources more efficiently, delivering better quality services by using new functions that come with the new version, and adapting the latest technological advances into its systems.

Retail Customer Revenue Estimation Models allowed the Bank to automatically conclude loan applications round-the-clock; determine loan limits and optimize these limits; work in a more active and swift manner with new clients; increase the automation of processes such as legal compliance, loan application, revenue confirmation, allocation, marketing, monitoring and collection; lower operational costs; and reduce operational risks.

Improvements in ATM Work Flows

The Bank made improvements to current ATM transaction flows to enhance ease of use and performance, added new functionality, redesigned all screens from scratch to enhance user experience. These efforts reduced network traffic and shortened transaction times. The project, now in pilot stage, will be extended across all ATMs in 2017.

In order to help Halkbank A.D. Beograd stand out in the Serbian card market, work is ongoing to transform its card payment systems.

Halkbank set up a system to scan cheques, enter the scans into the system and establish a clearance image infrastructure. Upgrades were made so that now, in addition to daily cheque clearance data, cheque image files can also be sent to the Interbank Check Clearing House (BTOM) and the Bank clearing cheque images sent to BTOM can be integrated into the Bank's system.

Cutting Edge Technologies at Izmir Disaster Recovery Center

The central processor and storage hardware employed at the Bank's Izmir Disaster Recovery Center (ODM) were upgraded using state-of-the-art technology. Additionally, the Main Systems Platform's core banking environment data as well as the data warehouse and WAS on zLinux environment data were copied to the Izmir ODM. As a result, delivery of uninterrupted data warehouse service over the main systems platform in case of disaster is now possible.

The Bank transferred all users to the Exchange 2013 mail system. With this transfer, the Offline Archive Mail Box was put to the service of users, mailbox quota increased, and Exchange's DAG feature was employed to ensure service continuity. Furthermore, by means of the Exchange Journaling Function, back-up and check of all incoming and outgoing mail is now possible, providing more value to employees.

Halkbank's total deposits rose 23% as of year-end 2016 to TRY 150.3 billion. Demand deposits, which amounted to TRY 28.9 billion, account for 19.3% of total deposits.

DEPOSIT MANAGEMENT

Halkbank has adopted a dynamic deposit management strategy based on optimization of cost, market share, liquidity and non-deposit resource facilities. The Bank aims to offer services to the mass market with deposit products developed in line with this strategy.

The Bank's deposit management strategy, which is critically important to maintain Halkbank's solid funding structure, is based on the key principles of cost, market share and liquidity. As the Bank expects deposits to remain a very important source of funding in the coming year, Halkbank plans to continue maintaining a customer-oriented, stable, and broad-based deposit structure.

Solid Deposit Base

Effective deposit management serves to broaden the funding base and ensure continuity while also allowing Halkbank to roll out innovative products to diversify client transactions. To this end, the Bank continued to provide the Demand Gold Deposit, Accumulating Deposits, Fixed-Rate Productive Deposit Account, Flexible Term Deposit, and Mutual Fund, Convertible Safe Deposit and Convertible Term Deposit products in 2015. Halkbank's primary goals in this segment include growing faster than the industry average

in savings deposits and achieving growth in deposit products in a highly competitive market. Additionally, lengthening the average maturity of deposits continued to be a significant issue for the Bank as the deposit reserve requirements differentiate according to maturities. However, Halkbank sustained its strong and widespread deposit volume as well as the maturity composition of its deposits. In 2016, the Bank started to offer the Dowry Account and Home Deposit Account for clients.

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Total Deposits Climbed to TRY 150.3 Billion

Halkbank's total deposits increased 23% and reached TRY 150.3 billion as of end-2016.

Total demand deposits amounted to TRY 28.9 billion while the share of demand deposits in total deposits stood at 19.3%.

Technology-aided CRM Applications

Placing immense emphasis on the use of technology, Halkbank launched various projects featuring technology-aided customer relationship management applications and completed ongoing infrastructure initiatives in 2016.

The number of companies whose corporate collections are made by the Bank increased from 523 at end-2015 to 564 at end-2016. The volume of these corporate collections went up from TRY 21 billion in 2015 to TRY 23.3 billion in 2016.

DDS in Cash Management

The Direct Debit System for cash management, set up in 2015, saw the number of primary companies rise from 390 to 439 year-on-year, with dealers totaling 6,818. DDS firm turnover increased from TRY 4.3 billion at end-2015 to TRY 4.5 billion at end-2016. DDS commission revenues, meanwhile, went up 28% over 2015.

1.8 Million Pension Clients

Under the agreement with the Social Security Institution of Turkey (SGK), the Bank intermediated in the salary payments of 1.8 million pensioners.

REVIEW OF OPERATIONS IN 2016

In 2016, Halkbank installed new alarm and camera systems in 25 branches and 222 ATMs, and performed system upgrades in 26 branches due to renovation. 13 branches were moved to new locations and their alarm and camera systems were installed anew.

SUPPORT SERVICES

Halkbank monitors and follows up the security systems of all locations round-the-clock through the main network system and a GPRS network, complete with back-up.

In 2016, Halkbank installed new alarm and camera systems in 25 branches and 222 ATMs, and performed system upgrades in 26 branches due to renovation. 13 branches were moved to new locations and their alarm and camera systems were installed anew.

Halkbank continues its customer-oriented universal banking service approach by providing support to social responsibility and assistance projects designed to add value to people and society.

CORPORATE COMMUNICATION ACTIVITIES

At Halkbank, every contribution to the economy and society are integral parts of its sustainability approach. Halkbank continues to add value to society and life through its social responsibility projects that extend across numerous fields, including education, tourism, arts and environmental protection.

In the coming period, the Bank aims to further its social responsibility efforts that embody the principles and values of its long-standing history, by working in collaboration with both non-governmental organizations and public institutions.

In 2016, Halkbank's activities in this key area included:

Tradesmen and Craftsmen Informational Meetings

The Bank was a sponsor of the Tradesmen and Craftsmen Informational Meetings organized by the Ministry of Customs and Trade across Anatolia to identify the problems of these groups and formulate solution proposals.

Sector-Specific Analyses for Tradesmen and Craftsmen

The Bank sponsored the Sector-Specific Analyses for Tradesmen and Craftsmen project initiated by the Ministry of Customs and Trade.

Global Education Summit

The Bank was a sponsor of the first edition of the Global Education Summit, organized by the Education of the Future Association (GED). The summit aimed to identify and solve education-related issues and make plans for the future of education.

Museum of Hilya ash-Sharif and Rosary

The Bank contributed as a sponsor to Istanbul Arts and Civilization Foundation's Museum of Hilya ash-Sharif and Rosary. The museum has on display a rich collection consisting of some of the most important calligraphic works and rosaries from Turkey and across the world.

Ankara International Film Festival

As in previous years, Halkbank continued to support cultural and social activities in 2016. The Bank became a sponsor of the 27th edition of the Ankara International Film Festival, for the seventh time. Film lovers showed much interest in the festival held April 28 – May 8, 2016.

Common Sense Meetings/Target Market Meetings

The Bank supported the Common Sense Meetings organized in 10 different sectors and Target Market Meetings organized in 10 different provinces in collaboration with the Turkish Exporters' Assembly as a solution partner.

Gazi University Business Idea Competition

Halkbank sponsored the Business Idea Competitions organized by Gazi University and Gazi Technopark.

REVIEW OF OPERATIONS IN 2016

Halkbank continues to add value to society and life through its social responsibility projects that extend across numerous fields such as education, tourism, arts and environmental protection.

CORPORATE COMMUNICATION ACTIVITIES

Ahi Week Celebrations

As in previous years, Halkbank sponsored the 29th Ahi Week Celebrations organized by the General Directorate of Tradesmen and Craftsmen of the Ministry of Customs and Trade in Kırşehir, to uphold the “ahi” and “yaran” cultures, which are based on ethics, integrity, fraternity and philanthropy.

Kırşehir Book Fair

Halkbank sponsored the Kırşehir Book Fair organized by Kırşehir Municipality.

International Business Guide for SMEs

The Bank sponsored the International Business Guide for SMEs published by TIM Academy as a guidebook for export-oriented SMEs.

Solidarity Campaign for the Martyrs of July 15th

Aiming to uphold national unity and provide support to July 15th martyrs' families and veterans, Halkbank opened a philanthropic account for the Solidarity Campaign for the Martyrs of July 15th organized by the Ministry of Family and Social Policies. The Bank also made monetary donations to the campaign.

Bariş Manço Museum Events

Various activities were organized with the support of Halkbank for children from the Social Services and Child Protection Agency, as part of Love and Peace Week held at Bariş Manço's mansion which has been converted into a museum.

Festival of Turkish

Halkbank was among the sponsors of Yunus Emre Institute's Festival of Turkish.

Assembly of Tradesmen

The Bank sponsored the Assembly of Tradesmen organized by the Ministry of Customs and Trade.

Bonds, Loans & Sukuk Turkey 2016

Halkbank was a sponsor of Bonds, Loans & Sukuk Turkey 2016, organized by Global Financial Conferences as Turkey's only international capital markets congress.

6th International Balkans Conference

The Bank sponsored the 6th International Balkans Conference organized by İstanbul University Research and Assistance Foundation in Belgrade.

Erzurum Cycling Youth and Sports Club

The Bank became a sponsor of the twin autistic athletes Aliye Zeynep Bingül and Muhsin Murat Bingül, who are licensed skiers competing for the Erzurum Cycling Youth and Sports Club.

Support to Education Campaign

Under this project organized in collaboration with the Ministry of National Education, Halkbank delivered educational assistance to 5 thousand children in 25 provinces.

You Are Not Alone – Turkey's Largest Family Project

The Bank has delivered a total of 750 laptop computers to the children of martyred soldiers to help support their education with advanced technologies.

Painting Contest

A painting contest was held for the children of employees of the Bank and its subsidiaries. The 21 children who advanced in the competition were invited to a two-day workshop at the Baksı Museum while five young finalists were rewarded with laptop computers.

Photo Contest

Halkbank organized a photography contest to encourage the staff to take up cultural and artistic activities, and in support of efforts to this end. The seventh edition of the competition was held in 2016. To date, a total of 140 employees have garnered awards at the event.

Photo Workshop

Photo workshops at beginner and advanced level were conducted for Halkbank personnel interested in photography.

Turkish Folk Music Chorus

The Turkish Folk Music Chorus, composed of Halkbank employees, performed in concert. Chorus rehearsals continue for future concerts.

Turkish Classical Music Chorus

The Turkish Classical Music Chorus, comprised of Halkbank employees, continued its rehearsals and gave two concerts in 2016.

"Together at Halkbank"

The internal communication magazine "Together at Halkbank" is published every two months to strengthen the corporate culture and provide motivation to employees. The publication is also available in digital format over the web site www.kultursanat.halkbank.com.tr.

OTHER INFORMATION ON OPERATIONS

There were no major lawsuits filed against Halkbank that can impact the Bank's financial position or operations.

There have not been any administrative or legal sanctions imposed on the Bank for practices in breach of applicable legal or regulatory provisions.

There have not been any administrative or legal sanctions imposed on the members of the Bank's Board of Directors for practices in breach of applicable legal or regulatory provisions.

Total charitable contributions and donations made by Halkbank in 2016 amounted to TRY 7.3 million, while donations including the consolidated subsidiaries amounted to TRY 11.8 million.

HALKBANK'S SUBSIDIARIES AND AFFILIATES

Thanks to its synergetic partnership with its subsidiaries and affiliates, Halkbank rapidly and efficiently provides its clients the services they need.

Halkbank has an extensive portfolio of subsidiaries and affiliates comprised of 23 companies that provide its customers with advanced banking services, as well as products and services in other areas.

In accordance with Halkbank's policy, its subsidiaries and affiliates strive to:

- Create added-value, enrich the product and service portfolio that Halkbank offers to its retail and corporate clients, and create cross-selling and supplementary product marketing and sales opportunities.
- Establish good relations with other enterprises, while expanding and continuing existing relationships.
- Increase operational efficiency and reduce service production costs.
- Ensure the delivery of high-quality services needed by the Bank's clients.

Acting in accordance with this policy, Halkbank provides quick and effective services to its customers, with the synergistic cooperation among its subsidiaries and affiliates.

HALKBANK'S SUBSIDIARIES



HALKSİGORTA

Halk Sigorta A.Ş.

Capital: TRY 129,000,000
Halkbank's shareholding: 89.18%

The Company was founded in 1958 under the leadership of Halkbank as the first cooperative in Turkey to engage in a full array of insurance activities with the participation of the Artisans and Tradesmen Loan and Guarantee Cooperatives. The Company became a subsidiary in early 2006 when Halkbank acquired the shares held by Türkiye Halk Bankası Personnel Provident Fund.

At the Extraordinary General Assembly Meeting held on December 27, 2010, the Company's name was changed from Birlik Sigorta A.Ş. to Halk Sigorta A.Ş. At the Ordinary General Assembly Meeting held on April 6, 2016, a total of TRY 35 million in bonus shares was distributed to shareholders. The distribution of bonus shares was completed as of July 11, 2016; thereby, the company's capital was increased from TRY 94 million to TRY 129 million.



HALKEMEKLİLİK

Halk Hayat ve Emeklilik A.Ş.

Capital: TRY 277,000,000
Halkbank's shareholding: 100%

The company was established in 1998 under the business name of Birlik Hayat Sigorta A.Ş. to operate in life and personal accident insurance, coinsurance, reinsurance and retrocession businesses for individuals both in Turkey and abroad. The Company became a subsidiary in early 2006 when Halkbank acquired the shares held by Türkiye Halk Bankası Personnel Provident Fund.

Making preparations in 2009 to operate in the private pension sector, the Company acquired the operating license from the Undersecretariat of Treasury to operate in the pension branch in January 2012 and launched initiatives in this segment.

At the company's Ordinary General Assembly Meeting held on April 21, 2016, it was decided to make a TRY 94 million capital increase by bonus issue. The Company's capital was increased from TRY 183 million to 277 million. The Bank holds a 100% stake in the Company.



HALKYATIRIM

Halk Yatırım Menkul Değerler A.Ş.

Capital: TRY 82,000,000
Halkbank's shareholding: 99.96%

Halk Yatırım Menkul Değerler A.Ş., was set up in 1997 to carry out capital markets activities, to purchase and sell capital markets instruments, and to execute stock exchange transactions. The Company became a subsidiary in early 2006 when Halkbank bought the shares of Türkiye Halk Bankası Personnel Provident Fund.

In 2014, Halkbank acquired the stakes in this company held by Halk Sigorta A.Ş. and Halk Hayat ve Emeklilik A.Ş., bringing its total ownership share up to 99.96%. In 2015, the Company's paid-in capital was increased from TRY 64 million to TRY 82 million.

As a result of the application filed by the Company due to the obligation of renewing investment firm licenses based on the abrogated Capital Markets Law No. 2499 under Capital Markets Law no. 6362, the Company was classified and authorized as a brokerage firm with broad authority as per CMB's resolution dated October 15, 2015.

The agency contract between Halk Yatırım Menkul Değerler A.Ş. and Halkbank was cancelled to be replaced with the Order Transfer Intermediation Contract signed on November 11, 2015 and approved by CMB.

HALKBANK'S SUBSIDIARIES AND AFFILIATES

HALKBANK'S SUBSIDIARIES



Halk Banka A.D., Skopje

Capital: MKD 3,633,180,000
(Macedonian denars)

Halkbank's shareholding: 99.03%

Halkbank acquired the majority shares of Izvozna i Kreditna Banka A.D., Skopje, a Macedonian bank that began operating in 1993 to conduct a full range of banking activities, from Demir-Halk Bank (Nederland) N.V. in 2011. Subsequently, the Bank became a subsidiary of Halkbank; the name was changed to Halk Banka A.D., Skopje.

Halk Banka A.D., Skopje, acquired Ziraat Banka A.D., Skopje, another bank operating in Macedonia the controlling shares of which are owned by T.C. Ziraat Bankası A.Ş., with all of its assets, liabilities, branches and personnel as of October 1, 2012. As a result of this takeover, the Company's capital increased from MKD 1,884,150,000 to MKD 2,893,690,000 while Halkbank's equity stake went up from 98.12% to 98.78%. At Halk Banka A.D. Skopje's Ordinary General Assembly dated June 27, 2016 and Extraordinary General Assembly dated June 29, 2016, the profits of the previous and the current period were decided to be used for a capital increase. The capital was raised to MKD 3,633,180,000 and the Bank's shareholding was increased from 98.78% to 99.03%.

Halk Banka conducts operations with a 37 branch network-18 branches in Skopje and 19 in other cities-a representative office in Serbia and a total of 460 employees.

Halkbank A.D., Beograd

Capital: RSD 2,421,160,000 (Serbian dinars)
Halkbank's shareholding: 82.47%

In line with the Bank's policy of increasing its presence in the Balkan region and Middle East, Halkbank acquired a 76.76% stake in Cacanska Bank, operating in the Cacak region of Serbia. The Bank included the acquisition target in the subsidiary portfolio as of May 27, 2015. The acquired bank was renamed Halkbank A.D. Beograd in line with the resolution adopted at the General Assembly dated October 15, 2015, and its headquarters was transferred from Cacak to Belgrade. Halkbank A.D. Beograd has 13 branch locations, nine sub-branches and 384 employees.

Following a capital increase in 2015, Halkbank's shareholding went up to 82.47%.

Halk Gayrimenkul Yatırım Ortaklığı A.Ş.

Capital: TRY 790,000,000
Halkbank's shareholding: 71.96%

The Company was established under the leadership of Halkbank in 2010 to do business for the objectives and in the matters stipulated by the regulations of the Capital Markets Board of Turkey regarding the Real Estate Investment Trusts and to invest in real estate properties, real estate-backed capital markets instruments, real estate projects and real estate-based rights.

The initial public offering of Halk Gayrimenkul Yatırım Ortaklığı A.Ş. was held in February 2013; the entire shares offered to the public, with a nominal value of TRY 185.5 million, was sold. On February 22, 2013, 28% of the Company shares began to be traded on the Borsa İstanbul.

Halkbank raised its stake in the Company to 71.96% in 2014, by acquiring the stakes of Halk Sigorta A.Ş. and Halk Hayat ve Emeklilik A.Ş.

In 2016, the Company's capital was increased to TRY 790 million.



Halk Finansal Kiralama A.Ş.

Capital: TRY 272,250,000
Halkbank's shareholding: 99.99%

Commencing operations in 1991, Halk Finansal Kiralama A.Ş. was founded to acquire movable and immovable property, machinery, vehicles and equipment through purchasing, import and other legal means; to use these economic assets in domestic and overseas leasing operations; and to conduct all kinds of leasing transactions. The Company, which was a 47.75%-owned affiliate of Halkbank, became a subsidiary after Halkbank acquired the shares of other shareholders in 2011.

In 2014, the Company's capital was increased from TRY 259.2 million to TRY 272.3 million. Halkbank raised its stake in the company to 99.99% in 2014, by acquiring the stakes of Halk Sigorta A.Ş. and Halk Hayat ve Emeklilik A.Ş.

Halk Portföy Yönetimi A.Ş.

Capital: TRY 11,000,000
Halkbank's shareholding: 74.99%

The Company was founded on June 24, 2011 to manage portfolios consisting of capital markets instruments through discretionary portfolio management agreements with customers as their authorized agent and to engage in investment advisory and capital markets activities pursuant to the provisions of the Capital Market Law and its related regulations.

Halkbank raised its stake in the Company to 74.99% in 2014, by acquiring the stakes of Halk Sigorta A.Ş. and Halk Hayat ve Emeklilik A.Ş.

In 2016, the Company's capital was increased from TRY 8 million to TRY 11 million financed exclusively by internal funds, within its registered capital ceiling of TRY 20 million. The Bank's share in this capital was increased to TRY 8.3 million.

Halk Faktoring A.Ş.

Capital: TRY 55,500,000
Halkbank's shareholding: 97.50%

Halk Faktoring A.Ş. was founded on June 6, 2012 as a Halkbank subsidiary in order to provide all financing, guarantee and collection products needed in domestic and international trade transactions with a focus on trade finance and receivables-backed financing to SMEs, companies with major import or export activities, corporations with extensive supplier and dealer networks, as well as all other clients. Pursuant to the operating license granted by the Banking Regulation and Supervision Agency of Turkey, the Company began executing transactions on December 10, 2012.

Halkbank raised its stake in the Company to 97.50% in 2014, by acquiring the stakes of Halk Sigorta A.Ş. and Halk Hayat ve Emeklilik A.Ş. In 2016, the Company's capital was increased to TRY 55.5 million and Halkbank's stake amounted to TRY 54.1 million.

The Company operates three branches: two in Istanbul and one in Ankara.

Bileşim Alternatif Dağıtım Kanalları A.Ş.

Capital: TRY 17,500,000
Halkbank's shareholding: 100%

Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri A.Ş. commenced operations in 1998 to carry out activities in the areas of alternative distribution channels and payment systems. Pursuant to the Turkish Competition Authority's approval for the share transfer transaction, Halkbank's acquisition of Ziraat Group's 76% equity stake (T.C. Ziraat Bankası A.Ş. shareholding: 61%; Ziraat Finansal Kiralama A.Ş. shareholding: 15%) in the Bank's affiliate Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri A.Ş. was finalized on July 22, 2013 and the Company became a wholly-owned subsidiary of the Bank. In 2015, the Company's capital was increased from TRY 14 million to TRY 16 million. In 2016, the Company's capital was increased from TRY 16 million to TRY 17.5 million. Upon a resolution reached at the Ordinary General Assembly Meeting on April 21, 2016, the Company's trade name was changed to Bileşim Alternatif Dağıtım Kanalları A.Ş.

HALKBANK'S SUBSIDIARIES AND AFFILIATES

AFFILIATES

KOBİ Girişim Sermayesi Yatırım Ortaklığı A.Ş.

Capital: TRY 38,000,000
Halkbank's shareholding: 31.47%



KOBİ Girişim Sermayesi Yatırım Ortaklığı A.Ş. was established in 1999. The purpose of the Company is to provide support for small and medium-scale enterprises that have high potential for development and are in need of funds. The intention of the Company is to contribute to their development by offering them the capital and strategic support they need to grow.

The Company was expanded to build and manage an angel investor network and to carry out portfolio management activities. Through this network, the company intends to bring together a group of angel investors and undertake finance matching to meet core and initial capital needs.

Demir-Halk Bank (Nederland) N.V.

Capital: EUR 113,750,000
Halkbank's shareholding: 30%



Having commenced operations in 1992 and carrying out a full range of banking operations, Demir-Halk Bank (Nederland) N.V. is a company with Turkish capital, operating according to Dutch legislation. It was established in Rotterdam, Netherlands to offer services particularly to Turkish companies and their partners in Western Europe.

Bankalararası Kart Merkezi A.Ş.

Capital: TRY 14,000,000
Halkbank's shareholding: 18.95%



The Company was established in 1990 to generate solutions for common issues related to the card payment system and to develop the rules and standards for debit and credit cards in Turkey.

Kredi Kayıt Bürosu A.Ş.

Capital: TRY 7,425,000
Halkbank's shareholding: 18.18%



The Company was founded in 1995 to facilitate information sharing, a prerequisite for monitoring and controlling retail loans, between financial institutions that are engaged primarily in money and capital markets and insurance business lines.

Türk P&I Sigorta A.Ş.

Capital: TRY 6,000,000
Halkbank's shareholding: 16.67%



The Company was established on December 31, 2013 in accordance with Insurance Law No. 5684 to operate exclusively in the non-life insurance branch of Water Vessels Liability Insurance, with capital of TRY 300,000. Pursuant to the Regulation on the Establishment and Operating Principles of Insurance and Reinsurance Companies, the company obtained a license to operate in the field of Water Vessels Liability Insurance on February 18, 2014.

At the Extraordinary General Assembly which convened on January 17, 2014, the Company's capital was increased by TRY 5.7 million to TRY 6 million.

On April 2, 2015, Halkbank acquired a 16.6667% stake in Türk P&I Sigorta A.Ş. previously held by Halk Sigorta A.Ş. As a result, Türk P&I Sigorta was transformed into an affiliate.

SECURITIES AVAILABLE FOR SALE

Kredi Garanti Fonu A.Ş.

Capital: TRY 278,438,892
Halkbank's shareholding: 1.69%

Commencing operations in 1991, Kredi Garanti Fonu A.Ş. was established to support small and medium-size enterprises through loan guarantees and to facilitate their access to bank loans in order to finance their investments and working capital needs.

Sberbank Magyarország Zrt. (Sberbank Hungary)

Capital: HUF 3,727,000,000
(Hungarian Forints)
Halkbank's shareholding: 1.07%

Magyarorszagi Volksbank RT was established in Hungary in 1993 to carry out a full range of banking services.

Volksbank International AG, the controlling shareholder of Magyarorszagi Volksbank RT, sold its 98.60% stake in the Company to Sberbank Europe AG in 2012. At the General Meeting held on May 29, 2013, it was decided to change the Bank's name to Sberbank Magyarország Zrt.

International Joint Stock Bank (Garagum)

Capital: TMM 24,500,000
(Turkmenistan Manats)
Halkbank's shareholding: 1.53%

The International Joint Stock Bank (Garagum) commenced operations in Turkmenistan in 1993 to carry out a full range of banking services.

İstanbul Takas ve Saklama Bankası A.Ş.

Capital: TRY 600,000,000
Halkbank's shareholding: 0.99%

Mesbaş Mersin Serbest Bölge İşleticisi A.Ş.

Capital: TRY 5,402,160
Halkbank's shareholding: 1.37%

Türkiye Cumhuriyet Merkez Bankası

Capital: TRY 25,000
Halkbank's shareholding: 1.11%

Alıdaş Alanya Liman İşletmeleri Denizcilik Tur. Tic. ve San. A.Ş.

Capital: TRY 6,000,000
Halkbank's shareholding: 0.50%

Borsa İstanbul A.Ş.

Capital: TRY 423,234,000
Halkbank's shareholding: 0.00353%

ANNUAL REPORT COMPLIANCE STATEMENT

INDEPENDENT AUDITOR'S REPORT REGARDING THE BOARD OF DIRECTOR'S ANNUAL REPORT

To the Board of Directors of Türkiye Halk Bankası A.Ş.

Report Regarding the Audit on the Board of Director's Annual Report Within the Framework of the Independent Audit Standards

We have audited Türkiye Halk Bankası A.Ş. ("Bank") Annual Report regarding the accounting period ending on the 31st of December 2016.

Board of Director's Responsibility Regarding the Annual Report

As per the 514th Article of the Turkish Commercial Code n.6102, and the "Regulation on the Principles And Procedures Regarding the Preparation of the Annual Report by Banks" published in the Official Gazette n.26333 dated: 1st of November 2006; Bank management is responsible for: i) issuing an Annual Report, reflecting facts in consistency with the financial statements that are prepared in conformity with the "Regulation On Procedures and Principles Regarding Banks' Accounting Practices and Archiving Documents" published in the Official Gazette n.26333 dated: 1st of November 2006, and other regulations published by the Banking Regulation and Supervision Board regarding banks' accounting and recording systems, and circulars and announcements of the Banking Regulation and Supervision Agency ("BDDK"), and the "BDDK Accounting and Financial Reporting Legislation" stipulating the provisions of the Turkish Accounting Standards, for topics not stipulated in the abovementioned regulations; ii) implementing an internal control necessary for preparing such annual report.

Independent Auditor's Responsibility

Based on the independent audit we have performed on the Bank's annual report within the framework of the 397th Article of the Turkish Commercial Code and the "Regulation on Independent Audit of the Banks" published in the Official Gazette n.29314 dated: 2nd of April 2015; our responsibility is to present our opinion on whether the financial information in this annual report is consistent with the Bank's financial statements or not and whether it reflects the facts or not.

The independent audit we have performed, was carried out in conformity with the Independent Audit Standards ("BDS") which are included in the Turkish Audit Standards published by the Public Oversight, Accounting and Audit Standards Authority ("KGK"). These standards require compliance with the code of ethics and stipulate that the independent audit must be planned and performed to find reasonable assurance on whether the financial information in the annual report is consistent with the financial statements or not, and whether it reflects the facts or not.

Independent audit includes performing the audit procedures in order to find audit indicators about historical financial information. Selection of these procedures depends on the professional judgment of the independent auditor.

We believe that the independent audit indicators we have found during the independent audit, form a reasonable and sufficient basis for our conclusion.

Opinion

In our opinion, the financial information in the Board of Director's Annual Report, with all its important aspects, are consistent with the financial statements, and does reflect the facts.

Report on Other Regulatory Requirements

In accordance with the third clause of the article 402 of TCC, no material issue has come to our attention that shall be reported about the Company's (Group) ability to continue as a going concern in accordance with Turkish Auditing Standard 570 Going Concern.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION IN 2016

In 2016, no changes were made to the Bank's Articles of Association.

BOARD OF DIRECTORS AND THE SUPERVISORY BOARD



RECEP SÜLEYMAN ÖZDİL
Chairman

Mr. Özdil was born in 1961 in Istanbul and graduated from Ankara University, Faculty of Political Science, Department of Economics. He started his professional career in 1984 at a private company as Inspector. Subsequently, Mr. Özdil went on to work as Specialist, Assistant Manager and Branch Manager at Albaraka Türk Özel Finans Kurumu A.Ş. between 1986 and 1993. From 1993 to 1995, he served as Financial Coordinator at a private company. Later, he worked as Deputy General Manager between 1995 and 2001 at İhlas Finans Kurumu A.Ş. and from 2001 to 2005 at Family Finans Kurumu A.Ş. From 2005 until 2011, Mr. Özdil was a Board Member and CEO at Birleşik Fon Bankası A.Ş. and Board Member at Security Deposit Insurance Fund (TMSF). Since August 28, 2015, Mr. Özdil has been serving as Chairman at T. Halk Bankası A.Ş.



SADIK TILTAK
Vice Chairman
Independent Board Member

Sadık Tiltak received his Bachelor's degree in Finance from the Ankara University Faculty of Political Science. He began his professional career as an Assistant Inspector at T. Garanti Bankası A.Ş. in 1988 and moved on to serve as a Branch Manager before becoming a General Manager at the company's headquarters. Appointed Board Member of T. Vakıflar Bankası T.A.O. on March 30, 2012, Mr. Tiltak previously served as Loan Committee Member, Corporate Governance and Appointment Committee Member, and Audit Committee Member at Vakıflar Bankası; Chairman at Vakıf Finans Faktoring Hizmetleri A.Ş.; Vice Chairman at Vakıf Gayrimenkul Değerleme A.Ş., Vakıf Pazarlama ve Ticaret A.Ş., Vakıf Portföy Yönetimi A.Ş. and Board Member at Halk Hayat ve Emeklilik A.Ş. As of April 1, 2014, Mr. Tiltak became an Independent Board Member at T. Halk Bankası A.Ş. and was appointed Vice Chairman on March 31, 2016. He is also Vice Chairman of Halk Sigorta A.Ş.



ALİ FUAT TAŞKESENLİOĞLU
Board Member and General Manager

Ali Fuat Taşkesenlioğlu was born in Erzurum in 1964. He graduated from Atatürk University, Faculty of Economics and Administrative Sciences, Business Administration Department. He completed a post graduate degree in the Social Sciences Institute at Beykent University and is currently working on a PhD in Business Administration at the same university. He began his professional career in 1988 at Yenidoğan Yayın Dağıtım. After serving as Chief Specialist at the Faisal Finance Institution from 1988 to 1996, he started at Asya Participation Bank on October 1996 and served as Assistant Manager of Project Marketing. He later continued as Manager of the Merter and Sultanhamam branches, followed by positions as Division Manager and Deputy General Manager of the Head Office Loan Allocation Department. Mr. Taşkesenlioğlu was elected to the Board of Directors of T. Vakıflar Bankası T.A.O. on March 30, 2012 and served as an Associate Member on the Board of Auditors and the Board of Loans of T. Vakıflar Bankası T.A.O. He later served as Chairman of Vakıf Portföy Yönetimi A.Ş., Vice Chairman of Vakıf Finans Faktoring Hizmetleri A.Ş., and as Vice Chairman of Vakıf Menkul Kıymetler Yatırım Ortaklığı A.Ş. from April 20, 2012 until February 7, 2014. Mr. Taşkesenlioğlu has served as Board Member and General Manager of T. Halk Bankası A.Ş. since February 7, 2014. He also serves as Chairman of Halk Sigorta A.Ş.



YUNUS KARAN

Independent Board Member

Yunus Karan was born in Giresun in 1940. He received his Bachelor's degree in Finance and accounting from Istanbul University, Faculty of Economics and Administrative Sciences in 1964. Mr. Karan began his professional career at T.C. Ziraat Bankası A.Ş. in 1965 and served as Branch Manager in various branches of the bank until 1996. He then served as the Fatih Branch Manager of İhlas Finans Kurumu A.Ş. between 1996 and 1999. Mr. Karan was a Board Member at Ziraat Leasing Finansal Kiralama A.Ş. from 2002 until May 2012 and an Independent Board Member at Halk Gayrimenkul Yatırım Ortaklığı A.Ş. between May 14, 2012 and March 31, 2014. He has been serving as a Board Member at Türkiye Halk Bankası A.Ş. since April 1, 2014. He is also a Board Member at Halk Gayrimenkul Yatırım Ortaklığı A.Ş.



CENAP AŞCI

Board Member

Cenap Aşçı was born in 1967 in Aksaray and graduated from İstanbul University, Faculty of Political Sciences, Department of Public Administration in 1988. He received his Master's degree in International Trade from Boston University, Department of Management Sciences. He started his professional career in 1989 as Assistant Customs Auditor, and later served as Customs Auditor, Chief Customs Auditor, Head of Customs Internal Audit Board, Head of General Directorate of Customs, Vice Director of EGO, Assistant General Director of Customs, and General Director of Customs, before being appointed Undersecretary of the Ministry of Customs and Trade. In the 63rd government (temporary council of ministers) established on August 28, 2015, he served as Minister of Customs and Trade. Since March 31, 2016 he has served as Board Member at T. Halk Bankası A.Ş. Fluent in English, Cenap Aşçı is married and has three children.



DOÇ. DR. ÖMER AÇIKGÖZ

Board Member

Ömer Açıkgöz was born in 1963 in Gaziantep; he completed primary school and junior high school in the same city. He received his Bachelor's degree at Ankara Gazi University, Faculty of Vocational Education, Department of Technology Education; Master's degree in the same Department, on Acclimatization and Refrigeration; Doctoral degree and Associate Professorship from the Department of Economics. He worked as Faculty Member at Kırıkkale University, Faculty of Economics and Administrative Sciences. Dr. Açıkgöz published articles in national and international journals both in his field and on education. He conducted research on Energy Systems at Ferris State University in the USA with a World Bank grant. Dr. Açıkgöz was a faculty member for 14 years at vocational schools in acclimatization and refrigeration programs. He worked as Advisor to the President of the Council of Higher Education regarding vocational and technical higher education, for nearly four years. He carried out numerous EU projects. Dr. Açıkgöz was member of the Vocational Schools Development Commission, Vocational Qualification Institution, Fulbright Commission, UNESCO Turkey Delegation, Middle East Public Administration, ÖSYM, TÜBİTAK, TUSSİDE Board of Directors, and also President of TÜRSİDE Advisory Committee. From October 2011 until June 2015, he worked at the Ministry of National Education as General Director and Vice Undersecretary of Vocational and Technical Education. Currently serving as Vice Undersecretary and Council of Higher Education Member, Assoc. Prof. Ömer Açıkgöz joined T. Halk Bankası A.Ş. as Board Member on March 31, 2016. Fluent in English, Dr. Açıkgöz is married and has three children.

BOARD OF DIRECTORS AND THE SUPERVISORY BOARD



MEHMET AYTEKİN
Board Member

Mehmet Aytekin was born in 1977 in Istanbul and he graduated from İstanbul University, Faculty of Literature, Department of Philosophy in 2001. In 2004, he joined Turkish Airlines as Specialist before serving there as Director of Australia and New Zealand between 2007 and 2014. In 2014, he took office at İstanbul Şehir University as Vice General Secretary, and resigned in 2015 as General Secretary. Currently serving as Advisor to the Prime Minister, Mehmet Aytekin joined T. Halk Bankası A.Ş. as Board Member on March 31, 2016.



YAHYA BAYRAKTAR
Independent Board Member

Yahya Bayraktar was born in 1955 in Erzincan/Kemaliye. He graduated from İ.H.O. in 1974 and from Middle East Technical University, FEAS, Department of Business Administration in 1981. In 1982, Mr. Bayraktar took office at Yapı ve Kredi Bankası as Assistant Auditor. While sitting on the Yapı ve Kredi Bankası Board of Auditors between 1983 and 1988, he participated in endeavors concerning the transition to electronic audit and IT systems. In 1988, Mr. Bayraktar joined Faisal Finans Kurumu, and worked there as Auditor, Head of Internal Audit Board, Director of General Accounting, Marketing, Fund and Banking Services, Director of Trade and Finance (Credit Operations) and Director of Fund Management between 1991 and 2006. From 2006 until 2009, he served as Branch Manager at Türkiye Finans Katılım Bank. Currently, Mr. Bayraktar is member of the Board of Trustees and General Secretary at Erzincan Culture and Education Foundation (EKEV), with a special focus on student scholarships and organization of educational activities. He penned numerous articles on the economy and finance, and wrote a book entitled "Waiting for the Mulberry Season" published by EKEV in 2011. Between 2012 and 2016, Mr. Bayraktar served as Independent Board Member at a public subsidiary of T. Vakıflar Bankası T.A.O., namely Vakıf Menkul Kıymetler Yatırım Ortaklığı A.Ş. He joined T. Halk Bankası A.Ş. as Independent Board Member on March 31, 2016. Yahya Bayraktar also serves as a Board Member at Halk Gayrimenkul Yatırım Ortaklığı A.Ş.

* MEHMET ALİ GÖKCE resigned from his position as Board Member on January 23, 2017.

**FARUK ÖZÇELİK***Member of the Supervisory Board*

Faruk Özçelik was born in Hadım, Konya in 1968. He is a graduate of the Banking and Insurance Academy of Ankara University and holds a Master's degree in International Relations from Institute of Social Sciences, Selçuk University and a Bachelor's degree in Business Administration from the Faculty of Political Sciences, Ankara University. Mr. Özçelik began his career as Assistant Auditor at the Republic of Turkey Prime Ministry, General Directorate of Foundations, later serving as Auditor and Chief Auditor in the same institution and the Ministry of Public Works and Settlements. Between 2004 and 2009, Mr. Özçelik worked as Deputy General Manager at the Prime Ministry, General Directorate of Personnel and Principals, and later served as the General Manager of the same institution until 2014. He has also served as a Director on the Boards of Natural Disasters Insurances Authority and the Institute of Public Administration for Turkey and the Middle East (TODAİE), and as a Member of the Supervisory Board of Turkish Maritime Operations (Türkiye Denizcilik İşletmeleri A.Ş.). Mr. Özçelik was appointed as the Undersecretary of Ministry of Youth and Sports on January 26, 2014. Currently, he serves as a Member of the Supervisory Board of Türkiye Halk Bankası A.Ş., and on the Istanbul Olympic Games Presentation and Organization Committee. Mr. Özçelik is married with two children. His interests include football, volleyball, and athletics. Mr. Özçelik speaks French, Arabic and English.

**ZEKERİYA KAYA***Member of the Supervisory Board*

Zekeriya Kaya graduated from Erciyes University, Faculty of Economic and Administrative Sciences, Department of Economics. He worked at the Ministry of Finance as Accounting Auditor, Tax Auditor and Public Accountant. Subsequently, Mr. Kaya served as Ankara Tax Office Group Head, Tax Audit Board Chairman, and Internal Revenue Administration Group Head, a position he continues to hold today. Zekeriya Kaya joined T. Halk Bankası A.Ş. as a member of the Supervisory Board on March 31, 2016.

EXECUTIVE MANAGEMENT



ALİ FUAT TAŞKESENLİOĞLU

General Manager

Please see page 84 for Mr. Ali Fuat Taşkesenlioğlu's background.



MURAT OKTAY

*Deputy General Manager
Corporate and Commercial Marketing*

Murat Oktay was born in 1970 in Ankara. He graduated from TED Ankara College and the Department of Economics of the Faculty of Economics and Administrative Sciences at the Middle East Technical University. He began his career as Assistant Inspector at Eskişehir Bankası T.A.Ş. in 1991. He worked as Auditor at Demirbank A.Ş., as Branch Manager at Finansbank A.Ş., Egsbank A.Ş., Denizbank, Asya Katılım Bankası A.Ş. and Turklandbank A.Ş., and then as Corporate Branch Manager and Regional Director in Albaraka Türk Katılım Bankası A.Ş. Mr. Oktay has been serving as Deputy General Manager responsible for Corporate and Commercial Marketing at Halkbank since July 10, 2014.



MEHMET AKİF AYDEMİR

*Deputy General Manager
Loan Allocation and Management*

Mehmet Akif Aydemir, born in 1963 in Ankara, is a graduate of Ankara University, Department of Economics, Faculty of Political Science. He began his career on October 20, 1986 at Pamukbank as an Assistant Inspector and went on to become an Inspector, Branch Manager and Division Manager at the bank. Mr. Aydemir was the head of the Corporate Loans Department between December 10, 2004 and March 3, 2010 and was the Assistant General Manager in charge of Corporate and Commercial Loans from March 4, 2010 to July 21, 2011. He has since been working as an Deputy General Manager responsible for Loan Allocation and Management at Halkbank, which he began on July 22, 2011.



ERDAL ERDEM

*Deputy General Manager
Artisans-SME Banking*

Erdal Erdem was born in Çankırı in 1971. After receiving his Bachelor's degree in Finance from Afyon Kocatepe University's Faculty of Economics and Administrative Sciences, he began his professional career at Türkiye Finans Kurumu A.Ş. in 1995. He joined Asya Katılım Bankası A.Ş. in 1996, serving as Assistant Specialist, Specialist, Second Manager, Assistant Manager and Manager. Between March 2010 and January 2012, he held the position of Deputy General Manager in charge of Loans Monitoring, Financial Analysis and Intelligence, Non-Performing Loans, Construction-Real Estate, and Legal Counsel. Mr. Erdem was a Board Member at T.C. Ziraat Bankası A.Ş. from April 2012 to March 2014. He served as the Deputy General Manager in charge of Financial Management and Planning between March 27, 2014 and July 3, 2014. He has been performing his duties as the Deputy General Manager in charge of Artisans and SME Banking at the Bank since July 4, 2014.



HASAN ÜNAL

*Deputy General Manager
Retail Banking*

Hasan Ünal was born in Karabük in 1968. After receiving his Bachelor's degree in Engineering Management from Istanbul Technical University, he began his banking career at Garanti Bank in 1988. He worked in executive positions as Deputy General Manager and General Manager in charge of diverse areas such as card payment systems, alternative distribution channels and retail banking at various banks and private companies. In his last position before joining Halkbank's ranks, he worked as General Manager at Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri A.Ş., which is a subsidiary of Halkbank. He has been served as Deputy General Manager in charge of Retail Banking at Halkbank since July 10, 2014.



MEHMET SEBAHATTİN BULUT

*Deputy General Manager
Loan Policies and Risk Monitoring*

Mehmet Sebahattin Bulut was born in Erzurum in 1965. After receiving his Bachelor's degree in Econometrics from the Faculty of Economics and Administrative Sciences at Uludağ University, he began his professional career as Assistant Financial Analysis Specialist at T. Vakıflar Bankası T.A.O. in 1994. He later worked as Inspector as well as Manager at various levels and as Head of Department at the same bank. Mr. Bulut served as Board and Audit Committee Member at various subsidiaries of T. Vakıflar Bankası T.A.O. He has served as Deputy General Manager in charge of Loan Policies and Risk Monitoring at Halkbank since July 10, 2014.

EXECUTIVE MANAGEMENT



MEHMET HAKAN ATILLA
*Deputy General Manager
International Banking*

Mehmet Hakan Atilla was born in 1970 in Ankara. He graduated from the Department of Economics, Faculty of Economics and Administrative Sciences at Gazi University. He joined Halkbank in 1995 as an Assistant Specialist in the Research Development and Planning Department and proceeded to work as a Specialist in the Commercial Credit Cards, and Cash Management Departments. He then held the title of Supervisor and Department Manager in the Strategic Planning Department. Mr. Atilla was Head of the Financial Institutions and Investor Relations Department between June 22, 2007 and November 11, 2011, before being appointed as the current Deputy General Manager responsible for International Banking.



SELAHATTİN SÜLEYMANOĞLU
*Deputy General Manager
Banking Operations*

Selahattin Süleymanoğlu was born in Alucra, Giresun in 1962. He received his Bachelor's degree in Business Administration from the Faculty of Economics and Administrative Sciences at Gazi University in 1987. After receiving his Master's degree in International Relations from the Institute of Social Sciences, at Selçuk University, he began his career as an Assistant Inspector at Adabank in 1990. He served as an Inspector, Manager and Head Manager at T. Emlak Bankası A.Ş. between 1991-2001. He joined T. Halk Bankası A.Ş. in 2001, working as a Branch Manager in different branches and at the Ankara Corporate Branch. He served as the Deputy Manager in charge of Risk Collection and Liquidity between July 1, 2007 and January 12, 2009; in charge of Banking Operations between January 13, 2009 and September 26, 2010; and in charge of Risk Management and Internal Control between September 27, 2010 and July 3, 2014, respectively, before being appointed as the Deputy General Manager in charge of Banking Operations as of July 4, 2014.



MUSTAFA AYDIN
*Deputy General Manager
Financial Management and Planning*

Mustafa Aydın was born in Ürgüp, Nevşehir in 1965. He graduated from the Department of Public Administration of the Faculty of Economics and Administrative Sciences at Middle East Technical University. He began his professional career at Türkiye Öğretmenler Bankası and went on to work as General Manager at Nahçıvan Türk Bankası, as Inspector and Branch Manager at Albaraka Türk Katılım Bankası A.Ş. and at Asya Katılım Bankası A.Ş.. Subsequently, Mr. Aydın served as CFO and Board Member at Bosnia Herzegovina Airlines, Head of Finance at Turkish Airlines, Affiliates Financial Coordinator at THY Teknik A.Ş. and CFO at Negmar Shipping Ltd. Since July 10, 2014, he has served as Deputy General Manager in charge of Financial Management and Planning at T. Halk Bankası A.Ş.



ÖMER FARUK ŞENEL
Deputy General Manager
Support Services

Ömer Faruk Şenel was born in Konya in 1969. He is originally from Denizli. He received his Bachelor's degree from the Faculty of Economics at Middle East Technical University and his Master's degree in Business Administration from the Institute of Social Sciences at Fatih University. After beginning his professional career as Assistant Specialist at T.C. Ziraat Bankası A.Ş. in 1991, he went on to serve as Inspector, Branch Manager, Department Manager and Deputy General Manager at Esbank T.A.Ş., Etibank T.A.Ş. and Asya Katılım Bankası A.Ş., respectively. Mr. Şenel then became Deputy General Manager at Birleşik Fon Bankası A.Ş. (B.F.B.). He has been serving as Deputy General Manager in charge of Support Services at Halkbank since July 10, 2014.



SALİM KÖSE
Deputy General Manager
Legal Affairs and Proceedings

Salim Köse was born in Afyonkarahisar in 1966. He began working at T. Emlak Bankası A.Ş. in 1990 while still studying at the Law School at Istanbul University. He went on to work as Assistant Legal Counsel at Etibank A.Ş., as Group Director and Deputy Head of Department at the Saving Deposit Insurance Fund (SDIF). In addition, he served as Board Member and Chairman at companies, where the management and audit were transferred to the Saving Deposit Insurance Fund. He also took part in drafting the Banking Law No. 5411 as representative of the SDIF. Mr. Köse managed the Group that was made up of Legal Counseling, Non-performing Loans Department and Risk Monitoring Department from 2007 until 2011 when he began practicing law as a solo practitioner. He has served as Deputy General Manager in charge of Legal Affairs and Proceedings at Halkbank since July 10, 2014. He has three published novels.



ALİ ULVİ SARGON
Chairman of the Board of Inspectors

Ali Ulvi Sargon was born in Ankara in 1966. After receiving his Bachelor's degree in Business Administration from the Faculty of Political Sciences at Ankara University, he began his professional career as Assistant Inspector at T. İş Bankası A.Ş. in 1989. He went on to serve as Branch Manager at Garanti Bank and as Head of Insurance Fund Asset Management at the Saving Deposit Insurance Fund. Mr. Sargon joined Halkbank as Head of the Risk Management Department on December 17, 2004. He has served as Chairman of the Board of Inspectors since July 4, 2014.

ORGANIZATIONAL CHART



**Board of Directors
Office Services**



COMMITTEES

Audit Committee

Within the structure of Halkbank, the Audit Committee was established with the Board of Directors decision n.34-01 dated: 31.10.2006. As per the provisions of the "Regulation On Banks Internal Systems and Internal Capital Adequacy Evaluation Process" published in the Official Gazette n.29057 dated: 11.07.2014; the Audit Committee is responsible – on behalf of the Board of Directors – for overseeing the efficiency and sufficiency of the internal control, risk management and internal audit systems of the Bank, and the systems, and the accounting and reporting systems functioning within the framework of the law and relevant regulations, and for overseeing the integrity of the information produced. The Audit Committee is also responsible for: i) making preliminary evaluation necessary for the Board of Directors to choose an independent audit firm, ii) regularly monitoring the activities of the independent audit firm chosen by the Board of Directors, iii) making sure that the internal audit functions of the corporations subject to consolidated audit are performed in a consolidated manner in the corporations which are defined as the parent company within the scope of the law. The Audit Committee is in charge of establishing the audit and control process which will provide assurance for the efficiency and accuracy of İSEDES. Within the scope of "Early Detection and Management of Risk" specified in the Turkish Commercial Code, the Audit Committee also carries out the duty of early "diagnosis" of the reasons that endanger the existence, development and continuity of the Bank. It counsels the Board of Directors regarding the issues of risk management and implementation of remedies for the detected risks. Carrying out the necessary tasks by means of the relevant units of the Bank in accordance with its duty, the Committee submits the situation analysis and its suggestions (if any) in a report to the Board of Directors.

Duties of the Audit Committee

The Audit Committee is in charge of and authorized for:

- a) Overseeing compliance with the provisions of the Regulation regarding internal control, internal audit and risk management and the Bank's internal policies and implementation procedures that were approved by the Board of Directors as well as making recommendations to the Board of Directors regarding the measures to be taken,
- b) Establishing the channels of communication through which the employees of the internal systems units can contact the Committee or Board Members directly,
- c) Overseeing that the internal audit system covers the Bank's existing and planned activities as well as the risks arising from these activities, analyzing internal Bank regulations regarding internal audit that will take effect with the approval of the Board of Directors,
- d) Making recommendations to the Board of Directors regarding the election of the heads of the units covered by the internal systems and reporting directly to the Audit Committee, providing opinion when the Board of Directors considers removing these employees from their related positions,
- e) Soliciting and evaluating senior management's opinions and recommendations regarding internal systems,
- f) Ensuring the establishment of channels of communication through which irregularities and fraud within the Bank can be reported directly to the Audit Committee or to the internal audit unit or to the inspectors,
- g) Overseeing that the inspectors execute their duties independently and impartially,
- h) Analyzing audit plans,
- i) Making recommendations to the Board of Directors regarding the qualifications those inspectors should possess,
- j) Supervising the measures taken by the senior management and the units reporting to the senior management in response to the matters identified in internal audit reports,
- k) Assessing the professional education levels and qualification of the managers and inspectors,
- l) Assessing the existence of methods, tools and implementation procedures necessary for identifying, measuring, monitoring and controlling the risks the Bank is exposed to,
- m) Meeting with the inspectors as well as the independent auditors of the independent audit companies which conduct independent audit process of the Bank within the scope of pre-determined programs and agendas at regular intervals not less than four times a year,

- n) Informing the Board of Directors about the opinions and assessments of the senior management, employees performing risk management, internal control and internal audit functions, and the independent audit company regarding the practices required for the proper execution, ensuring efficiency and improvement of the tasks that are part of their duties and responsibilities,
- o) Reviewing the assessments of the independent audit company with regard to the compliance of the Bank's accounting practices with the law and other related regulations, soliciting the statement of the senior management regarding the discrepancies identified,
- p) Evaluating the independent audit results, annual and quarterly financial statements and their related documents, and the independent audit report in conjunction with the senior management and the independent auditors and resolving other issues that the independent auditors have reservations about,
- q) Evaluating the independent audit firms, rating firms and valuation firms that will sign contracts with the Bank, and independency, sufficiency of their Board of Directors' Chairmen and Members, their auditors and employees, and reliability, efficiency and source of their internal policies and practices; and presenting the assessment results in a report to the Board of Directors; and repeating these procedures regularly during the term of the contract, not more than three months, in case of purchasing services.
- r) Conducting a risk assessment for the support service the Bank is considering procuring, presenting the assessments to the Board of Directors in the form of a report, repeating these steps at regular intervals not less than one time a year as long as the contract is in effect should the Bank resolve to procure service from them, and supervising the adequacy of the services rendered by the support service provider,
- s) Overseeing that the Bank's financial reports contain only the facts and all the information which need to be revealed and that these reports comply with the law and other related regulations; ensuring that the errors and irregularities identified are corrected,
- t) Consulting with the independent auditors whether the financial reports accurately reflect the Bank's financial position, results of its activities and the Bank's cash flows and whether they are prepared in accordance with the procedures and principles stipulated in the law and other related regulations,
- u) Not exceeding periods of six months, reporting the activities the Audit Committee has performed during the period and the results of such activities to the Board of Directors, including in these reports the Audit Committee's opinions on the measures that need to be taken and practices that need to be initiated within the Bank as well as other matters significant for being able to continue the Bank's operations in a safe manner,
- v) Executing the Harmonization Program to be created in the scope of the Bank's duties and responsibilities as per Law no. 5549 on Prevention of Laundering Proceeds of Crime, and fulfilling the duties and responsibilities designated in the applicable legislation related to these issues.

The Audit Committee convened 12 times during 2016; during these meetings, the potential risks of the Bank, stress tests, scenario analyses, and risk management policies and implementation procedures were discussed. The members of the Committee attended the meetings regularly.

MEMBERS OF THE AUDIT COMMITTEE	POSITION	PRIMARY POSITION
Sadık TILTAK	Chairman	Vice Chairman/Independent Board Member
Yahya BAYRAKTAR	Member	Independent Board Member

Operational Risk Working Committee

This Committee is formed for the purpose of identifying the Bank's transactions that create operational losses and preventing operational losses. The Operational Risk Working Committee meets once a month on a regular basis.

COMMITTEES

Duties of the Operational Risk Working Committee

- Establishing the procedures for creating the database required to measure the Bank's operational risks in coordination with the related units,
- Ensuring collaboration between units to be able to record, through a standardized coding system, the errors and deficiencies identified by the Board of Inspectors and other control units,
- Undertaking the technical and administrative efforts required to build a database of the operational losses incurred in the previous periods,
- Forming an opinion on the evaluation and rating of operational risks related to the functional activities that are part of the Risk Assessment Matrix,
- Performing all functions regarding tracking, monitoring and preventing all operational risks incurred by the Bank,
- Performing the duties that may arise as a result of developments in the banking laws and regulations.

The Operational Risk Working Committee convened 12 times during 2016. At these meetings, decisions were made regarding the identification of operations that cause operational losses and the prevention of operational losses. The members of the Committee attended the meetings regularly.

MEMBERS OF THE OPERATIONAL RISK WORKING COMMITTEE	POSITION	PRIMARY POSITION
Erdem ÖZDEMİR	Chairman	Head of Risk Management Department (Acting)
Ali CEBECİ	Member	Head of Internal Control Department
Ergin KAYA	Member	Head of Branch Operations Department
Dursun Ali ALEV	Member	Head of Foreign Operations Department (Acting)
Mehmet Volkan SAYİM	Member	Head of Budget and Performance Management Department
Dursun Ali ALEV	Member	Head of Treasury Operations Department
Kadir YAYLAK	Member	Head of Tax Management and Accounting Department
İ. Öngen AKIN	Member	Head of Delivery Channels Management Department
Egemen GÖZÜKARA	Member	Head of Technological Architecture Management Department (Acting)
Mehmet Zahit YILMAZ	Member	Deputy Head of the Board of Inspectors
Ethem ARSLANHAN	Member	Department Director of the Head of Human Resources Ethics Applications and Discipline (Acting)

Credit Committee

Operating within the authority delegated to it by the Board of Directors, the Credit Committee makes decisions related to new loan allocations and on loan restructuring matters such as maturity extension, increase, change in covenant, and lowering the interest rate for loans. The Committee sets the mandatory rules and principles governing the Bank's credit decisions. Established to perform the credit-related duties assigned by the Board of Directors, the Credit Committee consists of the Bank's General Manager and a minimum of two members elected from among the members of the Board of Directors who possess all of the qualifications required of a General Manager except for the tenure requirement. Two associate members, who also possess all of the qualifications required of a General Manager except for the tenure requirement, are elected from among the members of the Board of Directors to replace any members of the Credit Committee who are unable to attend a meeting.

An affirmative vote of at least three-quarters of the members of the Board of Directors is required to elect the members and associate members of the Credit Committee. The General Manager serves as the Chairman of the Credit Committee. In the absence of the General Manager, a permanent member presides over the Credit Committee. The Chairman of the Credit Committee is responsible for the coordination of the effective and healthy functioning of the Credit Committee's activities.

Duties of the Credit Committee

- Enforcing the policies approved by the Board of Directors related to the Bank's lending policy, size of its placement portfolio, and its breakdown by sector, region and loan type,
- Making recommendations to the Board of Directors to determine the procedures and principles pertaining to the Bank's lending policies and its lending activities on the basis of the portfolio and real/legal persons,
- Ensuring that the loan portfolio is managed in accordance with generally accepted credit risk management principles,
- Delegating some of its duties and authorities as needed provided that the limit and scope are expressly set out; however, the Committee may not delegate its authority with regard to open credit transactions, except for retail loans, and it shall oversee and supervise the actions of the bodies to which it delegated its authority,
- Carrying out the authorities and duties delegated by the Board of Directors.

The Credit Committee convened 50 times and made 1,384 decisions in 2016. The members of the Committee attended the meetings regularly.

MEMBERS OF THE CREDIT COMMITTEE	POSITION	PRIMARY POSITION
Ali Fuat TAŞKESEN LİOĞLU	Chairman	Board Member and General Manager
Sadık TILTAK	Member	Vice Chairman / Independent Board Member
Yunus KARAN	Member	Independent Board Member

Assets and Liabilities Committee (ALCO)

The Committee was formed to set the policies regarding the management of the Bank's assets and liabilities and the movement of funds within that scope, and to take and implement the decisions regarding the management of the Bank's balance sheet to be executed by the related units.

Duties of the Assets and Liabilities Committee

Deliberating and evaluating the financial structure, portfolio, budget, loan and deposit interest rates of the Bank; developments in the money and capital markets; and the developments taking place in the Bank itself and in other banks.

ALCO meets regularly once a week, but at minimum once a month, on the date and at the place determined by the Chairman of the Committee. ALCO meetings begin with the discussion of the agenda items put together by the Committee Chairman. Upon invitation by the Committee, Deputy General Managers and other officials may attend these meetings to obtain information and/or offer opinions. The decisions and practices adopted in previous meetings are evaluated at these meetings, after which the decisions to be made and the practices to be adopted are identified. The decisions made and practices to be adopted are submitted to the General Manager for approval to be transmitted to the related Deputy General Manager.

The Assets and Liabilities Committee convened 50 times in 2016. The members of the Committee attended the meetings regularly.

COMMITTEES

MEMBERS OF THE ASSETS AND LIABILITIES COMMITTEE	POSITION	PRIMARY POSITION
Ali Fuat TAŞKESEN LİOĞLU	Chairman	Board Member and General Manager
Murat OKTAY	Member	Deputy General Manager of Corporate and Commercial Marketing
Mehmet Akif AYDEMİR	Member	Deputy General Manager of Loan Allocation and Management
Erdal ERDEM	Member	Deputy General Manager of Artisans-SME Banking
Hasan ÜNAL	Member	Deputy General Manager of Retail Banking
Mehmet Sebahattin BULUT	Member	Deputy General Manager of Loan Policies and Risk Monitoring
Mehmet Hakan ATILLA	Member	Deputy General Manager of International Banking
Selahattin SÜLEYMANOĞLU	Member	Deputy General Manager of Treasury Management (Acting)
Salim KÖSE	Member	Deputy General Manager of Legal Affairs and Proceedings
Mustafa AYDIN	Member	Deputy General Manager of Financial Management and Planning
Ömer Faruk ŞENEL	Member	Deputy General Manager of Deposit Management (Acting)

Corporate Governance Committee

The Corporate Governance Committee oversees the Bank's compliance with the Corporate Governance Principles, identifies conflicts of interest that may arise in this matter, and undertakes improvement efforts. The Chairman of the Corporate Governance Committee is appointed by the Board of Directors from among its independent and non-executive members. The date and location of the Corporate Governance Committee meetings are determined by the Committee Chairman. Upon invitation by the Committee Chairman, other officials may attend these meetings to obtain information and/or offer opinions.

Duties of the Corporate Governance Committee

Overseeing the Bank's compliance with corporate governance principles, carrying out activities to make improvements in this area and presenting opinions to the Board of Directors in accordance with the "Regulation on the Corporate Governance Principles for Banks" published by the Banking Regulation and Supervision Agency and the "Corporate Governance Principles" published by the Capital Markets Board. It also oversees the activities of the Investor Relations Department. The Corporate Governance Committee also fulfills the functions of the Nomination Committee as outlined in the Corporate Governance Communiqué.

The Corporate Governance Committee convened 4 times during 2016.

MEMBERS OF THE CORPORATE GOVERNANCE COMMITTEE	POSITION	PRIMARY POSITION
Yahya BAYRAKTAR	Chairman	Independent Board Member
Mehmet Ali GÖKCE*	Member	Board Member
Cenap AŞCI	Member	Board Member
Mehmet Hakan ATILLA	Member	Deputy General Manager of International Banking
Mustafa AYDIN	Member	Deputy General Manager of Financial Management and Planning
Erdal ERDEM	Member	Deputy General Manager of Human Resources and Organization (Acting)
Yusuf Duran OCAK	Member	Head of Financial Accounting and Reporting Department
Yusuf DAYIOĞLU	Member	Head of the Human Resources Department

* Mehmet Ali Gökce resigned from his position at the Bank on January 23, 2017.

Compensation Committee

The Compensation Committee was established pursuant to the Board of Directors Resolution No. 41-32 dated December 27, 2011 for the purpose of supervising and overseeing the Bank's compensation policies on behalf of the Board of Directors. The Committee is comprised of at least two non-executive Members of the Board of Directors.

The Compensation Committee convened once during 2016. The members of the Committee attended the meeting.

MEMBERS OF THE COMPENSATION COMMITTEE	POSITION	PRIMARY POSITION
Yunus KARAN	Chairman	Independent Board Member
Mehmet AYTEKİN	Member	Board Member

Sustainability Committee

Sustainability Committee was established with the Board of Directors decision dated: 16.04.2015, in order to coordinate the sustainability activities of the Bank.

The Committee started its activities, under the Board of Directors, with the aim of increasing the Bank's strength to create long term value, and adapting economic, environmental and social factors together with the Corporate Governance Principles into the activities and decision mechanisms of the Bank.

A deeply rooted player in the Turkish banking industry, Halkbank is a corporation that translates its sustainability approach into its business processes. Considering the fate of future generations and contributing to sustainable development are integral parts of the Bank's policies.

After issuing its Sustainability Report for 2014-2015, the Bank also participated in the Carbon Disclosure Project – Climate Change and Water Program in 2016. The aim was to combat climate change-related problems and the depletion of water resources to contribute to creating a habitable world.

Having adapted the Corporate Governance Principles to all its activities and decision-making mechanisms, the Bank figured among those major corporations, which, in the November 2016 – October 2017 period, were included in the BIST Sustainability Index. The index features companies that demonstrate a superior corporate sustainability performance.

Halkbank has calculated its carbon footprint since the year 2013 and devises mitigation strategies. Aiming to minimize the environmental impact of its operations and with a view toward reducing its energy consumption and establishing a standard structure, the Bank integrated the ISO 14001:2015 Environment Management System and ISO 50001:2011 Energy Management System into its structure and working process in 2016. The Bank established environment and energy procedures for internal audit, target and practices, completed the audit process, and fulfilled the necessary conditions for certification.

Supporting its financial operations with environmental and social projects, Halkbank conducts its business activities within the scope of sustainability, environment and energy policies.

Sustainability Committee's Duties and Powers

The Committee pursues the "Sustainability Policy" determined by the Board of Directors and ensures that the Policy is implemented. The Committee coordinates Bank's sustainability activities and evaluates the economic, environmental and social impacts of its activities. Study groups are established in relevant units for sustainability, and if necessary technical assistance is received outside the Bank. Within the scope of sustainability, the Committee

COMMITTEES

makes necessary recommendations in order to decrease the potential negative impacts of the Bank's activities, and determines the procedures and principles regarding the energy management of the Bank. The Committee analyzes the results of the emission calculation based on the Bank's energy and water consumption figures and waste data, and shares the results with and makes recommendations to the related units in the Bank, and if necessary reports to the public disclosure platforms like CDP (Carbon Disclosure Project). In compulsory circumstances for sustainability, whether legally required or not, the Committee prepares the appropriate infrastructure for the Bank, and takes necessary action in order to ensure that the Bank, as a publicly traded bank on Borsa İstanbul, is continuously listed in the BIST Sustainability Index, and coordinates the internal regulations of the Bank for this purpose. Committee advises the Board of Directors regarding the activities and deficiencies in the Bank in the field of sustainability.

The Committee convened six times in 2016.

MEMBER OF THE SUSTAINABILITY COMMITTEE	POSITION	PRIMARY POSITION
Yahya BAYRAKTAR	Chairman	Independent Member of the Board of Directors
Assoc. Dr. Ömer AÇIKGÖZ	Vice Chairman	Member of the Board of Directors
Ömer Faruk ŞENEL	Member	Deputy General Manager in Charge of Support Services
Mehmet Hakan ATILLA	Member	Deputy General Manager in Charge of International Banking
Mehmet Sebahattin BULUT	Member	Deputy General Manager in Charge of Loan Policies and Risk Monitoring
Erdal ERDEM	Member	Deputy General Manager in Charge of Human Resources and Organization (Acting)
Selahattin SÜLEYMANOĞLU	Member	Deputy General Manager in Charge of Operational Processes
Özgür BOZKURT	Member	Head of Loan Policies Application Unit (Acting)
Elvan ÖZTABAK	Member	Head of Financial Institutions and Investor Relations Unit
Recep GÜLEÇ	Member	Head of International Banking and Structured Financing Unit
Ergin KAYA	Member	Head of Branch Operations Unit
Neşet DERELİ	Member	Head of Corporate Communication Unit
Osman BEKTAŞ	Member	Head of Support Services Unit

Board of Directors

The Bank is governed and represented by the Board of Directors in accordance with the Turkish Commercial Code, Banking Legislation, Capital Market Law, other related laws and regulations, and the Bank's Articles of Association.

The Board of Directors has the ultimate oversight authority over whether individuals with managerial duties comply with the laws, the Bank's Articles of Association, internal by laws, and the written instructions of the Board of Directors.

The Board of Directors is comprised of nine (9) members. The members of the Board of Directors are elected by the General Assembly of shareholders.

At its first meeting following the swearing-in ceremony, the Board of Directors appoints one of its members as the Chairman of the Board of Directors and one as the Vice Chairman. The Chairman presides over the Board of Directors. When the Chairman is not present, the Vice Chairman presides over the Board of Directors.

The independent members who will serve on the Board of Directors are determined in accordance with the provisions of the Capital Market Law and Banking Legislation.

The Board of Directors convenes at the request of the Chairman of the Board of Directors or the Vice Chairman or a Board member. The Board is obligated to convene at least once a month.

As a rule, the Board of Directors meetings are held in the province where the Head Office of the Bank is located. However, it is possible to have the meetings elsewhere if a simple majority of all members agree to do so.

Board of Directors meetings can be conducted in a physical and/or an electronic environment. As per Article numbered 1,527 of the Turkish Commercial Code, those who have the right to attend the Bank's Board of Directors meetings may choose to do so electronically. Pursuant to the provisions of the "Communiqué on Board Meetings at Corporations Other Than Joint Stock Company General Assembly Meetings To Be Held in an Electronic Environment," the Bank may establish an electronic meeting system that permits the rights holders to attend these meetings and to vote in an electronic environment or it may opt to procure the service from systems that are created for this function. The Bank shall ensure that stakeholders will be able to exercise their rights as stipulated in the relevant laws, rules and regulations under the provisions of the Communiqué at the meetings either through the system established in accordance with the relevant provision of the Articles of Association or through an externally procured system.

The agenda of the Board of Directors is set by the Chairman or Vice Chairman calling the meeting at least 24 hours prior to the meeting and it is delivered to the members along with the meeting invitation by the Board of Directors Secretariat Services Department. In the event of an emergency, items may be added to the agenda upon the request of the Chairman of the Board of Directors; members of the Board of Directors may also make a motion on the issues that require a Board resolution to be passed.

The motions that are part of the Board of Directors meeting agenda, as well as all related attachments, shall be transmitted to the Board of Directors Secretariat Services Department by the member making the motion up to the time when the agenda is finalized. The motions that will be taken up as part of the Board of Directors agenda are presented to the Chairman, Vice Chairman and members of the Board of Directors as well as to the General Manager by the Board of Directors Secretariat Services Department.

If the subject of an agenda item is proposed by the Chairman, Vice Chairman and/or a member of the Board of Directors, the subject is converted into a motion by the Board of Directors Secretariat Services Department, signed by the member(s) of the Board of Directors making the motion and presented to the Board of Directors.

A motion that falls within the authority of the Credit Committee but cannot be resolved by the Committee with a unanimous vote is presented to the Board of Directors with all related attachments via the Board of Directors Secretariat Services Department.

The quorum for convening a Board of Directors meeting is a simple majority of the total number of members; the Board passes resolutions with the affirmative votes of a majority of the members in attendance at the meeting.

Unless a member requests a deliberation, Board of Directors resolutions can also be passed by obtaining the written approval of a simple majority of the full membership of the Board of Directors for a motion made by a member, provided that all members of the Board of Directors were notified of the motion.

The Board of Directors convened 42 times and passed 1,179 resolutions in 2016.

EXECUTIVES OF THE INTERNAL SYSTEMS UNITS

Head of the Board of Inspectors: Ali Ulvi SARGON

TENURE IN CURRENT POSITION	PROFESSIONAL EXPERIENCE AND POSITION	EDUCATION
2 year 5 months	27 years – Head of the Board of Inspectors T. Halk Bankası A.Ş.	Bachelor's Degree in Turkey

Head of Internal Control Department: Ali CEBECİ

TENURE IN CURRENT POSITION	PROFESSIONAL EXPERIENCE AND POSITION	EDUCATION
2 year 5 months	21 years - Head of Department T. Halk Bankası A.Ş.	Bachelor's Degree in Turkey

Head of Risk Management Department: Erdem ÖZDEMİR (Deputy)

TENURE IN CURRENT POSITION	PROFESSIONAL EXPERIENCE AND POSITION	EDUCATION
2 year 5 months (acting viewed times)	16 years - Head of Department (Acting) T. Halk Bankası A.Ş.	Bachelor's Degree in Turkey

REPORT OF THE BOARD OF DIRECTORS

During the year, “The Bank of Productive Turkey – Halkbank” continued to offer quality products and services to its customers with its 78-years of know-how. Halkbank sustained its support to the real economy, thanks to the importance placed on risk management and the Bank’s rapid adaptation to market conditions. The Bank diversified its retail banking offering via the credit card brand Paraf. Halkbank also capitalized on its international reputation to secure overseas financing to bolster its support to SMEs and contribute to the national economy.

In 2016, Halkbank signed a syndication loan agreement, securing EUR 476.5 million and USD 175 million, with the participation of 33 banks from 18 countries including European, American and Middle Eastern banks. Furthermore, the Bank issued its fifth bond (Eurobond) worth USD 500 million in international markets, and a bond worth TRY 4.7 billion in the domestic markets.

In order to strengthen the Bank’s relations with international institutional investors and correspondent banks in the Asia-Pacific region, a Representative Office was opened and started operations in Singapore.

In 2016, Halkbank grew its assets by 23.3% over the prior year, from TRY 187.7 billion to TRY 231.4 billion.

As of year-end, the Bank had channeled a large portion of its funds to loans, recording a loans to deposit ratio of 68.4%. Commercial lending, which includes SME loans, totaled TRY 126.5 billion, while retail lending totaled TRY 31.9 billion. In 2016, the cash and non-cash loan volume rose by 23.8% over the previous year, increasing from TRY 166.5 billion to TRY 206.1 billion.

In 2016, the Bank’s securities portfolio grew 19% over the previous year to TRY 33.2 billion. The portfolio’s weight in the balance sheet stood at 14.4%.

The Bank’s total deposits went up 23% over the prior year, increasing from TRY 122.1 billion to TRY 150.3 billion. In 2016, total demand deposits stood at TRY 28.9 billion.

In 2016, the Bank reported a capital adequacy ratio of 13.1%, average return on equity of 12.6% and an average return on assets of 1.2%.

In 2016, Halkbank’s profit rose 10.5% over the prior year to TRY 2.6 billion, thus maintaining its sustainable profitability.

Halkbank inaugurated 15 new branches in 2016 – bringing its domestic branch network up to 959 locations – and closed the year with 16,956 employees.

We would like to thank our employees for helping Halkbank continue its growth through a profitable and productive period in 2016, and hereby present the Board of Directors report, Auditor Report and financial reports for fiscal year 2016 for the review of our esteemed shareholders and their representatives.

Best regards,

ALİ FUAT TAŞKESEN LİOĞLU
Board Member
General Manager

R. SÜLEYMAN ÖZDİL
Chairman

HUMAN RESOURCES PRACTICES

Halkbank places great importance on employee satisfaction, offering its staff continuous education, dynamic career opportunities, and modern working environments.

Recruitment

Taking into account the developments in the sector, developments that affect recruitment, qualitative changes in human resources, and budget opportunities, the Human Resources Department is responsible for planning how and from which resources, internal or external, the Bank's workforce needs will be supplied for the coming year. Candidates to be hired are expected to possess the following general qualifications, although special qualifications may be sought depending on the position for which a candidate applies.

- Being a Turkish citizen or possessing a work permit obtained from the official bodies in accordance with Law No. 4817 on Work Permits for Foreign Nationals,
- Not being devoid of public rights,
- Not having any compulsory service obligations to any company or organization,
- Being at least 18 years of age as of the date of the examination,
- Being no more than 30 years of age at the time of the commencement of employment for the positions of Assistant Inspector, Assistant Specialist, Service Officer and titles below these (this age limit may be changed upon approval of the Board of Directors for special positions),
- Excluding negligent offenses and suspended convictions apart from the offenses listed below, not having been sentenced with heavy imprisonment or imprisonment for more than six months or even if they have been pardoned, in relation to the following offenses: crimes against the state, infamous or disgraceful offenses such as embezzlement, peculation, extortion, bribery, theft, fraud, forgery, abuse of faith, fraudulent bankruptcy or smuggling except for employment or consumption smuggling, rigging of official tenders or auctions, money laundering or disclosing state secrets,
- Not having been banned from working at banks in accordance with the Banking Law,
- Having completed or deferred military service as of the date of the examination or to be exempt from such military service obligation,
- Except for those who will be employed within the scope of the requirement set out by the Labor Law on the mandatory employment of disabled persons, being in good health as required by the position of employment and not having any mental or physical disabilities that may prevent the individual from doing permanent work in any part of Turkey,
- For Assistant Specialist and Service Officer positions, having graduated from a four-year undergraduate program offered by a university or academy or being a graduate of an equivalent accredited school overseas; for lower-rank positions, being a high school graduate or a graduate of a high-school equivalent institution,
- Possessing the basic qualifications stipulated in the related article of the Banking Law.

At Halkbank, all employees are committed to shared values such as Conscientious Work, Tolerance, Respect for People, Trust and Sharing.

Job Applications

Vacant positions at the Bank are announced via newspaper and magazine advertisements as well as on human resources websites and Halkbank's website. These announcements clearly state the relevant information about the examinations that will be held for the positions. Those who pass the examination are interviewed when necessary to determine whether they possess the knowledge and experience required by the position.

Promotion

There are two types of promotion at Halkbank: promotion in title and/or promotion in position. The minimum requirements to be met by the employees to be promoted to a higher title and/or position from their current title and/or position are as follows: The availability of a vacant title and/or position to which the employee will be promoted, to have completed the minimum term of office in the current title and/or position, if applicable, to have achieved the necessary level of success at the end of the performance review, to hold the minimum education level and competencies required by the position and/or title to which the employee will be promoted, to have successfully completed the courses and/or seminars to which the employee will attend/attended in relation to the title and/or position to which the employee will be promoted, not to have received a title/position demotion in accordance with a Disciplinary Board decision within the two years prior to the promotion exam/promotion evaluation.

Performance Management

The performance management system that is used actively at the Bank allows Halkbank to link corporate performance to individual performance and to measure it at the individual level. Performance management is administered concurrently in two main avenues: numerical rating and competency evaluation. The performance evaluation results are used actively in the bonus system and training planning.

TRANSACTIONS WITH THE RISK GROUP

The details and related notes of the transactions the Bank carried out with its risk group in 2016 are provided in Footnote VII of Section Five of the Non-Consolidated Independent Auditor's Report.

INFORMATION ON SUPPORT SERVICES PROVIDERS

Under the "Regulation on Bank's Procurement of Support Services," Halkbank procured the following support services provided by the companies listed below:

- PayGateSearch services provided by Fineksus Bilişim Çözümleri Ticaret A.Ş.,
- Business continuity and disaster recovery services provided by IBM Global Services, İş ve Teknoloji Hizmetleri ve Tic. Ltd. Şti.,
- Software development and maintenance services for internet and telephone banking provided by V.R.P. Veri Raporlama Programlama Bilişim Yazılım ve Danışmanlık Hizmetleri Ticaret A.Ş.,
- Call Center Project software development and maintenance services provided by Asseco See Teknoloji A.Ş.,
- Operation, maintenance, technical support and software development services, legal monitoring system development and maintenance services provided by GMG Bilgi Teknolojileri Ltd. Şti.,
- ID Management System Product license purchase, and maintenance and support services from Bilgi Birikim Sistemleri Elektronik and Bilgisayar Endüstrisi Müh. Hiz. San. Tic. Ltd. Şti.,
- Demand and SLA management service provided by Signum Teknoloji Tanıtım ve Eğitim Ltd. Şti.,
- Purchase made for Bank units' need for security staff services, from Yavuz Koruma ve Özel Güvenlik Hizmetleri Tic. Ltd. Şti.,
- Credit card, debit card and member business information systems software service provided by Banksoft Bilişim Bilgisayar Hizmetleri Ltd. Şti.,
- Payment card systems and alternative distribution channels operations service provided by Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri A.Ş.,
- Call Center and Operations Center staffing service provided by KRM Yönetim Danışmanlık A.Ş.,
- Call Center and marketing operations-related outbound calling service provided by Global Bilgi Pazarlama Danışmanlık ve Çağrı Servis Hizmetleri A.Ş.,
- Purchase made for software development and maintenance services within the scope of the mobile banking project, from TMOB Bilişim Yazılım Teknoloji Sistemleri A.Ş.,
- Purchase made for collection management system software development and maintenance, from Intellect Design Arena Fz Llc.
- The service received from Hobim Digital Elektronik Hizmetleri A.Ş. for protecting, storing and destroying the Bank's physical archive.

PROFIT DISTRIBUTION POLICY

During its dividend distribution processes, the Bank complies with the Turkish Commercial Code, Banking Law, Capital Market Law, other applicable legislation and its Articles of Association.

The profit distribution policy is laid out by the Board of Directors and later submitted for approval to the General Assembly, before being disclosed to the public and issued on the corporate website.

The Bank shall distribute at least 5% of its distributable net profit for the period to shareholders in the form of cash and/or bonus shares. The profit share to be given to those individuals outside the shareholders is disclosed in the Board of Directors' profit distribution proposal.

The Board of Directors determines the most appropriate profit distribution policy by taking into consideration its capital adequacy ratio, equity capital, lending plans, market developments, and investor requests. The Bank drafts its profit distribution proposal in accordance with the profit distribution policy and in line with the provisions of the Articles of Association and subsequently presents this proposal to the General Assembly for approval.

The profit distribution date is set by the General Assembly upon the recommendation of the Board of Directors. The General Assembly may accept the date recommended by the Board of Directors or set another date within the legal deadline.

The Bank does not pay any dividend advance.

REPORT OF THE SUPERVISORY BOARD

SUPERVISORY BOARD REPORT REGARDING 2016 ACTIVITY AND FISCAL YEAR OF TÜRKİYE HALK BANKASI A.Ş.

Our Supervisory Board analyzed the Bank's 2016 activities and discovered the following:

- The size of the assets in the banking sector that was TRY 2,357,432 million as of 2015 year-end, increased by 15.8% and reached TRY 2,730,942 million as of 2016 year-end, while the loan volume that was TRY 1,484,960 million as of 2015 year-end increased by 16.8% and reached TRY 1,734,342 million as of 2016 year-end. Furthermore, total securities in the banking sector increased by 6.6% and reached TRY 351,552 million, while total deposit that was TRY 1,245,428 million as of 2015 year-end increased by 16.7% and reached TRY 1,453,660 million as of 2016 year-end, as the non-performing loans / total cash loans ratio reached 3.2%.
- In comparison to the abovementioned developments in the banking sector; as of 2016 year-end, the size of the assets of the Bank increased by 23.3% and reached TRY 231,441 million while the Bank's cash loans increased by 24.9% and reached TRY 155,061 million. It was determined that: The Bank increased its loan volume for SMEs, the driving force of Turkish economic growth, from TRY 48,290 million in 2015 to TRY 57,131 million in 2016, up 18.3%. The Bank ranked among the leaders of the sector with its 13.5% share in the SME loan market in 2016. Halkbank's total securities grew by 19.4% to TRY 30,766 million; total deposits rose by 18.5% to TRY 127,127 million, excluding banks' deposits; total deposits went up 23% to TRY 149,684 million, including banks' deposits; the ratio of NPL to total cash loans was 3.2%;
- In 2016, the Bank renewed the syndicated loan of EUR 476.5 million and USD 175 million, with the participation of 33 banks from 18 countries.
- In 2016, the Bank issued bank bonds with a total nominal value of TRY 4.7 billion, and issued its fifth bond (Eurobond) with a nominal value of USD 500 million and a maturity of 5 years with a fixed interest rate.
- One indicator of asset quality, the ratio of cash loans to total assets stood at 67% as of end-2016, although the sector average was only 63.5%. In 2016, the loan to deposit ratio was 122% versus a sector average of 119.3%.
- The Bank's shareholders' equity rose by 9.7%, from TRY 19,424 million at end-2015 to TRY 21,317 million at end-2016. Net profit for the period increased by 10.5% over the prior year to TRY 2,558 million as of end-2016.
- The number of credit cards issued rose to 3.9 million; POS devices went up to 317 thousand; contracted merchants increased to 297 thousand. The mobile app was upgraded in 2016 and garnered a Bronze Stevie for the most innovative mobile banking app at the Stevie Awards, which recognizes the top performers in the international business world.

- All books and records that the Bank is obliged to keep pursuant to all relevant provisions of legislation were kept in accordance with the legal requirements. Records and certified documents were stored properly, and the accounting and reporting systems were operated appropriately and effectively.
- The resolutions regarding the management of the Bank were recorded in the duly kept minutes book of the Board of Directors.
- The Bank's internal control, risk management and internal audit systems were operated appropriately and effectively through centralized and on-site audits.
- In 2016, the Bank opened 15 new branches and continued its growth activities while the total number of its branches in the country reached 959; an overseas representative office was inaugurated in Singapore.
- In 2016, the total number of staff members leaving the Bank due to retirement or for other reasons, was 869. On the other hand, 722 new personnel were employed to meet the Bank's human resources network needs, and the total number of employees reached 16,956, while the ratio of personnel costs to total operating costs fell from 19.7% in 2015 to 18.7% in 2016.
- In 2016, the ratio of employees having higher education degrees in the sector was 84.3% while this ratio at the Bank increased 70 basis points compared to the previous year and reached 83.4%,
- In 2016, the total person/day ratio regarding the training programs Bank personnel attended via "in class" and "distance learning" methods amounted 8.74 in 2015 while 16,433 personnel attended the training programs,

In conclusion; we submit the Supervisory Board Report that we have prepared pursuant to Article N.31 of the Bank's Articles of Association for the information of the General Assembly.

Istanbul,
17.02.2017

Best regards,

ZEKERİYA KAYA
Member of the Supervisory Board

FARUK ÖZÇELİK
Member of the Supervisory Board

* Excluding rediscount.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

1. Statement of Compliance with Corporate Governance Principles

Halkbank has implemented, since its initial public offering in May 2007, the principles set out in the “Corporate Governance Principles” published by the Capital Markets Board of Turkey. Halkbank achieved compliance with the regulations stipulated in the Turkish Commercial Code regarding Corporate Governance. The Bank is subject to the provisions of the corporate governance structures, processes and principles set forth in the “Regulation on Corporate Governance Principles for Banks” published by the Banking Regulation and Supervision Agency of Turkey (BRSA).

Halkbank has achieved compliance with the compulsory principles of the CMB’s “Corporate Governance Principles”. Furthermore, the Bank carries out activities to comply with the non-compulsory principles, and significantly practices all policies and measures while progressively continuing its activities in this field.

Since 2011, Halkbank has been provided with rating services on the issue of Compliance with Corporate Governance by SAHA Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. (SAHA Corporate Governance and Credit Rating Services Inc.) – authorized by the CMB. Concurrently, the Bank has been included in the top ranked stocks of BIST Corporate Governance Index. Halkbank increased its Corporate Governance Rating which was 9.26 over 10 in 2015, to 9.30 in 2016.

PART I – SHAREHOLDERS

2. Shareholder Relations Unit

Some 24.98% of the Bank’s outstanding shares began to be traded on the Borsa Istanbul as of May 10, 2007. Since that date, the Bank has been carrying out its activities in accordance with the provisions of the Corporate Governance Principles published by the Capital Markets Board. Halkbank’s free-float ratio rose to 48.93% following the secondary public offering in November 2012.

As announced via Public Disclosure Platform within the scope of the 11th Article of the Corporate Governance Communiqué and as per the provision stipulating that the Director of the Investor Relations Department must have a Level 3 Capital Market Activities License and Corporate Governance Rating License, and must be a full-time working director within the Corporation and must be appointed as a member of the Corporate Governance Committee; As part of this effort, the shareholder relations function of the Bank is executed by the Financial Institutions and Investor Relations Department and the Financial Accounting and Reporting Department as a Head Office function. The Investor Relations Unit which is formed from the Financial Institutions and Investor Relations Department, is responsible for establishing institutional relations with domestic and foreign investors that invest in equities and issued fixed-income securities. The other unit responsible for conducting relations with shareholders is the Public Disclosure and Shareholders Unit that is organized under the Financial Accounting and Reporting Department. Both departments are represented in the Corporate Governance Committee and report all information regarding their activities to this committee. The Bank conducts shareholder relations with a very active organization. Mr. Mehmet Hakan ATILLA is the Assistant General Manager in charge of the Investor Relations Unit and Mr. Yusuf Duran OCAK is the Head of the Department that controls the Public Disclosure and Shareholders Unit while both are Bank’s Corporate Governance Committee Members. Mehmet Hakan Atilla is the Investor Relations Department Director.

As the Investor Relations Unit continued its efficient communication efforts throughout 2016, participation was achieved in one international promotional organizations (roadshows) and 15 international one-on-one meeting organizations in and outside the country. Some 934 investors-analysts were contacted – 257 at the international organizations, 140 at the Bank headquarters, 313 via teleconference and 224 by electronic mail or phone – and 5,352 questions were answered. The questions were mainly about the Bank's financial structure, profitability/productivity situation, sectoral position, growth strategies, administrative structure, future expectations and about the country's economic and political structure.

In 2016, approximately 100 information requests – some of which were sent in writing to the Public Disclosure and Shareholders Unit under the structure of the Financial Accounting and Reporting Department, and some of which were sent via Halkbank Dialog and electronic mail – were answered. On average, 5 shareholders per day are given information on the phone.

Financial Accounting and Reporting Department:

NAME	POSITION	E-MAIL	PHONE
Yusuf Duran OCAK	Head of Department	YusufDuran.Ocak@halkbank.com.tr	+90 216 503 54 04
Zafer ERDEM	Manager	Zafer.Erdem@halkbank.com.tr	+90 216 503 52 10

Primary Activities of the Department:

- Facilitating the exercise of shareholder rights and conducting the relationships between the Board of Directors and the shareholders,
- Maintaining and updating shareholder records,
- Responding to written requests from shareholders,
- Carrying out the Bank's capital increase-related tasks,
- Fulfilling the legal and regulatory requirements regarding the General Assembly meetings,
- Publishing the material event disclosures,
- Preparing annual and interim reports.

Financial Institutions and Investor Relations Department:

NAME	POSITION	E-MAIL	PHONE
Mehmet Hakan ATILLA	Deputy General Manager	MehmetHakan.ATILLA@halkbank.com.tr	+90 216 503 59 00
Elvan ÖZTABAK	Head of Department	Elvan.OZTABAK@halkbank.com.tr	+90 216 503 59 50
Lena ÇİTELİ	Division Manager	Lena.CITELI@halkbank.com.tr	+90 216 503 59 02
Umut KOVANCI	Specialist	Umut.KOVANCI@halkbank.com.tr	+90 216 503 58 02

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

Primary Activities of the Department:

- Contributing to the positive evaluations about the Bank by organizing meetings in and outside the country with investors and analysts,
- Instructing the related units to make the necessary updates (in English and Turkish) at the Bank's website on the Investor Relations page, and announcing the developments about the Bank,
- Releasing information to investors and analysts about the Bank's quarterly financial results, preparing presentations and documents about the financial results, and having these posted on the website,
- Keeping track of the developments regarding the banking industry and performances of the competitor banks, and informing the top management,
- Closely monitoring the stock performance of the Bank, and informing the top management,
- Keeping track of the daily news on the media about the banking sector, global markets, economic developments, competitor banks and Halkbank,
- Answering the questions coming from the investors and analysts, and classifying the correspondence,
- Organizing teleconference or one-on-one meetings with the investors and analysts,
- Participating to nationwide and foreign roadshows,
- Managing the relations with international rating institutions.

3. Exercise of Shareholders' Right to Obtain Information

In order to facilitate the exercise of shareholders' right to obtain information effectively, all changes that may impact the financial and organizational structure of the Bank are announced on the Bank's website and on the Public Disclosure Platform. In addition, requests for information communicated to the Bank's units via telephone, mail or e-mail are responded to as soon as possible.

Questions received by phone or e-mail about the General Assembly Meetings, capital increases, dividend payments are answered. Furthermore, written answers are given to the shareholders and other third parties who make information requests such as annual report request and etc. The Investor Relations Unit promptly answers the questions received by phone or e-mail from the existing and/or potential investors, bank analysts and rating companies. Furthermore, the unit answers the questions regarding the Bank's administrative and financial structure by organizing one-on-one and/or group meetings.

Bank's website, set up both in Turkish and English (www.halkbank.com.tr), is updated regularly. The corporate profile, Corporate Governance, financial information and annual reports, media announcements, and information regarding the sustainability, and the products and applications that create value in the economy are given on the website.

The Bank's Articles of Associations do not provide for the appointment of special auditors as an individual right; no requests were received to date for the appointment of special auditors.

4. General Assembly Meetings

An Ordinary General Assembly Meeting was held during the fiscal year on March 31, 2016 with a participation rate of 73.15% of the Bank's share capital. The announcements for the meeting were published, 3 weeks earlier according to Capital Market Law No. 6362, in the Trade Registry Gazette of Turkey, two national newspapers, Public Disclosure Platform, the Central Registry Agency (CRA) - Electronic General Assembly System (EGAS) and the Bank's website. The meeting announcements were made in accordance with the provisions of the Laws and the Articles of Association.

The Bank's annual report and informational documents were made available to the shareholders prior to the General Assembly for their information and review in Public Disclosure Platform, Bank's website and Bank's Head Office. Background information on the members of the Board of Directors was disclosed via the Bank's website after the meeting. In addition, as per the Corporate Governance Communiqué that recently took effect, information on candidates for seats on the Board of Directors could not announce to the shareholders prior to the General Assembly meeting. Besides; information regarding all Members of the Board of Directors was given on the Bank's website after the General Assembly.

General Assembly Meeting was organized in a manner that would enable the shareholders to attend the meeting with minimum cost possible, and that would increase attendance. Persons who were entitled to attend the General Assembly Meeting, were given the opportunity to attend and vote via Electronic General Assembly System.

Shareholders exercised their right to ask questions during the General Assembly meetings and the Bank's management team responded to these questions. There is no provision in the Articles of Association stipulating that the General Assembly Meetings should be open to public including the stakeholders and media but without giving them right to speak in order to prevent any delays and to finish the meeting on time. Shareholders didn't submit a written agenda item proposal.

Information regarding the charitable contributions and donations made during the year and their beneficiaries was included as a separate agenda item at the General Assembly meeting and it was presented to the General Assembly.

The minutes of the General Assembly Meetings are made available to the shareholders on the Bank's website and at the Public Disclosure and Shareholders Unit. In addition, the minutes of the Ordinary General Assembly Meeting of the Bank, that was held on March 31, 2016 have been published on the Bank's website and the Public Disclosure Platform, the Central Registry Agency (CRA) EGAS and the Bank's website.

5. Voting Rights and Minority Rights

There are no privileged shares in the shares of the Bank. The Bank does not have any cross-shareholding relationship with any company that has voting rights in the General Assembly. Minority shares are not represented in the Bank's management. There is no provision in the Articles of Association stipulating that the shareholders who own a portion less than one twentieth of the capital should be given minority rights. Moreover, attention is paid to enable using minority rights within the scope of the Turkish Code of Commerce and CMB regulations.

6. Dividend Right

The procedures and principles governing the Bank's profit distribution are stipulated in Article 35 of the Bank's Articles of Association. The Bank's profit distribution policy is announced to the public on the Bank's website and annual report. In previous years, the portion of the distributable profit remaining after setting aside legal reserves has been paid to the shareholders as dividend. After the profit distribution policy is determined by the Bank's Board of Directors, it is presented to the General Assembly for approval and dividend is distributed to the shareholders within the timelines set out in the regulations. A dividend was paid to the Bank's shareholders pursuant to a resolution passed in the Ordinary General Assembly Meeting held on March 31, 2016. The Bank's profit distribution policy for the period ahead will be determined in light of Halkbank's equity position and the economic developments. There is no privilege in participating of the Bank's profit.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

7. Transfer of Shares

The Bank's Articles of Association do not contain any restrictions regarding the transfer of shares.

PART II - PUBLIC DISCLOSURE AND TRANSPARENCY

8. Disclosure Policy

Pursuant to the "Communiqué on the Principles of Material Event Disclosures" published by the Capital Markets Board of Turkey, the Bank's Disclosure Policy, which was prepared for the purpose of disseminating information to the public within the framework of the Corporate Governance Principles, was drawn up in accordance with the legislation provisions. Within this scope, The Bank's Disclosure Policy is carried out by the following units.

NAME	POSITION	UNIT
Yusuf Duran OCAK	Head of Department	Department of Financial Accounting and Reporting
Elvan ÖZTABAK	Head of Department	Department of Financial Institutions and Investor Relations
Neşet DERELİ	Head of Department	Department of Corporate Communication

Halkbank's Information Disclosure Policy, which sets out and defines four principal methods through which all stakeholders including shareholders, potential investors and the public at large are assured of having timely, accurate and complete information about the Bank, has been posted on the Bank's website.

Since the disclosure to be made by the Bank has the potential significance to impact the decision-making process of investors, it is essential for Halkbank that such disclosure reflects the latest, transparent, objective and accurate information. As part of this policy, the independently-audited quarterly financial statements and financial results presentations are announced through press releases as well as in the Investor Relations/Financial Information section of the Bank's website. Following the earnings announcements, Halkbank holds conference calls to discuss its quarterly financial performance, to provide guidance for its future performance and to inform stakeholders about the realization of the targets and expectations stipulated during the past periods. Future assessments are publicly announced in conformity with the provisions of the relevant legislation.

9. The Bank's Internet Site and Its Contents

Bank's web address, www.halkbank.com.tr is structured in conformity with the CMB Corporate Governance Principles' "Public Disclosure and Transparency" Section 2.1. Corporate Website provision. Trade Registry information, shareholders' and management structure, the Articles of Association, disclosure of material matters, Annual and interim reports, financial reports, General Assembly meeting agenda, attendance list and meeting minutes, power of attorney, and the Bank's policies and code of ethics are available on this website. Information given on the website is kept up to date. Furthermore, a webpage is also available in English for international investors.

10. Annual Report

Halkbank's Annual Report is generated in accordance with the Corporate Governance Principles and disclosed to the public.

PART III - STAKEHOLDERS

11. Informing the Stakeholders

Halkbank pays utmost attention to carry out effective, regular, continuous and safe communication with its stakeholders. All information that may have an impact on the Bank's financial and organizational structure is published on the Public Disclosure Platform and on the Bank's website. In addition, in response to individual requests, questions about the Bank are answered through face-to-face meetings, road shows, in-person meeting organizations, phone calls, teleconferences and e-mails. All stakeholders can refer to the related sections of the Public Disclosure Platform or the Bank's website or other means of communication to reach this information.

Employees are informed about the Bank's activities when deemed necessary using intra-company channels of communication. (i.e. electronic announcements, corporate portal, magazine, website). In addition, meetings are held to assess the Bank's targets and strategies for managers and employees on a periodic basis. Stakeholders can refer the Bank's activities that are in breach of related laws or regulations or rules of ethics to the Corporate Governance Committee and the Audit Committee through intra-company as well as other channels of communication.

12. Stakeholders' Participation in Management

Stakeholders' rights to participate in the Bank's management are safeguarded within the framework of the related laws, regulations and the Articles of Association. The Bank's operating principles and relationships with customers are carried out in accordance with the defined principles of ethics.

Problems, requests, opinions, suggestions and complaints about products and services delivered to customers are communicated to the Bank via phone, fax, mail, branch, e-mail and social media channels as well as through the Head Office units and official bodies. Using certain procedures, requests, opinions, suggestions and complaints communicated to the Bank are processed, evaluated and as a result feedback is provided as soon as possible.

Halkbank strives to deliver all banking services effectively and efficiently to continuously create value-added for its customers, shareholders and employees. As part of this effort, the Bank has developed a Quality Recommendation System for the purpose of improving the business processes and delivering more efficient and higher quality services. Employees are also encouraged to participate in management within the scope of this system. Employees submit their suggestions through this system and the suggestions that conform to the evaluation criteria are implemented.

13. Human Resources Policy

Halkbank's Human Rights and Human Resources Policy featured in the Human Rights Directive is the basis for the determination and implementation of the Human Resources Policy.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

No complaints were received from personnel regarding discrimination. Job descriptions and work distribution of personnel; as the performance evaluation and merit system are announced to employees and maintained in a portal that is accessible by personnel.

The Human Rights and Human Resources Policy was published on the corporate web site and thus disclosed to shareholders (https://www.halkbank.com.tr/yatirimci-iliskileri/images/channels/politikalar/hum_rig_hum_res.pdf).

The Bank and the trade union Öz-Finans İş had reached I. Period Collective Agreement for the period January 01, 2015-December 31, 2016; the II. Period Collective Agreement covering the period between January 01, 2017-December 31, 2018 was signed in December 2016. Trade unions have workplace representatives which charged with managing relations with the personnel.

14. Code of Ethics and Social Responsibility

The code of ethics consists of the principles and the regulations that Türkiye Halk Bankası A.Ş. employees need to follow when performing their duties. These principles aim at preventing any disputes or conflicts of interest that may arise between employees, clients and the Bank. Attitudes and behavior in violation of these rules are evaluated in accordance with the Discipline Regulation. Halkbank expects its employees to use common sense and the rules of goodwill with regard to the issues and circumstances that fall outside the scope of these rules.

Halkbank's "Code of Ethics" is a supplement to the job contract and an integral part of the Human Resources Directive. The Code of Ethics features detailed information on a range of issues—such as the principle of equality, confidentiality of customer information, conflict of interest, non-business activities, responsibilities of managers, and acceptance of gifts and personal benefits. The Code of Ethics is divided into chapters entitled Customer Relations, Competition, Protection and Confidentiality of Information, Employee Responsibilities, Offers and Gifts, Responsibilities to Employees, and Anti-Corruption Policy.

The Code of Ethics was disclosed to the general public via the Bank's web site.

With its social responsibility mission and high awareness of duty; Halkbank developed its corporate social responsibility activities within the framework of sustainability, social economic and environmental factors, and continued to add value to social and cultural structure of the country offering its experience in these fields to society's service.

With its 78-year track record of success in the banking industry, Halkbank has established itself as one of the most important supporters of SMEs and the real economy. In line with its mission of supporting entrepreneurs and in keeping with its social responsibility awareness, the Bank offers the necessary financial support to entrepreneurs through the Young, Bold, Master and Inventor Entrepreneur Loans—customized according to criteria such as education, age and business experience. The aim is to boost employment, support entrepreneurs in establishing new businesses, and encourage youth to actively participate in the economy. In addition, the Bank gave support to various social responsibility projects in fields such as education and culture. The corporate social responsibility projects the Bank undertook during the year include:

- Main Sponsorship of 27th Ankara International Film Festival (for the seventh time)
- Sponsorship of Global Education Summit
- Sponsorship of Museum of Hilya ash-Sharif and Rosary
- Sponsorship of Erzurum Cycling Youth and Sports Club
- Sponsorship of 29th Ahilik Week Celebrations
- Sponsorship of Solidarity Campaign for the Martyrs of July 15th
- Sponsorship of 6th International Balkans Conference
- Sponsorship of Festival of Turkish

Halkbank sponsored, for the fourth time, the “C’mon Put Your Ideas Into Practice - Business Idea Competition” that had been organized for the first time in 2013 with Halkbank-Gazi University collaboration.

The Bank became a sponsor of Yunus Emre Institute’s Festival of Turkish to promote the Turkish language, history, culture and arts across the world.

Halkbank delivered aid to 5 thousand children in 25 provinces as part of the project conducted jointly with Ministry of National Education.

As part of the “You Are Not Alone – Turkey’s Largest Family Project” sponsored by Halkbank, laptop computers were delivered to the children of martyred soldiers, in order to support their education with advanced technologies. During the project, a total of 750 laptop computers were distributed in 52 provinces; 290 of these computers were distributed in Ankara.

Halkbank continued to serve its SME website (www.halkbankkobi.com.tr) in order to provide premium service, comprehensive informational resources and other support to SMEs, and bring them together on a single platform. Providing assistance to all SMEs, whether a Bank customer or not, this platform offers complimentary advisory services to small and medium enterprises on a wide variety of subjects, from foreign trade and financial management to tax and legal issues.

Halkbank undertook and continued the Accessible Bank24 project to allow customers with disabilities to carry out their banking transactions conveniently on their own. People with physical disabilities can conduct all ATM transactions using Bank24s. Visually-impaired individuals can perform cash withdrawal or balance inquiry transactions via headphones utilizing the text-to-speech technology. Optionally, the customer may select to mask the account information on the ATM screen.

Our Accessible Bank24 ATMs serve visually-impaired customers at 128 locations and customers with physical disabilities at 156 service points throughout the country, At 61 locations 345 ATMs in total for both visually or physically impaired customers whether they are Halkbank customers or not.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

PART IV – BOARD OF DIRECTORS

15. Structure and Composition of the Board of Directors

NAME	POSITION	COMMENCEMENT DATE OF TERM*	DATE OF BECOMING INDEPENDENT MEMBER	ENDING DATE	COMMITTEE ASSIGNMENT
Recep Süleyman ÖZDİL	Chairman	August 28, 2015		Continuing	
Sadık TILTAK	Vice Chairman Independent Board Member	April 1, 2014	April 1, 2014	Continuing	Audit Committee-Chairman Credit Committee-Member
Ali Fuat TAŞKESENLIOĞLU	Board Member and General Manager	February 7, 2014		Continuing	Credit Committee-Chairman Asset/Liability Committee-Chairman
Cenap AŞCI	Board Member	March 31, 2016		Continuing	Corporate Governance Committee- Member
Doç. Dr. Ömer AÇIKGÖZ	Board Member	March 31, 2016		Continuing	Sustainability Committee- Vice Chairman
Yunus KARAN	Independent Board Member	April 1, 2014	March 31, 2016	Continuing	Compensation Committee-Chairman Credit Committee-Member
Mehmet AYTEKİN	Board Member	March 31, 2016		Continuing	Compensation Committee-Member
Mehmet Ali GÖKCE*	Board Member	March 31, 2016		January 23, 2017	Corporate Governance Committee- Member
Yahya BAYRAKTAR	Independent Board Member	March 31, 2016	March 31, 2016	Continuing	Sustainability Committee-Chairman Corporate Governance Committee- Chairman/Audit Committee-Member
Zekeriya KAYA	Member of the Supervisory Board	March 31, 2016		Continuing	
Faruk ÖZÇELİK	Member of the Supervisory Board	March 29, 2016		Continuing	

* Mehmet Ali GÖKCE resigned from his position at the Bank on January 23, 2017.
* The commencement date is the date on which the Members were first elected.

The Members of the Board of Directors are elected for three-year terms. The Members of the Board of Directors are authorized to enter into transactions in accordance with the provisions of the related articles of the Turkish Commercial Code. The backgrounds of the Members of the Board of Directors are presented in the Bank's annual report as well as on the Bank's website and announced to the public.

All Members of the Bank's Board of Directors possess the minimum qualifications required for Members of the Board of Directors as stipulated in the Capital Markets Board's Corporate Governance Principles.

In 2016, there was no breach of independence of the Independent Members of the Board of Directors.

There are no female members in the Board of Directors. There is no policy specifying a target ratio – that must be no less than twenty five percent – and time for female members to be in the Board of Directors. However, our Bank does not have any regulation that prevents our shareholders from electing a female member to the Board of Directors.

Whether the Members of the Board of Directors are permitted to hold positions outside of the Bank are determined in accordance with the Banking Law as well as the Regulations and Board Resolutions of the Banking Regulation and Supervision Agency of Turkey.

The Members of the Board of Directors can hold positions in representation of the Bank at the subsidiaries that the Bank has the right to be represented.

16. Operating Principles of the Board of Directors

The Board of Directors convenes at the request of the Chairman of the Board of Directors or the Vice Chairman or a Board member. The Board is obliged to convene at least once a month. The agenda of the Board of Directors is set by the Chairman or Vice Chairman calling the meeting at least 24 hours before the meeting and it is delivered to the Members along with the meeting invitation by hand or by the Board of Directors Secretariat Services Department.

The Board of Directors Secretariat Services Department enters the Board Decisions into the decision book. All discussions and briefings that take place during the meetings are recorded and kept by the Board of Directors Secretariat Services Department.

Neither the Articles of Association of the Bank nor the Regulation on Management Bodies gives any majority voting rights nor affirmative/negative veto rights to any Member of the Board of Directors.

In 2016, 42 Board of Directors Meetings were organized. The percentage of Members attending the Board of Directors Meetings is 99%.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

The authorities and the responsibilities of the members of the Board of Directors are primarily set out in the Bank's Articles of Association and also in the "Regulation on Management Bodies" adopted pursuant to Board of Directors Resolution No. 34-33 dated August 12, 2014. This Regulation sets out in detail the Bank's operating principles and the duties and authorities of the Board of Directors, the Credit Committee and the General Manager of the Bank. While the Internal Regulation on Management Bodies includes provisions on the Audit Committee, detailed regulations are stipulated in the Internal Regulation on the Duties, Powers, Operating Principles and Procedures of the Audit Committee adopted pursuant to Board of Directors Resolution No. 34-01 dated October 31, 2006.

The authorities and responsibilities of the Bank's Managers are stipulated in the existing regulations and also determined by the authorities delegated by the Board of Directors particularly in financial matters as well as the authorities delegated to the lower ranks by the General Manager, to whom these authorities were delegated in the first place.

Halkbank practices the 396th Article of the Turkish Code of Commerce that stipulates competition ban as well as the relevant provisions of the Banking Law. In 2016, Members of the Board of Directors did not make any transactions with the Bank, which would be breaching this scope. The Bank has an employers' liability insurance, with an upper limit of USD 75 million, which covers the Top Management's personal responsibilities and the faults they may make while carrying out their tasks.

17. Number, Structure and Independence of the Committees Formed by the Board of Directors

The Bank has established committees comprised of the members of the Board of Directors: Credit Committee, Audit Committee, Corporate Governance Committee, Compensation Committee and Sustainability Committee. In addition to these committees, there are a number of other executive and/or directing boards, committees and commissions in which the Board of Directors members do not take part.

Audit Committee was established within the Board of Directors of the Bank in order to help the Board of Directors carry out audit and monitoring activities. Audit Committee is composed of two non-executive Members of the Board of Directors. The units established within the scope of internal control, internal audit and risk management systems and the independent audit corporations submit regular reports to the Committee about the tasks they perform. In case of having issues that may have negative impacts on continuously and safely carrying out the activities of the Bank, and if there is a breach of legislation and internal regulations, Audit Committee is responsible for informing the Board of Directors about these issues.

In accordance with the Regulation on Lending Transactions of Banks published by the Banking Regulation and Supervision Agency, the Credit Committee consists of two members of the Board of Directors and the General Manager. The General Manager acts as the Chairman of the Credit Committee. In the absence of the General Manager, the Credit Committee is presided over by a primary member of the Credit Committee. The Chairman of the Credit Committee is responsible for the coordination of the Committee's activities to ensure that they are run in an effective and smooth manner.

The Remuneration Committee is composed of two Members of the Board of Directors. The Committee Chairman is an Independent Member of the Board of Directors while both Members of the Board of Directors are not executive members. Remuneration Committee effectively carries out its activities within the scope of monitoring, auditing and reporting the remuneration practices on behalf of the Board of Directors.

Corporate Governance Committee was established in order to; i) monitor Bank's compliance with the Corporate Governance Principles within the framework of Banking Regulation and Supervision Agency ("BDDK") and CMB's Corporate Governance Principles regulations, ii) make sure improving activities are carried out in this issue, and iii) advise the Board of Directors. Corporate Governance Committee also nominates the Independent Members of the Board of Directors to be elected for the Board of Directors.

Corporate Governance Committee is composed of 3 Members of the Board of Directors, 3 Assistant General Managers and 2 Unit Directors. Corporate Governance Committee Chairman is an Independent Member of the Board of Directors.

The mandatory Article numbered 4.5.1 of the Corporate Governance Principles exempts banks from the obligation of creating a Risk Assessment Committee. The Bank did not set up a separate Nominating Committee in 2016. As per Article numbered 4.3.2.3 of the Management Internal Regulations dated August 12, 2014, the Bank delegated the functions of Nomination Committee to the Corporate Governance Committee in compliance with the regulatory provisions of the Capital Markets Board and Banking Regulation and Supervision Agency. Committee convened 4 times in 2016.

Sustainability Committee was established under the Board of Directors in order to coordinate Bank's activities in sustainability.

Sustainability Committee is composed of 1 Independent Member of the Board of Directors, 1 Member of Board of Directors, 5 Assistant General Managers, and 6 Unit Directors. Committee's Chairman is an Independent Member of the Board of Directors and Vice Chairman is a Member of Board of Directors. Committee convened 6 times in 2016.

Meetings of the Committees of the Board of Directors are recorded in writing. Board of Directors provides all means and support necessary for the efficiency of the activities of the Committees.

Committees' members are determined by the Board of Directors. Detailed information about Committees structure, tasks and functioning is available in the Annual Report and on the website.

Considering the number of the Members of the Board of Directors of the Bank, a Member of the Board of Director can assume tasks in more than one committee.

CORPORATE GOVERNANCE PRINCIPLES COMPLIANCE REPORT

18. Risk Management and Internal Control Mechanism

Pursuant to Articles 23, 24, 29, 30, 31 and 32 of Banking Law No. 5411, banks are responsible for establishing and operating adequate and effective internal control, risk management and internal audit systems that cover all branches and all subsidiaries and affiliates subject to consolidation and that are compatible with the scope and structure of their activities and compliant with changing conditions in order to monitor and control their risks exposure.

In accordance with this, the Bank's Risk Management, Internal Control and Internal Auditing units carry out their activities in compliance with the above-mentioned articles and the Regulation on Internal Systems of Banks published in Official Gazette (No.29057 dated July 11,204) by the Banking Regulation and Supervision Agency of Turkey. The internal systems units carry out their activities under the Audit Committee, which consists of Board of Directors members with no executive functions. These activities intend to measure and eliminate potential risks.

Of Internal Systems units, the Departments of Internal Control and Risk Management operate under the supervision of the Deputy General Manager responsible for Internal Control and Risk Management while the Board of Inspectors operates under the supervision of the Audit Committee, which is formed to provide support in carrying out the control and supervision on behalf of the Board of Directors.

The Board of Inspectors oversees that the Bank carries out its activities in accordance with the Law and other related regulations as well as internal strategies, policies, principles and objectives; the smooth, adequate and effective functioning of the risk management and internal control systems.

The operations of the internal systems units for the measurement and elimination of risk and their findings regarding the safe operation of the Bank are evaluated by the Audit Committee every six months and are reported to the senior management of the Bank. In addition, the Audit Committee has regular meetings with the internal systems units throughout the year to analyze and evaluate the Bank's risks. Audit Committee's evaluation report is available in the Annual Report.

19. Strategic Goals of the Company

The Mission, Vision, Main Goals and Core Strategies of the Bank were adopted pursuant to Board of Directors Resolution No. 41-04 dated December 27, 2006 and disclosed to public on the Bank's website.

The Bank's annual budget and strategic plan are approved by the Board of Directors. Target achievement reports are biweekly tracked by the Board of Directors. Bank top management, periodically organizes performance meetings with branch and region managers in order to evaluate target achievement. Furthermore, in addition to the presentations made to the Board of Directors, financial statements and indicators regarding target achievement are daily available via technological infrastructure system.

20. Remuneration of the Board of Directors

In accordance with Article 23 of the Bank's Articles of Association, the Bank pays a monthly salary to the Members of the Board of Directors. The amount of such monthly salary is determined by the General Assembly. In 2015, gross TRY 8.8 million payment was made to the Members of the Board of Directors and to the Senior Executive Managers of the Bank. On the other hand, taking the banking sector practices into account; remuneration and all other benefits granted to the Members of the Board of Directors and to the managers who have administrative responsibilities are not announced on individual basis. The Remuneration Policy was created regarding the wage criteria of the Bank employees and published on the Bank's website after being submitted for the approval of the shareholders in the General Assembly. There is no detailed explanation in the Remuneration Policy about how the wage basis of the Members of the Board of Directors will be calculated. The remunerations of the Members of the Board of Directors are determined by the General Assembly. Within the limits in the Banking Law, it has been provided to use credit for the Board of Directors. Remunerations and all benefits given to the Members of the Board of Directors and Executives are publicly announced in the Annual Report and on the website.

AUDIT COMMITTEE'S ASSESSMENT ON THE OPERATION OF THE INTERNAL CONTROL AND COMPLIANCE, INTERNAL AUDIT AND RISK MANAGEMENT SYSTEMS AND INFORMATION ABOUT ITS ACTIVITIES IN 2016

Board of Inspectors

Türkiye Halk Bankası A.Ş.'s Board of Inspectors carries out its activities via the Audit Committee under the Board of Directors.

The Board of Inspectors audits, periodically with a risk-based approach without any limitations, all of the Bank's activities and units including the domestic and overseas branches and Head Office departments to provide assurance to the senior management regarding the compliance of the Bank's activities with the law and other related regulations and the Bank's internal strategies, policies, principles and objectives as well as the effectiveness and adequacy of the internal control and risk management systems; identifies the deficiencies, errors and misconduct; and offers its opinions and recommendations for preventing the recurrence of similar situations and ensuring the effective and efficient use of the Bank's resources.

As of 31.12.2016; with 180 bank examiners coordinated by the 4 Assistant Directors and 1 IT Team Leader under the Chairman of the Board of Inspectors, the Board of Inspectors carries out its activities within the framework of ISO 9001:2015 Quality Management System Standards, and with a risk oriented approach, in three separate methods complementing each other: On-site Audit, Centralized Audit, and Information Technologies Audit.

On-site audit activities are carried out via working programs prepared in line with the Bank's targets, strategies and policies, as they are performed in accordance with the annual audit plan. In on-site audit activities, Bank's reporting systems are utilized besides the special reports like Loan Report Package, Operation Report Package issued by the Centralized Audit Team. Thus, bank examiners can work more effectively and efficiently.

Centralized Audit activities are carried out by issuing and reviewing various special reports in order to early detect potential frauds and operational faults focusing on transactions with high risk level, and to prevent potential actions that would damage the benefits of deposit holders and Bank's shareholders.

Within the scope of Information Technologies Auditing; assessment is made regarding the efficiency, sufficiency and compliance of the information systems of the Bank and corporations subject to consolidation.

Within the framework of risk oriented audit approach; based on the 2016 Audit Plan; 593 Branches, 7 Region Coordination Units, 23 Unit Directors' Offices, 11 Associate Companies, 2 Foreign Branches, 3 Exchange Operation Centers, 19 Cash Operation Centers, one Compliance Unit were audited, and 3 process audits were made. Within the scope of Information Technologies; within the framework of 154 control targets of the 22 COBIT process, 1,247 control points were examined, and 70 application audits were made.

In 2016, the Board of Inspectors carried out centralized and on-site audit activities or examinations and investigations regarding the transactions discovered after warnings and complaints.

With the help of the Symptom Monitoring System established under the structure of the Board of Inspectors, controls are made regarding the up to date risk status of the symptoms found during audit, and activities performed by relevant units to eliminate such symptoms. Thus, not only are the symptoms reported, but actions are taken to eliminate them, as well.

Training opportunities in and outside the Bank are provided to the Board of Inspectors Members who perform audit activities in various units of the Bank, having the opportunity to gain experience in every field of banking profession. As a result; the Board of Inspectors Members are supported to receive various certifications, and the Bank is provided with a qualified workforce.

In addition to all these issues, Halkbank Board of Directors' management declarations are made regarding the information systems and banking processes of the Bank, are effective, sufficient and compliant. Auditing is performed on accuracy of the data used in the Internal Capital Adequacy Evaluation Process Report, sufficiency of the systems and processes, and whether data, systems and processes allow correct information and analysis while the process of issuing the consolidated and non-consolidated financial statements of the Bank is audited. Also within this framework; the results of the report issued by the Bank within the scope of "Internal Capital Adequacy Evaluation Process (İSEDES)" scope, is effectively evaluated by the Board of Inspectors in the validation process.

By means of the effective and efficient audit it will perform with high responsibility and sense of duty, in line with the targets and policies that will be determined by the Bank's top management, the Board of Inspectors will continue to successfully perform the internal audit function within the structure of Türkiye Halk Bankası A.Ş. which is one of the banks having the widest branch network of the banking sector in our country.

Internal Control

The Bank's Internal Control Department performs the tasks of monitoring and making evaluations through financial, operational and other control points and reporting its findings to the management levels simultaneously, impartially and objectively with the oversight of the Audit Committee within the framework of the provisions of the Banking Law No: 5411 and the Banking Regulation and Supervision Agency of Turkey's Regulation on the Internal Systems of Banks in accordance with generally-accepted professional standards and rules of business ethics with a proactive and preventative approach with the purpose of protecting the Bank's assets; ensuring that the Bank's operations are conducted in an effective and efficient manner in compliance with the law and other relevant legislation, the Bank's internal policies and rules and banking best practices; and ensuring the reliability and integrity of the accounting and reporting systems and prompt access to the data.

Risk-oriented control activities carried out at the Head Office Units, Regional Coordinator's Offices, all domestic and overseas branches, domestic and overseas subsidiaries, and cash operations centers, supported by reports generated from the central system database and cross checks, create an effective internal control infrastructure.

Control instructions which determine the scope of on-site control activities and control points in line with the legislation and Bank targets; within this framework, laws, regulations, Banking Regulation and Supervision Agency ("BDDK") regulations and up to date Bank legislation is tracked while changes are incorporated into control guidelines and control points.

Business processes are analyzed and opinions and recommendations for increasing efficiency and productivity are communicated to the related departments. Internal Control activities' results are periodically analyzed, and branch and topic based risk assessments are regularly presented to the top management.

AUDIT COMMITTEE'S ASSESSMENT ON THE OPERATION OF THE INTERNAL CONTROL AND COMPLIANCE, INTERNAL AUDIT AND RISK MANAGEMENT SYSTEMS AND INFORMATION ABOUT ITS ACTIVITIES IN 2016

With the online reporting project, the aim is to: i) make internal control reporting through a web based system in an electronic environment, efforts to take action were completed. As of January 2, 2017, all branches have transferred to the İKSİR (Internal Control Transfer Analysis Reporting) program. All transactions are performed over the system and stored in the database, which will accelerate the transfer of findings to the relevant units, and the controllers' and branches' performance of their reporting responsibilities.

In addition to the controls performed on-site, the scope of the audit performed from the center is expanded. Furthermore, it will be possible to enter the findings in the database in a retrospective manner to create region- and branch-based risk maps and conduct analyses in different subject areas. Data yielded by the banking system is analyzed; risks that cannot be prevented by the system are identified and solution proposals are shared with the relevant units. The scenario results created by the risk elements, which either cannot be eliminated by the system or require a long time, are either controlled directly from the center or forwarded to the internal controllers responsible in the relevant unit to be controlled on-site.

Within the scope of the controls made to check the compliance with the legislation, compliance controls are made to see if the Bank's existing and future activities and new transactions and products comply with the Law and other relevant legislation, the internal policies and rules of the Bank, and banking trends. Bank employees are informed as soon as possible of any changes in the law and other applicable legislation.

IT control group, organized at the level of Directorate, Information Systems, Process and Financial Reporting Controls team actively checks the communication channels and information systems, carries out activities with a 8 person team to make sure that data obtained within the Bank is reliable, complete, trackable, consistent and suitable (to meet the needs), and that relevant units and staff members can promptly access the data. The scope of the activities carried out within the framework of the information system controls and financial system controls were included within the scope of continuous controls in the Department.

Upon the requests of the Bank's top management, the Board of Inspectors, Headquarters Units and Region Coordinators in various topics, Internal Controllers investigate the particular issues detected during the controls and report the results. During the investigation, information and documents about the investigated issue are evaluated in detail while issues that need to be investigated by an auditor are submitted to the Board of Inspectors, and issues that can be resolved with administrative measures are submitted to the relevant units of the Headquarters.

As of 31.12.2016, the Internal Controls Department comprehensively carries out its control activities with its staff of 192 people. The staff has 1 Director (Head), 4 Department Managers, 83 Senior Internal Controllers, 51 Internal Controllers and 50 Assistant Internal Controllers. Furthermore, there are 3 office personnel. With the intra-/extra-curricular training programs, personnel's professional and personal development is supported as they are encouraged to get certification in various fields.

Compliance

The Bank Compliance Program was issued in order to fulfill the Bank's responsibilities within the scope of Law no. 5549 On Prevention of Laundering Proceeds of Crime. Under the Compliance Program, the risk management, monitoring and control activities, and activities for complying with national and international legislation regarding the prevention of laundering proceeds of crime and financing of terrorism are performed by the MASAK Compliance Unit which reports to the Audit Committee.

Risk Management

The Risk Management Department which is responsible for executing risk management functions conducts its activities in accordance with the provisions of the Regulation on Internal Systems of Banks and Their Internal Capital Adequacy Evaluation Process published in Official Gazette No. 29057 dated July 11, 2014 by the Banking Regulation and Supervision Agency of Turkey under the supervision of the Audit Committee.

The Audit Committee has examined the reports on credit, market and operational risk elements generated by the Risk Management Department as well as the results of the scenario analyses and stress tests.

Within this scope, it has been determined by the Audit Committee that:

- The Bank's Basel II Capital Adequacy ratio is at compatible levels with its risk appetite,
- As a result of the validation efforts performed in order to measure the effectiveness of the Bank's internal rating systems, the results generated by the Bank's rating systems are generally satisfactory,
- Loan default rates are at reasonable levels,
- The Bank has achieved full compliance with the ratios and limits calculated within the scope of Basel III regulations,
- As a result of the stress tests and scenario analyses conducted, the Bank's equity capital is adequate for the Bank to continue its activities safely,
- The risks taken by the Bank are within the risk appetite limits set by the Board of Directors,
- Considering the ratings of the companies the Bank lent to and the risk mitigation elements established, the Bank paid adequate attention to the element of security in its placement activities,
- The results of the "Internal Capital Adequacy Assessment Process (ICAAP)" report, commissioned to determine the Bank's economic capital requirements consistent with its target rating score, support the conclusion that the Bank has adequate equity to cover its risk exposure,
- As a result of the structural interest rate risk analyses conducted to measure the interest rate risk inherent in banking calculations, the impact of changes in interest rates on the Bank's economic value is below the limits stipulated by the Banking Regulation and Supervision Agency,
- Based on the results of the Value at Risk analysis conducted by the Bank with an internal model to measure market risk, the market risk the Bank is exposed to is at levels that can be covered by the Bank's equity,
- The Bank is fully compliant with the liquidity ratios mandated by the Banking Regulation and Supervision Agency,
- In light of the information recorded in the operational risk loss database, the Bank's operational loss incurred between January 2016 and December 2016 is at acceptable levels.

YAHYA BAYRAKTAR

*Independent Board Member
Member of Audit Committee*

SADIK TILTAK

*Vice Chairman
Independent Board Member
Chairman of Audit Committee*

FINANCIAL STANDING, PROFITABILITY AND DEBT-SERVICING CAPABILITY

Composition of Assets

As a result of its activities in 2016, the Bank's total assets grew by 23.3% to reach TRY 231,441 million.

The Bank's major placement categories consist of loans (TRY 158,354 million; 68.4% of assets), securities portfolio (TRY 33,216 million; 14.4% of assets) and liquid assets (TRY 31,660 million; 13.7% of assets) while the share of other placements stands at 3.5%.

The major increases as of year-end 2016 compared to the previous year were registered in Turkish lira loans (TRY 31,609 million).

The Bank's loans increased by 24.9% as of year-end 2016 while its loan-to-deposit ratio stood at 105.4%.

The Bank's non-performing loans amounted to TRY 5,140 million as of year-end 2016 and non-performing loans/total loans ratio stood at 3.17%.

Composition of Liabilities

The Bank's resources consist primarily of deposits (TRY 150,263 million; 64.9% of liabilities), non-deposit resources (TRY 51,589 million; 22.3% of liabilities) and shareholders' equity (TRY 21,317 million; 9.2% of liabilities) while the share of other liabilities stands at 3.6%.

As of 2016 year-end; significantly increasing figures compared to the previous period were: deposits increasing TRY 28,117 million, and loans increasing TRY 9,437 million.

Deposits are the Bank's most important funding source. Different types of deposits fared as follows in 2016: Foreign currency exchange deposit accounts, which comprise 31.7% of the total, rose by TRY 13,194 million; savings deposits, which comprise 27%, went up TRY 5,378 million; banks' deposits, which comprise 15.2%, increased TRY 8,182 million; commercial deposits, which comprise 17.1%, rose by TRY 1,986 million; official agencies' deposits, which comprise 6.4%, decreased TRY 846 million.

TRY accounts, with a share of 58.7%, constituted the majority of the Bank's deposits while foreign currency accounts made up the remaining 41.3% of deposits. The share of demand deposits in total deposits stands at 19.2%.

Composition of Profits

The Bank closed 2016 fiscal year with a net profit of TRY 2,558 million. The major income and expense items that constituted the profit for the period are discussed below.

Interest income from placements, the Bank's most important source of income, stood at TRY 16,954 million as of the end of the year.

Loans contributed TRY 14,256 million to interest income with a share of 84.1% while securities contributed TRY 2,539 million, with a share of 15%; interest income from loans increased by TRY 2,998 million.

The largest item comprising the Bank's interest expenses was interest paid to deposits with TRY 8,181 million and 81.8% share of the total. The interest paid to deposits, was the primary expense item for the Bank in 2015. Total interest expenses with the TRY 1,816 million categorized as other interest expense added up to TRY 9,997 million for the year.

The Bank's net interest income as of the end of the year was TRY 6,957 million.

Net fee and commission income surged by 15.2% on the previous year and reached TRY 1,375 million.

The Bank set aside provisions of TRY 2,106 million against its loans and other receivables for its activities in 2016.

Personnel expenses, which constitute a major portion of the other operating expenses of TRY 3,864 million, increased by 15.9% on the previous year and reached TRY 1,763 million.

As a result of its activities in 2016, the Bank earned pre-tax profit of TRY 3,352 million and, after provisioning TRY 793 million for taxes, a net profit of TRY 2,558 million. The Bank maintained its sustainable profitability in 2016.

Solvency

The widespread and strong deposit base which is the most important resource for the Bank acted as an efficient instrument for covering short-term debt. The existing customer base is the most important factor the Bank relies on for the procurement of the necessary resources. The Bank's core deposit rate is around 95%; this ratio makes a large contribution to the Bank's liquidity.

The 2016 year end capital adequacy ratio of the Bank was 13.1%, above the minimum legal ratio. The equity structure, which is strengthened with sustainable profitability and the well-planned dividend distribution policy of the Bank, is on a level that can compensate the increased value subject to credit risk.

Halkbank is a Turkish government debt securities market maker and with the help of its strong capital and financial structure, it has a special position in the sector with regard to borrowing and fund procurement.

With many years of banking experience, Halkbank has a respectable position both in Turkey and in international markets. The Bank's relations with nearly two thousand correspondent banks, presence abroad and extensive branch network across Turkey show the strength of its strong organizational structure in terms of fund procurement.

In 2016, Halkbank continued its efforts to increase the quality of its assets while diversifying its existing and alternative funding sources.

RISK MANAGEMENT POLICIES BY RISK TYPES AND RISK MANAGEMENT INFORMATION

The Bank developed its risk policies and implementation principles in accordance with the provisions of Article 36 of the Regulation on Internal Systems of Banks and Their Internal Capital Adequacy Evaluation Process published in the Official Gazette No. 29057 dated July 11, 2014.

Halkbank's risk policies aim to ensure that the Bank conducts its operations in accordance with the procedures and principles stipulated in the Banking Law and in line with its mission and goals of profitability and productivity while safeguarding the interests of the Bank's depositors and the shareholders to the maximum extent possible.

The "Risk Management Policies and Implementation Procedures" that became effective pursuant to Board of Directors Resolution defines the following:

- Risk appetite of the Bank,
- Authorization limits with regard to credit transactions,
- Sector-specific limits,
- Principles of risk analyses to be conducted in relation to the rating systems used in the Bank's lending process and the validation of these systems,
- Treasury operations stop-loss limits for capital markets positions and foreign currency positions, and limits for capital markets and money market transactions,
- Limits on the Bank's foreign exchange position and counterparty risk in transactions with correspondent banks,
- Limits on the Bank's liquidity and structural interest rate risk,
- Limits to contain the impact of interest rate shocks on the Bank's economic value,
- Limits on liquidity ratios pursued in accordance with the Liquidity Emergency Action Plan,
- The Bank's risk tolerance range regarding potential losses that may result from operational risks.

The Bank periodically checks compliance with these limits.

Detailed information on the Bank's risk management activities is available in Chapter Four of the Non-consolidated Independent Audit Report.

RATINGS

NOTES

FITCH RATINGS	
Foreign Currency Long Term	BB+
Outlook	Stable
Foreign Currency Short Term	B
Local Currency Long Term	BBB
Outlook	Stable
Local Currency Short Term	F3
National Long Term	AAA (tur)
Foreign Currency Long Term Stock Rating	BB+
Support	3
Support Rating Floor	BB+
Viability Rating	bb+
MOODY'S	
Baseline Credit Assessment (BCA)	Ba2
Long Term Deposit Rating Domestic Currency	Ba1
Short Term Deposit Rating Domestic Currency	Not-Prime
Long Term Deposit Rating Foreign Currency	Ba2
Short Term Deposit Rating Foreign Currency	Not-Prime
Long Term Rating Foreign Currency Bond	Ba1
Outlook	Stable
JCR EURASIA	
Long Term International Foreign Currency	BBB-(Stable Outlook)
Long Term International Local Currency	BBB-(Stable Outlook)
Long Term National Local Rating	AAA(Trk)(Stable Outlook)
Short Term International Foreign Currency	A-3(Stable Outlook)
Short Term International Local Currency	A-3(Stable Outlook)
Short Term National Local Rating	A-1+ (Trk)(Stable Outlook)
Sponsored Support	1
Stand-Alone	A

FIVE-YEAR SUMMARY FINANCIAL INFORMATION

ASSETS (TRY MILLION)	2012	2013	2014	2015	2016
Liquid Assets	15,120	21,825	21,560	25,838	31,660
Securities	22,871	28,419	26,741	27,908	33,216
Loans	65,894	84,848	101,767	126,745	158,354
Subsidiaries, Affiliates and Jointly-Controlled Subsidiaries	1,887	2,427	2,669	2,913	3,146
Fixed Assets	1,163	1,117	1,245	2,542	2,767
Other	1,347	1,308	1,441	1,782	2,297
Total Assets	108,282	139,944	155,423	187,729	231,441
LIABILITIES (TRY MILLION)					
Deposits	79,974	100,756	103,708	122,146	150,263
Money Markets	381	771	8,413	8,410	17,847
Borrowings	7,303	13,615	12,630	20,262	18,968
Funds	1,408	1,489	1,769	1,964	2,340
Marketable Securities Issued	2,038	4,165	6,172	8,905	12,434
Other	4,855	5,002	6,195	6,619	8,272
Shareholders' Equity	12,323	14,146	16,536	19,424	21,317
Net Period Profit/Loss	2,595	2,751	2,206	2,315	2,558
Total Liabilities	108,282	139,944	155,423	187,729	231,441

Türkiye Halk Bankası Anonim Şirketi

Unconsolidated Financial Statements

As of and For the Year Ended 31 December 2016

With Independent Auditors' Report Thereon

(Convenience Translation of Unconsolidated Financial Statements and Related Disclosures and Footnotes Originally Issued in Turkish)



Akis Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
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**Convenience Translation of the Independent Auditors' Report Originally
Prepared and Issued in Turkish to English (See Note I in Section Three)**

To the Board of Directors of Halk Bankası Anonim Şirketi;

Report on the Unconsolidated Financial Statements

We have audited the accompanying unconsolidated financial statements of Türkiye Halk Bankası Anonim Şirketi ("the Bank") which comprise the unconsolidated statement of financial position as at 31 December 2016 and the unconsolidated statement of income, unconsolidated statement of income and expense items accounted under shareholders' equity, unconsolidated statement of changes in shareholders' equity, unconsolidated statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Unconsolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the unconsolidated financial statements present fairly, in all material respects, the financial position of Türkiye Halk Bankası AŞ as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with BRSA Accounting and Reporting Legislation.

Report on Other Legal and Regulatory Requirements

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

Pursuant to the fourth paragraph of Article 402 of the TCC; the Board of Directors provided us the necessary explanations and required documents in connection with the audit.

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of KPMG International Cooperative

Alper Güvenç
Partner, SMMM

13 February 2017
İstanbul, Turkey

Additional paragraph for convenience translation to English:

The accounting principles summarized in Note I Section Three, differ from the accounting principles generally accepted in countries in which the accompanying unconsolidated financial statements are to be distributed and International Financial Reporting Standards ("IFRS"). Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with accounting principles generally accepted in such countries of users of the unconsolidated financial statements and IFRS.

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

TÜRKİYE HALK BANKASI AŞ THE UNCONSOLIDATED FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

- The Bank's Headquarter Address:
Barbaros Mahallesi Şebboy Sokak
No:4 Ataşehir/İstanbul
- The Bank's Contact Phone and Facsimile:
Phone : 0216 503 70 70
Facsimile : 0212 340 93 99
- The Bank's Website and E-mail Address:
Website: www.halkbank.com.tr
E-mail Address: halkbank.ir@halkbank.com.tr

The unconsolidated year-end financial report designed by the Banking Regulation and Supervision Agency in line with Communiqué on Financial Statements to be Publicly Announced and the Accompanying Policies and Disclosures consists of the sections listed below:

Section One	: GENERAL INFORMATION ABOUT THE BANK
Section Two	: UNCONSOLIDATED FINANCIAL STATEMENTS
Section Three	: EXPLANATIONS ON ACCOUNTING POLICIES OF THE BANK
Section Four	: INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK
Section Five	: EXPLANATIONS AND NOTES RELATED TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
Section Six	: OTHER EXPLANATIONS AND NOTES
Section Seven	: INDEPENDENT AUDITORS' REPORT

Unless otherwise indicated, these unconsolidated financial statements and explanatory footnotes and disclosures as of 31 December 2016 are prepared in thousand Turkish Lira and they have been independently audited and presented below in accordance with the Communiqué on Banks' Accounting Practice and Maintaining Documents, Banking Regulation and Supervision Agency regulations, Turkish Accounting Standards, Turkish Financial Reporting Standards and related communiqués and interpretations including the Banks' records.

İstanbul, 13 February 2017.

R. Süleyman Özdil Chairman of the Board of Directors	Sadık Tiltak Vice Chairman of the Board of Directors, Chairman of the Audit Committee	Yahya Bayraktar Member of the Board of Directors, Member of the Audit Committee	Ali Fuat Taşkesenlioğlu Member of the Board of Directors, Chief Executive Officer	Mustafa Aydın Financial Management and Planning Vice Chief Executive Officer	Yusuf Duran Ocak Financial Accounting and Reporting Department Head
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For any questions regarding this financial report, contact details of the personnel in charge is given below:

Name/Title : Arman Acar / Senior Specialist
Tel No : 0216 503 57 59
Fax No : 0212 340 09 90

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TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

SECTION I: GENERAL INFORMATION ABOUT THE BANK

I. ESTABLISHMENT DATE OF THE BANK, INITIAL ARTICLES OF ASSOCIATION, HISTORY OF THE BANK INCLUDING THE CHANGES OF THESE ARTICLES

Türkiye Halk Bankası Anonim Şirketi (the “Bank” or “Halkbank”) was established in Turkey in accordance with the law no: 2284 in 1933 and began its operations in 1938 and still continues its activities as a public commercial bank.

II. CAPITAL STRUCTURE OF THE BANK, SHAREHOLDERS THAT RETAIN DIRECT OR INDIRECT CONTROL AND MANAGEMENT OF THE BANK SOLELY OR TOGETHER, CHANGES ABOUT THESE ISSUES DURING THE YEAR AND DISCLOSURES ABOUT THE GROUP

The capital of the Bank is controlled directly by the Republic of Turkey Prime Ministry Privatization Administration.

As of 31 December 2016 the shareholders' structure and their respective ownerships are summarized as follows:

Shareholders	31 December 2016	%	31 December 2015	%
Privatization Administration ^(1,2)	638.276	51,06	638.276	51,06
Public shares ⁽²⁾	611.639	48,93	611.640	48,93
Other shareholders ⁽³⁾	85	0,01	84	0,01
Total	1.250.000	100,00	1.250.000	100,00

⁽¹⁾ As per the decree of the Higher Council of Privatization numbered 2007/8 and dated 5 February 2007; 25% of the public shares that were previously held by the Privatization Administration were privatized by a public offering and the Bank's shares were registered to Capital Market Board records by decision number 16/471 dated 26 April 2007. The shares were traded on the Borsa Istanbul AŞ as of 10 May 2007. As per the decree of the Higher Council of Privatization numbered 2012/150 and dated 4 October 2012; 23,92% of the public shares that were previously held by the Privatization Administration were privatized by a second public offering and privatization was completed on 21 November 2012.

T.C. It was decided to transfer the Bank of Turkey's Privatization Administration to the Turkey Asset Fund, which will be managed by the Turkish Asset Management Company after the necessary permissions are obtained by subtracting 51,11% of the shares with nominal value of TRY 638,826 from the privatization scope and program.

⁽²⁾ The shares of the Prime Ministry Privatization Administration amounting TRY 550 have been included in Public shares. With that shares, the total shares amounting TRY 638.826 that held by the Privatization Administration is the 51,11% of the total shares.

⁽³⁾ TRY 83 of the shares which are among the “Other Shareholders” group belong to our shareholders whose shares do not trade on the exchange (though these shareholders have been dematerialized them in their own accounts) while TRY 2 of which belong to our shareholders whose shares are monitored under the DESA in the presence of MKK due to the ongoing legal action.

According to Turkish Commercial Code, 3rd Sub-article added to Article 2nd of the Law No: 6327 and 4603 dated 13 June 2012, The Privatization High Council public shares are controlled and represented by the Minister until the sales completion of these shares.

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

III. EXPLANATIONS REGARDING THE BANK'S CHAIRMAN AND MEMBERS OF THE BOARD OF DIRECTORS, AUDIT COMMITTEE MEMBERS, CHIEF EXECUTIVE OFFICER AND EXECUTIVE VICE PRESIDENTS AND THEIR SHARES ATTRIBUTABLE TO THE BANK, IF ANY ⁽¹⁾

Name	Title
R. Süleyman ÖZDİL	Chairman of the Board of Directors
Sadık TILTAK	Vice Chairman of the Board of Directors, Independent Member of the Board of Director, Chairman of the Audit Committee
Ali Fuat TAŞKESENLIOĞLU	Member of the Board of Directors, Chief Executive Officer
Yunus KARAN	Member of the Board of Directors, Permanent Member of the Credit Committee, Head of the Pricing Committee, Independent Member of the Board of Directors
Cenap AŞÇI	Member of the Board of Directors
Mehmet AYTEKİN	Member of the Board of Directors
Ömer AÇIKGÖZ	Member of the Board of Directors
Yahya BAYRAKTAR	Independent Member of the Board of Directors, Member of the Audit Committee
Faruk ÖZÇELİK	Member of the Audit Committee
Zekeriya KAYA	Member of the Audit Committee
Selahattin SÜLEYMANOĞLU	Executive Vice President, Banking Operations (on commission)
Mehmet Akif AYDEMİR	Executive Vice President, Loan Allocation and Management
Mehmet Hakan ATILLA	Executive Vice President, International Banking
Erdal ERDEM	Executive Vice President, Artisans and SME Banking (on commission)
Salim KÖSE	Executive Vice President, Legal Affairs and Proceedings
Ömer Faruk ŞENEL	Executive Vice President, Support Services (on commission)
Murat OKTAY	Executive Vice President, Corporate and Commercial Marketing
Mehmet Sebahattin BULUT	Executive Vice President, Loan Policies and Risk Monitoring
Hasan ÜNAL	Executive Vice President, Retail Banking
Mustafa AYDIN	Executive Vice President, Financial Management and Planning, Information Systems and Technical Services (on commission)

⁽¹⁾ People mentioned above do not own any shares in the Bank's capital.

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

a) The professionals to the Bank's top management who have assigned to their position in 2016 are listed with titles and dates of assignment.

Name	Title	Assignment Date
Cenap AŞCI	Member of the Board of Directors	31 March 2016
Mehmet Ali GÖKÇE	Member of the Board of Directors	31 March 2016
Mehmet AYTEKİN	Member of the Board of Directors	31 March 2016
Doç.Dr.Ömer AÇIKGÖZ	Member of the Board of Directors	31 March 2016
Yahya BAYRAKTAR	Member of the Board of Directors	31 March 2016
Zekeriya KAYA	Member of the Audit Committee	31 March 2016

b) The professionals from the Bank's top management who have left their position in 2016 are listed with titles and dates of leaving.

Name	Title	Unassignment Date
Süleyman KALKAN	Vice President of the Board of Director/ Independent Member of the Board of Directors	31 March 2016
İsmail Erol İŞBİLEN	Independent Member of the Board of Director	31 March 2016
Emin Süha ÇAYKÖYLÜ	Member of the Board of Director	31 March 2016
Dr. Nurzahit KESKİN	Member of the Board of Director	31 March 2016
Dr. Ahmet YARIZ	Member of the Board of Director	31 March 2016
Mehmet Ali GÖKÇE	Member of the Board of Director	23 January 2017
Ali ARSLAN	Member of Audit Committee	31 March 2016
Murat UYSAL	Vice President	9 June 2016
Erol GÖNCÜ	Vice President	12 August 2016

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

IV. INFORMATION ABOUT THE PERSONS AND INSTITUTIONS THAT HAVE QUALIFIED SHARES ATTRIBUTABLE TO THE BANK

Except for the Prime Ministry Privatization Administration, no person or institute has any qualified shares attributable to the Bank.

V. SUMMARY ON THE BANK'S FUNCTIONS AND LINES OF ACTIVITY

a) General information about the Bank:

Türkiye Halk Bankası Anonim Şirketi was established in Turkey in accordance with the Law No: 2284 in 1933 and began its operations in 1938 and still continues its activities as a public commercial bank.

b) Law numbered 4603 regarding the "Law on Türkiye Cumhuriyeti Ziraat Bankası, Türkiye Halk Bankası Anonim Şirketi and Türkiye Emlak Bankası Anonim Şirketi", was prepared within the framework of the macro-economic program for the period 2000-2002. The purpose of the law is to modernize the operations of the banks to arrive at a point where the requirements of the international norms and international competition can both be reached and it also aims to sell the majority of the banks' shares to individuals or legal entities in the private sector. The Bank revised its charter of establishment, elected a new board of directors and increased its nominal capital from TRY 250.000 to TRY 1.250.000 in the extraordinary general assembly held on 14 April 2001. Within the scope of the restructuring process, the Bank received government bonds in settlement of the accumulated specific duty losses and the Bank's whole specific duty loss receivable was thus eliminated as at 30 April 2001. In addition, a significant number of personnel were encouraged to sign new contracts and transferred to other government institutions.

c) According to Article 2.2 of Law No: 4603, subsequent to the completion of the restructuring procedures, the procedures involved in sale of the shares of the Bank were to be concluded under the provisions of Law No: 4046 based on the "Regulation of Privatization Applications and Amendment of Some Laws and Decrees with the Force of Law". The procedures relating to restructuring and sale of the shares were to be completed within three years (until 25 November 2003) as of the effective date of the related law. However, by Law No: 5230 dated 31 July 2004, the term " 3 years" in Article 2.2 of Law numbered 4603 was previously amended to "5 years" and subsequently by Law No: 5572 dated 10 January 2007 the related term was amended to "10 years". As a result of this amendment, the privatization period of the Bank was extended. The Council of Ministers has the authority to extend this period by the half of that period for one time only. The Council of Ministers extended by the half of that "10 years" period published in the Official Gazette by the Decree numbered 2010/964 and dated 6 November 2010.

c.1 When the related Decree numbered 2006/69 and dated 11 August 2006 was in force, the Privatization High Council public shares were transferred to the Privatization Administration and 99.9% of the Bank shares were decided to be sold before 25 May 2008 using the block sale method. By the Privatization High Council's decree numbered 2006/4258 and dated 29 November 2006, 13th Department of Council of State decided to cease the execution of the Decree numbered 2006/69 dated 11 August 2006. Thereupon, legal regulation numbered 5572 was executed and as per the decree of the Higher Council of Privatization numbered 2007/8 and dated 5 February 2007, up to 25% of the public shares that were previously transferred to the Privatization Administration on 11 August 2006, were decided to be privatized by a public offering and it was decided to be concluded by the end of 2007. The first phase of the privatization process of the Bank corresponding to 24.98% was completed in the first week of May 2007 and Halkbank shares were traded on Borsa İstanbul AŞ as of 10 May 2007 with the base price of TRY full 8,00. As per the decree of the Higher Council of Privatization numbered 2012/150 and dated 4 October 2012; 23,92% of the public shares that were previously held by the Privatization Administration were privatized by a second public offering and privatization was completed on 21 November 2012.

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

d) Under No: 25539 Law regarding the “Act No: 5230 with regards to the transfer of Pamukbank Türk Anonim Şirketi to Türkiye Halk Bankası AŞ and amendments to other acts” which came into force as of 31 July 2004 with the publication of the Official Gazette, Pamukbank (whose shares, management, and control were previously inherited to the Saving Deposit Insurance Fund (“SDIF”)) was transferred to the Bank. Insolvent Pamukbank TAŞ was a private sector deposit bank established by Çukurova İthalat ve İhracat TAO, Karamehmetler Scrip Company and more than 500 shareholders. Pamukbank started its private banking operations as an incorporated company in accordance with the decision of the Council of Ministers numbered 4/4573 and dated 5 March 1955. According to the decision of the Banking Regulation and Supervision Agency numbered 742 published in the Official Gazette numbered 24790 and dated 19 June 2002 including 3rd and 4th Sub-articles in Article 14 of the Banking Law No: 4389, the shareholders rights excluding dividends, management and supervision of Pamukbank were transferred to the Saving Deposit Insurance Fund as of 18 June 2002.

e) The Bank’s service activities and operating areas: The Bank’s operating areas include, commercial financing and corporate banking, fund management operations, retail banking and credit card operations.

As of 31 December 2016, the Bank operates with a total of 964 branches consisting of 959 domestic and 5 foreign branches that are 4 in Cyprus and 1 in Bahrain. Domestic branches include 35 satellite branches. The Bank has also 3 representative office in England, Iran and Singapore.

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

Due to differences between the Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Account Standards (TAS), the non-financial subsidiary, Bileşim Alternatif Dağ. Kan. AŞ, is not accounted in the consolidated financial statements. In the financial statements prepared in accordance with International Financial Reporting Standards, Bileşim Alternatif Dağ. Kan. AŞ is included in the scope of consolidation by-line by-line method.

The Bank’s subsidiaries Halk Sigorta AŞ, Halk Hayat Emeklilik AŞ, Halk Yatırım Menkul Değerler AŞ, Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halk Finansal Kiralama AŞ, Halk Portföy Yönetimi AŞ, Halk Banka AD Skopje, Halk Faktoring AŞ, Halkbank A.D. Beograd are included in the scope of consolidation by line-by-line method.

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

Demir-Halkbank NV (“Demir Halk Bank”), Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ and Turk P and I Sigorta A.Ş which are qualified as investments in associates, are presented in the financial statements based on equity method of accounting.

There is no partnership share on banks and financial institutions, with shareholding of more than 10% and deducted from capital.

Kredi Kayıt Bürosu AŞ and Bankalararası Kart Merkezi AŞ are not consolidated in the financial statements because the other banks' shares are equal and thus, the Bank has no control and has no important activity.

VII. THE EXISTING OR POTENTIAL, ACTUAL OR LEGAL OBSTACLES ON THE TRANSFER OF SHAREHOLDER'S EQUITY BETWEEN THE BANK AND ITS SUBSIDIARIES OR THE REIMBURSEMENT OF LIABILITIES

Immediately transfer of the shareholder's equity between the Bank and its subsidiaries is not in question. Dividend distribution from shareholders equity is done according to related regulations.

There is no existing or potential, actual or legal obstacle to the reimbursement of liabilities between the Bank and its subsidiaries. The Bank charge or pay cost of the services according to the service agreements done between the Bank and its subsidiaries.

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

SECTION II: UNCONSOLIDATED FINANCIAL STATEMENTS

- I. Balance Sheet (Statement of Financial Position)
- II. Statement of Off-Balance Sheet Items
- III. Statement of Income
- IV. Statement of Income and Expense Items Accounted under Shareholders' Equity
- V. Statement of Changes in Shareholders' Equity
- VI. Statement of Cash Flows
- VII. Statement of Profit Distribution Table

TÜRKİYE HALK BANKASI A.Ş.

UNCONSOLIDATED BALANCE SHEET

AS OF 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

I. BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

ASSETS	Note	Audited Current period 31 December 2016			Audited Prior period 31 December 2015		
		TRY	FC	Total	TRY	FC	Total
I. CASH AND BALANCES WITH THE CENTRAL BANK	(1)	3,534,232	26,464,928	29,999,160	4,339,259	18,985,712	23,324,971
II. FINANCIAL ASSETS AT FV THROUGH PROFIT AND LOSS (Net)	(2)	70,105	359,993	430,098	6,831	262,510	269,341
2.1 Trading financial assets		70,105	359,993	430,098	6,831	262,510	269,341
2.1.1 Public sector debt securities		62,177	-	62,177	780	15,294	16,074
2.1.2 Share certificates		-	-	-	-	-	-
2.1.3 Financial assets held for trading		4	359,807	359,811	7	247,048	247,055
2.1.4 Other marketable securities		7,924	186	8,110	6,044	168	6,212
2.2 Financial assets at fair value through profit and loss		-	-	-	-	-	-
2.2.1 Public sector debt securities		-	-	-	-	-	-
2.2.2 Share certificates		-	-	-	-	-	-
2.2.3 Loans		-	-	-	-	-	-
2.2.4 Other marketable securities		-	-	-	-	-	-
III. BANKS	(3)	196,308	1,464,722	1,661,030	65,338	2,447,947	2,513,285
IV. MONEY MARKET PLACEMENTS		-	-	-	-	-	-
4.1 Interbank money market placements		-	-	-	-	-	-
4.2 Istanbul Stock Exchange Money Market placements		-	-	-	-	-	-
4.3 Receivables from reverse repurchase agreements		-	-	-	-	-	-
V. FINANCIAL ASSETS AVAILABLE FOR SALE (Net)	(4)	10,770,662	4,219,265	14,989,927	7,308,585	3,900,408	11,208,993
5.1 Share certificates		66,434	34,160	100,594	67,558	93,190	160,748
5.2 Public sector debt securities		10,704,228	4,185,105	14,889,333	7,241,027	3,807,218	11,048,245
5.3 Other marketable securities		-	-	-	-	-	-
VI. LOANS AND RECEIVABLES	(5)	103,502,394	54,851,939	158,354,333	87,246,312	39,498,665	126,744,977
6.1 Loans and receivables		102,326,357	54,851,939	157,178,296	86,300,459	39,498,665	125,799,124
6.1.1 Loans extended to risk group of the Bank		250,131	828,283	1,078,414	356,892	683,526	1,040,418
6.1.2 Public sector debt securities		-	-	-	-	-	-
6.1.3 Other		102,076,226	54,023,656	156,099,882	85,943,567	38,815,139	124,758,706
6.2 Loans under follow-up		5,140,082	-	5,140,082	3,973,738	-	3,973,738
6.3 Specific provisions (-)		3,964,045	-	3,964,045	3,027,885	-	3,027,885
VII. FACTORING RECEIVABLES		-	-	-	-	-	-
VIII. HELD TO MATURITY INVESTMENTS (Net)	(6)	15,823,514	2,332,668	18,156,182	14,745,329	1,931,468	16,676,797
8.1 Public sector debt securities		15,823,514	2,332,668	18,156,182	14,745,329	1,931,468	16,676,797
8.2 Other marketable securities		-	-	-	-	-	-
IX. INVESTMENTS IN ASSOCIATES (Net)	(7)	19,083	249,574	268,657	19,083	208,237	227,320
9.1 Accounted under equity method		-	-	-	-	-	-
9.2 Unconsolidated associates		19,083	249,574	268,657	19,083	208,237	227,320
9.2.1 Financial investments		12,763	249,574	262,337	12,763	208,237	221,000
9.2.2 Non-financial investments		6,320	-	6,320	6,320	-	6,320
X. INVESTMENTS IN SUBSIDIARIES (Net)	(8)	2,514,639	363,185	2,877,824	2,410,288	275,646	2,685,934
10.1 Unconsolidated financial subsidiaries		2,473,396	363,185	2,836,581	2,372,259	275,646	2,647,905
10.2 Unconsolidated non-financial subsidiaries		41,243	-	41,243	38,029	-	38,029
XI. JOINT VENTURES (Net)	(9)	-	-	-	-	-	-
11.1 Accounted under equity method		-	-	-	-	-	-
11.2 Unconsolidated joint ventures		-	-	-	-	-	-
11.2.1 Financial joint ventures		-	-	-	-	-	-
11.2.2 Non-financial joint ventures		-	-	-	-	-	-
XII. FINANCE LEASE RECEIVABLES (Net)	(10)	-	-	-	-	-	-
12.1 Finance lease receivables		-	-	-	-	-	-
12.2 Operating lease receivables		-	-	-	-	-	-
12.3 Other		-	-	-	-	-	-
12.4 Unearned income (-)		-	-	-	-	-	-
XIII. DERIVATIVE FIN. ASSETS HELD FOR RISK MANAGEMENT	(11)	-	-	-	-	-	-
13.1 Fair value risk hedging		-	-	-	-	-	-
13.2 Cash flow risk hedging		-	-	-	-	-	-
13.3 Net foreign investment risk hedging		-	-	-	-	-	-
XIV. TANGIBLE ASSETS (Net)	(12)	2,313,905	102	2,314,007	2,099,353	94	2,099,447
XV. INTANGIBLE ASSETS (Net)	(13)	88,593	-	88,593	76,951	-	76,951
15.1 Goodwill		-	-	-	-	-	-
15.2 Other		88,593	-	88,593	76,951	-	76,951
XVI. INVESTMENT PROPERTIES (Net)	(14)	363,321	-	363,321	365,000	-	365,000
XVII. TAX ASSET	(15)	-	-	-	-	-	-
17.1 Current tax asset		-	-	-	-	-	-
17.2 Deferred tax asset		-	-	-	-	-	-
XVIII. ASSETS HELD FOR SALE AND HELD FROM DISCONTINUED OPERATIONS (Net)	(16)	740	-	740	1,091	-	1,091
18.1 Held for sale purpose		740	-	740	1,091	-	1,091
18.2 Held from discontinued operations		-	-	-	-	-	-
XIX. OTHER ASSETS	(17)	1,517,081	419,865	1,936,946	1,373,154	162,089	1,535,243
TOTAL ASSETS		140,714,577	90,726,241	231,440,818	120,056,574	67,672,776	187,729,350

The accompanying notes are an integral part of these unconsolidated financial statements.

TÜRKİYE HALK BANKASI A.Ş.

UNCONSOLIDATED BALANCE SHEET

AS OF 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

I. BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	Audited Current period 31 December 2016			Audited Prior period 31 December 2015		
		TRY	FC	Total	TRY	FC	Total
I. DEPOSITS	(1)	88.217.130	62.045.709	150.262.839	79.722.638	42.423.327	122.145.965
1.1 Deposits Held by the Risk Group of the Bank		1.676.769	56.764	1.733.533	920.174	98.940	1.019.114
1.2 Other		86.540.361	61.988.945	148.529.306	78.802.464	42.324.387	121.126.851
II. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING	(2)	59	211.789	211.848	18	150.688	150.706
III. FUNDS BORROWED	(3)	440.955	18.527.149	18.968.104	824.208	19.437.408	20.261.616
IV. MONEY MARKET BALANCES		16.473.192	1.373.871	17.847.063	7.681.767	728.499	8.410.266
4.1 Interbank money market borrowings		7.003.306	-	7.003.306	100.030	-	100.030
4.2 Istanbul Stock Exchange money market takings		-	-	-	-	-	-
4.3 Funds from repurchase agreements		9.469.886	1.373.871	10.843.757	7.581.737	728.499	8.310.236
V. MARKETABLE SECURITIES ISSUED (Net)	(4)	1.749.034	10.684.708	12.433.742	1.565.442	7.339.847	8.905.289
5.1 Treasury bills		1.749.034	-	1.749.034	1.565.442	-	1.565.442
5.2 Asset-backed securities		-	-	-	-	-	-
5.3 Bonds		-	10.684.708	10.684.708	-	7.339.847	7.339.847
VI. FUNDS	(5)	2.339.808	-	2.339.808	1.963.699	-	1.963.699
6.1 Borrower Funds		36.600	-	36.600	27.850	-	27.850
6.2 Other		2.303.208	-	2.303.208	1.935.849	-	1.935.849
VII. SUNDRY CREDITORS		2.621.256	79.420	2.700.676	2.125.454	192.134	2.317.588
VIII. OTHER LIABILITIES	(6)	1.289.999	401.861	1.691.860	1.256.321	336.082	1.592.403
IX. FACTORING PAYABLES		-	-	-	-	-	-
X. FINANCE LEASE PAYABLES	(7)	99	-	99	1.090	-	1.090
10.1 Finance lease payables		123	-	123	1.243	-	1.243
10.2 Operating lease payables		-	-	-	-	-	-
10.3 Other		-	-	-	-	-	-
10.4 Deferred finance lease expenses (-)		24	-	24	153	-	153
XI. DERIVATIVE FINANCIAL LIABILITIES HELD FOR RISK MANAGEMENT	(8)	-	-	-	-	-	-
11.1 Fair value risk hedging		-	-	-	-	-	-
11.2 Cash flow risk hedging		-	-	-	-	-	-
11.3 Net foreign investment risk hedging		-	-	-	-	-	-
XII. PROVISIONS	(9)	3.046.236	5.286	3.051.522	2.124.774	4.369	2.129.143
12.1 General loan provisions		2.027.964	-	2.027.964	1.123.838	-	1.123.838
12.2 Restructuring provisions		-	-	-	-	-	-
12.3 Employee benefits provisions		713.732	-	713.732	670.863	-	670.863
12.4 Insurance technical reserves (Net)		-	-	-	-	-	-
12.5 Other provisions		304.540	5.286	309.826	330.073	4.369	334.442
XIII. TAX LIABILITY	(10)	616.298	13	616.311	427.235	7	427.242
13.1 Current tax liability		329.626	13	329.639	357.971	7	357.978
13.2 Deferred tax liability		286.672	-	286.672	69.264	-	69.264
XIV. LIABILITIES FOR ASSET HELD FOR SALE AND HELD FROM DISCONTINUED OPERATIONS (Net)	(11)	-	-	-	-	-	-
14.1 Held for sale purpose		-	-	-	-	-	-
14.2 Held from discontinued operations		-	-	-	-	-	-
XV. SUBORDINATED CAPITAL	(12)	-	-	-	-	-	-
XVI. SHAREHOLDERS' EQUITY	(13)	21.541.122	(224.176)	21.316.946	19.426.817	(2.474)	19.424.343
16.1 Paid-in capital		1.250.000	-	1.250.000	1.250.000	-	1.250.000
16.2 Capital reserves		3.099.188	(224.176)	2.875.012	3.311.617	(2.474)	3.309.143
16.2.1 Share Premium		-	-	-	-	-	-
16.2.2 Share cancellation profits		-	-	-	-	-	-
16.2.3 Marketable securities revaluation fund		706.929	(224.176)	482.753	969.309	(2.474)	966.835
16.2.4 Tangible assets revaluation reserves		1.284.522	-	1.284.522	1.128.435	-	1.128.435
16.2.5 Intangible assets revaluation reserves		-	-	-	-	-	-
16.2.6 Revaluation reserves of real estate for investment purpose		-	-	-	-	-	-
16.2.7 Bonus shares of subsidiaries, associates and joint ventures		8.711	-	8.711	8.711	-	8.711
16.2.8 Hedging Funds (effective portion)		-	-	-	-	-	-
16.2.9 Value increase on Assets Held for Sale		-	-	-	-	-	-
16.2.10 Other capital reserves		1.099.026	-	1.099.026	1.205.162	-	1.205.162
16.3 Profit reserves		14.633.669	-	14.633.669	12.549.887	-	12.549.887
16.3.1 Legal reserves		1.482.358	-	1.482.358	1.335.865	-	1.335.865
16.3.2 Statutory reserves		-	-	-	-	-	-
16.3.3 Extraordinary reserves		13.104.130	-	13.104.130	11.166.841	-	11.166.841
16.3.4 Other profit reserves		47.181	-	47.181	47.181	-	47.181
16.4 Profit/Loss		2.558.265	-	2.558.265	2.315.313	-	2.315.313
16.4.1 Prior years income/loss		-	-	-	-	-	-
16.4.2 Period profit/loss		2.558.265	-	2.558.265	2.315.313	-	2.315.313
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		138.335.188	93.105.630	231.440.818	117.119.463	70.609.887	187.729.350

The accompanying notes are an integral part of these unconsolidated financial statements.

TÜRKİYE HALK BANKASI A.Ş.

UNCONSOLIDATED STATEMENT OF OFF-BALANCE SHEET ITEMS

AS OF 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

II. STATEMENT OF OFF-BALANCE SHEET ITEMS

OFF BALANCE SHEET	Note	Audited Current period 31 December 2016			Audited Prior period 31 December 2015		
		TRY	FC	Total	TRY	FC	Total
A. COMMITMENTS AND CONTINGENCIES (I+II+III)		45,771,117	50,441,206	96,212,323	40,688,452	44,850,486	85,538,938
I. GUARANTEES AND SURETSHIPS	(1)	21,073,620	26,687,208	47,760,828	16,654,679	23,126,571	39,781,250
1.1 Letters of guarantee		20,268,441	19,699,090	39,967,531	15,670,049	14,955,563	30,625,612
1.1.1 Guarantees subject to public procurement law		1,049,993	11,366,716	12,416,709	1,039,153	10,454,344	11,493,497
1.1.2 Guarantees given for foreign trade operations		-	-	-	-	-	-
1.1.3 Other letters of guarantee		19,218,448	8,332,374	27,550,822	14,630,896	4,501,219	19,132,115
1.2 Bank loans		12,876	2,812,590	2,825,466	359,503	2,914,278	3,273,781
1.2.1 Import acceptances		-	320,953	320,953	-	154,337	154,337
1.2.2 Other bank acceptances		12,876	2,491,637	2,504,513	359,503	2,759,941	3,119,444
1.3 Letters of credit		18,091	3,993,217	4,011,308	-	5,002,040	5,002,040
1.3.1 Documentary letters of credit		18,091	3,993,217	4,011,308	-	5,002,040	5,002,040
1.3.2 Other letters of credit		-	-	-	-	-	-
1.4 Guaranteed prefinancings		-	-	-	-	-	-
1.5 Endorsements		-	-	-	-	-	-
1.5.1 Endorsements to Central Bank of Turkish Republic		-	-	-	-	-	-
1.5.2 Other Endorsements		-	-	-	-	-	-
1.6 Purchase guarantees on marketable security issuance		-	-	-	-	-	-
1.7 Factoring guarantees		-	-	-	-	-	-
1.8 Other guarantees		774,212	182,311	956,523	625,127	254,690	879,817
1.9 Other surety ships		-	-	-	-	-	-
II. COMMITMENTS	(1)	22,842,226	674,455	23,516,681	20,685,806	697,959	21,383,765
2.1 Irrevocable commitments		22,842,226	674,455	23,516,681	20,685,806	697,959	21,383,765
2.1.1 Forward asset purchase commitments		112,735	304,715	417,450	99,229	382,449	481,678
2.1.2 Forward deposit purchase and sale commitments		-	-	-	-	-	-
2.1.3 Capital commitments to subsidiaries and associates		-	-	-	-	-	-
2.1.4 Loan granting commitments		3,182,164	369,740	3,551,904	2,227,928	315,510	2,543,438
2.1.5 Securities underwriting commitments		-	-	-	-	-	-
2.1.6 Payment commitments for reserve deposits		-	-	-	-	-	-
2.1.7 Payment commitments for cheques		5,805,008	-	5,805,008	5,442,458	-	5,442,458
2.1.8 Tax and fund liabilities from export commitments		28,864	-	28,864	20,764	-	20,764
2.1.9 Commitments for credit card expenditure limits		10,794,813	-	10,794,813	11,157,873	-	11,157,873
2.1.10 Commitments for credit cards and banking services promotions		44,328	-	44,328	46,532	-	46,532
2.1.11 Receivables from short sale commitments		-	-	-	-	-	-
2.1.12 Payables for short sale commitments		-	-	-	-	-	-
2.1.13 Other irrevocable commitments		2,874,314	-	2,874,314	1,691,022	-	1,691,022
2.2 Revocable commitments		-	-	-	-	-	-
2.2.1 Revocable loan granting commitments		-	-	-	-	-	-
2.2.2 Other revocable commitments		-	-	-	-	-	-
III. DERIVATIVE FINANCIAL INSTRUMENTS		1,855,271	23,079,543	24,934,814	3,347,967	21,025,956	24,373,923
3.1 Derivative financial instruments held for risk management		-	-	-	-	-	-
3.1.1 Fair value risk hedging transactions		-	-	-	-	-	-
3.1.2 Cash flow risk hedging transactions		-	-	-	-	-	-
3.1.3 Net foreign investment risk hedging transactions		-	-	-	-	-	-
3.2 Transactions for trading		1,855,271	23,079,543	24,934,814	3,347,967	21,025,956	24,373,923
3.2.1 Forward foreign currency buy/sell transactions		1,162,609	5,842,371	7,004,980	1,626,350	4,808,139	6,434,489
3.2.1.1 Forward foreign currency transactions-buy		564,492	3,958,120	4,522,612	801,439	3,297,724	4,099,163
3.2.1.2 Forward foreign currency transactions-sell		598,117	1,884,251	2,482,368	824,911	1,510,415	2,335,326
3.2.2 Currency and interest rate swaps		433,093	14,634,799	15,067,892	1,615,434	14,214,566	15,830,000
3.2.2.1 Currency swap-buy		-	2,707,908	2,707,908	-	4,120,520	4,120,520
3.2.2.2 Currency swap-sell		433,093	2,182,361	2,615,454	1,615,434	2,513,686	4,129,120
3.2.3 Interest rate swap-buy		-	4,872,265	4,872,265	-	3,790,180	3,790,180
3.2.4 Interest rate swap-sell		-	4,872,265	4,872,265	-	3,790,180	3,790,180
3.2.3.1 Currency, interest rate and marketable securities options		259,569	420,684	680,253	106,183	253,075	359,258
3.2.3.1.1 Currency call options		129,783	210,341	340,124	53,198	126,436	179,624
3.2.3.2 Currency put options		129,786	210,343	340,129	52,985	126,639	179,624
3.2.3.3 Interest rate call options		-	-	-	-	-	-
3.2.3.4 Interest rate put options		-	-	-	-	-	-
3.2.3.5 Marketable securities call options		-	-	-	-	-	-
3.2.3.6 Marketable securities put options		-	-	-	-	-	-
3.2.4.1 Currency futures-buy		-	-	-	-	-	-
3.2.4.2 Currency futures-sell		-	-	-	-	-	-
3.2.5 Interest rate buy/sell futures		-	-	-	-	-	-
3.2.5.1 Interest rate futures-buy		-	-	-	-	-	-
3.2.5.2 Interest rate futures-sell		-	-	-	-	-	-
3.2.6 Other		-	2,181,689	2,181,689	-	1,750,176	1,750,176
B. CUSTODY AND PLEDGED ASSETS (IV+V+VI)		660,197,757	154,850,365	815,048,122	480,296,733	119,742,716	600,039,449
IV. CUSTODIES		342,844,925	23,694,435	366,539,360	227,145,078	17,363,468	244,508,546
4.1 Assets under management		-	-	-	-	-	-
4.2 Custody marketable securities		166,136,992	728,810	166,865,802	89,815,704	466,338	90,282,042
4.3 Cheques in collection process		12,428,736	17,253,652	29,682,388	10,945,509	12,380,792	23,326,301
4.4 Commercial notes in collection process		137,515,100	517,259	138,032,359	104,247,786	470,104	104,717,890
4.5 Other assets in collection process		-	-	-	-	-	-
4.6 Underwritten securities		-	-	-	-	-	-
4.7 Other custodies		3,485,883	98,721	3,584,604	2,772,600	15,875	2,788,475
4.8 Custodians		33,278,214	5,095,993	38,374,207	19,363,479	4,030,359	23,393,838
V. PLEDGED ASSETS		317,352,832	131,155,930	448,508,762	253,151,655	102,379,248	355,530,903
5.1 Marketable securities		4,037,694	473,880	4,511,574	3,330,457	232,562	3,563,019
5.2 Collateral notes		7,292,482	820,012	8,112,494	6,665,323	623,239	7,288,562
5.3 Commodity		25,813	-	25,813	25,813	-	25,813
5.4 Warranty		-	-	-	-	-	-
5.5 Land and buildings		259,321,832	116,459,706	375,781,538	199,973,383	76,697,617	276,671,000
5.6 Other pledged assets		42,614,826	12,035,647	54,650,473	39,845,263	23,476,950	63,322,213
5.7 Pledges		4,060,185	1,366,885	5,427,070	3,311,416	1,348,880	4,660,296
VI. ACCEPTED BILL GUARANTEES AND SURETIES		-	-	-	-	-	-
TOTAL OFF BALANCE SHEET ACCOUNTS (A+B)		705,968,874	205,291,571	911,260,445	520,985,185	164,593,202	685,578,387

The accompanying notes are an integral part of these unconsolidated financial statements.

TÜRKİYE HALK BANKASI A.Ş.

UNCONSOLIDATED STATEMENT OF INCOME

AS OF 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

III. STATEMENT OF INCOME

INCOME AND EXPENSES	Note	Current period	Prior period
		1 January- 31 December 2016	1 January- 31 December 2015
I. INTEREST INCOME	(1)	16,953,999	13,656,908
1.1 Interest on loans		14,256,133	11,257,727
1.2 Interest received from reserve deposits		56,437	17,047
1.3 Interest received from banks		92,630	36,033
1.4 Interest received from money market placements		404	-
1.5 Interest income on marketable securities		2,538,510	2,341,046
1.5.1 Financial assets held for trading		5,230	3,347
1.5.2 Financial assets at fair value through profit and loss		-	-
1.5.3 Financial assets available-for-sale		1,055,987	801,516
1.5.4 Investments held-to-maturity		1,477,293	1,536,183
1.6 Finance lease income		-	-
1.7 Other interest income		9,885	5,055
II. INTEREST EXPENSE	(2)	9,997,281	7,994,102
2.1 Interest on deposits		8,180,926	6,386,395
2.2 Interest on borrowings		369,852	315,847
2.3 Interest on money market borrowings		776,209	726,537
2.4 Interest on bonds issued		582,467	462,180
2.5 Other interest expense		87,827	103,143
III. NET INTEREST INCOME [I - II]		6,956,718	5,662,806
IV. NET FEES AND COMMISSIONS INCOME		1,375,348	1,194,015
4.1 Fees and commissions income		1,762,862	1,535,899
4.1.1 Non-cash loans		295,898	222,019
4.1.2 Other		1,466,964	1,313,880
4.2 Fees and commissions expenses		387,514	341,884
4.2.1 Non-cash loans		40	27
4.2.2 Other		387,474	341,857
V. DIVIDEND INCOME	(3)	267,273	188,677
VI. NET TRADING PROFIT (NET)	(4)	149,746	(261,630)
6.1 Profit/loss from capital market operations		19,237	31,322
6.2 Profit/loss from financial derivative transactions		16,624	150,160
6.3 Foreign exchange gains/losses		113,885	(443,112)
VII. OTHER OPERATING INCOME	(5)	573,117	862,280
VIII. TOTAL OPERATING INCOME (III+IV+V+VI+VII)		9,322,202	7,646,148
IX. LOANS AND OTHER RECEIVABLES IMPAIRMENT LOSS PROVISIONS (-)	(6)	2,106,323	1,301,878
X. OTHER OPERATING EXPENSES(-)	(7)	3,864,329	3,488,627
XI. NET OPERATING INCOME/(LOSS) (VIII-IX-X)		3,351,550	2,855,643
XII. AMOUNT RECORDED IN EXCESS AS GAIN AFTER MERGER		-	-
XIII. PROFIT/LOSSES FROM EQUITY METHOD APPLIED SUBSIDIARIES		-	-
XIV. GAIN / (LOSS) ON NET MONETARY POSITION		-	-
XV. INCOME/(LOSS) BEFORE TAXES (XI+XII+XIII+XIV)	(8)	3,351,550	2,855,643
XVI. TAX INCOME PROVISION (±)	(9)	(793,285)	(540,330)
16.1 Current tax provision		(553,481)	(133,834)
16.2 Deferred tax provision		(239,804)	(406,496)
XVII. NET OPERATING INCOME AFTER TAX (XV±XVI)	(10)	2,558,265	2,315,313
XVIII. INCOME FROM DISCONTINUED OPERATIONS		-	-
18.1 Property and equipment income held for sale		-	-
18.2 Sale profits from associates, subsidiaries and joint ventures (business partners)		-	-
18.3 Other income from terminated operations		-	-
XIX. EXPENSES FROM DISCONTINUED OPERATIONS (-)		-	-
19.1 Property and equipment expense held for sale		-	-
19.2 Sale losses from associates, subsidiaries and joint ventures (business partners)		-	-
19.3 Other expenses from discontinued operations		-	-
XX. INCOME/EXPENSE BEFORE TAXES FROM DISCONTINUED OPERATIONS (XVIII-XIX)		-	-
XXI. PROVISION FOR TAXES ON INCOME FROM DISCONTINUED OPERATIONS (±)		-	-
21.1 Current tax provision		-	-
21.2 Deferred tax provision		-	-
XXII. NET PROFIT/LOSSES FROM DISCONTINUED OPERATIONS (XX±XXI)		-	-
XXIII. NET PROFIT/(LOSS) (XVII+XXII)	(11)	2,558,265	2,315,313
Earnings/losses per share (Full TRY)		2,04661	1,85225

The accompanying notes are an integral part of these unconsolidated financial statements.

TÜRKİYE HALK BANKASI A.Ş.

UNCONSOLIDATED STATEMENT OF INCOME AND EXPENSE ITEMS

ACCOUNTED UNDER SHAREHOLDERS' EQUITY AS OF 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

IV. STATEMENT OF INCOME AND EXPENSE ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY

STATEMENT OF INCOME AND EXPENSE ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY	Audited Current period 1 January-31 December 2016	Audited Prior period 1 January-31 December 2015
I. ADDITIONS TO MARKETABLE SECURITIES REVALUATION DIFFERENCES FOR AVAILABLE FOR SALE FINANCIAL ASSETS	(64.497)	(486.692)
II. TANGIBLE ASSETS REVALUATION DIFFERENCES	164.303	1.187.826
III. INTANGIBLE ASSETS REVALUATION DIFFERENCES	-	-
IV. FOREIGN EXCHANGE DIFFERENCES FOR FOREIGN CURRENCY TRANSACTIONS	(123.432)	-
V. PROFIT/LOSS FROM DERIVATIVE FINANCIAL INSTRUMENTS FOR CASH FLOW HEDGE PURPOSES (Effective portion of fair value differences)	-	-
VI. PROFIT/LOSS FROM DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGE OF NET INVESTMENTS IN FOREIGN OPERATIONS (Effective portion of fair value differences)	-	-
VII. THE EFFECT OF CORRECTIONS OF ERRORS AND CHANGES IN ACCOUNTING POLICIES	-	-
VIII. OTHER PROFIT LOSS ITEMS ACCOUNTED UNDER EQUITY DUE TO TAS	21.620	(6.482)
IX. DEFERRED TAX OF VALUATION DIFFERENCES	22.396	98.964
X. TOTAL NET PROFIT/LOSS ACCOUNTED UNDER EQUITY (I+II+...+IX)	20.390	793.616
XI. PROFIT/LOSS	2.558.265	2.315.313
11.1 Change in fair value of marketable securities (Transfer to profit/loss)	21.097	30.418
11.2 Reclassification and transfer of derivatives accounted for cash flow hedge purposes to income statement	-	-
11.3 Transfer of hedge of net investments in foreign operations to income statement	-	-
11.4 Other	2.537.168	2.284.895
XII. TOTAL PROFIT/LOSS ACCOUNTED FOR THE PERIOD (X±XI)	2.578.655	3.108.929

The accompanying notes are an integral part of these unconsolidated financial statements.

TÜRKİYE HALK BANKASI A.Ş.

UNCONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS OF 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

V. STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Effect of inflation adjustments on net worth held in capital	Share certificate premium	Share certificate amortization profit	Legal reserves	Statutory reserves	Extraordinary reserves	Other reserves	Current period net income (loss)	Prior period net income (loss)	Valuation changes in marketable securities	Revaluation changes in intangible assets	Bonus shares to shareholders	Hedging adjustments	Value change and equipment held for sale in terms of	Total shareholders' equity
1 January 2015 - 31 December 2015															
I. Balance at end of prior period	1.250.000	1.270.651	-	1.271.703	9.300.043	34.104	2.205.768	-	1.299.384	-	-	8.769	-	-	16.535.622
II. Changes within the period	-	-	-	-	-	-	-	-	-	(306.859)	-	-	-	-	(306.859)
III. Valuation changes in marketable securities	-	-	-	-	-	-	-	-	-	(306.859)	-	-	-	-	(306.859)
IV. Hedging funds (effective portion)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V. Cash flow hedge	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VI. Hedges for investment made in foreign countries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII. Revaluation changes of intangible assets	-	-	-	-	-	-	-	-	-	-	1.128.035	-	-	-	1.128.035
VIII. Bonus shares from investment and associates, subsidiaries and joint ventures (business partners)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX. Foreign exchange differences	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X. Share cancellation profits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI. Adjustment to paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII. Issuance of share certificates at end of period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII. Share cancellation profits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV. Adjustment to paid-in capital	-	-	-	-	-	-	-	-	-	(25.690)	-	(69)	-	-	(25.759)
XV. Net profit or losses	-	-	-	69	(2.212)	-	2.315.313	(2,205,768)	-	(25,690)	-	(69)	-	-	2,315,313
XVI. Profit distribution	-	-	-	118.393	1.866.798	1.866.798	-	(2,205,768)	-	-	-	-	-	-	(2,205,768)
XVII. Dividends distributed	-	-	-	118.393	1.866.798	1.866.798	-	(2,205,768)	-	-	-	-	-	-	(2,205,768)
XVIII. Transfers to legal reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIX. Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Going balance	1.250.000	1,270,651	-	1,325,865	11,166,841	31,892	2,293,312	966,835	1,128,035	-	-	8,711	-	-	19,624,295
1 January 2016 - 31 December 2016															
I. Balance at end of prior period	1.250.000	1,270,651	-	1,325,865	11,166,841	31,892	2,293,312	966,835	1,128,035	-	-	8,711	-	-	19,624,295
II. Changes within the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III. Valuation changes in marketable securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IV. Hedging funds (effective portion)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V. Cash flow hedge	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VI. Hedges for investments made in foreign countries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII. Revaluation changes of property and equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. Bonus shares from investment and associates, subsidiaries and joint ventures (business partners)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX. Foreign exchange differences	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X. Changes in classification of securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI. Effect of changes in shareholders' equity of investments and associates to bank's shareholders equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII. Increases in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII. From internal resources	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV. Issuance of share certificates at end of period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV. Share cancellation profits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI. Adjustment to paid-in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVII. Net profit or losses	-	-	-	17,296	1,937,289	1,937,289	-	2,598,265	-	-	-	-	-	-	2,598,265
XVIII. Profit distribution	-	-	-	166,493	1,937,289	1,937,289	-	(2,315,313)	-	-	-	-	-	-	(2,315,313)
XIX. Dividends distributed	-	-	-	166,493	1,937,289	1,937,289	-	(2,315,313)	-	-	-	-	-	-	(2,315,313)
XX. Transfers to legal reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XXI. Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Going balance	1.250.000	1,270,651	-	1,402,358	13,104,130	(4,244)	2,292,409	482,732	1,296,522	-	-	8,711	-	-	21,316,046

The accompanying notes are an integral part of these unconsolidated financial statements.

TÜRKİYE HALK BANKASI A.Ş.

UNCONSOLIDATED FINANCIAL STATEMENTS OF CASH

FLOW FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

VI. STATEMENT OF CASH FLOWS

	Audited Current period 31 December 2016	Audited Prior period 31 December 2015
A. CASH FLOWS FROM BANKING OPERATIONS		
1.1 Operating profit before changes in operating assets and liabilities	1.481.155	112.007
1.1.1 Interest received	15.744.507	13.224.297
1.1.2 Interest paid	(9.478.192)	(7.640.815)
1.1.3 Dividend received	95.713	124.358
1.1.4 Fees and commissions received	1.762.862	1.535.899
1.1.5 Other income	377.033	631.692
1.1.6 Collections from previously written off loans	459.106	491.029
1.1.7 Cash payments to personnel and service suppliers	(1.812.412)	(1.670.430)
1.1.8 Taxes paid	(411.428)	(157.423)
1.1.9 Other	(5.256.034)	(6.426.600)
1.2 Assets and Liabilities Subject to Banking Operations	5.523.547	(1.405.061)
1.2.1 Net decrease in financial assets held for sale	(48.369)	29.886
1.2.2 Net (increase) decrease in financial assets at fair value through profit or loss	-	-
1.2.3 Net (increase) decrease in due from banks and other financial institutions	(16.332)	18.011
1.2.4 Net (increase) decrease in loans	(31.101.645)	(24.640.655)
1.2.5 Net (increase) decrease in other assets	(530.016)	(3.283.041)
1.2.6 Net increase (decrease) in bank deposits	8.161.539	(2.492.000)
1.2.7 Net increase (decrease) in other deposits	19.788.248	20.760.718
1.2.8 Net increase (decrease) in loans borrowed	(1.293.247)	7.575.453
1.2.9 Net increase (decrease) in matured payables	-	-
1.2.10 Net increase (decrease) in other liabilities	10.563.369	626.567
I. Net cash provided from banking operations	7.004.702	(1.293.054)
B. CASH FLOWS FROM INVESTMENT ACTIVITIES		
II. Net cash provided from/ (used in) investing activities	(5.893.147)	17.649
2.1 Cash paid for purchase of joint ventures, associates and subsidiaries	-	(30.153)
2.2 Cash obtained from sale of entities joint ventures, associates and subsidiaries	-	-
2.3 Fixed assets purchases	(229.977)	(2.194.446)
2.4 Fixed assets sales	51.362	2.679.801
2.5 Cash paid for purchase of financial assets available for sale	(6.168.135)	(2.562.990)
2.6 Cash obtained from sale of financial assets available for sale	1.775.796	819.341
2.7 Cash paid for purchase of investment securities	(2.617.381)	(1.145.275)
2.8 Cash obtained from sale of investment securities	1.309.290	2.479.972
2.9 Other	(14.102)	(28.601)
C. CASH FLOWS FROM FINANCING ACTIVITIES		
III. Net cash used in financing activities	2.998.996	2.399.616
3.1 Cash obtained from loans borrowed and securities issued	10.281.519	4.369.828
3.2 Cash used for repayment of loans borrowed and securities issued	(7.050.000)	(1.750.000)
3.3 Bonds issued	-	-
3.4 Dividends paid	(231.531)	(220.577)
3.5 Payments for finance leases	(87)	(401)
3.6 Other	(905)	766
IV. Effect of change in foreign exchange rate on cash and cash equivalents	1.403.627	761.160
V. Net increase / (decrease) in cash and cash equivalents	5.514.178	1.885.371
VI. Cash and cash equivalents at beginning of the period	8.874.615	6.989.244
VII. Cash and cash equivalents at end of the period	14.388.793	8.874.615

The accompanying notes are an integral part of these unconsolidated financial statements.

TÜRKİYE HALK BANKASI A.Ş.

UNCONSOLIDATED FINANCIAL STATEMENTS OF PROFIT DISTRIBUTION

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

VII. STATEMENT OF PROFIT DISTRIBUTION TABLE

	Audited Current period 31 December 2016 ⁽¹⁾	Audited Prior period 31 December 2015
I. DISTRIBUTION OF CURRENT YEAR PROFIT		
1.1. Current Period Profit	3.351.550	2.855.643
1.2. Taxes and Legal Duties Payables (-)	793.285	540.330
1.2.1. Corporate Tax (Income Tax)	553.481	133.834
1.2.2. Withholding Tax	-	-
1.2.3. Other Taxes and Duties	239.804	406.496
A. Net Profit For The Period (1.1-1.2)	2.558.265	2.315.313
1.3. Accumulated Losses (-)	-	-
1.4. First Legal Reserves (-)	-	115.766
1.5. Other Statutory Reserves (-) ⁽²⁾	-	-
B. Net Profit Available for Distribution [(A)-(1.3+1.4+1.5)]	-	2.199.547
1.6. First Dividend to shareholders (-)	-	62.500
1.6.1. To Owners of Ordinary Shares	-	62.500
1.6.2. To Owners of Privileged Shares	-	-
1.6.3. To Owners of Redeemed Shares	-	-
1.6.4. To Profit Sharing Bonds	-	-
1.6.5. To Holders of Profit and Loss Sharing Certificates	-	-
1.7. Dividends to personnel (-)	-	-(3)
1.8. Dividends to Board of Directors (-)	-	-
1.9. Second Dividend to Shareholders (-)	-	169.031
1.9.1. To Owners of Ordinary Shares	-	169.031
1.9.2. To Owners of Privileged Shares	-	-
1.9.3. To Owners of Redeemed Shares	-	-
1.9.4. To Profit Sharing Bonds	-	-
1.9.5. To Holders Of Profit And Loss Sharing Certificates	-	-
1.10. Second Legal Reserves (-)	-	30.728
1.11. Status Reserves (-)	-	-
1.12. Extraordinary Reserves	-	1.937.288
1.13. Other Reserves	-	-
1.14. Special Funds	-	-
II. Distribution of Reserves		
2.1. Appropriated Reserves	-	-
2.2. Second Legal Reserves (-)	-	-
2.3. Dividends to Shareholders (-)	-	231.531
2.3.1. To Owners of Ordinary Shares	-	231.531
2.3.2. To Owners of Privileged Shares	-	-
2.3.3. To Owners of Redeemed Shares	-	-
2.3.4. To Profit Sharing Bonds	-	-
2.3.5. To Holders of Profit and Loss Sharing Certificates	-	-
2.4. Dividends to Personnel (-)	-	-
2.5. Dividends to Board of Directors (-)	-	-
III. Earnings per Share		
3.1. To Owners of Ordinary Shares	2,0466	1,8523
3.2. To Owners of Ordinary Shares (%)	204,7%	185,2%
3.3. To Owners of Privileged Shares	-	-
3.4. To Owners of Privileged Shares (%)	-	-
IV. Dividend per Share		
4.1. To Owners of Ordinary Shares	-	0.185
4.2. To Owners of Ordinary Shares (%)	-	18.52%
4.3. To Owners of Privileged Shares	-	-
4.4. To Owners of Privileged Shares (%)	-	-

⁽¹⁾ Board of Directors meeting was not held as of 31 December 2016 financial reporting date.

⁽²⁾ As of 31 December 2015 the amount of deferred tax income is disclosed at that line.

⁽³⁾ Dividends to personnel which is added to 2015 net profit as a provision not sentenced in profit distribution, only shown in the table for information.

The accompanying notes are an integral part of these unconsolidated financial statements.

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

SECTION III: EXPLANATIONS ON ACCOUNTING POLICIES

I. BASIS OF PRESENTATION

The unconsolidated financial statements, related notes and explanations in this report are prepared in accordance with the Turkish Accounting Standards ("TAS"), Turkish Financial Reporting Standards ("TFRS"), Communiqué on "Banks' Accounting Practice and Maintaining Documents" and other communiqués and interpretations of Banking Regulation and Supervision Agency ("BRSA") on accounting and financial reporting.

The accounting policies applied and the valuation methods used in the preparation of the financial statements are expressed in detail below.

Additional paragraph for convenience translation to English

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

II. EXPLANATIONS ON THE STRATEGY OF USE OF FINANCIAL INSTRUMENTS AND FOREIGN CURRENCY TRANSACTIONS

a) The Bank's strategy on financial instruments:

Due to its historical mission, the Bank focuses on granting loans to Small and Medium Size Enterprises (SMEs) and craftsmen besides corporate, commercial and individual segmented firms. In addition to the main fund source deposits, the Bank can raise funds from foreign borrowing and money market borrowing.

The Bank follows the developments in the markets and uses funds raised in most yielding areas. The strategies of the Bank are evaluated in the weekly Asset and Liability Committee meetings.

b) The Bank's explanations on foreign currency transactions:

In the statutory records of the Bank, transactions accounted in foreign currencies (currencies except for TRY) are converted into TRY by using the prevailing exchange rates at the transaction dates. Foreign currency monetary asset and liability items are converted into TRY by using the prevailing exchange rate at the balance sheet date. Non-monetary items in foreign currencies carried at fair value are converted into TRY by using the exchange rates at the date of which the fair value is determined. Exchange differences arising from the conversions of monetary foreign currency items and collections of foreign currency transactions are reflected to the income statement.

The financial statements of the foreign branches of the Bank are prepared in the currency of the primary economic environment in which the entity operates (functional currency). The financial statements of foreign branches are expressed in TRY which is the functional currency of the Bank and the presentation currency of the financial statements.

Assets and liabilities of the foreign branches of the Bank are converted into TRY by using the prevailing exchange rates at the balance sheet date. Income and expenses are converted by at exchange rates at the dates of the transactions.

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

The Bank started to apply fair value hedge accounting as at 1 July 2015 by designating the exchange rate risk of Halkbank A.D. Beograd, Halk Banka AD, Skopje, Demirhalkbank NV are foreign investments that are recognized under fair value accounting as hedged item, in compliance with “TAS 39 Financial Instruments: Recognition and Measurement”. Accordingly, the effective portion of the foreign exchange differences is recorded under income statement in the current period.

III. EXPLANATIONS ON FORWARD AND OPTION CONTRACTS AND DERIVATIVE INSTRUMENTS

Derivative transactions of the Bank consist of foreign currency and interest rate swaps, forwards. The Bank has no derivative instruments decomposed from the main contract. The bank uses derivatives to avoid economical risks and accounted under Turkish Accounting Standard No: 39 “Financial Instruments: Recognition and Measurement” (TAS 39) classification.

Derivative financial instruments are recorded at fair value as of the contract date and valued at fair value in the following reporting periods. Although some derivative transactions are qualified as economical hedging items, they do not meet all the definition requirements of hedge accounting items. Therefore, these derivative instruments are recognized as held for trading and gains and losses of these instruments are associated with statement of income.

Explanations related to credit derivatives and its risk exposures:

The bank has credit termly derivative transactions within the scope of trading transactions. These transactions includes credit default swaps which based on treasury of Turkish Republic’s credit risk. As of 31 December 2016, the bank has credit default swap transaction amounting to 150 million USD with 5 years maturity. In this transactions the bank sells protection.

IV. INTEREST INCOME AND EXPENSES

Interest income and expenses are recognized on an accrual basis using the effective interest method (the rate that equals the future cash flows of a financial asset or liability to its present net book value) in conformity with TAS 39 “Financial Instruments: Recognition and Measurement”.

In accordance with the related legislation, realized and unrealized interest accruals of the non-performing loans are reversed and interest income related to these loans are recorded as an interest income only when they are collected.

V. FEES AND COMMISSION INCOME AND EXPENSES

Banking service income is recorded in the income in the period when they are collected. Prepaid fees and commission income obtained from cash and non-cash loans are recorded in the related period by using discounting method with internal rate of return according to the loan maturity within the matching principle.

Fees and commission expenses on borrowings that are paid to other institutions and incorporations for financial liabilities comprise operational costs. This fees and commission expenses are booked under prepaid expenses and transferred to expense accounts in the related periods by using the straight accrual method according to the financial borrowing maturity within the matching principle.

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

VI. EXPLANATIONS AND DISCLOSURES ON FINANCIAL ASSETS

Financial instruments comprise financial assets, financial liabilities and derivative instruments. The financial assets are included in the balance sheet of the Bank, if the Bank is a legal party of these financial assets.

Financial assets mainly constitute the majority of the commercial activities and operations of the Bank. These instruments have the ability to expose, affect and diminish the risks of liquidity, credit and interest in the financial statements.

Fair value is the amount for which an asset could be exchanged or a liability could be settled, between knowledgeable willing parties in an arm's length transaction. Market value is the amount obtainable from the sale or payable on the acquisition of a financial instrument in an active market, if one exists.

The estimated fair values of financial assets have been determined by the Bank using the available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Hence, estimations presented in this report may not be same with the prices in the current market conditions in the case of assets disposals. Book values of some financial assets (which equals to their costs) are assumed to approximate to their fair values due to their short term nature.

The financial instruments and their valuations methods based on their classification on the financial statements are set out below.

1. Cash and banks

Cash and bank balances in foreign currencies are valued by using the Bank's current period end exchange rates. The presented values of cash in TRY, foreign currency cash and banks at balance sheet are the estimated fair values of these assets.

2. Financial assets at fair value through profit and loss

2.1. Financial assets held for trading

Financial assets held for trading are financial assets, which are either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are financial assets included in a portfolio with a pattern of short-term profit taking.

Financial Assets Held for Trading are presented in the balance sheet with their fair values and are subject to valuation at fair values after the initial recognition. Valuation gains or losses are recognized in the profit/loss accounts. Interests gained from the retention of held for trading financial assets are recognized under the interest income and dividends gained are recognized under the dividend income in the income statement. If these assets are disposed of prior to their maturity periods, loss or gain from the disposal is recognized in the income statement by using interest income/expense accounts under profit/loss from the capital market operations.

2.2. Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss represent the financial assets at fair value through profit and loss at the initial recognition and those are not obtained for trading purposes. Recognition of fair value differences of those assets are similar to the financial asset held for trading.

The Bank has not any financial assets at fair value through profit and loss as of 31 December 2016 and 31 December 2015.

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3. Investments held to maturity

Investments held to maturity are the investments, for which there is an intention of holding until maturity and the relevant conditions for fulfillment of such intention, including the funding ability, and for which there are fixed or determinable payments with fixed maturity; and which are recognized at fair value at initial recognition. Investments held to maturity with the initial recognition at fair value including transaction costs are subject to valuation with their discounted cost value by using the internal rate of return method less provision for any impairment, if any. Interest income from investments held to maturity is recognized in the income statement as an interest income. There are no financial assets that are classified by the Bank as investments held to maturity; however, they cannot be classified under this classification for two years for not satisfying the requirements of the related classification.

4. Financial assets available for sale

Financial assets available for sale represent non-derivative financial assets other than bank loans and receivables, investments held to maturity and financial assets at fair value through profit and loss. Initial recognition and subsequent valuation of financial assets available for sale are performed based on the fair value including transaction costs. The amount arising from the difference between cost and amortized value is recognized through income statement by using the internal rate of return. If a price does not occur in an active market, fair value cannot be reliably determined and "Amortized Value" is determined as the fair value using the internal rate of return. Unrealized gains and losses arising from changes in fair value of the financial assets available for sale are not recognized in the income statement, they are recognized in the "Marketable Securities Revaluation Fund" until the disposal, sale, redemption or incurring loss of those assets. Fair value differences accounted under equity arising from the application of fair value are reflected to the income statement when these assets are sold or when the valuation difference is collected.

5. Loans and receivables

Loans and receivables represent unquoted financial assets in an active market that provide money, goods or services to the debtor with fixed or determinable payments.

Loans and receivables are initially recognized with their fair values including settlement costs and carried at their amortized costs calculated using the internal rate of return at the subsequent recognition. Transaction fees, dues and other expenses paid for loan guarantees are recognized under the profit and loss accounts.

Consumer and corporate cash loans are recognized under the accounts specified by the Uniform Chart of Accounts and Explanations with their original balances based on their context.

Foreign currency indexed consumer and corporate loans are followed at TRY accounts after converting into TRY by using the opening exchange rates. At the subsequent periods, increases and decreases in the loan capital are recognized under the foreign currency income and expense accounts in the income statement depending on foreign currency rates being higher or lower than opening date rates. Repayments are calculated using the exchange rates at the repayment dates and exchange differences are recognized under the foreign currency income and expense accounts in the income statement.

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Non-performing loans are classified in accordance with the regulation on “Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves” published in the Official Gazette No: 26333 dated 1 November 2006 and amended with the regulation published in the Official Gazette No: 29918 dated last 14 December 2016 and specific provisions are allocated for those loans. Specific provisions are reflected to “820/821 Provisions and Impairment Expenses 82000/82100 Specific Provisions Expenses” account. Provisions released in same year are recognized as a credit movement under the “Provision Expenses”, released portion of the previous period provisions are recognized under the “Other Operating Income” account.

6. Associates and subsidiaries:

Turkish Lira denominated associates and subsidiaries have been valuated based on deducted additions of funds such as revaluation funds, permitted additions to capital under statutory purposes, from the cost of the indexed remaining balances of associate and subsidiary based on the capital increase payment dates until 31 December 2004. Cost of foreign currency associates purchased before 1 January 2005 included their restated values by the occurred indexes at transaction dates until 31 December 2004.

As of 1 January 2012, the Bank changed its accounting policy of Turkish Lira denominated subsidiaries, as of 18 June 2015 the Bank changed its accounting policy of foreign currency denominated subsidiaries and associates, and started to measure related subsidiaries and associates with their fair values. Foreign currency denominated associates and subsidiaries are converted into TRY by using the exchange rates at the date of which the fair value is determined. Fair values of the subsidiaries, whose shares are unquoted on the active market (stock exchange) are determined with the valuation reports that are prepared by the independent valuation company and fair values of the subsidiaries, whose shares are quoted in on active market (stock exchange) are determined by taking into account of book values at stock exchange, valuation differences are added to the subsidiaries values and correspondingly recorded in the “Marketable securities revaluation fund” under the shareholders’ equity.

VII. EXPLANATIONS ON IMPAIRMENT OF FINANCIAL ASSETS

At each balance sheet date, the Bank reviews the carrying amounts of its financial asset or group of financial assets whether there is an objective indication that those assets have suffered an impairment loss. If such indication exists, the Bank determines the related impairment amount.

A financial asset or a group of financial assets is subject to impairment loss only if there is an objective indication that the occurrence of one or more than one event (“loss event”) subsequent to the initial recognition of that asset has an effect on the reliable estimate of the expected future cash flows of the related financial asset and asset group. Irrespective of their high probability of incurrence, future expected losses are not recognized.

Impairment losses attributable to the investments held to maturity are measured as the difference between the present values of estimated future cash flows discounted using the original interest rate of financial asset and the book value of asset. The related difference is recognized as a loss and it decreases the book value of the financial asset. At subsequent periods, if the impairment loss amount decreases, impairment loss recognized is reversed.

When a decline occurs in the fair values of the “financial assets available for sale” of which value decreases and increases are recognized in equity, the accumulated profit/loss that had been recognized directly in equity is transferred from equity to period profit or loss. If, in a subsequent period, the fair value of the related asset increases, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

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For loans and receivables; the Bank's management performs consistent loan portfolio reviews and if any doubts on the collectability of the loans arise, the related loans are classified in accordance with legislation on "Determining the Nature of Loans and Receivables and Principles and Procedures on the Allocation of Loan and Receivable Provisions ("Communiqué")" published in the Official Gazette numbered 26333 and dated 1 November 2006. The Bank does not limit the provision amount for the non-performing loans recognized before 1 January 2008 with the minimum rates defined in the related regulation and allocates specific provision for such loan amounts in full and they are recognized in the statement of income. Bank sets specific provision for non-performing loans recognized after 1 January 2008 through deducting the collateral amount, calculated in accordance with the related coefficient rates defined in the Article 10 of the related legislation, from the follow-up amount and setting provision between 20% and 100% by taking the minimum rates in the Communiqué into consideration for the outstanding follow-up risk amount excluding the surety ship type of collaterals defined in the Article 9 of the related legislation. Indemnified non-cash loans extended to follow-up entities are added to the follow-up risk amount after conversion by credit conversion rates defined in the Communiqué. The Bank sets provision between 20% and 100% by taking the minimum rates in the Communiqué into consideration for the outstanding follow-up risk amount that are calculated by deducting the collateral amount, and calculated in accordance with the related coefficient rates defined in the Article 10 of the related legislation. Collections made related to those loans are offset against the capital and interest collections are recognized under the "Interest Received from Non-performing Loans" item of the income statement.

In the consequence of the ratio of consumer loans to total loans has been below 25% as of the second quarter in 2015, the Bank has begun to allocate 1% and 2% rate of general allowances for all consumer loans except for real estate loans instead of 4% and 8%. In accordance with the communiqué "The Change in the Determining the Nature of Loans and Receivables and Principles and Procedures on the Allocation of Loan and Receivable Provisions" published on 8 October 2013 No: 28789 Official Gazette, as of the recent month end prior to the effective date of the Communiqué, the Bank cancelled the differences in general allowances for all consumer loans except for real estate loans in both groups with the rates stated.

VIII. OFFSETTING FINANCIAL ASSETS AND LIABILITIES

A financial asset and a financial liability shall be offset and the net amount shall be presented in the balance sheet only when a party currently has a legally enforceable right to set off the recognized amounts or intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

IX. EXPLANATIONS ON SALES AND REPURCHASE AGREEMENTS (REPOS) AND TRANSACTIONS ON SECURITIES LOANED

Marketable securities subject to repurchase agreements are classified under "Available for Sale Financial Assets" or "Held to Maturity Investments" in the Bank's portfolio and they are valued according to the valuation principles of the related portfolios.

Funds obtained from the repurchase agreements are recognized under "Funds from Repurchase Transactions" account in liabilities. For the difference between the sale and repurchase prices determined by the repo agreements for the period; expense accrual is calculated using the internal rate of return method.

Reverse repo transactions are recognized under the "Receivables from Reverse Repo Transactions" account. For the difference between the purchase and resale prices determined by the reverse repo agreements for the period; income accrual is calculated using the internal rate of return method.

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X. EXPLANATIONS ON ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Assets that meet the criteria to be classified as held for sale are measured at the lower of its carrying amount and fair value less costs to sell. Depreciation of such assets is ceased and they are presented separately in the balance sheet. In order to classify a tangible fixed asset as held for sale, the asset (or the disposal group) should be available for an immediate sale in its present condition subject to the terms of any regular sales of such assets (or such disposal groups) and the sale should be highly probable. For a highly probable sale, the appropriate level of management must be committed to a plan to sell the asset (or the disposal group), and an active programme to complete the plan should be initiated to locate a customer. Also, the asset (or the disposal group) should have an active market sale value, which is a reasonable value in relation to its current fair value. Events or circumstances may extend the completion of the sale more than one year.

Such assets are still classified as held for sale if there is sufficient evidence that the delay in the sale process is due to the events and circumstances occurred beyond the control of the entity or the entity remains committed to its plan to sell the asset (or disposal group).

A discontinued operation is a component of a bank that either has been disposed of, or is classified as held for sale. Gains or losses relating to discontinued operations are presented separately in the income statement.

XI. EXPLANATIONS ON GOODWILL AND OTHER INTANGIBLE ASSETS

As at the balance sheet date, there is no goodwill recorded in the unconsolidated balance sheet of the Bank.

Intangible assets that are purchased prior to 1 January 2005 are carried at their restated historical costs and intangible assets that are purchased in the subsequent periods are carried at their historical cost, less any accumulated amortization and any impairment losses. Intangible assets are amortized by using the straight line method based on their useful lives. Amortization method and period are assessed periodically at the end of each year. Intangible assets consist of software expenses and they are amortized by using the straight line method over 3 years. There is no significant change in the accounting estimates expected or to be expected having a significant effect on the amortization method, amortization period or residual value.

XII. EXPLANATIONS ON PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment except buildings that are purchased prior to 1 January 2005 are carried at their 31 December 2004 dated restated costs and property, plant and equipment that are purchased in the subsequent periods are carried at cost, less any accumulated depreciation and any impairment losses. Property, plant and equipment are amortized by using the straight line method during their useful lives. Gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of that asset and is recognized in profit or loss.

As of 1 April 2015, the Bank adopted the revaluation method for buildings in tangible assets in accordance with Turkish Accounting Standard No: 16 "Property, Plant and Equipment" (TAS 16). Expertise values determined by an independent expert companies are reflected to the financial statements. Revaluation differences are recorded in "Tangible assets revaluation reserves" under the shareholders' equity.

Ordinary maintenance and repair expenses of property, plant and equipment items are recognized as expenses.

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Estimated useful lives of property, plant and equipment are as follows:

	Estimated useful lives (Year)	Depreciation rate
Buildings	50	2%
Safe-deposit boxes	50	2%
Other movable properties	3-25	4-33,33%
Assets held under financial leases	4-5	20-25%

Leasehold improvements are depreciated over the lower of the periods of the respective leases and useful lives, on a straight-line basis. In any case useful life cannot exceed the lease period. If the duration of lease agreement is not determined or longer than five years, amortization duration is considered as five years.

There is no change in accounting estimates that is expected to have significant effect in current period and subsequent periods.

There are no material mortgages, pledges or similar in cumbrances designated for the property, plant and equipment.

Classification of Investment Properties:

If a land or building is being used by an owner and the intention is changed to an investment property, this property is classified as an investment property.

When the use of an immovable is changed and reclassified as an investment property, the actual value of the date on which the change in the use of the named property takes place will be the cost of the subsequent accounting.

XIII. EXPLANATIONS ON INVESTMENT PROPERTIES

Investment properties are kind of property which is held by the Group to earn rent.

Investment properties in the attached consolidated financial statements that are purchased prior to 1 January 2005 are carried at their 31 December 2004 dated restated costs and property, plant and equipment that are purchased in the subsequent periods are carried at cost, less any accumulated depreciation and any impairment losses. Investment properties are amortized by using the straight line method during their useful lives. Gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of that asset and is recognized in profit or loss.

XIV. EXPLANATIONS ON LEASING TRANSACTIONS

Assets acquired under financial leases are carried at the lower of their fair values or amortized value of the lease payments. Leasing payables are recognized as liabilities in the balance sheet while the interest payable portions of the payables are recognized as a deferred amount of interest. Assets held under financial leases are recognized under the property, plant and equipment (movable properties) account and are depreciated by using the straight line method.

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The Bank does not participate in the financial leasing transactions as a “lessor”.

Operational lease transactions are recognized in line with the related agreement on an accrual basis.

XV. EXPLANATIONS ON PROVISIONS AND CONTINGENT LIABILITIES

Provision and contingent liabilities are accounted in conformity with TAS 37 “Provisions, Contingent Liabilities and Contingent Assets”.

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

XVI. EXPLANATIONS ON EMPLOYEE BENEFIT LIABILITIES

Employee benefits liabilities are recognized in accordance with the Turkish Accounting Standard No: 19 “Employee Benefits”. According to related legislation and union contracts, the Bank is required to make lump sum retirement payments to employees who has completed one year of service, is called up for military service, dies, resigns, retires or whose employment is terminated without due cause, or for female employees; who resigns subsequent to her marriage within one year. The Bank provides provision by estimating the present value of the future retirement pay liability.

The retirement pay provision of the Bank has been determined by the actuarial report of an independent valuation company. As of 1 January 2013, actuarial gains and losses are recorded under the shareholders’ equity according to the revised TAS 19.

T. Halk Bankası Employee Pension Fund, T. Ziraat Bankası and T. Halk Bankası Employee Pension Fund Foundations were founded in accordance with the provisional article 20 of the Social Insurance Act (SIA) No: 506 and their members include employees of the Bank as well. Provisional article 23 of the Banking Act No: 5411 requires the Bank’s pension funds founded in the scope of SIA to be transferred to the Social Insurance Institution (SII) within 3 years subsequent to the publishing date of the act. The procedure and essentials for the transfer were determined by the Council of Ministers’ decision dated 30 November 2006 and numbered 2006/11345 and accordingly, both pension fund foundations would have been transferred to SSI. However, with the decree of the Constitutional Court numbered E.2005/139, K.2007/13 and K.2007/33 published in the Official Gazette dated 31 March 2007 and numbered 26479, the first paragraph of the temporary first article of the provisional article 23 of the Banking Act No: 5411 is cancelled and the execution has been ceased starting from the date the decree is published.

After the justified decree related to cancelling the provisional article 23 of the Banking Law was announced by the Constitutional Court on the Official Gazette dated 15 December 2007 and numbered 26731, Turkish Grand National Assembly started to work on establishing new legal regulations, and after it was approved at the General Assembly of the TGNA, the Law numbered 5754 “Emendating Social Security and General Health Insurance Act and Certain Laws and Decree Laws”, which was published on the Official Gazette dated 8 May 2008 and numbered 26870, came into effect. The new law decrees that the contributors of the bank pension funds, the ones who receive salaries or income from these funds and their rightful beneficiaries will be transferred to the Social Security Institution and will be subject to this Law within 3 years after the release date of the related article, without any need for further operation. The three year transfer period can be prolonged for maximum 2 years by the Cabinet decision. However

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related transfer period has been prolonged for 2 years by the Cabinet decision dated 14 March 2011, which was published on the Official Gazette dated 9 April 2011 and numbered 27900. In addition, by the Law numbered 6283 "Emending Social Security and General Health Insurance Act", which was published on the Official Gazette dated 8 March 2012 and numbered 28227, this period of 2 years has been raised to 4 years.

The statement "The Cabinet have entitled to determine transfer period" has taken place in the scope of In Article 51 of the Law No: 6645 which was published on the Gazette on 23 April 2015 and numbered 29335.

In accordance with the related legislation, as of the transfer date, the income and expenses of the transferred funds will be considered by the insurance branches and the cash value of the liabilities will be calculated with the actuarial interest rate 9,8%. Moreover, after the transfer to SII, the unfulfilled other social rights and payments existed in the settlement deeds of the subjected pension funds of the transferred participants, members or the rightful owners will be continued to be fulfilled by the employer entities of the funds and its participants. Based on the results of the actuarial report prepared as of 31 December 2016 no technical deficit has been reported.

XVII. EXPLANATIONS ON TAXATION

In accordance with the Article 32 of the Corporate Tax Law No: 5520, the corporate tax rate is calculated at the rate of 20%. The tax legislation requires advance tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the corporate tax liability for the year.

Calculated corporate tax as of 31 December 2015 has been paid in February 2016 thereby setting off calculated advanced taxes in previous periods. First advance tax for the 1 January 2016-31 March 2016 is accrued from corporate tax amount. Accrued advance tax as of 1 January 2016-30 June 2016 period is paid in August 2016. And also the accrued advanced tax as of 1 January 2016-30 September 2016 is paid in November 2016. Accrued advance tax as of 1 January 2016-31 December 2016 will be paid in February 2017.

Tax expense is the sum of the current tax expense and deferred tax charge. Current year tax liability is calculated over taxable profit. Taxable profit is different from the profit in the income statement since taxable income or deductible expenses for the following years and non-taxable and non-deductible items are excluded.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date. An entity shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Prepaid corporation taxes and corporation tax liabilities are offset as they relate to income taxes levied by the same taxation authority. Deferred tax assets and liabilities are also offset.

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Tax practices in the countries that foreign branches operate:

Turkish Republic of Northern Cyprus (TRNC)

According to the tax regulations in the Turkish Republic of Northern Cyprus, corporate gains are subject to 10% of corporate tax and this taxed amount is subject to 15% of income tax. The tax bases for corporate are determined by adding the expenses that cannot be deducted according to TRNC regulations, to commercial gains and by subtracting exemptions and deductions from commercial gains. Income tax is paid in June, and corporate tax payment is made in two installments, in May and in October. On the other hand, withholding tax is paid in TRNC over interest income and similar gains of corporations. The relevant withholding tax payments are deducted from the corporate tax-payable. In the case the amount of the withholding tax collections is higher than the corporate tax payable, the difference is deducted from income tax payable.

Bahrain

Banks in Bahrain are not subject to tax according to the regulations of the country.

XVIII. ADDITIONAL EXPLANATIONS ON BORROWINGS

The Bank borrows funds from domestic and foreign institutions and issues marketable securities when needed. These borrowing activities are recognized at fair value including the acquisition costs at the transaction date and they are valued at amortized costs by using the internal rate of return method.

Interest rate and liquidity risks are reduced by having assets with shorter or equal maturity terms than borrowing instruments such as syndication, securitization and borrowing with collateral and bears higher interest than costs of those instruments.

Also, asset composition is designed in accordance with the fixed/variable cost nature of borrowing instruments.

XIX. EXPLANATIONS ON SHARES AND SHARE ISSUE

Share issuances related to costs are recognized as expenses. Dividend income related with the equity shares are determined by the General Assembly of the Bank.

The Bank has not issued any shares in the current and prior period. In accordance with the decree of the Privatization High Council dated 5 February 2007 and numbered 2007/8, the process of public offering for the 25% of shares pertaining to the Privatization Administration was completed and the Bank shares were registered to the Board with the decree of the Capital Markets Board dated 26 April 2007 and numbered 16/471, and the shares were traded on the Borsa İstanbul AŞ as of 10 May 2007.

As per the decree of the Higher Council of Privatization numbered 2012/150 and dated 4 October 2012; 23,92% of the public shares that were previously held by the Privatization Administration were privatized by a second public offering and privatization was completed on 21 November 2012.

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XX. EXPLANATIONS ON BILL GUARANTEES AND ACCEPTANCES

Bill guarantees and acceptances are realized simultaneously with the customer payments and they are presented as possible liabilities and commitments in the off-balance sheet accounts.

XXI. EXPLANATIONS ON GOVERNMENT INCENTIVES

There are no government incentives utilized by the Bank.

XXII. EXPLANATIONS ON SEGMENT REPORTING

Segment reporting focuses on business segment considering the main source and nature of the risks and returns of the Bank. The Bank operates mainly in corporate, commercial, entrepreneur banking and investment banking.

The report concerning parts of Bank's business segmentation and related information is explained in section four, disclosure numbered VII.

XXIII EXPLANATION ON OTHER MATTERS

The new and adjusted standards, amendments and interpretations that are issued by the International Accounting Standards Board (IASB) and Public Oversight Accounting and Auditing Standards Authority (POA)

With the amendment published in January 2017, the new standard will apply to annual accounting periods beginning on or after 1 January 2018. The first phase of the TFRS 9 Financial Instruments standard introduces new provisions for the measurement and classification of financial assets and liabilities. The amendments to IFRS 9 will mainly affect the classification and measurement of financial assets and the measurement of financial liabilities which classified as measured at fair value through profit or loss and the portion of fair value changes related to credit risk of these kinds liabilities must be presented in other comprehensive income statement. Early adaption is permitted for this standard. The Bank assesses the effects of the standard on its financial position and performance.

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

The new TFRS 16 Leasing Transactions Standard was issued by the International Accounting Standards Board on 13 January 2016. The IAS17 Leasing Transactions, which govern these standard leases, are subjected to amendments to IFRS Comment 4 Determination of whether a settlement includes a lease and IAS 15 Operating Lease - Incentives standards and interpretations and amendments to IAS 40 Property of Investment Property. IFRS 16 removes the dual accounting model for leaseholders from the existing practice of financial leasing in the balance sheet and the presentation of operational leases on the balance sheet. Instead, a single balance sheet-based accounting model is presented similar to existing leasing accounting. Recognition for leaseholders continues to be similar to existing practices. This change will be effective for annual periods beginning on after 1 January 2019 and early application is permitted for entities applying the Revenue Standard from TFRS 15 Customer Contracts. The Bank assesses the impact of the standard on its financial position and performance.

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK

I. EXPLANATIONS ON EQUITY

Calculating the amount of equity according to the “Regulation on Equities of Banks” and the calculation of capital adequacy standard ratio according to “Regulation Regarding the Measurement and Evaluation of Banks’ Capital Adequacy” is performed. As of 31 December 2016, the Group’s capital adequacy ratio in accordance with the Communiqué on “Measurement and Assessment of Capital Adequacy of Banks” is 13,08% (31 December 2015: 13,83%), Equity is calculated the amount of TRY 23.013.281 in accordance with the principles of “Regulation on Equities of Banks” (31 December 2015: TRY 20.428.844).

	Amount	Amounts related to treatment before 1/1/2014 ⁽¹⁾
COMMON EQUITY TIER 1 CAPITAL		
Paid-in capital following all debts in terms of claim in liquidation of the Bank	2.470.451	
Share issue premiums	-	
Reserves	14.513.209	
Gains recognized in equity as per Turkish Accounting Standards (TAS)	1.766.310	
Profit	2.558.265	
Current Period Profit	2.558.265	
Prior Period Profit	-	
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and cannot be recognised within profit for the period	8.711	
Common Equity Tier 1 Capital Before Deductions	21.316.946	
Deductions from Common Equity Tier 1 Capital		
Common Equity as per the 1st clause of Provisional Article 9 of the Regulation on the Equity of Banks		
Portion of the current and prior periods’ losses which cannot be covered through reserves and losses reflected in equity in accordance with TAS	-	
Improvement costs for operating leasing	66.671	
Goodwill (net of related tax liability)	-	
Other intangibles other than mortgage-servicing rights (net of related tax liability)	53.156	88.593
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
Differences are not recognized at the fair value of assets and liabilities subject to hedge of cash flow risk	-	
Communiqué Related to Principles of the amount credit risk calculated with the Internal Ratings Based Approach, total expected loss amount exceeds the total provision	-	
Gains arising from securitization transactions	-	
Unrealized gains and losses due to changes in own credit risk on fair valued liabilities	-	
Defined-benefit pension fund net assets	-	
Direct and indirect investments of the Bank in its own Common Equity	-	
Shares obtained contrary to the 4th clause of the 56th Article of the Law	-	
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank	-	
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank	-	
Portion of mortgage servicing rights exceeding 10% of the Common Equity	-	
Portion of deferred tax assets based on temporary differences exceeding 10% of the Common Equity	-	
Amount exceeding 15% of the common equity as per the 2nd clause of the Provisional Article 2 of the Regulation on the Equity of Banks	-	
Excess amount arising from the net long positions of investments in common equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital	-	
Excess amount arising from mortgage servicing rights	-	
Excess amount arising from deferred tax assets based on temporary differences	-	
Other items to be defined by the BRSA	-	
Deductions to be made from common equity due to insufficient Additional Tier I Capital or Tier II Capital	-	
Total Deductions From Common Equity Tier 1 Capital	119.827	
Total Common Equity Tier 1 Capital	21.197.119	

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	Amount	Amounts related to treatment before 1/1/2014 ^(*)
ADDITIONAL TIER I CAPITAL		
Preferred Stock not Included in Common Equity and the Related Share Premiums	-	
Debt instruments and premiums approved by BRSA	-	
Debt instruments and premiums approved by BRSA(Temporary Article 4)	-	
Additional Tier I Capital before Deductions	-	
Deductions from Additional Tier I Capital		
Direct and indirect investments of the Bank in its own Additional Tier I Capital	-	
Investments of Bank to Banks that invest in Bank's additional equity and components of equity issued by financial institutions with compatible with Article 7.	-	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital	-	
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital	-	
Other items to be defined by the BRSA	-	
Transition from the Core Capital to Continue to deduce Components	35,437	
Goodwill and other intangible assets and related deferred tax liabilities which will not deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	35,437	
Net deferred tax asset/liability which is not deducted from Common Equity Tier 1 capital for the purposes of the sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	
Deductions to be made from common equity in the case that adequate Additional Tier I Capital or Tier II Capital is not available (-)	-	
Total Deductions From Additional Tier I Capital	-	
Total Additional Tier I Capital	-	
Total Tier I Capital (Tier I Capital=Common Equity+Additional Tier I Capital)	21.161.682	
TIER II CAPITAL		
Debt instruments and share issue premiums deemed suitable by the BRSA	-	
Debt instruments and share issue premiums deemed suitable by BRSA (Temporary Article 4)	-	
Provisions (Article 8 of the Regulation on the Equity of Banks)	2.027.964	
Tier II Capital Before Deductions	2.027.964	
Deductions From Tier II Capital		
Direct and indirect investments of the Bank on its own Tier II Capital (-)	-	
Investments of Bank to Banks that invest on Bank's Tier 2 and components of equity issued by financial institutions with the conditions declared in Article 8.	-	
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank (-)	-	
Portion of the total of net long positions of investments made in Additional Tier I Capital item of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank	-	
Other items to be defined by the BRSA (-)	-	
Total Deductions from Tier II Capital	-	
Total Tier II Capital	2.027.964	
Total Capital (The sum of Tier I Capital and Tier II Capital)	23.189.646	
Deductions from Total Capital	23.013.281	
Deductions from Capital Loans granted contrary to the 50th and 51th Article of the Law	10	
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years	157.617	
Other items to be defined by the BRSA (-)	18.738	

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	Amount	Amounts related to treatment before 1/1/2014 ^(*)
In transition from Total Core Capital and Supplementary Capital (the capital) to Continue to Download Components		
The Sum of net long positions of investments (the portion which exceeds the %10 of Banks Common Equity) in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity which will not be deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	
The Sum of net long positions of investments in the Additional Tier 1 capital and Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity which will not be deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	
The Sum of net long positions of investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity, mortgage servicing rights, deferred tax assets arising from temporary differences which will not be deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	
TOTAL CAPITAL		
Total Capital	23.013.281	
Total risk weighted amounts	175.986.593	
Capital Adequacy Ratios		
Tier 1 Capital Adequacy Ratio	12,04	
Core Capital Adequacy Ratio	12,02	
Capital Adequacy Ratio	13,08	
BUFFERS		
Total buffer requirement	5,133	
Capital conservation buffer requirement (%)	0,625	
Bank specific counter-cyclical buffer requirement(%)	0,258	
The ratio of Additional Common Equity Tier 1 capital which will be calculated by the first paragraph of the Article 4 of Regulation on Capital Conservation and Countercyclical Capital buffers to Risk Weighted Assets(%)	5,077	
Amounts below the Excess Limits as per the Deduction Principles		
Portion of the total of net long positions of investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or less of the issued share capital exceeding the 10% threshold of above Tier I capital	47.469	
Portion of the total of investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or less of the issued share capital exceeding the 10% threshold of above Tier I capital	262.338	
Other intangibles other than mortgage-servicing rights	-	
Amount arising from deferred tax assets based on temporary differences	184.112	
Limits related to provisions considered in Tier II calculation		
General provisions for standard based receivables (before tenthousandtwentyfive limitation)	2.027.964	
Up to 1.25% of total risk-weighted amount of general reserves for receivables where the standard approach used	2.027.964	
Excess amount of total provision amount to credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	
Excess amount of total provision amount to %0,6 of risk weighted receivables of credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	
Debt instruments subjected to Article 4 (to be implemented between January 1, 2018 and January 1, 2022)		
Upper limit for Additional Tier I Capital subjected to temporary Article 4		
Amounts Excess the Limits of Additional Tier I Capital subjected to temporary Article 4	-	
Upper limit for Additional Tier II Capital subjected to temporary Article 4		
Amounts Excess the Limits of Additional Tier II Capital subjected to temporary Article 4	-	

*Amounts in this column represents the amounts of items that are subject to transition provisions in accordance with the temporary

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The equity is calculated on the capital adequacy ratio calculation basis having reduced deductible assets on equity from the sum of core capital and supplementary capital within the scope of "Regulation on Equities of Banks" (Regulation). The difference between Total Capital and Equity in the consolidated balance sheet mainly arises from the general provision. On the other hand, in the calculation of the Total Capital, improvement costs for operating leases followed under tangible assets in the balance sheet, intangible assets and related deferred tax liabilities, net book value of immovables that are acquired against overdue receivables and retained more than five years, other items defined by the regulator are taken into consideration as amounts deducted from Total Capital.

	Prior Period
TIER I CAPITAL	
Paid-in Capital to be Entitled for Compensation after All Creditors	2.470.451
Share premium	-
Share Cancellation Profits	-
Reserves	12.552.860
Other Comprehensive Income according to Turkish Accounting Standards (TAS)	2.077.008
Profit	2.315.313
Net Current Period Profit	2.315.313
Prior Period Profit	-
Provisions for Possible Losses	123.500
Bonus Shares from Associates, Subsidiaries and Joint-Ventures not Accounted in Current Period's Profit	8.711
Tier I Capital Before Deductions	19.547.843
Deductions from Tier I Capital	
Current and Prior Period's Losses not Covered by Reserves, and Losses Accounted under Equity according to TAS (-)	-
Leasehold Improvements on Operational Leases (-)	67.250
Goodwill and Other Intangible Assets and Related Deferred Tax Liabilities (-)	30.780
Net Deferred Tax / Liability(-)	-
Shares Obtained against Article 56, Paragraph 4 of the Banking Law (-)	-
Direct and Indirect Investments of the Bank on its own Tier I Capital (-)	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
Mortgage Servicing Rights Exceeding the 10% Threshold of Tier I Capital (-)	-
Net Deferred Tax Assets arising from Temporary Differences Exceeding the 10% Threshold of Tier I Capital (-)	-
Amount Exceeding the %15 Threshold of Tier I Capital as per the Article 2, Clause 2 of Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital not deducted from Tier Capital (-)	-
Mortgage Servicing Rights not Deducted (-)	-
Excess Amount arising from Deferred Tax Assets from Temporary Differences (-)	-
Other items to be Defined by the BRSA (-)	-
Deductions from Tier I Capital in cases where there are no adequate Additional Core Capital (-)	-
Total Deductions from Tier I Capital	98.030
Total Tier I Capital	19.449.813
ADDITIONAL CORE CAPITAL	
Preferred Stock not Included in Tier I Capital and the Related Share Premiums	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued or Obtained after 1.1.2014)	-
Debt Instruments and the Related Issuance Premiums Defined by the BRSA (Issued or Obtained after 1.1.2014)	-
Additional Core Capital before Deductions	-
Deductions from Additional Core Capital	
Direct and Indirect Investments of the Bank on its own Additional Core Capital (-)	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks of Financial Institutions where the Bank Owns more than 10% of Issued Share Capital (-)	-
Other Items to be Defined by the BRSA (-)	-
Deductions from Additional Core Capital in cases where there are no adequate Tier II Capital (-)	-

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	Prior Period
Total Deductions from Additional Core Capital	-
Total Additional Core Capital	-
Deductions from Core Capital	46.171
Goodwill and Other Intangible Assets and Related Deferred Taxes not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	46.171
Net Deferred Tax Asset/Liability not deducted from Tier I Capital as per the Temporary Article 2, Clause 1 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-
Total Core Capital	19.403.642
TIER II CAPITAL	
Debt Instruments and Related Issuance Premiums Defined by the BRSA (Issued or Obtained after 1.1.2014)	-
Debt Instruments and Related Issuance Premiums Defined by the BRSA (Issued or Obtained after 1.1.2014)	-
Pledged Assets of the Shareholders to be used for the Bank's Capital Increases	-
General Provisions	1.123.838
Tier II Capital before Deductions	1.123.838
Deductions from Tier II Capital	-
Direct and Indirect Investments of the Bank on its own Tier II Capital (-)	-
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital (-)	-
The Total of Net Long Position of the Direct or Indirect Investments in Additional Core Capital and Tier II Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital Exceeding the 10% Threshold of Tier I Capital (-)	-
Other items to be Defined by the BRSA (-)	-
Total Deductions from Tier II Capital	-
Total Tier II Capital	1.123.838
CAPITAL	20.527.480
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	10
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-)	69.325
Loans to Banks, Financial Institutions (domestic/foreign) or Qualified Shareholders in the form of Subordinated Debts or Debt Instruments Purchased from Such Parties and Qualified as Subordinated Debts (-)	-
Deductions as per the Article 20, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-
Other items to be Defined by BRSA (-)	29.301
The Portion of Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-
The Portion of Total of Net Long Positions of the Investments in equity Items of Unconsolidated Banks and Financial Institutions where the Banks Owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-
The Portion of Net Long Position of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or more of the Issued Share Capital, of the Net Deferred Tax Assets arising from Temporary Differences and of the Mortgage Servicing Rights not deducted from Tier I Capital as per the Temporary Article 2, Clause 2, Paragraph (1) and (2) and Temporary Article 2, Clause 1 of the Regulation (-)	-
EQUITY	20.428.844
Amounts Below the Thresholds for Deduction	
Remaining Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital	15.635
Remaining Total of Net Long Positions of the Investments in Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% or less of the Tier I Capital	221.000
Remaining Mortgage Servicing Rights	-
Net Deferred Tax Assets arising from Temporary Differences	163.984

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II. EXPLANATIONS RELATED TO THE CREDIT RISK

Credit risk refers to the risks and damage caused by failure to fulfill the obligations of the other party in the contracts of the Bank. Credit limits are assigned according to the customer's financial condition and credit need by the branches, regional credit committee, head of credit department, in charge of general manager of the credit, general manager, credit committee and board of directors and also they can be replaced when necessary situation interms of the scope of the legislation.

In accordance with the risk management policies of the Bank, the limits are specified in respect of the main and sub-sectors. Those limits are monitored periodically.

The Bank, in the credit allocation process, restricts its risk exposure by working with highly credible banks and entities considering the credit ratings for the purpose of managing its risks. Under the scope of credit risk management, the Bank rates all of its borrowers' credit and requires additional collaterals from whose risk is higher. The Bank has the policy of not granting loans/credits and/or limiting the amount of such loans/credits. The Bank's risk is concentrated in Turkey. In loan procedure, limits are determined based on the type of loans and customers and risk and limit information is controlled periodically.

Loans granted to other banks and risk limits set for the correspondent bank transactions are controlled on a daily basis. Risk concentrations are monitored systematically with the Treasury department, concerning the off-balance sheet operations based on the customers and banks.

Except for the restructured loan follow-up system determined in the related communiqué, such loans are incorporated into the new rating groups or risk weightings under the risk management systems of the banks, and new precautionary measures are taken for these processes. Since long-term commitments are more risky than the short-term commitments, risks are assorted in accordance with the Bank's risk management system.

As prescribed in the Communiqué on "Determining the Nature of Loans and Receivables and Principles and Procedures on the Allocation of Loan and Receivable Provisions", the credit worthiness of the debtors of the loans and other receivables is monitored regularly. Credit limits are determined according to the audited statement of accounts. Guarantee factors are developed in accordance with the decision of the credit committee and updated according to the top management's initiatives and changes in the economic conditions. The Bank receives sufficient collaterals in consideration of the loans and other receivables granted. Guarantees are surety ships, immovable mortgages, cash blockages and customer or real person cheques.

When the Bank is exposed to significant credit risks, it has the tendency to cease its forward or similar type of transactions by using rights, fulfilling the requirements of the acquisitions or disposing of the acquisitions to mitigate the risk total.

The receivables of the Bank from its top 100 and 200 cash loan customers are respectively 25,20% and 30,92% of its total cash loans.

The receivables of the Bank from its top 100 and 200 non-cash loan customers are respectively 46,64% and 57,91% of its total non-cash loans.

Share of cash and non-cash receivables of the Bank from its top 100 and 200 customers are respectively 18,31% and 23,30% of its total balance sheet and off-balance sheet assets.

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General loan loss provision related to the credit risk incurred by the Bank in accordance with the legislation on "Determining the Nature of Loans and Receivables and Principles and Procedures on the Allocation of Loan and Receivable Provisions" is TRY 2.027.964 (31 December 2015: TRY 1.123.838).

Risk Classifications:	Current Period Risk Amount⁽¹⁾	Average Risk Amount	Prior Period Risk Amount⁽¹⁾	Average Risk Amount
Claims on sovereigns and Central Banks	67.933.081	52.866.902	47.398.066	44.777.040
Claims on regional governments or local authorities	1.913.131	1.385.766	1.074.473	844.635
Claims on administrative bodies and other non-commercial undertakings	740.264	709.610	619.959	555.877
Claims on multilateral development banks	-	-	-	-
Claims on international organizations	-	-	-	-
Claims on banks and intermediary institutions	4.883.011	5.004.910	4.465.484	5.456.343
Claims on corporates	80.747.981	73.757.772	65.226.266	59.566.902
Claims included in the regulatory retail portfolios	52.895.456	52.150.462	40.793.188	39.217.513
Claims secured by residential property	44.811.431	35.039.188	32.275.335	27.853.356
Overdue loans	1.180.302	1.061.419	930.890	1.056.586
Higher risk categories decided by the Board	50.578	1.242.936	7.079.352	7.622.966
Secured by mortgages	-	-	-	-
Securitization positions	-	-	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-	-	-
Undertakings for collective investments in mutual funds	-	-	-	-
Other receivables	11.164.941	10.492.226	9.797.540	9.018.048

⁽¹⁾ Includes the risk amounts after credit conversions.

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Risk profile according to the geographical concentration:

	Risk Classifications ⁽¹⁾										
	Contingent and Non-Contingent Receivables from Central Banks or Government	Contingent and Non-Contingent Receivables from Regional Government or Domestic Enterprises	Administrative Units and Non-Commercial from Banks and Intermediaries	Contingent and Non-Contingent Receivables from Banks and Non-Contingent Receivables	Contingent and Non-Contingent Receivables from Companies	Contingent and Non-Contingent Receivables from Real Estate	Contingent and Non-Contingent Receivables Secured by Residential Property	Contingent and Non-Contingent Receivables Secured by Other	Receivables are identified as high risk by the Board	Other Receivables	Total
Current Period											
1. Domestic	67,933,072	1,913,131	740,208	4,829,439	78,822,896	52,793,475	44,594,415	1,162,519	50,578	11,164,941	264,004,674
2. EU Countries ⁽²⁾	-	-	56	20,095	407,887	100,032	213,895	17,783	-	-	759,748
3. OECD Countries	-	-	-	8,897	-	128	171	-	-	-	9,196
4. Off-shore banking regions	-	-	-	-	-	23	-	-	-	-	23
5. USA, Canada	-	-	-	2,850	215,163	93	346	-	-	-	218,452
6. Other Countries	9	-	-	21,730	1,302,035	1,705	2,604	-	-	-	1,328,083
7. Investment and associates, subsidiaries and joint ventures	-	-	-	-	-	-	-	-	-	-	-
8. Undistributed Assets/Liabilities ⁽³⁾	-	-	-	-	-	-	-	-	-	-	-
9. Total	67,933,081	1,913,131	740,264	4,883,011	80,747,981	52,895,456	44,811,431	1,180,302	50,578	11,164,941	266,320,176
Prior Period											
1. Domestic	47,398,058	1,074,473	619,942	2,508,570	62,315,812	40,701,337	32,111,282	930,736	7,079,352	9,797,540	204,537,102
2. EU Countries ⁽²⁾	-	-	17	556,795	178,682	89,805	162,573	154	-	-	988,026
3. OECD Countries	-	-	-	1,184,038	-	526	171	-	-	-	1,184,735
4. Off-shore banking regions	-	-	-	-	-	-	-	-	-	-	29
5. USA, Canada	-	-	-	63,428	678,889	174	129	-	-	-	742,620
6. Other Countries	8	-	-	8,325	845,554	1,346	1,180	-	-	-	856,413
7. Investment and associates, subsidiaries and joint ventures	-	-	-	-	-	-	-	-	-	-	-
8. Undistributed Assets/Liabilities ⁽³⁾	-	-	-	-	-	-	-	-	-	-	-
9. Total	47,398,066	1,074,473	619,959	4,465,484	65,226,266	40,793,188	32,275,335	930,890	7,079,352	9,797,540	209,660,553

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

⁽²⁾ OECD Countries other than the EU Countries, USA and Canada.

⁽³⁾ Assets and liabilities that are not consistently allocated.

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Risk Profile according to sectors:

Current Period	Risk Classifications ⁽¹⁾											Total
	Contingent and Non-Contingent Receivables from Central Banks	Contingent and Non-Contingent Receivables from Regional Government	Contingent and Non-Contingent Receivables from Administrative Units and Non-Commercial Enterprises	Contingent and Non-Contingent Receivables from Intermediaries	Contingent and Non-Contingent Receivables	Contingent and Non-Contingent Receivables	Contingent and Non-Contingent Receivables	Contingent and Non-Contingent Receivables	Contingent and Non-Contingent Receivables	Contingent and Non-Contingent Receivables	Contingent and Non-Contingent Receivables	
Agricultural	11	14	100	-	226,322	492,775	87,239	22,861	-	649,526	179,796	829,322
Farming and raising livestock	11	14	70	-	158,192	462,215	79,513	21,648	-	609,751	111,912	721,663
Forestry	-	-	5	-	3	4,896	131	8	-	5,043	-	5,043
Fishing	-	-	25	-	68,127	25,664	7,595	1,205	-	34,732	67,884	102,616
Manufacturing	48	55	361,455	-	33,722,108	8,252,361	12,851,077	706,423	-	25,034,071	30,859,456	55,893,527
Mining	-	-	139,590	-	904,043	131,809	167,579	17,364	-	401,881	958,504	1,360,385
Production	48	28	107,988	-	25,293,195	8,085,433	11,787,102	689,059	-	22,812,293	23,150,560	45,962,853
Electric, gas and water	-	27	113,877	-	7,524,870	35,119	896,396	-	-	1,819,897	6,750,392	8,570,289
Construction	13	16	128	-	8,964,203	1,582,337	1,441,797	89,103	-	6,392,270	5,685,327	12,077,597
Services	70,029	18,029	288,616	-	26,020,112	22,420,908	13,033,551	361,915	-	3,162,297	45,855,669	24,379,636
Wholesale and retail trade	17	694	102,093	-	9,108,908	14,214,515	6,376,754	192,411	-	25,046,631	4,948,761	29,995,392
Hotel, food and beverage services	-	47	13	-	3,813,020	664,916	3,654,415	49,179	-	1,580,599	6,600,991	8,181,590
Transportation and telecommunication	-	17,250	172,320	-	6,866,000	6,280,731	621,188	17,046	-	6,973,900	7,000,635	13,974,535
Financial institutions	-	1,189	4,859,848	-	3,109,024	41,112	582,349	-	-	3,162,297	9,520,833	2,234,986
Real estate and renting services	5	-	-	-	1,926,101	307,168	889,365	73,446	-	858,436	2,337,649	3,196,085
Self-employment services	4	6	17	-	13	701,233	133,298	1,763	-	836,149	185	836,334
Education services	25,513	-	238	-	661,703	81,572	244,921	2,372	-	437,721	578,598	1,016,319
Health and social services	44,490	32	12,746	-	535,343	129,661	531,261	25,698	-	601,400	677,831	1,279,231
Other	67,862,980	1,895,017	89,965	23,163	11,815,236	20,147,075	17,397,767	-	50,578	8,002,644	82,071,524	45,212,901
Total	67,933,081	1,913,131	740,264	4,883,011	80,747,981	52,895,456	44,811,431	1,180,302	50,578	11,164,941	160,003,060	266,320,176

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

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Risk Profile according to sectors:

Prior Period	Risk Classifications ⁽¹⁾											FC	Total
	Contingent and Non-Contingent Receivables from Central Governments or Central Banks	Contingent and Non-Contingent Receivables from Regional Government or Domestic Government	Contingent and Non-Contingent Receivables from Banks and Intermediaries	Contingent and Non-Contingent Receivables from Administrative Units and Non-Commercial Enterprises	Contingent and Non-Contingent Receivables from Corporate	Contingent and Non-Contingent Receivables from Retail	Contingent and Non-Contingent Receivables Secured by Residential Property	Non-Performing Receivables	Receivables are identified as high risk by the Board	Other Receivables	TRY		
Agricultural	11	34	110	-	175,215	455,866	63,990	13,573	-	118,766	720,021	107,444	827,465
Farming and raising livestock	11	34	42	-	131,455	430,888	58,786	13,422	-	118,695	683,076	69,557	752,633
Forestry	-	-	5	-	993	3,011	234	8	-	71	4,322	-	4,322
Fishing	-	-	63	-	42,767	22,667	4,870	143	-	-	32,623	37,887	70,510
Manufacturing	42	104	70,863	-	28,350,833	6,984,727	8,485,791	567,423	-	12,525	20,882,741	23,789,567	44,472,308
Mining	-	-	12,459	-	324,021	118,097	75,318	15,794	-	-	303,908	241,781	546,689
Production	42	104	49,596	-	22,494,069	6,838,757	7,646,870	551,573	-	12,525	19,083,934	18,509,602	37,593,536
Electric, gas and water	-	-	8,808	-	5,532,743	27,873	763,603	56	-	-	1,294,899	5,038,184	6,333,083
Construction	12	15	127	-	6,297,870	1,206,598	1,035,574	83,943	-	147,069	4,739,886	4,031,322	8,771,208
Services	45,229,371	19,084	442,469	4,465,484	21,282,132	18,824,799	9,039,305	246,820	-	38,275	62,099,123	37,488,616	99,587,739
Wholesale and retail trade	20	50	326,643	-	8,522,713	11,941,075	4,881,017	122,279	-	9,685	21,969,012	3,845,170	25,814,182
Hotel, food and beverage services	-	319	1,368	-	2,828,177	505,655	2,054,788	26,053	-	84	1,197,547	4,218,897	5,416,444
Transportation and telecommunication	-	6	28,480	-	4,267,694	5,246,931	458,464	6,587	-	622	5,767,751	4,241,033	10,008,784
Financial institutions	45,199,989	2,677	79,26	4,465,484	2,783,406	78,717	269,738	319	-	68	30,866,147	21,942,177	52,808,324
Real estate and renting services	-	2	-	-	1,788,841	228,593	900,445	72,258	-	21,729	615,191	2,396,677	3,011,868
Self-employment services	3	5	16	-	40	628,417	101,424	1,511	-	6,017	734,100	3,333	737,433
Education services	323	5	48,732	-	47,0148	81,759	106,390	380	-	2	390,847	316,892	707,739
Health and social services	29,036	16,020	29,304	-	627,113	113,652	267,039	7,333	-	68	558,528	524,437	1,082,965
Other	2,168,630	1,055,236	106,390	-	9,120,216	13,321,198	13,650,775	19,131	7,079,352	9,480,905	47,717,102	8,284,731	56,001,833
Total	47,998,066	1,074,473	619,959	4,465,484	65,226,266	40,793,888	32,275,335	930,890	7,079,352	9,797,540	135,958,873	73,701,680	209,660,553

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

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

According to outstanding maturities					
Current Period					
Risk Classifications	1 month	1-3 month	3-6 month	6-12 month	1 year and over
1.Claims on sovereigns and Central Banks	144.199	25.973	362.850	793.113	66.606.946
2.Claims on regional governments or local authorities	31.431	351	9.775	45.171	1.826.403
3.Claims on administrative bodies and other non-commercial undertakings	380.050	164.820	8.018	181.319	6.057
4.Claims on banks and intermediary institutions	4.770.949	19.102	52.609	32.051	8.300
5.Claims on corporate	11.917.965	4.935.918	8.529.750	14.079.641	57.424.087
6.Claims included in the regulatory retail portfolios	4.711.808	2.296.235	4.616.873	11.210.485	58.782.684
7. Overdue loans	1.180.302	-	-	-	-
8. Other receivables	-	-	-	-	11.164.941
Total	23.136.704	7.442.399	13.579.875	26.341.780	195.819.418

^(*) Includes total risk amounts before the effect of credit risk mitigation but after credit conversions.

^(**) Claims secured by residential property and higher risk categories decided by the Board are disclosed in the claims on corporate and claims included in the regulatory retail portfolios.

According to outstanding maturities					
Prior Period					
Risk Classifications	1 month	1-3 month	3-6 month	6-12 month	1 year and over
1.Claims on sovereigns and Central Banks	28.855.871	208.053	975.106	148.920	17.210.116
2.Claims on regional governments or local authorities	15.013	547	7.734	13.269	1.037.910
3.Claims on administrative bodies and other non-commercial undertakings	139.275	39.343	333.415	29.651	78.275
4.Claims on banks and intermediary institutions	4.338.162	5.421	32.898	8.785	80.218
5.Claims on corporate	8.964.895	3.876.372	6.983.691	11.960.610	44.035.170
6.Claims included in the regulatory retail portfolios	3.850.301	2.065.997	3.897.733	8.525.316	51.214.056
7. Overdue loans	818.367	100.934	256	4.213	7.120
8. Other receivables	-	-	-	-	9.797.540
Total	46.981.884	6.296.667	12.230.833	20.690.764	123.460.405

^(*) Includes total risk amounts before the effect of credit risk mitigation but after credit conversions.

^(**) Claims secured by residential property and higher risk categories decided by the Board are disclosed in the claims on corporate and claims included in the regulatory retail portfolios.

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Information on the risk classifications as per the Article 6 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks:

- a)** Türkiye Halkbank A.Ş. is using the risk ratings of the independent rating firm Fitch Ratings for the calculation of capital adequacy.
- b)** Fitch Ratings' risk ratings are used, for the claims on sovereigns and Central Banks and for the risk groups below on the condition that being settled abroad;

Claims on banks and intermediary institutions

Claims on regional governments or local authorities

Claims on administrative bodies and other non-commercial undertakings

Claims on multilateral development banks

Claims on corporates

Additionally, firms which are resident are being accepted as scaleless and are included in the calculation of capital adequacy.

- c)** The relevant risk classification is used in determining the risk weights on a claim that is classified as per the second section, Article 8 of the Additional Regulation 1 on Measurement and Assessment of Capital Adequacy Ratios of Banks. In the absence of a specific rating, the provisions of paragraph a,b and c of Article 9 of the regulation mentioned should be used.

- d)** The implementation of the risk weights to claims on Regional Governments or local authorities are subjected to the same conditions as claims on banks and intermediary institutions but this privileged implementation could not be applied for the claims on banks and intermediary institutions which have 90 days to maturity.

The implementation of the risk weights to claims on multilateral development banks except those listed in the Additional Regulation 1 on Measurement and Assessment of Capital Adequacy Ratios of Banks, are subjected to the same conditions as claims on banks and intermediary institutions but this privileged implementation could not be applied for the claims on banks and intermediary institutions which have 90 days to maturity.

The implementation of the risk weight for unrated claims on banks and intermediary institutions can not be lower than the risk weight of claims on sovereigns which they are settled in.

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RISK CATEGORIES

Credit Quality Grade	FITCH	Claims on administrative bodies and other non-commercial undertakings		Claims on banks and intermediary institutions			
		Claims on sovereigns and Central Banks	Institutions and Organizations listed in the sections (I), (II), (III) and (IV) of Annex 5018 Public Financial Management and Control Law	Other Public Institutions and organizations	Less than 90 days to maturity	More than 90 days to maturity	Claims on corporates
1	AAA	0%	0%	20%	20%	20%	20%
	AA+						
	AA						
	AA-						
2	A+	20%	20%	50%	20%	50%	50%
	A						
	A-						
3	BBB+	50%	50%	100%	20%	50%	100%
	BBB						
	BBB-						
4	BB+	100%	100%	100%	50%	100%	100%
	BB						
	BB-						
5	B+	100%	100%	100%	50%	100%	150%
	B						
	B-						
6	CCC+	150%	150%	150%	150%	150%	150%
	CCC						
	CC						
	C						
	D						

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Receivables from consolidated private sector:

Country	RWAs of Banking Book for Private		RWAs of Trading Book	Total
	Sector Lending			
TURKEY	144.454.646		52.943	144.507.589
VIRGIN ISLANDS(US)	972.192		-	972.192
CYPRUS	396.157		186	396.343
IRAN	244.103		-	244.103
SWEDEN	185.659		-	185.659
MACEDONIA	76.714		-	76.714
OTHER	37.278		31.834	69.112

*Countries having less than twenty thousand Turkish Lira risk weighted amount are classified under "Others".

Risk balances according to risk weights:

Current Period

Risk Weights											Deductions from the shareholders' equity
	0%	10%	20%	35%	50%	75%	100%	150%	200%	250%	
1. Pre-Amount of Credit Risk Mitigation	37.961.056	-	3.747.018	-	37.382.701	82.321.685	104.594.800	50.578	-	262.338	331.629
2. Amount after Credit Risk Mitigation	42.337.365	832.839	4.097.104	25.585.260	56.314.661	51.380.287	85.459.744	50.578	-	262.338	331.629

Prior Period											Deductions from the shareholders' equity
	0%	10%	20%	50%	75%	100%	150%	200%	250%		
1. Pre-Amount of Credit Risk Mitigation	46.754.539	-	4.915.927	18.430.193	50.259.199	82.000.343	2.593.313	4.485.266	221.773	242.837	
2. Amount after Credit Risk Mitigation	51.094.927	-	5.443.786	37.967.722	38.837.615	69.016.151	2.593.313	4.485.266	221.773	242.837	

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Information according to sectors and counterparties:

Current Period	Loans			
	Non-performing loans ⁽¹⁾	Overdue ⁽²⁾	Value Adjustments	Provisions
Sectors / Counterparties				
Agricultural	95.176	13.667	273	72.314
<i>Farming and raising livestock</i>	86.396	10.699	214	64.747
<i>Forestry</i>	472	-	-	464
<i>Fishing</i>	8.308	2.968	59	7.103
Manufacturing	2.263.512	567.333	11.347	1.557.088
<i>Mining</i>	133.994	12.663	253	116.630
<i>Production</i>	2.128.561	554.188	11.084	1.439.501
<i>Electric, gas and water</i>	957	482	10	957
Construction	442.592	117.742	2.355	353.489
Services	1.390.369	897.812	17.956	1.032.721
<i>Wholesale and retail trade</i>	967.460	529.049	10.581	779.316
<i>Hotel, food and beverage services</i>	147.144	79.956	1.599	97.965
<i>Transportation and telecommunication</i>	53.842	129.641	2.593	36.795
<i>Financial institutions</i>	10.482	959	19	10.482
<i>Real estate and renting services</i>	123.450	121.216	2.424	50.005
<i>Self-employment services</i>	9.808	19.805	396	8.045
<i>Education services</i>	5.979	12.581	252	3.607
<i>Health and social services</i>	72.204	4.605	92	46.506
Other	948.433	172.885	3.458	948.433
Total	5.140.082	1.769.439	35.389	3.964.045

⁽¹⁾ Non-performing loans; are the loans that either overdue more than 90 days as of the reporting date or are treated as impaired due to their creditworthiness. For such loans, "specific provisions" are allocated as per the Provisioning Regulation.

⁽²⁾ Overdue Loans; are the loans that overdue up to 90 days but not non-performing loans. For such loans, "general loan provisions" are allocated as per the Provisioning Regulation. Accruals are not included in the table above.

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Prior Period	Loans			
	Non-performing loans ⁽¹⁾	Overdue ⁽²⁾	Value Adjustments	Provisions
Sectors / Counterparties				
Agricultural	80.121	28.420	779	66.547
<i>Farming and raising livestock</i>	72.490	26.077	709	59.067
<i>Forestry</i>	482	60	1	474
<i>Fishing</i>	7.149	2.283	69	7.006
Manufacturing	1.853.936	1.010.721	34.935	1.297.135
<i>Mining</i>	132.563	17.509	701	116.770
<i>Production</i>	1.720.330	677.386	24.246	1.179.378
<i>Electric, gas and water</i>	1.043	315.826	9.988	987
Construction	340.257	406.679	11.984	247.872
Services	992.862	1.172.404	46.739	777.785
<i>Wholesale and retail trade</i>	677.113	859.530	33.201	544.741
<i>Hotel, food and beverage services</i>	105.416	67.797	1.978	79.781
<i>Transportation and telecommunication</i>	33.873	88.262	2.442	26.868
<i>Financial institutions</i>	10.763	2.736	118	10.444
<i>Real estate and renting services</i>	123.143	50.829	5.118	88.494
<i>Self-employment services</i>	21.166	50.761	1.458	14.001
<i>Education services</i>	2.852	3.789	118	2.471
<i>Health and social services</i>	18.536	48.700	2.306	10.985
Other	706.562	676.211	13.891	638.546
Total	3.973.738	3.294.435	108.328	3.027.885

⁽¹⁾ Non-performing loans; are the loans that either overdue more than 90 days as of the reporting date or are treated as impaired due to their creditworthiness. For such loans, "specific provisions" are allocated as per the Provisioning Regulation.

⁽²⁾ Overdue Loans; are the loans that overdue up to 90 days but not non-performing loans. For such loans, "general loan provisions" are allocated as per the Provisioning Regulation. Accruals are not included in the table above.

Information about value adjustments and changes in the loan impairment:

Current Period	The opening balance	Provision amounts set		Other adjustments	Close out balance
		aside during the period	The cancelation of the provisions		
1. Specific Provisions	3.027.885	1.133.276	196.084	(1.032)	3.964.045
2. General Provisions	1.123.838	904.401	275	-	2.027.964

Prior Period	The opening balance	Provision amounts set		Other adjustments	Close out balance
		aside during the period	The cancelation of the provisions		
1. Specific Provisions	2.414.023	844.497	230.588	(47)	3.027.885
2. General Provisions	1.268.847	285.324	430.333	-	1.123.838

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The table below shows the maximum risk exposure to credit risk for the components of the financial statements.

Gross Maximum Exposure	Current Period	Prior Period
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased) and balances with the Central Bank of Turkey	29.999.160	23.324.971
Due from banks	1.661.030	2.513.285
Money Market Receivables	-	-
Financial Assets at Fair Value through profit or loss	430.098	269.341
Financial Assets Available for Sale	14.889.333	11.048.245
Held to maturity Investments	18.156.182	16.676.797
Loans	158.354.333	126.744.977
Total	223.490.136	180.577.616
Contingent Liabilities	47.760.828	39.781.250
Commitments	23.516.681	21.383.765
Total	71.277.509	61.165.015
Total Credit Risk Exposure	294.767.645	241.742.631

Overdue and individually impaired assets are not available in due from banks, financial assets at fair value through profit or loss, financial assets available for sale and held to maturity investments.

Book values of reviewed maturity financial assets:

	Current Period	Prior Period
Loans^{(1),(2)}		
Corporate Loans	33.834	73.375
SME Loans	7.796	12.054
Consumer Loans	10.148	13.824
Other	-	-
Total	51.778	99.253

⁽¹⁾ Accruals are not included in the table above.

⁽²⁾ Presents loans accounted under in restructured or rescheduled loan accounts.

The net value and type of collaterals of the loans amounting TRY 4.533.721 followed under loans and other receivables under close monitoring section is below (31 December 2015: TRY 3.411.109):

Collateral Types^{(1),(2)}	Net Value of Collateral Current Period	Net Value of Collateral Prior Period
Real estate mortgage	3.257.898	1.640.947
Salary pledge, vehicle pledge and pledge of commercial undertaking	89.968	115.816
Financial collaterals (cash, securities pledge, etc.)	8	5
Cheque / bills	38.123	41.827
Surety ship	881.283	1.285.234
Other	266.441	327.280
Total	4.533.721	3.411.109

⁽¹⁾ The collaterals are considered through comparison of the net value of collateral on appraisal reports less the third party receivables having priority with the collateral. Lower of the collateral amount or the loan amount is considered on the table above.

⁽²⁾ Income accruals amounting to TRY 61.896 (31 December 2015: TRY 35.760) are not included in the table.

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The net value and type of collaterals belongs to loans amounted TRY 5.140.082 followed under non-performing loans section is below (31 December 2015: TRY 3.973.738):

Collateral Types	Net Value of Collateral Current Period ⁽¹⁾	Net Value of Collateral Prior Period
Cash	298	310
Mortgage	1.235.609	851.343
Pledge	211.957	176.897
Cheque / bills	5.519	1.921
Surety ship	1.500.317	2.136.683
Other ⁽²⁾	2.186.382	806.584
Total	5.140.082	3.973.738

⁽¹⁾ The collaterals are considered through comparison of the net value of collateral on appraisal reports less the third party receivables having priority with the collateral. Lower of the collateral amount or the loan amount is considered in the table above.

⁽²⁾ Comprised of share certificates, blockage on receivables and salaries, uncollateralized, etc.

III. EXPLANATIONS RELATED TO THE CURRENCY RISK

Foreign currency risk indicates the probability of loss that banks are subject to due to the exchange rate movements in the market. While calculating the share capital requirement, all foreign currency assets, liabilities and forward transactions of the Bank are taken into consideration. Net short term and long term positions of each currency are calculated in terms of the Turkish Lira.

In accordance with "Regulation on Measurement and Evaluation of Capital Adequacy of Banks", the foreign currency position risk of the Bank is measured by "standard method" and is calculated daily and is reported monthly. Also VAR based values and limits are reported to the Executives on a daily basis by using internal model methods. The currency risks have been closely followed. The Bank makes derivative transactions against the currency risk, in case of need.

Announced current foreign exchange buying rates of the Bank as at 31 December 2016 and the previous five working days in full TRY are as follows:

	23.12.2016	26.12.2016	27.12.2016	28.12.2016	29.12.2016	30.12.2016
USD	3,4800000	3,4700000	3,4900000	3,5300000	3,5000000	3,5100000
CHF	3,3846000	3,3750000	3,3877000	3,4222000	3,4112000	3,4433000
GBP	4,2552000	4,2577000	4,2697000	4,3074000	4,2757000	4,3345000
JPY	0,0296066	0,0295997	0,0296613	0,0299503	0,0299259	0,0299921
EURO	3,6331000	3,6277000	3,6477000	3,6710000	3,6589000	3,6974000

The simple arithmetic averages of the major current foreign exchange buying rates of the Bank for the thirty days before 31 December 2016 are as follows:

	Monthly average
USD	3,4765909
CHF	3,4031455
GBP	4,3325227
JPY	0,0299034
EURO	3,6636545

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Information related to currency risk:

Current Period	EURO	USD	OTHER FC	TOTAL
Assets				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the Central Bank of Turkey	6.703.856	16.029.007	3.732.065	26.464.928
Banks	474.952	781.982	207.788	1.464.722
Financial assets at fair value through profit and loss ⁽³⁾	91.242	138.476	1.807	231.525
Money market placements	-	-	-	-
Financial assets available-for-sale ⁽⁵⁾	778.880	3.440.385	-	4.219.265
Loans ⁽²⁾	24.708.850	31.651.732	489.992	56.850.574
Subsidiaries, associates and entities under common control ⁽⁵⁾	249.574	-	363.185	612.759
Held-to-maturity investments	-	2.332.668	-	2.332.668
Derivative financial assets held for risk management	-	-	-	-
Tangible assets	-	-	102	102
Intangible assets	-	-	-	-
Other assets ⁽³⁾	36.910	382.624	144	419.678
Total assets	33.044.264	54.756.874	4.795.083	92.596.221
Liabilities				
Bank deposits	8.448.235	3.162.803	1.437.084	13.048.122
Foreign currency deposits	16.570.866	30.587.612	1.839.109	48.997.587
Money market balances	-	1.373.871	-	1.373.871
Funds provided from other financial institutions	7.975.987	10.542.250	8.912	18.527.149
Bonds issued	-	10.684.708	-	10.684.708
Sundry creditors	1.363	53.398	24.659	79.420
Derivative financial liabilities held for risk management	-	-	-	-
Other liabilities ⁽³⁾	254.282	292.416	54.786	601.484
Total liabilities	33.250.733	56.697.058	3.364.550	93.312.341
Net balance sheet position	(206.469)	(1.940.184)	1.430.533	(716.120)
Net off-balance sheet position	(135.412)	1.925.895	(1.140.873)	649.610
Financial derivative assets ⁽⁴⁾	1.387.874	4.185.717	1.571.078	7.144.669
Financial derivative liabilities ⁽⁴⁾	(1.523.286)	(2.259.822)	(2.711.951)	(6.495.059)
Non-cash loans ⁽¹⁾	8.757.283	16.447.030	1.482.895	26.687.208
Prior period				
Total assets	22.735.529	42.869.184	3.571.159	69.175.872
Total liabilities	24.257.962	43.951.013	2.376.388	70.585.363
Net balance sheet position	(1.522.433)	(1.081.829)	1.194.771	(1.409.491)
Net off-balance sheet position	1.435.185	1.211.257	(937.169)	1.709.273
Financial derivative assets	2.200.012	4.269.475	1.299.172	7.768.659
Financial derivative liabilities	764.827	3.058.218	2.236.341	6.059.386
Non-cash loans ⁽¹⁾	6.333.113	16.007.174	786.284	23.126.571

⁽¹⁾ Non-cash loans are not included in the off-balance sheet position items.

⁽²⁾ Includes TRY 1.998.635 of foreign currency indexed loans and their accruals (31 December 2015: TRY 1.534.159).

⁽³⁾ In accordance with the principles of the "Regulation on Measurement and Practices of Banks' Net Overall FC Position / Shareholders' Equity Ratio on a Consolidated and Unconsolidated Basis", derivative financial instruments foreign currency income accruals (TRY 128.468), prepaid expenses (TRY 187) in assets; and derivative financial instruments foreign currency expense accruals (TRY 17.465) and shareholders' equity (TRY 224.176) in liabilities are not taken into consideration in the currency risk measurement.

⁽⁴⁾ Financial derivative assets include forward precious metal purchase transactions amounted to TRY 59.714. Financial derivative liabilities include forward precious metal sale transactions amounted to TRY 2.121.975. Besides, derivative transactions under forward foreign currency purchase and sale commitments are included.

⁽⁵⁾ Foreign currency subsidiaries Halkbank A.D. Beograd (TRY 90.813) and Halk Banka AD Skopje (TRY 272.372), and foreign currency associate Demir-Halk Bank NV (TRY 249.574) are included.

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IV. EXPLANATIONS ON INTEREST RATE RISK

Interest rate sensitivity of assets, liabilities and off-balance sheet items are measured by the Bank. The Bank's interest rate risk is calculated using the general and specific interest rate risk tables in the standard method including the assets and liabilities and is considered as a part of the general market risk in the calculation of the capital adequacy standard ratio.

The priority of the Bank's risk management department is to avoid the effects of the interest rate volatility. Sensitivity analysis performed within this context is calculated by the risk management department and reported to the Asset-Liability Committee.

Simulations on interest income are performed in connection with the forecasted economic indicators used in the budgeting process of the Bank. The effects of the fluctuations in the market interest rates on the financial position and on the cash flows are minimized by revising budget targets. The Bank's funding costs of TRY and foreign exchange deposits, repurchase agreements are determined by the Treasury Vice Presidency.

The Bank assesses the probability of any significant losses can be caused by interest rate risk exposures as low.

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1. Information related to the interest rate sensitivity of assets, liabilities and off-balance sheet items based on re-pricing dates:

Current period	Up to 1 month	1-3 months	3-12 Months	1-5 years	5 years and over	Non-interest bearing	Total
Assets							
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the Central Bank of Turkey	20.210.851	-	-	-	-	9.788.309	29.999.160
Banks and financial institutions	783.753	-	16.343	-	-	860.934	1.661.030
Financial assets at fair value through profit and loss	419.809	1.450	8.522	210	107	-	430.098
Money market placements	-	-	-	-	-	-	-
Financial assets available-for-sale	667.993	2.980.838	2.444.922	3.296.251	5.499.329	100.594	14.989.927
Loans	58.545.736	20.841.578	41.619.172	28.620.319	6.078.569	1.472.922	157.178.296
Held-to-maturity investments	377.666	7.562.529	1.871.686	2.505.389	5.838.912	-	18.156.182
Other assets ⁽⁴⁾	5.146.230	4.279	13.298	44.913	11.469	3.805.936	9.026.125
Total assets	86.152.038	31.390.674	45.973.943	34.467.082	17.428.386	16.028.695	231.440.818
Liabilities							
Bank deposits	12.210.406	2.377.790	380.301	-	-	7.862.967	22.831.464
Other deposits	72.619.489	24.588.520	8.930.408	281.954	2.822	21.008.182	127.431.375
Money market balances	16.652.570	303.429	891.064	-	-	-	17.847.063
Sundry creditors	1.201.703	81.016	345.373	839.184	29	233.371	2.700.676
Bonds issued	198.378	813.673	3.546.319	7.875.372	-	-	12.433.742
Funds provided from other financial institutions ⁽³⁾	3.288.720	4.838.730	8.097.168	1.777.589	965.360	537	18.968.104
Other liabilities ^{(1),(2)}	212.335	2.031.637	35.160	-	-	26.949.262	29.228.394
Total liabilities	106.383.601	35.034.795	22.225.793	10.774.099	968.211	56.054.319	231.440.818
Balance sheet long position	-	-	23.748.150	23.692.983	16.460.175	-	63.901.308
Balance sheet short position	(20.231.563)	(3.644.121)	-	-	-	(40.025.624)	(63.901.308)
Off-balance sheet long position	351.000	287.040	2.324.592	712.029	1.724.104	-	5.398.765
Off-balance sheet short position	-	(111.540)	(2.324.592)	(1.141.329)	(1.724.104)	-	(5.301.565)
Total position	(19.880.563)	(3.468.621)	23.748.150	23.263.683	16.460.175	(40.025.624)	97.200

⁽¹⁾ TRY 286.672 of deferred tax liability is disclosed under the non-interest bearing column in other assets.

⁽²⁾ Shareholders' equity balance is disclosed under the non-interest bearing column in other liabilities line.

⁽³⁾ Funds provided from other financial institutions include borrowings.

⁽⁴⁾ TRY 1.176.037 of non-performing loans with no specific provision is disclosed under the non-interest bearing column in other assets.

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Prior period	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and over	Non-interest bearing	Total
Assets							
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the Central Bank of Turkey	16.747.037	-	-	-	-	6.577.934	23.324.971
Banks and financial institutions	859.293	-	-	-	-	1.653.992	2.513.285
Financial assets at fair value through profit and loss	247.364	754	21.194	27	2	-	269.341
Money market placements	-	-	-	-	-	-	-
Financial assets available-for-sale	2.358.685	502.968	1.545.281	2.376.793	4.264.518	160.748	11.208.993
Loans	44.599.622	17.767.705	33.658.375	23.031.167	4.700.737	2.041.518	125.799.124
Held-to-maturity investments	7.601.605	745.742	1.298.673	2.142.024	4.888.753	-	16.676.797
Other assets ⁽⁴⁾	953.098	5.652	17.722	57.188	19.101	6.884.078	7.936.839
Total assets	73.366.704	19.022.821	36.541.245	27.607.199	13.873.111	17.318.270	187.729.350
Liabilities							
Bank deposits	8.419.481	2.422.059	479.736	-	-	3.328.282	14.649.558
Other deposits	55.935.917	27.784.868	6.343.983	225.749	-	17.205.890	107.496.407
Money market balances	7.824.493	585.773	-	-	-	-	8.410.266
Sundry creditors	947.799	4.692	953.533	87.342	-	324.222	2.317.588
Bonds issued	47.656	729.233	902.157	5.781.652	1.444.591	-	8.905.289
Funds provided from other financial institutions ⁽³⁾	670.173	4.188.241	11.037.756	3.725.136	640.310	-	20.261.616
Other liabilities ⁽¹⁾⁽²⁾	2.104.236	179.417	217.187	-	-	23.187.786	25.688.626
Total liabilities	75.949.755	35.894.283	19.934.352	9.819.879	2.084.901	44.046.180	187.729.350
Balance sheet long position	-	-	16.606.893	17.787.320	11.788.210	-	46.182.423
Balance sheet short position	(2.583.051)	(16.871.462)	-	-	-	(26.727.910)	(46.182.423)
Off-balance sheet long position	-	764.369	612.369	1.332.390	1.346.914	-	4.056.042
Off-balance sheet short position	-	(619.754)	(627.927)	(1.565.778)	(1.319.421)	-	(4.132.880)
Total position	(2.583.051)	(16.726.847)	16.591.335	17.553.932	11.815.703	(26.727.910)	(76.838)

⁽¹⁾ TRY 69.284 of deferred tax liability is disclosed under the non-interest bearing column in other assets.

⁽²⁾ Shareholders' equity balance is disclosed under the non-interest bearing column.

⁽³⁾ Funds provided from other financial institutions include borrowings.

⁽⁴⁾ TRY 945.853 of non-performing loans with no specific provision is disclosed under the non-interest bearing column in other assets.

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2. Average interest rates applied to financial instruments:

Current period	EURO	USD	JPY	TRY
Assets				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased) and balances with the Central Bank of Turkey ⁽⁵⁾	-	0,49	-	3,30
Due from other banks and financial institutions ⁽¹⁾	0,03	1,34	-	9,63
Financial assets at fair value through profit and loss	-	-	-	9,56
Money market placements	-	-	-	-
Available-for-sale financial assets	5,08	5,46	-	11,61
Loans ⁽²⁾	4,40	5,59	-	12,80
Held-to-maturity investments	-	5,89	-	14,03
Liabilities				
Bank deposits	0,44	3,17	-	7,82
Other deposits ⁽⁴⁾	1,37	3,09	0,25	9,46
Money market borrowings	-	1,84	-	7,52
Sundry creditors ⁽³⁾	-	-	-	4,75
Bonds issued	-	4,61	-	9,35
Funds provided from other financial institutions	0,66	2,37	-	7,55
Prior Period				
	EURO	USD	JPY	TRY
Assets				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased) and balances with the Central Bank of Turkey	-	0,22	-	2,07
Due from other banks and financial institutions	0,15	0,20	-	11,80
Financial assets at fair value through profit and loss	-	2,03	-	10,44
Money market placements	-	-	-	-
Available-for-sale financial assets	5,26	5,49	-	12,26
Loans	4,26	5,13	-	12,47
Held-to-maturity investments	-	5,91	-	15,15
Liabilities				
Bank deposits	0,61	2,28	-	13,27
Other deposits	1,49	2,00	0,25	10,92
Money market borrowings	-	1,44	-	8,76
Sundry creditors	-	-	-	4,75
Bonds issued	-	4,53	-	10,72
Funds provided from other financial institutions	0,86	1,82	-	7,24

⁽¹⁾ Interest rates are calculated using weighted average method for money placement amounts as of balance sheet date.

⁽²⁾ Interest rates for loans given as of balance sheet date are calculated using weighted average method for client's base.

⁽³⁾ Declared maximum deposits interest rate with a maturity of year as of 31 December 2016.

⁽⁴⁾ Customer based calculated stock interest rates are applied to TRY and FC deposits as of 31 December 2016.

⁽⁵⁾ Required reserve ratio of the Central Bank of TRNC.

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3. The interest rate risk of the banking book items:

Standard interest rate shock methods are being used in respect of measuring the risk arising from re-pricing mismatch of asset and liability items. The duration within the limits are determined by BRSA that obtained from the calculation intended for demand deposits by using core deposit and duration analysis is taken into account.

The interest rate risk of the banking book items is calculated by taking into account the worst ratio for the Bank among the calculated ratios by dividing the total of the differences in terms of maturities and currencies with the shareholders' equity. The mentioned difference is the difference between the net position amounts which are derived from the cash flows of the on-balance and off-balance sheet positions included in the interest sensitive banking book items discounted by the ratios derived from the application of positive and negative shocks, and the net position amounts which are discounted by the ratios without applying the shocks. The maximum limit regarding the economic value change is 20% of shareholders' equity.

While maturity distribution of the related cash flows, remaining maturities are taken into account for fixed rate instruments and re-pricing dates are taken into account for flexible interest instruments. Non-performing loans are placed to relevant maturity periods except demand time interval that are not than not be less than six months by taking into account receiving durations are receivables ratios under other receivables and estimated receiving durations. Foreign currency indexed asset and liabilities are placed to related forms by taking into accounts their indexed currency types.

In defining the maturity of demand deposits, average durations which are calculated by statistical analysis are being used.

Current Period

Currency	Applied Shock (+/- x basis points)	Gains/ Losses	Gains/Shareholders' Equity – Losses/ Shareholders' Equity
1 TRY	500	(3.295.737)	(14,32%)
	(400)	3.353.847	14,57%
2 EURO	200	510.345	2,22%
	(200)	(553.459)	(2,40%)
3 USD	200	(86.661)	(0,38%)
	(200)	301.068	1,31%
Total (For negative shocks)		3.101.456	13,48%
Total (For positive shocks)		(2.872.053)	(12,48%)

Prior Period

Currency	Applied Shock (+/- x basis points)	Gains/ Losses	Gains/Shareholders' Equity – Losses/ Shareholders' Equity
1 TRY	500	(2.222.523)	(10,88%)
	(400)	2.256.145	11,04%
2 EURO	200	288.034	1,41%
	(200)	(313.850)	(1,54%)
3 USD	200	124.102	0,61%
	(200)	(11.649)	(0,06%)
Total (For negative shocks)		1.930.646	9,45%
Total (For positive shocks)		(1.810.387)	(8,86%)

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V. EXPLANATIONS ON THE POSITION RISK OF SHARES

Information about position risk of shares:

Comparison

Equities	Balance Sheet Value	Fair Value Change	Market Value	Capital Requirements
Investment in Shares-Grade A	517.421	517.421	517.421	41.394
Quoted Securities ⁽¹⁾	517.421	517.421	517.421	41.394
Investment in Shares-Grade B	-	-	-	-
Quoted Securities	-	-	-	-
Investment in Shares-Grade C	-	-	-	-
Quoted Securities	-	-	-	-
Investment in Shares- Grade D ⁽²⁾	368.089	368.089	-	29.447
Other	2.276.758	2.260.971	-	205.305

⁽¹⁾The Banks' subsidiary Halk Gayrimenkul Yatırım Ortaklığı AŞ has privatized by a public offering on 22 February 2013 and the shares are traded on the Borsa Istanbul AŞ.

⁽²⁾In accordance with the Capital Markets Board's "Communiqué on Obtaining Registration of Shares and Sale of Shares", Series I, No. 40; the shares of Halk Sigorta AŞ are traded on the Borsa Istanbul AŞ Pre-Market Trading Platform. The fair value of Halk Sigorta AŞ was determined by the valuation report prepared by an independent valuation company.

Realized gains/losses, revaluation surpluses and unrealized gains/losses on equity securities and results included in core and supplementary capitals:

Portfolio	Revaluated appreciation in the fair value			Unrealized gains and losses		
	Realized gains (losses) in the current period	Total	Included to supplementary capital	Total	Included to total core capital	Included to supplementary capital
1. Private equity investments	-	-	-	-	-	-
2. Share Certificates quoted in a stock exchange ^{(1) (2)}	-	256.423	256.423	-	-	-
3. Other share certificates	-	951.675	951.675	-	-	-
Total	-	1.208.098	1.208.098	-	-	-

⁽¹⁾In accordance with the Capital Markets Board's "Communiqué on Obtaining Registration of Shares and Sale of Shares", Series I, No. 40; the shares of Halk Sigorta AŞ are traded on the Borsa Istanbul AŞ Pre-Market Platform. The fair value of Halk Sigorta AŞ was determined by the valuation report prepared by an independent valuation company.

⁽²⁾The Banks' subsidiary Halk Gayrimenkul Yatırım Ortaklığı AŞ has privatized by a public offering on 22 February 2013 and the shares are traded on the Borsa Istanbul AŞ.

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VI. EXPLANATIONS ON LIQUIDITY RISK AND LIQUIDITY COVERAGE RATIO

The liquidity risk occurs when there is insufficient cash or cash inflows to meet the cash outflows fully and timely. Liquidity risk may also occur when the market penetration is not adequate, when the open position cannot be closed immediately at the suitable prices in sufficient amounts due to barriers and break-ups in the markets.

To detect liquidity risk, Bank Liquidity Emergency Action Plan (LAEP) has been formed. Cash flow analysis methods include commission totals and tax totals, besides initial capital interest totals. The sections that are in the balance sheet are monitored by Risk Management Department Head and include the days until maturity which are canalized to the maturity bands that are predetermined; the liquidity availability are then detected and liquidity analysis performed. Thus, quantification of liquidity risk gets established.

Purpose is to have the level of liquidity to meet its obligations and commitments, which are due under the bank liquidity planning program and aim to reach a reasonable cost with necessary liquidity. The liquidity risk measurement made under this purpose contains days that are left for maturity made on the basis of liquidity gap as well as the analysis of "Liquidity Emergency Plan (LAEP)" – projected ratios that are also followed in the former phrase. Short-term liquidity needs of the bank are satisfied via BIST Repo Market, Interbank Money Market, Interbank Money Market securities sales, TCMB Repo Market, the Central Bank Interbank, currency swaps, the use of reserve and reserve option coefficients (FC).

The top limits of the bank consist of the following: max lending amount of TL and FC category on all maturity in interbank OTC markets, the upper limit of repurchase and reverse repurchase transactions in TL and FC category on all maturity in the interbank OTC markets, the maximum foreign exchange position limits that can be moved, and finally; the upper limit relating to forward and swap transactions was determined on the that the whole term of TL and foreign currency denominated, forward and the upper limit relating to swap transactions It was determined.

The extension of the maturity structure of term deposits reflects the primary funding source for the Bank; the development of new products that encourage saving and the protection of core deposit levels have been implemented as a strategic objective. Limits have been determined for exportation of bonds based on Turkish Liras to provide long term resource allocation; besides deposit, maturity structure extension of passives was established.

To benefit from new borrowing opportunities to meet the needs of the Bank, in this context, is sourced from the price in the international capital markets / costs to be closely monitored and for the circumstances to be parallel to evaluation of alternative sources of funds.

Effective collateral management structure is provided by the reduction of liquidity risk. Our Bank participates in the organized markets (CBT, BIST and TAKASBANK). Debt upper limits are determined under certain criteria and balance sheet size by the relevant authorities. Open are the current limits to use our bank's current and anticipated liquidity needs to deposit additional collateral. Treasury Management Middle Office Operations are managed by the Treasury Department and monitored continuously.

Effects of macro size balance sheet changes or important changes of market data on bank liquidity; based on legal liquidity ratio and according to liquidity emergency action plan, analysis is made on the effects of the ratios that are being followed. Whether originated from the bank or the market, under the condition that the potential stress tests are applied, the legal and internal changes on liquidity ratio and their effects of bank liquidity is quantified.

To show the ratio of withdrawal of interest-bearing deposits in the bank, deposit section of each foreign currency is analyzed through Deposit Analysis.

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According to the “Regulations on the Banks’ Liquidity Coverage Ratio Calculation” published by the BDDK, calculated foreign currency and total liquidity coverage ratio are monitored to ensure that banks keep high levels of liquid assets to cover net cash outflows.

“Regulations on the Banks’ Liquidity Coverage Ratio Calculation” by BDDK, calculated in accordance to “Liquidity Coverage Ratio” and “Liquidity Emergency Action Plan”; the coverage of the former is required for liquidity ratios and daily changes in these rates are monitored, then the information received is shared with the Audit Committee and the Asset-Liability Committee on a regularly basis.

Throughout the current period, Bank’s Liquidity Satisfactory Rate’s lowest and highest values and the weeks which have held these values are portrayed in the table below:

Liquidity Minimum-Maximum

Liquidity Coverage Ratio	FC		TRY+FC	
	Related Week	(%)	Related Week	(%)
Maximum	19.12.2016		14.11.2016	
	25.12.2016	115,77	20.11.2016	85,90
Minimum	10.10.2016		24.10.2016	
	16.10.2016	84,34	30.10.2016	79,20

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Current Period	Total Unweighted Value (average) ⁽¹⁾		Total Weighted Value (average) ⁽¹⁾	
	TL+FC	FC	TL+FC	FC
High Quality Liquid Assets				
High Quality Liquid Assets			41.286.093	19.507.763
Cash Outflows				
Retail and Small Business Customers, of which;	70.029.880	26.128.895	5.867.361	2.612.889
Stable Deposits	22.712.529	-	1.135.626	-
Less Stable Deposits	47.317.351	26.128.895	4.731.735	2.612.889
Unsecured wholesale funding , of which;	85.855.129	32.355.737	49.088.217	21.263.600
Operational Deposits	167.119	-	41.779	-
Non-operational Deposits	78.878.637	31.061.117	45.302.644	20.063.830
Other Unsecured Funding	6.809.373	1.294.620	3.743.794	1.199.770
Secured Funding			-	-
Other cash outflows, of which;	4.449.607	3.317.011	2.055.719	2.044.791
Derivatives cash outflow and liquidity needs related to market valuation changes on derivatives or other transactions	73.331	1.007.035	73.331	1.007.035
Obligations related to structured financial products	-	-	-	-
Commitments related to debts to financial markets and other off- balance sheet obligations	4.376.276	2.309.976	1.982.388	1.037.756
Other revocable off-balance sheet commitments and contractual obligations.	-	-	-	-
Other irrevocable or conditionally revocable off-balance sheet obligations	64.048.521	24.649.794	4.748.321	1.938.944
Total Cash Outflows			61.759.618	27.860.224
Cash Inflows				
Secured Lending	-	-	-	-
Unsecured Lending	17.973.709	9.549.697	11.966.727	7.922.449
Other Cash Inflows	-	-	-	-
Total Cash Inflows	17.973.709	9.549.697	11.966.727	7.922.449
			Total Adjusted Value	
Total HQLA Stock			41.286.093	19.507.763
Total Net Cash Outflows			49.792.891	19.937.775
Liquidity Coverage Ratio(%)			82,92	98,92

⁽¹⁾ To be calculated by simple arithmetic average, monthly consolidated average calculated for the last three months of the liquidity coverage ratio, also calculated are weekly simple average of the last three months of the liquidity coverage ratio by taking the arithmetic mean.

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Prior Period	Total Unweighted Value (average) ⁽¹⁾		Total Weighted Value (average) ⁽¹⁾	
	TL+FC	FC	TL+FC	FC
High Quality Liquid Assets				
High Quality Liquid Assets			35.026.978	22.127.033
Cash Outflows				
Retail and Small Business Customers, of which;	59.362.360	21.625.683	4.637.110	1.857.940
Stable Deposits	25.982.532	6.092.567	1.299.127	304.628
Less Stable Deposits	33.379.828	15.533.116	3.337.983	1.553.312
Unsecured wholesale funding , of which;	56.730.152	20.091.323	31.781.484	12.565.557
Operational Deposits	-	-	-	-
Non-operational Deposits	51.714.487	18.620.375	27.723.839	11.166.810
Other Unsecured Funding	5.015.665	1.470.948	4.057.645	1.398.747
Secured Funding			-	-
Other cash outflows, of which;	5.255.525	1.381.398	3.937.302	1.259.442
Derivatives cash outflow and liquidity needs related to market valuation changes on derivatives or other transactions	3.058.487	1.178.138	3.058.487	1.178.138
Obligations related to structured financial products	-	-	-	-
Commitments related to debts to financial markets and other off- balance sheet obligations	2.197.038	203.260	878.815	81.304
Other revocable off-balance sheet commitments and contractual obligations.	-	-	-	-
Other irrevocable or conditionally revocable off-balance sheet obligations	51.250.823	22.348.887	4.542.382	2.166.642
Total Cash Outflows			44.898.278	17.849.581
Cash Inflows				
Secured Lending	-	-	-	-
Unsecured Lending	11.166.176	4.615.170	6.889.357	3.588.158
Other Cash Inflows	3.089.617	3.089.617	3.089.617	3.089.617
Total Cash Inflows	14.255.793	7.704.787	9.978.974	6.677.775
			Total Adjusted Value	
Total HQLA Stock			35.026.978	22.127.033
Total Net Cash Outflows			34.919.304	11.171.806
Liquidity Coverage Ratio(%)			102,21	209,85

⁽¹⁾ To be calculated by simple arithmetic average, monthly consolidated average calculated for the last three months of the liquidity coverage ratio, also calculated are weekly simple average of the last three months of the liquidity coverage ratio by taking the arithmetic mean.

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1. Presentation of assets and liabilities according to their remaining maturities:

The Bank follows up and measures the consistency of payments comparing its assets and liabilities with the interest rates on a daily and transactional basis.

Current period	Demand	Up to 1 month	1-3 months	3-12 Months	1-5 years	5 years and over	Undistributed	Total
Assets								
Cash (cash in TRY, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the Central Bank of Turkey	4.822.799	25.176.361	-	-	-	-	-	29.999.160
Banks	860.934	783.753	-	16.343	-	-	-	1.661.030
Financial assets at fair value through profit and loss	-	170.443	62.217	168.262	29.069	107	-	430.098
Money market placements	-	-	-	-	-	-	-	-
Financial assets available-for-sale	-	237.114	666.067	1.897.533	4.996.307	7.092.312	100.594	14.989.927
Loans	1.346.586	11.697.406	10.442.350	48.423.750	65.463.267	19.804.937	-	157.178.296
Held-to-maturity investments	-	521.440	946.399	714.103	6.008.614	9.965.626	-	18.156.182
Other assets ⁽²⁾	1.180.064	2.122	4.279	13.298	44.913	11.469	7.769.980	9.026.125
Total assets	8.210.383	38.588.639	12.121.312	51.233.289	76.542.170	36.874.451	7.870.574	231.440.818
Liabilities								
Bank deposits	7.862.967	12.210.406	2.377.790	380.301	-	-	-	22.831.464
Other deposits	21.008.182	72.619.243	24.588.407	8.924.655	288.066	2.822	-	127.431.375
Funds provided from other financial institutions ⁽³⁾	10	879.839	1.979.522	10.133.379	3.883.051	2.092.303	-	18.968.104
Money market balances	-	16.652.570	303.429	891.064	-	-	-	-
Bonds issued	-	198.378	813.673	3.546.319	7.875.372	-	-	12.433.742
Sundry creditors	233.371	1.201.703	81.016	345.373	839.184	29	-	2.700.676
Other liabilities ⁽¹⁾	341.471	1.759.870	52.789	540.577	362.274	1.802.922	24.368.489	29.228.394
Total liabilities	29.446.001	105.522.009	30.196.626	24.761.668	13.247.949	3.898.076	24.368.489	231.440.818
Liquidity gap	(21.235.618)	(66.933.370)	(18.075.314)	26.471.621	63.294.221	32.976.375	(16.497.915)	-
Net off balance sheet position	-	(5.187)	(24.071)	991	98.699	-	-	70.432
Derivative financial assets	-	3.004.975	2.850.328	1.016.106	2.183.006	3.448.208	-	12.502.623
Derivative financial liabilities	-	(3.010.162)	(2.874.399)	(1.015.115)	(2.084.307)	(3.448.208)	-	(12.432.191)
Non-cash loans	17.683.351	2.026.427	4.604.681	13.248.606	8.367.717	1.830.046	-	47.760.828
Prior Period								
Total Assets	10.952.283	13.446.565	18.011.448	46.480.370	62.254.003	30.075.793	6.508.888	187.729.350
Total Liabilities	25.087.424	74.174.467	33.827.394	18.860.080	12.613.983	3.741.659	19.424.343	187.729.350
Liquidity Gap	(14.135.141)	(60.727.902)	(15.815.946)	27.620.290	49.640.020	26.334.134	(12.915.455)	-
Net off balance sheet position	-	(23.649)	37.878	(7.792)	(17.973)	28.160	-	16.624
Derivative financial assets	-	3.902.170	2.737.927	976.386	737.405	322.701	-	8.676.589
Derivative financial liabilities	-	(3.925.819)	(2.700.049)	(984.178)	(755.378)	(294.541)	-	(8.659.965)
Non-cash loans	14.600.770	1.117.523	3.715.349	13.212.258	6.067.227	1.068.123	-	39.781.250

⁽¹⁾ Shareholders' equity is disclosed in other liabilities line under the undistributed column.

⁽²⁾ Other asset items which are not expected to be converted into cash in short term but required for continuity of banking operations like tangible and intangible assets, office supply inventory, associates and subsidiaries, prepaid expenses, deferred tax assets and receivables from NPL are disclosed in other assets under the undistributed column.

⁽³⁾ Funds provided from other financial institutions include borrowings.

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Analysis of non-derivative financial liabilities by remaining contractual maturities:

Current Period	Up to one month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustments	Total
Liabilities							
Deposits	113.838.641	27.148.101	9.487.222	324.834	3.514	(539.473)	150.262.839
Funds provided from other financial intuitions	904.600	2.085.531	10.242.069	4.054.005	2.233.040	(551.141)	18.968.104
Money market borrowings	16.660.819	304.073	911.132	-	-	(28.961)	17.847.063
Securities issued	208.042	844.189	3.854.492	8.920.337	-	(1.393.318)	12.433.742
Funds	193.660	13.548	103.576	334.913	1.719.621	(25.510)	2.339.808
Total	131.805.762	30.395.442	24.598.491	13.634.089	3.956.175	(2.538.403)	201.851.556

Prior Period	Up to one month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustments	Total
Liabilities							
Deposits	85.073.728	30.506.845	6.918.664	334.438	4.192	(691.902)	122.145.965
Funds provided from other financial intuitions	671.648	2.005.026	10.803.988	5.443.244	1.787.003	(449.293)	20.261.616
Money market borrowings	7.833.283	588.284	-	-	-	(11.301)	8.410.266
Securities issued	53.016	744.977	1.095.512	6.630.355	1479029	(1.097.600)	8.905.289
Funds	568.336	127.139	132.675	603.780	634.541	(102.772)	1.963.699
Total	94.200.011	33.972.271	18.950.839	13.011.817	3.904.765	(2.352.868)	161.686.835

Adjustments column represents the difference between the total expected cash flows and the carrying values of non-derivative financial liabilities.

Analysis of Bank's derivative financial instruments according to their remaining maturities:

Current Period ⁽¹⁾	Up to one month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
Forwards Contracts- Buy	1.118.665	2.504.618	875.467	232.448	-	4.731.198
Forward Contracts – Sell	1.118.014	467.553	874.715	230.950	-	2.691.232
Swaps – Buy	1.775.843	264.926	140.639	526.500	-	2.707.908
Swaps – Sell	1.781.941	263.813	140.400	429.300	-	2.615.454
Credit Default Swap – Buy	-	-	-	-	-	-
Credit Default Swap – Sell	-	-	-	-	-	-
Forward Precious Metal - Buy	-	59.714	-	-	-	59.714
Forward Precious Metal - Sell	-	2.121.975	-	-	-	2.121.975
Money Buy Options	307.574	32.550	-	-	-	340.124
Money Sell Options	307.584	32.545	-	-	-	340.129
Swaps Interest – Buy	-	-	-	-	4.872.265	4.872.265
Swaps Interest – Sell	-	-	-	-	4.872.265	4.872.265
Total	6.409.621	5.747.694	2.031.221	1.419.198	9.744.530	25.352.264

⁽¹⁾ Forward asset purchase and sale commitments have been included in the table amounts of TRY 417.450.

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Prior Period ⁽¹⁾	Up to one month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
Forwards Contracts- Buy	679.764	2.206.989	905.864	532.124	-	4.324.741
Forward Contracts – Sell	679.786	446.265	905.270	529.626	-	2.560.947
Swaps – Buy	3.376.600	453.833	15.288	290.000	-	4.135.721
Swaps – Sell	3.400.144	451.854	15.200	277.200	-	4.144.398
Credit Default Swap – Buy	-	-	-	-	-	-
Credit Default Swap – Sell	-	-	-	-	-	-
Forward Precious Metal - Buy	-	15.278	-	-	-	15.278
Forward Precious Metal - Sell	-	1.734.898	-	-	-	1.734.898
Money Buy Options	86.586	61.398	31.650	-	-	179.634
Money Sell Options	86.790	61.184	31.650	-	-	179.624
Swaps Interest – Buy	-	-	-	-	3.790.180	3.790.180
Swaps Interest – Sell	-	-	-	-	3.790.180	3.790.180
Total	8.309.670	5.431.699	1.904.922	1.628.950	7.580.360	24.855.601

⁽¹⁾ Forward asset purchase and sale commitments have been included in the table amounts of TRY 481.678.

VII. EXPLANATIONS ON LEVERAGE RATIO

The article “Regulation Regarding the Measurement and Evaluation of Bank’s leverage level” published on November 5, 2013 and containing No: 28812 includes the table for the calculation of the leverage ratio below.

	Current Period ⁽¹⁾	Prior Period ⁽¹⁾
On-Balance Sheet Items		
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	226.075.095	185.282.357
Assets that are deducted from core capital	(155.000)	(141.014)
Total on balance sheet exposures	225.920.095	185.141.343
Derivative exposures and credit derivatives		
Replacement cost associated with derivative financial instruments and credit derivatives	425.626	328.635
The potential amount of credit risk with derivative financial instruments and credit derivatives	166.032	160.677
The total amount of risk on derivative financial instruments and credit derivatives	591.658	489.312
Investment securities or commodity collateral financing transactions		
The amount of risk investment securities or commodity collateral financing transactions (Excluding on balance sheet items)	564.131	314.623
Risk amount of exchange brokerage operations	-	-
Total risks related with securities or commodity financing transactions	564.131	314.623
Off -Balance Sheet Items		
Gross notional amount of off-balance sheet items	71.287.525	59.890.202
Adjustments for conversion to credit equivalent amounts	-	-
The total risk of off-balance sheet items	71.287.525	59.890.202
Capital and Total Exposures		
Tier 1 Capital	21.147.130	19.016.499
Total Exposures	298.363.409	245.835.480
Leverage Ratio		
Leverage Ratio	7,09	7,74

⁽¹⁾ The amounts in the table, represents three-month average.

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VIII. EXPLANATIONS RELATED TO BUSINESS SEGMENTATION

The Bank's operations are grouped under the corporate, commercial, integrated and treasury/investment banking categories. Branches are grouped considering the information above and are scaled according to the classification shown in the table below, with the classification reflected to the head office and branches.

The Bank is rendering services to a wide range of companies in all sectors, especially to Small and Medium Size Enterprises (SME) as well as individuals having consumer status. In this context, the Bank has no restrictions on the area in which it operates.

The Bank categorizes its real and legal entities that it renders services into three groups as; firms, individual customers and other customers.

Firms are composed of traders and small-scale retailers having real and legal entity status. Within the Bank's application, firms are segmented as corporate firms, commercial firms, enterprising business firms, small size enterprises and small-scale retailers.

Individual customers are real entities without having any commercial or professional purposes other than their individual demands in the Bank's application.

Other customers are referred to as associations, organizations, trade unions, foundations, societies, building managements, parent-teacher associations and similar institutions that are not included in the afore-mentioned classification.

The following are the services provided by the Bank to all of its customers:

- Accepting deposits,
- Issuance of cash, noncash loans,
- All kinds of reimbursements and cash receipt operations, including cash and deposit reimbursements, fund transfers, correspondent banking transactions and use of checking accounts,
- Purchasing cheques and bank bills,
- Performing custody services,
- Issuing payment instruments such as; credit cards, cash cards and travel cheques, and performing related transactions,
- Including spot transactions, foreign exchange transactions, trading of money market securities, bullion trading and/or performing the related custody services,
- Trading of forward transaction agreements, option agreements and financial instruments with more than one derivative instrument and performing the related intermediary services based on the economic and financial indicators, capital markets instruments, commodities, precious metals and exchange rates,
- Assuming guarantee transactions such as; warranties and other liabilities in favor of others,
- Having intermediary transactions on Interbank money transfer, insurance agency services,
- Rendering insurance transactions and individual pension services,
- Acting as a market maker in trade operations in accordance with liabilities assumed within the context of the agreement composed by the Turkish Treasury and/or Central Bank and associations,
- Trading capital market instruments and performing repurchase and reverse repo transactions,
- Acting as an intermediary in the sale process of capital market instruments by means of issuing instruments or through a public offering,
- Trading the capital market instruments issued for the purpose of performing intermediary services,
- Acting as an operator in order to provide risk management systems related to technical support and consulting services,

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- Providing technical support and consulting services to Bank's subsidiaries,
- Acting as a portfolio storage institute in order to store client's assets related to individual portfolio management of portfolio management companies.
- Acting as a portfolio management agency.

Under the Treasury transactions, medium and long-term fund provision is performed through securities exchange, money market operations, spot and time TRY and foreign exchange transactions, derivative instruments (such as; forwards, swaps, futures and options), syndication and securitization, etc.

Details of the segment information prepared in accordance with the Act on "Disclosure of Financial Statements of Banks and The Related Presentations and Notes" as of 31 December 2016 are presented in the table below.

Current Period	Corporate	Commercial	SME/ Integrated	Treasury / Investment	Total
OPERATING INCOME / EXPENSES					
Interest income	1.536.062	2.138.386	10.406.769	2.872.782	16.953.999
Interest on loans	1.536.022	2.137.979	10.263.159	318.973	14.256.133
Interest income on marketable securities	-	-	129.951	2.408.559	2.538.510
Interest received from banks	-	-	4.158	88.472	92.630
Other interest income	40	407	9.501	56.778	66.726
Interest expense	1.028.816	420.987	6.007.434	2.540.044	9.997.281
Interest on deposits	1.015.517	405.981	5.889.288	870.140	8.180.926
Interest on borrowings	833	6.909	24.491	337.619	369.852
Interest on money market borrowings	-	-	26.815	749.394	776.209
Interest on marketable bonds issued	-	-	-	582.467	582.467
Other interest expense	12.466	8.097	66.840	424	87.827
Net interest income	507.246	1.717.399	4.399.335	332.738	6.956.718
Net fees and commissions income	194.413	221.663	754.129	205.143	1.375.348
Net trading profit / (loss)	735	6.200	312.171	(169.360)	149.746
Dividend income	-	-	-	267.273	267.273
Other income	8.744	26.552	254.916	282.905	573.117
Loans and other receivables' impairment loss	182.336	209.248	603.701	1.111.038	2.106.323
Other expenses	17.159	64.826	1.696.112	2.086.232	3.864.329
Income before taxes	511.643	1.697.740	3.420.738	(2.278.571)	3.351.550
Income tax provision	-	-	(1.980)	(791.305)	(793.285)
Net profit for the period	511.643	1.697.740	3.418.758	(3.069.876)	2.558.265
SEGMENT ASSETS					
Marketable securities	-	-	2.524.561	30.691.835	33.216.396
Derivative financial assets held for trading	-	-	75.054	284.757	359.811
Banks and money market receivables	-	-	244.328	1.416.702	1.661.030
Associates and subsidiaries (net)	-	-	-	3.146.481	3.146.481
Loans	25.359.824	32.125.832	97.373.010	3.495.667	158.354.333
Other assets	81.246	441.908	1.805.746	32.373.867	34.702.767
TOTAL ASSETS	25.441.070	32.567.740	102.022.699	71.409.309	231.440.818
SEGMENT LIABILITIES					
Deposits	25.575.129	8.253.723	100.730.184	15.703.803	150.262.839
Derivative financial liabilities held for trading	-	-	42.426	169.422	211.848
Money market balances	-	-	1.373.871	16.473.192	17.847.063
Borrowing funding loans	1.445	187.747	830.155	17.948.757	18.968.104
Bonds issued	-	-	-	12.433.742	12.433.742
Other liabilities	254.825	278.741	5.100.181	1.098.696	6.732.443
Provisions and tax payable	66.549	57.621	191.543	3.352.120	3.667.833
Shareholders' equity	543.102	1.701.171	3.102.242	15.970.431	21.316.946
TOTAL LIABILITIES	26.441.050	10.479.003	111.370.602	83.150.163	231.440.818
OFF BALANCE SHEET ITEMS	13.883.399	11.686.401	29.990.700	40.651.823	96.212.323
Guarantees and surety ships	13.825.351	10.831.393	12.513.027	10.591.057	47.760.828
Commitments	58.048	855.008	11.050.295	11.553.330	23.516.681
Derivative financial instruments	-	-	6.427.378	18.507.436	24.934.814

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Prior Period	Corporate	Commercial	SME/ Integrated	Treasury / Investment	Total
OPERATING INCOME / EXPENSES					
Interest income	1.293.976	1.566.379	7.834.586	2.961.967	13.656.908
Interest on loans	1.293.944	1.566.211	7.829.954	567.618	11.257.727
Interest income on marketable securities	-	-	-	2.341.046	2.341.046
Interest received from banks	-	-	-	36.033	36.033
Other interest income	32	168	4.632	17.270	22.102
Interest expense	837.538	305.330	4.773.771	2.077.463	7.994.102
Interest on deposits	826.586	294.970	4.705.333	559.506	6.386.395
Interest on borrowings	1.388	9.620	17.423	287.416	315.847
Interest on money market borrowings	-	-	-	726.537	726.537
Interest on marketable securities issued	-	-	-	462.180	462.180
Other interest expense	9.564	740	51.015	41.824	103.143
Net interest income	456.438	1.261.049	3.060.815	884.504	5.662.806
Net fees and commissions income	180.974	227.705	624.468	160.868	1.194.015
Net trading profit / (loss)	-	-	-	(261.630)	(261.630)
Dividend income	-	-	-	188.677	188.677
Other income	6.976	51.758	272.851	530.695	862.280
Loans and other receivables' impairment loss	371.039	81.570	386.691	462.578	1.301.878
Other expenses	19.171	64.802	1.658.274	1.746.380	3.488.627
Income before taxes	254.178	1.394.140	1.913.169	(705.844)	2.855.643
Income tax provision	-	-	-	(540.330)	(540.330)
Net profit for the period	254.178	1.394.140	1.913.169	(1.246.174)	2.315.313
SEGMENT ASSETS					
Marketable securities	-	-	-	27.908.076	27.908.076
Derivative financial assets held for trading	-	-	-	247.055	247.055
Banks and money market receivables	-	-	-	2.513.285	2.513.285
Associates and subsidiaries (net)	-	-	-	2.913.254	2.913.254
Loans	20.160.448	23.941.048	73.389.277	9.254.204	126.744.977
Other assets	411	219.166	994.260	26.188.866	27.402.703
TOTAL ASSETS	20.160.859	24.160.214	74.383.537	69.024.740	187.729.350
SEGMENT LIABILITIES					
Deposits	15.516.346	7.832.679	84.745.717	14.051.223	122.145.965
Derivative financial liabilities held for trading	-	-	-	150.706	150.706
Money market balances	-	-	-	8.410.266	8.410.266
Borrowing funding loans	2.623	178.763	524.629	19.555.601	20.261.616
Bonds issued	-	-	-	8.905.289	8,905,289
Other liabilities	182.692	227.718	3,890,413	1,573,957	5,874,780
Provisions and tax payable	44.141	35.196	165.682	2,311,366	2,556,385
Shareholders' equity	-	-	-	19,424,343	19,424,343
TOTAL LIABILITIES	15.745.802	8.274.356	89.326.441	74.382.751	187.729.350
OFF BALANCE SHEET ITEMS					
Guarantees and surety ships	11,598,690	8,607,657	9,653,785	9,921,118	39,781,250
Commitments	42,388	761,495	8,566,394	12,013,488	21,383,765
Derivative financial instruments	-	-	-	24,373,923	24,373,923

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IX. EXPLANATIONS ON PRESENTATION OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE

	Book Value		Fair Value	
	Current Period	Prior Period	Current Period	Prior Period
Financial Assets	222.398.875	179.770.481	212.607.360	168.171.951
Cash and Balances with the Central Bank of Turkey	29.999.160	23.324.971	29.999.160	23.324.971
Financial assets fair value changes reflected to income statement ⁽³⁾	362.957	263.129	362.957	263.129
Banks	1.661.030	2.513.285	1.661.189	2.513.278
Money market placements	-	-	-	-
Available for sale financial assets ⁽¹⁾	14.974.109	11.193.175	14.974.109	11.193.175
Held to maturity investments	18.156.182	16.676.797	18.114.526	16.292.592
Loans ⁽²⁾	157.178.296	125.799.124	147.495.419	114.584.806
Financial Liabilities	202.424.371	162.192.520	206.314.425	165.477.504
Deposits	150.262.839	122.145.965	150.402.872	122.225.504
Derivative financial liabilities held for trading	211.848	150.706	211.848	150.706
Funds provided from other financial intuitions	18.968.104	20.261.616	23.305.465	23.799.870
Money market borrowings	17.847.063	8.410.266	17.831.425	8.410.266
Securities issued	12.433.742	8.905.289	11.870.313	8.639.579
Miscellaneous payables	2.700.676	2.317.588	2.692.403	2.250.489
Leasing payables	99	1.090	99	1.090

⁽¹⁾ As of 31 December 2016, TRY 15.818 of equity investments followed in available for sale financial assets which are measured at cost less any impairment losses have not been included in the table above (31 December 2015: TRY 15.818).

⁽²⁾ Net of follow-up loans has not been included in the table above.

⁽³⁾ As of 31 December 2016, marketable securities amounting to TRY 67.141 that are valued by internal rate of return, are not included in financial assets held for trading purpose.

As of 31 December 2016, fair values of Associates and Subsidiaries are shown at section 4 footnote 5. The methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

- i- The fair value of the held to maturity assets is determined by market places, when the market prices are not available, quoted market prices of other marketable securities which are subject to redemption with the same terms of interest maturity and other similar conditions have been used.
- ii- The applicable interest rates as of balance sheet date are used in the calculation of fair value of money market placements, banks, loans, deposits, funds provided from other financial intuitions and sundry creditors.

Classification of Fair Value Measurement

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

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

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

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

Classification requires using observable market data if possible.

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

Current Period	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss:				
Financial assets held for trading purpose ⁽²⁾ :	62.177	300.780	-	362.957
<i>Debt securities</i>	62.177	-	-	62.177
<i>Derivative financial assets held for trading purpose</i>	-	359.811	-	359.811
Available-for-sale financial assets ⁽¹⁾	14.974.109	-	-	14.974.109
<i>Debt securities</i>	14.974.109	-	-	14.974.109
Subsidiaries	517.421	368.089	1.992.314	2.877.824
Association ⁽³⁾	-	-	249.574	249.574
Total Financial Assets	15.553.707	727.900	2.241.888	18.523.495
Financial liabilities at fair value through profit/loss:				
Derivative financial liabilities held for trading purpose	-	211.848	-	211.848
Total Financial Liabilities	-	211.848	-	211.848

⁽¹⁾As of 31 December 2016, share certificates amounting to TRY 15.818 of "securities not quoted on the stock market" in available for sale financial assets are not included in the above table.

⁽²⁾As of 31 December 2016, marketable securities amounting to TRY 67.141 that are valued by internal rate of return, are not included in financial assets held for trading purpose.

⁽³⁾Bank's associates which are shown with their cost values in the accompanying financial statements, Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ. (TRY 11.518), Bankalararası Kart Merkezi AŞ. (TRY 3.804), Kredi Kayıt Bürosu AŞ. (TRY 2.516) and Türk Pvl Sigorta AŞ. (TRY 1.245) are not included in the table.

Prior Period	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss:				
Financial assets held for trading purpose ⁽²⁾ :	16.074	247.055	-	263.129
<i>Debt securities</i>	16.074	-	-	16.074
<i>Derivative financial assets held for trading purpose</i>	-	247.055	-	247.055
Available-for-sale financial assets ⁽¹⁾	11.193.175	-	-	11.193.175
<i>Debt securities</i>	11.193.175	-	-	11.193.175
Subsidiaries	550.804	346.980	1.788.150	2.685.934
Associates ⁽³⁾	-	-	208.237	208.237
Total Financial Assets	11.760.053	594.035	1.996.387	14.350.475
Financial liabilities at fair value through profit/loss:				
Derivative financial liabilities held for trading purpose	-	150.706	-	150.706
Total Financial Liabilities	-	150.706	-	150.706

⁽¹⁾As of 31 December 2015, share certificates amounting to TRY 15.818 of "securities not quoted on the stock market" in available for sale financial assets are not included in the above table.

⁽²⁾As of 31 December 2015, marketable securities amounting to TRY 6.212 that are not valued by market rate of return, are not included in financial assets held for trading purpose.

⁽³⁾Bank's associates which are shown with their cost values in the accompanying financial statements, Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ. (TRY 11.518), Bankalararası Kart Merkezi AŞ. (TRY 3.804), Kredi Kayıt Bürosu AŞ. (TRY 2.516) and Türk Pvl Sigorta AŞ. (TRY 1.245) are not included in the table.

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The movement of financial assets in the third level are as follows:

	Current Period	Prior Period
Balance at the beginning of the period	1.996.387	1.478.464
Purchases during the year	-	30.173
Non-paid up shares	106.525	28.580
Valuation Difference	138.976	105.574
Transfers	-	353.596
Period End Balance	2.241.888	1.996.387

X. EXPLANATIONS RELATED TO TRANSACTIONS MADE ON BEHALF OF OTHERS AND TRANSACTIONS BASED ON TRUST

The Bank performs buying transactions on behalf of customers, and gives custody, administration and consultancy services. The Bank does not engage in transaction based on trust.

XI. EXPLANATIONS ON RISK MANAGEMENT AND RISK WEIGHTED AMOUNTS

Explanations Related To Risk Management

The notes under this caption are prepared as per the "Regulation on Calculation of Risk Management Disclosures" published in the Official Gazette no. 29511 dated 23 October 2015.

The Bank's Risk Management Strategy and Risk Weighted Amounts

The Bank's business model creates a comprehensive risk profile that includes all units of the Bank. Credit risk is a key component of the risk profile. The Bank effectively implements risk management policies and procedures for loan and other risks which is determined within the framework of risk capacity and appetite and approved by board of directors. Risk appetite and capacity, which are directly related to the Bank's strategic objectives, are limited by legal rates therefore the Bank associated with them.

Regarding the risk management structure; The Internal Audit Department, Internal Control Department and Risk Management Department, which are units within the scope of internal systems, carry out their activities in accordance with the Regulation on Internal Systems of Banks and the Internal Capital Adequacy Assessment Process published in the Official Gazette No. 29057 dated 11 June 2014 and subject to the Board of Directors through the Audit Committee. The Financial Crimes Investigation Board (MASAK) Compliance Unit is directly affiliated to the Audit Committee. The structure of the internal systems determines the level of risk by identifying the risks that the bank is exposed to. In this direction, the relevant units are responsible for monitoring, controlling and reporting risks, limited to their areas of responsibility. Outside of internal systems, Top Management is directly responsible to the Board of Directors for the risks to which the Bank is exposed in relation to its duties.

The Bank is using information technologies and training documents openly and effectively for the dissemination and application of risk culture, and the development of bank staff is supported in line with this goal with face to face learning and e-learning. In addition, all personnel are regularly informed and aware of the risks that the Bank is exposed to.

Risk measurement systems are based on accepted risk models and workflows for the identification, monitoring and reporting of risks in accordance with legislation. Methods and software that are in line with international standards are used for risk groups such as credit, market, operational and counterparty credit risk etc.

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Within the scope of risk management activities, regular reporting and presentations are made to the boards of directors, asset-liability and audit committees and to the other committees by related units, in order to manage the risks that the Bank is exposed to more effectively, to support the decision making processes related to them, to create new strategies and policies.

The Bank reports to the BRSA by applying the stress tests determined in accordance with the Internal Capital Adequacy Assessment Process (ISEDES). In addition, stress tests are carried out in line with the scenarios created by the risks exposed and the macroeconomic conditions. This test which made by shocking various risk factors, shows the results on risk weighted assets, own funds and capital adequacy ratio.

The Bank monitors its effectiveness by closely monitoring the processes of managing and reducing the risks arising from the business model. The Bank regularly revises the strategies it has established regarding these processes in line with the existing conditions and sets policies.

Overview of RWA:

	Risk Weighted Amounts		Minimum Capital Requirements
	Current Period	Prior Period	Current Period
1 Credit risk (excluding counterparty credit risk) (CCR)	161.707.382	131.035.534	12.936.591
2 Standardised approach (SA)	161.707.382	131.035.534	12.936.591
3 Internal rating-based (IRB) approach	-	-	-
4 Counterparty credit risk	378.320	513.402	30.266
5 Standardised approach for counterparty credit risk (SA-CCR)	378.320	513.402	30.266
6 Internal model method (IMM)	-	-	-
7 Basic risk weight approach to internal models equity position in the banking account	-	-	-
8 Investments made in collective investment companies – look-through approach	-	-	-
9 Investments made in collective investment companies – mandate-based approach (*)	-	-	-
10 Investments made in collective investment companies - %1250 weighted risk approach	-	-	-
11 Settlement risk	-	-	-
12 Securitization positions in banking accounts	-	-	-
13 IRB ratings-based approach (RBA)	-	-	-
14 IRB Supervisory Formula Approach (SFA)	-	-	-
15 SA/simplified supervisory formula approach (SSFA)	-	-	-
16 Market risk	1.947.575	4.635.966	155.806
17 Standardised approach (SA)	1.947.575	4.635.966	155.806
18 Internal model approaches (IMM)	-	-	-
19 Operational Risk	11.297.473	10.978.221	903.798
20 Basic Indicator Approach	11.297.473	10.978.221	903.798
21 Standard Approach	-	-	-
22 Advanced measurement approach	-	-	-
23 The amount of the discount threshold under the equity (subject to a 250% risk weight)	655.843	552.500	52.468
24 Floor adjustment	-	-	-
25 Total (1+4+7+8+9+10+11+12+16+19+23+24)	175.986.593	147.715.623	14.078.929

*Credit risk standard approach also includes the amounts which below discount threshold.

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Differences and Matching Between Asset and Liabilities' Carrying Values in Financial Statements and In Capital Adequacy Calculation

	Carrying values in financial statements prepared as per TAS	Carrying values of items in accordance with Turkish Accounting Standards				Not subject to capital requirements or subject to deduction from capital
		Credit Risk	Counterparty credit risk	Securitization positions	Market Risk	
Assets						
Cash and Balances with the Central Bank	29.999.160	29.999.160	-	-	-	-
Available-for-Sale Financial Assets	430.098	-	359.811	-	430.098	-
Financial assets at fair value through profit and loss	-	-	-	-	-	-
Banks	1.661.030	1.661.030	-	-	-	-
Receivables from Money markets	-	-	-	-	-	-
Financial assets available for sale (net)	14.989.927	8.576.233	-	-	6.413.694	-
Loans and receivables	158.354.333	158.335.585	-	-	-	18.748
Receivables from factoring	-	-	-	-	-	-
Investments held to maturity (net)	18.156.182	18.156.182	-	-	-	-
Subsidiaries (net)	268.657	268.657	-	-	-	-
Associates (net)	2.877.824	2.877.824	-	-	-	-
Jointly controlled entities (joint ventures) (net)	-	-	-	-	-	-
Finance lease receivables	-	-	-	-	-	-
Derivative financial liabilities held for risk management	-	-	-	-	-	-
Tangible Assets (net)	2.314.007	2.089.719	-	-	-	224.288
Intangible Assets (net)	88.593	-	-	-	-	88.593
Real estate for investment purpose (net)	363.321	363.321	-	-	-	-
Tax asset	-	-	-	-	-	-
Assets Held For Sale and Discontinued Operations (net)	740	740	-	-	-	-
Other assets	1.936.946	1.936.800	-	-	146	-
Total Assets	231.440.818	224.265.251	359.811	-	6.843.938	331.629
Liabilities						
Deposits	150.262.839	-	-	-	-	150.262.839
Derivative financial liabilities held for trading	211.848	-	-	-	-	211.848
Loans	18.968.104	-	-	-	-	18.968.104
Money market borrowings	17.847.063	-	10.843.757	-	-	7.003.306
Securities issued	12.433.742	-	-	-	-	12.433.742
Funds	2.339.808	-	-	-	-	2.339.808
Miscellaneous payables	2.700.676	-	-	-	-	2.700.676
Other liabilities	1.691.860	-	-	-	349	1.691.511
Factoring payables	-	-	-	-	-	-
Finance lease payables	99	-	-	-	-	99
Derivative financial liabilities held for risk management	-	-	-	-	-	-
Provisions	3.051.522	-	-	-	-	3.051.522
Tax Liability	616.311	-	-	-	-	616.311
Liabilities regarding assets held for sale and discontinued operations (net)	-	-	-	-	-	-
Subordinated Loans	-	-	-	-	-	-
Shareholders' equity	21.316.946	-	-	-	-	21.316.946
Total liabilities	231.440.818	-	10.843.757	-	-	220.596.712

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Main Sources of Differences between Regulatory Exposure Amounts and Carrying Values in Financial Statements

	Total	Credit risk	Securitization positions	Counterparty credit risk	Market Risk
1 Asset carrying value amount under scope of regulatory consolidation	231.440.818	224.265.251	-	359.811	6.843.938
2 Liabilities carrying value amount under regulatory scope of consolidation	231.440.818	-	-	10.843.757	2.341.090
3 Total net amount under regulatory scope of consolidation	-	224.265.251	-	11.203.568	9.185.028
4 Off-balance Sheet Amounts	71.580.265	30.527.998	-	166.228	25.352.264
5 Differences in valuations	-	-	-	-	-
6 Differences due to different netting rules, other than those already included in row 2	-	-	-	-	-
7 Differences due to consideration of provisions	-	-	-	-	-
8 Differences due to prudential filters	-	-	-	-	-
9 Differences due to risk reduction	-	254.793.249	-	11.369.796	34.537.292

*Shows total potential credit risk amounts caused by derivative transactions.

Explanations of differences between accounting and regulatory exposure amounts:

There is no material differences between the carrying values in financial statements and the risk amounts in capital adequacy calculation of assets and liabilities.

Explanations Related to Counterparty Credit Risk

The Bank provides the necessary definitions and classifications for the CCR that take into account the pre-clearing and pre-clearing risk in relation to the management policies and procedures of the CCR, thereby managing these risks on a counterparty basis and across the bank.

The impact of the new products and activities on the Bank's CCR level is assessed and these evaluations are included in the product / activity approval process.

The market, liquidity, compliance risk and operational risk that may be associated with the CCR are taken into account and the general / specific limit levels of the bank's transactions to the CCR are determined. These limits established within the framework of the CCR are regularly monitored. The Bank uses risk mitigation techniques to the extent that it is appropriate, through applications such as margin taking and margin fulfillment.

The Bank uses methods and models in accordance with international standards for the identification, measurement, monitoring, control and reporting of the CCR. Independent scrutiny and supervision is carried out on the integrity, correctness and effectiveness of the CCR management systems. These activities are carried out by the bank's internal audit units and independent audit institutions.

The contracts made according to the attribute of the transaction are evaluated by taking into account ISDA and CSA frame for derivative transactions, GMRA frame for repurchase agreements. The risk is mitigated by receiving cash or other forms of collateral. In secured lending and repo transactions, the haircut amounts are reduced from the counterparty's limits. Possible falls or rises in rating affects the current replacement cost, margin call agreements are used as a risk mitigator.

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Counterparty Credit Risk (CCR) Approach Analysis

	Replacement cost	Potential Future exposure	EEPE (Effective Expected Positive Exposure)	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
Standardised Approach -CCR (for derivatives)	100.804	166.228		1,4	301.284	209.674
Internal Model Method (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)			-	-	-	-
Simple Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					996.260	125.332
Comprehensive Approach for credit risk mitigation (for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions)					349.323	43.314
Value-at-Risk (VaR) for repo transactions, securities or commodity lending or borrowing transactions, long settlement transactions and securities financing transactions					-	-
Total					-	378.320

**Expected effective positive risk amount

Capital requirement for credit valuation adjustment (CVA)

	EAD post-CRM	Risk weight amount
Total portfolios subject to the Advanced CVA capital obligation	-	-
(i) VaR component (including the 3×multiplier)	-	-
(ii) Stressed VaR component (including the 3×multiplier)	-	-
All portfolios subject to the Standardised CVA capital obligation	301.284	209.674
Total subject to the CVA capital obligation	301.284	209.674

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Standardised Approach - Counterparty Risk Per Risk Classification And Risk Weighted Amounts

Risk weight / Risk Classifications	0%	10%	20%	50%	75%	100%	150%	Other	Total Credit Risk
Claims on sovereigns and Central Banks	290.323	1.473	-	-	-	-	-	-	291.796
Claims on regional governments or local authorities	-	4.419	-	-	-	-	-	-	4.419
Claims on administrative bodies and other non-commercial undertakings	-	6.376	-	-	-	-	-	-	6.376
Claims on multilateral development banks	-	-	-	-	-	-	-	-	-
Claims on international organizations	-	-	-	-	-	-	-	-	-
Claims on banks and intermediary institutions	-	732.481	94.590	304.930	-	-	-	-	1.132.001
Claims on corporates	-	53.393	-	-	-	122.050	-	-	175.443
Claims included in the regulatory retail portfolios	-	34.697	-	-	2.136	-	-	-	36.833
Claims secured by residential property	-	-	-	-	-	-	-	-	-
Overdue loans	-	-	-	-	-	-	-	-	-
Higher risk categories decided by the Board	-	-	-	-	-	-	-	-	-
Secured by mortgages	-	-	-	-	-	-	-	-	-
Securitization positions	-	-	-	-	-	-	-	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-	-	-	-	-	-	-	-
Undertakings for collective investments in mutual funds	-	-	-	-	-	-	-	-	-
Equity share investments	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	-
Total	290.323	832.839	94.590	304.930	2.136	122.050	-	-	1.646.868

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Collaterals for Counterparty Credit Risk

	Collateral for derivative transactions				Collateral for other transactions	
	Received Collaterals		Given Collaterals		Received Collaterals	Given Collaterals
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash-domestic currency	-	-	-	-	-	-
Cash-foreign currency	-	41.172	-	27.690	-	26.290
Domestic sovereign debts	-	-	-	-	-	-
Other sovereign debts	-	-	-	-	-	-
Government agency debts	-	-	-	-	-	-
Corporate debts	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	41.172	-	27.690	-	26.290

Counterparty Credit Risk-Credit Derivatives:

None.

Exposures to Central Counterparties (CCP)

None.

Qualitative Disclosure on Credit Risk

Credit risk, which is the most important risk profile of the Bank's business model, refers to risks and losses arising from the bank's failure to meet its obligations under contracts that the Bank is a party to. Credit limits are set by registering with the risk appetite and capacity of the bank.

Credit risk refers to the risks and damage caused by failure to fulfill the obligations of the other party in the contracts of the Bank. Credit limits are assigned according to the customer's financial condition and credit need by the branches, regional credit committee, head of credit department, in charge of general manager of the credit, general manager, credit committee and board of directors and also they can be replaced when necessary situation interms of the scope of the legislation.

Within the scope of internal systems, internal audit activities are carried out by the Internal Audit Department and the Internal Audit Department in order to ensure that the activities of the Bank are carried out in accordance with the Bank's determined policies in compliance with the legal regulations. The Risk Management Department, which is the risk unit within the internal systems, performs the function of measuring, monitoring, controlling and reporting on the credit risk to which the bank is exposed. The identified units are regularly reporting on the risks exposed to the Bank's Senior Management.

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The Bank, in the credit allocation process, restricts its risk exposure by working with highly credible banks and entities considering the credit ratings for the purpose of managing its risks. Under the scope of credit risk management, the Bank rates all of its borrowers' credit and requires additional collaterals from whose risk is higher. The Bank has the policy of not granting loans/credits and/or limiting the amount of such loans/credits. The Bank's risk is concentrated in Turkey. In loan procedure, limits are determined based on the type of loans and customers and risk and limit information is controlled periodically.

Loans granted to other banks and risk limits set for the correspondent bank transactions are controlled on a daily basis. Risk concentrations are monitored systematically with the Treasury department, concerning the off-balance sheet operations based on the customers and banks.

Credit Quality of Assets

	Gross carrying value as per TAS		Allowances/ amortisation and impairments **	Net values
	Defaulted *	Non-defaulted		
1 Loans	5.140.082	157.178.296	3.964.045	158.354.333
2 Debt Securities	-	33.777.473	561.077	33.216.396
3 Off-balance sheet exposures	-	71.277.509	-	71.277.509
4 Total	5.140.082	262.233.278	4.525.122	262.848.238

* Shows the receivables which identified non performing receivables in accordance with the regulation on "Methods and Principles for the Determination of Loans and Other Receivables qualification and the provisions for these" published in the official gazette no.26333 dated 1 November 2006.

** Refers the provision, depreciation and impairment which located in the regulation on methods and principles for the determination of loans and other receivables qualification and the provisions for these

Changes in Stock of Default Loans and Debt Securities

1 Defaulted loans and debt securities at end of the previous reporting period	3.973.738
2 Loans and debt securities defaulted since the last reporting period	1.625.450
3 Receivables back to non-defaulted status	(41.638)
4 Amounts written off	-
5 Other changes	(417.468)
6 Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)	5.140.082

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Additional Disclosure Related To The Credit Quality Of Assets:

Exposures Provisioned Against By Maturity

31 December 216	Demands Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 years and Over	Total	
Loans and Advances	1.346.586	11.697.406	10.442.350	48.423.750	65.463.267	19.804.937	157.178.296

Exposures Provisioned Against By Major Regions

31 December 2016	Loans Under Follow-Up	Specific Provisions
Domestic	5.069.781	3.911.527
European Union (EU) Countries	30.241	12.458
OECD Countries	3	3
Off-Shore Banking Regions	-	-
USA, Canada	5	5
Other Countries	40.052	40.052
Total	5.140.082	3.964.045

Exposures Provisioned Against By Sectors

Explained in 4-II Information according to sectors and counterparties

Aging analysis of overdue but not impaired financial assets

30-60 days overdue	1.108.742
60-90 days overdue	660.697
Total	1.769.439

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

31 December 2016

Loans Structured from Standard Loans and Other Receivables	2.176.960
Loans Composed of Follow-on Loans and Other Receivables	2.615.757
Loans Restructured from Non-Performing Loans	1.254.641

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Qualitative Disclosure on Credit Risk Mitigation Techniques

The risk mitigating factors used in the lending activities of the Bank are listed below.

Financial warranties (Treasury Bills, Government Bonds, Cash, Pledged Deposits, Gold, Pledged Securities)

Guarantees

Mortgage (Although mortgage lending in Basel II has been considered as a risk class, it has also been included in this section in terms of valuation methods and concentrations).

The financial guarantees in the bank are subject to valuation on a daily basis. The creditors' credits are monitored and assessed within the framework of credit revision schedules.

As long as the mortgage that constitutes the collateral of the credits continues to be related to the loan, the risk-guarantee balances will be monitored and revalued each year. Despite the possibility of exposure to collateral, action plans have been drawn up.

Guarantees given by the Treasury and banks only in line with the related regulations of the BRSA are regarded as risk reduction elements and the credit value of the bank is regularly monitored.

The Bank's credit risk exposure and mitigation techniques used in order to reduce the exposure level are taken into account according to the principles stated in the related regulation.

The Bank applies credit risk mitigation according to the comprehensive method that includes risk mitigation calculations considering the volatility-adjusted values of financial collaterals. The standardized risk weights are applied to the rest of the loans and receivables that remained unprotected after credit risk mitigation techniques.

Financial collaterals that are composed of cash or similar assets and instruments of a high credit quality as well as real estate mortgages have been used in credit risk mitigation.

On-balance sheet and off-balance sheet adjustments are not available.

Credit Risk Mitigation Techniques- Overview

	Exposures unsecured of (according to TAS)	Exposures secured by collateral	Exposures secured by collateral, of which secured amount	Exposures secured by financial guarantees	financial guarantees, of which secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which secured amount
1 Loans	102.620.281	54.558.015	44.814.196	457.086	457.086	-	-
2 Debt Instruments	33.216.396	-	-	-	-	-	-
3 Total	135.836.677	54.558.015	44.814.196	457.086	457.086	-	-
4 Of which defaulted	161.827	1.014.210	629.978	10.188	10.188	-	-

Information about the Banks' Use of Classification Notes by Calculation of Standard Approach to Credit Risk

Explained in risk classifications related to Article 6 of Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks in 4-II Credit risk section.

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Standardised Approach- Credit Risk Exposure and Credit Risk Mitigation Techniques

Risk Classification	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
Claims on sovereigns and Central Banks	67.666.305	140.836	67.860.851	72.231	16.924.363	24,91%
Claims on regional governments or local authorities	2.073.317	61.363	1.882.449	30.682	947.302	49,52%
Claims on administrative bodies and other non-commercial undertakings	573.484	340.239	573.484	166.780	733.223	99,05%
Claims on multilateral development banks	-	-	-	-	-	-
Claims on international organizations	-	-	-	-	-	-
Claims on banks and intermediary institutions	3.309.277	2.829.512	3.331.552	1.551.459	1.398.010	28,63%
Claims on corporates	57.775.810	40.137.646	57.755.504	22.992.477	77.864.897	96,43%
Claims included in the regulatory retail portfolios	48.312.050	25.386.876	48.306.403	4.589.053	38.209.788	72,24%
Claims secured by residential property	25.547.755	860.072	25.547.755	475.148	9.257.717	35,58%
Claims secured by commercial property	17.982.750	1.162.678	17.982.750	805.779	9.394.264	50,00%
Overdue loans	1.175.482	9.061	1.175.482	4.821	1.066.664	90,37%
Higher risk categories decided by the Board	1.333	95.249	1.333	49.245	75.867	150,00%
Secured by mortgages	-	-	-	-	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-	-	-	-	-
Undertakings for collective investments in mutual funds	-	-	-	-	-	-
Other receivables	8.002.644	-	8.002.644	-	3.313.647	41,41%
Equity share investments	3.162.297	-	3.162.297	-	3.555.804	112,44%
Total	235.582.504	71.023.532	235.582.504	30.737.675	162.741.546	61,11%

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Standardised Approach- Claims By Risk Classification And Risk Weights

Risk Classification/Risk weight amount	0%	10%	20%	35%*	50%	75%	100%	150%	200%	Others	Total risk amount (post-CCF and CRM)
Claims on sovereigns and Central Banks	34.083.168	1.473	15	-	33.848.425	-	-	-	-	-	67.933.081
Claims on regional governments or local authorities	14.991	4.419	-	-	1.893.721	-	-	-	-	-	1.913.131
Claims on administrative bodies and other non-commercial undertakings	1.227	6.376	94	-	-	-	732.567	-	-	-	740.264
Claims on multilateral development banks	-	-	-	-	-	-	-	-	-	-	-
Claims on international organizations	-	-	-	-	-	-	-	-	-	-	-
Claims on banks and intermediary institutions	611.030	732.481	2.444.738	-	517.895	-	576.867	-	-	-	4.883.011
Claims on corporates	1.723.619	53.393	978.664	-	656.960	-	77.335.344	-	-	-	80.747.980
Claims included in the regulatory retail portfolios	1.799.154	34.697	163.428	-	-	50.898.177	-	-	-	-	52.895.456
Claims secured by residential property	29.438	-	5.961	25.585.260	-	402.238	6	-	-	-	26.022.903
Claims secured by commercial property	-	-	-	-	18.788.528	-	-	-	-	-	18.788.528
Overdue loans	6.276	-	-	-	214.725	-	959.302	-	-	-	1.180.303
Higher risk categories decided by the Board	-	-	-	-	-	-	-	50.578	-	-	50.578
Secured by mortgages	-	-	-	-	-	-	-	-	-	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-	-	-	-	-	-	-	-	-	-
Undertakings for collective investments in mutual funds	-	-	-	-	-	-	-	-	-	-	-
Equity share investments	-	-	-	-	-	-	2.899.959	-	-	262.338	3.162.297
Other receivables	4.068.462	-	504.204	-	394.407	79.872	2.955.699	-	-	-	8.002.644
Total	42.337.365	832.839	4.097.104	25.585.260	56.314.661	51.380.287	85.459.744	50.578	-	262.338	266.320.176

*Secured with real estate mortgage.

Qualitative Disclosure on Market Risk Publicly Announced

In accordance with the Bank' risk management policy framework to avoid the effect of market risk, the Bank has determined the management activities and has taken necessary precautions within the framework of "Regulation On Measurement and Evaluation Of Capital Adequacy Of Banks" published in Official Journal No 29111 by 23 October 2015.

It is the ultimate responsibility of the senior management to apply and improve risk management strategies, policies and procedures that are approved by the board of directors, inform the board of directors about the important risks the Bank is exposed to, assess internal control, internal audit and risk reports with regard to the Banks' departments and to eliminate the risks, deficiencies or defects identified in these departments or to take the necessary precautionary actions to prevent those risks, deficiencies and defects and participate in the determination of risk limits.

In accordance with "Regulation on Measurement and Evaluation of Capital Adequacy of Banks", the Bank's possibility of loss that may cause due to the general market risk, currency risk, specific risk, commodity risk, clearing risk and counterparty credit risk is calculated by using the standard method. The following table discloses the amounts that are calculated using the standard method.

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The Bank measures and monitors risks that exposed to, considering methods suitable with international standards, compliant with legislation. Risk measuring and reporting are performed via advanced methods and risk management softwares. Risk based detailed reports are prepared for management of significant risks, in order to determine strategies and take decisions, in this scope, periodic and non-periodic reports are prepared for board of directors, relevant committees and senior management.

Market Risk: Standardised approach

	RWA
Outright products	
Interest rate risk (general and specific)	950.037
Equity risk (general and specific)	169.550
Foreign exchange risk	820.688
Commodity risk	-
Options	
Simplified approach	-
Delta-plus method	7.300
Scenario approach	-
Securitization	-
Total	1.947.575

Statements related to Operational Risk Publicly Announced

The value at operational risk is calculated according to the basic indicator approach and once a year with year-end datas.

	2 PP Amount	1 PP Amount	CP Amount	Total/ No. of Years of Positive Gross	Rate (%)	Total
Gross Income	5.829.772	5.887.155	6.359.029	6.025.319	15	903.798
Value at Operational Risk (Total x % 12.5)						11.297.473

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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

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A. Qualitative Disclosures on Remuneration Policies

1. Disclosures related with Remuneration Committee

The Bank's Remuneration Committee is comprised of two non-executive directors. The committee has convened for once during the year. The duties and responsibilities of the Committee include the following:

- The scope and structure of the Bank's operations and strategies ensure the effectiveness of a wage policy and wage policy that is consistent with its long-term goals and risk management structures, prevents excessive risk taking and contributes to effective risk management.
- Controls and follows the remuneration practices on behalf of the Board of Directors
- Ensures accordance of ethical values, strategical targets and internal balance of the Bank with the wage policy.
- Evaluates the remuneration policy and its practices in the context of risk management and submits proposals to the Board of Directors.
- Fullfils the other duties specified in the related regulations

The Bank has received consultancy service from a company within the framework of the activities for compliance with the Guidelines on Sound Remuneration Practices in Banks.

The fundamental principles of the remuneration policy are applicable for all bank employees.

The bank board members, senior management and the bank staff deemed to perform the functions having material impact on the bank's risk profile are considered as identified staff; and by the end of 2016, the number of identified staff is 25.

2. Information on the design and structure of remuneration process

The Bank relies on the following values while managing its Remuneration Policy.

- Based on fair and balanced performance targets
- Balance within the Bank in terms of wage application to ensure competitiveness within the sector,
- To increase the efficiency of rewards by emphasizing the concepts of job size, performance and contribution to work,

In the meeting dated 6 December 2016, the Remuneration Committee evaluated its decisions previously taken with respect to remuneration of the senior managers and members of the board of directors considering the provisions of the Guidelines on Sound Remuneration Practices in Banks. Increases in the remuneration of employees working in the units responsible for internal systems are determined depending on the basic rate of increase specified by the Bank and their personal performances. In the variable remuneration, only the performance criteria associated with their personal performance or the performance of the unit that they work in are taken into account independently of the performance of the business units that they control.

In line with the growing and evolving organizational structure of the bank, project work has been initiated with a company in order to compare human resources applications with other banks in the sector.

With the completion of the project in mid-2017 as planned, a comprehensive change and revision of the Bank's human resources practices is planned.

3. Evaluation about how the bank's remuneration processes take the current and future risks into account

The Bank follows the Risk Management Principles while implementing the remuneration processes.

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4. Evaluation about how the Bank associates variable remunerations with performance

The bank's variable payments are mostly made to the personnel working at the branches and Regional Coordinators as performance bonuses. The paid amounts are not exceed a certain percentage of the monthly fixed fees. No performance premium payments are made to other members of the bank that are considered to have performed a function that has a significant effect on the risk profile of the bank and the members of the board of directors and senior managers who are positioned as special personnel and only With the decision of the General Assembly of the Bank, a dividend payment is made up to twice the gross monthly salary of all personnel.

5. Evaluation about the bank's methods to adjust remunerations according to long-term performance

The same rules apply for the ratios of deferral for all identified staff members regarding their variable remunerations.

6. Evaluation about the instruments used by the bank for variable remunerations and the purposes of use of such instruments

The type and weight of non-cash instruments used in payment of variable remuneration are same for all identified staff.

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SECTION V: EXPLANATIONS AND NOTES RELATED TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

I. EXPLANATIONS AND NOTES RELATED TO THE ASSETS

(1) Cash and Central Bank of Turkey:

a) Information on balances with the Central Bank of Turkey:

	Current period		Prior period	
	TRY	FC	TRY	FC
Cash and foreign currency	914.121	562.677	924.441	285.614
Central Bank of Turkey	2.620.111	25.902.219	3.414.818	18.700.084
Other	-	32	-	14
Total	3.534.232	26.464.928	4.339.259	18.985.712

b) Information on balances with the Central Bank of Turkey:

	Current period		Prior period	
	TRY	FC	TRY	FC
Demand unrestricted amount ⁽¹⁾	2.563.615	3.345.458	3.377.292	1.774.258
Time unrestricted amount	-	-	-	-
Time restricted amount	-	5.359.104	-	-
Reserve deposits ⁽²⁾	56.496	17.197.657	37.526	16.925.826
Total	2.620.111	25.902.219	3.414.818	18.700.084

⁽¹⁾ Reserve deposits kept in Central Bank of Turkey.

⁽²⁾ Blocked reserve deposits kept in Central Bank of Turkey and Central Bank of Cyprus.

As per the Communiqué no. 2013/15 "Reserve Deposits" of the Central Bank of Turkey (CBT), banks keep reserve deposits at the CBT for their TL and FC liabilities mentioned in the communiqué. The reserve deposit rates vary according to their maturity compositions; the reserve deposit rates are realized between 5%-10.5% for TL deposits and other liabilities, between 4%-24% for FC deposits for other FC liabilities. In accordance with the related communiqué, Central Bank of Turkey pays interests to TRY and FC reserves.

With the amendment on 21 October 2014 by the Central Bank what is held in banks are of certain conditions: Turkish Lira required reserve amount, the Central Bank website published the weighted average funding cost (AOFM) ratio of 300 or 500 basis points missing from the rate. Turkish Liras required reserve amount related interest rates are paid 400 basis points missing from TCMB's weekly maturity repo funding interest rate being valid from 1 January 2017.

With the change in press release dated 23 January 2015, it has been decided to apply a 20 basis point annual commission, to be charged on daily account balances and collected on a monthly basis, on required reserves and two days notice account denominated in Euro held by banks and these are going to be collected as of 1 February 2015.

With the change in 2 May 2015 made by CBRT, US Dollars denominated required reserves, reserve options and free reserves held at Central Bank of Republic of Turkey will be remunerated. The interest rate will be set on daily basis by taking global and local financial markets conditions into account. The applicable interest rate is 0,75% for the reporting period.

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With the Board of Minutes No.872 dated 30 January 2014 of TRNC Central Bank's, required reserve ratio is between 5% and 8% for TRY liabilities and for foreign currency liabilities.

(2) Financial assets at fair value through profit and loss:

a) Financial assets at fair value through profit and loss blocked/given as collateral:

None.

b) Financial assets at fair value through profit and loss subject to repurchase agreements:

None.

c) Positive differences related to the derivative financial assets held-for-trading:

	Current period		Prior period	
	TRY	FC	TRY	FC
Forward transactions	-	120.227	-	131.503
Swap transactions	-	239.460	-	115.474
Futures transactions	-	-	-	-
Options	4	120	7	71
Other	-	-	-	-
Total	4	359.807	7	247.048

(3) Information on banks and other financial institutions:

a) Information on banks:

	Current period		Prior period	
	TRY	FC	TRY	FC
Banks				
Domestic banks	26.539	21.122	10.080	526.985
Foreign banks	169.769	1.443.600	55.258	1.920.962
Branches and offices abroad	-	-	-	-
Total	196.308	1.464.722	65.338	2.447.947

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b) Information on foreign banks:

	Unrestricted Balance		Restricted Balances	
	Current Period	Prior Period	Current Period	Prior Period
EU Countries	1.006.455	1.616.852	-	-
USA and Canada	141.780	165.995	-	-
OECD Countries ⁽¹⁾	84.510	37.810	-	-
Offshore Banking Regions	-	-	-	-
Other	380.624	155.563	-	-
Total	1.613.369	1.976.220	-	-

⁽¹⁾ OECD Countries other than EU countries, USA and Canada.

(4) Information on financial assets available-for-sale:

a) Financial assets available-for-sale blocked/given as collateral or subject to repurchase agreements:

a.1. Information on financial assets available-for-sale blocked/given as collateral:

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury bills, government bonds and similar securities	-	354.898	-	700.441
Total	-	354.898	-	700.441

a.2. Information on financial assets available-for-sale subject to repurchase agreements:

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury bills, government bonds and similar securities	4.789.610	728.138	1.269.031	355.458
Total	4.789.610	728.138	1.269.031	355.458

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b) Information on financial assets available-for-sale portfolio:

	Current period	Prior period
Debt securities	15.418.926	11.232.896
<i>Quoted on a stock exchange</i>	15.418.926	11.232.896
<i>Not quoted</i>	-	-
Share certificates	132.077	185.673
<i>Quoted on a stock exchange</i>	97.377	150.973
<i>Not quoted</i>	34.700	34.700
Impairment provision(-)	561.076	209.576
Total	14.989.927	11.208.993

(5) Information on loans:

a) Information on all types of loans and advances given to shareholders and employees of the Bank:

	Current period		Prior period	
	Cash loans	Non-cash loans	Cash loans	Non-cash loans
Direct loans granted to shareholders	-	-	-	-
<i>Corporate shareholders</i>	-	-	-	-
<i>Real person shareholders</i>	-	-	-	-
Indirect loans granted to shareholders	-	-	-	-
Loans granted to employees	204.282	-	182.849	-
Total	204.282	-	182.849	-

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b) Information on the first and second group loans and other receivables including loans that have been restructured or rescheduled:

	Standard loans and other receivables			Loans and other receivables under close monitoring		
	Loans and other receivables (Total)	Agreement conditions modified		Loans and other receivables (Total)	Agreement conditions modified	
		Payment plan extensions	Other		Payment plan extensions	Other
Cash loans						
Non-specialized loans	122.814.569	2.131.375	-	4.267.934	2.577.626	-
<i>Corporation loans</i>	81.128.869	1.633.583	-	3.793.342	2.484.944	-
<i>Export loans</i>	4.279.445	60.372	-	113.255	-	-
<i>Import loans</i>	-	-	-	-	-	-
<i>Loans given to financial sector</i>	3.420.586	-	-	-	-	-
<i>Consumer loans⁽¹⁾</i>	28.809.362	374.467	-	194.596	8.924	-
<i>Credit cards⁽²⁾</i>	3.415.935	62.953	-	104.915	83.758	-
<i>Other</i>	1.760.372	-	-	61.826	-	-
Specialized lending	27.713.062	6.895	-	265.787	116	-
Other receivables	-	-	-	-	-	-
Accruals	2.055.048	38.690	-	61.896	38.015	-
Total	152.582.679	2.176.960	-	4.595.617	2.615.757	-

⁽¹⁾ Includes TRY 154.489 of personnel loans.

⁽²⁾ Includes TRY 49.793 of personnel credit cards.

⁽³⁾ The loan granted to the shareholder of a strategically important company operating in the telecommunication sector amounting to USD 160.040.606 is classified under "Performing Loans and Other Receivables". Discussions between the shareholders of the company, creditor banks and related sovereign institutions have started regarding restructuring of loans granted including a possible change in shareholder structure, and a positive outcome of these discussions is expected.

Number of modifications made to extend payment plan	Standard Loans and Other Receivables ⁽¹⁾	Loans and Other Receivables Under Close Monitoring ⁽²⁾
	Extended by 1 or 2 times	2.042.956
Extended by 3,4 or 5 times	33.244	55.768
Extended by more than 5 times	62.070	29.027

⁽¹⁾Accruals amounting to TRY 38.690 are not included in the table above.

⁽²⁾Accruals amounting to TRY 38.015 are not included in the table above.

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Extended period of time	Standard Loans and Other Receivables ⁽¹⁾	Loans and Other Receivables Under Close Monitoring ⁽²⁾
0-6 Months	429.842	566.251
6 Months - 12 Months	1.090.711	838.768
1-2 Years	348.037	865.340
2-5 Years	206.305	182.352
5 Years and over	63.375	125.031

⁽¹⁾Accruals amounting to TRY 38.690 are not included in the table above.

⁽²⁾Accruals amounting to TRY 38.015 are not included in the table above.

c) Information on maturity structure of cash loans:

Current Period	Standard Loans and Other Receivables		Loans and Other Receivables Under Close Monitoring	
	Loans and Other Receivables	Agreement conditions modified	Loans and Other Receivables	Agreement conditions modified
Short Term Loans and Other Receivables	32.101.320	207.303	672.620	225.676
Non-specialized loans	31.367.418	201.323	663.390	221.000
Specialized lending	301.548	-	171	-
Other receivables	-	-	-	-
Accruals	432.354	5.980	9.059	4.676
Medium and Long Term Loans and Other Receivables	120.481.359	1.969.657	3.922.997	2.390.081
Non-specialized loans	91.447.151	1.930.052	3.604.544	2.356.626
Specialized lending	27.411.514	6.895	265.616	116
Other receivables	-	-	-	-
Accruals	1.622.694	32.710	52.837	33.339

Prior Period	Standard Loans and Other Receivables		Loans and Other Receivables Under Close Monitoring	
	Loans and Other Receivables	Agreement conditions modified	Loans and Other Receivables	Agreement conditions modified
Short Term Loans and Other Receivables	26.436.929	376.526	659.830	241.806
Non-specialized loans	25.823.741	358.948	651.334	238.713
Specialized lending	275.005	12.762	55	-
Other receivables	-	-	-	-
Accruals	338.183	4.816	8.441	3.093
Medium and Long Term Loans and Other Receivables	95.906.885	869.658	2.795.480	1.112.382
Non-specialized loans	72.136.683	774.639	2.547.463	1.096.271
Specialized lending	22.543.353	83.894	212.257	1.881
Other receivables	-	-	-	-
Accruals	1.226.849	11.125	35.760	14.230

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d) Information on consumer loans, individual credit cards, personnel loans and credit cards:

	Short-term	Medium and long-term	Total
Consumer loans-TRY	335.388	27.794.632	28.130.020
<i>Real estate loans</i>	6.765	15.252.938	15.259.703
<i>Automobile loans</i>	2.223	194.613	196.836
<i>Consumer loans</i>	326.400	12.347.081	12.673.481
<i>Other</i>	-	-	-
Consumer loans- Indexed to FC	-	-	-
<i>Real estate loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	-	-	-
Consumer loans- FC	-	-	-
<i>Real estate loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	-	-	-
Individual credit cards-TRY	2.594.125	1.505	2.595.630
<i>Installment</i>	1.160.330	-	1.160.330
<i>Non-installment</i>	1.433.795	1.505	1.435.300
Individual credit cards-FC	190	-	190
<i>Installment</i>	-	-	-
<i>Non-installment</i>	190	-	190
Personnel loans-TRY	8.463	146.026	154.489
<i>Real estate loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	8.463	146.026	154.489
<i>Other</i>	-	-	-
Personnel loans-Indexed to FC	-	-	-
<i>Real estate loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	-	-	-
Personnel loans-FC	-	-	-
<i>Real estate loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	-	-	-
Personnel credit cards-TRY	49.736	-	49.736
<i>Installment</i>	19.319	-	19.319
<i>Non-installment</i>	30.417	-	30.417
Personnel credit cards-FC	57	-	57
<i>Installment</i>	-	-	-
<i>Non-installment</i>	57	-	57
Overdraft accounts-TRY (Retail customer)	719.449	-	719.449
Overdraft accounts-FC (Retail customer)	-	-	-
Total	3.707.408	27.942.163	31.649.571

⁽¹⁾ Interest income accruals are not included in the table above.

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e) Information on commercial installments loans and corporate credit cards:

	Short-term	Medium and long-term	Total
Commercial installment loans-TRY	9.058	1.067.626	1.076.684
<i>Business residential loans</i>	331	639.634	639.965
<i>Automobile loans</i>	8.727	346.572	355.299
<i>Consumer loans</i>	-	81.420	81.420
<i>Other</i>	-	-	-
Commercial installment loans- Indexed to FC	-	-	-
<i>Business residential loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	-	-	-
Commercial installment loans - FC	-	-	-
<i>Business residential loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	-	-	-
Corporate credit cards-TRY	875.180	-	875.180
<i>Installment</i>	330.986	-	330.986
<i>Non-installment</i>	544.194	-	544.194
Corporate credit cards-FC	57	-	57
<i>Installment</i>	-	-	-
<i>Non-installment</i>	57	-	57
Overdraft accounts-TRY (Commercial customer)	911.532	-	911.532
Overdraft accounts-FC (Commercial customer)	-	-	-
Total	1.795.827	1.067.626	2.863.453

⁽¹⁾ Interest and income accruals are not included in table above.

f) Loans by customers:

	Current Period	Prior Period
Public	5.371.347	3.698.907
Private	151.806.949	122.100.217
Total	157.178.296	125.799.124

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g) Domestic and foreign loans:

	Current period	Prior period
Domestic loans	155.749.275	124.605.142
Foreign loans	1.429.021	1.193.982
Total	157.178.296	125.799.124

h) Loans granted to subsidiaries and associates:

	Current period	Prior period
Direct loans granted to subsidiaries and associates	1.078.414	1.040.418
Indirect loans granted to subsidiaries and associates	-	-
Total	1.078.414	1.040.418

i) Specific provisions provided against loans:

	Current period	Prior period
Specific provisions		
Loans and receivables with limited collectability	518.902	221.458
Loans and receivables with doubtful collectability	305.386	169.213
Uncollectible loans and receivables	3.139.757	2.637.214
Total	3.964.045	3.027.885

i) Information on non-performing loans (Net):

i.1. Information on loans and other receivables included in non-performing loans which are restructured or rescheduled:

	III. Group Loans and receivables with limited collectability	IV. Group Loans and receivables with doubtful collectability	V. Group Uncollectible loans and receivables
Current period	34.480	3.858	1.173.596
(Gross amounts before the specific provisions)			
Loans and other receivables which are restructured	-	-	-
Rescheduled loans and other receivables	34.480	3.858	1.173.596
Prior period	24.231	14.063	153.307
(Gross amounts before the specific provisions)			
Loans and other receivables which are restructured	-	-	-
Rescheduled loans and other receivables	24.231	14.063	153.307

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i.2. Information on the movement of non-performing loans:

	III. Group	IV. Group	V. Group
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Prior period end balance	335.592	206.401	3.431.745
Additions (+)	1.509.835	19.285	96.330
Transfers from other categories of loans under follow-up (+)	-	763.494	492.179
Transfers to other categories of loans under follow-up (-)	791.383	464.290	-
Collections (-)	139.581	87.715	231.810
Write-offs (-)	-	-	-
<i>Corporate and Commercial Loans</i>	-	-	-
<i>Consumer Loans</i>	-	-	-
<i>Credit Cards</i>	-	-	-
<i>Other</i>	-	-	-
Current period end balance	914.463	437.175	3.788.444
Specific provision (-)	518.902	305.386	3.139.757
Net balance on balance sheet	395.561	131.789	648.687

i.3. Information on foreign currency non-performing loans and other receivables:

	III. Group	IV. Group	V. Group
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Current period			
Balance at the end of the period	204.204	51.653	1.522.852
Specific provisions(-)	137.119	30.083	1.078.913
Net balance in the balance sheet	67.085	21.570	443.939
Prior period			
Balance at the end of the period	44.441	17.260	1.450.081
Specific provisions(-)	20.741	15.661	926.704
Net balance in the balance sheet	23.700	1.599	523.377

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i.4. Gross and net amounts of non-performing loans according to user groups:

	III. Group	IV. Group	V. Group
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Current period (Net)	395.561	131.789	648.687
Loans to granted real persons and legal entities (Gross)	913.462	436.534	3.718.059
Specific provisions (-)	517.901	304.745	3.069.372
Loans to granted real persons and legal entities (Net)	395.561	131.789	648.687
Banks (Gross)	-	-	-
Specific provisions (-)	-	-	-
Banks (Net)	-	-	-
Other loans and receivables (Gross)	1.001	641	70.385
Specific provisions (-)	1.001	641	70.385
Other loans and receivables (Net)	-	-	-
Prior period (Net)	114.134	37.188	794.531
Loans to granted real persons and legal entities (Gross)	335.222	206.058	3.371.949
Specific provisions (-)	221.088	168.870	2.577.418
Loans to granted real persons and legal entities (Net)	114.134	37.188	794.531
Banks (Gross)	-	-	-
Specific provisions (-)	-	-	-
Banks (Net)	-	-	-
Other loans and receivables (Gross)	370	343	59.796
Specific provisions (-)	370	343	59.796
Other loans and receivables (Net)	-	-	-

j) Main guidelines of the liquidation policy of the Bank about the uncollectible loans and receivables:

The Bank liquidates its uncollectible receivables through three methods. These are by signing financial restructuring contract under the Law No: 4743, by making payment protocols and by presenting adequate repayment schedules for the lower amount of receivables. Within the context of this collection policy, non-performing loans are collected in considerable amounts. Collections are firstly offset against lawsuits and expenses, interest and capital receivables from loans.

The Bank recently collects some of its receivables by acquiring debtor properties in consideration of collaterals given to loans granted.

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k) Explanations on write-off policy:

In compliance with the “Procedure for Write Off and Procedures for Overdue Receivables for Legal Follow-Up” non performing loans which become unrecoverable as a result of legal follow up can be written off to prevent additional legal expenses.

(6) Information on held-to-maturity investments:

a) Information on held-to-maturity investments blocked/given as collateral or subject to repurchase agreement transactions are explained comparatively with net value:

a.1. Held-to-maturity investments blocked/given as collateral:

	Current period		Prior period	
	TRY	FC	TRY	FC
Government bonds and similar securities	4.419.663	1.048.201	3.390.012	771.973
Total	4.419.663	1.048.201	3.390.012	771.973

a.2. Held-to-maturity investments subject to repurchase agreements:

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury bills, government bonds and similar securities	5.079.533	933.840	6.504.701	534.883
Total	5.079.533	933.840	6.504.701	534.883

b) Information on public sector debt investments held-to-maturity:

	Current period	Prior period
Government bonds	18.156.182	16.676.797
Treasury bills	-	-
Other public sector debt securities	-	-
Total	18.156.182	16.676.797

c) Information on held-to-maturity investments:

	Current period	Prior period
Debt securities	18.156.182	16.676.797
<i>Quoted on a stock exchange</i>	18.156.182	16.676.797
<i>Not quoted</i>	-	-
Impairment provision (-)	-	-
Total	18.156.182	16.676.797

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d) Movement of held-to-maturity investments within the year:

	Current period	Prior period
Beginning balance	16.676.797	17.763.665
Foreign currency differences on monetary assets	399.176	386.593
Purchases during the year ⁽¹⁾	2.389.499	1.006.511
Disposals through sales and redemptions	(1.309.290)	(2.479.972)
Impairment provision (-) / provision reversal (+)	-	-
Balance at the end of the period	18.156.182	16.676.797

⁽¹⁾ Interest income accrual difference between 31 December 2016 amounting to TRY 1.907.723 and 31 December 2015 amounting to TRY 1.679.841 has been included in purchases row.

e) Information on held-to-maturity investments accounts:

The breakdown of the held to maturity securities of the Bank is as follows:

	Current period				Prior period			
	Historical cost		Amortized cost		Historical cost		Amortized cost	
	TRY	FC	TRY	FC	TRY	FC	TRY	FC
Obtained from Under secretariat of Treasury of Republic of Turkey	10.863.420	1.606.363	12.237.460	1.636.997	9.940.960	1.177.317	11.211.527	1.197.590
Obtained with the transfer	-	-	-	-	-	-	-	-
Reclassified from other securities portfolios	3.093.277	685.399	3.586.054	695.671	3.158.272	720.407	3.533.802	733.878
Other	-	-	-	-	-	-	-	-
Total	13.956.697	2.291.762	15.823.514	2.332.668	13.099.232	1.897.724	14.745.329	1.931.468

(7) Information on associates (Net):

a) Information on associates:

Description	Address (City/ Country)	Bank's share percentage, if different-voting percentage (%)	Bank's risk group share percentage (%)
1. Demirhalkbank NV	Rotterdam/The Netherlands	30,00	30,00
Kobi Girişim Sermayesi Yatırım Ortaklığı			
2. AŞ	Ankara/Turkey	31,47	33,12
3. Kredi Kayıt Bürosu AŞ	İstanbul/Turkey	18,18	18,18
4. Bankalararası Kart Merkezi AŞ(2)	İstanbul/Turkey	18,95	18,95
5. Türk P ve I Sigorta AŞ	İstanbul/Turkey	16,67	16,67

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b) Information related to the associates as sorted in (a): ⁽¹⁾

	Total assets	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit/loss	Prior period profit/loss	Fair value ⁽²⁾
1.	6.533.210	900.095	15.096	191.505	2.935	56.364	34.505	249.574
2.	47.722	47.193	126	2.602	-	323	698	-
3.	224.364	130.960	138.543	3.839	-	31.051	33.299	224.364
4.	82.182	38.919	50.021	904	-	9.425	3.869	82.182
5.	17.478	5.044	439	341	-	1.379	(539)	-

⁽¹⁾ The information is presented from companies' financial statements as of 31 December 2016.

⁽²⁾ The financial informations of Bankalararası Kart Merkezi has been obtained from its independent audit report as of 31 December 2015.

c) Movement of associates:

	Current period	Prior period
Balance at the beginning of the period	227.320	92.553
Movements during the period	41.337	134.767
Purchases	-	1.245 ⁽¹⁾
Bonus shares obtained profit from current year's share	-	-
Dividends from current year income	-	-
Sales	-	-
Transfers	-	-
Revaluation decrease (-) / increase	41.337	133.522
Provision for impairment (-) / reversals (+)	-	-
Balance at the end of the period	268.657	227.320
Capital commitments	-	-
Share percentage at the end of the period (%)	-	-

⁽¹⁾ Includes purchases of 16,67% share of Türk P&I Sigorta AŞ amounting to TRY 1.245 for the prior period.

d) Sectoral information and related carrying amounts of associates:

	Current period	Prior period
Banks	249.575	208.237
Insurance companies	1.245	1.245
Factoring companies	-	-
Leasing companies	-	-
Financing companies	-	-
Other financial investments	11.518	11.518

e) Associates quoted to a stock exchange:

None.

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(8) Information on subsidiaries (Net):

a) Information on subsidiaries:

	Halk Yatırım Menkul Değerler AŞ	Halk Sigorta AŞ	Halk Hayat ve Emeklilik AŞ	Halk Gayrimenkul Yatırım Ortaklığı AŞ	Halk Finansal Kiralama AŞ	Halk Portföy Yönetimi AŞ	Halk Bank AD, Skopje	Halk Faktoring AŞ	Halkbank A.D. Beograd
CORE CAPITAL									
Paid in Capital	82.000	129.000	277.000	790.000	272.250	11.000	147.843	55.500	53.667
Effect of Inflation Adjustment on Paid in Capital	-	-	-	-	-	-	-	-	-
Share premium	-	98	-	49.945	-	-	11.633	-	44.552
Reserves	10.536	17.906	43.659	56.502	8.746	1.461	81.037	1.218	58.074
Other Comprehensive Income according to TAS	700	(621)	(11.063)	3	(95)	(22)	299	(21)	7.570
Profit / Loss	13.779	(92.947)	171.943	42.217	33.679	7.821	24.595	17.387	3.544
Net Profit	14.388	(64.631)	158.359	42.217	9.518	7.481	24.595	16.122	3.544
Prior Period Profit/Loss	(609)	(28.316)	13.584	-	24.161	340	-	1.265	-
Bonus Shares from Associates, Subsidiaries and Joint Ventures not Accounted in Current Period's Profit	750	-	-	-	-	-	-	-	-
Leasehold Improvements (-)	-	-	115	-	-	-	5.843	251	-
Intangible Assets (-)	868	3.163	854	316	921	18	2.887	323	2.105
Total Core Capital	106.897	50.273	480.570	938.351	313.659	20.242	256.677	73.510	165.302
SUPPLEMENTARY CAPITAL	-	-	-	-	-	-	17.022	-	4.150
CAPITAL	106.897	50.273	480.570	938.351	313.659	20.242	273.699	73.510	169.452
DEDUCTIONS FROM CAPITAL	-	-	-	-	-	-	-	-	-
NET AVAILABLE CAPITAL	106.897	50.273	480.570	938.351	313.659	20.242	273.699	73.510	169.452

⁽⁴⁾ The information is presented from companies' financial statements as of 31 December 2016.

There is no internal capital adequacy assessment approach for the subsidiaries.

Paid in capital has been indicated as Turkish Lira in articles of incorporation and registered in trade registry.

Effect of inflation adjustments on paid in capital is the difference caused by the inflation adjustment on shareholders' equity items.

Extraordinary reserves are the status reserves which have been transferred with the General Assembly decision after distributable profit have been transferred to legal reserves.

Legal reserves are the status reserves which have been transferred from distributable profit in accordance with the third clause of first and second paragraph of 466 and 519 articles of Turkish Commercial Code no. 6102.

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b) Information on subsidiaries: (Net):

Description	Address (City/ Country)	Bank's share percentage, if different-voting percentage (%)	Bank's risk group share percentage (%)
1. Halk Yatırım Menkul Değerler AŞ	İstanbul	99,96	99,96
2. Halk Sigorta AŞ ⁽⁴⁾⁽⁵⁾	İstanbul	89,18	94,23
3. Halk Hayat ve Emeklilik AŞ	İstanbul	100,00	100,00
4. Halk Gayrimenkul Yatırım Ortaklığı AŞ ⁽³⁾	İstanbul	79,33	79,36
5. Halk Finansal Kiralama AŞ	İstanbul	100,00	100,00
6. Halk Portföy Yönetimi AŞ	İstanbul	75,00	99,99
7. Halk Banka AD, Skopje	Macedonia	99,03	99,03
8. Halk Faktoring AŞ	İstanbul	97,50	100,00
9. Bileşim Alternatif Dağıtım Kanalları ve Ödeme Sistemleri AŞ	İstanbul	100,00	100,00
10. Halkbank A.D. Beograd	Serbia	82,47	82,47

c) Information related to the subsidiaries as sorted in (b):⁽¹⁾

	Total assets	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit / loss	Prior period profit / loss	Fair value ⁽²⁾
1.	1.602.560	106.897	1.958	42.124	2.191	14.388	10.876	133.414
2.	1.221.636	50.273	5.107	78.001	2.321	(64.631)	(24.978)	368.089
3.	887.864	480.570	1.837	80.562	22.214	158.359	109.758	920.493
4.	1.135.229	938.351	508.741	7.001	-	42.217	58.360	517.421
5.	2.552.645	313.659	1.415	158.806	-	9.518	6.992	415.786
6.	21.596	20.242	355	1.938	12	7.481	4.530	22.634
7.	2.069.327	273.699	47.688	85.819	8.364	24.595	19.196	272.372
8.	1.146.985	73.510	1.130	132.582	-	16.122	8.586	95.558
9.	37.725	24.170	5.095	397	1.498	4.650	1.467	41.243
10.	1.002.396	169.452	25.393	41.157	4.342	3.544	(3.292)	90.813

⁽¹⁾ The financial data is obtained from 31 December 2016 unconsolidated financial statements.

⁽²⁾ The data for Halkbank AD.Skopje ve Halkbank AD Beograd are obtained from the valuation report for the three-month period ended 31 March 2016, the fair values of non-foreign subsidiaries are obtained from the valuation report for the year end period ended 31 December 2015. Halk Gayrimenkul Yatırım Ortaklığı AŞ is valued by stock price.

⁽³⁾The Banks' subsidiary Halk Gayrimenkul Yatırım Ortaklığı AŞ has privatized by a public offering on 22 February 2013 and the shares are traded on the Borsa İstanbul AŞ.

⁽⁴⁾In accordance with the Capital Markets Board's "Communiqué on Obtaining Registration of Shares and Sale of Shares", Series I, No. 40; the shares of Halk Sigorta AŞ are traded on the Borsa İstanbul AŞ Pre-Market Platform. The fair value of Halk Sigorta AŞ was determined by the valuation report prepared by an independent valuation company.

⁽⁵⁾The amount of the loss is due to the gradual reflection of the provision for outstanding claims due to IBNR, which was calculated by Halk Sigorta AS within the scope of the Treasury's circular 2014/16, until 2019 according to the circulars numbered 2016/11.

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d) Movement of the subsidiaries:

	Current period	Prior period
Balance at the beginning of the period	2.685.934	2.576.816
Movements during the period	191.890	109.118
Purchase	-	28.907 ⁽¹⁾
Bonus shares obtained profit from current year's share	171.560	61.035
Dividends from current year income	-	-
Sales	-	-
Transfer	-	-
Revaluation increase	20.330	19.176
Provision for impairment (-)	-	-
Balance at the end of the period	2.877.824	2.685.934
Capital commitments	-	-
Share percentage at the end of the period (%)	-	-

⁽¹⁾In the period of 30 June 2015, Halkbank AD, Beograd's -located in Serbia- 76,76% shares have been bought out by the bank for TRY 28.907. In the current period, the bank paid TRY 30.704 to Halkbank AD, Beograd and its shares has increased to 82,47%.

e) Sectoral information on subsidiaries and the related carrying amounts:

	Current period	Prior period
Banks	363.185	275.646
Insurance companies	1.288.582	1.197.085
Factoring companies	95.558	61.758
Leasing companies	415.786	413.336
Financing companies	-	-
Other financial subsidiaries	673.470	700.080
Other non-financial subsidiaries	41.243	38.029

f) Subsidiaries quoted in the stock exchange:

	Current period	Prior period
Quoted to domestic stock ^{(1), (2)}	885.510	897.784
Quoted foreign stock exchange	-	-

⁽¹⁾ In accordance with the Capital Markets Board's "Communiqué on Obtaining Registration of Shares and Sale of Shares", Series I, No. 40; the shares of Halk Sigorta AŞ are traded on the Borsa İstanbul AŞ Pre-Market Trading Platform. The fair value of Halk Sigorta AŞ was determined by the valuation report prepared by an independent valuation company since Halk Sigorta AŞ does not have transaction depth on the Borsa İstanbul AŞ.

⁽²⁾ The Banks' subsidiary Halk Gayrimenkul Yatırım Ortaklığı AŞ has privatized by a public offering on 22 February 2013 and the shares are traded on the Borsa İstanbul AŞ.

(9) Information on jointly controlled entities (joint ventures):

None.

(10) Information on finance lease receivables (Net):

None.

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(11) Information on derivative financial assets for hedging purposes:

None.

(12) Information on tangible assets:

The fair value of tangible assets are determined by its equivalence value method. Fair value measurement of investment properties which fair values are determined by equivalence value method, are classified as level 2.

Current Period	Balance at the end of the prior period	Current Year Additions	Revaluation Increase	Current Year Disposals	Transfers, Net	Balance at the end of the period
Cost:						
Immovable	1.376.586	5.716	152.240	2.531	(552)	1.532.563
Tangible assets purchased through financial lease	27.741	-	-	945	-	26.796
Office machines	414.575	37.046	-	17.831	-	433.790
Fixed assets obtained due to non-performing loans	570.289	173.235	-	96.513	-	647.011
Lease hold improvements costs	272.403	13.530	-	3.127	-	282.806
Other	135.012	450	-	-	-	135.462
Total Cost	2.796.606	229.977	152.240	120.947	(552)	3.058.428
Accumulated depreciation (-):						
Immovable	143.151	6.476	-	19.334	-	130.293
Tangible assets purchased through financial lease	26.412	266	-	782	-	25.896
Office machines	219.938	53.627	-	17.782	-	255.783
Fixed assets obtained due to non-performing loans	13.249	6.278	-	2.372	-	17.155
Lease hold improvements costs	218.199	14.322	-	2.860	-	229.661
Other	67.763	27.444	-	26.416	-	68.791
Total accumulated depreciation	688.712	108.413	-	69.546	-	727.579
Provision for impairment (-)						
Immovable	1.313	4.510	-	6	-	5.817
Tangible assets purchased through financial lease	-	-	-	-	-	-
Office machines	-	-	-	-	-	-
Fixed assets obtained due to non-performing loans	7.134	4.476	-	585	-	11.025
Total provision for impairment (-)	8.447	8.986	-	591	-	16.842
Net Book Value	2.099.447	112.578	152.240	50.810	(552)	2.314.007

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Prior Period	Balance at the end of the prior period	Current Year Additions	Revaluation Increase	Current Year Disposals	Transfers, Net	Balance at the end of the period
Cost:						
Immovable	626.664	5.439	1.679.938	507.398	(428.057)	1.376.586
Tangible assets purchased through financial lease	30.787	335	-	3.381	-	27.741
Office machines	346.097	100.195	-	31.717	-	414.575
Fixed assets obtained due to non-performing loans	508.101	1.997.556	-	1.935.368	-	570.289
Lease hold improvements costs	136.567	67.233	-	68.788	-	135.012
Other	252.481	23.688	-	3.766	-	272.403
Total Cost	1.900.697	2.194.446	1.679.938	2.550.418	(428.057)	2.796.606
Accumulated depreciation (-):						
Immovable	215.579	16.036	154.717	181.430	(61.751)	143.151
Tangible assets purchased through financial lease	29.099	669	-	3.356	-	26.412
Office machines	177.671	54.269	-	12.002	-	219.938
Fixed assets obtained due to non-performing loans	10.676	4.674	-	2.101	-	13.249
Lease hold improvements costs	71.616	26.761	-	30.614	-	67.763
Other	207.696	13.542	-	3.039	-	218.199
Total accumulated depreciation	712.337	115.951	154.717	232.542	(61.751)	688.712
Provision for impairment (-)						
Immovable	1.855	-	-	591	49	1.313
Tangible assets purchased through financial lease	-	-	-	-	-	-
Office machines	-	-	-	-	-	-
Fixed assets obtained due to non-performing loans	6.391	1.872	-	1.129	-	7.134
Total provision for impairment (-)	8.246	1.872	-	1.720	49	8.447
Net Book Value	1.180.114	2.076.623	1.525.221	2.316.156	(366.355)	2.099.447

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(13) Information on intangible assets:

Current Period	Balance at the end of the prior period	Current Year Additions	Current Year Disposals	Transfers	Balance at the end of the period
Cost:					
Other intangible assets	109.601	44.325	2.461	-	151.465
Total Cost	109.601	44.325	2.461	-	151.465
Accumulated Depreciation:					
Other intangible assets	32.650	30.223	1	-	62.872
Total Accumulated Depreciation	32.650	30.223	1	-	62.872
Net Book Value	76.951	14.102	2.460	-	88.593

Prior Period	Balance at the end of the prior period	Current Year Additions	Current Year Disposals	Transfers	Balance at the end of the period
Cost:					
Other intangible assets	75.132	45.180	10.711	-	109.601
Total Cost	75.132	45.180	10.711	-	109.601
Accumulated Depreciation (-) :					
Other intangible assets	16.189	16.579	118	-	32.650
Total Accumulated Depreciation	16.189	16.579	118	-	32.650
Net Book Value	58.943	28.601	10.593	-	76.951

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(14) Information on investment property:

	Current Period	Prior Period
Cost:		
Opening Balance	428.525	-
Acquisitions	1.534	-
Transfer	-	428.525
Disposals	-	-
Impairment Charge/Cancellation(-)	-	-
Ending Balance	430.059	428.525
Accumulated Depreciation		
Opening Balance	63.525	-
Amortization Charge (-)	3.213	-
Transfer	-	63.525
Impairment Charge/Cancellation (-)	-	-
Ending Balance	-	-
Total Accumulated Depreciation	66.738	63.525
Net Book Value	363.321	365.000

^(*)As of December 2015 The Bank's former headquarters building in Ankara that had been evacuated depending upon the personnel moving to Istanbul; has been leased and classified as investment.

Table of fair value of investment properties with cost reflected to financial statements:

	Current Period	Prior Period
Building/Ankara Söğütözü	389.262	365.000

(15) Information on tax assets:

Please refer to Section 5, explanations related to the liabilities footnote 10.

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(16) Information on non-current assets held for sale:

	Current period	Prior period
Cost	802	1.200
Accumulated Depreciation (-) ⁽¹⁾	(62)	(109)
Net Book Value	740	1.091
Opening Balance	1.091	5.516
Acquisitions (Transfers) (Net)	(552)	(468)
Disposals (Net)	-	(6.193)
Revaluation Increase	154	-
Impairment Charge/Cancellation	-	49
Amortization Charge	47	2.187
Net Book Value	740	1.091

⁽¹⁾ The amount of accumulated depreciation belongs to asset held for sale in current period.

(17) Information on other assets:

Other assets balance in the balance sheet amounts to TRY 1.936.946 and does not exceed 10% of the balance sheet total (31 December 2015: TRY 1.535.243).

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II. EXPLANATIONS AND NOTES RELATED TO THE LIABILITIES

(1) Information on maturity structure of deposits:

a) For deposit banks:

a.1. Current period:

	Demand	7 day call accounts	Up to 1 month	1-3 months	3-6 months	6 months year	1 year and over	Cumulative deposits	Total
Saving deposits	6.158.073	-	581.243	31.767.115	1.076.904	361.620	541.919	104.805	40.591.679
Foreign currency deposits	6.364.730	-	3.100.794	28.538.858	4.734.504	1.158.191	3.696.641	11.016	47.604.734
Residents in Turkey	4.976.498	-	3.031.495	27.984.207	4.584.509	1.024.716	2.331.474	10.609	43.943.508
Residents abroad	1.388.232	-	69.299	554.651	149.995	133.475	1.365.167	407	3.661.226
Public sector deposits	2.184.382	-	2.417.784	1.764.160	260.540	2.976.331	87.204	-	9.690.401
Commercial inst. deposits	4.322.048	-	4.290.924	14.625.325	1.876.533	562.730	39.505	-	25.717.065
Other inst. deposits	586.039	-	819.701	885.372	52.798	89.853	880	-	2.434.643
Precious metals	1.392.853	-	-	-	-	-	-	-	1.392.853
Interbank deposits	7.862.967	-	3.167.195	10.804.303	238.375	29.404	729.220	-	22.831.464
Central Bank of Turkey	9	-	-	-	-	-	-	-	9
Domestic banks	39.076	-	1.091.898	3.908.323	-	8.227	4.167	-	5.051.691
Foreign banks	7.095.120	-	1.905.217	6.895.980	238.375	21.177	725.053	-	16.880.922
Participation banks	728.762	-	170.080	-	-	-	-	-	898.842
Total	28.871.092	-	14.377.641	88.385.133	8.239.654	5.178.129	5.095.369	115.821	150.262.839

a.2. Prior period:

	Demand	7 day call accounts	Up to 1 month	1-3 months	3-6 months	6 months year	1 year and over	Cumulative deposits	Total
Saving deposits	4.293.296	-	474.007	28.297.921	1.096.767	366.364	581.833	103.000	35.213.188
Foreign currency deposits	5.795.426	-	3.288.740	18.585.006	2.565.435	987.235	3.177.812	10.680	34.410.334
Residents in Turkey	4.689.558	-	3.254.644	18.013.646	2.459.778	709.667	2.100.420	10.508	31.238.221
Residents abroad	1.105.868	-	34.096	571.360	105.657	277.568	1.077.392	172	3.172.113
Public sector deposits	2.446.626	-	3.016.281	2.937.312	272.240	1.773.372	90.299	-	10.536.130
Commercial inst. deposits	3.228.168	-	3.127.098	16.497.782	816.279	33.215	28.447	-	23.730.989
Other inst. deposits	557.371	-	644.038	1.468.290	8.244	38.413	4.407	-	2.720.763
Precious metals	885.003	-	-	-	-	-	-	-	885.003
Interbank deposits	3.328.282	-	5.519.682	4.577.196	290.993	-	933.405	-	14.649.558
Central Bank of Turkey	-	-	-	-	-	-	-	-	-
Domestic banks	10.335	-	5.298.361	2.767.451	288.091	-	-	-	8.364.238
Foreign banks	2.367.756	-	221.321	1.809.745	2.902	-	933.405	-	5.335.129
Participation banks	950.191	-	-	-	-	-	-	-	950.191
Total	20.534.172	-	16.069.846	72.363.507	5.049.958	3.198.599	4.816.203	113.680	122.145.965

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b) Information on saving deposits in the scope of Saving Deposits Insurance Fund:

b.1. Amounts exceeding insurance limit:

b.1.1. Saving deposits under the guarantee of deposit insurance and exceeding the insurance limit:

Saving deposits	Under the guarantee insurance		Exceeding the insurance limit	
	Current period	Prior period	Current period	Prior period
Saving deposits	23.535.650	20.718.253	16.938.565	14.405.969
Foreign currency saving deposits	6.787.330	6.441.824	14.574.636	11.014.043
Other deposits in the form of saving deposits	-	-	-	-
Foreign branches' deposits under foreign authorities' insurance	167.456	129.662	-	-
Off-shore banking regions' deposits under foreign authorities' insurance	-	-	-	-

b.1.2. Saving deposits at foreign branches are excluded from the scope of Saving Deposits Insurance Fund according to the related legislation, and are subject to insurance of foreign authorities in compliance with the foreign legislations.

c) Saving deposits which are not under the guarantee of deposit insurance fund:

	Current period	Prior period
Foreign branches' saving deposits and other accounts	283.157	177.772
Deposits and other accounts belonging to dominant partners as well as their fathers, mothers, spouses and children under their custody	-	-
Deposits and other accounts belonging to the chairman and members of the board of directors, general managers and deputy general managers as well as their fathers, mothers, spouses and children under their custody	2.603	4.771
Deposits and other accounts covered by assets generated through the offenses mentioned in Article 282 of the Turkish Penal Code No.5237 and dated 26.9.2004	-	-
Deposits in the banks to be engaged exclusively in offshore banking in Turkey	-	-

(2) Information on derivative financial liabilities held for trading:

Negative differences table related to the derivative financial liabilities held-for-trading:

	Current period		Prior period	
	TRY	FC	TRY	FC
Forward transactions	-	137.422	-	84.150
Swap transactions	-	74.112	-	66.184
Future transactions	-	-	-	-
Options	59	255	18	354
Other	-	-	-	-
Total	59	211.789	18	150.688

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(3) a) Information on funds borrowed:

	Current period		Prior period	
	TRY	FC	TRY	FC
Funds borrowed from Central Bank of Turkey	-	-	-	-
Domestic banks and institutions	254.679	1.875.919	327.509	1.316.866
Foreign banks, institutions and funds	186.276	16.651.230	496.699	18.120.542
Total	440.955	18.527.149	824.208	19.437.408

b) Maturity structure of funds borrowed:

	Current period		Prior period	
	TRY	FC	TRY	FC
Short-term	261.008	4.077.162	323.748	7.485.324
Medium and long-term	179.947	14.449.987	500.460	11.952.084
Total	440.955	18.527.149	824.208	19.437.408

c) Additional disclosures related to the concentrations of the Bank's major liabilities:

Concentrations, fund providing customers, sector groups and other criteria where risk concentration is observed:

Main liability of the Bank is deposit, which is composed of 27,01% of saving deposits and 31,68% of foreign currency deposits. In order to fulfill the short term liquidity requirements, the Bank borrows loans from interbank money markets. The Bank can borrow loans from overseas institutions especially to be used in the financing of consumer loans. There are funds obtained from the Ministry of Industry and Trade especially for constructing small industrial estates and organized industrial estates.

The Bank's 57,20% of banks deposits and 37,36% of other deposits consist of foreign currency deposits.

	Current period		Prior period	
	TRY	FC	TRY	FC
From domestic transactions	9.463.439	-	7.474.247	-
Financial inst. and organizations	9.395.444	-	7.408.477	-
Other institutions and organizations	29.220	-	29.509	-
Real persons	38.775	-	36.261	-
From overseas transactions	460	1.365.201	100.299	726.001
Financial inst. and organizations	-	1.365.201	-	726.001
Other institutions and organizations	-	-	100.069	-
Real persons	460	-	230	-
Accruals	5.987	8.670	7.191	2.498
Total	9.469.886	1.373.871	7.581.737	728.499

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(4) Marketable securities issued:

	Current period		Prior period	
	TRY	FC	TRY	FC
Bonds	1.749.034	-	1.565.442	-
Treasury Bills	-	10.684.708	-	7.339.847
Total	1.749.034	10.684.708	1.565.442	7.339.847

(5) Explanations to the funds:

Funds are granted as loans in conformity with the protocols between the Bank and fund owner ministry or institutions. These funds include funds from the Ministry of Industry and Trade, Treasury Natural Disasters Credit Fund, Under Secretariat of Treasury and Foreign Trade Funds, Turkish Treasury Incentive Certificated SMEs Credit Fund, Housing Development Administration Fund and other funds.

a) Maturity structure of funds:

	Current period		Prior Period	
	Short-term	Long-term	Short-term	Long-term
	37.539	2.302.269	29.572	1.934.127

(6) Information on other liabilities:

Other liabilities balance in the balance sheet amounts to TRY 1.691.860 and does not exceed 10% of the balance sheet total (31 December 2015: TRY 1.592.403).

(7) Information on finance lease payables (Net):

a) The general explanations on criteria used in determining installments of financial lease agreements, renewal and purchasing options and restrictions in the agreements that create significant obligations to the Bank:

In the financial lease agreements, installments are based on useful life, usage periods and provisions of the TAS.

b) Explanation on finance lease payables:

	Current period		Prior period	
	Gross	Net	Gross	Net
Less than 1 year	-	-	321	289
Between 1-4 years ⁽¹⁾	8	8	702	622
More than 4 years	115	91	220	179
Total	123	99	1.243	1.090

⁽¹⁾ Finance lease payables are presented with respect to original maturity.

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c) Explanations regarding operational leases:

The operational leasing agreements are signed for some branches. The agreements are prepared annually and annual rents are paid in advance and recorded as prepaid expense in "other assets". The Bank does not have any commitments arising on the existing operational lease agreements.

(8) Information on derivative financial liabilities for hedging purposes:

None.

(9) Explanations on provisions:

a) Information on general provisions:

	Current period	Prior period
General provision	2.027.964	1.123.838
Provisions for first group loans and receivables	1.817.380	910.447
<i>Additional provisions for the loans with extended payment plan</i>	-	33.186
Provisions for second group loans and receivables	90.675	108.328
<i>Additional provisions for the loans with extended payment plan</i>	-	66.843
Provisions for non-cash loans	119.909	105.063
Other	-	-

b) Foreign exchange loss provisions on the foreign currency indexed loans and finance lease receivables:

As of 31 December 2016 the Bank's foreign currency indexed loans and finance lease receivables amounting to losses on foreign exchange is TRY 23 (31 December 2015: TRY 7.222).

c) Specific provisions provided for unindemnified non-cash loans:

As of 31 December 2016, the Bank's specific provision for unindemnified non-cash loans balance is TRY 139.279 (31 December 2015: TRY 93.877).

d) Information on other provisions:

d.1) Total other provision balance amounting to TRY 309.826 (31 December 2015: TRY 334.442) consists of TRY 139.279 (31 December 2015: TRY 93.877) for specific provisions for unindemnified non cash loans, TRY 90.793 (31 December 2015: TRY 34.100) for legal cases filed against the Bank and TRY 79.754 (31 December 2015: TRY 82.964) of other provisions. There is no general provision for possible risk in current period (31 December 2015: TRY 123.500).

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d.2) Movement of employee termination benefits:

Severance indemnity provision as of 31 December 2016 is calculated by an independent company by using the actuarial conjectures. The amount calculated for the employee termination benefits as a result of the actuarial valuation according to TAS 19, is as follows;

	Current Period	Prior Period
Inflation Rate	7,80%	7,75%
Wage growth	11,20%	10,75%
Estimated Real Wage Growth Rate	8,00%	7,95%

Calculated amounts as a result of actuarial conjectures are as follows:

	Current Period	Prior Period
As of January 1	390.587	355.257
Charge for the year	37.372	34.074
Interest Expense	40.720	29.512
Actuarial gain/loss	(21.492)	6.347
Prior period service cost composed current period	459	48
Payment/The limitation of benefits/ Loss (Gain) therefore discharge	1.546	312
Benefits paid within the period(-)	(49.769)	(34.963)
Total	399.423	390.587

As of 31 December 2016, unused vacation provision is TRY 139.894, personnel dividend provision is TRY 160.451 and severance indemnity provision for outsource firms is TRY 13.964. This amount is followed under employee benefits provision under liabilities (31 December 2015: TRY 130.187 for unused vacation provision; TRY 11.848 for severance indemnity provision for outsources; TRY 138.241 for personnel dividend provision).

As of 1 January 2013, actuarial gains and losses are recognized and accounted in shareholders' equity.

e) Liabilities arising from retirement benefits:

e.1. Liabilities of pension funds founded as per the Social Security Institution:

None.

e.2. Liabilities resulting from all kinds of pension funds, foundations etc. which provide post-retirement benefits for the employees:

Based on the results of the actuarial reports prepared as of 31 December 2016, it was determined that no technical deficit for Türkiye Halk Bankası AŞ Emekli Sandığı, T.C. Ziraat Bankası and Türkiye Halk Bankası Çalışanları Emekli Sandığı Vakfı.

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(10) Explanations related to tax liabilities:

a) Information on current tax liability:

a.1. Information on tax provision:

As of 31 December 2016, the Bank's corporate tax payable is amounting to TRY 41.636 and this amount has been submitted to account of corporate tax provision at the related date.

a.2. Information on taxes payable:

	Current period	Prior period
Corporate tax payable	41.636	105.440
Income on securities tax	157.120	143.352
Property income tax	1.402	1.323
Banking and insurance transactions tax (BITT)	84.974	66.010
Foreign exchange transactions tax	48	9
Value added tax payable	-	-
Other	24.391	23.059
Total	309.571	339.193

a.3. Information on premiums:

	Current period	Prior period
Social insurance premiums-employee	18	17
Social insurance premiums-employer	21	20
Bank social aid pension fund premium-employee	7.621	7.164
Bank social aid pension fund premium-employer	10.452	9.881
Pension fund membership fees-employee and provisions-employee	-	-
Pension fund membership fees-employer and provisions-employer	-	-
Unemployment insurance-employee	-	-
Unemployment insurance-employer	-	-
Other	1.956	1.703
Total	20.068	18.785

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b) Deferred tax liability:

	Current period	Prior period
Deferred Tax (Asset) /Liability		
Provisions ⁽¹⁾	183.840	162.891
Revaluation of Financial Assets	(376.569)	(224.515)
Other	(93.943)	(7.640)
Deferred Tax Liability:	(286.672)	(69.264)
Deferred tax accounted in shareholders' equity	(454)	(22.850)
Fair value differences for available for sale financial assets	66.911	31.975
Actuarial gains and losses	241	4.566
Subsidiaries Valuation	-	-
Property Revaluation	(67.606)	(59.391)

⁽¹⁾ Provisions are comprised of the employee termination benefits and other provisions.

(11) Information on liabilities regarding assets held for sale and discontinued operations:

None.

(12) Explanations on the number of subordinated loans the Bank used maturity, interest rate, institutions that the loan was borrowed from, and conversion option, if any:

None.

(13) Information on shareholders' equity:

a) Presentation of paid-in capital:

	Current period	Prior period
Common stock	1.250.000	1.250.000
Preferred stock	-	-

b) Application of registered capital system and registered capital ceiling amount:

There is an application of registered capital system and registered capital ceiling amount is TRY 7.500.000.

c) Information on share capital increases and their sources; other information on increased capital shares in the current period:

None.

d) Information on additions from capital reserves to capital in the current period:

None.

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e) Capital commitments in the last fiscal year and at the end of the following period, the general purpose of these commitments and projected resources required to meet these commitments:

None.

f) Indicators of the Bank's income, profitability and liquidity for the previous periods and possible effects of these future assumptions on the Bank's equity due to the uncertainty of these indicators:

The Bank has sustainable profitability structure and equity structure. There are no uncertainties that would impact the current position.

g) Information on preferred shares:

None.

h) Information on marketable securities revaluation fund:

	Current period		Prior period	
	TRY	FC	TRY	FC
From subsidiaries, associates and jointly controlled entities (joint ventures)	1.004.257	203.841	1.158.202	92.152
<i>Revaluation difference</i>	1.004.257	203.841	1.158.202	92.152
<i>Exchange rate difference</i>			-	-
Valuation differences of financial assets available for sale	(297.328)	(428.017)	(188.893)	(94.626)
<i>Revaluation difference</i>	(297.328)	(428.017)	(188.893)	(94.626)
<i>Exchange rate difference</i>	-	-	-	-
Total	706.929	(224.176)	969.309	(2.474)

i) Information on legal reserves:

	Current Period	Prior Period
First Legal Reserves	958.017	842.251
Second Legal Reserves	518.693	489.166
Legal reserves appropriated in accordance with the law	5.648	4.448
Total	1.482.358	1.335.865

j) Information on the extraordinary and other profit reserves:

	Current Period	Prior Period
Reserves appropriated by General Assembly	13.104.130	11.166.841
Retained Earnings	47.181	47.181
Accumulated Reserves	-	-
Foreign Currency Translation Differences (-)	-	-
Total	13.151.311	11.214.022

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III. EXPLANATIONS AND NOTES RELATED TO THE OFF-BALANCE SHEET ITEMS

(1) Information on off-balance sheet liabilities:

a) Amount and nature of irrevocable loan commitments:

Types of irrevocable commitments	Current period	Prior period
Commitments for credit card expenditure limits	10.794.813	11.157.873
Payment commitments for cheques	5.805.008	5.442.458
Loan granting commitments	3.551.904	2.543.438
Two days forward foreign exchange buy/sell transactions	417.450	481.678
Commitments for credit cards and banking services promotions	44.328	46.532
Tax and fund liabilities from export commitments	28.864	20.764
Share capital commitments to associates and subsidiaries	-	-
Other irrevocable commitments	2.874.314	1.691.022
Total	23.516.681	21.383.765

b) Amount and nature of probable losses and commitments from the off-balance sheet items including the below mentioned:

b.1. Non-cash loans including bank bill guarantees and acceptances, guarantees substituting financial guarantees and other letters of credit:

	Current period	Prior period
Bank acceptance loans	4.011.308	5.002.040
Letters of credit	2.825.466	3.273.781
Other guarantees	956.523	879.817
Total	7.793.297	9.155.638

b.2. Certain guarantees, tentative guarantees, surety ships and similar transactions:

	Current period	Prior period
Letters of certain guarantees	14.917.475	13.968.827
Letters of advance guarantees	3.430.728	2.934.392
Letters of tentative guarantees	512.981	789.535
Letters of guarantee given to customs offices	887.159	880.741
Other letters of guarantee	20.219.188	12.052.117
Total	39.967.531	30.625.612

c) Total non-cash loans:

	Current period	Prior period
Non-cash loans for providing cash loans	1.920.169	939.782
<i>Within one year or less original maturity</i>	287.627	69.452
<i>Within more than one year maturity</i>	1.632.542	870.330
Other non-cash loans	45.840.659	38.841.468
Total	47.760.828	39.781.250

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c.1. Non-cash loans sectoral risk concentrations:

	Current period			Prior period				
	TRY	(%)		TRY	(%)			
Agricultural	40.378	0,19	24.305	0,09	23.325	0,14	10.271	0,04
<i>Farming and raising livestock</i>	36.311	0,17	21.895	0,08	20.156	0,12	9.340	0,04
<i>Forestry</i>	199	-	-	-	152	-	-	-
<i>Fishing</i>	3.868	0,02	2.410	0,01	3.017	0,02	931	-
Manufacturing	5.006.181	23,76	13.979.682	52,38	4.018.351	24,13	12.303.794	53,20
<i>Mining</i>	140.712	0,67	65.239	0,24	126.501	0,76	48.720	0,21
<i>Production</i>	3.113.471	14,78	11.876.525	44,50	2.843.994	17,08	9.975.408	43,14
<i>Electric, gas and water</i>	1.751.998	8,31	2.037.918	7,64	1.047.856	6,29	2.279.666	9,86
Construction	6.112.235	29,00	6.933.713	25,98	4.317.501	25,92	5.514.203	23,84
Services	9.750.786	46,27	5.454.428	20,44	8.155.736	48,97	5.213.900	22,55
<i>Wholesale and retail trade</i>	4.837.193	22,95	2.258.453	8,46	4.449.349	26,72	1.893.407	8,19
<i>Hotel, food and beverage services</i>	83.860	0,40	176.383	0,66	69.933	0,42	71.913	0,31
<i>Transportation and telecommunication</i>	186.011	0,88	475.790	1,78	151.737	0,91	302.090	1,31
<i>Financial Institutions</i>	3.288.213	15,61	640.160	2,40	2.371.214	14,24	483.850	2,09
<i>Real estate and renting services</i>	1.187.469	5,63	1.834.359	6,88	992.720	5,96	2.410.147	10,42
<i>Self-employment services</i>	17.781	0,08	370	-	10.221	0,06	345	-
<i>Education services</i>	26.483	0,13	44.557	0,17	18.799	0,11	52.133	0,23
<i>Health and social services</i>	123.776	0,59	24.356	0,09	91.763	0,55	15	-
Other	164.040	0,78	295.080	1,11	139.766	0,84	84.403	0,36
Total	21.073.620	100,00	26.687.208	100,00	16.654.679	100,00	23.126.571	100,00

ç.2. Non-cash loans classified in Group I and II:

	Group I		Group II	
	TRY	FC	TRY	FC
Non-cash loans	20.855.517	26.650.415	218.103	36.793
Letters of guarantee	20.050.338	19.663.248	218.103	35.842
Bank acceptances	12.876	2.812.590	-	-
Letters of credit	18.091	3.992.266	-	951
Endorsements	-	-	-	-
Underwriting commitments	-	-	-	-
Factoring commitments	-	-	-	-
Other commitments and contingencies	774.212	182.311	-	-

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d) Information on derivative financial instruments:

	Derivative transactions according to purposes			
	Trading		Risk Management	
	Current period	Prior period	Current period	Prior period
Types of trading transactions				
Foreign currency related derivative transactions (I)	13.008.595	15.043.387	-	-
Forward foreign currency buy/sell transactions	7.004.980	6.434.489	-	-
Currency buy/sell swap	5.323.362	8.249.640	-	-
Currency futures	-	-	-	-
Currency put/call options	680.253	359.258	-	-
Interest related derivative transactions (II)	9.744.530	7.580.360	-	-
Interest rate contracts	-	-	-	-
Interest rate buy/sell swap	9.744.530	7.580.360	-	-
Interest rate put/call options	-	-	-	-
Interest rate buy/sell futures	-	-	-	-
Other trading derivative transactions (III)⁽¹⁾	2.181.689	1.750.176	-	-
A. Total trading derivative transactions (I+II+III)	24.934.814	24.373.923	-	-
Types of derivative transactions for risk management	-	-	-	-
Fair value fluctuations hedge	-	-	-	-
Cash flow risk hedge	-	-	-	-
FC investment in associates risk hedge	-	-	-	-
B. Total derivative transactions for hedging	-	-	-	-
Total derivative transactions (A+B)	24.934.814	24.373.923	-	-

⁽¹⁾ Other trading derivatives include credit default swap purchases and sale transactions amounting TRY 59.714 and TRY 2.121.975 respectively.

e) Information on contingent liabilities and assets:

Bank's commitments due to cheques given to client is TRY 5.805.008 (31 December 2015: TRY 5.442.458).

f) Services supplied on behalf of others:

None.

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IV. EXPLANATIONS AND NOTES RELATED TO THE INCOME STATEMENT

(1) Information on interest income:

a) Information on interest income on loans:

	Current period		Prior period	
	TRY	FC	TRY	FC
Interest on loans⁽¹⁾				
Short term loans	3.769.433	175.855	2.816.169	139.757
Medium and long term loans	8.020.712	2.220.344	6.597.101	1.638.533
Interest on non-performing loans	69.789	-	66.167	-
Premiums from resource utilization support fund	-	-	-	-
Total	11.859.934	2.396.199	9.479.437	1.778.290

⁽¹⁾ Includes fees and commissions obtained from cash loans.

b) Interest received from banks:

	Current period		Prior period	
	TRY	FC	TRY	FC
Central Bank of Turkey	69.911	13.189	26.681	2.631
Domestic banks	710	1.329	988	660
Overseas banks	4.071	3.420	3.104	1.969
Head office and branches	-	-	-	-
Total	74.692	17.938	30.773	5.260

c) Interest income on marketable securities:

	Current Period		Prior Period	
	TRY	FC	TRY	FC
Financial Assets Held for Trading	4.583	647	2.465	882
Financial Assets at Fair Value Through Profit or Loss	-	-	-	-
Available-for-Sale Financial Assets	828.538	227.449	621.805	179.711
Held-to-Maturity Investments	1.363.360	113.933	1.433.982	102.201
Total	2.196.481	342.029	2.058.252	282.794

d) Interest income from subsidiaries and associates:

	Current period	Prior period
Interest income from subsidiaries and associates	61.477	41.746

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(2) Information on interest expenses:

a) Information on interest expense on funds borrowed:

	Current period		Prior period	
	TRY	FC	TRY	FC
Banks	38.597	316.195	62.752	253.073
Domestic banks	19.375	21.234	20.596	13.681
Overseas banks	19.222	294.961	42.156	239.392
Overseas head office and branches	-	-	-	-
Other institutions	13	15.047	22	-
Total	38.610	331.242	62.774	253.073

b) Interest expenses to subsidiaries and associates:

	Current period	Prior period
Interest expenses to subsidiaries and associates	151.883	85.715

c) Information on interest expenses to marketable securities issued:

	Current period		Prior period	
	TRY	FC	TRY	FC
Interest on securities issued	162.840	419.627	143.180	319.000
Total	162.840	419.627	143.180	319.000

d) Maturity structure of interest expenses on deposits:

Account name	Time deposits						Cumulative deposit	Total
	Demand deposits	Up to 1 month	Up to 3 months	Up to 6 months	Up to 1 Year	More than 1 year		
TRY								
Bank deposits	235	450.808	275.911	21.463	378	-	-	748.795
Saving deposits	6	41.769	3.211.798	101.083	30.187	40.083	8.176	3.433.102
Public deposits	79	262.529	196.467	35.288	6.426	660	-	501.449
Commercial deposits	24	310.709	1.761.023	158.883	17.207	2.495	-	2.250.341
Other deposits	1	72.552	164.648	22.757	194.451	9.505	-	463.914
7 days call accounts	-	-	-	-	-	-	-	-
Total	345	1.138.367	5.609.847	339.474	248.649	52.743	8.176	7.397.601
Foreign currency								
Deposits	4	32.500	523.181	56.750	12.929	52.100	-	677.464
Bank deposits	-	105.861	-	-	-	-	-	105.861
7 days call accounts	-	-	-	-	-	-	-	-
Precious metal	-	-	-	-	-	-	-	-
Total	4	138.361	523.181	56.750	12.929	52.100	-	783.325
Grand total	349	1.276.728	6.133.028	396.224	261.578	104.843	8.176	8.180.926

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(3) Information on dividend income:

	Current period	Prior period
Financial assets held for trading	-	-
Financial assets at fair value through profit and loss	-	-
Financial assets available-for-sale	30.448	4.340
Other	236.825	184.337
Total	267.273	188.677

(4) a) Information on trading profit/loss (Net):

	Current period	Prior period
Profit	14.574.983	19.670.647
Profit from the capital market operations	20.381	32.552
Profit on derivative financial instruments	1.695.430	4.013.970
Foreign exchange gains	12.859.172	15.624.125
Loss (-)	14.425.237	19.932.277
Loss from the capital market operations	1.144	1.230
Loss on derivative financial instruments	1.678.806	3.863.810
Foreign exchange losses	12.745.287	16.067.237

b) Information on derivative financial instruments:

	Current period	Prior period
Profit on derivative financial instruments	1.695.430	4.013.970
Effect of the change in foreign exchange on profit	1.645.017	3.927.388
Effect of the change in interest rate on profit	50.413	86.582
Loss on derivative financial instruments (-)	1.678.806	3.863.810
Effect of the change in foreign exchange on loss	1.629.541	3.807.734
Effect of the change in interest rate on loss	49.265	56.076
Profit/loss on derivative financial instruments	16.624	150.160

(5) Information on other operating income:

	Current period	Prior period
Adjustments for Prior Period Expenses ⁽¹⁾	374.069 ⁽¹⁾	744.791 ⁽²⁾
Receivable from the asset sale on credit terms	130.104	67.350
Provision for communication expenses	9.571	9.981
Rent income	33.203	11.008
Other income	26.170	29.150
Total	573.117	862.280

⁽¹⁾ TRY 123.500 Amount of General Provision for possible risks is reversed and transferred to adjustment for prior period expenses

⁽²⁾ Due to fact that the ratio of consumer loans to total loans has been below 25% as of the prior period, general allowances in the amount of TRY 430.333 were reversed.

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(6) Impairment losses on loans and other receivables:

	Current period	Prior period
Specific provisions on loans and receivables	1.133.276	844.497
<i>Group - III loans and receivables</i>	521.149	228.199
<i>Group - IV loans and receivables</i>	310.043	180.436
<i>Group - V loans and receivables</i>	302.084	435.862
General loan provision expenses	904.401	285.324
Provision expenses for possible losses	-	123.500
Marketable securities impairment losses	-	-
<i>Financial assets at fair value through profit and loss</i>	-	-
<i>Financial assets available for sale</i>	-	-
Impairment losses from associates, subsidiaries, jointly controlled entities (joint ventures) and investments held-to-maturity	-	-
<i>Associates</i>	-	-
<i>Subsidiaries</i>	-	-
<i>Jointly controlled entities (joint ventures)</i>	-	-
<i>Investments held-to-maturity</i>	-	-
Other	68.646	48.557
Total	2.106.323	1.301.878

(7) Information on other operating expenses:

	Current period	Prior period
Personnel expenses	1.762.643	1.520.467
Reserve for employee termination benefits	82.341	66.083
Bank social aid provision fund deficit provision	-	-
Fixed assets impairment expense	4.713	-
Depreciation expenses of fixed assets	98.502	98.147
Intangible assets impairment expense	-	-
<i>Goodwill impairment expense</i>	-	-
Amortization expenses of intangible assets	30.223	16.579
Impairment expense for equity shares subject to the equity method accounting	-	-
Impairment expense of assets that will be disposed of	4.319	1.714
Amortization expenses of assets that will be disposed of	13.372	7.654
Impairment expense for property and equipment held for sale	-	-
Other operating expenses	1.246.068	1.129.670
<i>Operational leasing expenses</i>	208.118	179.380
<i>Maintenance expenses</i>	25.883	25.995
<i>Advertisement expenses</i>	160.145	127.372
<i>Other expenses</i>	851.922	796.923
Loss on sales of assets	1.330	4.394
Other	620.818	643.919
Total	3.864.329	3.488.627

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(8) Information on profit/loss from continuing and discontinued operations before taxes:

The Bank's income before tax is due from continuing activities. The amount of profit before tax consists TRY 6.956.718 of net interest income and TRY 1.375.348 of net fees and commissions. The net operating profit before tax of the Bank is amounting to TRY 3.351.550.

(9) Information on tax provisions for continuing and discontinued operations:

As of 31 December 2016, the Bank's tax provision amounting to TRY 793.285 consists of TRY 553.481 of current tax charge and TRY 239.804 of deferred tax income.

(10) Information on net operating income/expense from continuing and discontinued operations after tax:

As of 31 December 2016, the Bank's net operating income after tax is amounting to TRY 2.558.265.

(11) Information on net profit/loss from continuing and discontinued operations:

a) *Income and expenses from ordinary banking operations:* TRY 123.500 Amount of General Provision for possible risks is reversed and transferred to adjustment for prior period expenses.

As of 21 June 2016, the acquisition of Visa Europe Ltd. by Visa Inc. has been completed. In acquisition, the Bank has sold its one share in Visa Europe Ltd. with a nominal of EUR 10.00 for a consideration of EUR 22.854.086,82 in cash and 8.299 in "C Type Visa Inc." shares. The income generated from the sale share is recognized under the "Other Operating Income".

b) *Effects of changes in accounting estimates on the current and future periods' profit/loss:* There is no issue to be disclosed.

c) "Other" item under "Fees and Commissions Received" in the Income Statement are composed of fees and commissions received from credit card operations and various banking operations, mainly from capital market operations.

V. EXPLANATIONS AND NOTES RELATED TO THE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Explanations on inflation adjustments for equity items:

As per the BRSA circular announced on 28 April 2005, inflation accounting applied in the banking system has been ceased as of 1 January 2005 in accordance with the BRSA decree numbered 1623 and dated 21 April 2005. According to this circular, TRY 1.220.451 of inflation adjustment related to paid in capital was transferred to the "Other Capital Reserves" account, which was recognized in "Paid-in Capital Inflation Adjustment" account before 31 December 2005. However, inflation adjustments related to other equity items are presented under the related equity item.

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VI. EXPLANATIONS AND NOTES RELATED TO THE CASH FLOW STATEMENT

(1) Disclosures for the “other” and “the effect of foreign exchange differences on cash and cash equivalents” items of cash flow statement:

The “net increase/(decrease) in other liabilities” under the changes in operating assets and liabilities is resulted from the changes in the funds obtained through repurchase agreements, miscellaneous payables, other external funding payables and taxes, duties and premiums payables and amounts to TRY 10.563.369 increase for the year 2016. The “others” item under operating income composes of fees and commissions paid, foreign exchange gains, other operating income and other operating expenses excluding employee costs, and amounts to TRY 5.256.034 decrease for the year 2016.

For the year ended 31 December 2016, the effect of change in foreign exchange rate on cash and cash equivalents is TRY 1.403.627 increase (31 December 2015: TRY 761.160 increase). The average exchange rate of last five weekday has been taken in consideration as of the balance sheet date when calculating the change in the exchange rate.

(2) Items of cash and cash equivalents, accounting policies used in the determination of those items: Cash in TRY and cash in foreign currency, Central Bank and bank deposits having maturity less than three months are defined as cash and cash equivalents.

(3) The effect of any change in accounting policies: None.

(4) Period beginning cash and cash equivalents balance:

	Current period	Prior period
Cash	23.324.971	20.276.104
<i>Cash in TRY and foreign currency</i>	1.210.055	974.390
<i>Central Bank and others⁽¹⁾</i>	22.114.916	19.301.714
Cash equivalents	2.513.285	1.265.660
<i>Demand and Time Deposits Up to 3 Months</i>	2.513.285	1.265.660
<i>Money Market Placements</i>	-	-
Total cash and cash equivalents	25.838.256	21.541.764
Reserve deposits in Central Bank of Turkey	(16.942.148)	(14.549.790)
Accruals on reserve deposits in Central Bank of Turkey	(21.203)	(1.606)
Rediscount from the money market	(290)	(1.124)
Accruals on banks	8.874.615	6.989.244

⁽¹⁾ Others items include cheques received.

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(5) Period ending cash and cash equivalents balance:

	Current Period	Prior Period
Cash	29.999.160	23.324.971
Cash in TRY and foreign currency	1.476.798	1.210.055
Central Bank and others ⁽¹⁾	28.522.362	22.114.916
Cash Equivalents	1.644.687	2.513.285
Demand and Time Deposits Up to 3 Months	1.644.687	2.513.285
Money Market Placements	-	-
Cash and Banks	31.643.847	25.838.256
Reserve deposits in Central Bank of Turkey	(17.217.278)	(16.942.148)
Accruals on reserve deposits in Central Bank of Turkey	(36.875)	(21.203)
Accruals on banks	(901)	(290)
Total Cash and Cash Equivalents	14.388.793	8.874.615

⁽¹⁾ Others items include cheques received.

VII. EXPLANATION RELATED TO THE RISK GROUP OF THE BANK

(1) Volume of the Bank's transactions with its risk group and outstanding loan and deposit balances as of the period-end, period income and expenses from the risk group:

a) Current period:

Risk group	Subsidiaries, associates and jointly controlled entities (joint ventures)		Direct or indirect shareholders of the Bank		Other real and legal persons in the risk group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables						
Beginning balance	1.040.418	198.346	-	-	-	-
Closing balance	1.078.414	219.823	-	-	-	-
Interest and commissions income	61.477	765	-	-	-	-

b) Prior period:

Risk group	Subsidiaries, associates and jointly controlled entities (joint ventures)		Direct or indirect shareholders of the Bank		Other real and legal persons in the risk group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables						
Beginning balance	675.395	309.393	-	-	-	-
Closing balance	1.040.418	198.346	-	-	-	-
Interest and commissions income	41.746	1.212	-	-	-	-

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c) Deposits held by the Bank's risk group:

Risk group	Subsidiaries, associates and jointly controlled entities (joint ventures)		Direct or indirect shareholders of the Bank		Other real and legal persons in the risk group	
	Current period	Prior period	Current period	Prior period	Current period	Prior period
Deposits						
Beginning balance	1.019.114	803.623	-	-	-	-
Closing Balance	1.733.533	1.019.114	-	-	-	-
Interest expense on deposits	149.272	83.105	-	-	-	-

d) Forward and option contracts and similar transactions with the Bank's risk group:

Risk group	Subsidiaries, associates and jointly controlled entities (joint ventures)		Direct or indirect shareholders of the Bank		Other real and legal persons in the risk group	
	Current period	Prior period	Current period	Prior period	Current period	Prior period
Financial Assets At Fv Through Profit And Loss						
Beginning balance	20.615	430	-	-	-	-
Closing Balance	-	20.615	-	-	-	-
Total Profit/Loss	-	-	-	-	-	-

(2) Disclosures for risk group:

a) The relations of the Bank with the entities controlled by the Bank and its related parties, regardless of whether there are any transactions or not:

In the normal course of its banking activities, the Bank conducted various business transactions with related parties at commercial terms and at rates which approximate market rates.

Bank's branches may operate as insurance agencies of Halk Sigorta AŞ and Halk Hayat ve Emeklilik AŞ. Also, the Bank mediates activities of Halk Yatırım Menkul Değerler AŞ within the scope of "Mediation to order Transmission" contract. Besides, Halk Portföy Yönetimi AŞ is engaging in fund management of Bank's funds.

b) Besides the structure of relationship, nature of the transaction, amount and ratio to the total volume of transactions, amount of major items and ratio to all items, pricing policies and other factors:

	Amount	% compared to the amounts in the financial statements
Cash loans	1.078.414	0,70%
Non-cash loans	219.823	0,46%
Deposits	1.733.533	1,16%
Forward and option contracts	-	-
Banks and financial institutions	-	-

Pricing of these transactions are in accordance with the general pricing policies of the Bank and are in line with market rates.

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NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

c) In cases whereby separate disclosure is not necessary, the total of similar items in order to present the total impact on the financial statements:

Explained in b).

d) Transactions accounted under the equity method:

None.

(3) Benefits given to the key management personnel:

Benefits given to the key management personnel are TRY 8.790 as of 31 December 2016 (31 December 2015: TRY 11.158).

VIII. EXPLANATIONS ON THE BANK'S DOMESTIC BRANCHES, AGENCIES/BRANCHES ABROAD AND OFF-SHORE BRANCHES

(1) Explanations on the Bank's domestic branches, agencies/branches abroad and off-shore branches

	Quantity	Number of employees	Country	Total Asstes	Capital Legal
Domestic Branches	959	16.900			
Agencies Abroad	3	4	Teheran/IRAN		
			Singapore/SINGAPORE		
			London/ENGLAND		
Overseas Branches	4	21	Nicosia/TRNC	647.118	-
		10	Gazimagosa/TRNC	80.498	-
		9	Kyrenia/TRNC	63.131	-
		2	Pasakoy/TRNC	163	-
Off-shore Branches	1	3	Manama/BAHREYN	11.169.301	-

(2) Explanations on branch and agency openings or closings of the Bank:

The Bank opened 15 domestic branches during the year 2016.

IX. EXPLANATIONS RELATED TO THE SUBSEQUENT EVENTS

The Bank which belonged to the Turkish Privatization Administration is decided to be transferred to the Turkish Wealth Fund with its paid-in capital of 51,11% and the share of TRY 638.825 after necessary authorization and being taken out from the scope and programme of the Administration by The Privatization High Council.

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

SECTION VI: OTHER EXPLANATIONS AND NOTES

I. OTHER EXPLANATIONS ON THE BANK'S OPERATIONS

None.

SECTION VII: INDEPENDENT AUDITORS' REPORT

I. EXPLANATIONS ON THE INDEPENDENT AUDITORS' REPORT

The unconsolidated financial statements as of and for the year ended 31 December 2016 were audited by Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ (the Turkish member firm of KPMG International Cooperative, a Swiss entity) and Independent Auditors' Report dated 13 February 2017 is presented in the introduction of this report.

II. EXPLANATIONS AND NOTES PREPARED BY THE INDEPENDENT AUDITORS

None.

Türkiye Halk Bankası Anonim Şirketi

Consolidated Financial Statements As of and For the
Year Ended 31 December 2016 With Independent
Auditors' Report Thereon

(Convenience Translation of Consolidated Financial Statements and Related Disclosures and Footnotes Originally Issued in Turkish)



Akis Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
Kavacık Rüzgarlı Bahçe Mah. Kavak Sok.
No:29 Beykoz 34805 İstanbul
Tel +90 (216) 681 90 00
Fax +90 (216) 681 90 90
www.kpmg.com.tr

**Convenience Translation of the Independent Auditors' Report
Originally Prepared and Issued in Turkish (See Note I in Section Three)**

To the Board of Directors of Türkiye Halk Bankası AŞ;

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Türkiye Halk Bankası Anonim Şirketi ("the Bank") and its consolidated financial subsidiaries (together "the Group") which comprise the consolidated statement of financial position as at 31 December 2016 and the consolidated statement of income, consolidated statement of income and expense items accounted under shareholders' equity, consolidated statement of changes in shareholders' equity, consolidated statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion the consolidated financial statements present fairly, in all material respects, the financial position of Türkiye Halk Bankası AŞ and its financial subsidiaries as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with BRSA Accounting and Reporting Legislation

Report on Other Legal and Regulatory Requirements

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

Pursuant to the fourth paragraph of Article 402 of the TCC; the Board of Directors provided us the necessary explanations and required documents in connection with the audit.

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of KPMG International Cooperative

Alper Güvenç, SMMM
Partner
13 February 2017
İstanbul, Türkiye

Additional paragraph for convenience translation to English:

The accounting principles summarized in Note I Section Three, differ from the accounting principles generally accepted in countries in which the accompanying unconsolidated financial statements are to be distributed and International Financial Reporting Standards ("IFRS"). Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with accounting principles generally accepted in such countries of users of the consolidated financial statements and IFRS.

TÜRKİYE HALK BANKASI AŞ
THE CONSOLIDATED FINANCIAL REPORT
AS OF AND FOR THE YEAR ENDED 31 DECEMBER 2016

1. The Bank's Headquarter Address:
Barbaros Mahallesi Şebboy Sokak No:4 Ataşehir/İstanbul
2. The Bank's Contact Phone and Facsimile:
Phone : 0216 503 70 70
Facsimile : 0212 340 93 99
3. The Bank's Website: www.halkbank.com.tr
E-mail: halkbank.ir@halkbank.com.tr

The consolidated year ended financial report designed by the Banking Regulation and Supervision Agency in line with Communiqué on Financial Statements to be Publicly Announced and the Accompanying Policies and Disclosures consists of the sections listed below:

- Section One : GENERAL INFORMATION ABOUT THE PARENT BANK
- Section Two : CONSOLIDATED FINANCIAL STATEMENTS
- Section Three : EXPLANATIONS ON ACCOUNTING POLICIES OF THE GROUP
- Section Four : INFORMATION ON FINANCIAL STRUCTURE AND RISK MANAGEMENT OF THE GROUP
- Section Five : EXPLANATIONS AND NOTES TO THE CONSOLIDATED STATEMENTS OF THE PARENT BANK
- Section Six : OTHER EXPLANATIONS AND NOTES
- Section Seven : INDEPENDENT AUDITORS' REPORT

Subsidiaries, associates, and joint ventures which are consolidated within this financial report are as below:

Subsidiaries	Associates
1. Halk Yatırım Menkul Değerler AŞ	1. Demir-Halkbank NV
2. Halk Sigorta AŞ	2. Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ
3. Halk Hayat ve Emeklilik AŞ	3. Türk P ve I Sigorta AŞ
4. Halk Gayrimenkul Yatırım Ortaklığı AŞ	
5. Halk Finansal Kiralama AŞ	
6. Halk Portföy Yönetimi AŞ	
7. Halk Faktoring AŞ	
8. Halk Banka AD, Skopje	
9. Halkbank AD, Beograd	

Unless otherwise indicated, these consolidated financial statements and explanatory footnotes and disclosures as of and for the year ended 31 December 2016 are prepared in thousand Turkish Lira and they have been independently audited and presented below in accordance with the Communiqué on Banks' Accounting Practice and Maintaining Documents, Banking Regulation and Supervision Agency regulations, Turkish Accounting Standards, Turkish Financial Reporting Standards and related communiqués and interpretations including the Banks' records.

İstanbul, 13 February 2017

R. Süleyman Özdiil
Chairman of the Board
of Directors

Sadık Tiltak
Vice Chairman of the Board
of Directors, Chairman of the
Audit Committee

Yahya Bayraktar
Member of the Board of
Directors, Member of the
Audit Committee

**Ali Fuat
Taşkesenlioğlu**
Member of the Board of
Directors,
Chief Executive Officer

Mustafa Aydın
Financial Management and
Planning Vice Chief
Executive Officer

Yusuf Duran Ocak
Financial Accounting and
Reporting Department Head

For any questions regarding this financial report, contact details of the personnel in charge is given below:

Name/Title : Turgay AYIK / Director
Tel/Fax No : 0216 503 52 14 / 0212 340 09 90

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TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

SECTION I: GENERAL INFORMATION ABOUT THE PARENT BANK

I. ESTABLISHMENT DATE OF THE PARENT BANK, INITIAL ARTICLES OF ASSOCIATION, HISTORY OF THE PARENT BANK INCLUDING THE CHANGES OF THESE ARTICLES

Türkiye Halk Bankası Anonim Şirketi (the “Parent Bank” or “Halkbank”) was established in Turkey in accordance with the law no: 2284 in 1933 and began its operations in 1938 and still continues its activities as a public commercial bank.

II. CAPITAL STRUCTURE OF THE PARENT BANK, SHAREHOLDERS THAT RETAIN DIRECT OR INDIRECT CONTROL AND MANAGEMENT OF THE PARENT BANK SOLELY OR TOGETHER, CHANGES ABOUT THESE ISSUES DURING THE YEAR AND DISCLOSURES ABOUT THE GROUP

The capital of the Parent Bank is controlled directly by the Republic of Turkey Prime Ministry Privatization Administration.

As of 31 December 2016 the shareholders' structure and their respective ownerships are summarized as follows:

Shareholders	31 December 2016	%	31 December 2015	%
Prime Ministry Privatization Administration ^(1,2)	638.276	51,06	638.276	51,06
Public shares ⁽²⁾	611.639	48,93	611.640	48,93
Other shareholders ⁽³⁾	85	0,01	84	0,01
Total	1.250.000	100,00	1.250.000	100,00

⁽¹⁾ As per the decree of the Higher Council of Privatization numbered 2007/8 and dated 5 February 2007; 25% of the public shares that were previously held by the Privatization Administration were privatized by a public offering and the Parent Bank's shares were registered to Capital Market Board records by decision number 16/471 dated 26 April 2007. The shares were traded on the Borsa İstanbul AS as of 10 May 2007. As per the decree of the Higher Council of Privatization numbered 2012/150 and dated 4 October 2012; 23,92% of the public shares that were previously held by the Privatization Administration were privatized by a second public offering and privatization was completed on 21 November 2012.

The Bank which belonged to the Turkish Privatization Administration is decided to be transferred to the Turkish Wealth Fund with its paid-in capital of 51,11% and the share of TRY 638.826 after necessary authorization and being taken out from the scope and programme of the Administration by The Privatization High Council

⁽²⁾ The shares of the Prime Ministry Privatization Administration amounting TRY 550 have been included in Public shares. With that shares, the total shares amounting TRY 638.826 that held by the Privatization Administration is the 51,11% of the total shares.

⁽³⁾ TRY 83 of the shares which are among the “Other Shareholders” group belong to our shareholders whose shares do not trade on the Exchange (though these shareholders have been dematerialized them in their own accounts) while TRY 2 of which belong to our shareholders whose shares are monitored under the DESA in the presence of MKK due to the ongoing legal action.

According to Turkish Commercial Code, 3rd Sub-article added to Article 2 of the Law No: 6327 and 4603 dated 13 June 2012, The Privatization High Council public shares of the Parent Bank are controlled and represented by the Parent Bank's Minister until the sales completion of these shares.

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

III. EXPLANATIONS REGARDING THE PARENT BANK'S CHAIRMAN AND MEMBERS OF THE BOARD OF DIRECTORS, AUDIT COMMITTEE MEMBERS, CHIEF EXECUTIVE OFFICER AND EXECUTIVE VICE PRESIDENTS AND THEIR SHARES ATTRIBUTABLE TO THE PARENT BANK, IF ANY⁽¹⁾

Name	Title
R. Süleyman ÖZDİL	Chairman of the Board of Directors
Sadık TILTAK	Vice Chairman of the Board of Directors/Independent Member of the Board of Director/ Chairman of the Audit Committee
Ali Fuat TAŞKESENLIOĞLU	Member of the Board of Directors, Chief Executive Officer
Yunus KARAN	Independent Member of the Board of Directors
Cenap AŞÇI	Member of the Board of Directors
Mehmet AYTEKİN	Member of the Board of Directors
Ömer AÇIKGÖZ	Member of the Board of Directors
Yahya BAYRAKTAR	Member of the Audit Committee, Independent Member of the Board of Directors
Faruk ÖZÇELİK	Member of the Audit Committee
Zekeriya KAYA	Member of the Audit Committee
Selahattin SÜLEYMANOĞLU	Executive Vice President, Banking Operations, Treasury Management (on commission)
Mehmet Akif AYDEMİR	Executive Vice President, Loan Allocation and Management
Mehmet Hakan ATILLA	Executive Vice President, International Banking
Erdal ERDEM	Executive Vice President, Artisans and SME Banking, Human Resources and Organization (on commission)
Salim KÖSE	Executive Vice President, Legal Affairs and Proceedings
Ömer Faruk ŞENEL	Executive Vice President, Deposit Management (on commission)
Murat OKTAY	Executive Vice President, Corporate and Commercial Marketing
Mehmet Sebahattin BULUT	Executive Vice President, Loan Policies and Risk Monitoring
Hasan ÜNAL	Executive Vice President, Retail Banking
Mustafa AYDIN	Executive Vice President, Financial Management and Planning, Information Systems and Technical Services (on commission)

⁽¹⁾ People mentioned above do not own any shares in the Bank's capital.

a) The professionals to the Parent Bank's top management who have assigned to their position in 2016 are listed with titles and dates of assignment.

Name	Title	Assignment Date
Cenap AŞÇI	Member of the Board of Directors	31 March 2016
Mehmet Ali GÖKÇE	Member of the Board of Directors	31 March 2016
Mehmet AYTEKİN	Member of the Board of Directors	31 March 2016
Doç.Dr.Ömer AÇIKGÖZ	Member of the Board of Directors	31 March 2016
Yahya BAYRAKTAR	Member of the Board of Directors	31 March 2016
Zekeriya KAYA	Member of the Audit Committee	31 March 2016

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

b) The professionals from the Parent Bank's top management who have left their position in 2016 are listed with titles and dates of leaving.

Name	Title	Unassignment Date
Süleyman KALKAN	Vice Chairman of the Board of Directors/ Independent Member of the Board of Director	31 March 2016
İsmail Erol İŞBİLEN	Independent Member of the Board of Director	31 March 2016
Emin Süha ÇAYKÖYLÜ	Member of the Board of Directors	31 March 2016
Dr.Nurzahit KESKİN	Member of the Board of Directors	31 March 2016
Dr.Ahmet YARIZ	Member of the Board of Directors	31 March 2016
Mehmet Ali GÖKÇE	Member of the Board of Directors	23 January 2017
Ali ARSLAN	Member of the Audit Committee	31 March 2016
Murat UYSAL	Executive Vice President	9 June 2016
Erol GÖNCÜ	Executive Vice President	12 August 2016

IV. INFORMATION ABOUT THE PERSONS AND INSTITUTIONS THAT HAVE QUALIFIED SHARES ATTRIBUTABLE TO THE PARENT BANK

Except for the Prime Ministry Privatization Administration, no person or institute has any qualified shares attributable to the Parent Bank.

V. SUMMARY ON THE PARENT BANK'S FUNCTIONS AND LINES OF ACTIVITY

a) General information about the Parent Bank:

Türkiye Halk Bankası Anonim Şirketi was established in Turkey in accordance with the Law No: 2284 in 1933 and began its operations in 1938 and still continues its activities as a public commercial bank.

b) Law numbered 4603 regarding the "Law on Türkiye Cumhuriyeti Ziraat Bankası, Türkiye Halk Bankası Anonim Şirketi and Türkiye Emlak Bankası Anonim Şirketi", was prepared within the framework of the macro-economic program for the period 2000-2002. The purpose of the law is to modernize the operations of the banks to arrive at a point where the requirements of the international norms and international competition can both be reached and it also aims to sell the majority of the banks' shares to individuals or legal entities in the private sector. The Parent Bank revised its charter of establishment, elected a new board of directors and increased its nominal capital from TRY 250.000 to TRY 1.250.000 in the extraordinary general assembly held on 14 April 2001. Within the scope of the restructuring process, the Parent Bank received government bonds in settlement of the accumulated specific duty losses and the Parent Bank's whole specific duty loss receivable was thus eliminated as at 30 April 2001. In addition, a significant number of personnel were encouraged to sign new contracts and transferred to other government institutions.

c) According to Article 2.2 of Law No: 4603, subsequent to the completion of the restructuring procedures, the procedures involved in sale of the shares of the Parent Bank were to be concluded under the provisions of Law No: 4046 based on the "Regulation of Privatization Applications and Amendment of Some Laws and Decrees with the Force of Law". The procedures relating to restructuring and sale of the shares were to be completed within three years (until 25 November 2003) as of the effective date of the related law. However, by Law No: 5230 dated 31 July 2004, the term " 3 years" in Article 2.2 of Law numbered 4603 was previously amended to "5 years" and subsequently by Law No: 5572 dated 10 January 2007 the related term was amended to "10 years". As a result of this amendment, the privatization period of the Parent Bank was extended. The Council of Ministers has the authority to extend this period by the half of that period for one time only. The Council of Ministers extended by the half of that "10 years" period by the Decree numbered 2010/964 and dated 6 November 2010.

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

c.1 When the related Decree numbered 2006/69 and dated 11 August 2006 was in force, the Privatization High Council public shares were transferred to the Privatization Administration and 99.9% of the Parent Bank shares were decided to be sold before 25 May 2008 using the block sale method. By the Privatization High Council's decree numbered 2006/4258 and dated 29 November 2006, 13th Department of Council of State decided to cease the execution of the Decree numbered 2006/69 dated 11 August 2006. Thereupon, legal regulation numbered 5572 was executed and as per the decree of the Higher Council of Privatization numbered 2007/8 and dated 5 February 2007, up to 25% of the public shares that were previously transferred to the Privatization Administration on 11 August 2006, were decided to be privatized by a public offering and it was decided to be concluded by the end of 2007. The first phase of the privatization process of the Parent Bank corresponding to 24,98% was completed in the first week of May 2007 and Halkbank shares were traded on Borsa İstanbul AŞ as of 10 May 2007 with the base price of TRY full 8,00. As per the decree of the Higher Council of Privatization numbered 2012/150 and dated 4 October 2012; 23,92% of the public shares that were previously held by the Privatization Administration were privatized by a second public offering and privatization was completed on 21 November 2012.

d) Under No: 25539 Law regarding the "Act No: 5230 with regards to the transfer of Pamukbank Türk Anonim Şirketi to Türkiye Halk Bankası AŞ and amendments to other acts" which came into force as of 31 July 2004 with the publication of the Official Gazette, Pamukbank (whose shares, management, and control were previously inherited to the Saving Deposit Insurance Fund ("SDIF")) was transferred to the Parent Bank. Insolvent Pamukbank TAŞ was a private sector deposit bank established by Çukurova İthalat ve İhracat TAO, Karamehmetler Scrip Company and more than 500 shareholders. Pamukbank started its private banking operations as an incorporated company in accordance with the decision of the Council of Ministers numbered 4/4573 and dated 5 March 1955. According to the decision of the Banking Regulation and Supervision Agency numbered 742 published in the Official Gazette numbered 24790 and dated 19 June 2002 including 3rd and 4th Sub-articles in Article 14 of the Banking Law No: 4389, the shareholders rights excluding dividends, management and supervision of Pamukbank were transferred to the Saving Deposit Insurance Fund as of 18 June 2002.

e) **The Parent Bank's service activities and operating areas:** The Parent Bank's operating areas include, commercial financing and corporate banking, fund management operations, retail banking and credit card operations. As of 31 December 2016, the Bank operates with a total of 964 branches consisting of 959 domestic and 5 foreign branches that are 4 in Cyprus and 1 in Bahrain. Domestic Branches include 30 satellite branches. The Bank has also 3 representative office in England Iran and Singapore.

VI. EXPLANATION ABOUT COMPANIES WITHIN THE SCOPE OF CONSOLIDATION

The Parent Bank and its subsidiaries;

- Halk Yatırım Menkul Değerler AŞ
- Halk Sigorta AŞ
- Halk Hayat ve Emeklilik AŞ
- Halk Gayrimenkul Yatırım Ortaklığı AŞ
- Halk Finansal Kiralama AŞ
- Halk Portföy Yönetimi AŞ
- Halk Faktoring AŞ
- Halk Banka AD, Skopje
- Halkbank A.D. Beograd

are consolidated line by line in the accompanying consolidated financial statements.

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

The Parent Bank's associates;

- Demir-Halkbank NV
- Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ
- Türk P ve I Sigorta AŞ

is accounted by "equity method" in the accompanying consolidated financial statements.

Halk Gayrimenkul Yatırım Ortaklığı AŞ ("the Company"), a subsidiary of the Parent Bank established in 2010, was registered on 18 October 2010. The Company's main line of business is, to form and improve real estate portfolios and to invest in real estate based capital market instruments. The Company's main operative target is, based on the Capital Markets Board's ("CMB") regulation regarding the investment properties, to invest in capital market instruments based on real estates, real estate projects and rights based on real estates.

As at 15 February 2013 28% shares of Halk GYO has been offered to public. After the collecting the demand the Company's shares started to be traded on Borsa İstanbul AŞ at 22 February 2013.

Halk Finansal Kiralama A.Ş. was established in Turkey in September 1991 and its principal activity is to make financial leasing and continues its activities in accordance with the Law on 3226 Turkish Leasing.

Halk Bank A.D., Skopje, formerly Export and Credit Bank A.D. Skopje is a subsidiary of the Parent Bank as of 8 April 2011. Halk Bank A.D. continues its activities in Skopje Macedonia and the main activity of the related subsidiary is to collect deposits, to give credit, to carry out domestic and foreign retail banking activities.

Halk Portföy Yönetimi AŞ ("Halk Portföy"), a subsidiary of the Parent Bank established in 2011, was registered on 30 June 2011. Halk Portföy's main line of business is to provide portfolio and fund management services.

The main activity of Halk Faktoring AŞ. is to provide factoring service in a way that is not contrary to the legislation regarding lending business for all kinds of domestic and international commercial transactions.

Halkbank A.D. Beograd is a subsidiary of the Parent Bank as of 28 May 2015. The main activity of the related subsidiary is to collect deposits, to give credit, to carry out domestic and foreign retail banking activities.

Halk Sigorta AŞ ("Halk Sigorta") was founded in 1958 under the leadership of Halkbank as the first cooperative in Turkey to engage in a full array of insurance activities with the participation of the Artisans and Tradesmen Loan and Guarantee Cooperatives. The company's business name was changed to Halk Sigorta AŞ from Birlik Sigorta AŞ at the Extraordinary General Assembly Meeting held on 27 December 2010.

Halk Hayat ve Emeklilik AŞ ("Halk Emeklilik") was established in 1998 under the business name of Birlik Hayat Sigorta A.Ş. to operate in life and personal accident insurance, coinsurance, reinsurance and retrocession businesses for individuals both in Turkey and abroad. The company became a subsidiary in early 2006 when Halkbank acquired the shares held by Türkiye Halk Bankası Personnel Provident Fund.

Halk Yatırım Menkul Değerler AŞ ("Halk Yatırım"), was set up in 1997 to carry out capital markets activities, to purchase and sell capital markets instruments, and to execute stock exchange transactions. The company became a subsidiary in early 2006 when Halkbank bought the shares of Türkiye Halk Bankası Personnel Provident Fund. For the purposes of the consolidated financial statements, the Parent Bank and its consolidated subsidiaries are referred to as "the Group".

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

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

Due to differences between the Communiqué on Preparation of Consolidated Financial Statements of Banks and Turkish Account Standards (TAS), the non-financial subsidiary, Bileşim Alternatif Dağ. Kan. AŞ, is not accounted in the consolidated financial statements. In the financial statements prepared in accordance with International Financial Reporting Standards, Bileşim Alternatif Dağ. Kan. AŞ is included in the scope of consolidation by-line by-line method.

The Parent Bank's subsidiaries Halk Sigorta AŞ, Halk Hayat Emeklilik AŞ, Halk Yatırım Menkul Değerler AŞ, Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halk Finansal Kiralama AŞ, Halk Portföy Yönetimi AŞ, Halk Banka AD, Skopje, Halk Faktoring AŞ and Halkbank A.D. Beograd are included in the scope of consolidation by line-by-line method.

Demir-Halkbank NV ("Demir Halk Bank"), Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ and Türk P ve I Sigorta AŞ which are qualified as investments in associates, are presented in the financial statements based on equity method of accounting. An associate is a partnership in whose capital the Parent Bank participates and over which it has no significant influence and control, established at home and abroad.

There is no partnership share on banks and financial institutions, with shareholding of more than 10% and deducted from capital.

Kredi Kayıt Bürosu AŞ and Bankalararası Kart Merkezi AŞ are not consolidated in the financial statements because the other banks' shares are equal and thus, the Bank has no control.

VIII. THE EXISTING OR POTENTIAL, ACTUAL OR LEGAL OBSTACLES ON THE TRANSFER OF SHAREHOLDER'S EQUITY BETWEEN THE PARENT BANK AND ITS SUBSIDIARIES OR THE REIMBURSEMENT OF LIABILITIES

Immediately transfer of the shareholder's equity between the Parent Bank and its subsidiaries is not in question. Dividend distribution from shareholders equity is done according to related regulations.

There is no existing or potential, actual or legal obstacle to the reimbursement of liabilities between the Parent Bank and its subsidiaries. The Parent Bank charge or pay cost of the services according to the service agreements done between the Parent Bank and its subsidiaries.

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

SECTION II: CONSOLIDATED FINANCIAL STATEMENTS

- I. Consolidated Balance Sheet (Consolidated Statement of Financial Position)
- II. Consolidated Statement of Off-Balance Sheet Items
- III. Consolidated Statement of Income
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TÜRKİYE HALK BANKASI A.Ş.

CONSOLIDATED BALANCE SHEET

AS OF 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

I. CONSOLIDATED BALANCE SHEET (CONSOLIDATED STATEMENT OF FINANCIAL POSITION)

ASSETS	Note	Audited Current period 31 December 2016			Audited Prior period 31 December 2015		
		TRY	FC	Total	TRY	FC	Total
I. CASH AND BALANCES WITH THE CENTRAL BANK	(1)	3.534.389	26.677.577	30.211.966	4.339.419	19.161.120	23.500.539
II. FINANCIAL ASSETS AT FV THROUGH PROFIT AND LOSS (Net)	(2)	88.251	360.675	448.926	52.405	287.102	339.507
2.1 Trading financial assets		88.251	360.675	448.926	52.405	287.102	339.507
2.1.1 Public sector debt securities		65.538	-	65.538	28.526	33.146	61.672
2.1.2 Share certificates		2.413	682	3.095	3.318	-	3.318
2.1.3 Financial assets held for trading		4	359.807	359.811	7	253.097	253.104
2.1.4 Other marketable securities		20.296	186	20.482	20.554	859	21.413
2.2 Financial assets at fair value through profit and loss		-	-	-	-	-	-
2.2.1 Public sector debt securities		-	-	-	-	-	-
2.2.2 Share certificates		-	-	-	-	-	-
2.2.3 Loans		-	-	-	-	-	-
2.2.4 Other marketable securities		-	-	-	-	-	-
III. BANKS	(3)	362.526	1.602.324	1.964.850	77.100	2.540.551	2.617.651
IV. MONEY MARKET PLACEMENTS		1.072.397	-	1.072.397	20.773	33.101	53.874
4.1 Interbank money market placements		-	-	-	-	-	-
4.2 Istanbul Stock Exchange Money Market placements		1.067.712	-	1.067.712	19.940	-	19.940
4.3 Receivables from reverse repurchase agreements		4.685	-	4.685	833	33.101	33.934
V. FINANCIAL ASSETS AVAILABLE FOR SALE (Net)	(4)	10.915.994	4.565.225	15.481.219	7.478.138	4.057.005	11.535.143
5.1 Share certificates		23.682	36.149	59.831	22.042	94.891	116.933
5.2 Public sector debt securities		10.890.372	4.529.076	15.419.448	7.442.852	3.947.367	11.390.219
5.3 Other marketable securities		1.940	-	1.940	13.244	14.747	27.991
VI. LOANS AND RECEIVABLES	(5)	103.252.263	56.070.896	159.323.159	86.889.420	40.330.131	127.219.551
6.1 Loans and receivables		102.076.226	55.981.809	158.058.035	85.943.567	40.259.165	126.202.732
6.1.1 Loans extended to risk group of the Bank		-	-	-	-	-	-
6.1.2 Public sector debt securities		-	-	-	-	-	-
6.1.3 Other		102.076.226	55.981.809	158.058.035	85.943.567	40.259.165	126.202.732
6.2 Loans under follow-up		5.140.082	180.430	5.320.512	3.973.738	215.798	4.189.536
6.3 Specific provisions (-)		3.964.045	91.343	4.055.388	3.027.885	144.832	3.172.717
VII. FACTORING RECEIVABLES		849.637	284.891	1.134.528	417.013	69.872	486.885
VIII. HELD TO MATURITY INVESTMENTS (Net)	(6)	15.875.022	2.469.604	18.344.626	14.791.048	2.113.829	16.904.877
8.1 Public sector debt securities		15.841.619	2.469.604	18.311.223	14.773.619	2.113.829	16.887.448
8.2 Other marketable securities		33.403	-	33.403	17.429	-	17.429
IX. INVESTMENTS IN ASSOCIATES (Net)	(7)	22.393	270.028	292.421	21.994	242.037	264.031
9.1 Accounted under equity method		16.073	270.028	286.101	15.674	242.037	257.711
9.2 Unconsolidated associates		6.320	-	6.320	6.320	-	6.320
9.2.1 Financial investments		-	-	-	-	-	-
9.2.2 Non-financial investments		6.320	-	6.320	6.320	-	6.320
X. INVESTMENTS IN SUBSIDIARIES (Net)	(8)	41.243	-	41.243	38.029	-	38.029
10.1 Unconsolidated financial subsidiaries		-	-	-	-	-	-
10.2 Unconsolidated non-financial subsidiaries		41.243	-	41.243	38.029	-	38.029
XI. JOINT VENTURES (Net)	(9)	-	-	-	-	-	-
11.1 Accounted under equity method		-	-	-	-	-	-
11.2 Unconsolidated joint ventures		-	-	-	-	-	-
11.2.1 Financial joint ventures		-	-	-	-	-	-
11.2.2 Non-financial joint ventures		-	-	-	-	-	-
XII. FINANCE LEASE RECEIVABLES (Net)	(10)	365.336	1.945.994	2.311.330	386.640	1.818.112	2.204.752
12.1 Finance lease receivables		459.604	2.258.623	2.718.227	497.208	2.054.352	2.551.560
12.2 Operating lease receivables		-	-	-	-	-	-
12.3 Other		-	-	-	-	-	-
12.4 Unearned income (-)		94.268	312.629	406.897	110.568	236.240	346.808
XIII. DERIVATIVE FIN. ASSETS HELD FOR RISK MANAGEMENT	(11)	-	-	-	-	-	-
13.1 Fair value risk hedging		-	-	-	-	-	-
13.2 Cash flow risk hedging		-	-	-	-	-	-
13.3 Net foreign investment risk hedging		-	-	-	-	-	-
XIV. TANGIBLE ASSETS (Net)	(12)	3.192.451	74.533	3.266.984	3.086.621	57.746	3.144.367
XV. INTANGIBLE ASSETS (Net)	(13)	95.056	20.173	115.229	84.548	17.766	102.314
15.1 Goodwill		-	-	-	-	-	-
15.2 Other		95.056	20.173	115.229	84.548	17.766	102.314
XVI. INVESTMENT PROPERTIES (Net)	(14)	860.521	3.595	864.116	482.284	3.310	485.594
XVII. TAX ASSET	(15)	97.750	1.775	99.525	48.174	2.746	50.920
17.1 Current tax asset		-	-	-	-	1.217	1.217
17.2 Deferred tax asset		97.750	1.775	99.525	48.174	1.529	49.703
XVIII. ASSETS HELD FOR SALE AND HELD FROM DISCONTINUED OPERATIONS (Net)	(16)	1.537	-	1.537	2.694	-	2.694
18.1 Held for sale purpose		1.537	-	1.537	2.694	-	2.694
18.2 Held from discontinued operations		-	-	-	-	-	-
XIX. OTHER ASSETS	(17)	2.203.011	549.200	2.752.211	1.816.201	234.561	2.050.762
TOTAL ASSETS		142.829.777	94.896.490	237.726.267	120.032.501	70.968.989	191.001.490

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

TÜRKİYE HALK BANKASI A.Ş.

CONSOLIDATED BALANCE SHEET

AS OF 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

I. CONSOLIDATED BALANCE SHEET (CONSOLIDATED STATEMENT OF FINANCIAL POSITION)

	Note	Audited Current period 31 December 2016			Audited Prior period 31 December 2015		
		TRY	FC	Total	TRY	FC	Total
LIABILITIES AND SHAREHOLDERS' EQUITY							
I. DEPOSITS	(1)	86.549.173	63.849.704	150.398.877	78.808.341	43.696.043	122.504.384
1.1 Deposits Held by the Risk Group of the Bank		8.771	-	8.771	5.823	-	5.823
1.2 Other		86.540.402	63.849.704	150.390.106	78.802.518	43.696.043	122.498.561
II. DERIVATIVE FINANCIAL LIABILITIES HELD FOR TRADING	(2)	59	224.534	224.593	1.434	174.239	175.673
III. FUNDS BORROWED	(3)	1.171.764	20.417.347	21.589.111	1.314.519	20.829.218	22.143.737
IV. MONEY MARKET BALANCES	(3)	17.648.265	1.373.871	19.022.136	7.727.458	728.499	8.455.957
4.1 Interbank money market borrowings		7.003.306	-	7.003.306	100.030	-	100.030
4.2 Istanbul Stock Exchange Takasbank borrowings		1.174.218	-	1.174.218	19.965	-	19.965
4.3 Funds from repurchase agreements		9.470.741	1.373.871	10.844.612	7.607.463	728.499	8.335.962
V. MARKETABLE SECURITIES ISSUED (Net)	(4)	2.067.703	10.684.708	12.752.411	1.500.713	7.339.847	8.840.560
5.1 Treasury bills		2.067.703	-	2.067.703	1.500.713	-	1.500.713
5.2 Asset-backed securities		-	-	-	-	-	-
5.3 Bonds		-	10.684.708	10.684.708	-	7.339.847	7.339.847
VI. FUNDS	(5)	2.339.808	-	2.339.808	1.963.699	-	1.963.699
6.1 Borrower Funds		36.600	-	36.600	27.850	-	27.850
6.2 Other		2.303.208	-	2.303.208	1.935.849	-	1.935.849
VII. SUNDRY CREDITORS		2.743.078	123.544	2.866.622	2.196.538	202.206	2.398.744
VIII. OTHER LIABILITIES	(6)	1.503.590	439.963	1.943.553	1.332.951	361.001	1.693.952
IX. FACTORING PAYABLES		383	205	588	11	213	224
X. FINANCE LEASE PAYABLES	(7)	-	-	-	-	-	-
10.1 Finance lease payables		-	-	-	-	-	-
10.2 Operating lease payables		-	-	-	-	-	-
10.3 Other		-	-	-	-	-	-
10.4 Deferred finance lease expenses (-)		-	-	-	-	-	-
XI. DERIVATIVE FINANCIAL LIABILITIES HELD FOR RISK MANAGEMENT	(8)	-	-	-	-	-	-
11.1 Fair value risk hedgin		-	-	-	-	-	-
11.2 Cash flow risk hedging		-	-	-	-	-	-
11.3 Net foreign investment risk hedging		-	-	-	-	-	-
XII. PROVISIONS	(9)	4.485.747	87.352	4.573.099	3.079.547	81.930	3.161.477
12.1 General loan provisions		2.027.964	21.172	2.049.136	1.123.838	15.452	1.139.290
12.2 Restructuring provisions		-	-	-	-	-	-
12.3 Employee benefits provisions		728.172	3.287	731.459	682.369	4.785	687.154
12.4 Insurance technical reserves (Net)		1.400.148	-	1.400.148	932.665	-	932.665
12.5 Other provisions		329.463	62.893	392.356	340.675	61.693	402.368
XIII. TAX LIABILITY	(10)	639.422	6.527	645.949	447.106	2.159	449.265
13.1 Current tax liability		352.600	4.375	356.975	376.691	7	376.698
13.2 Deferred tax liability		286.822	2.152	288.974	70.415	2.152	72.567
XIV. LIABILITIES FOR ASSET HELD FOR SALE AND HELD FROM DISCONTINUED OPERATIONS (Net)	(11)	-	-	-	-	-	-
14.1 Held for sale purpose		-	-	-	-	-	-
14.2 Held from discontinued operations		-	-	-	-	-	-
XV. SUBORDINATED CAPITAL	(12)	-	-	-	-	47.144	47.144
XVI. SHAREHOLDERS' EQUITY	(13)	21.541.471	(171.951)	21.369.520	19.092.405	74.269	19.166.674
16.1 Paid-in capital		1.250.000	-	1.250.000	1.250.000	-	1.250.000
16.2 Capital reserves		2.959.599	(427.355)	2.532.244	2.816.256	(181.021)	2.635.235
16.2.1 Share Premium		39.737	-	39.737	39.488	-	39.488
16.2.2 Share cancellation profits		-	-	-	-	-	-
16.2.3 Marketable securities revaluation fund		(291.223)	(427.705)	(718.928)	(104.104)	(181.027)	(285.131)
16.2.4 Tangible assets revaluation reserves		2.106.979	299	2.107.278	1.672.931	-	1.672.931
16.2.5 Intangible assets revaluation reserves		-	-	-	-	-	-
16.2.6 Revaluation reserves of real estate for investment purpose		-	-	-	-	-	-
16.2.7 Bonus shares of subsidiaries, associates and joint ventures		4.723	-	4.723	3.973	-	3.973
16.2.8 Hedging Funds (effective portion)		-	-	-	-	-	-
16.2.9 Value Increase on Assets Held for Sale		-	-	-	-	-	-
16.2.10 Other capital reserves		1.099.383	51	1.099.434	1.203.968	6	1.203.974
16.3 Profit reserves		14.562.537	111.025	14.673.562	12.483.964	113.259	12.597.223
16.3.1 Legal reserves		1.558.859	3.313	1.562.172	1.390.907	3.020	1.393.927
16.3.2 Statutory reserves		-	-	-	-	-	-
16.3.3 Extraordinary reserves		12.956.536	-	12.956.536	11.045.915	-	11.045.915
16.3.4 Other profit reserves		47.142	107.712	154.854	47.142	110.239	157.381
16.4 Profit/Loss		2.585.417	115.139	2.700.556	2.366.453	116.337	2.482.790
16.4.1 Prior years income/loss		84.650	82.299	166.949	70.822	93.984	164.806
16.4.2 Period profit/loss		2.500.767	32.840	2.533.607	2.295.631	22.353	2.317.984
16.5 Minority shares	(14)	183.918	29.240	213.158	175.732	25.694	201.426
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		140.690.463	97.035.804	237.726.267	117.464.722	73.536.768	191.001.490

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

TÜRKİYE HALK BANKASI A.Ş.

CONSOLIDATED STATEMENT OF OFF-BALANCE SHEET ITEMS AS OF 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

II. CONSOLIDATED STATEMENT OF OFF-BALANCE SHEET ITEMS

OFF BALANCE SHEET	Note	Audited Current period 31 December 2016			Audited Prior period 31 December 2015		
		TRY	FC	Total	TRY	FC	Total
A. COMMITMENTS AND CONTINGENCIES (I+II+III)		46.265.354	51.600.941	97.866.295	41.171.007	45.929.129	87.100.136
I. GUARANTEES AND SURETYSHIPS	(1)	20.999.538	26.878.381	47.877.719	16.654.679	23.382.547	40.037.226
1.1 Letters of guarantee		20.194.359	19.924.546	40.118.905	15.670.049	15.196.628	30.866.677
1.1.1 Guarantees subject to public procurement law		1.049.993	11.366.716	12.416.709	1.039.153	10.454.344	11.493.497
1.1.2 Guarantees given for foreign trade operations		-	16.644	16.644	-	11.057	11.057
1.1.3 Other letters of guarantee		19.144.366	8.541.186	27.685.552	14.630.896	4.731.227	19.362.123
1.2 Bank loans		12.876	2.812.590	2.825.466	359.503	2.914.278	3.273.781
1.2.1 Import acceptances		-	320.953	320.953	-	154.337	154.337
1.2.2 Other bank acceptances		12.876	2.491.637	2.504.513	359.503	2.759.941	3.119.444
1.3 Letters of credit		18.091	4.001.009	4.019.100	-	5.016.951	5.016.951
1.3.1 Documentary letters of credit		18.091	3.972.450	3.990.541	-	5.002.398	5.002.398
1.3.2 Other letters of credit		-	28.559	28.559	-	14.553	14.553
1.4 Guaranteed prefinancings		-	-	-	-	-	-
1.5 Endorsements		-	-	-	-	-	-
1.5.1 Endorsements to Central Bank of Turkish Republic		-	-	-	-	-	-
1.5.2 Other Endorsements		-	-	-	-	-	-
1.6 Purchase guarantees on marketable security issuance		-	-	-	-	-	-
1.7 Factoring guarantees		-	-	-	-	-	-
1.8 Other guarantees		774.212	140.036	914.248	625.127	254.690	879.817
1.9 Other suretyships		-	-	-	-	-	-
II. COMMITMENTS	(1)	23.261.724	1.492.636	24.754.360	20.845.109	1.196.194	22.041.303
2.1 Irrevocable commitments		23.261.724	901.095	24.162.819	20.845.109	792.417	21.637.526
2.1.1 Forward asset purchase commitments		112.735	304.715	417.450	99.229	382.449	481.678
2.1.2 Forward deposit purchase and sale commitments		-	-	-	-	-	-
2.1.3 Capital commitments to subsidiaries and associates		-	-	-	-	-	-
2.1.4 Loan granting commitments		3.182.164	398.636	3.580.800	2.227.928	332.624	2.560.552
2.1.5 Securities underwriting commitments		-	-	-	-	-	-
2.1.6 Payment commitments for reserve deposits		-	-	-	-	-	-
2.1.7 Payment commitments for cheques		5.805.008	-	5.805.008	5.442.458	-	5.442.458
2.1.8 Tax and fund liabilities from export commitments		28.864	-	28.864	20.764	-	20.764
2.1.9 Commitments for credit card expenditure limits		10.794.813	29.260	10.824.073	11.157.873	23.128	11.181.001
2.1.10 Commitments for credit cards and banking services promotions		44.328	-	44.328	46.532	-	46.532
2.1.11 Receivables from short sale commitments		-	-	-	-	-	-
2.1.12 Payables for short sale commitments		-	-	-	-	-	-
2.1.13 Other irrevocable commitments		3.293.812	168.484	3.462.296	1.850.325	54.216	1.904.541
2.2 Revocable commitments		-	591.541	591.541	-	403.777	403.777
2.2.1 Revocable loan granting commitments		-	52.315	52.315	-	366.688	366.688
2.2.2 Other revocable commitments		-	539.226	539.226	-	37.089	37.089
III. DERIVATIVE FINANCIAL INSTRUMENTS		2.004.092	23.230.124	25.234.216	3.671.219	21.350.388	25.021.607
3.1 Derivative financial instruments held for risk management		-	-	-	-	-	-
3.1.1 Fair value risk hedging transactions		-	-	-	-	-	-
3.1.2 Cash flow risk hedging transactions		-	-	-	-	-	-
3.1.3 Net foreign investment risk hedging transactions		-	-	-	-	-	-
3.2 Transactions for trading		2.004.092	23.230.124	25.234.216	3.671.219	21.350.388	25.021.607
3.2.1 Forward foreign currency buy/sell transactions		1.162.609	5.842.701	7.005.310	1.671.380	4.857.438	6.528.818
3.2.1.1 Forward foreign currency transactions-buy		554.492	3.958.285	4.522.777	801.439	3.344.181	4.345.620
3.2.1.2 Forward foreign currency transactions-sell		598.117	1.884.416	2.482.533	869.941	1.513.257	2.383.198
3.2.2 Currency and interest rate swaps		581.914	14.785.050	15.366.964	1.893.656	14.489.699	16.383.355
3.2.2.1 Currency swap-buy		148.821	2.707.908	2.856.729	278.222	4.124.940	4.403.162
3.2.2.2 Currency swap-sell		433.093	2.332.612	2.765.705	1.615.434	2.784.399	4.399.833
3.2.2.3 Interest rate swap-buy		-	4.872.265	4.872.265	-	3.790.180	3.790.180
3.2.2.4 Interest Rate swap-sell		-	4.872.265	4.872.265	-	3.790.180	3.790.180
3.2.3 Currency, interest rate and marketable securities options		259.569	420.684	680.253	106.183	253.075	359.258
3.2.3.1 Currency call options		129.783	210.341	340.124	53.198	126.436	179.634
3.2.3.2 Currency put options		129.786	210.343	340.129	52.985	126.639	179.624
3.2.3.3 Interest rate call options		-	-	-	-	-	-
3.2.3.4 Interest rate put options		-	-	-	-	-	-
3.2.3.5 Marketable securities call options		-	-	-	-	-	-
3.2.3.6 Marketable securities put options		-	-	-	-	-	-
3.2.4 Currency futures		-	-	-	-	-	-
3.2.4.1 Currency futures-buy		-	-	-	-	-	-
3.2.4.2 Currency futures-sell		-	-	-	-	-	-
3.2.5 Interest rate buy/sell futures		-	-	-	-	-	-
3.2.5.1 Interest rate futures-buy		-	-	-	-	-	-
3.2.5.2 Interest rate futures-sell		-	-	-	-	-	-
3.2.6 Other		-	2.181.689	2.181.689	-	1.750.176	1.750.176
B. CUSTODY AND PLEDGED ASSETS (IV+V+VI)		661.477.039	156.010.441	817.487.480	481.309.800	120.750.800	602.060.600
IV. CUSTODIES		344.066.173	23.722.398	367.788.571	228.121.330	17.376.606	245.497.936
4.1 Assets under management		-	-	-	-	-	-
4.2 Custody marketable securities		167.030.333	728.810	167.759.143	90.596.004	466.338	191.062.342
4.3 Cheques in collection process		12.751.492	17.280.141	30.031.633	11.132.981	12.393.872	23.526.853
4.4 Commercial notes in collection process		137.519.788	518.733	138.038.521	104.256.213	470.162	104.726.375
4.5 Other assets in collection process		-	-	-	-	-	-
4.6 Underwritten securities		-	-	-	-	-	-
4.7 Other custodies		3.486.346	98.721	3.585.067	2.772.653	15.875	2.788.528
4.8 Custodians		23.278.214	5.095.993	28.374.207	19.363.479	4.030.359	23.393.838
V. PLEDGED ASSETS		317.410.866	131.158.600	448.569.466	253.188.470	102.394.145	355.582.615
5.1 Marketable securities		4.077.924	476.540	4.554.464	3.350.711	247.451	3.598.162
5.2 Collateral notes		7.297.816	820.012	8.117.828	6.669.787	623.239	7.293.026
5.3 Commodity		25.813	-	25.813	-	-	25.813
5.4 Warranty		-	-	-	-	-	-
5.5 Land and buildings		259.332.850	116.459.706	375.792.556	199.984.465	76.697.617	276.682.082
5.6 Other pledged assets		42.616.278	12.035.647	54.651.925	39.846.268	23.476.950	63.323.218
5.7 Pledges		4.060.185	1.366.695	5.426.880	3.311.426	1.348.888	4.660.314
VI. ACCEPTED BILL GUARANTEES AND SURETIES		-	1.129.443	1.129.443	-	980.049	980.049
TOTAL OFF BALANCE SHEET ACCOUNTS (A+B)		707.742.393	207.611.382	915.353.775	522.480.807	166.679.929	689.160.736

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

TÜRKİYE HALK BANKASI A.Ş.

CONSOLIDATED STATEMENT OF INCOME

AS OF 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

III. CONSOLIDATED STATEMENT OF INCOME

INCOME AND EXPENSES	Note	Audited Current period 1 January- 31 December 2016	Audited Current period 1 January- 31 December 2015
I. INTEREST INCOME	(1)	17.363.213	13.972.712
1.1 Interest on loans		14.307.866	11.317.212
1.2 Interest received from reserve deposits		57.062	18.230
1.3 Interest received from banks		114.682	49.397
1.4 Interest received from money market placements		703	2.641
1.5 Interest income on marketable securities		2.571.404	2.372.295
1.5.1 Financial assets held for trading		7.601	5.621
1.5.2 Financial assets at fair value through profit and loss		-	-
1.5.3 Financial assets available-for-sale		1.082.042	825.219
1.5.4 Investments held-to-maturity		1.481.761	1.541.455
1.6 Finance lease income		158.434	139.735
1.7 Other interest income		153.062	73.202
II. INTEREST EXPENSE	(2)	10.014.672	8.038.592
2.1 Interest on deposits		8.051.618	6.325.313
2.2 Interest on borrowings		489.642	413.094
2.3 Interest on money market borrowings		794.106	738.807
2.4 Interest on bonds issued		590.748	457.351
2.5 Other interest expense		88.558	104.027
III. NET INTEREST INCOME (I - II)		7.348.541	5.934.120
IV. NET FEES AND COMMISSIONS INCOME		1.238.103	1.093.934
4.1 Fees and commissions income		1.740.141	1.522.184
4.1.1 Non-cash loans		295.134	220.807
4.1.2 Other		1.445.007	1.301.377
4.2 Fees and commissions expenses		502.038	428.250
4.2.1 Non-cash loans		2.574	3.169
4.2.2 Other		499.464	425.081
V. DIVIDEND INCOME	(3)	39.986	6.254
VI. NET TRADING PROFIT (NET)	(4)	182.966	(240.759)
6.1 Profit/loss from capital market operations		20.281	32.960
6.2 Profit/loss from financial derivative transactions		11.158	125.581
6.3 Foreign exchange gains/losses		151.527	(399.300)
VII. OTHER OPERATING INCOME	(5)	1.825.904	1.677.504
VIII. TOTAL OPERATING INCOME (III+IV+V+VI+VII)		10.635.500	8.471.053
IX. LOANS AND OTHER RECEIVABLES IMPAIRMENT LOSS PROVISIONS (-)	(6)	2.205.909	1.376.855
X. OTHER OPERATING EXPENSES(-)	(7)	5.097.462	4.206.319
XI. NET OPERATING INCOME/(LOSS) (VIII-IX-X)		3.332.129	2.887.879
XII. AMOUNT RECORDED IN EXCESS AS GAIN AFTER MERGER		-	-
XIII. PROFIT/LOSSES FROM EQUITY METHOD APPLIED SUBSIDIARIES		17.309	10.481
XIV. GAIN / (LOSS) ON NET MONETARY POSITION		-	-
XV. INCOME/(LOSS) BEFORE TAXES (XI+XII+XIII+XIV)	(8)	3.349.438	2.898.360
XVI. TAX INCOME PROVISION (±)	(9)	(809.982)	(570.050)
16.1 Current tax provision		(625.363)	(182.802)
16.2 Deferred tax provision		(184.619)	(387.248)
XVII. NET OPERATING INCOME AFTER TAX (XV±XVI)	(10)	2.539.456	2.328.310
XVIII. INCOME FROM DISCONTINUED OPERATIONS		-	-
18.1 Property and equipment income held for sale		-	-
18.2 Sale profits from associates, subsidiaries and joint ventures (business partners)		-	-
18.3 Other income from terminated operations		-	-
XIX. EXPENSES FROM DISCONTINUED OPERATIONS (-)		-	-
19.1 Property and equipment expense held for sale		-	-
19.2 Sale losses from associates, subsidiaries and joint ventures (business partners)		-	-
19.3 Other expenses from discontinued operations		-	-
XX. INCOME/EXPENSE BEFORE TAXES FROM DISCONTINUED OPERATIONS (XVIII-XIX)	(8)	-	-
XXI. PROVISION FOR TAXES ON INCOME FROM DISCONTINUED OPERATIONS (±)	(9)	-	-
21.1 Current tax provision		-	-
21.2 Deferred tax provision		-	-
XXII. NET PROFIT/LOSSES FROM DISCONTINUED OPERATIONS (XX±XXI)	(10)	-	-
XXIII. NET PROFIT/(LOSS) (XVII+XXII)	(11)	2.539.456	2.328.310
23.1 Group's profit/loss		2.533.607	2.317.984
23.2 Minority shares profit/loss		5.849	10.326
Earnings/losses per share (Full TRY)		2,02689	1,85439

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

TÜRKİYE HALK BANKASI A.Ş.

CONSOLIDATED STATEMENT OF INCOME AND EXPENSE ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY AS OF 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

IV. CONSOLIDATED STATEMENT OF INCOME AND EXPENSE ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY

	Audited Current period 1 January- 31 December 2016	Audited Prior period 1 January- 31 December 2015
STATEMENT OF INCOME AND EXPENSE ITEMS ACCOUNTED UNDER SHAREHOLDERS' EQUITY		
I. ADDITIONS TO MARKETABLE SECURITIES REVALUATION DIFFERENCES FOR AVAILABLE FOR SALE FINANCIAL ASSETS	(626.135)	(916.936)
II. TANGIBLE ASSETS REVALUATION DIFFERENCES	542.934	2.091.164
III. INTANGIBLE ASSETS REVALUATION DIFFERENCES	-	-
IV. FOREIGN EXCHANGE DIFFERENCES FOR FOREIGN CURRENCY TRANSACTIONS	43.912	39.926
V. PROFIT/LOSS FROM DERIVATIVE FINANCIAL INSTRUMENTS FOR CASH FLOW HEDGE PURPOSES (Effective portion of fair value differences)	-	-
VI. PROFIT/LOSS FROM DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGE OF NET INVESTMENTS IN FOREIGN OPERATIONS (Effective portion of fair value differences)	-	-
VII. THE EFFECT OF CORRECTIONS OF ERRORS AND CHANGES IN ACCOUNTING POLICIES	-	-
VIII. OTHER PROFIT LOSS ITEMS ACCOUNTED UNDER EQUITY DUE TO TAS	(76.753)	(62.034)
IX. DEFERRED TAX OF VALUATION DIFFERENCES	18.034	92.389
X. TOTAL NET PROFIT/LOSS ACCOUNTED UNDER EQUITY (I+II+...+IX)	(98.008)	1.244.509
XI. PROFIT/LOSS	2.539.456	2.328.310
11.1 Change in fair value of marketable securities (Transfer to profit/loss)	21.586	31.393
11.2 Reclassification and transfer of derivatives accounted for cash flow hedge purposes to income statement	-	-
11.3 Transfer of hedge of net investments in foreign operations to income statement	-	-
11.4 Other	2.517.870	2.296.917
XII. TOTAL PROFIT/LOSS ACCOUNTED FOR THE PERIOD (X±XI)	2.441.448	3.572.819

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

TÜRKİYE HALK BANKASI A.Ş.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

VI. CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Audited Current period 31 December 2016	Audited Current period 31 December 2015
A.			
CASH FLOWS FROM BANKING OPERATIONS			
1.1		2.082.911	670.541
Operating profit before changes in operating assets and liabilities			
1.1.1		16.611.483	13.429.916
Interest received			
1.1.2		(9.495.583)	(7.729.275)
Interest paid			
1.1.3		39.986	6.254
Dividend received			
1.1.4		1.740.141	1.522.184
Fees and commissions received			
1.1.5		1.629.820	1.446.916
Other income			
1.1.6		555.940	493.998
Collections from previously written off loans			
1.1.7		(1.925.872)	(1.664.087)
Cash payments to personnel and service suppliers			
1.1.8		(883.058)	(580.287)
Taxes paid			
1.1.9	(1)	(6.189.946)	(6.255.078)
Other			
1.2		4.629.944	(2.391.044)
Assets and Liabilities Subject to Banking Operations			
1.2.1		(3.080)	15.591
Net decrease in financial assets held for sale			
1.2.2		-	-
Net (increase) decrease in financial assets at fair value through profit or loss			
1.2.3		(26.657)	18.000
Net (increase) decrease in due from banks and other financial institutions			
1.2.4		(32.478.568)	(25.790.309)
Net (increase) decrease in loans			
1.2.5		(1.422.828)	(4.111.117)
Net (increase) decrease in other assets			
1.2.6		15.052.270	(2.351.756)
Net increase (decrease) in bank deposits			
1.2.7		12.675.136	21.031.587
Net increase (decrease) in other deposits			
1.2.8		(554.361)	7.906.157
Net increase (decrease) in loans borrowed			
1.2.9		-	-
Net increase (decrease) in matured payables			
1.2.10	(1)	11.388.032	890.803
Net increase (decrease) in other liabilities			
I.		6.712.855	(1.720.503)
Net cash provided from banking operations			
B.			
CASH FLOWS FROM INVESTMENT ACTIVITIES			
II.		(4.794.213)	(12.078)
Net cash provided from/ (used in) investing activities			
2.1		(3.213)	(29.076)
Cash paid for purchase of joint ventures, associates and subsidiaries			
2.2		-	-
Cash obtained from sale of entities joint ventures, associates and subsidiaries			
2.3		(269.671)	(2.320.322)
Fixed assets purchases			
2.4		51.558	2.950.770
Fixed assets sales			
2.5		(6.118.249)	(2.710.759)
Cash paid for purchase of financial assets available for sale			
2.6		3.102.821	911.568
Cash obtained from sale of financial assets available for sale			
2.7		(4.254.198)	(2.388.371)
Cash paid for purchase of investment securities			
2.8		2.712.189	3.604.368
Cash obtained from sale of investment securities			
2.9		(15.450)	(30.256)
Other			
C.			
CASH FLOWS FROM FINANCING ACTIVITIES			
III.		3.331.697	2.451.094
Net cash used in financing activities			
3.1		10.667.444	4.424.647
Cash obtained from loans borrowed and securities issued			
3.2		(7.097.144)	(1.750.000)
Cash used for repayment of loans borrowed and securities issued			
3.3		-	-
Bonds issued			
3.4		(238.603)	(223.553)
Dividends paid			
3.5		-	-
Payments for finance leases			
3.6		-	-
Other			
IV.	(1)	1.424.356	846.458
Effect of change in foreign exchange rate on cash and cash equivalents			
V.		6.674.695	1.564.971
Net increase / (decrease) in cash and cash equivalents			
VI.	(4)	8.855.902	7.290.931
Cash and cash equivalents at beginning of the period			
VII.	(5)	15.530.597	8.855.902
Cash and cash equivalents at end of the period			

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

TÜRKİYE HALK BANKASI A.Ş.

STATEMENT OF PROFIT DISTRIBUTION FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

VII. STATEMENT OF PROFIT DISTRIBUTION TABLE

	Audited Current period 31 December 2016 ⁽¹⁾	Audited Prior period 31 December 2015
I. DISTRIBUTION OF CURRENT YEAR PROFIT		
1.1. Current Period Profit	3,351,550	2,855,643
1.2. Taxes and Legal Duties Payables (-)	793,285	540,330
1.2.1. Corporate Tax (Income Tax)	553,481	133,834
1.2.2. Withholding Tax	-	-
1.2.3. Other Taxes and Duties	239,804	406,496
A. Net Profit For The Period (1.1-1.2)	2,558,265	2,315,313
1.3. Accumulated Losses (-)	-	-
1.4. First Legal Reserves (-)	-	115,766
1.5. Other Statutory Reserves (-)	-	-
B. Net Profit Available for Distribution [(A)-(1.3+1.4+1.5)]	-	2,199,547
1.6. First Dividend to shareholders (-)	-	62,500
1.6.1. To Owners of Ordinary Shares	-	62,500
1.6.2. To Owners of Privileged Shares	-	-
1.6.3. To Owners of Redeemed Shares	-	-
1.6.4. To Profit Sharing Bonds	-	-
1.6.5. To Holders of Profit and Loss Sharing Certificates	-	-
1.7. Dividends to personnel (-)	-	(2)
1.8. Dividends to Board of Directors (-)	-	-
1.9. Second Dividend to Shareholders (-)	-	169,031
1.9.1. To Owners of Ordinary Shares	-	169,031
1.9.2. To Owners of Privileged Shares	-	-
1.9.3. To Owners of Redeemed Shares	-	-
1.9.4. To Profit Sharing Bonds	-	-
1.9.5. To Holders Of Profit And Loss Sharing Certificates	-	-
1.10. Second Legal Reserves (-)	-	30,728
1.11. Status Reserves (-)	-	-
1.12. Extraordinary Reserves	-	1,937,288
1.13. Other Reserves	-	-
1.14. Special Funds	-	-
II. Distribution of Reserves		
2.1. Appropriated Reserves	-	-
2.2. Second Legal Reserves (-)	-	-
2.3. Dividends to Shareholders (-)	-	231,531
2.3.1. To Owners of Ordinary Shares	-	231,531
2.3.2. To Owners of Privileged Shares	-	-
2.3.3. To Owners of Redeemed Shares	-	-
2.3.4. To Profit Sharing Bonds	-	-
2.3.5. To Holders of Profit and Loss Sharing Certificates	-	-
2.4. Dividends to Personnel (-)	-	-
2.5. Dividends to Board of Directors (-)	-	-
III. Earnings per Share		
3.1. To Owners of Ordinary Shares(Full TRY)	2,0466	1,8523
3.2. To Owners of Ordinary Shares (%)	204,7%	185,2%
3.3. To Owners of Privileged Shares	-	-
3.4. To Owners of Privileged Shares (%)	-	-
IV. Dividend per Share		
4.1. To Owners of Ordinary Shares(Full TRY)	-	0,185
4.2. To Owners of Ordinary Shares (%)	-	18,52%
4.3. To Owners of Privileged Shares	-	-
4.4. To Owners of Privileged Shares (%)	-	-

⁽¹⁾ As of 31 December 2016 – the ending of current period & the date financial statements have been finalized - General Assembly has not taken place yet.

⁽²⁾ Dividends to personnel which is added to 2015 net profit as a provision not sentenced in profit distribution, only shown in the table for information..

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

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES

I. BASIS OF PRESENTATION

The consolidated financial statements, related notes and explanations in this report are prepared in accordance with the Turkish Accounting Standards ("TAS") published by Public Oversight Accounting and Auditing Standards Authority, Turkish Financial Reporting Standards ("TFRS"), Communiqué on "Banks' Accounting Practice and Maintaining Documents" and other communiqués and interpretations of Banking Regulation and Supervision Agency ("BRSA") on accounting and financial reporting.

Accounting policies applied and valuation methods used in the preparation of the consolidated financial statements are expressed in detail below.

II. EXPLANATIONS ON THE STRATEGY OF USE OF FINANCIAL INSTRUMENTS AND FOREIGN CURRENCY TRANSACTIONS

1. The Group's strategy on financial instruments:

Due to its historical mission, the Parent Bank focuses on granting loans to Small and Medium Size Enterprises (SMEs) and craftsmen besides corporate, commercial and individual segmented firms. In addition to the main fund source deposits, the Group can raise funds from foreign borrowing and money market borrowing.

The Group follows the developments in the markets and uses funds raised in most yielding areas. The strategies of the Parent Bank are evaluated in the weekly Asset and Liability Committee meetings.

2. The Group's explanations on foreign currency transactions:

In the statutory records of the Group, transactions accounted in foreign currencies (currencies except for TRY) are converted into TRY by using the prevailing exchange rates at the transaction dates. Foreign currency monetary asset and liability items are converted into TRY by using the prevailing exchange rate at the balance sheet date. Non-monetary items in foreign currencies carried at fair value are converted into TRY by using the exchange rates at the date of which the fair value is determined. Exchange differences arising from the conversions of monetary foreign currency items and collections of foreign currency transactions are reflected to the income statement.

The financial statements of the foreign branches and subsidiaries of the Parent Bank are prepared in the currency of the primary economic environment in which the entity operates (functional currency). The financial statements of foreign branches and subsidiaries are expressed in TRY which is the functional currency of the Group and the presentation currency of the financial statements.

Assets and liabilities of the foreign branches and subsidiaries of the Parent Bank are converted into TRY by using the prevailing exchange rates at the balance sheet date. The foreign branches' income and expenses are converted by at exchange rates at the dates of the transactions. The foreign subsidiaries' income and expenses are converted by average rate of the exchange of the current year.

The Group started to apply fair value hedge accounting as at 1 July 2015 by designating the exchange rate risk of Halkbank AD, Beograd, Demirhalkbank NV and Halkbank AD, Skopje are foreign investments that are recognized under fair value accounting as hedged item, in compliance with "TAS 39 Financial Instruments: Recognition and Measurement". Accordingly, the effective portion of the foreign exchange differences is recorded under equity statement in the current period.

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

III. INFORMATION ABOUT THE ASSOCIATES AND SUBSIDIARIES SUBJECT TO CONSOLIDATION

1. Basis of consolidation:

The accompanying consolidated financial statements are prepared in accordance with the communiqué on “Preparation of Consolidated Financial Statements of Banks” and the Turkish Accounting Standards are applied in the consolidation.

a. Basis of consolidation of subsidiaries:

The Parent Bank’s subsidiaries Halk Sigorta AŞ, Halk Hayat Emeklilik AŞ, Halk Yatırım Menkul Değerler AŞ, Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halk Finansal Kiralama AŞ, Halk Portföy Yönetimi AŞ, Halk Faktoring AŞ, Halk Banka AD, Skopje and Halkbank A.D. Beograd, are included in the scope of consolidation.

A subsidiary is an entity that is controlled by the Parent Bank. Control is the power of the Parent Bank to appoint or remove from office the decision-taking majority of members of board of directors through direct or indirect possession of the majority of a legal person’s capital irrespective of the requirement of owning minimum fifty-one per cent of its capital; or by having control over the majority of the voting right as a consequence of holding privileged shares or of agreements with other shareholders although not owning the majority of capital.

Under line-by-line method, the assets, liabilities, income and expenses and off-balance sheet items of subsidiaries are combined with the equivalent items of the Parent Bank on a line-by-line basis. The book value of the Parent Bank’s investment in each subsidiary and the Group’s portion of equity of each subsidiary are eliminated. All significant transactions and balances between the Parent Bank and its consolidated subsidiaries are eliminated reciprocally. Minority interests in the net income and in the equity of consolidated subsidiaries are calculated separately from the Group’s net income and the Group’s shareholders’ equity. Minority interests are identified separately in the balance sheet and in the income statement.

In preparing the consolidated financial statements, if a subsidiary uses accounting policies other than those adapted by the Parent Bank, appropriate adjustments are made to subsidiaries’ financial statements. There is no item that a different accounting policy is applied.

b. Basis of consolidation of associates:

Demir-Halkbank NV (“Demir Halk Bank”), Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ and Türk P ve I Sigorta AŞ, which are qualified as investments in associates, are presented in the accompanying financial statements based on the equity method of accounting. An associate is a partnership in whose capital the Parent Bank participates and over which it has a significant influence but no control, established at home and abroad.

Significant influence is the power to participate in the financial and operating policy of the investee. If the Parent Bank holds ten percent or more of the voting power of the associate, it is presumed that the Parent Bank has significant influence unless otherwise demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.

Qualified share is the share that directly or indirectly constitute ten percent of an entity’s capital or voting rights and irrespective of this requirement, possession of privileged shares giving right to appoint members of board of directors.

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Equity method is an accounting method of associates by which book value of the associate is increased or decreased due to changes in the Parent Bank's share in the associates' equity and dividends received from associate is deducted from the share of Bank calculated as explained above.

Accounting principles used by Demir Halkbank NV and Kobi Girişim Sermayesi AŞ and Türk P ve I Sigorta AS which is a consolidated associate by the equity method of accounting, has the same accounting principles of the Parent Bank.

c. Basis of consolidation of joint ventures:

The Parent Bank does not have any joint ventures.

d. Principles applied during share transfer, merger and acquisition:

Accounting for business combinations

From 1 January 2010 the Group applies IFRS 3 Business Combinations (2008) in accounting for business combinations. Business Combinations that occurred before 1 January 2010 had not been restated and the accounting policies applicable to those acquisitions are set out below. The new accounting policy in respect of business combinations is as follows.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

Acquisitions on or after 1 January 2010

The Group measures goodwill at the acquisition date as the total of:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest in the acquire; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquire; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When this total is negative, a bargain purchase gain is recognized immediately in profit or loss.

The initial recognition of the business combination is accounted for provisionally if the fair values of the identifiable assets, liabilities and contingent liabilities acquired in a business combination can only be recognized, or the cost of a business combination is measured, only using provisional amounts. The provisional business combination accounting shall be completed in the 12 months following the date of acquisition and the adjustments shall be recognized retrospectively.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

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Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

For acquisitions before 1 January 2010, goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognized amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquire. When the excess was negative, a bargain purchase gain was recognized immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalized as part of the cost of the acquisitions.

IV. EXPLANATIONS ON FORWARD AND OPTION CONTRACTS AND DERIVATIVE INSTRUMENTS

The Group's derivative transactions predominantly include currency and interest rate swaps, cross currency swaps, option transactions and forward foreign currency purchase and sale transactions. The Group classifies derivative financial instruments as "Held-for-trading" in accordance with TAS 39 - Financial Instruments: Recognition and Measurement.

Commitments arising from derivative transactions are recorded in off-balance sheet accounts at contractual terms. Derivative transactions are carried at fair value in the periods subsequent to their acquisition and if they are positive or negative, derivative financial assets held for trading or derivative financial liabilities held for trading are presented in the balance sheet. Differences arising from the fair value of derivative financial instruments after the valuation are accounted under profit-loss from derivative financial transactions in trading profit-loss item in the income statement. The fair value of derivative instruments is calculated taking into account the fair value of the market or using the discounted cash flow model.

Explanations related to credit derivatives and its risk exposures:

The bank has credit termly derivative transactions within the scope of trading transactions. These transactions includes credit default swaps which based on treasury of Turkish Republic's credit risk. As of 31 December 2016, the bank has credit default swap transaction amounting to 150 million USD with 5 years maturity. In this transactions the bank sells protection.

V. INTEREST INCOME AND EXPENSES

Interest income and expenses are recognized on an accrual basis using the effective interest method (the rate that equals the future cash flows of a financial asset or liability to its present net book value) in conformity with TAS 39 "Financial Instruments: Recognition and Measurement".

In accordance with the related legislation, realized and unrealized interest accruals of the non-performing loans are reversed and interest income related to these loans are recorded as an interest income only when they are collected.

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VI. FEES AND COMMISSION INCOME AND EXPENSES

Banking service income is recorded in the income in the period when they are collected. Prepaid fees and commission income obtained from cash and non-cash loans are recorded in the related period by using discounting method with internal rate of return according to the loan maturity within the matching principle.

Fees and commission expenses on borrowings that are paid to other institutions and incorporations for financial liabilities comprise operational costs. This fees and commission expenses are booked under prepaid expenses and transferred to expense accounts in the related periods by using the straight accrual method according to the financial borrowing maturity within the matching principle.

VII. EXPLANATIONS AND DISCLOSURES ON FINANCIAL ASSETS

Financial instruments comprise financial assets, financial liabilities and derivative instruments. The financial assets are included in the balance sheet of the Group, if the Group is a legal party of these financial assets.

Financial assets mainly constitute the majority of the commercial activities and operations of the Group. These instruments have the ability to expose, affect and diminish the risks of liquidity, credit and interest in the financial statements.

Fair value is the amount for which an asset could be exchanged or a liability could be settled, between knowledgeable willing parties in an arm's length transaction. Market value is the amount obtainable from the sale or payable on the acquisition of a financial instrument in an active market, if one exists.

The estimated fair values of financial assets have been determined by the Group using the available market information and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Hence, estimations presented in this report may not be same with the prices in the current market conditions in the case of assets disposals. Book values of some financial assets (which equals to their costs) are assumed to approximate to their fair values due to their short term nature.

The financial instruments and their valuations methods based on their classification on the financial statements are set out below.

1. Cash and banks

Cash and bank balances in foreign currencies are valued by using the Bank's current period end exchange rates. The presented values of cash in TRY, foreign currency cash and banks at balance sheet are the estimated fair values of these assets.

2. Financial assets at fair value through profit and loss

2.1. Financial assets held for trading

Financial assets held for trading are financial assets, which are either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are financial assets included in a portfolio with a pattern of short-term profit taking.

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Financial Assets Held For Trading are presented in the balance sheet with their fair values and are subject to valuation at fair values after the initial recognition. Valuation gains or losses are recognized in the profit/loss accounts. Interests gained from the retention of held for trading financial assets are recognized under the interest income and dividends gained from the shares is recognized under the dividend income in the income statement. If these assets are disposed of prior to their maturity periods, loss or gain from the disposal is recognized in the income statement by using interest income/expense accounts under profit/loss from the capital market operations.

2.2. Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss represent the financial assets at fair value through profit and loss at the initial recognition and those are not obtained for trading purposes. Recognition of fair value differences of those assets are similar to the financial asset held for trading.

The Group has not any financial assets at fair value through profit and loss as of 31 December 2016 and 31 December 2015.

3. Investments held to maturity

Investments held to maturity are the investments, for which there is an intention of holding until maturity and the relevant conditions for fulfillment of such intention, including the funding ability, and for which there are fixed or determinable payments with fixed maturity; and which are recognized at fair value at initial recognition. Investments held to maturity with the initial recognition at fair value including transaction costs are subject to valuation with their discounted cost value by using the internal rate of return method less provision for any impairment, if any. Interest income from investments held to maturity is recognized in the income statement as an interest income. There are no financial assets that are classified by the Group as investments held to maturity; however, they cannot be classified under this classification for two years for not satisfying the requirements of the related classification.

4. Financial assets available for sale

Financial assets available for sale represent non-derivative financial assets other than the bank loans and receivables, investments held to maturity and financial assets at fair value through profit and loss. Initial recognition and subsequent valuation of financial assets available for sale are performed based on the fair value including transaction costs. The amount arising from the difference between cost and amortized value is recognized through income statement by using the internal rate of return. If a price does not occur in an active market, fair value cannot be reliably determined and "Amortized Value" is determined as the fair value using the internal rate of return. Unrealized gains and losses arising from changes in fair value of the financial assets available for sale are not recognized in the income statement, they are recognized in the "Marketable Securities Revaluation Fund" until the disposal, sale, redemption or incurring loss of those assets. Fair value differences accounted under equity arising from the application of fair value are reflected to the income statement when these assets are sold or when the valuation difference is collected.

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5. Loans and receivables

Loans and receivables represent unquoted financial assets in an active market that provide money, goods or services to the debtor with fixed or determinable payments.

Loans and receivables are initially recognized with their fair values including settlement costs and carried at their amortized costs calculated using the internal rate of return at the subsequent recognition. Transaction fees, dues and other expenses paid for loan guarantees are recognized under the profit and loss accounts.

Consumer and corporate cash loans are recognized under the accounts specified by the Uniform Chart of Accounts and Explanations with their original balances based on their context.

Foreign currency indexed consumer and corporate loans are followed at TRY accounts after converting into TRY by using the opening exchange rates. At the subsequent periods, increases and decreases in the loan capital are recognized under the foreign currency income and expense accounts in the income statement depending on foreign currency rates being higher or lower than opening date rates. Repayments are calculated using the exchange rates at the repayment dates and exchange differences are recognized under the foreign currency income and expense accounts in the income statement.

Non-performing loans are classified in accordance with the regulation on “Methods and Principles for the Determination of Loans and Other Receivables to be Reserved for and Allocation of Reserves” published in the Official Gazette No: 26333 dated 1 November 2006 and amended with the regulation published in the Official Gazette No: 28418 dated last 21 September 2012 and specific provisions are allocated for those loans. Specific provisions are reflected to “820/821 Provisions and Impairment Expenses 82000/82100 Specific Provisions Expenses” account. Provisions released in same year are recognized as a credit movement under the “Provision Expenses”, released portion of the previous period provisions are recognized under the “Other Operating Income” account.

VIII. EXPLANATIONS ON IMPAIRMENT OF FINANCIAL ASSETS

At each balance sheet date, the Group reviews the carrying amounts of its financial asset or group of financial assets whether there is an objective indication that those assets have suffered an impairment loss. If such indication exists, the Group determines the related impairment amount.

A financial asset or a group of financial assets is subject to impairment loss only if there is an objective indication that the occurrence of one or more than one event (“loss event”) subsequent to the initial recognition of that asset has an effect on the reliable estimate of the expected future cash flows of the related financial asset and asset group. Irrespective of their high probability of incurrence, future expected losses are not recognized.

Impairment losses attributable to the investments held to maturity are measured as the difference between the present values of estimated future cash flows discounted using the original interest rate of financial asset and the book value of asset. The related difference is recognized as a loss and it decreases the book value of the financial asset. At subsequent periods, if the impairment loss amount decreases, impairment loss recognized is reversed.

When a decline occurs in the fair values of the “financial assets available for sale” of which value decreases and increases are recognized in equity, the accumulated profit/loss that had been recognized directly in equity is transferred from equity to period profit or loss. If, in a subsequent period, the fair value of the related asset increases, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

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For loans and receivables; the Parent Bank's management performs consistent loan portfolio reviews and if any doubts on the collectability of the loans arise, the related loans are classified in accordance with legislation on "Determining the Nature of Loans and Receivables and Principles and Procedures on the Allocation of Loan and Receivable Provisions ("Communiqué")" published in the Official Gazette numbered 26333 and dated 1 November 2006. The Bank does not limit the provision amount for the non-performing loans recognized before 1 January 2008 with the minimum rates defined in the related regulation and allocates specific provision for such loan amounts in full and they are recognized in the statement of income. Bank sets specific provision for non-performing loans recognized after 1 January 2008 through deducting the collateral amount, calculated in accordance with the related coefficient rates defined in the Article 10 of the related legislation, from the follow-up amount and setting provision between 20% and 100% by taking the minimum rates in the Communiqué into consideration for the outstanding follow-up risk amount excluding the surety ship type of collaterals defined in the Article 9 of the related legislation. Unindemnified non-cash loans extended to follow-up entities are added to the follow-up risk amount after conversion by credit conversion rates defined in the Communiqué. The Bank sets provision between 20% and 100% by taking the minimum rates in the Communiqué into consideration for the outstanding follow-up risk amount, that are calculated by deducting the collateral amount, and calculated in accordance with the related coefficient rates defined in the Article 10 of the related legislation. Collections made related to those loans are offset against the capital and interest collections are recognized under the "Interest Received from Non-performing Loans" item of the income statement.

Other than specific allowances, The Parent Bank is providing 1% general allowance for cash and non-cash loans and other receivables; 0,2% general allowances for non-cash loans; respectively 2% and 0,4% general allowance for under close monitoring cash and non-cash loans. In addition the Parent Bank is providing 0% general allowances for cash and non-cash transit trade loans which is classified in "Group 1" and export loans; 0,5% general allowance for cash loans and 0,1% general allowance for non-cash loans that is provided for small and medium sized enterprises.

IX. OFFSETTING FINANCIAL ASSETS AND LIABILITIES

A financial asset and a financial liability shall be offset and the net amount shall be presented in the balance sheet only when a party currently has a legally enforceable right to set off the recognized amounts or intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

X. EXPLANATIONS ON SALES AND REPURCHASE AGREEMENTS (REPOS) AND TRANSACTIONS ON SECURITIES LOANED

Marketable securities subject to repurchase agreements are classified under "Available for Sale Financial Assets" or "Held to Maturity Investments" in the Group's portfolio and they are valued according to the valuation principles of the related portfolios.

Funds obtained from the repurchase agreements are recognized under "Funds from Repurchase Transactions" account in liabilities. For the difference between the sale and repurchase prices determined by the repo agreements for the period; expense accrual is calculated using the internal rate of return method.

Reverse repo transactions are recognized under the "Receivables from Reverse Repo Transactions" account. For the difference between the purchase and resale prices determined by the reverse repo agreements for the period; income accrual is calculated using the internal rate of return method.

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XI. EXPLANATIONS ON ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Assets that meet the criteria to be classified as held for sale are measured at the lower of its carrying amount and fair value less costs to sell. Depreciation of such assets is ceased and they are presented separately in the balance sheet. In order to classify a tangible fixed asset as held for sale, the asset (or the disposal group) should be available for an immediate sale in its present condition subject to the terms of any regular sales of such assets (or such disposal groups) and the sale should be highly probable. For a highly probable sale, the appropriate level of management must be committed to a plan to sell the asset (or the disposal group), and an active programme to complete the plan should be initiated to locate a customer. Also, the asset (or the disposal group) should have an active market sale value, which is a reasonable value in relation to its current fair value.

Events or circumstances may extend the completion of the sale more than one year. Such assets are still classified as held for sale if there is sufficient evidence that the delay in the sale process is due to the events and circumstances occurred beyond the control of the entity or the entity remains committed to its plan to sell the asset (or disposal group).

A discontinued operation is a component of a bank that either has been disposed of, or is classified as held for sale. Gains or losses relating to discontinued operations are presented separately in the income statement.

XII. EXPLANATIONS ON GOODWILL AND OTHER INTANGIBLE ASSETS

As at the balance sheet date, there is no goodwill recorded in the consolidated balance sheet of the Group.

Intangible assets that are purchased prior to 1 January 2005 are carried at their restated historical costs and intangible assets that are purchased in the subsequent periods are carried at their historical cost, less any accumulated amortization and any impairment losses. Intangible assets are amortized by using the straight line method based on their useful lives. Amortization method and period are assessed periodically at the end of each year. Intangible assets consist of software expenses and they are amortized by using the straight line method over 3 years. There is no significant change in the accounting estimates expected or to be expected having a significant effect on the amortization method, amortization period or residual value.

XIII. EXPLANATIONS ON PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment that are purchased prior to 1 January 2005 are carried at their 31 December 2004 dated restated costs and property, plant and equipment that are purchased in the subsequent periods are carried at cost, less any accumulated depreciation and any impairment losses. Property, plant and equipment are amortized by using the straight line method during their useful lives. Gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of that asset and is recognized in profit or loss. Leasehold improvements are depreciated over the lease period by straight line method.

As of 1 April 2015, the Group adopted the revaluation method for buildings in tangible assets in accordance with Turkish Accounting Standard No: 16 "Property, Plant and Equipment" (TAS 16). Expertise values determined by an independent expert companies are reflected to the financial statements. Revaluation differences are recorded in "Tangible assets revaluation reserves" under the shareholders' equity.

Ordinary maintenance and repair expenses of property, plant and equipment items are recognized as expenses.

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Estimated useful lives of property, plant and equipment are as follows:

	Estimated useful lives (Year)	Depreciation rate
Buildings	50	2%
Safe-deposit boxes	50	2%
Other movable properties	3-25	4-33,33%
Assets held under financial leases	4-5	20-25%

Leasehold improvements are depreciated over the lower of the periods of the respective leases and useful lives, on a straight-line basis. In any case useful life cannot exceed the lease period. If the duration of lease agreement is not determined or longer than five years, amortization duration is considered as five years.

There is no change in accounting estimates that is expected to have significant effect in current period and subsequent periods.

There are no material mortgages, pledges or similar in cumbrances designated for the property, plant and equipment.

Classification on investment property:

If a land or building's intended purpose is changed as investment property when used by the owner. This property is classified as investment property.

When the intended purpose of an immovable is changed and reclassified as an investment property, the fair value of the date on which the usage of the property changed will be the cost for the subsequent recognition process.

XIV. EXPLANATIONS ON INVESTMENT PROPERTIES

Investment properties are kind of property which is held by the Group to earn rent.

Investment properties in the attached consolidated financial statements that are purchased prior to 1 January 2005 are carried at their 31 December 2004 dated restated costs and property, plant and equipment that are purchased in the subsequent periods are carried at cost, less any accumulated depreciation and any impairment losses. Investment properties are amortized by using the straight line method during their useful lives. Gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of that asset and is recognized in profit or loss.

XV. EXPLANATIONS ON LEASING TRANSACTIONS

Assets acquired under financial leases are carried at the lower of their fair values or amortized value of the lease payments. Leasing payables are recognized as liabilities in the balance sheet while the interest payable portions of the payables are recognized as a deferred amount of interest. Assets held under financial leases are recognized under the property, plant and equipment (movable properties) account and are depreciated by using the straight line method.

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In the cases of the Group is renter, at the beginning of the lease operation the value of assets held under financial leases are recognized as financial lease receivables in the balance sheet. Interest income obtained by the difference between total financial lease receivables and investment value of assets held under financial leases is recorded in the income statement by distributing the receivables in the related accounting period with the constant interest rate. The interest income which is not accrued in the related period, is recognized in the account of unaccrued interest income. Operational lease transactions are recognized in line with the related agreement on an accrual basis.

XVI. EXPLANATIONS ON INSURANCE TECHNICAL INCOME AND EXPENSE

Insurance premium income is obtained subsequent the share of reinsurers in policy income is diminished.

Claims are recorded in expense as they are reported. Outstanding loss provisions are recognized for the claims reported but not paid yet and for the claims that incurred but not reported. Reinsurers' share of claims paid and outstanding loss are offset in these provisions.

XVII. EXPLANATIONS ON INSURANCE TECHNICAL PROVISIONS

According to the current insurance regulation, insurance companies should recognize provisions for unearned premium claims, unexpired risk reserves, provision for outstanding claims, life-mathematical provisions and equalization provisions.

The provision for unearned premiums consists of the gross overlapping portion of accrued premiums for insurance contracts that are in effect to the subsequent period or periods of balance sheet date on a daily basis without a commission or any other discount. In case the expected loss premium ratio is over 95%, the unexpired risk reserves are recognized for the branches specified by the Undersecretariat of Treasury. For each branch, the amount found by multiplying the ratio exceeding 95% by the net unearned premium provision is recognized in the financial statements as net unexpired risk reserve; and the amount found by multiplying the ratio exceeding 95% by the gross unearned premium provision is recognized as gross unexpired risk reserve. The difference between the gross and the net amounts is considered as the share of the reinsurer.

Undersecretariat of treasury released "Circular on Outstanding Claims Reserves Arising From Discounting of the Net Cash Flow" No. 2016/22 on 10 June 2016. According to this declaration outstanding claims reserves arising from discounting of the net cash flow is discounted with respect to related insurance legislation by insurance companies.

Mathematical provision is recognized in order to meet the requirements of policyholders and beneficiaries for long-time life, health and personal accident insurance contracts on actuarial bases.

Equalization provision is recognized in order to balance the fluctuations in the claim ratios. Effective 1 January 2005, the Group's insurance subsidiaries adopted TFRS 4, Insurance Contracts ("TFRS 4"). TFRS 4 represents the completion of phase I and is a transitional standard until the recognition and measurement of insurance contracts has more fully addressed. TFRS 4 requires that all contracts issued by insurance companies be classified as either insurance contracts or investment contracts.

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Insurance risk is defined as risk, other than financial risk, transferred from the holder of a contract to the issuer. TFRS 4 permits a company to continue with its previously adopted accounting policies with regard to recognition and measurement of insurance contracts. Only in case of presentation of more reliable figures a change in accounting policy shall be carried out. Contracts issued by insurance companies without significant insurance risk are considered investment contracts. Investment contracts are accounted for in accordance with TAS 39 revised.

Insurance companies of the Group cede premium and risks in the normal course of business in order to limit the potential for losses arising from risks accepted. Insurance premiums ceded to reinsurers on contracts that are deemed to transfer significant insurance risk are recognized as an expense in a manner that is consistent with the recognition of insurance premium revenue arising from the underlying risks being protected.

Costs which vary and are directly associated with the acquisition of insurance and reinsurance contracts including brokerage, commissions, underwriting expenses and other acquisition costs are deferred and amortized over the period of contract, consistent with the earning of premium.

In conformity with TFRS 4, at each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities net of related Deferred Acquisition Costs (DAC) and premiums receivable. Investment income from the assets backing the liabilities is taken into account in calculating the provision. Any deficiency, if there is, is immediately charged to the income statement initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests. Any DAC written off as a result of this test cannot subsequently be reinstated.

XVIII. EXPLANATIONS ON PROVISIONS AND CONTINGENT LIABILITIES

Provision and contingent liabilities are accounted in conformity with (TAS37) "Provisions, Contingent Liabilities and Contingent Assets".

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

XIX. EXPLANATIONS ON EMPLOYEE BENEFIT LIABILITIES

Employee benefits liabilities are recognized in accordance with the Turkish Accounting Standard No: 19 "Employee Benefits". According to related legislation and union contracts, the Parent Bank is required to make lump sum retirement payments to employees who has completed one year of service, is called up for military service, dies, resigns, retires or whose employment is terminated without due cause, or for female employees; who resigns subsequent to her marriage within one year. The Group provides provision by estimating the present value of the future retirement pay liability.

The retirement pay provision of the Parent Bank has been determined by the actuarial report of an independent valuation company. As of 1 January 2013, actuarial gains and losses are recorded under the shareholders' equity according to the revised TAS 19.

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T. Halk Bankası Employee Pension Fund, T. Ziraat Bankası and T. Halk Bankası Employee Pension Fund Foundations were founded in accordance with the provisional article 20 of the Social Insurance Act (SIA) No: 506 and their members include employees of the Parent Bank as well. Provisional article 23 of the Banking Act No: 5411 requires the Parent Bank's pension funds founded in the scope of SIA to be transferred to the Social Insurance Institution (SII) within 3 years subsequent to the publishing date of the act. The procedure and essentials for the transfer were determined by the Council of Ministers' decision dated 30 November 2006 and numbered 2006/11345 and accordingly, both pension fund foundations would have been transferred to SSI. However, with the decree of the Constitutional Court numbered E.2005/139, K.2007/13 and K.2007/33 published in the Official Gazette dated 31 March 2007 and numbered 26479, the first paragraph of the temporary first article of the provisional article 23 of the Banking Act No: 5411 is cancelled and the execution has been ceased starting from the date the decree is published.

After the justified decree related to cancelling the provisional article 23 of the Banking Law was announced by the Constitutional Court on the Official Gazette dated 15 December 2007 and numbered 26731, Turkish Grand National Assembly started to work on establishing new legal regulations, and after it was approved at the General Assembly of the TGNA, the Law numbered 5754 "Emendating Social Security and General Health Insurance Act and Certain Laws and Decree Laws", which was published on the Official Gazette dated 8 May 2008 and numbered 26870, came into effect. The new law decrees that the contributors of the bank pension funds, the ones who receive salaries or income from these funds and their rightful beneficiaries will be transferred to the Social Security Institution and will be subject to this Law within 3 years after the release date of the related article, without any need for further operation. The three year transfer period can be prolonged for maximum 2 years by the Cabinet decision. However related transfer period has been prolonged for 2 years by the Cabinet decision dated. 14 March 2011, which was published on the Official Gazette dated 9 April 2011 and numbered 27900. In addition, by the Law numbered 6283 "Emendating Social Security and General Health Insurance Act", which was published on the Official Gazette dated 8 March 2012 and numbered 28227, this period of 2 years has been raised to 4 years.

The statement "The Cabinet have entitled to determine transfer period" has taken place in the scope of In Article 51 of the Law No: 6645 which was published on the Gazette on 23 April 2015 and numbered 29335.

In accordance with the related legislation, as of the transfer date, the income and expenses of the transferred funds will be considered by the insurance branches and the cash value of the liabilities will be calculated with the actuarial interest rate 9,8%. Moreover, after the transfer to SII, the unfulfilled other social rights and payments existed in the settlement deeds of the subjected pension funds of the transferred participants, members or the rightful owners will be continued to be fulfilled by the employer entities of the funds and its participants. Based on the results of the actuarial report prepared as of 31 December 2016, no technical deficit has been reported.

XX. EXPLANATIONS ON TAXATION

In accordance with the Article 32 of the Corporate Tax Law No: 5520, the corporate tax rate is calculated at the rate of 20%. The tax legislation requires advance tax of 20% to be calculated and paid based on earnings generated for each quarter.

Calculated corporate tax as of 31 December 2015 has been paid in February 2016 thereby setting off calculated advanced taxes in previous periods. First advance tax for the 1 January 2016-31 March 2016 is accrued from corporate tax amount. Accrued advance tax as of 1 January 2016-30 June 2016 period is paid in August 2016. And also the accrued advanced tax as of 1 January 2016-30 September 2016 is paid in November 2016. Accrued advance tax as of 1 January 2016-31 December 2016 will be paid in February 2017.

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Tax expense is the sum of the current tax expense and deferred tax charge. Current year tax liability is calculated over taxable profit. Taxable profit is different from the profit in the income statement since taxable income or deductible expenses for the following years and non-taxable and non-deductible items are excluded.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date. An entity shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Prepaid corporation taxes and corporation tax liabilities are offset as they relate to income taxes levied by the same taxation authority on each consolidated entity's non-consolidated financial statements. Deferred tax assets and liabilities are also offset.

Tax practices in the countries that foreign branches and financial institution operate:

Turkish Republic of Northern Cyprus (TRNC)

According to the tax regulations in the Turkish Republic of Northern Cyprus, corporate gains are subject to 10% of corporate tax and this taxed amount is subject to 15% of income tax. The tax bases for corporate are determined by adding the expenses that cannot be deducted according to TRNC regulations, to commercial gains and by subtracting exemptions and deductions from commercial gains. Income tax is paid in July and November, and corporate tax payment is made in two installments, in May and in October. On the other hand, withholding tax is paid in TRNC over interest income and similar gains of corporations. The relevant withholding tax payments are deducted from the corporate tax-payable. In the case the amount of the withholding tax collections is are higher than the corporate tax payable, the difference is deducted from income tax payable.

Bahrain

Banks in Bahrain are not subject to tax according to the regulations of the country.

Tax practices for the subsidiaries which are subject to consolidation

Halk Gayrimenkul Yatırım Ortaklığı AŞ

The Parent Bank's subsidiary, Halk Gayrimenkul Yatırım Ortaklığı AŞ, is established in the 2010. Income derived from the operations related with the investment properties is exempt from corporate tax in accordance with the Article 5/1(d) (4) of the Corporate Tax Law No: 5520. This exemption is also used for the accrued advanced tax terms.

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Halk Banka AD Skopje

The Parent Bank's newly acquired subsidiary in 2011 Halk Banka AD, Skopje is subject to tax regulations in the Republic of Macedonia. A new tax regime had become effective according which the base for income tax computation had been shifted from the profit before taxes to the income "distribution" concept in the Republic of Macedonia.

"Distributions" are split into two components:

- Tax on any dividend distribution – i.e. the tax base is the dividend paid,
- Tax on non deductible items – i.e. the tax base is the non deductible items specified in the tax rulebook less any allowable tax credits. The tax on non deductible items is paid each month in monthly advance installments based on the previous fiscal year computation of such non deductible differences. At year end a final tax computation is prepared with a final tax settlement.

As such, the new income tax regime provokes certain implications on the presentation of the tax in the financial statements which are summarized below:

(i) Tax on dividend distribution:

Tax on dividend distribution is considered to be income tax within scope of Turkish Accounting Standards - Tax on Income ("TAS 12").

The timing of recognition of this type of income tax is to be consistent with the underlining dividend liability recognition (i.e., recognized when the dividend is paid and/or declared). As such no provisions are required for income tax arising from dividend distribution until the dividend is declared and/or paid.

When the tax on dividend distribution arises on interim (advance) dividend paid before the year end, the income tax charge is recognized and presented in the statement of comprehensive income after profit and loss before tax as income tax expense.

When the tax on dividend distribution arises from retained earnings, it is recognized and presented in the Statement of changes in equity.

(ii) Tax on non deductible items:

Tax on non deductible items is not income tax and is out of scope of TAS 12. Accordingly, such tax expense is presented within the operating results, and related tax payable/receivable is presented within the other assets/other liabilities in the statement of financial position.

Recognition of tax provisions:

In case of tax contingencies, provisions are made in line with Turkish Accounting Standards – Provisions, Contingent Liabilities and Contingent Assets adopted in the Republic of Macedonia ("TAS 37").

Such provisions are not presented as deferred tax assets or deferred tax liabilities, but as other assets or other liabilities.

Recognition/reversal of such tax provisions (that is not income taxes) is presented within the other expenses/other income.

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[Halk Bank AD Beograd.](#)

The Parent Bank's acquired subsidiary in 2015 Halk Bank AD, Beograd is subject to tax regulations in the Republic of Serbia. The annual corporate income tax is payable at the rate of 15% on profit before tax, adjusted for permanent differences that prescribed tax rate adjusted to the effective tax rate.

The Law on Corporate Income Tax in the Republic of Serbia does not allow any tax losses of the current period to be used to recover taxes paid in previous periods. However, any current year losses disclosed in the tax balance up to 2009 may be used to reduce tax base for future periods, but only for a period not longer than ten years. The losses in the tax balance for 2010 and thereafter may be used for reduction of tax base for the following accounting periods, but for maximum 5 years. Such tax losses, up to the amount of assumed future taxable profit that can be offset to tax losses, are recognized in the balance sheet as deferred tax.

XXI. ADDITIONAL EXPLANATIONS ON BORROWINGS

The Group borrows funds from domestic and foreign institutions and issues marketable securities when needed. These borrowing activities are recognized at fair value including the acquisition costs at the transaction date and they are valued at amortized costs by using the internal rate of return method.

Interest rate and liquidity risks are reduced by having assets with shorter or equal maturity terms than borrowing instruments such as syndication, securitization and borrowing with collateral and bears higher interest than costs of those instruments.

Also, asset composition is designed in accordance with the fixed/variable cost nature of borrowing instruments.

XXII. EXPLANATIONS ON SHARES AND SHARE ISSUE

Share issuances related to costs are accounted under expense accounts. Dividend income related with the equity shares are determined by the General Assembly of the Parent Bank.

The Parent Bank has not issued any shares in the current and prior period. In accordance with the decree of the Privatization High Council dated 5 February 2007 and numbered 2007/8, the process of public offering for the 25% of shares pertaining to the Privatization Administration was completed and the Parent Bank shares were registered to the Board with the decree of the Capital Markets Board dated 26 April 2007 and numbered 16/471, and the shares were traded on the Borsa İstanbul AŞ as of 10 May 2007.

As per the decree of the Higher Council of Privatization numbered 2012/150 and dated 4 October 2012; 23,92% of the public shares that were previously held by the Privatization Administration were privatized by a second public offering and privatization was completed on 21 November 2012.

Halk GYO has applied to CMB by 29 August 2012 for the purpose of initial public offering of the increasing amount of B group of shares TRY 185.500 notional amount which is increased from TRY 477.000 issued capital of the Halk GYO to TRY 662.500 within TRY 1.500.000 registered capital ceiling. Application was approved in accordance with the decision promulgated by CMB's numbered 4/97 on 8 February 2013. As at 15 February 2013 there has been an initial public offering of B group shares of TRY 185.500 notional amount by restricting the existent shareholders for purchasing the new shares. After the collecting the demand the Company's shares started to be traded on Borsa İstanbul AŞ at 22 February 2013.

It has been decided to increase the paid-in capital of the company, Halk GYO AŞ, as required by the General Assembly Decision dated 6 April 2016, to TRY 790.000 by increasing TRY 47.000 and the registration process was completed on 27 May 2016.

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XXIII. EXPLANATIONS ON BILL GUARANTEES AND ACCEPTANCES

Bill guarantees and acceptances are realized simultaneously with the customer payments and they are presented as possible liabilities and commitments in the off-balance sheet accounts.

XXIV. EXPLANATIONS ON GOVERNMENT INCENTIVES

None.

XXV. EXPLANATIONS ON SEGMENT REPORTING

Segment reporting focuses on business segment considering the main source and nature of the risks and returns of the Group. The Parent Bank operates mainly in corporate, commercial, entrepreneur banking and investment banking.

The report concerning parts of Group's business segmentation and related information is explained in section four, disclosure numbered VIII.

XXVI. EXPLANATION ON OTHER MATTERS

New and revised standards and comments issued by the International Accounting Standards Board ("IASB") and Public Oversight Accounting and Auditing Standards Authority ("POA")

With the amendment published in January 2017, the new standard will apply to annual accounting periods beginning on or after 1 January 2018. The first phase of the TFRS 9 Financial Instruments standard introduces new provisions for the measurement and classification of financial assets and liabilities. The amendments to IFRS 9 will mainly affect the classification and measurement of financial assets and the measurement of financial liabilities which classified as measured at fair value through profit or loss and the portion of fair value changes related to credit risk of these kinds liabilities must be presented in other comprehensive income statement. Early adaption is permitted for this standard. The Group assesses the effects of the standard on its financial position and performance.

New and revised standards and comments issued by the International Accounting Standards Board ("IASB") but not yet by the Public Oversight Accounting and Auditing Standards Authority ("POA")

The new TFRS 16 Leasing Transactions Standard was issued by the International Accounting Standards Board on 13 January 2016. The IAS17 Leasing Transactions, which govern these standard leases, are subjected to amendments to IFRS Comment 4 Determination of whether a settlement includes a lease and IAS 15 Operating Lease - Incentives standards and interpretations and amendments to IAS 40 Property of Investment Property. IFRS 16 removes the dual accounting model for leaseholders from the existing practice of financial leasing in the balance sheet and the presentation of operational leases on the balance sheet. Instead, a single balance sheet-based accounting model is presented similar to existing leasing accounting. Recognition for leaseholders continues to be similar to existing practices. This change will be effective for annual periods beginning on after 1 January 2019 and early application is permitted for entities applying the Revenue Standard from TFRS 15 Customer Contracts. The Bank assesses the impact of the standard on its financial position and performance.

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SECTION IV: INFORMATION RELATED TO FINANCIAL STRUCTURE AND RISK MANAGEMENT OF THE GROUP

I. EXPLANATIONS RELATED TO THE CONSOLIDATED CAPITAL ADEQUACY RATIO

Total capital and Capital adequacy ratio have been calculated in accordance with the “Regulation on Equity of Banks” and “Regulation on Measurement and Assessment of Capital Adequacy of Banks”. As of 31 December 2016 Group’s total capital has been calculated as TRY 22.857.357 (31 December 2015: TRY 20.099.511), capital adequacy ratio is 12,50% (31 December 2015: 13,04%).

1. Information on Consolidated Capital Items:

	Amount	Amounts related to treatment before 1/1/2014 ^(*)
COMMON EQUITY TIER 1 CAPITAL		
Paid-in capital following all debts in terms of claim in liquidation of the Bank	2.470.451	
Share issue premiums	39.737	
Reserves	14.553.153	
Gains recognized in equity as per TAS	1.387.742	
Profit	2.700.556	
Current Period Profit	2.533.607	
Prior Period Profit	166.949	
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and cannot be recognised within profit for the period	4.723	
Minorities' Share	16.333	
Common Equity Tier 1 Capital Before Deductions	21.172.695	
Deductions from Common Equity Tier 1 Capital		
Common Equity as per the 1st clause of Provisional Article 9 of the Regulation on the Equity of Banks	-	
Portion of the current and prior periods' losses which cannot be covered through reserves and losses reflected in equity in accordance with TAS	-	
Improvement costs for operating leasing	72.880	
Goodwill (net of related tax liability)	-	
Other intangibles other than mortgage-servicing rights (net of related tax liability)	69.137	110.427
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	
Differences are not recognized at the fair value of assets and liabilities subject to hedge of cash flow risk	-	
Communiqué Related to Principles of the amount credit risk calculated with the Internal Ratings Based Approach, total expected loss amount exceeds the total provision	-	
Gains arising from securitization transactions	-	
Unrealized gains and losses due to changes in own credit risk on fair valued liabilities	-	
Defined-benefit pension fund net assets	-	
Direct and indirect investments of the Bank in its own Common Equity	-	
Shares obtained contrary to the 4th clause of the 56th Article of the Law	-	
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank	-	
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank	-	
Portion of mortgage servicing rights exceeding 10% of the Common Equity	-	
Portion of deferred tax assets based on temporary differences exceeding 10% of the Common Equity	-	
Amount exceeding 15% of the common equity as per the 2nd clause of the Provisional Article 2 of the Regulation on the Equity of Banks	-	
Excess amount arising from the net long positions of investments in common equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital	-	
Excess amount arising from mortgage servicing rights	-	
Excess amount arising from deferred tax assets based on temporary differences	-	
Other items to be defined by the BRSA	-	
Deductions to be made from common equity due to insufficient Additional Tier I Capital or Tier II Capital	-	
Total Deductions From Common Equity Tier 1 Capital	142.017	
Total Common Equity Tier 1 Capital	21.030.678	

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	Amount	Amounts related to treatment before 1/1/2014 ⁽¹⁾
ADDITIONAL TIER I CAPITAL	-	
Preferred Stock not Included in Common Equity and the Related Share Premiums	-	
Debt instruments and premiums approved by BRSA	-	
Debt instruments and premiums approved by BRSA(Temporary Article 4)	-	
Third parties' share in the Additional Tier I capital	-	
Third parties' share in the Additional Tier I capital (Temporary Article 3)	-	
Additional Tier I Capital before Deductions	-	
Deductions from Additional Tier I Capital	-	
Direct and indirect investments of the Bank in its own Additional Tier I Capital	-	
Investments of Bank to Banks that invest in Bank's additional equity and components of equity issued by financial institutions with compatible with Article 7.	-	
Total of Net Long Positions of the Investments in Equity Items of Unconsolidated Banks and Financial Institutions where the Bank Owns 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital	-	
The Total of Net Long Position of the Direct or Indirect Investments in Additional Tier I Capital of Unconsolidated Banks and Financial Institutions where the Bank Owns more than 10% of the Issued Share Capital	-	
Other items to be defined by the BRSA	-	
Transition from the Core Capital to Continue to deduce Components	46.092	
Goodwill and other intangible assets and related deferred tax liabilities which will not deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	46.092	
Net deferred tax asset/liability which is not deducted from Common Equity Tier 1 capital for the purposes of the sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	
Deductions to be made from common equity in the case that adequate Additional Tier I Capital or Tier II Capital is not available (-)	-	
Total Deductions From Additional Tier I Capital	-	
Total Additional Tier I Capital	-	
Total Tier I Capital (Tier I Capital=Common Equity+Additional Tier I Capital)	20.984.586	
TIER II CAPITAL		
Debt instruments and share issue premiums deemed suitable by the BRSA	-	
Debt instruments and share issue premiums deemed suitable by BRSA (Temporary Article 4)	-	
Third parties' share in the Tier II Capital	-	
Third parties' share in the Tier II Capital (Temporary Article 3)	-	
Provisions (Article 8 of the Regulation on the Equity of Banks)	2.049.136	
Tier II Capital Before Deductions	2.049.136	
Deductions From Tier II Capital	-	
Direct and indirect investments of the Bank on its own Tier II Capital (-)	-	
Investments of Bank to Banks that invest on Bank's Tier 2 and components of equity issued by financial institutions with the conditions declared in Article 8.	-	
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank (-)	-	
Portion of the total of net long positions of investments made in Additional Tier I Capital item of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank	-	
Other items to be defined by the BRSA (-)	-	
Total Deductions from Tier II Capital	-	
Total Tier II Capital	2.049.136	
Total Capital (The sum of Tier I Capital and Tier II Capital)	23.033.722	
The sum of Tier I Capital and Tier II Capital (Total Capital)	22.857.357	
Deductions from Capital Loans granted contrary to the 50th and 51th Article of the Law	10	
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years	157.617	
Other items to be defined by the BRSA (-)	18.738	

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	Amount	Amounts related to treatment before 1/1/2014 ⁽⁴⁾
In transition from Total Core Capital and Supplementary Capital (the capital) to Continue to Download Components		
The Sum of net long positions of investments (the portion which exceeds the %10 of Banks Common Equity) in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity which will not deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	
The Sum of net long positions of investments in the Additional Tier 1 capital and Tier 2 capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity which will not deducted from Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	
The Sum of net long positions of investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity, mortgage servicing rights, deferred tax assets arising from temporary differences which will not deducted from Common Equity Tier 1 capital for the purposes of the first sub-paragraph of the Provisional Article 2 of the Regulation on Banks' Own Funds (-)	-	
TOTAL CAPITAL		
Total capital	22.857.357	
Total risk weighted amounts	182.822.490	
Capital Adequacy Ratios		
Core Capital Adequacy Ratio	11,50	
Tier 1 Capital Adequacy Ratio	11,48	
Capital Adequacy Ratio	12,50	
BUFFERS		
Total buffer requirement	5,387	
Capital conservation buffer requirement	0,625	
Bank specific counter-cyclical buffer requirement	0,262	
The ratio of Additional Common Equity Tier 1 capital which will be calculated by the first paragraph of the Article 4 of Regulation on Capital Conservation and Countercyclical Capital buffers to Risk Weighted Assets	4,502	
Amounts below the Excess Limits as per the Deduction Principles		
Portion of the total of net long positions of investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or less of the issued share capital exceeding the 10% threshold of above Tier I capital	47.469	
Portion of the total of investments in equity items of unconsolidated banks and financial institutions where the bank owns 10% or less of the issued share capital exceeding the 10% threshold of above Tier I capital	1.550.920	
Portion of mortgage servicing rights	-	
Amount arising from deferred tax assets based on temporary differences	283.637	
Limits related to provisions considered in Tier II calculation		
General provisions for standard based receivables (before tenthousandtwentyfive limitation)	2.049.136	
Up to 1.25% of total risk-weighted amount of general reserves for receivables where the standard approach used	2.049.136	
Excess amount of total provision amount to credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	
Excess amount of total provision amount to &0,6 of risk weighted receivables of credit risk Amount of the Internal Ratings Based Approach in accordance with the Communiqué on the Calculation	-	
Debt instruments subjected to Article 4 (to be implemented between January 1, 2018 and January 1, 2022)		
Upper limit for Additional Tier I Capital subjected to temporary Article 4	-	
Amounts Excess the Limits of Additional Tier I Capital subjected to temporary Article 4	-	
Upper limit for Additional Tier II Capital subjected to temporary Article 4	-	
Amounts Excess the Limits of Additional Tier II Capital subjected to temporary Article 4	-	

⁽⁴⁾ Amounts in this column represents the amounts of items that are subject to transition provisions in accordance with the temporary Articles of "Regulations regarding to changes on Regulation on Equity of Banks" and taken into consideration at the end of transition process.

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	Prior Period
COMMON EQUITY TIER I CAPITAL	
Paid-in capital following all debts in terms of claim in liquidation of the Bank	2.470.451
Share premium	39.488
Share cancellation profits	-
Reserves	12.600.202
Gains recognized in equity as per TAS	1.368.344
Profit	2.482.790
<i>Current Period Profit</i>	2.317.984
<i>Prior Period Profit</i>	164.806
Provisions for Possible Risks	123.500
Bonus Shares from Investments in Associates, Subsidiaries and Joint Ventures that are not recognized in Profit	3.973
Minorities' Share	143.418
Common Equity Before Deductions	19.232.166
Deductions from Common Equity	
Portion of the current and prior periods' losses which cannot be covered through reserves and losses reflected in equity in accordance with TAS (-)	-
Leasehold improvements (-)	70.995
Goodwill or other intangible assets and deferred tax liability related to these items (-)	40.926
Net deferred tax asset/liability (-)	-
Shares obtained contrary to the 4th clause of the 56th Article of the Law (-)	-
Direct and indirect investments of the Bank in its own Common Equity (-)	-
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank (-)	-
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank (-)	-
Portion of mortgage servicing rights exceeding 10% of the Common Equity (-).	-
Portion of deferred tax assets based on temporary differences exceeding 10% of the Common Equity (-)	-
Amount exceeding 15% of the common equity as per the 2nd clause of the Provisional Article 2 of the Regulation on the Equity of Banks (-)	-
Excess amount arising from the net long positions of investments in common equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital (-)	-
Excess amount arising from mortgage servicing rights (-)	-
Excess amount arising from deferred tax assets based on temporary differences (-)	-
Other items to be defined by the BRSA (-)	-
Deductions to be made from common equity in the case that adequate Additional Tier I Capital or Tier II Capital is not available (-)	-
Total Deductions From Common Equity	111.921
Total Common Equity Tier I Capital	19.120.245
ADDITIONAL TIER I CAPITAL	
Capital amount and related premiums corresponding to preference shares that are not included in common equity	-
Debt instruments and premiums deemed suitable by BRSA (issued/obtained after 1.1.2014)	-
Debt instruments and premiums deemed suitable by BRSA (issued before 1.1.2014)	-
Third parties' share in the Tier II Capital	-
Additional Tier I Capital before Deductions	-
Deductions from Additional Tier I Capital	
Direct and indirect investments of the Bank in its own Additional Tier I Capital (-)	-
Portion of the total of net long positions of investments made in equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank (-)	-
Portion of the total of net long positions of investments made in Additional Tier I Capital and Tier II Capital items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank (-)	-
Other items to be defined by the BRSA (-)	-
Deductions to be made from common equity in the case that adequate Additional Tier I Capital or Tier II Capital is not available (-)	-

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	Prior Period
Total Deductions From Additional Tier I Capital	-
Total Additional Tier I Capital	-
DEDUCTIONS FROM TIER I CAPITAL	61.388
Portion of goodwill and other intangible assets and the related deferred tax liabilities which not deducted from the Common Equity as per the 1st clause of Provisional Article 2 of the Regulation on the Equity of Banks (-)	61.388
Portion of net deferred tax assets/liabilities which is not deducted from the common equity pursuant to Paragraph 1 Provisional Article 2 of the Regulation on the Equity of Banks (-)	-
Total Tier I Capital	19.058.857
TIER II CAPITAL	
Debt instruments and premiums deemed suitable by the BRSA (issued/obtained after 1.1.2014)	-
Debt instruments and premiums deemed suitable by the BRSA (issued/obtained before 1.1.2014)	-
Sources pledged to the Bank by shareholders to be used in capital increases of the Bank	-
General Loan Loss Provisions	1.139.290
Third parties' share in the Tier II Capital	-
Tier II Capital Before Deductions	1.139.290
Deductions From Tier II Capital	
Direct and indirect investments of the Bank in its own Tier II Capital (-)	-
Portion of the total of net long positions of investments made in Common Equity items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or less of the issued common share capital exceeding 10% of Common Equity of the Bank (-)	-
Portion of the total of net long positions of investments made in Additional Tier I and Tier II Capital items of banks and financial institutions outside the scope of consolidation where the Bank owns 10% or more of the issued common share capital exceeding 10% of Common Equity of the Bank (-)	-
Other items to be defined by the BRSA (-)	-
Total Deductions from Tier II Capital	-
Total Tier II Capital	1.139.290
CAPITAL	20.198.147
Loans Granted against the Articles 50 and 51 of the Banking Law (-)	10
Net Book Values of Movables and Immovables Exceeding the Limit Defined in the Article 57, Clause 1 of the Banking Law and the Assets Acquired against Overdue Receivables and Held for Sale but Retained more than Five Years (-)	69.325
Loans to Banks, Financial Institutions (domestic/foreign) or Qualified Shareholders in the form of Subordinated Debts or Debt Instruments Purchased from Such Parties and Qualified as Subordinated Debts (-)	-
Deductions as per the Article 20, Clause 2 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (-)	-
Other items to be Defined by the regulator (-)	29.301
The Portion of Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank does not own 10% or less of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Tier I Capital, Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-
The Portion of Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-
The Portion of Total of Net Long Positions of the Investments in Equity Items of Consolidated Banks and Financial Institutions where the Bank owns more than 10% of the Issued Share Capital Exceeding the 10% Threshold of above Tier I Capital not deducted from Additional Core Capital or Tier II Capital as per the Temporary Article 2, Clause 1 of the Regulation (-)	-
EQUITY	20.099.511
Amounts below the thresholds for deduction	
Remaining Total of Net Long Positions of the Investments in Own Fund Items of Consolidated Banks and Financial Institutions where the Bank owns 10% or less of the Issued Share Capital	15.635
Remaining total of net long positions of the investments in Tier I capital of Consolidated banks and Financial Institutions where the Bank owns more than 10% Or Less of the Tier I Capital	1.418.085
Remaining mortgage servicing rights	-
Net deferred tax assets arising from temporary differences	213.687

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II. EXPLANATIONS RELATED TO THE CREDIT RISK

Credit risk refers to the risks and damage caused by failure to fulfill the obligations of the other party in the contracts of the Group. Credit limits are assigned according to the customer's financial condition and credit need by the branches, regional credit committee, head of credit department, in charge of general manager of the credit, general manager, credit committee and board of directors and also they can be replaced when necessary situation in terms of the scope of the legislation.

In accordance with the risk management policies of the Group, the limits are specified in respect of the main and sub-sectors. Those limits are monitored periodically.

The Bank, in the credit allocation process, restricts its risk exposure by working with highly credible banks and entities considering the credit ratings for the purpose of managing its risks. Under the scope of credit risk management, the Bank rates all of its borrowers' credit and requires additional collaterals from whose risk is higher. The Bank has the policy of not granting loans/credits and/or limiting the amount of such loans/credits. The Bank's risk is concentrated in Turkey. In loan procedure, limits are determined based on the type of loans and customers and risk and limit information is controlled periodically.

Loans granted to other banks and risk limits set for the correspondent bank transactions are controlled on a daily basis. Risk concentrations are monitored systematically with the Treasury department, concerning the off-balance sheet operations based on the customers and banks.

Except for the restructured loan follow-up system determined in the related communiqué, such loans are incorporated into the new rating groups or risk weightings under the risk management systems of the banks, and new precautionary measures are taken for these processes. Since long-term commitments are more risky than the short-term commitments, risks are assorted in accordance with the Bank's risk management system.

As prescribed in the Communiqué on "Determining the Nature of Loans and Receivables and Principles and Procedures on the Allocation of Loan and Receivable Provisions", the credit worthiness of the debtors of the loans and other receivables is monitored regularly. Credit limits are determined according to the audited statement of accounts. Guarantee factors are developed in accordance with the decision of the credit committee and updated according to the top management's initiatives and changes in the economic conditions. The Bank receives sufficient collaterals in consideration of the loans and other receivables granted. Guarantees are surety ships, immovable mortgages, cash blockages and customer or real person cheques.

When the Bank is exposed to significant credit risks, it has the tendency to cease its forward or similar type of transactions by using rights, fulfilling the requirements of the acquisitions or disposing of the acquisitions to mitigate the risk total.

The receivables of the Group from its top 100 and 200 cash loan customers are respectively 24,52% and 30,14% of its total cash loans.

The receivables of the Group from its top 100 and 200 non-cash loan customers are respectively 46,43% and 57,52% of its total non-cash loans.

Share of cash and non-cash receivables of the Bank from its top 100 and 200 customers are respectively 17,58% and 22,43% of its total balance sheet and off-balance sheet assets.

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General loan loss provision related to the credit risk incurred by the Bank in accordance with the legislation on “Determining the Nature of Loans and Receivables and Principles and Procedures on the Allocation of Loan and Receivable Provisions” is TRY 2.049.136 (31 December 2015: TRY 1.139.290).

Risk Classifications: Risk Amount	Current Period		Prior Period	
	Current Period Risk Amount ⁽¹⁾	Average Risk Amount	Prior Period Risk Amount ⁽¹⁾	Average
Claims on sovereigns and Central Banks	68.234.630	53.160.680	47.714.758	44.994.513
Claims on regional governments or local authorities	1.913.131	1.385.766	1.074.473	844.635
Claims on administrative bodies and other non-commercial undertakings	740.264	709.612	619.959	555.877
Claims on multilateral development banks	-	-	-	-
Claims on international organizations	-	-	-	-
Claims on banks and intermediary institutions	6.407.389	5.518.048	4.663.854	5.257.788
Claims on corporates	83.297.300	75.938.784	67.003.874	61.631.983
Claims included in the regulatory retail portfolios	54.433.959	53.350.422	41.549.469	39.969.666
Claims secured by residential property	45.580.377	35.640.519	32.818.466	28.248.340
Overdue loans ⁽²⁾	1.269.390	1.135.435	1.001.856	1.125.496
Higher risk categories decided by the Board	50.578	1.350.442	7.541.693	7.945.993
Secured by mortgages	-	-	-	-
Securitization positions	-	-	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-	-	-
Undertakings for collective investments in mutual funds	-	-	-	-
Other receivables	10.356.218	9.501.546	8.694.071	7.724.019

⁽¹⁾ Includes the risk amounts after credit conversions.

⁽²⁾ As of 31 December 2016, there is an overdue receivable finance lease receivable amounting to TRY 72.332 which is 100% risk weight in the risk class overdue receivables risk class in the consolidated credit risk table (31 December 2015: TRY 193.653)

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Risk profile according to the geographical concentration:

	Risk Classifications ⁽¹⁾										Total	
	Contingent and Non-contingent Receivables from Central Governments or Banks	Contingent and Non-contingent Receivables from Regional Administrative Units or Domestic Commercial Banks	Contingent and Non-contingent Receivables from Banks and Intermediaries	Contingent and Non-contingent Receivables from Corporate Receivables	Contingent and Non-contingent Receivables from Retail Receivables	Contingent and Non-contingent Receivables Secured by Residential Property	Non-Performing Receivables	Receivables identified as high risk by the Board	Other Receivables	Receivables		
Current Period												
1. Domestic	68.234.621	1.913.131	740.208	6.279.382	81.079.482	54.330.563	45.349.383	1.251.604	50.578	10.340.747	269.569.699	
2. EU Countries	-	-	56	54.616	664.177	100.032	213.895	17.783	-	15.471	1.066.030	
3. OECD Countries	-	-	-	20.552	5.674	1.507	14.148	3	-	-	41.884	
4. Off-shore banking regions	-	-	-	-	-	23	-	-	-	-	23	
5. USA, Canada	-	-	-	13.139	217.206	96	347	-	-	-	230.788	
6. Other Countries	9	-	-	39.700	1.330.761	1.738	2.604	-	-	-	1.374.812	
7. Investment and associates, subsidiaries and joint ventures	-	-	-	-	-	-	-	-	-	-	-	
8. Undistributed Assets/Liabilities ⁽²⁾	-	-	-	-	-	-	-	-	-	-	-	
9. Total	68.234.630	1.913.131	740.264	6.407.389	83.297.300	54.433.959	45.580.377	1.269.390	50.578	10.356.218	272.283.236	
Prior Period												
1. Domestic	47.714.749	1.074.473	619.959	2.613.515	64.009.318	41.456.405	32.654.414	1.001.702	7.541.693	8.688.952	207.375.180	
2. EU Countries ⁽²⁾	-	-	-	601.156	248.554	89.806	162.573	154	-	5.119	1.107.362	
3. OECD Countries	-	-	-	1.207.789	2.204	1.738	171	-	-	-	1.211.902	
4. Off-shore banking regions	-	-	-	-	29	-	-	-	-	-	29	
5. USA, Canada	-	-	-	65.356	678.889	174	129	-	-	-	744.548	
6. Other Countries	9	-	-	31.710	857.580	1.346	1.179	-	-	-	891.824	
7. Investment and associates, subsidiaries and joint ventures	-	-	-	144.299	1.207.329	-	-	-	-	-	1.351.628	
8. Undistributed Assets/Liabilities ⁽²⁾	-	-	-	-	-	-	-	-	-	-	-	
9. Total	47.714.758	1.074.473	619.959	4.663.854	67.003.874	41.549.469	32.818.466	1.001.856	7.541.693	8.694.071	212.682.473	

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

⁽²⁾ Assets and liabilities that are not consistently allocated.

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Risk Profile according to sectors:

Current Period	Risk Classifications ⁽¹⁾											TRY	FC	Total
	Contingent and Non-contingent Receivables from Central or Government Banks	Contingent and Non-contingent Receivables from Regional Administrative or Domestic Commercial Enterprises	Contingent and Non-contingent Receivables from Banks and Intermediaries	Contingent and Non-contingent Corporate Receivables	Contingent and Non-contingent Retail Receivables	Contingent and Non-contingent Receivables Secured by Residential Property	Non-Performing Receivables	Receivables identified as high risk by the Board	Other Receivables	TRY	FC			
Agricultural	11	14	100	528,610	308,503	92,659	24,536	12	666,763	287,682	954,445			
Farming and raising livestock	11	14	70	186,521	478,317	84,136	22,572	12	618,615	151,038	769,653			
Forestry	-	-	5	54,730	23,917	643	759	-	12,015	68,039	80,054			
Fishing	-	-	25	69,252	26,376	7,880	1,205	-	36,133	68,605	104,738			
Manufacturing	48	55	361,455	35,259,454	8,593,342	13,066,982	730,962	69,923	25,552,883	32,529,338	58,082,221			
Mining	-	-	139,590	1,097,764	149,325	168,125	18,997	-	406,969	1,166,832	1,573,801			
Production	48	28	107,988	26,558,330	8,408,488	11,980,103	710,042	69,923	23,271,964	24,562,986	47,836,950			
Electric, gas and water	-	27	113,877	7,603,360	35,529	9,187,54	1,923	-	1,873,950	6,799,520	8,673,470			
Construction	13	16	129	9,610,201	1,650,379	1,459,239	123,384	-	6,544,187	6,299,174	12,843,361			
Services	401,823	33,266	288,624	4,984,874	27,156,931	13,253,355	386,604	3,497,401	46,308,048	26,293,091	72,601,139			
Wholesale and retail trade	17	694	102,093	9,655,999	14,283,744	6,507,261	195,895	2,075	25,077,068	5,670,710	30,747,778			
Hotel, food and beverage services	-	47	13	3,899,276	695,392	3,676,091	63,006	-	1,589,708	6,753,519	8,343,227			
Transportation and telecommunication	-	17,230	172,328	6,980,709	6,306,663	651,510	17,851	184	6,986,634	7,159,861	14,146,495			
Financial institutions	202,060	-	1,189	4,984,874	3,249,029	42,636	582,349	3,483,535	9,875,901	2,670,354	12,546,255			
Real estate and renting services	129,739	15,237	-	1,963,357	320,073	916,500	73,623	12	85,8960	2,559,581	3,418,541			
Self-employment services	4	6	17	10,469	706,050	135,471	2,086	-	846,435	7,668	854,103			
Education services	25,513	-	238	662,189	83,452	248,809	2,374	2,193	438,742	586,026	1,024,768			
Health and social services	44,490	32	12,746	735,903	160,251	535,364	31,186	-	634,600	885,372	1,519,972			
Other	67,822,735	1,879,780	89,956	1,422,515	10,962,211	21,063,367	3,904	50,578	6,788,882	81,118,393	46,683,677			
Total	68,234,630	1,913,131	740,264	6,407,389	83,297,300	54,433,959	45,580,377	1,269,390	50,578	10,356,218	160,190,274	112,092,962	272,283,236	

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

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Prior Period	Risk Classifications ⁽¹⁾										FC	Total	
	Contingent and Non-contingent Receivables from Central Governments or Central Banks	Contingent and Non-contingent Receivables from Regional Government or Domestic Government	Contingent and Non-contingent Receivables from Administrative Units and Non-Commercial from Banks and Enterprises Intermediaries	Contingent and Non-contingent Receivables from Corporate	Contingent and Non-contingent Receivables from Retail	Contingent and Non-contingent Receivables Secured by Residential Property	Non-Performing Receivables	Receivables identified as high risk by the Board	Other Receivables	TRY			
Agricultural	11	34	110	-	183,244	458,044	65,650	13,861	-	120,920	720,893	120,981	841,874
Farming and raising livestock	11	34	42	-	136,553	432,362	60,313	13,710	-	120,850	683,404	82,471	765,875
Forestry	-	-	5	-	1,924	-	234	8	-	70	4,866	390	5,256
Fishing	-	-	63	-	42,767	22,667	5,103	143	-	32,623	38,120	70,743	-
Manufacturing	42	104	70,863	-	28,792,868	7,028,230	8,551,061	604,864	-	86,607	20,837,078	24,297,561	45,134,639
Mining	-	-	12,459	-	349,744	118,541	75,698	15,794	-	324,689	247,547	572,236	-
Production	42	104	49,596	-	22,859,313	6,881,495	7,711,504	589,013	-	86,607	19,166,436	19,011,238	38,177,674
Electric, gas and water	-	-	8,808	-	5,583,811	28,194	763,859	57	-	-	1,345,953	5,038,776	6,384,729
Construction	12	15	128	-	6,428,257	1,213,875	1,046,485	96,503	-	148,426	4,789,597	4,144,104	8,933,701
Services	45,587,842	21,296	442,470	4,587,267	21,697,614	18,903,454	9,170,233	257,021	-	309,951	62,334,240	38,642,908	100,977,148
Wholesale and retail trade	20	50	326,643	-	8,800,741	11,990,854	4,959,898	141,152	-	31,381	21,981,960	4,268,779	26,250,739
Hotel, food and beverage services	-	319	1,368	-	2,836,684	505,691	2,064,090	26,054	-	84	1,199,818	4,234,472	5,434,290
Transportation and telecommunication	-	6	28,480	-	4,373,219	5,267,251	467,478	7,277	-	25,304	5,778,201	4,390,814	10,169,015
Financial institutions	45,444,261	2,677	7,926	4,587,267	2,792,349	79,762	269,738	848	-	222,216	31,071,088	22,335,956	53,407,044
Real estate and renting services	114,199	2,214	-	-	1,795,960	236,064	926,827	72,465	-	23,671	617,017	2,554,383	3,171,400
Self-employment services	3	5	16	-	198	628,418	101,426	1,511	-	6,019	734,103	3,493	737,596
Education services	323	5	48,733	-	471,084	82,347	110,380	381	-	1,172	390,848	323,577	714,425
Health and social services	29,036	16,020	29,304	-	627,379	113,067	270,396	7,333	-	104	561,205	531,434	1,092,639
Other	2,126,851	1,053,024	106,388	76,587	9,901,891	13,945,866	13,985,037	29,607	7,541,693	8,028,167	47,580,986	9,274,125	56,795,111
Total	47,714,758	1,074,473	619,959	4,863,854	67,003,874	41,549,469	32,818,466	1,001,856	7,541,693	8,694,071	136,262,794	76,419,679	212,682,473

⁽¹⁾ It refers to the risk classes in the Regulation on the Measurement and Evaluation of Banks' Capital Adequacy.

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Distribution of maturity risk factors according to their outstanding maturities^{(*)(**)}:

According to outstanding maturities					
Current Period					
Risk Classifications	1 month	1-3 month	3-6 month	6-12 month	1 year and over
1.Claims on sovereigns and Central Banks	431.030	65.939	408.242	923.263	66.406.156
2.Claims on regional governments or local authorities	31.540	590	10.178	45.272	1.825.551
3.Claims on administrative bodies and other non-commercial undertakings	380.080	164.819	8.018	181.329	6.018
4.Claims on banks and intermediary institutions	4.841.217	37.892	64.165	44.613	1.419.502
5.Claims on corporate	12.874.283	5.354.254	8.834.772	14.636.163	59.977.646
6.Claims included in the regulatory retail portfolios	4.750.129	2.346.716	4.694.522	11.378.060	58.515.669
7. Overdue loans	1.196.810	-	-	22	72.558
8. Other receivables	469.233	113.255	-	38	9.773.692
Total	24.974.322	8.083.465	14.019.897	27.208.760	197.996.792

^(*) Includes total risk amounts before the effect of credit risk mitigation but after credit conversions.

^(**) Claims secured by residential property and higher risk categories decided by the Board are disclosed in the claims on corporate and claims included in the regulatory retail portfolios.

According to outstanding maturities					
Prior Period					
Risk Classifications	1 month	1-3 month	3-6 month	6-12 month	1 year and over
1.Claims on sovereigns and Central Banks	29.040.134	208.857	998.529	163.063	17.304.175
2.Claims on regional governments or local authorities	9.108	1.024	7.734	13.746	1.042.861
3.Claims on administrative bodies and other non-commercial undertakings	139.275	39.343	333.415	29.651	78.275
4.Claims on banks and intermediary institutions	4.403.115	82.004	45.020	13.095	120.620
5.Claims on corporate	9.304.990	4.054.928	7.119.983	12.177.351	46.017.535
6.Claims included in the regulatory retail portfolios	3.902.928	2.081.313	3.923.020	8.587.008	51.744.446
7. Overdue loans	858.370	100.934	256	4.217	38.079
8. Other receivables	393.762	76.478	15.447	69.654	8.138.730
Total	48.051.682	6.644.881	12.443.404	21.057.785	124.484.721

^(*) Includes total risk amounts before the effect of credit risk mitigation but after credit conversions.

^(**) Claims secured by residential property and higher risk categories decided by the Board are disclosed in the claims on corporate and claims included in the regulatory retail portfolios.

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Information on the risk classifications as per the Article 6 of the Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks:

- a)** Türkiye Halkbank A.Ş. is using the risk ratings of the independent rating firm Fitch Ratings for the calculation of capital adequacy.
- b)** Fitch Ratings' risk ratings are used., for the claims on sovereigns and Central Banks and for the risk groups below on the condition that being settled abroad;

Claims on banks and intermediary institutions

Claims on regional governments or local authorities

Claims on administrative bodies and other non-commercial undertakings

Claims on multilateral development banks

Claims on corporates

Additionally, firms which are resident are being accepted as scaleless and are included in the calculation of capital adequacy.

- c)** The relevant risk classification is used in determining the risk weights on a claim that is classified as per the second section, Article 8 of the Additional Regulation 1 on Measurement and Assessment of Capital Adequacy Ratios of Banks. In the absence of a specific rating, the provisions of paragraph a,b and c of Article 9 of the regulation mentioned should be used.

- d)** The implementation of the risk weights to claims on Regional Governments or local authorities are subjected to the same conditions as claims on banks and intermediary institutions but this privileged implementation could not be applied for the claims on banks and intermediary institutions which have 90 days to maturity.

The implementation of the risk weights to claims on multilateral development banks except those listed in the Additional Regulation 1 on Measurement and Assessment of Capital Adequacy Ratios of Banks, are subjected to the same conditions as claims on banks and intermediary institutions but this privileged implementation could not be applied for the claims on banks and intermediary institutions which have 90 days to maturity.

The implementation of the risk weight for unrated claims on banks and intermediary institutions can not be lower than the risk weight of claims on sovereigns which they are settled in.

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RISK CATEGORIES

Credit Quality Grade	FITCH	Claims on administrative bodies and other non-commercial undertakings			Claims on banks and intermediary institutions		Claims on corporates
		Claims on sovereigns and Central Banks	Institutions and Organizations listed in the sections (I), (II), (III) and (IV) of Annex 5018 Public Financial Management and Control Law	Other Public Institutions and organizations	Less than 90 days to maturity	More than 90 days to maturity	
1	AAA	0%	0%	20%	20%	20%	20%
	AA+						
	AA						
	AA-						
2	A+	20%	20%	50%	20%	50%	50%
	A						
	A-						
3	BBB+	50%	50%	100%	20%	50%	100%
	BBB						
	BBB-						
4	BB+	100%	100%	100%	50%	100%	100%
	BB						
	BB-						
5	B+	100%	100%	100%	50%	100%	150%
	B						
	B-						
6	CCC+	150%	150%	150%	150%	150%	150%
	CCC						
	CC						
	C						
	D						

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Receivables from consolidated private sector:

Country	RWAs of Banking Book for Private Sector Lending	RWAs of Trading Book	Total
TURKEY	146.581.022	63.700	146.644.722
MACEDONIA	1.365.663		1.365.663
SERBIA	1.167.786	28.580	1.196.366
VIRGIN ISLAND (US)	972.192		972.192
CYPRUS	396.157	186	396.343
IRAN	244.103		244.103
SWEEDEN	192.490		192.490
U.K.	182.880		182.880
ITALY	58.805		58.805
GERMANY	45.984		45.984
SWITZERLAND	22.919		22.919
ALBANIA	12.516		12.516
U.S.A.	12.489	31.834	44.323
SAUDI ARABIA	9.554		9.554
BELGIUM	5.166		5.166
OTHER	27.917		27.917

*Countries having less than fifty thousand Turkish Lira risk weighted amounts are classified in "Other".

Risk balances according to risk weights:

Current Period

Risk Weights	0%	10%	20%	%35	50%	75%	100%	150%	200%	250%	Deductions from the shareholders' equity
1. Pre-Amount of Credit Risk Mitigation	38.234.691	-	5.150.545	-	37.425.377	83.868.575	107.167.842	50.578	-	385.627	364.474
2. Amount after Credit Risk Mitigation	41.396.138	832.839	5.500.768	25.862.844	56.843.514	52.918.351	88.492.576	50.578	-	385.627	364.474

Prior Period

Risk Weights	0%	10%	20%	%35	50%	75%	100%	150%	200%	250%	Deductions from the shareholders' equity
1. Pre-Amount of Credit Risk Mitigation	47.071.350	47.071.350	5.142.671	-	18.433.212	51.028.837	83.157.296	2.760.173	4.761.423	327.511	271.945
2. Amount after Credit Risk Mitigation	50.386.042	50.386.042	5.670.530	-	38.513.873	39.592.255	70.670.666	2.760.173	4.761.423	327.511	271.945

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Information according to sectors and counterparties:

Current Period	Loans			
	Non-performing loans ⁽¹⁾	Overdue ⁽²⁾	Value Adjustments	Provisions
Sectors / Counterparties				
Agricultural	95.323	14.055	273	72.418
<i>Farming and raising livestock</i>	86.543	11.087	214	64.851
<i>Forestry</i>	472	-	-	464
<i>Fishing</i>	8.308	2.968	59	7.103
Manufacturing	2.393.501	569.819	11.347	1.615.485
<i>Mining</i>	133.994	12.674	253	116.630
<i>Production</i>	2.256.485	556.663	11.084	1.497.335
<i>Electric, gas and water</i>	3.022	482	10	1.520
Construction	456.166	118.552	2.355	360.921
Services	1.417.051	911.304	17.956	1.051.164
<i>Wholesale and retail trade</i>	982.054	537.187	10.581	790.762
<i>Hotel, food and beverage services</i>	148.152	84.693	1.599	98.223
<i>Transportation and telecommunication</i>	64.355	130.222	2.593	42.969
<i>Financial institutions</i>	11.043	959	19	11.043
<i>Real estate and renting services</i>	123.450	121.216	2.424	50.005
<i>Self-employment services</i>	9.808	19.805	396	8.045
<i>Education services</i>	5.985	12.617	252	3.611
<i>Health and social services</i>	72.204	4.605	92	46.506
Other	958.471	213.800	6.242	955.400
Total	5.320.512	1.827.530	38.173	4.055.388

⁽¹⁾ Non-performing loans; are the loans that either overdue more than 90 days as of the reporting date or are treated as impaired due to their creditworthiness. For such loans, "specific provisions" are allocated as per the Provisioning Regulation.

⁽²⁾ Overdue Loans; are the loans that overdue up to 90 days but not non-performing loans. For such loans, "general loan provisions" are allocated as per the Provisioning Regulation. Accruals are not included in the table above.

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Prior Period	Loans			
	Non-performing loans ⁽¹⁾	Overdue ⁽²⁾	Value Adjustments	Provisions
Sectors / Counterparties				
Agricultural	82.674	29.001	803	69.072
<i>Farming and raising livestock</i>	75.043	26.658	733	61.592
<i>Forestry</i>	482	60	1	474
<i>Fishing</i>	7.149	2.283	69	7.006
Manufacturing	1.968.771	1.012.086	35.221	1.363.198
<i>Mining</i>	132.563	17.825	892	116.770
<i>Production</i>	1.833.302	678.404	24.340	1.244.890
<i>Electric, gas and water</i>	2.906	315.857	9.989	1.538
Construction	354.552	407.911	12.054	255.290
Services	1.054.435	1.183.229	47.963	825.700
<i>Wholesale and retail trade</i>	717.866	868.212	34.304	575.296
<i>Hotel, food and beverage services</i>	112.807	68.391	2.034	87.096
<i>Transportation and telecommunication</i>	46.794	89.761	2.504	36.405
<i>Financial institutions</i>	11.258	2.736	118	10.939
<i>Real estate and renting services</i>	123.143	50.849	5.119	88.494
<i>Self-employment services</i>	21.166	50.761	1.458	14.001
<i>Education services</i>	2.862	3.805	119	2.481
<i>Health and social services</i>	18.539	48.714	2.307	10.988
Other	729.104	711.386	17.171	659.457
Total	4.189.536	3.343.613	113.212	3.172.717

⁽¹⁾ Non-performing loans; are the loans that either overdue more than 90 days as of the reporting date or are treated as impaired due to their creditworthiness. For such loans, "specific provisions" are allocated as per the Provisioning Regulation.

⁽²⁾ Overdue Loans; are the loans that overdue up to 90 days but not non-performing loans. For such loans, "general loan provisions" are allocated as per the Provisioning Regulation. Accruals are not included in the table above.

Information about value adjustments and changes in the loan impairment:

Current Period	The opening balance	Provision amounts set aside during the period	The cancelation of the provisions	Other adjustments	Close out balance
1. Specific Provisions	3.172.717	1.161.930	278.227	(1.032)	4.055.388
2. General Provisions	1.139.290	910.121	275	-	2.049.136

Prior Period	The opening balance	Provision amounts set aside during the period	The cancelation of the provisions	Other adjustments	Close out balance
1. Specific Provisions	2.433.408	864.690	125.334	(47)	3.172.717
2. General Provisions	1.277.829	291.794	430.333	-	1.139.290

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The table below shows the maximum risk exposure to credit risk for the components of the financial statements.

Gross Maximum Exposure	Current Period	Prior Period
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased) and balances with the Central Bank of Turkey	30.211.966	23.500.539
Due from banks	1.964.850	2.617.651
Money Market Receivables	1.072.397	53.874
Financial Assets at Fair Value through profit or loss	445.831	336.189
Financial Assets Available for Sale	15.421.388	11.418.210
Held to maturity Investments	18.344.626	16.904.877
Loans	159.323.159	127.219.551
Receivables from Leasing Transactions	2.311.330	2.204.752
Receivables from Factoring Transactions	1.134.528	486.885
Total	230.230.075	184.742.528
Contingent Liabilities	47.877.719	40.037.226
Commitments	24.754.360	22.041.303
Total	72.632.079	62.078.529
Total Credit Risk Exposure	302.862.154	246.821.057

Overdue and individually impaired assets are not available in due from banks, financial assets at fair value through profit or loss, financial assets available for sale and held to maturity investments.

Carrying amount per class of financial assets whose terms have been renegotiated:

	Current Period	Prior Period
Loans ⁽¹⁾⁽²⁾		
Corporate Loans	33.834	73.375
SME Loans	7.796	12.054
Consumer Loans	10.148	13.824
Other	-	-
Total	51.778	99.253

⁽¹⁾Accruals are not included in the table above.

⁽²⁾ Presents loans accounted under in restructured or rescheduled loan accounts.

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The net value and type of collaterals of the loans amounting TRY 4.591.812 followed under loans and other receivables under close monitoring section is below (31 December 2015: TRY 3.460.287):

Collateral Types^{(1),(2)}	Net Value of Collateral Current Period	Net Value of Collateral Prior Period
Real estate mortgage	3.286.676	1.643.306
Salary pledge, vehicle pledge and pledge of commercial undertaking	107.555	115.919
Financial collaterals (cash, securities pledge, etc.)	2.418	566
Cheque / bills	38.123	61.345
Surety ship	881.394	1.307.826
Other	275.646	331.325
Total	4.591.812	3.460.287

⁽¹⁾ The collaterals are considered through comparison of the net value of collateral on appraisal reports less the third party receivables having priority with the collateral. Lower of the collateral amount or the loan amount is considered on the table above.

⁽²⁾ Income accruals amounting to TRY 62.119 (31 December 2015: TRY 44.463) are not included in the table.

The net value and type of collaterals belongs to loans amounted TRY 5.320.512 followed under non-performing loans section is below (31 December 2015: TRY 4.189.536):

Collateral Types	Net Value of Collateral Current Period⁽¹⁾	Net Value of Collateral Prior Period
Cash	475	1.291
Mortgage	1.341.044	947.098
Pledge	225.056	206.789
Cheque / bills	24.561	43.175
Surety ship	1.523.452	2.178.702
Other ⁽²⁾	2.205.924	812.481
Total	5.320.512	4.189.536

⁽¹⁾ The collaterals are considered through comparison of the net value of collateral on appraisal reports less the third party receivables having priority with the collateral. Lower of the collateral amount or the loan amount is considered in the table above.

⁽²⁾ Comprised of share certificates, blockage on receivables and salaries, uncollateralized, etc.

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III. EXPLANATIONS RELATED TO THE CONSOLIDATED CURRENCY RISK

a) Foreign currency risk indicates the probability of loss that banks are subject to due to the exchange rate movements in the market. While calculating the share capital requirement, all foreign currency assets, liabilities and forward transactions of the Group are taken into consideration. Net short term and long term positions of each currency are calculated in terms of the Turkish Lira.

b) In accordance with “Regulation On Measurement and Evaluation of Capital Adequacy of Banks”, the foreign currency position risk of the Group is measured by “standard method” and is calculated daily and is reported monthly. Also VAR based values and limits are reported to the Executives on a daily basis by using internal model methods. The currency risk has been closely followed. The Parent Bank makes derivative transactions against the currency risk, in case of need.

c) Announced current foreign exchange buying rates of the Parent Bank as at 31 December 2016 and the previous five working days in full TRY are as follows:

	23.12.2016	26.12.2016	27.12.2016	28.12.2016	29.12.2016	30.12.2016
USD	3,4800000	3,4700000	3,4900000	3,5300000	3,5000000	3,5100000
CHF	3,3846000	3,3750000	3,3877000	3,4222000	3,4112000	3,4433000
GBP	4,2552000	4,2577000	4,2697000	4,3074000	4,2757000	4,3345000
JPY	0,0296066	0,0295997	0,0296613	0,0299503	0,0299259	0,0299921
EUR	3,6331000	3,6277000	3,6477000	3,6710000	3,6589000	3,6974000

The simple arithmetic averages of the major current foreign exchange buying rates of the Parent Bank for the thirty days before 31 December 2016 are as follows:

	Monthly average
USD	3,4765909
CHF	3,4031455
GBP	4,3325227
JPY	0,0299034
EUR	3,6636545

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Information related to the consolidated currency risk:

Current Period	EURO	USD	OTHER FC	TOTAL
Assets				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the Central Bank of Turkey	6.821.179	16.034.216	3.822.182	26.677.577
Banks	414.994	800.901	386.429	1.602.324
Financial assets at fair value through profit and loss ⁽³⁾	91.242	138.476	2.489	232.207
Money market placements	-	-	-	-
Financial assets available-for-sale	834.651	3.440.385	290.189	4.565.225
Loans ⁽²⁾	25.426.776	31.447.815	1.194.940	58.069.531
Subsidiaries, associates and entities under common control	270.028	-	-	270.028
Held-to-maturity investments	5.253	2.332.668	131.683	2.469.604
Derivative financial assets held for risk management	-	-	-	-
Tangible assets	-	-	74.533	74.533
Intangible assets	-	-	-	-
Other assets ⁽³⁾	1.389.608	1.348.417	47.243	2.785.268
Total assets	35.253.731	55.542.878	5.949.688	96.746.297
Liabilities				
Bank deposits	8.454.425	3.160.761	1.461.712	13.076.898
Foreign currency deposits	17.324.616	30.582.332	2.865.858	50.772.806
Money market balances	-	1.373.871	-	1.373.871
Funds provided from other financial institutions	9.166.425	11.216.600	34.322	20.417.347
Bonds issued	-	10.684.708	-	10.684.708
Sundry creditors	22.013	64.323	37.208	123.544
Derivative financial liabilities held for risk management	-	-	-	-
Other liabilities ⁽³⁾	300.774	296.381	143.961	741.116
Total liabilities	35.268.253	57.378.976	4.543.061	97.190.290
Net balance sheet position	(14.522)	(1.836.098)	1.406.627	(443.993)
Net off-balance sheet position	(285.828)	1.925.895	(1.140.708)	499.359
Financial derivative assets ⁽⁴⁾	1.387.874	4.185.717	1.571.243	7.144.834
Financial derivative liabilities ⁽⁴⁾	1.673.702	2.259.822	2.711.951	6.645.475
Non-cash loans ⁽¹⁾	8.827.121	16.441.447	1.609.613	26.878.181
Prior period				
Total assets	24.561.805	43.470.986	4.421.528	72.454.319
Total liabilities	25.555.193	44.649.501	3.230.807	73.435.501
Net balance sheet position	(993.388)	(1.178.515)	1.190.721	(981.182)
Net off-balance sheet position	1.222.555	1.201.139	(937.097)	1.486.597
Financial derivative assets	2.200.997	4.318.311	1.300.229	7.819.537
Financial derivative liabilities	978.442	3.117.172	2.237.326	6.332.940
Non-cash loans ⁽¹⁾	6.417.859	16.013.743	950.945	23.382.547

⁽¹⁾ Non-cash loans are not included in the off-balance sheet position items.

⁽²⁾ Includes TRY 1.998.635 of foreign currency indexed loans and their accruals (31 December 2015: TRY 1.534.159).

⁽³⁾ In accordance with the principles of the "Regulation on Measurement and Practices of Banks' Net Overall FC Position / Shareholders' Equity Ratio on a Consolidated and Unconsolidated Basis", derivative financial instruments foreign currency income accruals (TRY 128.468), prepaid expenses (TRY 187) and intangible assets in foreign currency (20.173) in assets; and derivative financial instruments foreign currency expense accruals (TRY 17.465), shareholders' equity (TRY -171.951) and minority share in foreign currency (TRY 29.240) in liabilities are not taken into consideration in the currency risk measurement.

⁽⁴⁾ Receivables from derivative financial instruments include precious metal purchase transactions which amount to TRY 59.714; and derivative transaction liabilities from financial instruments include precious metal sale transactions which amount to TRY 2.121.975.

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IV. EXPLANATIONS RELATED TO THE CONSOLIDATED INTEREST RATE RISK

Interest rate sensitivity of assets, liabilities and off-balance sheet items are measured by the Group. The Group's interest rate risk is calculated using the general and specific interest rate risk tables in the standard method including the assets and liabilities and is considered as a part of the general market risk in the calculation of the capital adequacy standard ratio.

The priority of the Parent Bank's risk management department is to avoid the effects of the interest rate volatility. Sensitivity analysis performed within this context is calculated by the risk management department and reported to the Asset-Liability Committee.

Simulations on interest income are performed in connection with the forecasted economic indicators used in the budgeting process of the Parent Bank. The effects of the fluctuations in the market interest rates on the financial position and on the cash flows are minimized by revising budget targets. The Parent Bank's funding costs of TRY and foreign exchange deposits, repurchase agreements are determined by the Treasury Vice Presidency. The Bank assesses the probability of any significant losses which can be caused by interest rate risk exposure as low.

1. Information related to the interest rate sensitivity of assets, liabilities and off-balance sheet items based on re-pricing dates:

Current period	Up to 1 month	1-3 months	3-12 Months	1-5 years	5 years and over	Non-interest bearing	Total
Assets							
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the Central Bank of Turkey	20.210.851	-	-	-	-	10.001.115	30.211.966
Banks and financial institutions	785.635	148.477	12.343	-	-	1.018.395	1.964.850
Financial assets at fair value through profit and loss	419.809,00	10.683	9.906	210	107	8.211	448.926
Money market placements	3.475	1.068.922	-	-	-	-	1.072.397
Financial assets available-for-sale	678.903	3.030.194	2.628.760	3.356.766	5.723.381	63.215	15.481.219
Loans	58.808.334	20.957.655	42.095.743	29.171.482	5.547.844	1.476.977	158.058.035
Held-to-maturity investments	490.573	7.595.932	1.882.417	2.518.687	5.857.017	-	18.344.626
Other assets ⁽¹⁾⁽²⁾	5.200.663	281.671	673.280	1.400.468	287.219	4.300.947	12.144.248
Total assets	86.598.243	33.093.534	47.302.449	36.447.613	17.415.568	16.868.860	237.726.267
Liabilities							
Bank deposits	12.234.540	2.374.878	383.750	-	-	7.867.043	22.860.211
Other deposits	72.782.836	23.195.563	9.436.652	572.900	8.534	21.542.181	127.538.666
Money market balances	16.652.570	1.478.502	891.064	-	-	-	19.022.136
Sundry creditors	1.250.040	97.688	380.694	877.669	29	260.502	2.866.622
Bonds issued	323.378	1.060.278	3.493.383	7.875.372	-	-	12.752.411
Funds provided from other financial institutions ⁽⁴⁾	4.209.850	5.060.030	8.988.390	2.615.467	696.208	19.166	21.589.111
Other liabilities ⁽³⁾	212.335	2.048.286	1.109.721	-	-	27.726.768	31.097.110
Total liabilities	107.665.549	35.315.225	24.683.654	11.941.408	704.771	57.415.660	237.726.267
Balance sheet long position	-	-	22.618.795	24.506.205	16.710.797	-	63.835.797
Balance sheet short position	(21.067.306)	(2.221.691)	-	-	-	(40.546.800)	(63.835.797)
Off-balance sheet long position	351.000	287.040	2.324.592	712.029	1.724.104	-	5.398.765
Off-balance sheet short position	-	(111.540)	(2.324.592)	(1.141.329)	(1.724.104)	-	(5.301.565)
Total position	(20.716.306)	(2.046.191)	22.618.795	24.076.905	16.710.797	(40.546.800)	97.200

⁽¹⁾ TRY 99.525 of deferred tax assets is disclosed under the non interest bearing column in other assets and TRY 288.974 of deferred tax liability is disclosed under the non interest bearing column in other liabilities.

⁽²⁾ TRY 1.265.124 of non-performing loans with no specific provision are disclosed under the non-interest bearing column in other assets.

⁽³⁾ Shareholders' equity balance is disclosed under the non-interest bearing column in other liabilities line.

⁽⁴⁾ Funds provided from other financial institutions include borrowings.

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Prior period	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and over	Non-interest bearing	Total
Assets							
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the Central Bank of Turkey	16.755.948	-	-	-	-	6.744.591	23.500.539
Banks and financial institutions	798.714	51.765	-	-	-	1.767.172	2.617.651
Financial assets at fair value through profit and loss	247.364	25.553	33.349	269	5.144	27.828	339.507
Money market placements	33.101	20.773	-	-	-	-	53.874
Financial assets available-for-sale	2.359.097	529.117	1.645.419	2.436.137	4.448.231	117.142	11.535.143
Loans	44.877.032	17.838.272	33.895.040	23.210.103	4.329.749	2.052.536	126.202.732
Held-to-maturity investments	7.732.528	761.017	1.352.000	2.154.709	4.904.623	-	16.904.877
Other assets ^{(1),(2)}	1.016.183	221.785	593.799	1.488.452	163.986	6.362.962	9.847.167
Total assets	73.819.967	19.448.282	37.519.607	29.289.670	13.851.733	17.072.231	191.001.490
Liabilities							
Bank deposits	8.427.245	2.409.694	525.038	-	-	3.328.873	14.690.850
Other deposits	56.054.414	27.198.528	6.642.534	478.726	22.424	17.416.908	107.813.534
Money market balances	7.823.894	632.063	-	-	-	-	8.455.957
Sundry creditors	986.732	33.100	1.001.111	118.869	-	258.932	2.398.744
Bonds issued	47.656	707.800	858.861	5.781.652	1.444.591	-	8.840.560
Funds provided from other financial institutions ⁽⁴⁾	1.219.171	4.536.538	11.529.545	4.612.874	245.262	347	22.143.737
Other liabilities ⁽³⁾	2.215.332	189.464	860.918	4.745	-	23.387.649	26.658.108
Total liabilities	76.774.444	35.707.187	21.418.007	10.996.866	1.712.277	44.392.709	191.001.490
Balance sheet long position	-	-	16.101.600	18.292.804	12.139.456	-	46.533.860
Balance sheet short position	(2.954.477)	(16.258.905)	-	-	-	(27.320.478)	(46.533.860)
Off-balance sheet long position	-	764.369	612.369	1.332.390	1.346.914	-	4.056.042
Off-balance sheet short position	-	(619.754)	(627.927)	(1.565.778)	(1.319.421)	-	(4.132.880)
Total position	(2.954.477)	(16.114.290)	16.086.042	18.059.416	12.166.949	(27.320.478)	(76.838)

⁽¹⁾ TRY 49.703 of deferred tax assets is disclosed under the non interest bearing column in other assets and TRY 72.567 of deferred tax liability is disclosed under the non interest bearing column in other liabilities.

⁽²⁾ TRY 1.016.819 of non-performing loans with no specific provision are disclosed under the non-interest bearing column in other assets.

⁽³⁾ Shareholders' equity balance is disclosed under the non-interest bearing column in other liabilities line.

⁽⁴⁾ Funds provided from other financial institutions include borrowings.

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2. Average interest rates applied to financial instruments:

Current period	EURO	USD	JPY	TRY
Assets				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased) and balances with the Central Bank of Turkey ⁽⁵⁾	-	0,49	-	3,30
Due from other banks and financial institutions ⁽¹⁾	0,03	1,34	-	9,63
Financial assets at fair value through profit and loss	-	-	-	9,56
Money market placements	-	-	-	-
Available-for-sale financial assets	5,08	5,46	-	11,61
Loans ⁽²⁾	4,40	5,59	-	12,80
Held-to-maturity investments	-	5,89	-	14,03
Liabilities				
Bank deposits	0,44	3,17	-	7,82
Other deposits ⁽⁴⁾	1,37	3,09	0,25	9,46
Money market borrowings	-	1,84	-	7,52
Sundry creditors ⁽³⁾	-	-	-	4,75
Bonds issued	-	4,61	-	9,35
Funds provided from other financial institutions	0,66	2,37	-	7,55
Prior Period				
Assets				
Cash (cash in vault, foreign currency cash, money in transit, cheques purchased) and balances with the Central Bank of Turkey	-	0,22	-	2,07
Due from other banks and financial institutions	0,15	0,20	-	11,80
Financial assets at fair value through profit and loss	-	2,03	-	10,44
Money market placements	-	-	-	-
Available-for-sale financial assets	5,26	5,49	-	12,26
Loans	4,26	5,13	-	12,47
Held-to-maturity investments	-	5,91	-	15,15
Liabilities				
Bank deposits	0,61	2,28	-	13,27
Other deposits	1,49	2,00	0,25	10,92
Money market borrowings	-	1,44	-	8,76
Sundry creditors	-	-	-	4,75
Bonds issued	-	4,53	-	10,72
Funds provided from other financial institutions	0,86	1,82	-	7,24

⁽¹⁾ Interest rates are calculated using weighted average method for money placement amounts as of balance sheet date.

⁽²⁾ Interest rates are calculated using weighted average method for loans given as of balance sheet date.

⁽³⁾ Declared maximum deposits interest rate with a maturity of twelve months as of 31 December 2016.

⁽⁴⁾ Customer based calculated stock interest rates are applied to TRY and FC deposits as of 31 December 2016.

⁽⁵⁾ Required reserve ratio of the Central Bank of Turkey.

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3. The interest rate risk of the banking book items:

Standard interest rate shock methods are being used in respect of measuring the risk arising from re-pricing mismatch of asset and liability items. The duration within the limits are determined by BRSA that obtained from the calculation intended for demand deposits by using core deposit and duration analysis is taken into account.

The interest rate risk of the banking book items is calculated by taking into account the worst ratio for the Bank among the calculated ratios by dividing the total of the differences in terms of maturities and currencies with the shareholders' equity. The mentioned difference is the difference between the net position amounts which are derived from the cash flows of the on-balance and off-balance sheet positions included in the interest sensitive banking book items discounted by the ratios derived from the application of positive and negative shocks, and the net position amounts which are discounted by the ratios without applying the shocks. The maximum limit regarding the economic value change is 20% of shareholders' equity.

While maturity distribution of the related cash flows, remaining maturities are taken into account for fixed rate instruments and re-pricing dates are taken into account for flexible interest instruments. Non-performing loans are placed to relevant maturity periods except demand time interval that are not than not be less than six months by taking into account receiving durations are receivables ratios under other receivables and estimated receiving durations. Foreign currency indexed asset and liabilities are placed to related forms by taking into accounts their indexed currency types.

In defining the maturity of demand deposits, average durations which are calculated by statistical analysis are being used.

Effect of fluctuations in the interest rates of the Parent Bank divided by different currencies:

Current Period

Currency	Applied Shock (+/- x basis points)	Gains/ Losses	Gains/Shareholders' Equity – Losses/Shareholders' Equity
1 TRY	500	(3.295.737)	(14,32%)
	(400)	3.353.847	14,57%
2 EURO	200	510.345	2,22%
	(200)	(553.459)	(2,40%)
3 USD	200	(86.661)	(0,38%)
	(200)	301.068	1,31%
Total (For negative shocks)		3.101.456	13,48%
Total (For positive shocks)		(2.872.053)	(12,48%)

Prior Period

Currency	Applied Shock (+/- x basis points)	Gains/ Losses	Gains/Shareholders' Equity – Losses/Shareholders' Equity
1 TRY	500	(2.222.523)	(%10,88)
	(400)	2.256.145	%11,04
2 EURO	200	288.034	%1,41
	(200)	(313.850)	(%1,54)
3 USD	200	124.102	%0,61
	(200)	(11.649)	(%0,06)
Total (For negative shocks)		1.930.646	%9,45
Total (For positive shocks)		(1.810.387)	(%8,86)

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V. EXPLANATIONS RELATED TO THE CONSOLIDATED POSITION RISK OF SHARES

Information on balance sheet value, fair value, market value and capital liability of equity investments arising from banking accounts:

Share Investments	Comparison			Capital Requirement
	Balance Sheet Value	Fair Value	Market Value	
Equity Investments excluding A,B,C,D Group	333.664 ^(*)	249.574 ^(**)	-	19.966

^(*)Includes TRY 41.243 of unconsolidated subsidiary, TRY 286.101 of associates accounted for under the equity method and TRY 6.320 of unconsolidated associates.

^(**)The financial informations about the fair value of Demir-Halkbank NV has been obtained from its valuation report as of 31 December 2016.

Realized gains/losses, revaluation surpluses and unrealized gains/losses on equity securities and results included in core and supplementary capitals:

Portfolio	Revaluated appreciation in the fair value		Unrealized gains and losses	
	Realized gains (losses) in the current period	Included to supplementary capital	Included to total core capital	Included to supplementary capital
1. Private equity investments	-	-	-	-
2. Share Certificates quoted in a stock exchange	-	-	-	-
3. Other share certificates	-	10.908	-	-
Total	-	10.908	-	-

VI. EXPLANATIONS RELATED TO THE CONSOLIDATED LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE RATIO

The liquidity risk occurs when there is insufficient cash or cash inflows to meet the cash outflows fully and timely. Liquidity risk may also occur when the market penetration is not adequate, when the open position cannot be closed immediately at the suitable prices in sufficient amounts due to barriers and break-ups in the markets.

To detect liquidity risk, Bank Liquidity Emergency Action Plan (LAEP) has been formed. Cash flow analysis methods include commission totals and tax totals, besides initial capital interest totals. The sections that are in the balance sheet are monitored by Risk Management Department Head and include the days until maturity which are canalized to the maturity bands that are predetermined; the liquidity availability are then detected and liquidity analysis performed. Thus, quantification of liquidity risk gets established.

Purpose is to have the level of liquidity to meet its obligations and commitments, which are due under the Parent Bank liquidity planning program and aim to reach a reasonable cost with necessary liquidity. The liquidity risk measurement made under this purpose contains days that are left for maturity made on the basis of liquidity gap as well as the analysis of "Liquidity Emergency Plan (LAEP)" – projected ratios that are also followed in the former phrase. Short-term liquidity needs of the Parent Bank are satisfied via BIST Repo Market, Interbank Money Market, Interbank Money Market securities sales, TCMB Repo Market, the Central Bank Interbank, currency swaps, the use of reserve and reserve option coefficients (YP).

The top limits of the Parent Bank consist of the following: max lending amount of TRY and FC category on all maturity in interbank OTC markets, the upper limit of repurchase and reverse repurchase transactions in TRY and FC category on all maturity in the interbank OTC markets, the maximum foreign exchange position limits that can be moved, and finally; the upper limit relating to forward and swap transactions was determined on the that the whole term of TRY and foreign currency denominated, forward and the upper limit relating to swap transactions was determined.

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The extension of the maturity structure of term deposits reflects the primary funding source for the Parent Bank; the development of new products that encourage saving and the protection of core deposit levels have been implemented as a strategic objective. Limits have been determined for exportation of bonds based on Turkish Liras to provide long term resource allocation; besides deposit, maturity structure extension of passives was established.

To benefit from new borrowing opportunities to meet the needs of the Parent Bank, in this context, is sourced from the price in the international capital markets / costs to be closely monitored and for the circumstances to be parallel to evaluation of alternative sources of funds.

Effective collateral management structure is provided by the reduction of liquidity risk. Our Bank participates in the organized markets (CBT, BIST and TAKASBANK). Debt upper limits are determined under certain criteria and balance sheet size by the relevant authorities. Open are the current limits to use our bank's current and anticipated liquidity needs to deposit additional collateral. Treasury Management Middle Office Operations are managed by the Treasury Department and monitored continuously.

Effects of macro size balance sheet changes or important changes of market data on Parent bank liquidity; based on legal liquidity ratio and according to liquidity emergency action plan, analysis is made on the effects of the ratios that are being followed.. Whether originated from the bank or the market, under the condition that the potential stress tests are applied, the legal and internal changes on liquidity ratio and their effects of Parent bank liquidity is quantified.

To show the ratio of withdrawal of interest-bearing deposits in the bank, deposit section of each foreign currency is analyzed through Deposit Analysis.

According to the "Regulations on the Banks' Liquidity Coverage Ratio Calculation" published by the BDDK, calculated foreign currency and total liquidity coverage ratio are monitored to ensure that banks keep high levels of liquid assets to cover net cash outflows.

"Regulations on the Banks' Liquidity Coverage Ratio Calculation" by BDDK, calculated in accordance to "Liquidity Coverage Ratio" and "Liquidity Emergency Action Plan"; the coverage of the former is required for liquidity ratios and daily changes in these rates are monitored, then the information received is shared with the Audit Committee and the Asset-Liability Committee on a regularly basis.

Throughout the current period, bank's Liquidity Coverage Ratio's lowest and highest values and the weeks which have held these values are portrayed in the table below:

Liquidity Minimum-Maximum

Liquidity Coverage Ratio

	FC		TL+FC	
	Related Month	(%)	Related Month	(%)
Maximum	DECEMBER	114,94	NOVEMBER	88,62
Minimum	OCTOBER	89,58	OCTOBER	82,79

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Current Period	Total Unweighted Value (average) ⁽¹⁾		Total Weighted Value (average) ⁽¹⁾	
	TL+FC	FC	TL+FC	FC
High Quality Liquid Assets				
High Quality Liquid Assets			40.539.495	20.101.376
Cash Outflows				
Retail and Small Business Customers, of which;	70.691.580	27.305.844	5.937.031	2.730.585
Stable Deposits	22.642.553	-	1.132.128	-
Less Stable Deposits	48.049.027	27.305.844	4.804.903	2.730.585
Unsecured wholesale funding, of which;	82.908.952	32.360.969	48.176.262	21.528.348
Operational Deposits	419.003	-	104.751	-
Non-operational Deposits	73.463.441	31.049.576	43.093.507	20.284.199
Other Unsecured Funding	9.026.508	1.311.393	4.978.004	1.244.149
Secured Funding			-	-
Other cash outflows, of which;	4.483.054	2.911.244	2.067.350	1.627.714
Derivatives cash outflow and liquidity needs related to market valuation changes on derivatives or other transactions	66.476	580.489	66.476	580.489
Obligations related to structured financial products	-	-	-	-
Commitments related to debts to financial markets and other off- balance sheet obligations	4.416.578	2.330.755	2.000.874	1.047.225
Other revocable off-balance sheet commitments and contractual obligations.	-	-	-	-
Other irrevocable or conditionally revocable off-balance sheet obligations	59.983.276	24.517.744	4.558.477	1.939.518
Total Cash Outflows			60.739.120	27.826.165
Cash Inflows				
Secured Lending	-	-	-	-
Unsecured Lending	19.152.663	10.201.918	12.979.229	8.550.397
Other Cash Inflows	14.194	14.194	14.194	14.194
Total Cash Inflows	19.166.857	10.216.112	12.993.423	8.564.591
			Total Adjusted Value	
Total HQLA Stock			40.539.495	20.101.376
Total Net Cash Outflows			47.745.697	19.261.574
Liquidity Coverage Ratio (%)			84,91	104,82

⁽¹⁾ To be calculated by simple arithmetic average, monthly consolidated average calculated for the last three months of the liquidity coverage ratio, also calculated are weekly simple average of the last three months of the liquidity coverage ratio by taking the arithmetic mean.

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Prior Period	Total Unweighted Value (average) ⁽¹⁾		Total Weighted Value (average) ⁽¹⁾	
	TL+FC	FC	TL+FC	FC
High Quality Liquid Assets				
High Quality Liquid Assets			36.483.530	22.619.177
Cash Outflows				
Retail and Small Business Customers, of which;	59.928.266	21.968.753	4.678.946	1.887.215
Stable Deposits	26.277.613	6.193.200	1.313.881	309.660
Less Stable Deposits	33.650.653	15.775.553	3.365.065	1.577.555
Unsecured wholesale funding , of which;	59.588.342	20.871.972	33.700.026	12.882.386
Operational Deposits	-	-	-	-
Non-operational Deposits	53.696.843	18.867.534	29.191.654	11.350.496
Other Unsecured Funding	5.891.499	2.004.438	4.508.372	1.531.890
Secured Funding			-	-
Other cash outflows, of which;	5.272.792	1.585.399	3.952.254	1.465.588
Derivatives cash outflow and liquidity needs related to market valuation changes on derivatives or other transactions	3.071.895	1.385.714	3.071.895	1.385.714
Obligations related to structured financial products	-	-	-	-
Commitments related to debts to financial markets and other off- balance sheet obligations	2.200.897	199.685	880.359	79.874
Other revocable off-balance sheet commitments and contractual obligations.	-	-	-	-
Other irrevocable or conditionally revocable off- balance sheet obligations	53.179.861	22.395.598	4.724.560	2.171.561
Total Cash Outflows			47.055.786	18.406.750
Cash Inflows				
Secured Lending	16.643	11.311	-	-
Unsecured Lending	11.184.432	4.374.289	6.730.818	3.316.671
Other Cash Inflows	3.129.692	3.005.108	3.129.692	3.005.108
Total Cash Inflows	14.330.767	7.390.708	9.860.510	6.321.779
			Total Adjusted Value	
Total HQLA Stock			36.483.530	22.619.177
Total Net Cash Outflows			37.195.276	12.084.971
Liquidity Coverage Ratio (%)			98,95	192,75

⁽¹⁾ To be calculated by simple arithmetic average, monthly consolidated average calculated for the last three months of the liquidity coverage ratio, also calculated are weekly simple average of the last three months of the liquidity coverage ratio by taking the arithmetic mean.

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1. Presentation of assets and liabilities according to their remaining maturities:

The Parent Bank follows up and measures the consistency of payments comparing its assets and liabilities with the interest rates on a daily and transactional basis.

Current period	Demand	Up to 1 month	1-3 months	3-12 Months	1-5 years	5 years and over	Undistributed	Total
Assets								
Cash (cash in TRY, foreign currency cash, money in transit, cheques purchased, precious metals) and balances with the Central Bank of Turkey	4.929.774	25.176.361	-	50.714	-	-	55.117	30.211.966
Banks	1.018.395	785.635	134.163	12.343	-	-	14.314	1.964.850
Financial assets at fair value through profit and loss	2.751	172.808	70.087	170.324	29.069	792	3.095	448.926
Money market placements	-	1.072.397	-	-	-	-	-	1.072.397
Financial assets available-for-sale	-	247.654	715.378	2.080.954	5.056.460	7.320.942	59.831	15.481.219
Loans ⁽²⁾	1.351.439	11.694.182	10.466.532	48.738.850	66.096.047	19.710.985	-	158.058.035
Held-to-maturity investments	-	634.347	979.802	724.724	6.021.641	9.983.731	381	18.344.626
Other assets ⁽³⁾	2.488.847	56.917	281.685	673.459	1.413.677	310.387	6.919.276	12.144.248
Total assets	9.791.206	39.840.301	12.647.647	52.451.368	78.616.894	37.326.837	7.052.014	237.726.267
Liabilities								
Bank deposits	7.867.130	12.234.408	2.374.878	383.795	-	-	-	22.860.211
Other deposits	21.570.215	72.720.532	23.202.394	9.445.077	589.593	10.855	-	127.538.666
Funds provided from other financial institutions ⁽⁴⁾	53	1.762.350	2.113.226	10.843.536	4.879.943	1.990.003	-	21.589.111
Money market balances	-	16.652.570	1.478.502	891.064	-	-	-	19.022.136
Bonds issued	-	323.378	1.060.278	3.493.383	7.875.372	-	-	12.752.411
Sundry creditors	241.328	1.303.733	57.754	381.306	877.669	29	4.803	2.866.622
Other liabilities ⁽¹⁾	573.256	1.796.237	69.438	1.616.913	362.690	1.802.922	24.875.654	31.097.110
Total liabilities	30.251.982	106.793.208	30.356.470	27.055.074	14.585.267	3.803.809	24.880.457	237.726.267
Liquidity gap	(20.460.776)	(66.952.907)	(17.708.823)	25.396.294	64.031.627	33.523.028	(17.828.443)	-
Net off balance sheet position	-	6.015.467	5.724.727	2.068.327	4.529.279	6.896.416	-	25.234.216
Derivative financial assets	-	3.005.140	2.850.328	1.034.659	2.313.274	3.448.208	-	12.651.609
Derivative financial liabilities	-	(3.010.327)	(2.874.399)	(1.033.668)	(2.216.005)	(3.448.208)	-	(12.582.607)
Non-cash loans	17.590.609	2.026.427	4.602.870	13.215.750	8.319.123	1.786.226	336.714	47.877.719
Previous period								
Total assets	11.824.788	13.711.535	18.276.720	47.342.698	64.088.357	30.384.914	5.372.478	191.001.490
Total liabilities	25.671.024	74.486.284	33.902.620	20.246.455	13.285.320	4.022.965	19.386.822	191.001.490
Liquidity gap	(13.846.236)	(60.774.749)	(15.625.900)	27.096.243	50.803.037	26.361.949	(14.014.344)	-
Net off balance sheet position	-	(25.072)	44.222	(22.326)	2.154	28.160	-	27.138
Derivative financial assets	-	3.953.047	2.776.047	1.067.668	886.225	322.701	-	9.005.688
Derivative financial liabilities	-	(3.978.119)	(2.731.825)	(1.089.994)	(884.071)	(294.541)	-	(8.978.550)
Non-cash loans	14.600.770	1.117.523	3.715.349	13.212.258	6.067.227	1.068.123	255.976	40.037.226

⁽¹⁾ Shareholders' equity is disclosed in other liabilities line under the undistributed column.

⁽²⁾ TRY 1.265.124 of non-performing loans with no specific provision, is disclosed in other assets line under the undistributed column.

⁽³⁾ Other asset items which are not expected to be converted into cash in short term but required for continuity of banking operations like tangible and intangible assets, office supply inventory, associates and subsidiaries, prepaid expenses, deferred tax assets and receivables from NPL are disclosed in other assets under the undistributed column.

⁽⁴⁾ Funds provided from other financial institutions include borrowings.

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Analysis of non-derivative financial liabilities by remaining contractual maturities:

Current Period	Up to one month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustments ^(*)	Total
Liabilities							
Deposits	114.023.770	25.757.529	10.529.290	614.505	11.011	(537.228)	150.398.877
Funds provided from other financial intuitions	1.787.510	2.219.235	10.952.226	5.043.435	2.125.296	(538.591)	21.589.111
Money market borrowings	16.660.819	1.479.146	911.132	-	-	(28.961)	19.022.136
Securities issued	333.042	1.090.794	3.801.556	8.920.337	-	(1.393.318)	12.752.411
Funds	193.660	13.548	103.576	334.913	1.719.621	(25.510)	2.339.808
Total	132.998.801	30.560.252	26.297.780	14.913.190	3.855.928	(2.523.608)	206.102.343

Prior Period	Up to one month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Adjustments ^(*)	Total
Liabilities							
Deposits	85.549.835	29.814.711	7.292.681	531.220	7.839	(691.902)	122.504.384
Funds provided from other financial intuitions	814.497	2.667.550	11.165.398	5.880.670	2.064.916	(449.294)	22.143.737
Money market borrowings	7.832.684	634.574	-	-	-	(11.301)	8.455.957
Securities issued	53.016	723.544	1.052.216	6.630.355	1.479.029	(1.097.600)	8.840.560
Funds	568.336	127.139	132.675	603.780	634.541	(102.772)	1.963.699
Total	94.818.368	33.967.518	19.642.970	13.646.025	4.186.325	(2.352.869)	163.908.337

^(*) Adjustments column represents the difference between the total expected cash flows and the carrying values of non-derivative financial liabilities.

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Analysis of Bank's derivative financial instruments according to their remaining maturities:

Current Period⁽¹⁾	Up to one month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
Forwards Contracts- Buy	1.118.830	2.504.618	875.467	232.448	-	4.731.363
Forward Contracts – Sell	1.118.179	467.553	874.715	230.950	-	2.691.397
Swaps – Buy	1.775.843	264.926	159.192	656.768	-	2.856.729
Swaps – Sell	1.781.941	263.813	158.953	560.998	-	2.765.705
Credit Default Swap – Buy	-	-	-	-	-	-
Credit Default Swap – Sell	-	-	-	-	-	-
Forward Precious Metal - Buy	-	59.714	-	-	-	59.714
Forward Precious Metal - Sell	-	2.121.975	-	-	-	2.121.975
Money Buy Options	307.574	32.550	-	-	-	340.124
Money Sell Options	307.584	32.545	-	-	-	340.129
Swaps Interest – Buy	-	-	-	-	4.872.265	4.872.265
Swaps Interest – Sell	-	-	-	-	4.872.265	4.872.265
Total	6.409.951	5.747.694	2.068.327	1.681.164	9.744.530	25.651.666

⁽¹⁾ Forward asset purchase and sale commitments have been included in the table amounts of TRY 417.450.

Prior Period⁽¹⁾	Up to one month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
Forwards Contracts- Buy	726.221	2.206.989	905.864	532.124	-	4.371.198
Forward Contracts – Sell	727.658	446.265	905.270	529.626	-	2.608.819
Swaps – Buy	3.381.020	491.953	106.570	438.820	-	4.418.363
Swaps – Sell	3.404.572	483.630	121.016	405.893	-	4.415.111
Credit Default Swap – Buy	-	-	-	-	-	-
Credit Default Swap – Sell	-	-	-	-	-	-
Forward Precious Metal - Buy	-	15.278	-	-	-	15.278
Forward Precious Metal - Sell	-	1.734.898	-	-	-	1.734.898
Money Buy Options	86.586	61.398	31.650	-	-	179.634
Money Sell Options	86.790	61.184	31.650	-	-	179.624
Swaps Interest – Buy	-	-	-	-	3.790.180	3.790.180
Swaps Interest – Sell	-	-	-	-	3.790.180	3.790.180
Total	8.412.847	5.501.595	2.102.020	1.906.463	7.580.360	25.503.285

⁽¹⁾ Forward asset purchase and sale commitments have been included in the table amounts of TRY 481.678.

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VII. EXPLANATIONS ON LEVERAGE RATIO

The leverage ratio table prepared in accordance with the communiqué “Regulation on Measurement and Assessment of Leverage Ratios of Banks” published in the Official Gazette no. 28812 dated 5 November 2013 is presented below:

	Current Period ⁽²⁾	Prior Period ⁽²⁾
Summary Comparison Table Related to Total Amount of Asset and Risk Situated in The Consolidated Financial Statements Prepared in Accordance with IAS ⁽¹⁾	204.158.507	178.782.596
The difference between Total Amount of Asset in the Consolidated Financial Statements Prepared in Accordance with TAS and the Communiqué on Preparation of Consolidated Financial Statements of Banks ⁽¹⁾	(33.567.760)	102.283
The difference between total amount and total risk amount of derivative financial instruments with credit derivative in the Communiqué on Preparation of Consolidated Financial Statements of Banks	12.750.123	12.750.695
The difference between total amount and total risk amount of risk investment securities or commodity collateral financing transactions in the Communiqué on Preparation of Consolidated Financial Statements of Banks	8.497.311	9.619.091
The difference between total amount and total risk amount of off-balance sheet transactions in the Communiqué on Preparation of Consolidated Financial Statements of Banks	499.895	356.768
The other differences between amount of assets and risk in the Communiqué on Preparation of Consolidated Financial Statements of Banks	-	-
Total Risk Amount	304.496.860	249.728.209

⁽¹⁾ As of reporting date, in the cause of consolidated financial statements is not published yet, the amounts are represented in the table as of 31 December 2015 and 30 June 2016.

⁽²⁾ Three-month average of the amounts in the table.

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	Current Period ⁽¹⁾	Prior Period ⁽¹⁾
On-Balance Sheet Items		
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	231.246.177	188.320.683
Assets that are deducted from core capital	(142.844)	(170.073)
Total on balance sheet exposures	231.103.333	188.150.610
Derivative exposures and credit derivatives		
Replacement cost associated with derivative financial instruments and credit derivatives	426.047	444.606
The potential amount of credit risk with derivative financial instruments and credit derivatives	169.191	166.866
The total amount of risk on derivative financial instruments and credit derivatives	595.238	611.472
Investment securities or commodity collateral financing transactions		
The amount of risk investment securities or commodity collateral financing transactions (Excluding on balance sheet items)	564.162	352.063
Risk amount of exchange brokerage operations	-	-
Total risks related with securities or commodity financing transactions	564.162	352.063
Off -Balance Sheet Items		
Gross notional amount of off-balance sheet items	72.734.022	60.970.833
Adjustments for conversion to credit equivalent amounts	(499.895)	(356.768)
The total risk of off-balance sheet items	72.234.127	60.614.065
Capital and Total Exposures		
Tier 1 Capital	20.935.086	18.669.310
Total Exposures	304.496.860	249.728.210
Leverage Ratio		
Leverage Ratio	6,88	7,48

⁽¹⁾ Three-month average of the amounts in the table

VIII. EXPLANATIONS RELATED TO CONSOLIDATED BUSINESS SEGMENTATION

The Group's operations are grouped under the corporate, commercial, integrated and treasury/investment banking categories. Branches are grouped considering the information above and are scaled according to the classification shown in the table below, with the classification reflected to the head office and branches.

The Parent Bank is rendering services to a wide range of companies in all sectors, especially to Small and Medium Size Enterprises (SME) as well as individuals having consumer status. In this context, the Parent Bank has no restrictions on the area in which it operates.

The Parent Bank categorizes its real and legal entities that it renders services into three groups as; firms, individual customers and other customers.

Firms are composed of traders and small-scale retailers having real and legal entity status. Within the Parent Bank's application, firms are segmented as corporate firms, commercial firms, enterprising business firms, small size enterprises and small-scale retailers.

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Individual customers are real entities without having any commercial or professional purposes other than their individual demands in the Parent Bank's application.

Other customers are referred to as associations, organizations, trade unions, foundations, societies, building managements, parent-teacher associations and similar institutions that are not included in the afore-mentioned classification.

The following are the services provided by the Parent Bank to all of its customers:

- Accepting deposits,
- Issuance of cash, noncash loans,
- All kinds of reimbursements and cash receipt operations, including cash and deposit reimbursements, fund transfers, correspondent banking transactions and use of checking accounts,
- Purchasing cheques and bank bills,
- Performing custody services,
- Issuing payment instruments such as; credit cards, cash cards and travel cheques, and performing related transactions,
- Including spot transactions, foreign exchange transactions, trading of money market securities, bullion trading and/or performing the related custody services,
- Trading of forward transaction agreements, option agreements and financial instruments with more than one derivative instrument and performing the related intermediary services based on the economic and financial indicators, capital markets instruments, commodities, precious metals and exchange rates,
- Assuming guarantee transactions such as; warranties and other liabilities in favor of others,
- Having intermediary transactions on Interbank money transfer, insurance agency services,
- Rendering insurance agency transactions,
- Acting as a market maker in trade operations in accordance with liabilities assumed within the context of the agreement composed by the Turkish Treasury and/or Central Bank and associations,
- Trading capital market instruments and performing repurchase and reverse repo transactions,
- Acting as an intermediary in the sale process of capital market instruments by means of issuing instruments or through a public offering,
- Trading the capital market instruments issued for the purpose of performing intermediary services.
- Acting as an operator in order to provide risk management systems related to technical support and consulting services,
- Providing technical support and consulting services to Bank's subsidiaries,
- Acting as a portfolio storage institute in order to store client's assets related to individual portfolio management of portfolio management companies.
- Acting as a portfolio management agency.

Under the Treasury transactions, medium and long-term fund provision is performed through securities exchange, money market operations, spot and time TRY and foreign exchange transactions, derivative instruments (such as; forwards, swaps, futures and options), syndication and securitization, etc.

Details of the segment information prepared in accordance with the Act on "Disclosure of Financial Statements of Banks and The Related Presentations and Notes" as of 31 December 2016 are presented in the table below.

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Current Period	Corporate	Commercial	SME/ Integrated	Treasury / Investment ⁽¹⁾	Other ⁽³⁾	Total
OPERATING INCOME / EXPENSES						
Interest income	1.474.585	2.138.386	10.406.769	3.026.965	316.508	17.363.213
Interest on loans	1.474.545	2.137.979	10.263.159	432.183	-	14.307.866
Interest income on marketable securities	-	-	129.951	2.423.456	17.997	2.571.404
Interest received from banks	-	-	4.158	110.130	394	114.682
Other interest income ⁽²⁾	40	407	9.501	61.196	298.117	369.261
Interest expense	879.936	420.987	6.006.409	2.589.050	118.290	10.014.672
Interest on deposits	866.637	405.981	5.889.288	889.712	-	8.051.618
Interest on borrowings	833	6.909	24.491	345.535	111.874	489.642
Interest on money market borrowings	-	-	26.815	767.291	-	794.106
Interest on marketable bonds issued	-	-	-	585.219	5.529	590.748
Other interest expense ⁽²⁾	12.466	8.097	65.815	1.293	887	88.558
Net interest income	594.649	1.717.399	4.400.360	437.915	198.218	7.348.541
Net fees and commissions income	194.413	221.663	754.129	257.443	(189.545)	1.238.103
Net trading profit / (loss)	735	6.200	312.171	(168.086)	31.946	182.966
Dividend income	-	-	-	39.873	113	39.986
Other income	8.744	26.552	254.916	352.252	1.200.749	1.843.213
Loans and other receivables' impairment loss	182.336	209.248	603.701	1.148.611	62.013	2.205.909
Other expenses	17.159	64.826	1.696.112	2.202.051	1.117.314	5.097.462
Income before taxes	599.046	1.697.740	3.421.763	(2.431.265)	62.154	3.349.438
Income tax provision	-	-	(1.980)	(797.969)	(10.033)	(809.982)
Net profit for the period	599.046	1.697.740	3.419.783	(3.229.234)	52.121	2.539.456
SEGMENT ASSETS						
Marketable securities	-	-	2.524.561	31.134.471	255.928	33.914.960
Derivative financial assets held for trading	-	-	75.054	284.757	-	359.811
Banks and money market receivables	-	-	244.328	2.782.330	10.589	3.037.247
Associates and subsidiaries (net)	-	-	-	333.664	-	333.664
Loans	24.281.411	32.125.832	97.373.009	5.542.907	-	159.323.159
Other assets ⁽¹⁾	81.246	441.908	1.805.746	34.519.527	3.908.999	40.757.426
TOTAL ASSETS	24.362.657	32.567.740	102.022.698	74.597.656	4.175.516	237.726.267
SEGMENT LIABILITIES						
Deposits	23.833.195	8.253.723	100.730.184	17.581.775	-	150.398.877
Derivative financial liabilities held for trading	-	-	42.426	169.422	12.745	224.593
Money market balances	-	-	1.373.871	17.648.265	-	19.022.136
Borrowing funding loans	1.445	187.747	830.155	18.562.250	2.007.514	21.589.111
Bonds issued	-	-	-	12.627.411	125.000	12.752.411
Other liabilities	254.825	278.741	5.100.179	1.383.137	133.689	7.150.571
Provisions and tax payable	66.549	57.621	191.543	3,450.920	1,452.415	5,219.048
Shareholders' equity	543.102	1,701.171	3,102.242	15,079.106	943.899	21,369.520
TOTAL LIABILITIES	24.699.116	10,479.003	111,370.600	86,502.286	4,675.262	237,726.267
OFF BALANCE SHEET ITEMS						
Guarantees and surety ships	13,605.528	10,831.393	12,513.027	10,927.771	-	47,877.719
Commitments	58.048	855.008	11,050.295	12,545.837	245.172	24,754.360
Derivative financial instruments	-	-	6,427.378	18,507.766	299.072	25,234.216

⁽¹⁾ Amounts arising from transactions of general directorate and Halk Yatırım Menkul Değerler AŞ, Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halk Bank AD, Skopje transactions are presented under the treasury / investment column. In this context net of property, plant and equipment amounting TRY 3,266,984 (net), deferred tax assets amounting TRY 99,525 is presented under the other column.

⁽²⁾ Branches current interest are distributed in other interest incomes and other interest expenses section.

⁽³⁾ Halk Hayat ve Emeklilik AŞ, Halk Sigorta AŞ, Halk Finansal Kira İlama AŞ, Halk Portföy Yönetimi AŞ and Halk Faktoring AŞ transactions are presented in other column.

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Prior Period	Corporate	Commercial	SME/ Integrated	Treasury / Investment ⁽¹⁾	Other ⁽²⁾	Total
OPERATING INCOME / EXPENSES						
Interest income	1.252.248	1.566.379	7.834.586	3.093.570	225.929	13.972.712
Interest on loans	1.252.216	1.566.211	7.829.954	668.831	-	11.317.212
Interest income on marketable securities	-	-	-	2.350.827	21.468	2.372.295
Interest received from banks	-	-	-	49.333	64	49.397
Other interest income	32	168	4.632	24.579	204.397	233.808
Interest expense	754.908	305.330	4.773.771	2.117.074	87.509	8.038.592
Interest on deposits	743.956	294.970	4.705.333	581.054	-	6.325.313
Interest on borrowings	1.388	9.620	17.423	297.774	86.889	413.094
Interest on money market borrowings	-	-	-	738.807	-	738.807
Interest on marketable bonds issued	-	-	-	457.351	-	457.351
Other interest expense	9.564	740	51.015	42.088	620	104.027
Net interest income	497.340	1.261.049	3.060.815	976.496	138.420	5.934.120
Net fees and commissions income	180.974	227.705	624.468	210.111	(149.324)	1.093.934
Net trading profit / (loss)	-	-	-	(260.313)	19.554	(240.759)
Dividend income	-	-	-	6.254	-	6.254
Other income	6.976	51.758	272.851	614.795	741.605	1.687.985
Loans and other receivables' impairment loss	371.039	81.570	386.691	487.797	49.758	1.376.855
Other expenses	19.171	64.802	1.658.274	1.852.837	611.235	4.206.319
Income before taxes	295.080	1.394.140	1.913.169	(793.291)	89.262	2.898.360
Income tax provision	-	-	-	(541.708)	(28.342)	(570.050)
Net profit for the period	295.080	1.394.140	1.913.169	(1.334.999)	60.920	2.328.310
SEGMENT ASSETS						
Marketable securities	-	-	-	28.245.148	281.275	28.526.423
Derivative financial assets held for trading	-	-	-	247.060	6.044	253.104
Banks and money market receivables	-	-	-	2.667.826	3.699	2.671.525
Associates and subsidiaries (net)	-	-	-	302.060	-	302.060
Loans	19.120.030	23.941.048	73.389.277	10.769.196	-	127.219.551
Other assets ⁽¹⁾	411	219.166	994.259	27.816.286	2,998.705	32,028.827
TOTAL ASSETS	19.120.441	24.160.214	74.383.536	70.047.576	3.289.723	191.001.490
SEGMENT LIABILITIES						
Deposits	14,534,734	7,832,679	84,745,717	15,391,254	-	122,504,384
Derivative financial liabilities held for trading	-	-	-	150,716	24,957	175,673
Money market balances	-	-	-	8,455,957	-	8,455,957
Borrowing funding loans	2,623	178,763	524,629	20,005,468	1,432,254	22,143,737
Bonds issued	-	-	-	8,840,560	-	8,840,560
Other liabilities	182,692	227,718	3,890,413	1,732,360	70,580	6,103,763
Provisions and tax payable	44,141	35,196	165,682	2,399,525	966,198	3,610,742
Shareholders' equity	-	-	-	18,347,846	818,828	19,166,674
TOTAL LIABILITIES	14,764,190	8,274,356	89,326,441	75,323,686	3,312,817	191,001,490
OFF BALANCE SHEET ITEMS						
Guarantees and surety ships	11,598,690	8,607,657	9,653,785	10,177,094	-	40,037,226
Commitments	42,388	761,495	8,566,394	12,664,419	6,607	22,041,303
Derivative financial instruments	-	-	-	24,388,456	633,151	25,021,607

⁽¹⁾ Amounts arising from transactions of general directorate and Halk Yatırım Menkul Değerler AŞ, Halk Gayrimenkul Yatırım Ortaklığı AŞ, Halk Bank AD, Skopje transactions are presented under the treasury / investment column. In this context net of property, plant and equipment amounting TRY 3.144.367 (net), deferred tax assets amounting TRY 49.703 is presented under the other column.

⁽²⁾ Branches current interest are distributed in other interest incomes and other interest expenses section.

⁽³⁾ Halk Hayat ve Emeklilik AŞ, Halk Sigorta AŞ, Halk Finansal Kira lama AŞ, Halk Portföy Yönetimi AŞ and Halk Faktoring AŞ transactions are presented in other column.

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IX. EXPLANATIONS ON PRESENTATION OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE

	Book Value		Fair Value	
	Current Period	Prior Period	Current Period	Prior Period
Financial Assets	228.959.936	183.722.815	219.320.338	172.124.292
Cash and Balances with the Central Bank of Turkey	30.211.966	23.500.539	30.211.966	23.500.539
Financial assets fair value changes reflected to income statement ⁽³⁾	440.816	333.295	440.816	333.295
Banks	1.964.850	2.617.651	1.965.009	2.617.651
Money market placements	1.072.397	53.874	1.072.397	53.874
Available for sale financial assets ⁽¹⁾	15.421.388	11.418.210	15.506.164	11.418.210
Held to maturity investments	18.344.626	16.904.877	18.302.970	16.520.672
Loans ⁽²⁾	158.058.035	126.202.732	148.375.158	114.988.414
Leasing Receivables	2.311.330	2.204.752	2.311.330	2.204.752
Factoring Receivables	1.134.528	486.885	1.134.528	486.885
Financial Liabilities	206.853.750	164.519.055	210.743.804	166.080.713
Deposits	150.398.877	122.504.384	150.538.910	122.606.101
Derivative financial liabilities held for trading	224.593	175.673	224.593	175.673
Funds provided from other financial intuitions	21.589.111	22.143.737	25.926.472	23.656.563
Money market borrowings	19.022.136	8.455.957	19.006.498	8.455.957
Securities issued	12.752.411	8.840.560	12.188.982	8.840.758
Miscellaneous payables	2.866.622	2.398.744	2.858.349	2.345.661

⁽¹⁾ As of 31 December 2016, TRY 59.831 of equity investments followed in available for sale financial assets which are measured at cost less any impairment losses have not been included in the table above (31 December 2015: TRY 116.933).

⁽²⁾ Net of follow-up loans has not been included in the table above.

⁽³⁾ As of 31 December 2016, marketable securities amounting to TRY 8.110 that are valued by internal rate of return, are not included in financial assets held for trading purpose.

The methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

- i- The fair value of the held to maturity assets is determined by market places, when the market prices are not available, quoted market prices of other marketable securities which are subject to redemption with the same terms of interest maturity and other similar conditions have been used.
- ii- The applicable interest rates as of balance sheet date are used in the calculation of fair value of money market placements, banks, loans, deposits, funds provided from other financial intuitions and sundry creditors.

Classification of Fair Value Measurement

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

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

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

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

Classification requires using observable market data if possible.

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

Current Period	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss:				
Financial assets held for trading purpose ⁽²⁾ :	81.005	359.811	-	440.816
<i>Debt securities</i>	65.538	-	-	65.538
<i>Derivative financial assets held for trading purpose</i>	-	359.811	-	359.811
<i>Equity Share</i>	3.095	-	-	3.095
<i>Other Securities</i> ⁽²⁾	12.372	-	-	12.372
Available-for-sale financial assets ⁽¹⁾	15.421.388	-	-	15.421.388
<i>Debt securities</i>	15.419.448	-	-	15.419.448
<i>Other Securities</i>	1.940	-	-	1.940
Subsidiaries	-	-	41.243	41.243
Association	-	-	292.421	292.421
Total Financial Assets	15.502.393	359.811	333.664	16.195.868
Financial liabilities at fair value through profit/loss:				
Derivative financial liabilities held for trading purpose	-	224.593	-	224.593
Total Financial Liabilities	-	224.593	-	224.593

⁽¹⁾As of 31 December 2016, share certificates amounting to TRY 59.831 of "securities not quoted on the stock market" in available for sale financial assets are not included in the above table.

⁽²⁾As of 31 December 2016, marketable securities amounting to TRY 8.110 that are valued by internal rate of return, are not included in financial assets held for trading purpose.

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Prior Period	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss:				
Financial assets held for trading purpose ⁽²⁾ :	80.191	253.104	-	333.295
<i>Debt securities</i>	61.672	-	-	61.672
<i>Derivative financial assets held for trading purpose</i>	-	253.104	-	253.104
<i>Equity Share</i>	3.318	-	-	3.318
<i>Other Securities</i> ⁽²⁾	15.201	-	-	15.201
Available-for-sale financial assets ⁽¹⁾	11.418.210	-	-	11.418.210
<i>Debt securities</i>	11.390.219	-	-	11.390.219
<i>Other Securities</i>	27.991	-	-	27.991
Subsidiaries	-	-	38.029	38.029
Association	-	-	264.031	264.031
Total Financial Assets	11.498.401	253.104	302.060	12.053.565
Financial liabilities at fair value through profit/loss:				
Derivative financial liabilities held for trading purpose	-	175.673	-	175.673
Total Financial Liabilities	-	175.673	-	175.673

⁽¹⁾As of 31 December 2015, share certificates amounting to TRY 116.933 of "securities not quoted on the stock market" in available for sale financial assets are not included in the above table.

⁽²⁾ As of 31 December 2015, marketable securities amounting to TRY 6.212 that are not valued by market rate of return, are not included in financial assets held for trading purpose.

The movement of financial assets in the third level are as follows:

	Current Period	Prior Period
Balance at the beginning of the period	264.031	38.029
Purchases during the year	-	-
Non-paid up shares	-	-
Valuation Difference	28.390	170
Transfers	-	225.832
Period End Balance	292.421	264.031

X. EXPLANATIONS RELATED TO TRANSACTIONS MADE ON BEHALF OF OTHERS AND TRANSACTIONS BASED ON TRUST

The Parent Bank performs buying transactions on behalf of customers, and gives custody, administration and consultancy services

The Group does not engage in transaction based on trust.

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XI. EXPLANATIONS RELATED TO RISK MANAGEMENT AND RISK WEIGHTED AMOUNTS

Explanations Related To Risk Management:

The notes under this caption are prepared as per the “Regulation on Calculation of Risk Management Disclosures” published in the Official Gazette no. 29511 dated 23 October 2015.

The Bank’s Risk Management Strategy and Risk Weighted Amounts

The Bank’s business model creates a comprehensive risk profile that includes all units of the Bank. Credit risk is a key component of the risk profile. The Bank effectively implements risk management policies and procedures for loan and other risks which is determined within the framework of risk capacity and appetite and approved by board of directors. Risk appetite and capacity, which are directly related to the Bank’s strategic objectives, are limited by legal rates therefore the Bank associated with them.

Regarding the risk management structure; The Internal Audit Department, Internal Control Department and Risk Management Department, which are units within the scope of internal systems, carry out their activities in accordance with the Regulation on Internal Systems of Banks and the Internal Capital Adequacy Assessment Process published in the Official Gazette No. 29057 dated 11 June 2014 and subject to the Board of Directors through the Audit Committee. The Financial Crimes Investigation Board (MASAK) Compliance Unit is directly affiliated to the Audit Committee. The structure of the internal systems determines the level of risk by identifying the risks that the bank is exposed to. In this direction, the relevant units are responsible for monitoring, controlling and reporting risks, limited to their areas of responsibility. Outside of internal systems, Top Management is directly responsible to the Board of Directors for the risks to which the Bank is exposed in relation to its duties.

The Bank is using information technologies and training documents openly and effectively for the dissemination and application of risk culture, and the development of bank staff is supported in line with this goal with face to face learning and e-learning. In addition, all personnel are regularly informed and aware of the risks that the Bank is exposed to.

Risk measurement systems are based on accepted risk models and workflows for the identification, monitoring and reporting of risks in accordance with legislation. Methods and software that are in line with international standards are used for risk groups such as credit, market, operational and counterparty credit risk etc.

Within the scope of risk management activities, regular reporting and presentations are made to the boards of directors, asset-liability and audit committees and to the other committees by related units, in order to manage the risks that the Bank is exposed to more effectively, to support the decision making processes related to them, to create new strategies and policies.

The Bank reports to the BRSA by applying the stress tests determined in accordance with the Internal Capital Adequacy Assessment Process (ISEDES). In addition, stress tests are carried out in line with the scenarios created by the risks exposed and the macroeconomic conditions. This test which made by shocking various risk factors, shows the results on risk weighted assets, own funds and capital adequacy ratio.

The Bank monitors its effectiveness by closely monitoring the processes of managing and reducing the risks arising from the business model. The Bank regularly revises the strategies it has established regarding these processes in line with the existing conditions and sets policies.

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Overview of RWA:

	Risk Weighted Amounts		Minimum Capital Requirements
	Current Period	Prior Period	Current Period
1 Credit risk (excluding counterparty credit risk) (CCR)	166.783.094	134.549.626	13.342.647
2 Standardised approach (SA)	166.783.094	134.549.626	13.342.647
3 Internal rating-based (IRB) approach	-	-	-
4 Counterparty credit risk	380.116	285.197	30.409
5 Standardised approach for counterparty credit risk (SA-CCR)	380.116	285.197	30.409
6 Internal model method (IMM)	-	-	-
7 Basic risk weight approach to internal models equity position in the banking account	-	-	-
8 Investments made in collective investment companies - look-through approach	-	-	-
9 Investments made in collective investment companies - mandate-based approach (*)	-	-	-
10 Investments made in collective investment companies - %1250 weighted risk approach	-	-	-
11 Settlement risk	-	-	-
12 Securitization positions in banking accounts	-	-	-
13 IRB ratings-based approach (RBA)	-	-	-
14 IRB Supervisory Formula Approach (SFA)	-	-	-
15 SA/simplified supervisory formula approach (SSFA)	-	-	-
16 Market risk	2.225.538	6.667.208	178.043
17 Standardised approach (SA)	2.225.538	6.667.208	178.043
18 Internal model approaches (IMM)	-	-	-
19 Operational Risk	12.718.488	12.041.060	1.017.479
20 Basic Indicator Approach	12.718.488	12.041.060	1.017.479
21 Standart Approach	-	-	-
22 Advanced measurement approach	-	-	-
23 The amount of the discount threshold under the equity (subject to a 250% risk weight)	715.254	644.278	57.220
24 Floor adjustment	-	-	-
25 Total (1+4+7+8+9+10+11+12+16+19+23+24)	182.822.490	154.187.369	14.625.798

*Credit risk standard approach also includes the amounts which below discount threshold.

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Differences and Matching Between Asset and Liabilities' Carrying Values in Financial Statements and In Capital Adequacy Calculation

	Carrying values in financial statements prepared as per TAS	Carrying values in consolidated financial statements prepared as per TAS	Carrying values of items in accordance with Turkish Accounting Standards				Not subject to capital requirements or subject to deduction from capital
			Credit Risk	Counterparty credit risk	Securitization positions	Market Risk	
Assets							
Cash and Balances with the Central Bank	-	30.211.966	30.211.966	-	-	-	-
Available-for-Sale Financial Assets	-	448.926	-	359.811	-	448.926	-
Financial assets at fair value through profit and loss	-	-	-	-	-	-	-
Banks	-	1.964.850	1.964.850	-	-	-	-
Receivables from Money markets	-	1.072.397	1.067.712	-	-	4.685	-
Financial assets available for sale (net)	-	15.481.219	8.579.775	-	-	6.901.444	-
Loans and receivables	-	159.323.159	159.304.411	-	-	-	18.748
Receivables from factoring	-	1.134.528	1.134.528	-	-	-	-
Investments held to maturity (net)	-	18.344.626	18.344.626	-	-	-	-
Subsidiaries (net)	-	292.421	292.421	-	-	-	-
Associates (net)	-	41.243	41.243	-	-	-	-
Jointly controlled entities (joint ventures) (net)	-	-	-	-	-	-	-
Finance lease receivables	-	2.311.330	2.311.330	-	-	-	-
Derivative financial liabilities held for risk management	-	-	-	-	-	-	-
Tangible Assets (net)	-	3.266.984	3.036.487	-	-	-	230.497
Intangible Assets (net)	-	115.229	-	-	-	-	115.229
Real estate for investment purpose (net)	-	864.116	864.116	-	-	-	-
Tax asset	-	99.525	99.525	-	-	-	-
Assets Held For Sale and Discontinued Operations (net)	-	1.537	1.537	-	-	-	-
Other assets	-	2.752.211	2.752.211	-	-	146	-
Total Assets	-	237.726.267	230.006.738	359.811	-	7.355.201	364.474
Liabilities							
Deposits	-	150.398.877	-	-	-	-	150.398.877
Derivative financial liabilities held for trading	-	224.593	-	-	-	-	224.593
Loans	-	21.589.111	-	-	-	-	21.589.111
Money market borrowings	-	19.022.136	-	10.844.612	-	2.341.945	16.680.191
Securities issued	-	12.752.411	-	-	-	-	12.752.411
Funds	-	2.339.808	-	-	-	-	2.339.808
Miscellaneous payables	-	2.866.622	-	-	-	-	2.866.622
Other liabilities	-	1.943.553	-	-	-	349	1.943.204
Factoring payables	-	588	-	-	-	-	588
Finance lease payables	-	-	-	-	-	-	-
Derivative financial liabilities held for risk management	-	-	-	-	-	-	-
Provisions	-	4.573.099	-	-	-	-	4.573.099
Tax Liability	-	645.949	-	-	-	-	645.949
Liabilities regarding assets held for sale and discontinued operations (net)	-	-	-	-	-	-	-
Subordinated Loans	-	-	-	-	-	-	-
Shareholders' equity	-	21.369.520	-	-	-	-	21.369.520
Total liabilities	-	237.726.267	-	10.844.612	-	2.342.294	235.383.973

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Main Sources of Differences between Regulatory Exposure Amounts and Carrying Values in Financial Statements

	Total	Credit risk	Securitization positions	Counterparty credit risk	Market Risk
1 Asset carrying value amount under scope of regulatory consolidation	237.726.267	230.006.738	-	359.811	7.355.201
2 Liabilities carrying value amount under regulatory scope of consolidation	237.726.267	-	-	10.844.612	2.342.294
3 Total net amount under regulatory scope of consolidation	-	230.006.738	-	11.204.423	9.697.495
4 Off-balance Sheet Amounts	72.632.079	30.952.575	-	167.732*	25.651.666
5 Differences in valuations	-	-	-	-	-
6 Differences due to different netting rules, other than those already included in row 2	-	-	-	-	-
7 Differences due to consideration of provisions	-	-	-	-	-
8 Differences due to prudential filters	-	-	-	-	-
9 Differences due to risk reduction	-	260.959.313	-	11.372.155	35.349.161

* Potential credit risk amount

Explanations of differences between accounting and regulatory exposure amounts:

There is no material differences between the carrying values in financial statements and the risk amounts in capital adequacy calculation of assets and liabilities.

Explanations Related to Counterparty Credit Risk

The Parent Bank provides the necessary definitions and classifications for the CCR that take into account the pre-clearing and pre-clearing risk in relation to the management policies and procedures of the CCR, thereby managing these risks on a counterparty basis and across the bank.

The impact of the new products and activities on the Bank's CCR level is assessed and these evaluations are included in the product / activity approval process.

The market, liquidity, compliance risk and operational risk that may be associated with the CCR are taken into account and the general / specific limit levels of the bank's transactions to the CCR are determined. These limits established within the framework of the CCPR are regularly monitored. The Bank uses risk mitigation techniques to the extent that it is appropriate, through applications such as margin taking and margin fulfillment.

The Bank uses methods and models in accordance with international standards for the identification, measurement, monitoring, control and reporting of the CCL. Independent scrutiny and supervision is carried out on the integrity, correctness and effectiveness of the CCR management systems. These activities are carried out by the bank's internal audit units and independent audit institutions.

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The contracts made according to the attribute of the transaction are evaluated by taking into account ISDA and CSA frame for derivative transactions, GMRA frame for repurchase agreements. The risk is mitigated by receiving cash or other forms of collateral. In secured lending and repo transactions, the haircut amounts are reduced from the counterparty's limits. Possible falls or rises in rating affects the current replacement cost, margin call agreements are used as a risk mitigator.

Analysis of counterparty credit risk (CCR) exposure by approach:

	Replacement cost	Potential future exposure	EEPE*	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
Standard Approach-CCR (for derivatives)	113.549	167.732	-	1,4	302.793	210.708
Internal Model Method (for derivatives and SFTs)			-	-		-
Simple Approach for credit risk mitigation (for SFTs)					996.259	125.331
Comprehensive Approach for credit risk mitigation (for SFTs)					350.794	44.077
VaR for SFTs					-	-
Total					-	380.116

(*) Expected effective amount of risk

(**) This amount represents, CRM and CVA amounts after adjustments.

Credit valuation adjustment (CVA) capital charge:

	EAD post-CRM	RWA
Total portfolios subject to the Advanced CVA capital charge	-	-
(i) VaR component (including the 3×multiplier)	-	-
(ii) Stressed VaR component (including the 3×multiplier)	-	-
All portfolios subject to the Standardised CVA capital charge	302.793	210.708
Total subject to the CVA capital charge	302.793	210.708

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Standardised approach – CCR exposures by regulatory portfolio and risk weights:

Risk Weight / Regulatory Portfolio	0%	10%	20%	50%	75%	100%	150%	Total Credit Risk	
								Diğer	Risk
Sovereigns and their central banks	290.323	1.473	-	-	-	-	-	-	291.796
Non-central government public sector entities	-	4.419	-	-	-	-	-	-	4.419
Regional governments or local authorities	-	6.376	-	-	-	-	-	-	6.376
Multilateral development banks	-	-	-	-	-	-	-	-	-
International organizations	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	732.481	94.590	307.239	-	556	-	-	1.134.866
Corporate	-	53.393	-	-	-	122.054	-	-	175.447
Regulatory retail portfolios	-	34.696	-	-	2.246	-	-	-	36.942
Secured by residential property	-	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-	-
Secured by mortgages	-	-	-	-	-	-	-	-	-
Securitization positions	-	-	-	-	-	-	-	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-	-	-	-	-	-	-	-
Undertakings for collective investments in mutual funds	-	-	-	-	-	-	-	-	-
Investments on securities	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-
Total	290.323	832.838	94.590	307.239	2.246	122.610	-	-	1.649.846

Composition of collateral for CCR exposure:

	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash – domestic currency	-	-	-	-	-	-
Cash – other currencies	-	41.172	-	27.690	-	26.290
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	41.172	-	27.690	-	26.290

Credit derivatives exposures:

None.

Exposures to central counterparties:

None.

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Qualitative Disclosure on Credit Risk:

Credit risk, which is the most important risk profile of the Bank's business model, refers to risks and losses arising from the bank's failure to meet its obligations under contracts that the Bank is a party to. Credit limits are set by registering with the risk appetite and capacity of the bank.

Credit risk refers to the risks and damage caused by failure to fulfill the obligations of the other party in the contracts of the Bank. Credit limits are assigned according to the customer's financial condition and credit need by the branches, regional credit committee, head of credit department, in charge of general manager of the credit, general manager, credit committee and board of directors and also they can be replaced when necessary situation interms of the scope of the legislation.

Within the scope of internal systems, internal audit activities are carried out by the Internal Audit Department and the Internal Audit Department in order to ensure that the activities of the Bank are carried out in accordance with the Bankan determined policies in compliance with the legal regulations. The Risk Management Department, which is the risk unit within the internal systems, performs the function of measuring, monitoring, controlling and reporting on the credit risk to which the bank is exposed. The identified units are regularly reporting on the risks exposed to the Bank's Senior Management.

The Bank, in the credit allocation process, restricts its risk exposure by working with highly credible banks and entities considering the credit ratings for the purpose of managing its risks. Under the scope of credit risk management, the Bank rates all of its borrowers' credit and requires additional collaterals from whose risk is higher. The Bank has the policy of not granting loans/credits and/or limiting the amount of such loans/credits. The Bank's risk is concentrated in Turkey. In loan procedure, limits are determined based on the type of loans and customers and risk and limit information is controlled periodically.

Loans granted to other banks and risk limits set for the correspondent bank transactions are controlled on a daily basis. Risk concentrations are monitored systematically with the Treasury department, concerning the off-balance sheet operations based on the customers and banks.

Credit Quality of Assets:

	Gross carrying value as per TAS		Allowances/ amortisation and impairments **	Net values
	Defaulted *	Non-defaulted		
1 Loans	5.320.512	158.058.035	4.055.388	159.323.159
2 Debt Securities	-	34.476.651	561.691	33.914.960
3 Off-balance sheet exposures	-	72.632.079	-	72.632.079
4 Total	5.320.512	265.166.765	4.617.079	265.870.198

* Shows the receivables which identified non performing receivables in accordance with the regulation on "Methods and Principles for the Determination of Loans and Other Receivables qualification and the provisions for these" published in the official gazette no.26333 dated 1 November 2006.

** Refers the provision, depreciation and impairment which located in the regulation on methods and principles for the determination of loans and other receivables qualification and the provisions for these

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Changes in Stock of Default Loans and Debt Securities:

1	Defaulted loans and debt securities at end of the previous reporting period	4.189.536
2	Loans and debt securities defaulted since the last reporting period	1.688.226
3	Receivables back to non-defaulted status	(41.638)
4	Amounts written off	952
5	Other changes	(514.660)
6	Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)	5.320.512

Additional Disclosure Related To The Credit Quality Of Assets:

Exposures Provisioned Against By Maturity

31 December 2016	Demands Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5 years and Over	Total	
Loans and Advances	1.351.439	11.694.182	10.466.532	48.738.850	66.096.047	19.710.985	158.058.035

Exposures Provisioned Against By Major Regions:

31 December 2016	Loans Under Follow-Up	Specific Provisions
Domestic	5.069.781	3.911.527
European Union (EU) Countries	30.241	12.458
OECD Countries	3	3
Off-Shore Banking Regions	-	-
USA, Canada	5	5
Other Countries	220.482	131.395
Total	5.320.512	4.055.388

Exposures Provisioned Against By Sectors:

Explained in 4-II Information according to sectors and counterparties.

Aging analysis of overdue but not impaired financial assets:

31 December 2016	
30-60 days overdue	1.154.749
60-90 days overdue	672.781
Total	1.827.530

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

31 December 2016	
Loans Structured from Standard Loans and Other Receivables	2.176.960
Loans Composed of Follow-on Loans and Other Receivables	2.615.757
Loans Restructured from Non-Performing Loans	1.254.641

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Qualitative Disclosure on Credit Risk Mitigation Techniques:

The risk mitigating factors used in the lending activities of the Parent Bank are listed below.

Financial warranties (Treasury Bills, Government Bonds, Cash, Pledged Deposits, Gold, Pledged Securities)

Guarantees:

Mortgage (Although mortgage lending in Basel II has been considered as a risk class, it has also been included in this section in terms of valuation methods and concentrations).

The financial guarantees in the bank are subject to valuation on a daily basis. The creditors' credits are monitored and assessed within the framework of credit revision schedules.

As long as the mortgage that constitutes the collateral of the credits continues to be related to the loan, the risk-guarantee balances will be monitored and revalued each year. Despite the possibility of exposure to collateral, action plans have been drawn up.

Guarantees given by the Treasury and banks only in line with the related regulations of the BRSA are regarded as risk reduction elements and the credit value of the bank is regularly monitored.

The Bank's credit risk exposure and mitigation techniques used in order to reduce the exposure level are taken into account according to the principles stated in the related regulation. The Bank applies credit risk mitigation according to the comprehensive method that includes risk mitigation calculations considering the volatility-adjusted values of financial collaterals. The standardized risk weights are applied to the rest of the loans and receivables that remained unprotected after credit risk mitigation techniques. Financial collaterals that are composed of cash or similar assets and instruments of a high credit quality as well as real estate mortgages have been used in credit risk mitigation.

On-balance sheet and off-balance sheet adjustments are not available.

Credit Risk Mitigation Techniques- Overview:

	Exposures unsecured of (according to TAS)	Exposures secured by collateral	Exposures secured by collateral, of which secured amount	Exposures secured by financial guarantees	financial guarantees, of which secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which secured amount
1 Loans ^(*)	103.500.018	54.558.017	44.814.196	457.086	457.086	-	-
2 Debt Instruments ^(**)	33.914.960	-	-	-	-	-	-
3 Total	137.414.978	54.558.017	44.814.196	457.086	457.086	-	-
4 Of which defaulted	250.913	1.014.211	629.978	10.188	10.188	-	-

* As collateral, collateral which can only be used to reduce credit risk in the scope of Standard Approach is taken into consideration.

** Only securities and shares representing the share in the capital are taken into consideration as debt instruments and other securities.

Information about the Banks' Use of Classification Notes by Calculation of Standard Approach to Credit Risk:

Explained in risk classifications related to Article 6 of Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks in 4-II Credit risk section.

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Standardised Approach- Credit Risk Exposure and Credit Risk Mitigation Techniques:

Risk Classification	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
Claims on sovereigns and Central Banks	67.967.853	140.836	68.162.399	72.231	17.029.476	24,96%
Claims on regional governments or local authorities	2.073.317	61.363	1.882.449	30.682	947.302	49,52%
Claims on administrative bodies and other non-commercial undertakings	573.484	340.239	573.484	166.780	733.223	99,05%
Claims on multilateral development banks	-	-	-	-	-	-
Claims on international organizations	-	-	-	-	-	-
Claims on banks and intermediary institutions	4.833.655	2.829.512	4.855.930	1.551.459	1.776.884	27,73%
Claims on corporates	60.120.479	40.855.543	60.100.173	23.197.127	81.633.535	98,00%
Claims included in the regulatory retail portfolios	49.840.300	26.023.547	49.834.653	4.599.306	39.363.193	72,31%
Claims secured by residential property	25.825.339	860.072	25.825.339	475.148	9.354.872	35,57%
Claims secured by commercial property	18.474.111	1.162.678	18.474.111	805.779	9.639.945	50,00%
Overdue loans	1.264.569	9.061	1.264.569	4.821	1.155.751	91,05%
Higher risk categories decided by the Board	1.333	95.249	1.333	49.245	75.867	150,00%
Secured by mortgages	-	-	-	-	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-	-	-	-	-
Undertakings for collective investments in mutual funds	-	-	-	-	-	-
Other receivables	10.003.316	-	10.003.316	-	5.386.360	53,85%
Equity share investments	352.902	-	352.902	-	782.055	221,61%
Total	241.330.658	72.378.100	241.330.658	30.952.578	167.878.463	61,66%

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Risk weight / Risk Classifications	0%	10%	20%	35%*	50%	75%	100%	150%	200%	Others	Total Credit Risk
Claims on sovereigns and Central Banks	34.279.604	1.473	15	-	33.848.425	-	105.113	-	-	-	68.234.630
Claims on regional governments or local authorities	14.991	4.419	-	-	1.893.721	-	-	-	-	-	1.913.131
Claims on administrative bodies and other non-commercial undertakings	1.227	6.376	94	-	-	-	732.567	-	-	-	740.264
Claims on multilateral development banks	-	-	-	-	-	-	-	-	-	-	-
Claims on international organizations	-	-	-	-	-	-	-	-	-	-	-
Claims on banks and intermediary institutions	614.159	732.481	3.848.460	-	556.690	-	655.599	-	-	-	6.407.389
Claims on corporates	504.999	53.393	978.606	-	655.656	-	81.104.646	-	-	-	83.297.300
Claims included in the regulatory retail portfolios	1.799.783	34.697	163.428	-	-	52.436.051	-	-	-	-	54.433.959
Claims secured by residential property	29.438	-	5.961	25.862.844	-	402.238	6	-	-	-	26.300.487
Claims secured by commercial property	-	-	-	-	19.279.890	-	-	-	-	-	19.279.890
Overdue loans	6.276	-	-	-	214.725	-	1.048.389	-	-	-	1.269.390
Higher risk categories decided by the Board	-	-	-	-	-	-	-	50.578	-	-	50.578
Secured by mortgages	-	-	-	-	-	-	-	-	-	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-	-	-	-	-	-	-	-	-	-
Undertakings for collective investments in mutual funds	-	-	-	-	-	-	-	-	-	-	-
Equity share investments	-	-	-	-	-	-	66.800	-	-	286.102	352.902
Other receivables	4.145.661	-	504.204	-	394.407	80.062	4.779.457	-	-	99.525	10.003.316
Total	41.396.138	832.839	5.500.768	25.862.844	56.843.514	52.918.351	88.492.577	50.578	-	385.627	272.283.236

* Guaranteed with real estate mortgage.

Qualitative Disclosure on Market Risk Publicly Announced:

In accordance with the Bank's risk management policy framework to avoid the effect of market risk, the Bank has determined the management activities and has taken necessary precautions within the framework of "Regulation On Measurement and Evaluation Of Capital Adequacy Of Banks" published in Official Journal No 29111 by 23 October 2015.

It is the ultimate responsibility of the senior management to apply and improve risk management strategies, policies and procedures that are approved by the board of directors, inform the board of directors about the important risks the Bank is exposed to, assess internal control, internal audit and risk reports with regard to the Banks' departments and to eliminate the risks, deficiencies or defects identified in these departments or to take the necessary precautionary actions to prevent those risks, deficiencies and defects and participate in the determination of risk limits.

In accordance with "Regulation on Measurement and Evaluation of Capital Adequacy of Banks", the Bank's possibility of loss that may cause due to the general market risk, currency risk, specific risk, commodity risk, clearing risk and counterparty credit risk is calculated by using the standard method. The following table discloses the amounts that are calculated using the standard method.

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The Bank measures and monitors risks that exposed to, considering methods suitable with international standards, compliant with legislation. Risk measuring and reporting are performed via advanced methods and risk management softwares. Risk based detailed reports are prepared for management of significant risks, in order to determine strategies and take decisions, in this scope, periodic and non-periodic reports are prepared for board of directors, relevant committees and senior management.

Market Risk: Standardised approach:

	RWA
Outright products	
Interest rate risk (general and specific)	1.044.175
Equity risk (general and specific)	87.150
Foreign exchange risk	1.086.913
Commodity risk	-
Options	
Simplified approach	-
Delta-plus method	7.300
Scenario approach	-
Securitization	-
Total	2.225.538

Statements related to Operational Risk Publicly Announced:

The value at operational risk is calculated according to the basic indicator approach and once a year with year-end datas.

	2 PP Amount	1 PP Amount	CP Amount	Total/ No. of Years of Positive Gross Income	Rate (%)	Total
Gross Income	6.469.646	6.535.163	7.344.771	6.783.193	15	1.017.479
Value at Operational Risk (Total x 12,5%)						12.718.488

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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A. Qualitative Disclosures on Remuneration Policies:

1. Disclosures related with Remuneration Committee:

The Bank's Remuneration Committee is comprised of two non-executive directors. The committee has convened for once during the year. The duties and responsibilities of the Committee include the following:

- The scope and structure of the Bank's operations and strategies ensure the effectiveness of a wage policy and wage policy that is consistent with its long-term goals and risk management structures, prevents excessive risk taking and contributes to effective risk management.
- Controls and follows the remuneration practices on behalf of the Board of Directors
- Ensures accordance of ethical values, strategical targets and internal balance of the Bank with the wage policy.
- Evaluates the remuneration policy and its practices in the context of risk management and submits proposals to the Board of Directors.
- Fullfils the other duties specified in the related regulations

The Parent Bank has received consultancy service from a company within the framework of the activities for compliance with the Guidelines on Sound Remuneration Practices in Banks.

The fundamental principles of the remuneration policy are applicable for all bank employees.

The Parent bank board members, senior management and the bank staff deemed to perform the functions having material impact on the bank's risk profile are considered as identified staff; and by the end of 2016, the number of identified staff is 25.

2. Information on the design and structure of remuneration process:

The Bank relies on the following values while managing its Remuneration Policy.

- Based on fair and balanced performance targets
- Balance within the Bank in terms of wage application to ensure competitiveness within the sector,
- To increase the efficiency of rewards by emphasizing the concepts of job size, performance and contribution to work,

In the meeting dated 6 December 2016, the Remuneration Committee evaluated its decisions previously taken with respect to remuneration of the senior managers and members of the board of directors considering the provisions of the Guidelines on Sound Remuneration Practices in Banks. Increases in the remuneration of employees working in the units responsible for internal systems are determined depending on the basic rate of increase specified by the Bank and their personal performances. In the variable remuneration, only the performance criteria associated with their personal performance or the performance of the unit that they work in are taken into account independently of the performance of the business units that they control.

In line with the growing and evolving organizational structure of the bank, project work has been initiated with a company in order to compare human resources applications with other banks in the sector.

With the completion of the project in mid-2017 as planned, a comprehensive change and revision of the Bank's human resources practices is planned.

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3. Evaluation about how the bank's remuneration processes take the current and future risks into account:

The Bank follows the Risk Management Principles while implementing the remuneration processes.

4. Evaluation about how the Bank associates variable remunerations with performance:

The bank's variable payments are mostly made to the personnel working at the branches and Regional Coordinators as performance bonuses. The paid amounts are not exceed a certain percentage of the monthly fixed fees. No performance premium payments are made to other members of the bank that are considered to have performed a function that has a significant effect on the risk profile of the bank and the members of the board of directors and senior managers who are positioned as special personnel and only With the decision of the General Assembly of the Bank, a dividend payment is made up to twice the gross monthly salary of all personnel.

5. Evaluation about the bank's methods to adjust remunerations according to long-term performance:

The same rules apply for the ratios of deferral for all identified staff members regarding their variable remunerations.

6. Evaluation about the instruments used by the bank for variable remunerations and the purposes of use of such instruments:

The type and weight of non-cash instruments used in payment of variable remuneration are same for all identified staff.

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SECTION V: EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS

I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS

(1) a) Cash and balances with the Central Bank of Turkey:

	Current period		Prior period	
	TRY	FC	TRY	FC
Cash and foreign currency	914.278	628.818	924.601	334.193
Central Bank of Turkey	2.620.111	25.902.219	3.414.818	18.700.084
Other ⁽¹⁾	-	146.540	-	126.843
Total	3.534.389	26.677.577	4.339.419	19.161.120

⁽¹⁾As of 31 December 2016, blocked reserve deposits kept in Central Bank of Macedonia amounted TRY 50.713 and amounted TRY 95.795 kept in Central Bank of Serbia (31 December 2015: TRY 126.829).

b) Information on the account of Central Bank of Turkey:

	Current period		Prior period	
	TRY	FC	TRY	FC
Demand unrestricted amount ⁽¹⁾	2.563.615	3.345.458	3.377.292	1.774.258
Time unrestricted amount	-	-	-	-
Time restricted amount	-	5.359.104	-	-
Reserve deposits ⁽²⁾	56.496	17.197.657	37.526	16.925.826
Total	2.620.111	25.902.219	3.414.818	18.700.084

⁽¹⁾ Reserve deposits kept in Central Bank of Turkey.

⁽²⁾ Blocked reserve deposits kept in Central Bank of Turkey and Central Bank of Cyprus.

As per the Communiqué no. 2013/15 "Reserve Deposits" of the Central Bank of Turkey (CBT), banks keep reserve deposits at the CBT for their TL and FC liabilities mentioned in the communiqué. The reserve deposit rates vary according to their maturity compositions; the reserve deposit rates are realized between 5%-10.5% for TL deposits and other liabilities, between 4%-24% for FC deposits for other FC liabilities. In accordance with the related communiqué, Central Bank of Turkey pays interests to TRY and FC reserves.

With the amendment on 21 October 2014 by the Central Bank what is held in banks are of certain conditions: Turkish Lira required reserve amount, the Central Bank website published the weighted average funding cost (AOFM) ratio of 300 or 500 basis points missing from the rate. Turkish Liras required reserve amount related interest rates are paid 400 basis points missing from Central Bank of Turkey's weekly maturity repo funding interest rate being valid from 1 January 2017.

With the the change in press release dated 23 January 2015, it has been decided to apply a commission, to be charged on daily account balances on required reserves and two days notice account denominated in Euro held by banks and these are going to be collected as of 1 February 2015. Since 27 July 2015 commission rates are published as zero in Central Bank of Turkey's website.

With the change in 2 May 2015 made by CBRT, US Dollars denominated required reserves, reserve options and free reserves held at Central Bank of Republic of Turkey will be remunerated. The interest rate will be set on daily basis by taking global and local financial markets conditions into account. The applicable interest rate is 0,75% for the reporting period.

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According to the Declaration of Central Bank of Cyprus dated 30 January 2014 and No.872 it is kept required reserve changes between 5% and 8% rates for Turkish Lira and foreign exchange liabilities.

With the Board of Minutes No. 129 dated 2006 of Central Bank of Macedonia, required reserve ratio are 8% for MKD currency liabilities and 15% for foreign currency liabilities.

Accordingly, Official Gazette of Serbia No. 102/2015, Central Bank of Serbia keep reserved required ratio 5% for short term liabilities which have been less than two years and 0% for long term liabilities, more than two years, 20% for foreign short term currency liabilities, less than two years, and 13% for long term foreign liabilities more than two years.

(2) Financial assets at fair value through profit and loss:

a) Financial assets fair value through profit and loss blocked/given as collateral:

The Group has financial assets at fair value through profit / loss amounting to TRY 2.532 which is blocked / given as collateral in the current period (31 December 2015: TRY 12.598).

b) Financial assets at fair value through profit and loss subject to repurchase agreements:

None.

c) Positive differences related to the derivative financial assets held-for-trading:

	Current period		Prior period	
	TRY	FC	TRY	FC
Forward transactions	-	120.227	-	131.507
Swap transactions	-	239.460	-	121.519
Futures transactions	-	-	-	-
Options	4	120	7	71
Other	-	-	-	-
Total	4	359.807	7	253.097

(3) Information on banks and other financial institutions:

a) Information on banks:

	Current period		Prior period	
	TRY	FC	TRY	FC
Banks				
Domestic banks	192.757	26.801	21.842	531.222
Foreign banks	169.769	1.575.523	55.258	2.009.329
Branches and offices abroad	-	-	-	-
Total	362.526	1.602.324	77.100	2.540.551

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b) Information on foreign banks:

	Unrestricted Balance		Restricted Balances	
	Current Period	Prior Period	Current Period	Prior Period
EU Countries	1.021.972	1.644.575	21.297	24.786
USA and Canada	143.531	165.995	8.538	378
OECD Countries ⁽¹⁾	86.081	42.808	3.475	1.245
Offshore Banking Regions	190	-	-	-
Other	299.596	184.800	160.612	-
Total	1.551.370	2.038.178	193.922	26.409

(4) Information on financial assets available-for-sale:

a) Financial assets available-for-sale blocked/given as collateral or subject to repurchase agreements:

a.1. Information on financial assets available-for-sale blocked/given as collateral:

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury bills, government bonds and similar securities	122.648	365.859	141.315	709.473
Total	122.648	365.859	141.315	709.473

a.2. Information on financial assets available-for-sale subject to repurchase agreements:

	Current Period		Prior period	
	TRY	FC	TRY	FC
Treasury bills, government bonds and similar securities	4.789.610	728.138	1.269.031	355.458
Total	4.789.610	728.138	1.269.031	355.458

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b) Information on financial assets available-for-sale portfolio:

	Current period	Prior period
Debt securities	15.698.700	11.602.861
<i>Quoted on a stock exchange</i>	15.692.826	11.462.094
<i>Not quoted</i>	5.874	140.767
Share certificates	343.595	141.875
<i>Quoted on a stock exchange</i>	53.292	104.185
<i>Not quoted</i>	290.303	37.690
Impairment provision(-)	561.076	209.593
Total	15.481.219	11.535.143

(5) Information on loans:

a) Information on all types of loans and advances given to shareholders and employees of the Group:

	Current period		Prior period	
	Cash loans	Non-cash loans	Cash loans	Non-cash loans
Direct loans granted to shareholders	-	-	-	-
<i>Corporate shareholders</i>	-	-	-	-
<i>Real person shareholders</i>	-	-	-	-
Indirect loans granted to shareholders	-	-	-	-
Loans granted to employees	226.188	-	197.937	-
Total	226.188	-	197.937	-

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b) Information on the first and second group loans and other receivables including loans that have been restructured or rescheduled:

	Standard loans and other receivables ⁽³⁾			Loans and other receivables under close monitoring		
	Loans and other receivables (Total)	Agreement conditions modified		Loans and other receivables (Total)	Agreement conditions modified	
		Payment plan extensions	Other		Payment plan extensions	Other
Cash loans						
Non-specialized loans	123.627.014	2.131.375	-	4.326.025	2.577.626	-
Corporation loans	82.276.700	1.633.583	-	3.810.767	2.484.944	-
Export loans	4.279.445	60.372	-	113.255	-	-
Import loans	-	-	-	-	-	-
Loans given to financial sector	2.342.172	-	-	-	-	-
Consumer loans ⁽¹⁾	29.506.027	374.467	-	231.454	8.924	-
Credit cards ⁽²⁾	3.462.298	62.953	-	108.723	83.758	-
Other	1.760.372	-	-	61.826	-	-
Specialized lending	27.713.062	6.895	-	265.787	116	-
Other receivables	-	-	-	-	-	-
Accruals	2.064.028	38.690	-	62.119	38.015	-
Total	153.404.104	2.176.960	-	4.653.931	2.615.757	-

⁽¹⁾ Includes TRY 174.090 of personnel loans.

⁽²⁾ Includes TRY 50.823 of personnel credit cards.

⁽³⁾ The loan granted to the shareholder of a strategically important company operating in the telecommunication sector amounting to USD 160.040.606 is classified under "Performing Loans and Other Receivables". Discussions between the shareholders of the company, creditor banks and related sovereign institutions have started regarding restructuring of loans granted including a possible change in shareholder structure, and a positive outcome of these discussions is expected.

	Standard Loans and Other Receivables ⁽¹⁾	Loans and Other Receivables Under Close Monitoring ⁽²⁾
Number of modifications made to extend payment plan		
Extended by 1 or 2 times	2.042.956	2.492.947
Extended by 3,4 or 5 times	33.244	55.768
Extended by more than 5 times	62.070	29.027

⁽¹⁾Accruals amounting to TRY 38.090 are not included in the table above.

⁽²⁾Accruals amounting to TRY 38.015 are not included in the table above.

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Extended period of time	Standard Loans and Other Receivables⁽¹⁾	Loans and Other Receivables Under Close Monitoring⁽²⁾
0-6 Months	429.842	566.251
6 Months - 12 Months	1.090.711	838.768
1-2 Years	348.037	865.340
2-5 Years	206.305	182.352
5 Years and over	63.375	125.031

⁽¹⁾Accruals amounting to TRY 38.690 are not included in the table above.

⁽²⁾Accruals amounting to TRY 38.015 are not included in the table above.

c) Loans according to their maturity structure:

Current Period	Standard Loans and Other Receivables		Loans and Other Receivables Under Close Monitoring	
	Loans and Other Receivables	Agreement conditions modified	Loans and Other Receivables	Agreement conditions modified
Short Term Loans and Other Receivables	32.383.921	207.303	677.307	225.676
Non-specialized loans	31.650.019	201.323	668.077	221.000
Specialized lending	301.548	-	171	-
Other receivables	-	-	-	-
Accruals	432.354	5.980	9.059	4.676
Medium and Long Term Loans and Other Receivables	121.020.183	1.969.657	3.976.624	2.390.081
Non-specialized loans	91.976.995	1.930.052	3.657.948	2.356.626
Specialized lending	27.411.514	6.895	265.616	116
Other receivables	-	-	-	-
Accruals	1.631.674	32.710	53.060	33.339
Prior Period	Standard Loans and Other Receivables		Loans and Other Receivables Under Close Monitoring	
	Loans and Other Receivables	Agreement conditions modified	Loans and Other Receivables	Agreement conditions modified
Short Term Loans and Other Receivables	26.726.056	376.526	664.528	241.806
Non-specialized loans	26.112.868	358.948	656.032	238.713
Specialized lending	275.005	12.762	55	-
Other receivables	-	-	-	-
Accruals	338.183	4.816	8.441	3.093
Medium and Long Term Loans and Other Receivables	95.971.926	869.658	2.840.222	1.112.382
Non-specialized loans	72.193.431	774.639	2.591.943	1.096.271
Specialized lending	22.543.353	83.894	212.257	1.881
Other receivables	-	-	-	-
Accruals	1.235.142	11.125	36.022	14.230

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d) Information on consumer loans, individual credit cards, personnel loans and credit cards:

	Short-term	Medium and long-term	Total
Consumer loans-TRY	335.388	27.794.632	28.130.020
Real estate loans	6.765	15.252.938	15.259.703
Automobile loans	2.223	194.613	196.836
Consumer loans	326.400	12.347.081	12.673.481
Other	-	-	-
Consumer loans- Indexed to FC	1.142	83.185	84.327
Real estate loans	19	935	954
Automobile loans	-	-	-
Consumer loans	1.123	82.250	83.373
Other	-	-	-
Consumer loans- FC	3.779	588.472	592.251
Real estate loans	440	132.346	132.786
Automobile loans	22	1.928	1.950
Consumer loans	2.984	420.182	423.166
Other	333	34.016	34.349
Individual credit cards-TRY	2.594.125	1.505	2.595.630
Installment	1.160.330	-	1.160.330
Non-installment	1.433.795	1.505	1.435.300
Individual credit cards-FC	413	47.254	47.667
Installment	223	47.254	47.477
Non-installment	190	-	190
Personnel loans-TRY	8.463	146.026	154.489
Real estate loans	-	-	-
Automobile loans	-	-	-
Consumer loans	8.463	146.026	154.489
Other	-	-	-
Personnel loans-Indexed to FC	10	1.265	1.275
Real estate loans	-	21	21
Automobile loans	-	-	-
Consumer loans	10	1.244	1.254
Other	-	-	-
Personnel loans-FC	157	19.444	19.601
Real estate loans	15	7.217	7.232
Automobile loans	7	65	72
Consumer loans	126	12.068	12.194
Other	9	94	103
Personnel credit cards-TRY	49.736	-	49.736
Installment	19.319	-	19.319
Non-installment	30.417	-	30.417
Personnel credit cards-FC	62	1.025	1.087
Installment	5	1.025	1.030
Non-installment	57	-	57
Overdraft accounts-TRY (Retail customer)	719.449	-	719.449
Overdraft accounts-FC (Retail customer)	33.219	2.850	36.069
Total ⁽¹⁾	3.745.943	28.685.658	32.431.601

⁽¹⁾ Interest and income accruals are not included in the table above.

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d) Information on commercial installments loans and corporate credit cards:

	Short-term	Medium and long-term	Total
Commercial installment loans-TRY	9.058	1.067.626	1.076.684
<i>Business residential loans</i>	331	639.634	639.965
<i>Automobile loans</i>	8.727	346.572	355.299
<i>Consumer loans</i>	-	81.420	81.420
<i>Other</i>	-	-	-
Commercial installment loans- Indexed to FC	-	-	-
<i>Business residential loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	-	-	-
Commercial installment loans - FC	225.233	514.346	739.579
<i>Business residential loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	225.233	514.346	739.579
Corporate credit cards-TRY	875.180	-	875.180
<i>Installment</i>	330.986	-	330.986
<i>Non-installment</i>	544.194	-	544.194
Corporate credit cards-FC	57	1.664	1.721
<i>Installment</i>	-	1.664	1.664
<i>Non-installment</i>	57	-	57
Overdraft accounts-TRY (Commercial customer)	911.532	-	911.532
Overdraft accounts-FC (Commercial customer)	7.087	-	7.087
Total ⁽¹⁾	2.028.147	1.583.636	3.611.783

⁽¹⁾ Interest and income accruals are not included in table above.

e) Loans according to type of borrowers

	Current period	Prior period
Public	5.375.754	3.705.794
Private	152.682.281	122.496.938
Toplam	158.058.035	126.202.732

f) Domestic and foreign loans:

	Current period	Prior period
Domestic loans	154.670.861	123.564.724
Foreign loans	3.387.174	2.638.008
Total	158.058.035	126.202.732

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g) Loans granted to subsidiaries and associates:

None.

h) Specific provisions provided against loans:

	Current period	Prior period
Specific provisions		
Loans and receivables with limited collectability	528.413	226.175
Loans and receivables with doubtful collectability	320.082	236.470
Uncollectible loans and receivables	3.206.893	2.710.072
Total	4.055.388	3.172.717

h) Information on non-performing loans (Net):

h.1. Information on loans and other receivables included in non-performing loans which are restructured or rescheduled:

	III. Group	IV. Group	V. Group
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Current period	68.585	16.658	1.281.781
(Gross amounts before the specific provisions)			
Loans and other receivables which are restructured	-	-	-
Rescheduled loans and other receivables	68.585	16.658	1.281.781
Prior period	39.536	137.879	204.800
(Gross amounts before the specific provisions)			
Loans and other receivables which are restructured	-	-	-
Rescheduled loans and other receivables	39.536	137.879	204.800

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h.2. Information on the movement of non-performing loans:

	III. Group	IV. Group	V. Group
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Prior period end balance	366.552	285.029	3.537.955
Additions (+)	1.545.380	21.583	121.263
Transfers from other categories of loans under follow-up (+)	-	794.503	523.505
Transfers to other categories of loans under follow-up (-)	816.902	501.106	-
Collections (-)	144.546	132.785	278.967
Write-offs (-)	7	3	942
<i>Corporate and Commercial Loans</i>	-	-	-
<i>Consumer Loans</i>	-	-	-
<i>Credit Cards</i>	-	-	-
<i>Other</i>	7	3	942
Current period end balance	950.477	467.221	3.902.814
Specific provision (-)	528.413	320.082	3.206.893
Net balance on balance sheet	422.064	147.139	695.921

h.3. Information on foreign currency non-performing loans and other receivables:

	III. Group	IV. Group	V. Group
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Current period			
Balance at the end of the period	240.218	81.699	1.637.222
Specific provisions(-)	146.630	44.779	1.146.049
Net balance in the balance sheet	93.588	36.920	491.173
Prior period			
Balance at the end of the period	61.214	85.054	1.552.061
Specific provisions(-)	28.646	73.308	995.276
Net balance in the balance sheet	32.568	11.746	556.785

Foreign currency non-performing loans amounting to TRY 180.430 and their related provisions amounting to TRY 91.343 of the consolidated foreign subsidiaries are recognized under foreign currency accounts and the foreign currency non-performing loans of the Parent Bank's and its domestic subsidiaries are recognized under Turkish Lira accounts.

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h.4. Gross and net amounts of non-performing loans according to user groups:

	III. Group	IV. Group	V. Group
	Loans and receivables with limited collectability	Loans and receivables with doubtful collectability	Uncollectible loans and receivables
Current period (Net)	422.064	147.139	695.921
Loans to granted real persons and legal entities (Gross)	949.476	466.580	3.832.429
Specific provisions (-)	527.412	319.441	3.136.508
Loans to granted real persons and legal entities (Net)	422.064	147.139	695.921
Banks (Gross)	-	-	-
Specific provisions (-)	-	-	-
Banks (Net)	-	-	-
Other loans and receivables (Gross)	1.001	641	70.385
Specific provisions (-)	1.001	641	70.385
Other loans and receivables (Net)	-	-	-
Prior period (Net)	140.377	48.559	827.883
Loans to granted real persons and legal entities (Gross)	366.257	284.416	3.484.285
Specific provisions (-)	225.880	235.857	2.656.402
Loans to granted real persons and legal entities (Net)	140.377	48.559	827.883
Banks (Gross)	-	-	-
Specific provisions (-)	-	-	-
Banks (Net)	-	-	-
Other loans and receivables (Gross)	295	613	53.670
Specific provisions (-)	295	613	53.670
Other loans and receivables (Net)	-	-	-

i) Main guidelines of the liquidation policy of the Bank about the uncollectible loans and receivables:

The Parent Bank liquidates its uncollectible receivables through three methods. These are by signing financial restructuring contract under the Law No: 4743, by making payment protocols and by presenting adequate repayment schedules for the lower amount of receivables. Within the context of this collection policy, non-performing loans are collected in considerable amounts. Collections are firstly offset against lawsuits and expenses, interest and capital receivables from loans.

The Parent Bank recently collects some of its receivables by acquiring debtor properties in consideration of collaterals given to loans granted.

j) Explanations on write-off policy:

In compliance with the "Procedure for Write Off and Procedures for Overdue Receivables for Legal Follow-Up" non performing loans which become unrecoverable as a result of legal follow up can be written off to prevent additional legal expenses.

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(6) Information on held-to-maturity investments:

a) Information on held-to-maturity investments blocked/given as collateral or subject to repurchase agreement transactions are explained comparatively with net value:

a.1. Held-to-maturity investments blocked/given as collateral:

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury Bills	-	-	17.430	-
Government bonds and similar securities	4.471.171	1.048.201	3.390.012	771.973
Total	4.471.171	1.048.201	3.407.442	771.973

a.2. Held-to-maturity investments subject to repurchase agreements:

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury bills, government bonds and similar sec.	5.079.533	933.840	6.504.701	534.883
Total	5.079.533	933.840	6.504.701	534.883

b) Information on public sector debt investments held-to-maturity:

	Current period	Prior period
Government bonds	18.198.316	16.705.087
Treasury bills	112.907	182.361
Other public sector debt securities	-	-
Total	18.311.223	16.887.448

c) Information on held-to-maturity investments:

	Current period	Prior period
Debt securities	18.344.626	16.904.877
<i>Quoted on a stock exchange</i>	18.231.719	16.733.595
<i>Not quoted</i>	112.907	171.282
Impairment provision (-)	-	-
Total	18.344.626	16.904.877

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d) Movement of held-to-maturity investments within the year:

	Current period	Prior period
Beginning balance	16.904.877	17.869.082
Foreign currency differences on monetary assets	404.431	389.988
Purchases during the year ⁽¹⁾	3.731.489	2.250.175
Disposals through sales and redemptions	(2.696.171)	(3.604.368)
Impairment provision (-) / provision reversal (+)	-	-
Balance at the of the period	18.344.626	16.904.877

⁽¹⁾ Interest income accrual difference between 31 December 2016 amounting to TRY 1.911.868 and 31 December 2015 amounting to TRY 1.684.621 has been included in purchases row.

e) Information on held-to-maturity investments accounts:

The breakdown of the held to maturity securities of the Group is as follows:

	Current period				Prior period			
	Historical cost		Amortized cost		Historical cost		Amortized cost	
	TRY	FC	TRY	FC	TRY	FC	TRY	FC
Obtained from Under secretariat of Treasury of Republic of Turkey	10.879.630	1.606.363	12.255.566	1.636.997	9.979.565	1.177.317	11.239.817	1.197.590
Obtained with the transfer	-	-	-	-	-	-	-	-
Reclassified from other securities portfolios	3.089.700	685.399	3.619.456	695.671	3.151.239	720.407	3.551.231	733.878
Other	-	-	-	136.936	-	170.983	-	182.361
Total	13.969.330	2.291.762	15.875.022	2.469.604	13.130.804	2.068.707	14.791.048	2.113.829

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(7) Information on associates (Net):

a) Information on unconsolidated associates, reasons for not consolidating:

The non-financial investments in associates are accounted under cost method of accounting since reliable fair values cannot be determined.

b) Information on unconsolidated associates:

Description	Address (City/ Country)	Bank's share percentage, if different-voting percentage (%)	Bank's risk group share percentage (%)
1. Kredi Kayıt Bürosu AŞ ⁽¹⁾	İstanbul	18,18	18,18
2. Bankalararası Kart Merkezi AŞ ⁽²⁾	İstanbul	18,95	18,95

Information related to the associates as sorted above:⁽¹⁾

Total assets	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit/loss	Prior period profit/loss	Fair value
1. 224.364	130.960	138.543	3.839	-	31.051	33.299	-
2. 80.262	39.897	50.021	904	-	10.403	3.869	-

⁽¹⁾ The financial information is obtained from dated 31 December 2016 financial statements..

⁽²⁾ The financial informations has been obtained from its independent audit reports as of 31 December 2016

c) Information on consolidated associates:

Description	Address (City/ Country)	Bank's share percentage, if different-voting percentage (%)	Bank's risk group share percentage (%)
1. Demirhalkbank NV	Holland	30,00	30,00
2. Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ	Ankara	31,47	33,12
3. Türk P ve I Sigorta AŞ	İstanbul	16,67	16,67

Information related to the associates as sorted above:⁽¹⁾

Total assets	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit/loss	Prior period profit/loss	Fair value
1. 6.533.210	900.095	15.096	191.505	2.935	56.364	34.505	249.574 ⁽²⁾
2. 47.722	47.193	126	2.602	-	323	698	-
3. 17.478	5.044	439	341	-	1.379	(539)	-

⁽¹⁾ The financial data is obtained from 31 December 2016 auditted financial statements.

⁽²⁾ The financial informations about the fair value of Demir-Halkbank NV has been obtained from its independent audit report as of 31 December 2016.

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d) Movement of associates:

	Current period	Prior period
Balance at the beginning of the period	264.031	226.118
Movements during the period	28.390	37.913
<i>Purchases</i>	-	1.245
<i>Bonus shares obtained profit from current year's share</i>	-	-
<i>Dividends from current year income</i>	-	-
<i>Sales</i>	-	-
<i>Transfers</i>	-	-
<i>Revaluation decrease (-) / increase</i>	28.390	36.668
<i>Provision for impairment (-) / reversals (+)</i>	-	-
Balance at the end of the period	292.421	264.031
Capital commitments	-	-
Share percentage at the end of the period (%)	-	-

e) Sectoral information and related carrying amounts of associates:

	Current period	Prior period
Banks	270.028	242.037
Insurance companies	1.221	910
Factoring companies	-	-
Leasing companies	-	-
Financing companies	-	-
Other financial investments	14.852	14.763

f) Associates quoted to a stock exchange:

None.

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(8) Information on subsidiaries (Net):

a) Information on subsidiaries⁽¹⁾

	Halk Yatırım Menkul Değerler AŞ	Halk Sigorta AŞ	Halk Hayat ve Emeklilik AŞ	Halk Gayrimenkul Yatırım Ortaklığı AŞ	Halk Finansal Kiralama AŞ	Halk Portföy Yönetimi AŞ	Halk Bank AD, Skopje	Halk Faktoring AŞ	Halkbank A.D. Beograd
CORE CAPITAL									
Paid in Capital	82.000	129.000	277.000	790.000	272.250	11.000	147.843	55.500	53.667
Effect of Inflation Adjustment on Paid in Capital	-	-	-	-	-	-	-	-	-
Share premium	-	98	-	49.945	-	-	11.633	-	44.552
Reserves	10.536	17.906	43.659	56.502	8.746	1.461	81.037	1.218	58.074
Other Comprehensive Income according to TAS	700	(621)	(11.063)	3	(95)	(22)	299	(21)	7.570
Profit / Loss	13.779	(92.947)	171.943	42.217	33.679	7.821	24.595	17.387	3.544
Net Profit	14.388	(64.631)	158.359	42.217	9.518	7.481	24.595	16.122	3.544
Prior Period Profit/Loss	(609)	(28.316)	13.584	-	24.161	340	-	1.265	-
Bonus Shares from Associates, Subsidiaries and Joint Ventures not Accounted in Current Period's Profit	750	-	-	-	-	-	-	-	-
Leasehold Improvements (-)	-	-	115	-	-	-	5.843	251	-
Intangible Assets (-)	868	3.163	854	316	921	18	2.887	323	2.105
Total Core Capital	106.897	50.273	480.570	938.351	313.659	20.242	256.677	73.510	165.302
SUPPLEMENTARY CAPITAL	-	-	-	-	-	-	17.022	-	4.150
CAPITAL	106.897	50.273	480.570	938.351	313.659	20.242	273.699	73.510	169.452
NET AVAILABLE CAPITAL	106.897	50.273	480.570	938.351	313.659	20.242	273.699	73.510	169.452

⁽¹⁾ The information is presented from companies' financial statements as of 31 December 2016.

There is no internal capital adequacy assessment approach for the subsidiaries.

Paid in capital (domestic) has been indicated as Turkish Lira in articles of incorporation and registered in trade registry.

Paid in capital (foreign) has been indicated as foreign currency in articles of incorporation and registered in trade registry.

Effect of inflation adjustments on paid in capital is the difference caused by the inflation adjustment on shareholders' equity items.

Extraordinary reserves are the status reserves which have been transferred with the General Assembly decision after distributable profit have been transferred to legal reserves.

Legal reserves are the status reserves which have been transferred from distributable profit in accordance with the third clause of first and second paragraph of 466 and 519 articles of Turkish Commercial Code no. 6102.

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e) Information related to the subsidiaries as sorted above ⁽¹⁾:

	Total assets	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit / loss	Prior period profit / loss	Fair value ⁽²⁾
1.	1.602.560	106.897	1.958	42.124	2.191	14.388	10.876	133.415
2.	1.221.636	50.273	5.107	78.001	2.321	(64.631) ⁽⁴⁾	(24.978)	368.089
3.	887.864	480.570	1.837	80.562	22.214	158.359	109.758	920.493
4.	1.135.229	938.351	508.741	7.001	-	42.217	58.360	517.421
5.	2.552.645	313.659	1.415	158.806	-	9.518	6.992	415.786
6.	21.596	20.242	355	1.938	12	7.481	4.530	22.634
7.	2.069.327	273.699	47.688	85.819	8.364	24.595	19.196	272.372
8.	1.146.985	73.510	1.130	132.582	-	16.122	8.586	95.558
9.	1.002.396	169.452	25.393	41.157	4.342	3.544	(3.292)	90.813

⁽¹⁾ The information is presented from financial statements subject to consolidation as 31 December 2016.

⁽²⁾ The informations are obtained from valuation reports as 31 December 2016. Halk Gayrimenkul Yatırım Ortaklığı AŞ is valued with stock price.

⁽³⁾ The Banks' subsidiary Halk Gayrimenkul Yatırım Ortaklığı AŞ has privatized by a public offering on 22 February 2013 and the shares are traded on the Borsa İstanbul AŞ.

⁽⁴⁾ The amount of the loss is due to the gradual reflection of the provision for outstanding claims due to IBNR, which was calculated by Halk Sigorta AS within the scope of the Treasury's circular 2014/16, until 2019 according to the circulars numbered 2016/11.

f) Movement of the subsidiaries:

	Current period	Prior period
Balance at the beginning of the period(before elimination)	2.685.934	2.576.816
Movements during the period	243.055	109.118
Purchases ⁽¹⁾	-	28.907
Bonus shares obtained profit from current year's share	171.560	61.035
Dividends from current year income	-	-
Sales	-	-
Transfer	-	-
Revaluation increase	71.495	19.176
Reversal of provision for impairment (-)	-	-
Share capital elimination of subsidiaries	(2.887.746)	(2.647.905)
Balance at the end of the period	41.243	38.029
Capital commitments	-	-
Share percentage at the end of the period (%)	-	-

⁽¹⁾ In the period of 30 June 2015, Halkbank AD. Beograd's -located in Serbia- 76,76% shares have been bought out by the bank for TRY 28.907. In the current period, the bank paid TRY 30.704 to Halkbank AD. Beograd and it's shares has increased to 82,47%.

g) Sectoral information on subsidiaries and the related carrying amounts:

	Current period	Prior period
Banks	363.185	275.646
Insurance companies	1.288.582	1.197.085
Factoring companies	95.558	61.758
Leasing companies	415.786	413.336
Financing companies	-	-
Other financial subsidiaries	673.470	700.080
Other non-financial subsidiaries	41.243	38.029

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h) Subsidiaries quoted in the stock exchange:

	Current period	Prior period
Quoted to domestic stock ^{(1) (2)}	885.510	897.784
Quoted foreign stock exchange	-	-

⁽¹⁾ In accordance with the Capital Markets Board's "Communiqué on Obtaining Registration of Shares and Sale of Shares", Series I, No. 40; the shares of Halk Sigorta AŞ are traded on the Borsa İstanbul AŞ pre-market trading platform therefore the fair value of Halk Sigorta AŞ was determined by the valuation report prepared by an independent valuation company.

⁽²⁾ Halk Gayrimenkul Yatırım Ortaklığı AŞ has been public offering on 22 February 2013 and its shares are traded on the Istanbul Stock Exchange AŞ.

(9) Information on jointly controlled entities (joint ventures):

None.

(10) Information on finance lease receivables (Net):

a) Maturity structure of investments on financial lease:

	Current period		Prior period	
	Gross	Net	Gross	Net
Less than 1 year	815.231	688.075	779.458	640.029
Between 1-4 years	1.426.002	1.220.074	1.342.529	1.191.590
More than 4 years	476.994	403.181	429.573	373.133
Total	2.718.227	2.311.330	2.551.560	2.204.752

b) Information on gross investments of financial lease:

	Current period	Prior period
Gross financial lease investment	2.718.227	2.551.560
Unearned revenues from financial lease	(406.897)	(346.808)
Total	2.311.330	2.204.752

c) Information on receivables from non- performing loans of financial lease:

	Current period	Prior period
Financial lease receivables with limited collectability	32.055	1.419
Financial lease receivables with doubtful collectability	5.418	118.335
Uncollectible financial lease receivables	249.256	237.783
Specific provisions	(214.397)	(163.884)
Total	72.332	193.653

(11) Information on derivative financial assets for hedging purposes:

None.

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(12) Information on tangible assets:

The fair value of tangible assets for use are determined by precedent value method. Fair value measurement of properties for use which fair values are determined by precedent value method, are classified as level 2.

Current Period	Balance at the end of the prior period	Current Year Additions	Revaluation Increase	Current Year Disposals	Transfers, Net	Balance at the end of the period
Cost:						
Immovable	2.431.830	16.759	216.993	3.302	(163.588)	2.498.692
Tangible assets purchased through financial lease	27.741	-	-	945	-	26.796
Office machines	463.072	54.046	-	18.592	-	498.526
Fixed assets obtained due to						
non-performing loans	570.604	174.456	-	96.513	-	648.547
Lease hold improvements costs	143.420	16.151	-	3.443	(257)	155.871
Other	309.230	8.259	-	333	(3.305)	313.851
Total Cost	3.945.897	269.671	216.993	123.128	(167.150)	4.142.283
Accumulated depreciation (-) :						
Immovable	194.491	10.999	9.154	19.378	(615)	194.651
Tangible assets purchased through financial lease	26.412	266	-	782	-	25.896
Office machines	257.261	62.502	-	18.101	-	301.662
Fixed assets obtained due to						
non-performing loans	13.253	6.527	-	2.372	-	17.408
Lease hold improvements costs	72.426	14.886	-	3.828	-	83.484
Other	229.240	32.634	-	26.518	-	235.356
Total accumulated depreciation	793.083	127.814	9.154	70.979	(615)	858.457
Provision for impairment (-)						
Immovable	1.313	4.510	-	6	-	5.817
Tangible assets purchased through financial lease	7.134	4.476	-	585	-	11.025
Total provision for impairment (-)	8.447	8.986	-	591	-	16.842
Net Book Value	3.144.367	132.871	207.839	51.558	(166.535)	3.266.984

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Prior Period	Balance at the end of the prior period	Current Year Additions	Revaluation Increase	Current Year Disposals	Transfers, Net	Balance at the end of the period
Cost:						
Immovable	1.130.977	98.267	2.224.434	(1.113.501)	91.654	2.431.830
Tangible assets purchased through financial lease	30.787	335	-	(3.381)	-	27.741
Office machines	374.276	120.831	-	(32.035)	-	463.072
Fixed assets obtained due to non-performing loans	508.102	1.997.997	-	(1.935.495)	-	570.604
Lease hold improvements costs	146.739	69.560	-	(72.879)	-	143.420
Other	283.499	33.332	-	(5.614)	(1.987)	309.230
Total Cost	2.474.380	2.320.322	2.224.434	(3.162.906)	89.667	3.945.897
Accumulated depreciation (-):						
Immovable	252.941	24.466	160.308	(244.998)	1.774	194.491
Tangible assets purchased through financial lease	29.099	669	-	(3.356)	-	26.412
Office machines	196.901	72.709	-	(12.349)	-	257.261
Fixed assets obtained due to non-performing loans	10.676	4.678	-	(2.101)	-	13.253
Lease hold improvements costs	79.090	28.114	-	(34.778)	-	72.426
Other	213.512	19.846	-	(4.118)	-	229.240
Total accumulated depreciation	782.219	150.482	160.308	(301.700)	1.774	793.083
Provision for impairment (-)						
Immovable	1.855	-	-	(591)	49	1.313
Fixed assets obtained due to non-performing loans	6.391	1.872	-	(1.129)	-	7.134
Total provision for impairment (-)	8.246	1.872	-	(1.720)	49	8.447
Net Book Value	1.683.915	2.167.968	2.064.126	2.859.486	87.844	3.144.367

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(13) Information on intangible assets:

Current Period	Balance at the end of the prior period	Current Year Additions	Current Year Disposals	Transfers	Balance at the end of the period
Cost:					
Other intangible assets	157.462	54.071	2.608	-	208.925
Total Cost	157.462	54.071	2.608	-	208.925
Accumulated Depreciation:					
Other intangible assets	55.148	38.621	73	-	93.696
Total Accumulated Depreciation	55.148	38.621	73	-	93.696
Net Book Value	102.314	15.450	2.535	-	115.229

Prior Period	Balance at the end of the prior period	Current Year Additions	Current Year Disposals	Transfers	Balance at the end of the period
Cost:					
Other intangible assets	112.581	55.777	10.896	-	157.462
Total Cost	112.581	55.777	10.896	-	157.462
Accumulated Depreciation (-) :					
Other intangible assets	29.980	25.521	353	-	55.148
Total Accumulated Depreciation	29.980	25.521	353	-	55.148
Net Book Value	82.601	30.256	10.543	-	102.314

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(14) Information on investment property:

	Current Period	Prior Period
Cost		
Opening Balance	550.093	24.686
Acquisitions	7.118	2.289
Transfer	377.348	523.471
Disposals	-	-
Impairment Charge/Cancellation(-)	501	353
Ending Balance	934.058	550.093
Accumulated Depreciation		
Opening Balance		
Amortization Charge (-)	64.499	157
Transition in current period	4.723	-
Disposals	-	721
Impairment Charge/Cancellation (-)	105	96
Transfer	615	63.525
Ending Balance	69.942	64.499
Net Book Value	864.116	485.594

(*) As of December 2015 The Parent Bank's former headquarters building in Ankara that had been evacuated depending upon the personnel moving to Istanbul; has been leased and classified as investment .

	Current Period	Prior Period
Building/Ankara Söğütözü	389.262	365.000
Building /İstanbul Beyoğlu	13.817	12.380
Building /Ankara Bahçelievler	8.100	7.650
Building /Ankara Çankaya	4.957	4.600
Building /İstanbul Levent	165.378	145.108
Building /Eskişehir Odunpazarı	4.200	4.177
Building /Eskişehir Odunpazarı	863	650
Building /İstanbul Salıpazarı	49.362	46.680
Land/İstanbul Ataşehir	258.585	252.839
Building /Kocaeli Şekerpınar	70.300	67.593
Building /İstanbul Caddebostan*	11.225	18.690
Toplam	976.049	925.367

*In current year the property is valued on land amount because of the urban transformation. In priod periods building value take into considiration for valuation.

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(15) Information on tax assets:

a) Information on current tax assets:

As of 31 December 2016, the Group has no current tax asset. (31 December 2015: TRY 1.217).

b) Information on deferred tax assets:

Please refer to Section 5, explanations related to the consolidated liabilities footnote (10).

(16) Information on fixed assets held for sale:

	Current period	Prior period
Cost	3.984	4.460
Accumulated Depreciation(-) ⁽¹⁾	(2.447)	(1.766)
Net Book Value	1.537	2.694
Opening Balance	2.694	8.776
Acquisitions (Transfers) (Net)	(547)	167
Disposals (Net)	811	8.485
Revaluation increase	154	-
Impairment Charge/Cancellation(-)	-	49
Amortization Charge(-) ⁽¹⁾	47	2.187
Net Book Value	1.537	2.694

⁽¹⁾ Accumulated depreciation is attributable to the recoverable amounts which are classified as held for sale in the current period.

(17) Information on other assets:

Other assets balance in the balance sheet amounts to TRY 2.752.211 and does not exceed 10% of the balance sheet total (31 December 2015: TRY 2.050.762).

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II. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED LIABILITIES

(1) Information on maturity structure of deposits:

a) For deposit banks:

a.1. Current period:

	Demand	7 day call accounts	Up to 1 month	1-3 months	3-6 months	6 months year	1 year and over	Cumulative deposits	Total
Saving deposits	6.158.114	-	581.243	31.767.115	1.076.904	361.620	541.919	104.805	40.591.720
Foreign currency deposits	6.954.391	-	3.245.776	28.684.887	4.915.876	1.531.229	4.036.778	11.016	49.379.953
Residents in Turkey	4.938.313	-	3.020.417	27.984.207	4.584.509	1.024.716	2.331.474	10.609	43.894.245
Residents abroad	2.016.078	-	225.359	700.680	331.367	506.513	1.705.304	407	5.485.708
Public sector deposits	2.184.382	-	2.417.784	1.764.160	260.540	2.976.331	87.204	-	9.690.401
Commercial inst. deposits	4.294.379	-	4.224.273	13.055.676	1.872.533	562.730	39.505	-	24.049.096
Other inst. deposits	586.039	-	819.701	885.372	52.798	89.853	880	-	2.434.643
Precious metals	1.392.853	-	-	-	-	-	-	-	1.392.853
Interbank deposits	7.867.130	-	3.190.685	10.801.903	238.410	32.863	729.220	-	22.860.211
Central Bank of Turkey	9	-	-	-	-	-	-	-	9
Domestic banks	39.076	-	1.091.898	3.908.323	-	8.227	4.167	-	5.051.691
Foreign banks	7.099.283	-	1.928.707	6.893.580	238.410	24.636	725.053	-	16.909.669
Participation banks	728.762	-	170.080	-	-	-	-	-	898.842
Total	29.437.288	-	14.479.462	86.959.113	8.417.061	5.554.626	5.435.506	115.821	150.398.877

a.2. Prior period:

	Demand	7 day call accounts	Up to 1 month	1-3 months	3-6 months	6 months year	1 year and over	Cumulative deposits	Total
Saving deposits	4.293.350	-	474.007	28.297.921	1.096.767	366.364	581.833	103.000	35.213.242
Foreign currency deposits	6.205.436	34.348	3.395.518	18.689.673	2.669.844	1.172.686	3.463.561	10.680	35.641.746
Residents in Turkey	4.614.977	-	3.248.873	18.013.646	2.459.778	709.667	2.100.420	10.508	31.157.869
Residents abroad	1.590.459	34.348	146.645	676.027	210.066	463.019	1.363.141	172	4.483.877
Public sector deposits	2.446.626	-	3.016.281	2.937.312	272.240	1.773.372	90.299	-	10.536.130
Commercial inst. Deposits	3.212.174	-	3.081.974	15.644.561	816.279	33.215	28.447	-	22.816.650
Other inst. Deposits	557.371	-	644.038	1.468.290	8.244	38.413	4.407	-	2.720.763
Precious metals	885.003	-	-	-	-	-	-	-	885.003
Interbank deposits	3.328.873	-	5.527.445	4.567.731	333.396	-	933.405	-	14.690.850
Central Bank of Turkey	-	-	-	-	-	-	-	-	-
Domestic banks	12.428	-	5.296.445	2.767.451	288.091	-	-	-	8.364.415
Foreign banks	2.366.254	-	231.000	1.800.280	45.305	-	933.405	-	5.376.244
Participation banks	950.191	-	-	-	-	-	-	-	950.191
Total	20.928.833	34.348	16.139.263	71.605.488	5.196.770	3.384.050	5.101.952	113.680	122.504.384

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b) Information on saving deposits in the scope of Saving Deposits Insurance Fund:

b.1. Amounts exceeding insurance limit:

b.1.1. Saving deposits under the guarantee of deposit insurance and exceeding the insurance limit:

Saving deposits	Under the guarantee insurance		Exceeding the insurance limit	
	Current period	Prior period	Current period	Prior period
Saving deposits	23.535.650	20.718.253	16.938.565	14.405.969
Foreign currency saving deposits	7.502.986	6.632.903	14.742.676	11.027.597
Other deposits in the form of saving deposits	-	-	-	-
Foreign branches' deposits under foreign authorities' insurance	167.456	129.662	-	-
Off-shore banking regions' deposits under foreign authorities' insurance	-	-	-	-

b.1.2. Saving deposits at foreign branches are excluded from the scope of Saving Deposits Insurance Fund according to the related legislation, and are subject to insurance of foreign authorities in compliance with the foreign legislations.

c) Saving deposits which are not under the guarantee of deposit insurance fund:

	Current period	Prior period
Foreign branches' saving deposits and other accounts	283.157	177.772
Deposits and other accounts belonging to dominant partners as well as their fathers, mothers, spouses and children under their custody	-	-
Deposits and other accounts belonging to the chairman and members of the board of directors, general managers and deputy general managers as well as their fathers, mothers, spouses and children under their custody	8.063	9.720
Deposits and other accounts covered by assets generated through the offenses mentioned in Article 282 of the Turkish Penal Code No.5237 and dated 26.9.2004	-	-
Deposits in the banks to be engaged exclusively in offshore banking in Turkey	-	-

(2) Information on derivative financial liabilities held for trading:

Negative differences table related to the derivative financial liabilities held-for-trading:

	Current period		Prior period	
	TRY	FC	TRY	FC
Forward transactions	-	137.422	-	84.160
Swap transactions	-	86.857	1.416	89.725
Future transactions	-	-	-	-
Options	59	255	18	354
Other	-	-	-	-
Total	59	224.534	1.434	174.239

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(3) a) Information on funds borrowed:

	Current period		Prior period	
	TRY	FC	TRY	FC
Funds borrowed from Central Bank of Turkey	-	-	-	-
Domestic banks and institutions	843.368	2.503.564	757.763	1.123.810
Foreign banks, institutions and funds	328.396	17.913.783	556.756	19.705.408
Total	1.171.764	20.417.347	1.314.519	20.829.218

b) Maturity structure of funds borrowed:

	Current period		Prior period	
	TRY	FC	TRY	FC
Short-term	968.495	4.927.580	851.253	7.965.899
Medium and long-term	203.269	15.489.767	463.266	12.863.319
Total	1.171.764	20.417.347	1.314.519	20.829.218

c) Additional disclosures related to the concentrations of the Group's major liabilities:

Concentrations, fund providing customers, sector groups and other criteria where risk concentration is observed:

Main liability of the Group is deposit, which is composed of 26,99% of saving deposits and 32,83% of foreign currency deposits. In order to fulfill the short term liquidity requirements, the Parent Bank borrows loans from interbank money markets. The Parent Bank can borrow loans from overseas institutions especially to be used in the financing of consumer loans. There are funds obtained from the Ministry of Industry and Trade especially for constructing small industrial estates and organized industrial estates.

The Group's 57,12% of banks deposits and 39,81% of other deposits consist of foreign currency deposits.

Funds provided from repo transactions:

	Current period		Prior period	
	TRY	FC	TRY	FC
From domestic transactions	9.464.294	-	7.499.973	-
<i>Financial inst. and organizations</i>	9.396.299	-	7.434.203	-
<i>Other institutions and organizations</i>	29.220	-	29.509	-
<i>Real persons</i>	38.775	-	36.261	-
From overseas transactions	460	1.365.201	100.299	726.001
<i>Financial inst. and organizations</i>	-	1.365.201	-	726.001
<i>Other institutions and organizations</i>	-	-	100.069	-
<i>Real persons</i>	460	-	230	-
<i>Accruals</i>	5.987	8.670	7.191	2.498
Total	9.470.741	1.373.871	7.607.463	728.499

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(4) Marketable securities issued:

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury Bills	2.067.703	-	1.500.713	-
Bonds	-	10.684.708	-	7.339.847
Total	2.067.703	10.684.708	1.500.713	7.339.847

(5) Explanations to the funds:

Funds are granted as loans in conformity with the protocols between the Parent Bank and fund owner ministry or institutions. These funds include funds from the Ministry of Industry and Trade, Treasury Natural Disasters Credit Fund, Under secretariat of Treasury and Foreign Trade Funds, Turkish Treasury Incentive Certificated SMEs Credit Fund, Housing Development Administration Fund and other funds.

Maturity structure of funds:

Current period		Prior Period	
Short-term	Long-term	Short-term	Long-term
37.539	2.302.269	29.572	1.934.127

(6) Information on other liabilities:

Other liabilities balance in the balance sheet amounts to TRY 1.943.553 and does not exceed 10% of the balance sheet total (31 December 2015: TRY 1.693.952).

(7) Information on finance lease payables (Net):

a) The general explanations on criteria used in determining installments of financial lease agreements, renewal and purchasing options and restrictions in the agreements that create significant obligations to the Bank:

In the financial lease agreements, installments are based on useful life, usage periods and provisions of the TAS.

b) Explanation on finance lease payables:

None.

c) Explanations regarding operational leases:

The operational leasing agreements are signed for some branches. The agreements are prepared annually and annual rents are paid in advance and recorded as prepaid expense in "other assets". The Parent Bank does not have any commitments arising on the existing operational lease agreements.

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(8) Information on derivative financial liabilities for hedging purposes:

None.

(9) Explanations on provisions:

a) Information on general provisions:

	Current period	Prior period
General provision	2.049.136	1.139.290
Provisions for first group loans and receivables	1.834.503	920.263
<i>Additional provisions for the loans with extended payment plan</i>	-	33.186
Provisions for second group loans and receivables	93.459	113.212
<i>Additional provisions for the loans with extended payment plan</i>	-	66.843
Provisions for non cash loans	121.174	105.815
Other	-	-

b) Foreign exchange loss provisions on the foreign currency indexed loans and finance lease receivables:

As of 31 December 2016 the Parent Bank's foreign currency indexed loans and finance lease receivables amounting to losses on foreign exchange is TRY 23 (31 December 2015: TRY 7.222).

c) Specific provisions provided for unindemnified non-cash loans:

As of 31 December 2016, the Parent Bank's specific provision for unindemnified non-cash loans balance is TRY 139.279 (31 December 2015: TRY 93.877).

d) Information on other provisions:

Total other provision balance amounting to TRY 392.356 (31 December 2015: TRY 402.368) consists of TRY 139.551 (31 December 2015: TRY 93.877) for specific provisions for unindemnified non cash loans, TRY 94.679 (31 December 2015: TRY 37.481) for legal cases filed against the Bank, TRY 158.126 (31 December 2015: TRY 147.510) of other provisions.

Movement of employee termination benefits

Severance indemnity provision as of 31 December 2016 is calculated by an independent company by using the actuarial conjectures. The amount calculated for the employee termination benefits as a result of the actuarial valuation according to TAS 19, is as follows;

	Current period	Prior period
Inflation Rate	7,80%	7,75%
Wage growth	11,20%	10,75%
Estimated Real Wage Growth Rate	8,00%	7,95%

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Calculated amounts as a result of actuarial conjectures are as follows:

	Current period	Prior period
As of January 1	395.018	358.851
Charge for the year	37.372	34.426
Interest Expense	41.722	30.120
Actuarial gain/loss	(21.117)	6.488
Prior period service cost composed current period	849	203
Payment/The limitation of benefits/ Loss (Gain) therefore discharge	1.546	286
Benefits paid within the period(-)	50.315	35.356
Total	405.075	395.018

As of 31 December 2016, unused vacation provision is TRY 139.894, personnel dividend provision is TRY 160.451 and severance indemnity provision for outsource firms is TRY 13.964. This amount is followed under employee benefits provision under liabilities (31 December 2015: TRY 130.187 for unused vacation provision; TRY 11.848 for severance indemnity provision for outsources; TRY 138.241 for personnel dividend provision).

As of 1 January 2013, actuarial gains and losses are recognized and accounted in shareholders' equity.

e) Liabilities on pension rights

e.1. Liabilities for pension funds established in accordance with "Social Security Institution":

None.

e.2. Liabilities resulting from all kinds of pension funds, foundations etc. which provide post retirement benefits for the employees:

Based on the results of the actuarial report prepared as of 31 December 2016, no technical deficit has been reported for Türkiye Halk Bankası AŞ Emekli Sandığı Vakfı, T.C. Ziraat Bankası and T. Halk Bankası Çalışanları Emekli Sandığı Vakfı.

f) Insurance Technical Provisions (Net):

	Current period	Prior period
Life-Mathematical Provisions	255.917	222.007
Provisions for unearned premium claims	427.120	345.222
Provision for outstanding claims	696.078	344.534
Provisions for unexpired risk reserves	20.865	18.940
Other	168	1.962
Total	1.400.148	932.665

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(10) Explanations related to tax liabilities:

a) Information on current tax liability:

a.1. Information on tax provision:

As of 31 December 2016 the calculated corporate tax amount is TRY 64.824 for the Parent Bank. And this amount is submitted to account of corporate tax provision as of related date.

a.2. Information on taxes payable:

	Current period	Prior period
Corporate tax payable	64.824	118.241
Income on securities tax	157.179	143.398
Property income tax	1.402	1.323
Banking and insurance transactions tax (BITT)	92.058	71.486
Foreign exchange transactions tax	48	9
Value added tax payable	3.797	5.180
Other	15.271	17.019
Total	334.579	356.656

a.3. Information on premiums:

	Current period	Prior period
Social insurance premiums-employee	768	377
Social insurance premiums-employer	1.419	818
Bank social aid pension fund premium-employee	7.621	7.164
Bank social aid pension fund premium-employer	10.452	9.881
Pension fund membership fees-employee and provisions-employee	-	-
Pension fund membership fees-employer and provisions-employer	-	-
Unemployment insurance-employee	48	25
Unemployment insurance-employer	132	74
Other	1.956	1.703
Total	22.396	20.042

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b) Explanations regarding deferred tax liability:

	Current period	Prior period
Deferred Tax (Asset) /Liability		
Provisions ⁽¹⁾	277.574	203.319
Revaluation of Financial Assets	(375.878)	(224.107)
Other	(91.145)	(2.076)
Deferred Tax Liability:	(189.449)	(22.864)
Deferred tax accounted in shareholders' equity	(1.535)	16.499
Fair value differences for available for sale financial assets	65.830	431.805
Actuarial gains and losses	241	2.927
Subsidiaries Valuation	(67.606)	(418.233)

⁽¹⁾ Provisions are comprised of the employee termination benefits and other provisions.

As of 31 December 2016 net deferred tax liability represents TRY 189.449 (31 December 2015: TRY 22.864), it consists of deferred tax assets which amount to TRY 99.525 (31 December 2015: TRY 49.703) and deferred tax liabilities amount to TRY 288.974 (31 December 2015: TRY 72.567).

(11) Information on liabilities regarding assets held for sale and discontinued operations:

None.

(12) Explanations on the number of subordinated loans the Parent Bank used maturity, interest rate, institutions that the loan was borrowed from, and conversion option, if any:

None.

(13) Information on shareholders' equity:

a) Presentation of paid-in capital:

	Current period	Prior period
Common stock	1.250.000	1.250.000
Preferred stock	-	-

b) Application of registered capital system and registered capital ceiling amount:

There is an application of registered capital system and registered capital ceiling amount TRY 7.500.000.

c) Information on share capital increases and their sources; other information on increased capital shares in the current period:

None.

d) Information on additions from capital reserves to capital in the current period:

None.

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e) Capital commitments in the last fiscal year and at the end of the following interim period, the general purpose of these commitments and projected resources required to meet these commitments:

None.

f) Indicators of the Group's income, profitability and liquidity for the previous periods and possible effects of these future assumptions on the Group's equity due to the uncertainty of these indicators:

The Group has sustainable profitability structure and equity structure. There are no uncertainties that would impact the current position.

g) Information on preferred shares:

None.

h) Information on marketable securities revaluation fund:

	Current period		Prior period	
	TRY	FC	TRY	FC
From subsidiaries, associates and jointly controlled entities (joint ventures)	10.869	39	9.155	-
Revaluation difference	(302.092)	(427.744)	(113.259)	(181.027)
Exchange rate difference	-	-	-	-
Total	(291.223)	(427.705)	(104.104)	(181.027)

i) Information on legal reserves:

	Current Period	Prior Period
First Legal Reserves	981.962	850.090
Second Legal Reserves	546.732	507.000
Legal reserves appropriated in accordance with the law	33.478	36.837
Total	1.562.172	1.393.927

j) Information on the extraordinary and other profit reserves:

	Current Period	Prior Period
Reserves appropriated by General Assembly	12.913.212	11.002.900
Retained Earnings	198.178	200.396
Accumulated Losses	-	-
Total	13.111.390	11.203.296

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(14) Information on minority interest shares:

a) Information on minority interest shares:

	Current Period	Prior Period
Paid-in capital	159.066	151.230
Export Premium	15.538	15.717
Marketable Securities Revaluation Fund	1.327	1.281
Legal Reserves	8.218	8.061
Extraordinary Reserves	9.161	10.949
Retained Earnings	8.006	1.095
Other Profit Reserves	5.993	2.767
Net Period Income / Loss	5.850	10.326
Closing Balance	213.158	201.426

b) Movement of minority interest shares:

	Current Period	Prior period
Beginning Balance	201.426	178.760
Change in Minority Interest	5.882	12.340
Net Period Income / Loss	5.850	10.326
Closing Balance	213.158	201.426

III. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED OFF-BALANCE SHEET ITEMS

(1) Information on off-balance sheet liabilities:

a) Amount and nature of irrevocable loan commitments:

Types of irrevocable commitments	Current period	Prior period
Commitments for credit card expenditure limits	10.824.073	11.181.001
Payment commitments for cheques	5.805.008	5.442.458
Loan granting commitments	3.580.800	2.560.552
Two days forward foreign exchange buy/sell transactions	417.450	481.678
Commitments for credit cards and banking services promotions	44.328	46.532
Tax and fund liabilities from export commitments	28.864	20.764
Share capital commitments to associates and subsidiaries	-	-
Other irrevocable commitments	3.462.296	1.904.541
Total	24.162.819	21.637.526

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b) Amount and nature of probable losses and commitments from the off-balance sheet items including the below mentioned:

b.1. Non-cash loans including bank bill guarantees and acceptances, guarantees substituting financial guarantees and other letters of credit:

	Current period	Prior period
Letters of credit	4.019.100	5.016.951
Bank acceptance loans	2.825.466	3.273.781
Other guarantees	914.248	879.817
Total	7.758.814	9.170.549

b.2. Certain guarantees, tentative guarantees, surety ships and similar transactions:

	Current period	Prior period
Letters of certain guarantees	14.917.475	13.968.827
Letters of advance guarantees	3.501.034	2.992.251
Letters of tentative guarantees	512.981	789.535
Letters of guarantee given to customs offices	887.159	880.741
Other letters of guarantee	20.300.256	12.235.323
Total	40.118.905	30.866.677

b.3. Total non-cash loans:

	Current period	Prior period
Non-cash loans for providing cash loans	2.256.883	1.181.205
<i>Within one year or less original maturity</i>	414.973	184.804
<i>Within more than one year maturity</i>	1.841.910	996.401
Other non-cash loans	45.620.836	38.856.021
Total	47.877.719	40.037.226

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b.4. Non-cash loans sectoral risk concentrations:

	Current period				Prior period			
	TRY	(%)	FC	(%)	TRY	(%)	FC	(%)
Agricultural	40.378	0,19	24.718	0,09	23.325	0,14	10.947	0,05
<i>Farming and raising livestock</i>	36.311	0,17	22.308	0,08	20.156	0,12	10.016	0,04
<i>Forestry</i>	199	-	-	-	152	-	-	-
<i>Fishing</i>	3.868	0,02	2.410	0,01	3.017	0,02	931	-
Manufacturing	5.006.181	23,84	14.017.581	52,15	4.018.351	24,13	12.342.069	52,78
<i>Mining</i>	140.712	0,67	66.010	0,25	126.501	0,76	48.833	0,21
<i>Production</i>	3.113.471	14,83	11.910.161	44,30	2.843.994	17,08	10.013.570	42,82
<i>Electric, gas and water</i>	1.751.998	8,34	2.041.410	7,60	1.047.856	6,29	2.279.666	9,75
Construction	6.112.235	29,11	7.020.483	26,12	4.317.501	25,92	5.578.617	23,86
Services	9.676.704	46,08	5.498.471	20,46	8.155.736	48,97	5.362.202	22,93
<i>Wholesale and retail trade</i>	4.837.193	23,03	2.364.286	8,80	4.449.349	26,72	1.970.494	8,43
<i>Hotel, food and beverage services</i>	83.860	0,40	178.138	0,67	69.933	0,42	72.426	0,31
<i>Transportation and telecommunication</i>	186.011	0,89	505.600	1,88	151.737	0,91	327.059	1,40
<i>Financial Institutions</i>	3.214.131	15,31	544.054	2,02	2.371.214	14,24	525.539	2,25
<i>Real estate and renting services</i>	1.187.469	5,65	1.836.181	6,83	992.720	5,96	2.413.268	10,32
<i>Self-employment services</i>	17.781	0,08	370	-	10.221	0,06	407	-
<i>Education services</i>	26.483	0,13	45.486	0,17	18.799	0,11	52.991	0,23
<i>Health and social services</i>	123.776	0,59	24.356	0,09	91.763	0,55	18	-
Other	164.040	0,78	316.928	1,18	139.766	0,84	88.712	0,38
Total	20.999.538	100,00	26.878.181	100,00	16.654.679	100,00	23.382.547	100,00

b.5. Non-cash loans classified in Group I and II:

	Group I		Group II	
	TRY	FC	TRY	FC
Non-cash loans	20.781.435	26.839.842	218.103	38.339
Letters of guarantee	19.976.256	19.887.158	218.103	37.388
Bank acceptances	12.876	2.812.590	-	-
Letters of credit	18.091	4.000.058	-	951
Endorsements	-	-	-	-
Underwriting commitments	-	-	-	-
Factoring commitments	-	-	-	-
Other commitments and contingencies	774.212	140.036	-	-

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c) Information on derivative financial instruments:

	Derivative transactions according to purposes			
	Trading		Risk Management	
	Current period	Prior period	Current period	Prior period
Types of trading transactions				
Foreign currency related derivative transactions (I)	13.307.997	15.691.071	-	-
Forward foreign currency buy/sell transactions	7.005.310	6.528.818	-	-
Currency buy/sell swap	5.622.434	8.802.995	-	-
Currency futures	-	-	-	-
Currency put/call options	680.253	359.258	-	-
	9.744.530	7.580.360	-	-
Interest related derivative transactions (II)	-	-	-	-
Interest rate contracts	9.744.530	7.580.360	-	-
Interest rate buy/sell swap	-	-	-	-
Interest rate put/call options	-	-	-	-
Interest rate buy/sell futures	2.181.689	1.750.176	-	-
Other trading derivative transactions (III)⁽¹⁾	25.234.216	25.021.607	-	-
A. Total trading derivative transactions (I+II+III)				
Types of derivative transactions for risk management	-	-	-	-
Fair value fluctuations hedge	-	-	-	-
Cash flow risk hedge	-	-	-	-
FC investment in associates risk hedge	-	-	-	-
B. Total derivative transactions for hedging	-	-	-	-
Total derivative transactions (A+B)	25.234.216	25.021.607	-	-

⁽¹⁾ Other trading derivatives include credit default swap purchases and sale transactions amounting TRY 59.714 and TRY 2.121.975 respectively

d) Explanations related to contingencies and commitments:

The Parent Bank's commitments due to cheques given to client is TRY 5.805.008 (31 December 2015: TRY 5.442.458).

e) Services supplied on behalf of others:

None.

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

IV. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED INCOME STATEMENT

(1) Information on interest income:

a) Information on interest income on loans:

	Current period		Prior period	
	TRY	FC	TRY	FC
Interest on loans ⁽¹⁾				
Short term loans	3.753.474	198.481	2.814.447	160.691
Medium and long term loans	7.994.235	2.285.880	6.572.326	1.700.220
Interest on non-performing loans	69.789	6.007	66.167	3.361
Premiums from resource utilization support fund	-	-	-	-
Total	11.817.498	2.490.368	9.452.940	1.864.272

⁽¹⁾ Includes fees and commissions obtained from cash loans.

b) Interest received from banks:

	Current period		Prior period	
	TRY	FC	TRY	FC
Central Bank of Turkey	69.911	13.189	26.681	2.631
Domestic banks	22.500	1.329	13.486	1.004
Overseas banks	4.071	3.682	3.104	2.491
Head office and branches	-	-	-	-
Total	96.482	18.200	43.271	6.126

c) Interest income on marketable securities:

	Current Period		Prior Period	
	TRY	FC	TRY	FC
Financial Assets Held for Trading	6.954	647	4.739	882
Financial Assets at Fair Value Through Profit or Loss	-	-	-	-
Available-for-Sale Financial Assets	847.799	234.243	641.758	183.461
Held-to-Maturity Investments	1.361.916	119.845	1.435.453	106.002
Total	2.216.669	354.735	2.081.950	290.345

d) Interest income from associates:

None.

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

(2) Information on interest expenses:

a) Information on interest expense on funds borrowed:

	Current period		Prior period	
	TRY	FC	TRY	FC
Banks	119.290	355.292	118.005	295.067
<i>Central Bank</i>	69.297	32.803	71.964	15.831
<i>Domestic banks</i>	49.993	322.489	46.041	279.236
<i>Overseas head office and branches</i>	-	-	-	-
Other institutions	13	15.047	22	-
Total	119.303	370.339	118.027	295.067

b) Interest expenses to associates:

	Current period	Prior period
Interest expenses to associates	3.003	3.092

c) Information on interest expenses to marketable securities issued:

	Current period		Prior period	
	TRY	FC	TRY	FC
Interest on securities issued	171.121	419.627	138.351	319.000
Total	171.121	419.627	138.351	319.000

d) Maturity structure of interest expenses on deposits:

Account name	Time deposits							Cumulative deposit	Total
	Demand deposits	Up to 1 month	Up to 3 months	Up to 6 months	Up to 1 Year	More than 1 year			
TRY									
Bank deposits	235	450.808	275.911	21.463	378	-	-	748.795	
Saving deposits	6	41.769	3.211.798	101.083	30.187	40.083	8.176	3.433.102	
Public deposits	79	262.529	196.467	35.288	6.426	660	-	501.449	
Commercial deposits	24	303.561	1.620.445	157.840	17.207	2.495	-	2.101.572	
Other deposits	1	72.552	164.648	22.757	194.451	9.505	-	463.914	
7 days call accounts	-	-	-	-	-	-	-	-	
Total	345	1.131.219	5.469.269	338.431	248.649	52.743	8.176	7.248.832	
Foreign currency									
Deposits	581	32.610	523.548	57.426	16.841	64.974	178	696.158	
Bank deposits	4	106.001	227	226	-	170	-	106.628	
7 days call accounts	-	-	-	-	-	-	-	-	
Precious metal	-	-	-	-	-	-	-	-	
Total	585	138.611	523.775	57.652	16.841	65.144	178	802.786	
Grand total	930	1.269.830	5.993.044	396.083	265.490	117.887	8.354	8.051.618	

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

(3) Information on dividend income:

	Current period	Prior period
Financial assets held for trading	81	-
Financial assets at fair value through profit and loss	-	26
Financial assets available-for-sale	30.448	4.340
Other	9.457	1.888
Total	39.986	6.254

(4) a) Information on trading profit/loss (Net):

	Current period	Prior period
Profit	15.307.780	20.498.674
Profit from the capital market operations	21.425	37.077
Profit on derivative financial instruments	1.703.255	4.018.119
Foreign exchange gains	13.583.100	16.443.478
Loss (-)	15.124.814	20.739.433
Loss from the capital market operations	1.144	4.117
Loss on derivative financial instruments	1.692.097	3.892.538
Foreign exchange losses	13.431.573	16.842.778

b) Information on derivative financial instruments:

	Current period	Prior period
Profit on derivative financial instruments	1.703.255	4.018.119
Effect of the change in foreign exchange on profit	1.652.809	3.929.463
Effect of the change in interest rate on profit	50.446	88.656
Loss on derivative financial instruments (-)	1.692.097	3.892.538
Effect of the change in foreign exchange on loss	1.642.832	3.836.462
Effect of the change in interest rate on loss	49.265	56.076
Profit/loss on derivative financial instruments	11.158	125.581

(5) Information on other operating income:

	Current period	Prior period
Adjustments for Prior Period Expenses ⁽¹⁾	375.295 ⁽¹⁾	748.861 ⁽²⁾
Life insurance income	1.116.931	731.824
Receivable from the asset sale on credit terms	130.562	71.300
Rent income	51.930	23.200
Other income	151.186	102.319
Total	1.825.904	1.677.504

⁽¹⁾ TRY 123.500 Amount of General Provision for possible risks is reversed and transferred to adjustment for prior period expenses.

⁽²⁾ Due to the ratio of consumer loans to total loans has been below 25% as of the prior period, general allowances in the amount of 430.333 TRY were reversed.

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

(6) Impairment losses on loans and other receivables:

	Current period	Prior period
Specific provisions on loans and receivables	1.161.930	864.690
<i>Group - III loans and receivables</i>	534.454	231.262
<i>Group - IV loans and receivables</i>	313.230	190.811
<i>Group - V loans and receivables</i>	314.246	442.617
General loan provision expenses	910.121	291.794
Provision expenses for possible losses	-	123.500
Marketable securities impairment losses	-	-
<i>Financial assets at fair value through profit and loss</i>	-	-
<i>Financial assets available for sale</i>	-	-
Impairment losses from associates, subsidiaries, jointly controlled entities (joint ventures) and investments held-to-maturity	-	-
<i>Associates</i>	-	-
<i>Subsidiaries</i>	-	-
<i>Jointly controlled entities (joint ventures)</i>	-	-
<i>Investments held-to-maturity</i>	-	-
Other	133.858	96.871
Total	2.205.909	1.376.855

(7) Information on other operating expenses:

	Current period	Prior period
Personnel expenses	1.876.103	1.629.124
Reserve for employee termination benefits	83.517	67.067
Bank social aid provision fund deficit provision	-	-
Fixed assets impairment expense	4.713	-
Depreciation expenses of fixed assets	120.804	114.110
Intangible assets impairment expense	-	-
Amortization expenses of intangible assets	35.853	20.973
Impairment expense for equity shares subject to the equity method accounting	-	-
Impairment expense of assets that will be disposed of	4.319	1.714
Amortization expenses of assets that will be disposed of	13.372	7.654
Impairment expense for property and equipment held for sale	95	-
Other operating expenses	1.305.467	1.130.048
<i>Operational leasing expenses</i>	214.401	187.384
<i>Maintenance expenses</i>	31.573	31.115
<i>Advertisement expenses</i>	165.782	140.671
<i>Other expenses</i>	893.711	770.878
Loss on sales of assets	1.330	4.503
Other	1.651.889	1.231.126
Total	5.097.462	4.206.319

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

(8) Information on profit/loss from continuing and discontinued operations before taxes:

The Group's income before tax is due from continuing activities. The amount of profit before tax consists TRY 7.348.541 of net interest income and TRY 1.238.103 of net fees and commissions. The net operating profit before tax of the Group is amounting to TRY 3.349.438.

(9) Information on tax provisions for continuing and discontinued operations:

As of 31 December 2016, the Group's tax provision amounting to TRY 809.982 consists of TRY 625.363 of current tax charge and TRY 184.619 of deferred tax income.

(10) Information on net operating income/expense from continuing and discontinued operations after tax:

The profit after tax for the year ended 31 December 2016 is TRY 2.539.456.

(11) Information on net profit/loss from continuing and discontinued operations:

a) Income and expenses from ordinary banking operations: TRY 123.500 Amount of General Provision for possible risks is reversed and transferred to adjustment for prior period expenses.

As of 21 June 2016, the acquisition of Visa Europe Ltd. by Visa Inc. has been completed. In acquisition, the Bank has sold its one share in Visa Europe Ltd. with a nominal of EUR 10.00 for a consideration of EUR 22.854.086,82 in cash and 8.299 in "C Type Visa Inc." shares. The income generated from the sale share is recognized under the "Other Operating Income".

b) Effects of changes in accounting estimates on the current and future periods' profit/loss: There is no issue to be disclosed.

c) "Other" item under "Fees and Commissions Received" in the Income Statement are composed of fees and commissions received from credit card operations and various banking operations, mainly from capital market operations.

V. EXPLANATIONS AND NOTES RELATED TO THE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Explanations on inflation adjustments for equity items:

As per the BRSA circular announced on 28 April 2005, inflation accounting applied in the banking system has been ceased as of 1 January 2005 in accordance with the BRSA decree numbered 1623 and dated 21 April 2005.

According to this circular, TRY 1.220.451 of inflation adjustment related to paid in capital was transferred to the "Other Capital Reserves" account, which was recognized in "Paid-in Capital Inflation Adjustment" account before 31 December 2005. However, inflation adjustments related to other equity items are presented under the related equity item.

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

VI. EXPLANATIONS AND NOTES RELATED TO THE CASH FLOW STATEMENT

(1) Disclosures for the “other” and “the effect of foreign exchange differences on cash and cash equivalents” items of cash flow statement:

The “net increase/(decrease) in other liabilities” under the changes in operating assets and liabilities is resulted from the changes in the funds obtained through repurchase agreements, miscellaneous payables, other external funding payables and taxes, duties and premiums payables and amounts to TRY 11.388.032 increase for the year 2016 (31 December 2015: TRY 890.803 increase). The “others” item under operating income composes of fees and commissions paid, foreign exchange gains, other operating income and other operating expenses excluding employee costs, and amounts to TRY 6.189.946 decrease for the year 2016 (31 December 2015: TRY6.255.078 decrease).

For the year ended 31 December 2016, the effect of change in foreign exchange rate on cash and cash equivalents is TRY 1.424.356 increase (31 December 2015: TRY 846.458 increase). The average exchange rate of last five weekday has been taken in consideration as of the balance sheet date when calculating the change in the exchange rate.

(2) Items of cash and cash equivalents, accounting policies used in the determination of those items: Cash in TRY and cash in foreign currency, Central Bank and bank deposits having maturity less than three months are defined as cash and cash equivalents.

(3) The effect of any change in accounting policies:

None.

(4) Period beginning cash and cash equivalents balance:

	Current period	Prior period
Cash	23.500.539	20.331.936
<i>Cash in TRY and foreign currency</i>	1.258.794	1.000.135
<i>Central Bank and others⁽¹⁾</i>	22.241.745	19.331.801
Cash equivalents	2.671.525	1.742.639
<i>Demand and Time Deposits Up to 3 Months</i>	2.617.651	1.440.532
<i>Money Market Placements</i>	53.874	302.107
Total cash and cash equivalents	26.172.064	22.074.575
Reserve deposits in Central Bank of Turkey	(17.068.977)	(14.579.877)
Bank blockage balance ⁽²⁾	(224.139)	(199.262)
Accruals for reserve deposits	(21.204)	(1.606)
Accruals for money market placement	-	-
Accruals for banks	(1.842)	(2.899)
Cash and Cash Equivalents	8.855.902	7.290.931

⁽¹⁾ The other item consists of the checks purchased and the required reserves held by the Central Bank of Macedonia.

⁽²⁾ There is a blocked amount amounting to TRY 200.998 given by the Undersecretariat of Treasury as collateral for the technical reserves of Halk Hayat ve Emeklilik AŞ. In addition, Halk Sigorta AŞ has a blocked amount of TRY 23.141 given as collateral by the Undersecretariat of Treasury of the Republic of Turkey

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

(5) Period ending cash and cash equivalents balance:

	Current period	Prior period
Cash	30.211.966	23.500.539
Cash in TRY and foreign currency	1.543.096	1.258.794
Central Bank and others ⁽¹⁾	28.668.870	22.241.745
Cash equivalents	3.010.590	2.671.525
Demand and Time Deposits Up to 3 Months	1.938.193	2.617.651
Money Market Placements	1.072.397	53.874
Total cash and cash equivalents	33.222.556	26.172.064
Reserve deposits in Central Bank of Turkey	(17.363.785)	(17.068.977)
Bank blockage balance ⁽²⁾	(290.080)	(224.139)
Accruals for reserve deposits	(36.875)	(21.204)
Accruals for money market placement	-	-
Accruals for banks	(1.219)	(1.842)
Cash and Cash Equivalents	15.530.597	8.855.902

⁽¹⁾ The other item consists of the checks purchased and the required reserves held by the Central Bank of Macedonia.

⁽²⁾ There is a blocked amount amounting to TRY 248.138 given by the Undersecretariat of Treasury as collateral for the technical reserves of Halk Hayat ve Emeklilik AŞ. In addition, Halk Sigorta AŞ has a blocked amount of TRY 41.942 given as collateral by the Undersecretariat of Treasury of the Republic of Turkey

VII. EXPLANATION RELATED TO THE RISK GROUP OF THE BANK

(1) Volume of the Bank's transactions with its risk group and outstanding loan and deposit balances as of the period-end, period income and expenses from the risk group:

a) Current period:

Risk group	Subsidiaries, associates and jointly controlled entities (joint ventures)		Direct or indirect shareholders of the Bank		Other real and legal persons in the risk group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables						
Beginning balance	-	-	-	-	-	-
Closing balance	-	-	-	-	-	-
Interest and commissions income	-	-	-	-	-	-

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

Prior period:

Risk group	Subsidiaries, associates and jointly controlled entities (joint ventures)		Direct or indirect shareholders of the Bank		Other real and legal persons in the risk group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-Cash
Loans and other receivables						
Beginning balance	-	1.878	-	-	-	-
Closing balance	-	-	-	-	-	-
Interest and commissions income	-	-	-	-	-	-

b) Deposits held by the Bank's risk group:

Risk group	Subsidiaries, associates and jointly controlled entities (joint ventures)		Direct or indirect shareholders of the Bank		Other real and legal persons in the risk group	
	Current period	Prior period	Current period	Prior period	Current period	Prior period
Deposits						
Beginning balance	5.823	27.020	-	-	-	-
Closing Balance	8.771	5.823	-	-	-	-
Interest expense on deposits	393	482	-	-	-	-

c) Forward and option contracts and similar transactions with the Bank's risk group:

None.

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

(2) Disclosures for risk group:

a) The relations of the Bank with the entities controlled by the Bank and its related parties, regardless of whether there are any transactions or not:

In the normal course of its banking activities, the Bank conducted various business transactions with related parties at commercial terms and at rates which approximate market rates.

Bank's branches may operate as insurance agencies of Halk Sigorta AŞ and Halk Hayat ve Emeklilik AŞ and business agencies for Halk Yatırım Menkul Değerler AŞ. Besides, Halk Portföy Yönetimi AŞ is engaging in fund management of Bank's funds.

b) Besides the structure of relationship, nature of the transaction, amount and ratio to the total volume of transactions, amount of major items and ratio to all items, pricing policies and other factors:

	% compared to the amounts in the Amount financial statements	
Cash loans	-	-
Non-cash loans	-	-
Deposits	8.771	0,01%
Forward and option contracts	-	-
Banks and financial institutions	-	-

Pricing of these transactions are in accordance with the general pricing policies of the parent Bank and are in line with market rates.

c) In cases whereby separate disclosure is not necessary, the total of similar items in order to present the total impact on the financial statements:

Explained in b).

ç) Transactions accounted under the equity method:

Demir-Halkbank NV, operating in Netherlands, Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ qualified as investments in associates of the Parent Bank, are accounted for in the accompanying consolidated financial statements by the equity method of accounting

(3) Benefits given to the key management personnel:

Benefits given to the key management personnel are TRY 21.020 as of 31 December 2016 (31 December 2015: TRY 23.316).

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

VIII. EXPLANATIONS ON THE BANK'S DOMESTIC BRANCHES, AGENCIES/BRANCHES ABROAD AND OFF-SHORE BRANCHES

(1) Explanations on the Bank's domestic branches, agencies/branches abroad and off-shore branches.

	Quantity	Number of employees	Country		
Domestic Branches	959	16.900			
Agencies Abroad	3	4	Teheran/IRAN		
			Singapore/SINGAPORE		
			London/ENGLAND	Total Asstes	Legal Capital
Overseas Branches	4	21	Nicosia/TRNC	647.118	-
		10	Gazimagosa/TRNC	80.498	-
		9	Kyrenia/TRNC	63.131	-
		2	Pasakoy/TRNC	163	-
Off-shore Branches	1	3	Manama/BAHREYN	11.169.301	-

⁽²⁾ Explanations on branch and agency openings or closings of the Bank:

The Bank opened 15 domestic branches during the year 2016.

IX. EXPLANATIONS RELATED TO THE SUBSEQUENT EVENTS

The Parent Bank which belonged to the Turkish Privatization Administration is decided to be transferred to the Turkish Wealth Fund with its paid-in capital of 51,11% and the share of TRY 638.826 after necessary authorization and being taken out from the scope and programme of the Administration by The Privatization High Council.

TÜRKİYE HALK BANKASI A.Ş.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

SECTION VI: OTHER EXPLANATIONS AND NOTES

I. OTHER EXPLANATIONS ON THE BANK'S OPERATIONS

None.

SECTION VII: INDEPENDENT AUDITORS' REPORT

I. EXPLANATIONS ON THE INDEPENDENT AUDITORS' REPORT

The consolidated financial statements as of and for the year ended 31 December 2016 were audited by Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik AŞ (the Turkish member firm of KPMG International Cooperative, a Swiss entity) and Independent Auditors' Report dated 13 February 2017 is presented in the introduction of this report.

II. EXPLANATIONS AND NOTES PREPARED BY THE INDEPENDENT AUDITORS

None.

DIRECTORY

Trade Registration Number

862070
İstanbul Trade Registry Office

Web Site

www.halkbank.com.tr

Corporate e-mail

halkbank.ir@halkbank.com.tr

Call Center

Halkbank Dialog 0850 222 0 400
SME Dialog 0850 222 0 401

Head Office (Main)

Barbaros Mahallesi, Şebboy Sokak
No: 4 34746
Ataşehir/İSTANBUL-TURKEY
Telephone: +90 (216) 503 70 70

- Department of Budget and Performance Management
- Department of Support Services
- Department of Foreign Operations
- Department of Staff Training
- Department of Artisans Banking
- Department of Financial Institutions and Investor Relations
- Department of Financial Accounting and Reporting
- Department of Treasury Operations
- Department of Treasury Management Mid-Office
- Department of Legal Affairs
- Department of Human Resources
- Department of Construction and Appraisal
- Department of SME Loans-2
- Department of SME Marketing-1

- Department of SME Marketing-2
- Department of SME Marketing-3
- Department of Loans Policies Application
- Department of Loans Risk Monitoring
- Department of Loan Risk Liquidation-1
- Department of Loan Risk Liquidation-2
- Department of Corporate Loans
- Department of Corporate Marketing
- Department of Operational Strategy and Innovation Management
- Department of Organization
- Department of Subsidiaries and Affiliates Management
- Department of Money and Capital Markets
- Department of Project Evaluation, Financial Analysis and Intelligence
- Department of Project Finance
- Department of Branch Operations
- Department of Corporate Communication
- Department of Commercial Loans-1
- Department of Commercial Loans-2
- Department of Commercial Marketing-1
- Department of Commercial Marketing-2
- Department of International Banking and Structured Finance
- Department of Tax Management and Accounting
- Board of Directors Office Services

Head Office (Support Unit)

İçerenköy Mahallesi, Karaman Çiftlik Yolu Caddesi
No: 49 34752
Ataşehir/İstanbul

- Department of Retail Loans
- Department of Retail Products Marketing
- Department of Internal Control
- Department of Delivery Channels Management
- Department of Payment Card Systems
- Department of Deposit Management and Marketing
- Department of Cash Management
- Department of Risk Management
- Department of the Board of Inspectors

Head Office (Support Unit)

YTÜ Davutpaşa Kampüsü Çifte Havuzlar Mahallesi
Eski Londra Asfaltı Caddesi
A2 Blok No: 151/1H 34220
Esenler/İSTANBUL

- Department of Infrastructure Operation and Management
- Department of Technological Architecture Management
- Department of Software Development

Anafartalar Caddesi No: 39 Kat: 4
Ulus Altındağ/ANKARA

- Department of SME Loans-1

**INTERNATIONAL NETWORK OF
HALKBANK****Bahrain Branch**

Almoayyed Tower, 33rd Floor, Suite
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Lefkoşa Branch

Köşklü Çiftlik Mah. Osmanpaşa Cad.
Ümit Apt. No: 1
Lefkoşa/KKTC
Telephone: (+392) 228 8545
Fax: (+392) 227 4571

Gazimağusa Branch

İsmet İnönü Bulvarı Hasipoğlu
Residence ve Güney Business Center
A Blok No: 7 Gazimağusa/KKTC
Telephone: (+392) 365 6701
Fax: (+392) 365 6706

Girne Branch

Yukarı Girne Mah. Hakkı Borataş Cad.
Girne/KKTC
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Paşaköy Satellte Branch

28'inci Mknz. P. Tüm. K.lığı
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