

*(Convenience Translation of Financial Statements and Related Disclosures and Footnotes
Originally Issued in Turkish, See Section 3.1)*

Türkiye Halk Bankası Anonim Şirketi

**Consolidated Financial Statements
As of and For the Six-Month Period Ended 30 June 2016
With Auditors' Review Report Thereon**
*(Convenience Translation of Consolidated
Financial Statements and Related Disclosures and Footnotes
Originally Issued in Turkish)*

8 August 2016

*This report contains "Limited Review Report"
comprising 2 pages and; "Consolidated
Financial Statements and Related Disclosures
and Footnotes" comprising 102 pages.*

*Convenience Translation of the Limited Review Report
Originally Prepared and Issued in Turkish (See Section 3.1)*

LIMITED REVIEW REPORT ON INTERIM FINANCIAL INFORMATION

To the Board of Directors of Türkiye Halk Bankası AŞ;

Introduction

We have reviewed the statement of financial position of Türkiye Halk Bankası AŞ (the "Bank") and its financial subsidiaries (together the "Group") as at 30 June 2016 and the related consolidated income statement, consolidated statement of income and expense items under shareholders' equity, consolidated statement of changes in shareholders' equity, consolidated statement of cash flows and a summary of significant accounting policies and other explanatory notes to the consolidated financial statements for the six-month-period then ended. The Bank Management is responsible for the preparation and fair presentation of interim financial statements in accordance with 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 Agency and circulars and interpretations published by Banking Regulation and Supervision Authority, (together referred as "BRSA Accounting and Reporting Legislation") and Turkish Accounting Standard 34 "Interim Financial Reporting" for those matters not regulated by BRSA Legislation. Our responsibility is to express a conclusion on these interim financial statements based on our review.

Scope of limited review

We conducted our review in accordance with the Standard on Review Engagements (SRE) 2410, "Limited Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial reporting process, and applying analytical and other review procedures. A review of interim financial information is substantially less in scope than an independent audit performed in accordance with the Independent Auditing Standards and the objective of which is to express an opinion on the financial statements. Consequently, a review of the interim financial information does not provide assurance that the audit firm will be aware of all significant matters which would have been identified in an audit. Accordingly, we do not express an opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not give a true view of the financial position of Türkiye Halk Bankası AŞ at 30 June 2016 and of the results of its operations and its cash flows for the six-month-period then ended in all aspects in accordance with the BRSA Accounting and Reporting Legislation.

Report on other regulatory requirements arising from legislation

Based on our review, nothing has come to our attention that causes us to believe that the financial information provided in the accompanying interim annual report in section seven, are not consistent with the consolidated financial statements and disclosures in all material respects.

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of KPMG International Cooperative

Alper Güvenç
Partner, SMMM

8 August 2016
Istanbul, Türkiye

Additional paragraph for convenience translation to English:

As explained in Section 3.1, the accompanying consolidated financial statements are not intended to present the financial position and results of operations in accordance with the accounting principles and practices generally accepted in countries and jurisdictions other than Turkey.

TÜRKİYE HALK BANKASI AŞ
THE CONSOLIDATED FINANCIAL REPORT
AS OF AND FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 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 six-month period 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** : LIMITED REVIEWED REPORT
- **Section Seven** : INTERIM ACTIVITY 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 six-month period ended 30 June 2016 are prepared in **thousand Turkish Lira** and they have been reviewed 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, 8 August 2016

R. Süleyman Özdil	Sadık Tiltak	Yahya Bayraktar	Ali Fuat Taşkesenlioğlu	Mustafa Aydın	Yusuf Duran Ocak
<i>Chairman of the Board of Directors</i>	<i>Vice Chairman of the Board of Directors, Chairman of the Audit Committee</i>	<i>Member of the Board of Directors, Member of the Audit Committee</i>	<i>Member of the Board of Directors, Chief Executive Officer</i>	<i>Financial Management and Planning Vice Chief Executive Office</i>	<i>Financial Accounting and Reporting Department Head</i>

For any questions regarding this financial report, contact details of the personnel in charge is given below:

Name/Title : Pınar Küçük/Director
Tel/Fax No : 0216 503 52 09 /0212 340 09 90

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TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD 30 JUNE 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 30 June 2016 the shareholders’ structure and their respective ownerships are summarized as follows:

Shareholders	30 June 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.

⁽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 AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

SECTION I: GENERAL INFORMATION ABOUT PARENT THE BANK (continued)

III. EXPLANATIONS REGARDING THE PARNET 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/ Permanent Member of the Credit Committee
Ali Fuat TAŞKESENLIOĞLU	Member of the Board of Directors, Chief Executive Officer, Permanent Member of the Credit Committee
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, Member of the Corporate Governance Committee
Mehmet Ali GÖKÇE	Member of the Board of Directors, Associate Member of the Credit Committee, Member of the Corporate Governance Committee
Mehmet AYTEKİN	Member of the Board of Directors, Member of the Pricing Committee
Ömer AÇIKGÖZ	Member of the Board of Directors, Member of the Sustainability Committee
Yahya BAYRAKTAR	Member of the Board of Directors, Member of the Audit Committee, Associate Member of the Credit Committee, Head of the Corporate Governance Committee, Head of the Sustainability Committee, Independent Member of the Board of Directors
Faruk ÖZÇELİK	Member of the Audit Committee
Zekeriya KAYA	Member of the Audit Committee
Erol GÖNCÜ	Executive Vice President, Information Systems and Technical Services
Selahattin SÜLEYMANOĞLU	Executive Vice President, Banking Operations
Mehmet Akif AYDEMİR	Executive Vice President, Loan Allocation and Management
Mehmet Hakan ATİLLA	Executive Vice President, International Banking
Erdal ERDEM	Executive Vice President, Artisans and SME Banking
Salim KÖSE	Executive Vice President, Legal Affairs and Proceedings
Ömer Faruk ŞENEL	Executive Vice President, Support Services
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

⁽¹⁾ People mentioned above do not own any shares in the Bank's capital.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD 30 JUNE 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

SECTION I: GENERAL INFORMATION ABOUT THE BANK (continued)

III. EXPLANATIONS REGARDING THE PARENT BANK’S CHAIRMAN AND MEMBERS OF BOARD OF DIRECTORS, AUDIT COMMITTEE MEMBERS, CHIEF EXECUTIVE OFFICER AND EXECUTIVE VICE PRESIDENTS AND THEIR SHARES ATTRIBUTABLE TO THE PARENT BANK, IF ANY (continued)

- 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 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 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
Ali ARSLAN	Member of the Audit Committee	31 March 2016
Murat UYSAL	Vise President	9 June 2016

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD 30 JUNE 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

SECTION I: GENERAL INFORMATION ABOUT THE PARENT BANK (continued)

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.

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.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD 30 JUNE 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

SECTION I: GENERAL INFORMATION ABOUT THE PARENT BANK (continued)

V. SUMMARY ON THE PARENT BANK'S FUNCTIONS AND LINES OF ACTIVITY (continued)

- 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 30 June 2016, the Bank operates with a total of 961 branches consisting of 951 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. 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.

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.

TÜRKİYE HALK BANKASI AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD 30 JUNE 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

SECTION I: GENERAL INFORMATION ABOUT THE PARENT BANK (continued)

VI. EXPLANATION ABOUT COMPANIES WITHIN THE SCOPE OF CONSOLIDATION (continued)

Halk Finansal Kiralama AŞ (“Halk Leasing”), was an associate of the Parent Bank with 47,75% of the shares and consolidated according to the equity method until 27 May 2011. The Group obtained the control of Halk Leasing by acquiring 52,24% of the shares and voting interests in the company as of 27 May 2011. As a result, the Group’s equity interest in Halk Leasing has increased from 52,24% to 100%. Halk Leasing was established in September 1991 in Turkey and operates under the provisions of the Turkish financial leasing law number 3226.

Halk Banka AD Skopje, formerly Export and Credit Bank AD Skopje is a subsidiary of the Parent Bank. The Group obtained the control of Halk Banka AD, Skopje by acquiring 98,12% of the shares and voting interests of the company as of 8 April 2011 and 8 August 2011. Halk Banka AD Skopje has taken over Ziraat Banka AD Skopje which is a Turkish capital bank that operates in Macedonia, through the merger as of 1 October 2012. As a result, the Group’s equity interest in Halk Banka AD, Skopje has increased from 98,12% to 98,78%. Halk Banka AD, Skopje is operating in Republic of Macedonia. Its main activities include commercial lending, receiving of deposits, foreign exchange deals, and payment operation services in the country and abroad and retail banking services.

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.

Halk Faktoring AŞ (“Halk Faktoring”), was a subsidiary of the Parent Bank with capital payments of amounting to TRY 39.000 and 97,5% of shares. After, it was registered to trade registry on 6 June 2012, establishment has been completed. Halk Faktoring’s main line of business is to provide factoring services that include legitimate commercial lending for all domestic and international trade operation.

The Parent Bank obtained the control of Halkbank AD, Beograd by acquiring 76,76% of the shares and voting interests of the company as of 28 May 2015. Its main activities include commercial lending, receiving of deposits, foreign exchange deals, and payment operation services in the country and abroad and retail banking services. On the date of 24 November 2015 Bank’s share has increased into 82,47% by the increase of capital.

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 AŞ
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX-MONTH PERIOD 30 JUNE 2016

(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

SECTION I: GENERAL INFORMATION ABOUT THE PARENT BANK (continued)

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 AŞ
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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.

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SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

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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SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

III. INFORMATION ABOUT THE ASSOCIATES AND SUBSIDIARIES SUBJECT TO CONSOLIDATION (continued)

1. Basis of consolidation (continued):

b. Basis of consolidation of associates (continued):

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.

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SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

III. INFORMATION ABOUT THE ASSOCIATES AND SUBSIDIARIES SUBJECT TO CONSOLIDATION (continued)

1. Basis of consolidation (continued):
- d. Principles applied during share transfer, merger and acquisition (continued):

Accounting for business combinations (continued)

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.

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.

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SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

IV. EXPLANATIONS ON FORWARD AND OPTION CONTRACTS AND DERIVATIVE INSTRUMENTS

Derivative transactions of the Group consist of foreign currency and interest rate swaps and forwards. The Group has no derivative instruments decomposed from the main contract.

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, under the Turkish Accounting Standard No: 39 “Financial Instruments: Recognition and Measurement” (TAS 39), these derivative instruments are recognized as held for trading and gains and losses of these instruments are associated with statement of income.

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.

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.

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SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

VII. EXPLANATIONS AND DISCLOSURES ON FINANCIAL ASSETS (continued)

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.

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 30 June 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.

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SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

VII. EXPLANATIONS AND DISCLOSURES ON FINANCIAL ASSETS (continued)

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.

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.

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(Amounts expressed in thousand Turkish Lira (TRY) unless otherwise stated.)

SECTION III: EXPLANATIONS ON ACCOUNTING POLICIES (continued)

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.

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.

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SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

VIII. EXPLANATIONS ON IMPAIRMENT OF FINANCIAL ASSETS (continued)

Other than specific allowances, the Bank provides “general allowances” for loan and other receivables classified in accordance with the Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables. The Bank is providing 1% general allowance for cash loans and other receivables, 0,2% general allowances for non-cash loans; 2% for cash loans and 0,4% for non-cash loans followed under closed monitoring. 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 28 May 2011 No: 27947 Official Gazette, banks are able to change the terms of the payment plans of their loans and other receivables monitored under standard and other receivables group given that those loans and receivables qualify for the prerequisites. However, if the changes extend the initial payment plan, a general provision allocated accordingly with the related loans and other receivables given that it is no less than the 5 times of the predetermined ratio and for loans and other receivables followed under close monitoring provision cannot fall below 2,5 times of the designated ratio.

In the consequence of the ratio of consumer loans to total loans has been below 25% as of the second quarter of 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 in the second paragraph of Article 7 of the Communiqué as of the second quarter of 2015.

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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SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

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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SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

XIII. EXPLANATIONS ON PROPERTY, PLANT AND EQUIPMENT (continued)

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.

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.

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.

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SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

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.

Claim provision is recognized for the accrued claims which are not paid in the current period or in the prior periods or for the claims realized with the expected costs but not reported.

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.

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.

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SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

XVIII. 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 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.

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.

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SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

XIX. EXPLANATIONS ON EMPLOYEE BENEFIT LIABILITIES (continued)

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 2015, 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. And also, first advance tax for the 1 January 2016-31 March 2016 is accrued from corporate tax amount. Accrued advance tax as of 1 April 2016-30 June 2016 period will also be paid in August 2016.

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.

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SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

XX. EXPLANATIONS ON TAXATION (continued)

Tax practices in the countries that foreign branches and financial institution operate: (continued)

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.

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.

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SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

XX. EXPLANATIONS on TAXATION (continued)

Tax practices for the subsidiaries which are subject to consolidation (continued)

Halk Bank AD Skopje (continued)

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.

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 shareholders’ equity. 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.

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SECTION III: EXPLANATIONS ON CONSOLIDATED ACCOUNTING POLICIES (continued)

XXII. EXPLANATIONS ON SHARES AND SHARE ISSUE (continued)

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 185.000 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.

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 VII.

XXVI. EXPLANATION ON OTHER MATTERS

None.

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE GROUP

I. EXPLANATIONS ON EQUITY

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 30 June 2016 Group’s total capital has been calculated as TRY 21.596.536. (31 December 2015: TRY 20.099.511), capital adequacy ratio is 12,83% (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	39.511	
Reserves	14.749.796	
Gains recognized in equity as per TAS	1.745.636	
Profit	1.612.601	
Current Period Profit	1.480.234	
Prior Period Profit	132.367	
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and cannot be recognised within profit for the period	3.973	
Minorities’ Share	14.336	
Common Equity Tier 1 Capital Before Deductions	20.636.304	
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	77.504	
Goodwill (net of related tax liability)	-	
Other intangibles other than mortgage-servicing rights (net of related tax liability)	65.801	109.669
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	143.305	
Total Common Equity Tier 1 Capital	20.492.999	

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE GROUP (continued)

I. EXPLANATIONS ON EQUITY (continued)

1. Information on Consolidated Capital Items: (continued)

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	43.868
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 (-)	43.868
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)	20.449.131
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)	1.246.462
Tier II Capital Before Deductions	1.246.462
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	1.246.462
Total Capital (The sum of Tier I Capital and Tier II Capital)	21.695.593
The sum of Tier I Capital and Tier II Capital (Total Capital)	21.596.536
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	75.126
Other items to be defined by the BRSA (-)	23.921

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE GROUP (continued)

I. EXPLANATIONS ON EQUITY (continued)

1. Information on Consolidated Capital Items: (continued)

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	21.596.536
Total risk weighted amounts	168.265.206
Capital Adequacy Ratios	
Core Capital Adequacy Ratio	12,18
Tier 1 Capital Adequacy Ratio	12,15
Capital Adequacy Ratio	12,83
BUFFERS	
Total buffer requirement	5,385
Capital conservation buffer requirement	0,875
Bank specific counter-cyclical buffer requirement	0,010
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	4,835
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	25.515
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	1.420.269
Portion of mortgage servicing rights	-
Amount arising from deferred tax assets based on temporary differences	297.778
Limits related to provisions considered in Tier II calculation	
General provisions for standard based receivables (before tenthousandtwentyfive limitation)	1.246.462
Up to 1.25% of total risk-weighted amount of general reserves for receivables where the standard approach used	1.246.462
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 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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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE GROUP (continued)

I. EXPLANATIONS ON EQUITY (continued)

1. Information on Consolidated Capital Items: (continued)

	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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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE GROUP (continued)

I. EXPLANATIONS ON EQUITY (continued)

1. Information on Consolidated Capital Items: (continued)

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

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, development 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.

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE GROUP (continued)

II. EXPLANATIONS RELATED TO THE CONSOLIDATED 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 Group 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 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.

Announced current foreign exchange buying rates of the Parent Bank as at 30 June 2016 and the previous five working days in full TRY are as follows:

	23.06.2016	24.06.2016	27.06.2016	28.06.2016	29.06.2016	30.06.2016
USD	2,8500000	2,8900000	2,9100000	2,8700000	2,8700000	2,8750000
CHF	2,9801000	2,9752000	2,9666000	2,9249000	2,9251000	2,9451000
GBP	4,2090000	3,9708000	3,8354000	3,8236000	3,8757000	3,8489000
JPY	0,0269341	0,0281748	0,0285847	0,0279022	0,0279348	0,0278964
EUR	3,2402000	3,2114000	3,1991000	3,1755000	3,1884000	3,1882000

The simple arithmetic averages of the major current foreign exchange buying rates of the Parent Bank for the thirty days before 30 June 2016 are as follows:

	Monthly average
USD	2,8856818
CHF	2,9730682
GBP	4,0956818
JPY	0,0273576
EUR	3,2417409

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE GROUP (continued)

II. EXPLANATIONS RELATED TO THE CONSOLIDATED CURRENCY RISK (continued)

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	4.229.638	13.704.432	3.535.492	21.469.562
Banks	424.559	240.568	183.777	848.904
Financial assets at fair value through profit and loss ⁽³⁾	94.076	193.895	848	288.819
Money market placements	-	-	-	-
Financial assets available-for-sale	722.500	3.363.965	169.292	4.255.757
Loans ⁽²⁾	20.009.590	25.034.558	937.030	45.981.178
Subsidiaries, associates and entities under common control	254.072	-	-	254.072
Held-to-maturity investments	7.597	1.912.770	143.314	2.063.681
Derivative financial assets held for risk management	-	-	-	-
Tangible assets	-	-	57.707	57.707
Intangible assets	-	-	-	-
Other assets ⁽³⁾	1.298.043	954.421	56.206	2.308.670
Total assets	27.040.075	45.404.609	5.083.666	77.528.350
Liabilities				
Bank deposits	4.247.281	2.642.448	1.139.856	8.029.585
Foreign currency deposits	15.001.768	22.470.413	1.885.377	39.357.558
Money market balances	-	1.314.877	-	1.314.877
Funds provided from other financial institutions	8.657.416	10.860.696	47.501	19.565.613
Bonds issued	-	7.280.045	-	7.280.045
Sundry creditors	40.285	81.964	7.691	129.940
Derivative financial liabilities held for risk management	-	-	-	-
Other liabilities ⁽³⁾	282.956	348.094	125.226	756.276
Total liabilities	28.229.706	44.998.537	3.205.651	76.433.894
Net balance sheet position	(1.189.631)	406.072	1.878.015	1.094.456
Net off-balance sheet position				
Financial derivative assets ⁽⁴⁾	2.304.414	4.748.763	1.405.338	8.458.515
Financial derivative liabilities ⁽⁴⁾	890.772	5.133.825	2.983.858	9.008.455
Non-cash loans ⁽¹⁾	7.747.286	15.795.229	1.387.367	24.929.882
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				
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 1.744.474 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 26.651), prepaid expenses (TRY 239) in assets; non-tangible assets (TRY 19.396); derivative financial instruments foreign currency expense accruals (TRY 89.002) and shareholders' equity (TRY 314.759) 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 35.119; and derivative transaction liabilities from financial instruments include precious metal sale transactions which amount to TRY 2.467.826.

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE GROUP (continued)

III. 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	22.898.539	159.410	-	-	-	1.355.618	24.413.567
Banks and financial institutions	372.763	509	2.041	-	-	571.226	946.539
Financial assets at fair value through profit and loss	357.601	41.329	9.342	2.829	4.216	12.374	427.691
Money market placements	704	497.038	-	-	-	-	497.742
Financial assets available-for-sale	1.359.808	1.333.158	3.036.975	2.038.705	5.085.012	54.243	12.907.901
Loans	53.964.101	13.952.214	37.074.356	25.316.212	4.875.054	3.229.646	138.411.583
Held-to-maturity investments	1.749.676	3.019.191	4.233.352	1.961.059	5.033.290	-	15.996.568
Other assets ⁽¹⁾⁽²⁾	4.400.231	230.877	613.474	1.226.500	210.293	4.530.655	11.212.030
Total assets	85.103.423	19.233.726	44.969.540	30.545.305	15.207.865	9.753.762	204.813.621
Liabilities							
Bank deposits	11.453.552	1.956.618	695.033	-	-	3.643.782	17.748.985
Other deposits	60.295.136	25.312.958	7.337.656	473.973	7.139	19.381.519	112.808.381
Money market balances	10.208.652	1.312.672	433.382	-	-	-	11.954.706
Sundry creditors	1.269.064	7.568	70.382	1.157.528	1.635	20.764	2.526.941
Bonds issued	246.550	684.166	790.780	7.167.419	-	-	8.888.915
Funds provided from other financial institutions ⁽⁴⁾	4.307.960	5.251.530	7.412.142	2.642.023	1.366.486	12	20.980.153
Other liabilities ⁽³⁾	2.737.211	25.550	1.674.801	1.663.835	2.294.071	21.510.072	29.905.540
Total liabilities	90.518.125	34.551.062	18.414.176	13.104.778	3.669.331	44.556.149	204.813.621
Balance sheet long position			26.555.364	17.440.527	11.538.534	-	55.534.425
Balance sheet short position	(5.414.702)	(15.317.336)	-	-	-	(34.802.387)	(55.534.425)
Off-balance sheet long position	-	865.696	143.771	1.330.417	684.919	1.253.233	4.278.036
Off-balance sheet short position	-	(580.343)	(3.165)	(1.356.552)	(1.079.114)	(1.230.015)	(4.249.189)
Total position	(5.414.702)	(15.031.983)	26.695.970	17.414.392	11.144.339	(34.779.169)	28.847

⁽¹⁾ TRY 84.574 of deferred tax assets is disclosed under the non interest bearing column in other assets and TRY 64.211 of deferred tax liability is disclosed under the non interest bearing column in other liabilities.

⁽²⁾ TRY 1.103.824 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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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE GROUP (continued)

III. EXPLANATIONS RELATED TO THE CONSOLIDATED INTEREST RATE RISK (continued)

1. Information related to the interest rate sensitivity of assets, liabilities and off-balance sheet items based on repricing dates (continued):

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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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE GROUP (continued)

III. EXPLANATIONS RELATED TO THE CONSOLIDATED INTEREST RATE RISK (continued)

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	-	0,04
Due from other banks and financial institutions ⁽¹⁾	0,36	0,61	-	10,50
Financial assets at fair value through profit and loss	-	1,14	-	8,68
Money market placements	-	-	-	11,17
Available-for-sale financial assets	5,11	5,49	-	10,39
Loans ⁽²⁾	4,25	5,27	-	12,93
Held-to-maturity investments	-	5,90	-	10,83
Liabilities				
Bank deposits	0,34	1,16	-	9,05
Other deposits ⁽⁴⁾	1,32	2,31	0,25	10,37
Money market borrowings	-	1,70	-	8,12
Sundry creditors ⁽³⁾	-	-	-	4,75
Bonds issued	-	4,53	-	10,12
Funds provided from other financial institutions	0,68	2,06	-	7,63
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 six months as of 30 June 2016.

⁽⁴⁾ Customer based calculated stock interest rates are applied to TRY and FC deposits as of 30 June 2016.

⁽⁵⁾ Required reserve ratio of the Central Bank of Turkey.

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE GROUP (continued)

IV. EXPLANATIONS RELATED TO THE CONSOLIDATED POSITION RISK OF SHARES

Information about position risk of shares:

	Comparison			The Amount of Capital Requirement
	Balance Sheet Value	Fair Value Change	Market Value	
Equities				
Stock investment excluding A,B,C,D group	314.184	248.450	-	19.876

Realized gains/losses, revaluation surpluses and unrealized gains/losses on equity securities and results included in core and supplementary capitals:

Portfolio	Realized gains (losses) in the current period	Revaluated appreciation in the fair value		Unrealized gains and losses		
		Total	Included to core capital	Total	Included to total core capital	Included to core capital
1. Private equity investments	-	-	-	-	-	-
2. Share Certificates quoted in a stock exchange	-	-	-	-	-	-
3. Other share certificates	-	9.225	9.225	-	-	-
Total	-	9.225	9.225	-	-	-

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE GROUP (continued)

V. 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 TL and YP category on all maturity in interbank OTC markets, the upper limit of repurchase and reverse repurchase transactions in TL and YP 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 was determined.

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.

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE GROUP (continued)

V. EXPLANATIONS RELATED TO THE CONSOLIDATED LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE RATIO (continued)

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	APRIL	128,77	MAY	77,45
Minimum	JUNE	98,06	JUNE	74,52

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V. EXPLANATIONS RELATED TO THE CONSOLIDATED LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE RATIO (continued)

	Rate of "Percentage to be taken into account" not Implemented Total value ⁽¹⁾		Rate of "Percentage to be taken into account" Implemented Total value ⁽¹⁾	
	TL+FC	FC	TL+FC	FC
Current Period				
High Quality Liquid Assets				
High Quality Liquid Assets			34.048.389	21.135.152
Cash Outflows				
Retail and Small Business Customers, of which;	63.171.984	22.609.363	5.024.572	2.047.846
Stable Deposits	25.852.540	4.261.800	1.292.627	213.090
Less Stable Deposits	37.319.444	18.347.563	3.731.945	1.834.756
Unsecured wholesale funding , of which;	68.936.101	25.756.393	40.725.438	17.034.806
Operational Deposits	193.213	-	48.303	-
Non-operational Deposits	62.750.567	23.249.778	35.772.304	14.570.841
Other Unsecured Funding	5.992.321	2.506.615	4.904.831	2.463.965
Secured Funding			-	-
Other cash outflows, of which;	3.924.772	2.554.877	1.820.264	1.477.770
Derivatives cash outflow and liquidity needs related to market valuation changes on derivatives or other transactions	80.355	601.038	80.355	601.038
Obligations related to structured financial products	-	-	-	-
Commitments related to debts to financial markets and other off-balance sheet obligations	3.844.417	1.953.839	1.739.909	876.732
Other revocable off-balance sheet commitments and contractual obligations.	-	-	-	-
Other irrevocable or conditionally revocable off-balance sheet obligations	60.426.668	22.691.846	4.377.620	1.726.859
Total Cash Outflows			51.947.894	22.287.281
Cash Inflows				
Secured Lending	-	-	-	-
Unsecured Lending	12.408.043	4.724.215	7.309.490	3.489.235
Other Cash Inflows	48.466	18.039	48.466	18.039
Total Cash Inflows	12.456.509	4.742.254	7.357.956	3.507.274
			Total Adjusted Value	
Total HQLA Stock			34.048.389	21.135.152
Total Net Cash Outflows			44.589.938	18.780.007
Liquidity Coverage Ratio (%)			76,40	113,87

⁽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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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE GROUP (continued)

V. EXPLANATIONS RELATED TO THE CONSOLIDATED LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE RATIO (continued)

	Rate of "Percentage to be taken into account" not Implemented Total value ⁽¹⁾		Rate of "Percentage to be taken into account" Implemented Total value ⁽¹⁾	
	TL+FC	FC	TL+FC	FC
Prior Period				
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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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE GROUP (continued)

V. EXPLANATIONS RELATED TO THE CONSOLIDATED LIQUIDITY RISK MANAGEMENT AND LIQUIDITY COVERAGE RATIO (continued)

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	1.310.218	22.845.383	159.410	64.420	-	-	34.136	24.413.567
Banks	561.524	371.352	509	3.452	-	474	9.228	946.539
Financial assets at fair value through profit and loss	4.957	95.286	60.269	212.958	46.416	2.855	4.950	427.691
Money market placements	-	497.742	-	-	-	-	-	497.742
Financial assets available-for-sale	-	282.655	469.542	1.476.432	4.253.630	6.373.216	52.426	12.907.901
Loans ⁽²⁾	854.554	8.431.921	9.939.188	46.114.156	57.112.978	15.953.434	5.352	138.411.583
Held-to-maturity investments	-	473.698	742.547	955.758	4.952.067	8.872.107	391	15.996.568
Other assets ⁽³⁾	2.151.895	54.122	230.876	613.394	1.225.851	209.495	6.726.397	11.212.030
Total assets	4.883.148	33.052.159	11.602.341	49.440.570	67.590.942	31.411.581	6.832.880	204.813.621
Liabilities								
Bank deposits	3.643.782	11.453.552	1.956.618	695.033	-	-	-	17.748.985
Other deposits	19.477.806	60.159.319	25.324.525	7.349.958	480.955	13.877	1.941	112.808.381
Funds provided from other financial institutions ⁽⁴⁾	194	4.267.124	2.274.807	6.527.139	3.928.521	3.982.368	-	20.980.153
Money market balances	-	10.208.652	1.312.672	145.882	287.500	-	-	11.954.706
Bonds issued	-	246.550	684.166	790.780	7.167.419	-	-	8.888.915
Sundry creditors	2.104	1.280.209	7.568	70.917	1.157.528	1.635	6.980	2.526.941
Other liabilities ⁽¹⁾	246.993	2.496.802	1.067.299	874.305	1.705.623	2.294.071	21.220.447	29.905.540
Total liabilities	23.370.879	90.112.208	32.627.655	16.454.014	14.727.546	6.291.951	21.229.368	204.813.621
Liquidity gap	(18.487.731)	(57.060.049)	(21.025.314)	32.986.556	52.863.396	25.119.630	(14.396.488)	-
Net off balance sheet position	-	(37.248)	(65.370)	4.345	20.982	-	-	(77.291)
Derivative financial assets	-	3.720.804	3.975.236	1.400.691	2.259.528	2.606.898	-	13.963.157
Derivative financial liabilities	-	3.758.052	4.040.607	1.396.346	2.238.546	2.606.898	-	14.040.449
Non-cash loans	16.178.959	1.542.833	3.766.690	14.713.146	6.875.754	1.455.204	273.708	44.806.294
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 1.103.824 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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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE GROUP (continued)

VI. EXPLANATIONS ON LEVERAGE RATIO

The article "Regulation Regarding the Measurement and Evaluation of Banks' leverage level" published on November 5, 2013 and containing No: 28812 includes the table for the calculation of the leverage ratio 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⁾	190.265.332	156.991.330
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⁾	(736.158)	(362.931)
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	13.184.217	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	9.768.197	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	405.017	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	271.751.124	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 2014 and 31 December 2015.

⁽²⁾ Three-month average of the amounts in the table.

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE GROUP (continued)

VI. EXPLANATIONS ON LEVERAGE RATIO (continued)

	Current Period ⁽¹⁾	Prior Period ⁽¹⁾
On-Balance Sheet Items		
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	202.734.495	188.320.683
Assets that are deducted from core capital	(142.425)	(170.073)
Total on balance sheet exposures	202.592.070	188.150.610
Derivative exposures and credit derivatives		
Replacement cost associated with derivative financial instruments and credit derivatives	306.395	444.606
The potential amount of credit risk with derivative financial instruments and credit derivatives	177.670	166.866
The total amount of risk on derivative financial instruments and credit derivatives	484.065	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)	537.660	352.063
Risk amount of exchange brokerage operations	-	-
Total risks related with securities or commodity financing transactions	537.660	352.063
Off -Balance Sheet Items		
Gross notional amount of off-balance sheet items	68.542.346	60.970.833
Adjustments for conversion to credit equivalent amounts	(405.017)	(356.769)
The total risk of off-balance sheet items	68.137.329	60.614.064
Capital and Total Exposures		
Tier 1 Capital	19.908.281	18.669.310
Total Exposures	271.751.124	249.728.209
Leverage Ratio		
Leverage Ratio	7,33	7,48

⁽¹⁾ Three-month average of the amounts in the table

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE GROUP (continued)

VII. 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.

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.

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE GROUP (continued)

VII. EXPLANATIONS RELATED TO CONSOLIDATED BUSINESS SEGMENTATION (continued)

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 30 June 2016 are presented in the table below.

Current Period	Corporate	Commercial	SME/ Integrated	Treasury / Investment⁽¹⁾	Other⁽²⁾	Total
OPERATING INCOME / EXPENSES						
Interest income	687.980	991.902	4.872.296	1.457.677	145.563	8.155.418
<i>Interest on loans</i>	687.954	991.740	4.807.960	217.291	-	6.704.945
<i>Interest income on marketable securities</i>	-	-	58.710	1.160.095	10.547	1.229.352
<i>Interest received from banks</i>	-	-	1.412	48.304	5.770	55.486
<i>Other interest income</i>	26	162	4.214	31.987	129.246	165.635
Interest expense	357.103	214.377	3.015.180	1.239.891	58.855	4.885.406
<i>Interest on deposits</i>	351.585	204.832	2.958.328	438.643	-	3.953.388
<i>Interest on borrowings</i>	447	3.492	11.843	162.206	58.375	236.363
<i>Interest on money market borrowings</i>	-	-	10.089	389.246	-	399.335
<i>Interest on marketable bonds issued</i>	-	-	-	248.322	-	248.322
<i>Other interest expense⁽²⁾</i>	5.071	6.053	34.920	1.474	480	47.998
Net interest income	330.877	777.525	1.857.116	217.786	86.708	3.270.012
Net fees and commissions income	88.387	98.569	332.775	121.276	(91.885)	549.122
Net trading profit / (loss)	445	2.740	3.500	31.515	13.484	51.684
Dividend income	-	-	-	39.719	113	39.832
Other income	4.128	16.463	153.277	273.051	572.746	1.019.665
Loans and other receivables' impairment loss	45.885	94.025	271.382	143.128	1.031	555.451
Other expenses	8.123	32.675	868.977	1.035.220	611.951	2.556.946
Income before taxes	369.829	768.597	1.206.309	(495.001)	(31.816)	1.817.918
Income tax provision	-	-	(1.580)	(353.410)	18.363	(336.627)
Net profit for the period	369.829	768.597	1.204.729	(848.411)	(13.453)	1.481.291
SEGMENT ASSETS						
Marketable securities	-	-	2.112.438	26.673.524	250.577	29.036.539
Derivative financial assets held for trading	-	-	128.635	163.565	3.421	295.621
Banks and money market receivables	-	-	55.506	1.376.443	12.332	1.444.281
Associates and subsidiaries (net)	-	-	-	314.184	-	314.184
Loans	19.511.830	26.530.618	88.196.933	5.276.026	-	139.515.407
Other assets ⁽¹⁾	81.303	421.637	1.596.105	28.632.157	3.476.387	34.207.589
TOTAL ASSETS	19.593.133	26.952.255	92.089.617	62.435.899	3.742.717	204.813.621
SEGMENT LIABILITIES						
Deposits	15.173.801	7.647.817	92.507.602	15.228.146	-	130.557.366
Derivative financial liabilities held for trading	-	-	97.420	241.222	-	338.642
Money market balances	-	-	1.314.877	10.639.829	-	11.954.706
Borrowing funding loans	1.367	198.624	717.541	18.207.982	1.854.639	20.980.153
Bonds issued	-	-	-	8.888.915	-	8.888.915
Other liabilities	246.582	314.110	4.512.220	2.023.058	60.753	7.156.723
Provisions and tax payable	52.163	52.893	175.479	2.522.572	1.304.997	4.108.104
Shareholders' equity	314.391	761.617	1.165.305	17.743.711	843.988	20.829.012
TOTAL LIABILITIES	15.788.304	8.975.061	100.490.444	75.495.435	4.064.377	204.813.621
OFF BALANCE SHEET ITEMS						
Guarantees and surety ships	13.686.098	9.587.970	12.245.557	9.286.669	-	44.806.294
Commitments	56.349	862.511	10.223.345	14.203.080	9.684	25.354.969
Derivative financial instruments	-	-	5.287.233	22.437.774	278.599	28.003.606

(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 3.155.698 (net), deferred tax assets amounting TRY 84.574 is presented under the other column and deferred tax liabilities amounting TRY 64.211 is presented under the Treasury / Investment column.

(2) Halk Hayat ve Emeklilik AŞ, Halk Sigorta AŞ, Halk Finansal Kira İcra AŞ, Halk Portföy Yönetimi AŞ and Halk Faktoring AŞ transactions are presented in other column.

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE GROUP (continued)

VII. EXPLANATIONS RELATED TO CONSOLIDATED BUSINESS SEGMENTATION (continued)

Prior Period	Corporate	Commercial	SME/ Integrated	Treasury / Investment ⁽¹⁾	Other ⁽²⁾	Total
OPERATING INCOME / EXPENSES						
30 June 2015						
Interest income	562.315	680.858	3.664.370	1.532.407	108.609	6.548.559
<i>Interest on loans</i>	562.301	680.772	3.661.162	310.552	-	5.214.787
<i>Interest income on marketable securities</i>	-	-	-	1.196.481	12.346	1.208.827
<i>Interest received from banks</i>	-	-	-	19.779	185	19.964
<i>Other interest income</i>	14	86	3.208	5.595	96.078	104.981
Interest expense	386.283	127.697	2.114.592	951.326	35.185	3.615.083
<i>Interest on deposits</i>	375.899	122.065	2.080.967	291.790	-	2.870.721
<i>Interest on borrowings</i>	824	5.286	8.269	127.134	35.185	176.698
<i>Interest on money market borrowings</i>	-	-	-	316.757	-	316.757
<i>Interest on marketable bonds issued</i>	-	-	-	211.077	-	211.077
<i>Other interest expense</i>	9.560	346	25.356	4.568	-	39.830
Net interest income	176.032	553.161	1.549.778	581.081	73.424	2.933.476
Net fees and commissions income	89.322	126.924	317.705	104.918	(76.638)	562.231
Net trading profit / (loss)	-	-	-	(113.513)	4.264	(109.249)
Dividend income	-	-	-	6.169	-	6.169
Other income	4.413	38.592	153.584	595.210	307.799	1.099.598
Loans and other receivables' impairment loss	361.601	33.002	206.918	505.706	11.776	1.119.003
Other expenses	11.139	31.492	824.755	866.573	222.714	1.956.673
Income before taxes	(102.973)	654.183	989.394	(198.414)	74.359	1.416.549
Income tax provision	-	-	-	(274.669)	(17.767)	(292.436)
Net profit for the period	(102.973)	654.183	989.394	(473.083)	56.592	1.124.113

SEGMENT ASSETS
(31 December 2015)

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
(31 December 2015)

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
(31 December 2015)

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, Halkbank AD Beograd, Halk Banka 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 Treasury/Investment column.
- (2) Halk Hayat ve Emeklilik AŞ, Halk Sigorta AŞ, Halk Finansal Kiralama AŞ, Halk Portföy Yönetimi AŞ and Halk Faktoring AŞ transactions are presented in other column.

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE GROUP (continued)

VIII. EXPLANATIONS RELATED TO RISK MANAGEMENT AND RISK WEIGHTED AMOUNTS

The notes under this caption is prepared as per the “Regulation on Calculation of Risk Management Disclosures” published in the Official Gazette no. 29511 dated 23 October 2015.

The Parent Bank's Risk Management Strategy is optimal allocation of capital and realized the growth based on the sustainable development strategy when consistent with the mission and activities, measure and manage the risks properly national and international regulations and consider the risk-yield balance.

It is the ultimate responsibility of the senior management to apply and improve risk management strategies and policies 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.

The Parent Bank implements stress testing program to measure the risks and vulnerabilities which may be arised under adverse events and pressure in financial environment. Stress testing program comprises overall significant risks of the Bank. Risk-based stress testings are performed by taking the related risk factors into consideration simultaneously or alone.

The Parent Bank’s risk appetite which is formed by board decision, is monitored through the indicators such as equity, liquidity, profitability and other risk appetite and reported to the top management.

Training programs for employees, risk reports to the board of directors, senior management and committees, risk appetite framework established by the Parent Bank and internal capital adequacy assessment process generate significant inputs to ensure that risk management culture is widely embraced.

Overview of RWA:

	Risk Weighted Amounts		Minimum Capital Requirements
	Current Period	Prior Period	Current Period
1 Credit risk (excluding counterparty credit risk) (CCR)	148.743.555	134.549.626	11.899.484
2 Standardised approach (SA)	148.743.555	134.549.626	11.899.484
3 Internal rating-based (IRB) approach	-	-	-
4 Counterparty credit risk	518.512	285.197	41.481
5 Standardised approach for counterparty credit risk (SA-CCR)	518.512	285.197	41.481
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	5.610.063	6.667.208	448.805
17 Standardised approach (SA)	5.610.063	6.667.208	448.805
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)	674.588	644.277	53.967
24 Floor adjustment	-	-	-
25 Total (1+4+7+8+9+10+11+12+16+19+23+24)	168.265.206	154.187.368	13.461.216

*Credit risk standard approach also includes the amounts which below discount threshold.

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (continued)

VIII. EXPLANATIONS ON RISK MANAGEMENT AND RISK WEIGHTED AMOUNTS
(continued)

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)	101.044	188.172		1,4	289.216	199.463
Internal Model Method (for derivatives and SFTs)			-	-	-	-
Simple Approach for credit risk mitigation (for SFTs)					1.064.994	169.716
Comprehensive Approach for credit risk mitigation (for SFTs)					405.979	108.617
VaR for SFTs					-	-
Total					-	477.796

(*) Expected effective amount of risk

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	329.933	240.180
Total subject to the CVA capital charge	40.717	40.717

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (continued)

VIII. EXPLANATIONS ON RISK MANAGEMENT AND RISK WEIGHTED AMOUNTS
(continued)

Standardised approach – CCR exposures by regulatory portfolio and risk weights

Risk Weight /Regulatory Portfolio	0%	10%	20%	50%	75%	100%	150%	Diğer	Total Credit Risk
Sovereigns and their central banks	189.008	162.090	-	-	-	350	-	-	351.448
Non-central government public sector entities	-	3.511	-	-	-	-	-	-	3.511
Regional governments or local authorities	-	5.160	-	-	-	-	-	-	5.160
Multilateral development banks	-	-	-	-	-	-	-	-	-
International organizations	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	576.632	62.818	523.570	-	3.564	-	-	1.166.584
Corporate	-	31.549	-	-	-	158.472	-	-	190.021
Regulatory retail portfolios	-	27.621	-	-	1.497	-	-	-	29.118
Secured by residential property	-	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-	-
Secured by mortgages	-	-	-	-	-	-	-	-	-
Menkul kıymetleştirme pozisyonları	-	-	-	-	-	-	-	-	-
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	189.008	806.563	62.818	523.570	1.497	162.386	-	-	1.745.842

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	-	-	-	143.557	34.280	78.085
Domestic sovereign debt	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	-	-	143.557	34.280	78.085

Credit derivatives exposures

None.

Exposures to central counterparties

None.

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (continued)

VIII. EXPLANATIONS ON RISK MANAGEMENT AND RISK WEIGHTED AMOUNTS
(continued)

Credit quality of assets

		Gross Carrying Values of TAS		Allowances/ Impairments**	Net Values
		Defaulted exposures*	Non-defaulted exposures		
1	Loans	4.510.392	138.411.583	3.406.568	139.515.407
2	Debt Securities	-	29.071.190	34.651	29.036.539
3	Off-balance exposure	-	70.161.263	-	70.161.263
4	Total	4.510.392	237.644.036	3.441.219	238.713.209

* Shows the receivables with 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 with 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 defaulted 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 that have defaulted since the last reporting period	672.825
3	Returned to non-defaulted status	(29.944)
4	Amounts written off	(15.960)
5	Other changes	(306.065)
6	Defaulted loans and debt securities at end of the reporting period (1+2-3-4+5)	4.510.392

Credit risk mitigation techniques – overview

		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1	Loans	98.744.704	40.770.703	33.588.245	390.169	390.169	-	-
2	Debt Securities	29.036.539	-	-	-	-	-	-
3	Total	127.781.243	40.770.703	33.588.245	390.169	390.169	-	-
4	Of which defaulted	350.901	752.923	304.042	8.842	8.842	-	-

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (continued)

VIII. EXPLANATIONS ON RISK MANAGEMENT AND RISK WEIGHTED AMOUNTS (continued)

Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects

Asset Classes	Exposures before Credit Conversion Factor and Credit Risk Mitigation		Exposures post-Credit Conversion Factor and Credit Risk Mitigation		Risk Weighted Average and Risk Weighted Average Density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
Sovereigns and their central banks	51.760.239	80.810	51.760.240	40.405	12.618.203	8,42
Non-central government public sector entities	1.300.625	38.993	1.300.625	19.497	650.051	0,43
Regional governments or local authorities	490.215	430.862	490.215	211.662	665.937	0,44
Multilateral development banks	-	-	-	-	-	-
International organizations	-	-	-	-	-	-
Banks and intermediary institutions	2.993.322	2.518.759	2.993.322	1.266.137	1.182.166	0,79
Corporates	52.738.923	39.088.308	52.738.923	21.745.511	72.436.812	48,31
Regulatory retail portfolios	50.193.091	25.480.313	50.193.091	6.469.319	41.147.062	27,44
Secured by residential property	16.062.629	150.809	16.062.629	79.923	5.795.590	3,87
Secured by commercial real estate	16.890.628	878.070	16.890.628	514.401	8.702.515	5,80
Past-due loans	1.086.896	7.565	1.086.895	3.783	1.062.728	0,71
Higher-risk categories	121.294	113.407	121.294	56.713	267.010	0,18
Secured by mortgages	-	-	-	-	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-	-	-	-	-
Undertakings for collective investments in mutual funds	-	-	-	-	-	-
Other assets	9.098.865	-	9.098.865	-	4.673.827	3,12
Investment on securities	330.002	-	330.002	-	734.755	0,49
Total	203.066.729	68.787.896	203.066.729	30.407.351	149.936.656	100

Standardised approach – exposures by asset classes and risk weights

Asset Classes/ Risk weight	0%	10%	20%	35%*	50%	75%	100%	150%	200%	Others	Total credit exposures amount (post CCF and post-CRM)
Sovereigns and their central banks	26.520.872	162.090	4.460	-	25.024.241	-	88.982	-	-	-	51.800.645
Non-central government public sector entities	17.210	3.511	-	-	1.299.401	-	-	-	-	-	1.320.122
Regional governments or local authorities	30.325	5.160	1.214	-	-	-	665.178	-	-	-	701.877
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-
International organizations	-	-	-	-	-	-	-	-	-	-	-
Banks and intermediary institutions	699.352	576.632	1.882.365	-	706.161	-	394.949	-	-	-	4.259.459
Corporates	915.998	31.231	975.140	-	646.807	-	71.915.258	-	-	-	74.484.434
Regulatory retail portfolios	1.659.150	27.621	158.963	-	-	54.816.676	-	-	-	-	56.662.410
Secured by residential property	24.030	-	3.785	15.604.772	200.469	306.270	3.226	-	-	-	16.142.552
Secured by commercial real estate	-	-	-	-	17.405.029	-	-	-	-	-	17.405.029
Past-due loans	10.170	-	-	-	35.560	-	1.044.948	-	-	-	1.090.678
Higher-risk categories	-	-	-	-	-	-	-	178.007	-	-	178.007
Secured by mortgages	-	-	-	-	-	-	-	-	-	-	-
Short-term claims and short-term corporate claims on banks and intermediary institutions	-	-	-	-	-	-	-	-	-	-	-
Undertakings for collective investments in mutual funds	-	-	-	-	-	-	-	-	-	-	-
Investment on securities	-	-	-	-	-	-	60.167	-	-	269.835	330.002
Other Recievables	3.636.718	-	1.028.230	-	-	370.387	3.978.956	-	-	84.574	9.098.865
Total	33.513.825	806.245	4.054.157	15.604.772	45.317.668	55.493.333	78.151.664	178.007	-	354.409	233.474.080

*Secured by mortgages

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SECTION IV: INFORMATION RELATED TO FINANCIAL POSITION AND RISK MANAGEMENT OF THE BANK (continued)
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VIII. EXPLANATIONS ON RISK MANAGEMENT AND RISK WEIGHTED AMOUNTS
(continued)

Market risk under standardised approach

	RWA
Outright products	
Interest rate risk (general and specific)	4.662.838
Equity risk (general and specific)	122.125
Foreign exchange risk	781.788
Commodity risk	-
Options	
Simplified approach	-
Delta-plus method	43.312
Scenario approach	-
Securitisation	-
Total	5.610.063

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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	854.262	372.503	924.601	334.193
Central Bank of Turkey	2.089.743	20.968.530	3.414.818	18.700.084
Other ⁽¹⁾	-	128.529	-	126.843
Total	2.944.005	21.469.562	4.339.419	19.161.120

⁽¹⁾As of 30 June 2016, blocked reserve deposits kept in Central Bank of Macedonia amounted TRY 44.997 and amounted TRY 83.520 kept in Central Bank of Serbia (31 December 2015: TRY 126.829).

Information on the account of Central Bank of Turkey:

	Current period		Prior period	
	TRY	FC	TRY	FC
Demand unrestricted amount ⁽¹⁾	2.036.586	1.991.708	3.377.292	1.774.258
Time unrestricted amount	-	-	-	-
Time restricted amount	-	159.410	-	-
Reserve deposits ⁽²⁾	53.157	18.817.412	37.526	16.925.826
Total	2.089.743	20.968.530	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.

The banks operating in Turkey keep reserve deposits for Turkish currency liabilities in TRY, USD, EUR and/or standard gold at the rates between 5% and 11,5% according to their maturities (31 December 2015: between 5% and 11,5% according to their maturities), foreign currency liabilities in USD, EUR and/or standard gold at the rates between 5% and 25% according to their maturities (31 December 2015: between 5% and 25 % according to their maturities). In accordance with the related communiqué, Central Bank of Turkey pays interests to TL and FC reserves.

As per the change at 21 October 2014, CBT started to pay interests at November 2014 on TL reserves with 300 or 500 basis points lower than the weighted average fund costs shown on the CBT website.

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. As of 27 July 2015 commission ratios have been announced on the CBRT website as the zero percent.

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. Effective interest rate is 0,49 % after 17 December 2015.

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 Gazzette of Serbia No. 78/2015, 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, 22% for foreign short term currency liabilities, less than two years, and 15% for long term foreign liabilities more than two years.

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I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS (continued)

(2) Financial assets at fair value through profit and loss:

a) Financial assets at fair value through profit and loss blocked/given as collateral:

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury bills, government bonds and similar sec.	3.033	-	-	12.598
Total	3.033	-	-	12.598

b) Financial assets at fair value through profit and loss subject to repurchase agreements:

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury bills, government bonds and similar sec.	2.833	-	-	-
Total	2.833	-	-	-

c) Positive differences related to the derivative financial assets held-for-trading:

	Current period		Prior period	
	TRY	FC	TRY	FC
Forward transactions	-	95.970	-	131.507
Swap transactions	-	199.580	-	121.519
Futures transactions	-	-	-	-
Options	31	1	7	71
Other	-	39	-	-
Total	31	295.590	7	253.097

(3) Information on banks and other financial institutions:

Information on banks:

	Current period		Prior period	
	TRY	FC	TRY	FC
Banks				
Domestic banks	68.261	69.747	21.842	531.222
Foreign banks	29.374	779.157	55.258	2.009.329
Branches and offices abroad	-	-	-	-
Total	97.635	848.904	77.100	2.540.551

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I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS (continued)

(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	125.643	263.395	141.315	709.473
Total	125.643	263.395	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	4.316.207	898.705	1.269.031	355.458
Total	4.316.207	898.705	1.269.031	355.458

b) Information on financial assets available-for-sale portfolio:

	Current period		Prior period	
	TRY	FC	TRY	FC
Debt securities	12.858.694		11.602.861	
<i>Quoted on a stock exchange</i>	12.688.732		11.462.094	
<i>Not quoted</i>	169.962		140.767	
Share certificates	83.858		141.875	
<i>Quoted on a stock exchange</i>	47.466		104.185	
<i>Not quoted</i>	36.392		37.690	
Impairment provision(-)	34.651		209.593	
Total	12.907.901		11.535.143	

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I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS (continued)

(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	216.337	-	197.937	-
Total	216.337	-	197.937	-

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	106.354.998	1.190.774	-	3.895.262	1.869.824	-
<i>Corporation loans</i>	69.150.163	913.749	-	3.390.941	1.779.628	-
<i>Export loans</i>	4.018.841	192.891	-	72.278	51.595	-
<i>Import loans</i>	-	-	-	-	-	-
<i>Loans given to financial sector</i>	2.150.913	-	-	-	-	-
<i>Consumer loans⁽¹⁾</i>	26.181.735	42.687	-	247.790	4.464	-
<i>Credit cards⁽²⁾</i>	3.175.105	41.366	-	80.786	34.137	-
<i>Other</i>	1.678.241	81	-	103.467	-	-
Specialized lending	26.240.065	90.076	-	213.191	2.348	-
Other receivables	-	-	-	-	-	-
Accruals	1.658.093	15.969	-	49.974	23.342	-
Total	134.253.156	1.296.819	-	4.158.427	1.895.514	-

⁽¹⁾ Includes TRY 169.208 of personnel loans.

⁽²⁾ Includes TRY 47.129 of personnel credit cards.

	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	1.145.369	1.809.346
Extended by 3,4 or 5 times	86.037	62.102
Extended by more than 5 times	49.444	724

⁽¹⁾ Accruals amounting to TRY 15.969 are not included in the table above.

⁽²⁾ Accruals amounting to TRY 23.342 are not included in the table above.

	Standard Loans and Other Receivables ⁽¹⁾	Loans and Other Receivables Under Close Monitoring ⁽²⁾
Extended period of time		
0-6 Months	368.313	126.612
6 Months - 12 Months	339.708	216.328
1-2 Years	92.860	161.598
2-5 Years	342.834	677.178
5 Years and over	137.135	690.456

⁽¹⁾ Accruals amounting to TRY 15.969 are not included in the table above.

⁽²⁾ Accruals amounting to TRY 23.342 are not included in the table above.

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SECTION V: EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS (continued)

(5) Information on loans: (continued)

c) Information on consumer loans, individual credit cards, personnel loans and credit cards:

	Short-term	Medium and long-term	Total
Consumer loans-TRY	302.920	24.764.339	25.067.259
<i>Real estate loans</i>	5.567	12.940.056	12.945.623
<i>Automobile loans</i>	3.313	217.272	220.585
<i>Consumer loans</i>	294.040	11.607.011	11.901.051
<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	4.520	525.413	529.933
<i>Real estate loans</i>	391	78.705	79.096
<i>Automobile loans</i>	33	1.791	1.824
<i>Consumer loans</i>	3.863	422.425	426.288
<i>Other</i>	233	22.492	22.725
Individual credit cards-TRY	2.368.196	2.381	2.370.577
<i>Installment</i>	978.093	-	978.093
<i>Non-installment</i>	1.390.103	2.381	1.392.484
Individual credit cards-FC	443	39.768	40.211
<i>Installment</i>	229	39.768	39.997
<i>Non-installment</i>	214	-	214
Personnel loans-TRY	7.337	141.842	149.179
<i>Real estate loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	7.337	141.842	149.179
<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	215	19.814	20.029
<i>Real estate loans</i>	55	17.695	17.750
<i>Automobile loans</i>	2	76	78
<i>Consumer loans</i>	148	1.942	2.090
<i>Other</i>	10	101	111
Personnel credit cards-TRY	46.345	-	46.345
<i>Installment</i>	19.775	-	19.775
<i>Non-installment</i>	26.570	-	26.570
Personnel credit cards-FC	84	700	784
<i>Installment</i>	7	700	707
<i>Non-installment</i>	77	-	77
Overdraft accounts-TRY (Retail customer)	631.201	-	631.201
Overdraft accounts-FC (Retail customer)	29.461	2.463	31.924
Total ⁽¹⁾	3.390.722	25.496.720	28.887.442

⁽¹⁾ Interest income accruals are not included in the table above.

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I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS (continued)

(5) Information on loans: (continued)

d) Information on commercial installments loans and corporate credit cards:

	Short-term	Medium and long-term	Total
Commercial installment loans-TRY	6.432	1.103.858	1.110.290
<i>Business residential loans</i>	-	686.452	686.452
<i>Automobile loans</i>	6.432	332.455	338.887
<i>Consumer loans</i>	-	84.951	84.951
<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	182.373	392.308	574.681
<i>Business residential loans</i>	-	-	-
<i>Automobile loans</i>	-	-	-
<i>Consumer loans</i>	-	-	-
<i>Other</i>	182.373	392.308	574.681
Corporate credit cards-TRY	796.701	-	796.701
<i>Installment</i>	320.546	-	320.546
<i>Non-installment</i>	476.155	-	476.155
Corporate credit cards-FC	9	1.264	1.273
<i>Installment</i>	-	1.264	1.264
<i>Non-installment</i>	9	-	9
Overdraft accounts-TRY (Commercial customer)	894.986	-	894.986
Overdraft accounts-FC (Commercial customer)	-	-	-
Total ⁽¹⁾	1.880.501	1.497.430	3.377.931

⁽¹⁾ Interest and income accruals are not included in table above.

e) Domestic and foreign loans:

	Current period	Prior period
Domestic loans	135.630.889	123.564.724
Foreign loans	2.780.694	2.638.008
Total	138.411.583	126.202.732

f) Loans granted to subsidiaries and associates:

None.

g) Specific provisions provided against loans:

	Current period	Prior period
Specific provisions		
Loans and receivables with limited collectability	340.173	226.175
Loans and receivables with doubtful collectability	216.218	236.470
Uncollectible loans and receivables	2.850.177	2.710.072
Total	3.406.568	3.172.717

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I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS (continued)

(5) Information on loans: (continued)

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	36.087	2.163	78.056
(Gross amounts before the specific provisions)			
Loans and other receivables which are restructured	-	-	-
Rescheduled loans and other receivables	36.087	2.163	78.056
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

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 (+)	561.085	9.647	102.093
Transfers from other categories of loans under follow-up (+)	-	315.069	197.400
Transfers to other categories of loans under follow-up (-)	318.402	194.067	-
Collections (-)	95.946	99.609	140.454
Write-offs (-)	-	-	15.960
<i>Corporate and Commercial Loans</i>	-	-	9.140
<i>Consumer Loans</i>	-	-	4.721
<i>Credit Cards</i>	-	-	1.223
<i>Other</i>	-	-	876
Current period end balance	513.289	316.069	3.681.034
Specific provision (-)	340.173	216.218	2.850.177
Net balance on balance sheet	173.116	99.851	830.857

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SECTION V: EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS (continued)

(5) Information on loans: (continued)

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	75.810	49.858	1.645.333
Specific provisions(-)	38.085	28.229	1.064.920
Net balance in the balance sheet	37.725	21.629	580.413
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 180.291 and their related provisions amounting to TRY 113.987 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.

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)			
Loans to granted real persons and legal entities (Gross)	173.116	99.851	830.857
Loans to granted real persons and legal entities (Gross)	512.698	315.613	3.610.626
Specific provisions (-)	339.582	215.762	2.779.769
Loans to granted real persons and legal entities (Net)	173.116	99.851	830.857
Banks (Gross)	-	-	-
Specific provisions (-)	-	-	-
Banks (Net)	-	-	-
Other loans and receivables (Gross)	591	456	70.408
Specific provisions (-)	591	456	70.408
Other loans and receivables (Net)	-	-	-
Prior period (Net)			
Loans to granted real persons and legal entities (Gross)	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)	-	-	-

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SECTION V: EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS (continued)

(5) Information on loans: (continued)

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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I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS (continued)

(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	3.523.930	1.022.233	3.407.442	771.973
Other	-	-	-	-
Total	3.523.930	1.022.233	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.	5.851.229	729.871	6.504.701	534.883
Total	5.851.229	729.871	6.504.701	534.883

b) Information on public sector debt investments held-to-maturity:

	Current period		Prior period	
	TRY	FC	TRY	FC
Government bonds		15.814.851		16.705.087
Treasury bills		150.911		182.361
Other public sector debt securities		-		-
Total		15.965.762		16.887.448

c) Information on held-to-maturity investments:

	Current period		Prior period	
	TRY	FC	TRY	FC
Debt securities		15.996.568		16.904.877
<i>Quoted on a stock exchange</i>		15.856.633		16.733.595
<i>Not quoted</i>		139.935		171.282
Impairment provision (-)		-		-
Total		15.996.568		16.904.877

d) Movement of held-to-maturity investments within the year:

	Current period		Prior period	
	TRY	FC	TRY	FC
Beginning balance		16.904.877		17.869.082
Foreign currency differences on monetary assets		(15.234)		389.988
Purchases during the year ⁽¹⁾		989.712		2.250.175
Disposals through sales and redemptions		(1.882.787)		(3.604.368)
Impairment provision (-) / provision reversal (+)		-		-
Balance at the of the period		15.996.568		16.904.877

⁽¹⁾ Interest income accrual difference between 30 June 2016 amounting to TRY 1.729.585 and 31 December 2015 amounting to TRY 1.684.621 has been included in purchases row.

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I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS (continued)

(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:

	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.	177.851	109.177	102.324	1.934	-	9.268	15.824	-
2.	69.638	40.266	48.624	425	-	10.606	5.164	-

⁽¹⁾ The financial data is obtained from 30 June 2016 reviewed financial statements.

⁽²⁾ The financial data is obtained from 30 June 2016 reviewed financial statements.

c) Information on consolidated associates: ⁽¹⁾

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:

	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.	6.027.622	769.737	28.450	47.307	669	12.484	11.005	210.421
2.	47.552	47.081	145	1.389	-	211	359	-
3.	17.796	3.289	483	193	-	-266	-369	-

⁽¹⁾ The financial data is obtained from 30 June 2016 reviewed financial statements.

⁽²⁾ The financial informations about the fair value of Demir-Halkbank NV has been obtained from its independent audit report as of 30 June 2016.

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SECTION V: EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS (continued)

(7) Information on associates (Net) (continued):

d) Movement of associates:

	Current period	Prior period
Balance at the beginning of the period	264.031	226.118
Movements during the period	12.124	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>	12.124	36.668
<i>Provision for impairment (-) / reversals (+)</i>	-	-
Balance at the end of the period	276.155	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	254.072	242.037
Insurance companies	946	910
Factoring companies	-	-
Leasing companies	-	-
Financing companies	-	-
Other financial investments	14.817	14.764

f) Associates quoted to a stock exchange:

None.

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SECTION V: EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS (continued)

(8) Information on subsidiaries (Net):

a) Information on subsidiaries:⁽¹⁾

	Halk Yatırım Menkul Değerler AŞ	Halk Sigorta AŞ	Halk Hayat ve Emeklilik AŞ	Gayrimenkul Yatırım Ortaklığı AŞ	Halk Finansal Kiralama AŞ	Halk Portföy Yönetimi AŞ	Halk Banka AD, Skopje	Halk Faktoring AŞ	Halbank A.D. Beograd
CORE CAPITAL									
Paid in Capital	82.000	94.000	277.000	790.000	272.250	11.000	109.685	55.500	53.667
Share Premiums	-	-	-	49.945	-	-	11.633	-	44.552
Reserves	10.536	52.906	43.659	55.024	8.746	1.463	53.283	1.218	35.033
Other Comprehensive Income according to TAS	82	(332)	(3.515)	1.328	(98)	(22)	376	(21)	7.780
Profit / Loss	4.206	(120.820)	88.975	22.035	46.108	3.511	44.542	12.460	10.209
<i>Net Profit</i>	<i>4.815</i>	<i>(92.504)</i>	<i>75.391</i>	<i>22.035</i>	<i>21.947</i>	<i>3.171</i>	<i>8.105</i>	<i>11.195</i>	<i>10.209</i>
<i>Prior Period Profit/Loss</i>	<i>(609)</i>	<i>(28.316)</i>	<i>13.584</i>	-	<i>24.161</i>	<i>340</i>	<i>36.437</i>	<i>1.265</i>	-
Shares acquired free of charge from subsidiaries, affiliates and jointly controlled partnerships and cannot be recognised within profit	750	-	-	-	-	-	-	-	-
Leasehold Improvements (-)	-	-	197	-	-	-	4.469	276	-
Intangible Assets (-)	1.039	3.884	1.088	424	779	20	2.317	290	1.898
Total Core Capital	96.535	21.870	404.834	917.908	326.227	15.932	212.733	68.591	149.343
SUPPLEMENTARY CAPITAL	-	-	-	-	-	-	15.077	-	4.478
CAPITAL	96.535	21.870	404.834	917.908	326.227	15.932	227.810	68.591	153.821
NET AVAILABLE CAPITAL	96.535	21.870	404.834	917.908	326.227	15.932	227.810	68.591	153.821

⁽¹⁾ The information is presented from financial statements subject to consolidation as 30 June 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.

b) Unconsolidated subsidiaries, reasons for not consolidating and information on total needed shareholder's equity that is subjected to minimum capital requirements:

The accompanying consolidated financial statements are prepared in accordance with the communiqué on "Preparation of Consolidated Financial Statements of Banks" and non-financial subsidiary is not included in the consolidation.

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SECTION V: EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS (continued)

(8) Information on subsidiaries (continued)

c) Information on unconsolidated subsidiaries:

					Address (City/ Country)	Bank's share percentage, if different- voting percentage (%)		
1.	Bileşim Alternatif Dağ. Kan. AŞ ⁽¹⁾				İstanbul	100,00		100,00
	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.	33.320	21.168	3.130	169	777	1.648	1.865	38.029

⁽¹⁾ The financial data of Bileşim Alternatif Dağ. Kan. is obtained from 30 June 2016 unaudited financial statements.

⁽²⁾ The information is presented from valuation report as 31 December 2015.

d) Information on consolidated 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⁾	İstanbul	89,18	94,12
3.	Halk Hayat ve Emeklilik AŞ	İstanbul	100,00	100,00
4.	Halk Gayrimenkul Yatırım Ortaklığı AŞ ⁽³⁾	İstanbul	79,07	79,11
5.	Halk Finansal Kiralama AŞ	İstanbul	99,99	99,99
6.	Halk Portföy Yönetimi AŞ	İstanbul	75,00	99,99
7.	Halk Banka AD, Skopje	Macedonia	98,78	98,78
8.	Halk Faktoring AŞ	İstanbul	97,50	99,99
9.	Halk Banka A.D. Beograd	Serbia	82,47	82,47

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.	773.343	96.535	2.091	14.753	1.043	4.815	2.878	132.810
2.	1.059.356	21.870	6.170	37.209	1.765	(92.504)	(2.127)	346.980
3.	780.590	404.834	2.150	39.481	11.737	75.391	49.872	850.105
4.	1.074.908	917.908	653.678	3.005	-	22.035	24.278	506.051
5.	2.291.619	326.227	1.266	70.651	-	21.947	12.071	413.336
6.	16.944	15.932	329	959	11	3.171	1.694	16.466
7.	1.572.332	227.810	38.004	41.405	3.783	8.105	6.695	212.383
8.	1.021.301	68.591	1.061	56.216	-	11.195	4.620	61.758
9.	816.518	153.821	17.478	18.069	1.978	10.209	(3.559)	66.167

⁽¹⁾ The information is presented from financial statements subject to consolidation as 30 June 2016.

⁽²⁾ The information of Halk Banka AD, Skopje and Halkbank AD, Beograd are obtained from valuation reports as 30 June 2016, while the information of other subsidiaries are obtained from valuation reports as of 31 December 2015. 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 relevant loss amount has been arisen from IBNR provisions of outstanding claims which are the all amount of outstanding claims are reflected to the Bank's consolidated financial statements in March 2016. The Bank has been calculated IBNR provisions in terms of Undersecretariat for the Treasury's circular No.2014/16 and the Bank reflects this provisions gradually until 2019 in accordance with circular no:2016/11.

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SECTION V: EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS (continued)

(8) Information on subsidiaries (continued)

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	20.686	109.118
Purchases ⁽¹⁾	-	28.907
Bonus shares obtained profit from current year's share	140.347	61.035
Dividends from current year income	-	-
Sales	-	-
Transfer	-	-
Revaluation increase	(119.661)	19.176
Reversal of provision for impairment (-)	-	-
Share capital elimination of subsidiaries	(2.668.591)	(2.647.905)
Balance at the end of the period	38.029	38.029
Capital commitments	-	-
Share percentage at the end of the period (%)	-	-

⁽¹⁾ Purchase includes purchases of 76,76% share of Halkbank AD, Beograd amounting to TRY 28.907. In the prior period The Bank paid TRY 30.704 to Halkbank AD, Beograd and increased its shares to 82,47%.

g) Sectoral information on subsidiaries and the related carrying amounts:

	Current period	Prior period
Banks	278.550	275.646
Insurance companies	1.197.085	1.197.085
Factoring companies	61.758	61.758
Leasing companies	413.336	413.336
Financing companies	-	-
Other financial subsidiaries	655.327	700.080
Other non-financial subsidiaries	38.029	37.859

h) Acquisition of subsidiaries:

Halkbank A.D. Beograd

On 28 May 2015, the Group obtained the control of Halk Bank AD, Beograd by acquiring 76,76% of the shares and voting interests in the company in cash amounting to TL 28.907. Taking control of Halkbank AD, Beograd will enable the Group to operate in Republic of Serbia.

i) Subsidiaries quoted in the stock exchange:

	Current period	Prior period
Quoted to domestic stock ^{(1) (2)}	853.031	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 Free Trading Platform. 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 A.Ş.

(9) Information on jointly controlled entities (joint ventures):

None.

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SECTION V: EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS (continued)

(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	738.996	602.126	779.458	640.029
Between 1-4 years	1.263.261	1.145.776	1.342.529	1.191.590
More than 4 years	493.102	414.596	429.573	373.133
Total	2.495.359	2.162.498	2.551.560	2.204.752

b) Information on gross investments of financial lease:

	Current period	Prior period
Gross financial lease investment	2.495.359	2.551.560
Unearned revenues from financial lease	332.861	(346.808)
Total	2.162.498	2.204.752

c) Information on receivables from non- performing loans of financial lease:

	Current period	Prior period
Financial lease receivables with limited collectability	4.662	1.419
Financial lease receivables with doubtful collectability	119.660	118.335
Uncollectible financial lease receivables	240.165	237.783
Specific provisions	(164.914)	(163.884)
Total	199.573	193.653

(11) Information on derivative financial assets for hedging purposes:

None.

(12) Information on tangible assets:

Not prepared in compliance with the article 25 of the communiqué “Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks”.

(13) Information on intangible assets:

Not prepared in compliance with the article 25 of the communiqué “Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks”.

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SECTION V: EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS (continued)

(14) Information on investment property:

	Current Period	Prior Period
Cost		
Opening Balance	550.093	24.686
Acquisitions	176	2.289
Transfer	21.804	523.471
Disposals	-	-
Impairment Charge/Cancellation(-)	13	353
Ending Balance	572.060	550.093
Accumulated Depreciation		
Opening Balance	64.499	157
Amortization Charge (-)	2.218	-
Disposals	357	721
Transfer	46	96
Impairment Charge/Cancellation (-)	-	63.525
Ending Balance	67.120	64.499
Net Book Value	504.940	485.594

(*) 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.

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SECTION V: EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

I. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED ASSETS (continued)

(15) Information on tax assets:

a) Information on current tax assets:

As of 30 June 2016, the Group has no current tax asset. (31 December 2015: TRY 1.217).

b) Information on deferred tax assets:

	Current period	Prior period
Deferred Tax (Asset) / Liability		
Provisions ⁽¹⁾	246.950	203.319
Revaluation of Financial Assets	(220.049)	(224.107)
Other	(6.538)	(2.076)
Deferred Tax Asset:	20.363	(22.864)
Deferred tax accounted in shareholders' equity	70.965	16.499
Fair value differences for available for sale financial assets	67.726	431.805
Actuarial gains and losses	3.164	2.927
Property Revaluation	75	(418.233)

(1) Provisions are comprised of the employee termination benefits and other provisions.

Net deferred tax asset of TRY 20.363 (31 December 2015: TRY 22.864 net deferred tax liability), includes TRY 84.574 deferred tax asset (31 December 2015: TRY 49.703) and TRY 64.211 deferred tax liability (31 December 2015: TRY 72.567).

(16) Information on fixed assets held for sale:

	Current period	Prior period
Cost	3.825	4.460
Accumulated Depreciation (-)	(2.122)	(1.766)
Net Book Value	1.703	2.694
Opening Balance	2.694	8.776
Acquisitions (Transfers) (Net)	(552)	167
Disposals (Net)	(449)	(8.485)
Impairment Charge/Cancellation(-)	-	49
Amortization Charge(-)	10	2.187
Net Book Value	1.703	2.694

(17) Information on other assets:

Other assets balance in the balance sheet amounts to TRY 2.763.031 and does not exceed 10% of the balance sheet total (31 December 2015: TRY 2.050.762).

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SECTION V: EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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	5.394.380	-	434.143	30.142.827	1.152.400	362.553	552.841	109.757	38.148.901
Foreign currency deposits	6.811.037	-	1.688.816	22.008.975	3.445.846	1.126.606	3.494.564	10.449	38.586.293
<i>Residents in Turkey</i>	4.416.632	-	1.520.337	21.451.363	3.212.615	721.170	2.101.429	10.131	33.433.677
<i>Residents abroad</i>	2.394.405	-	168.479	557.612	233.231	405.436	1.393.135	318	5.152.616
Public sector deposits	2.320.608	-	2.160.502	2.824.226	967.919	2.190.573	92.949	-	10.556.777
Commercial inst. deposits	3.587.570	-	2.760.008	13.798.127	2.290.570	180.675	32.428	-	22.649.378
Other inst. deposits	592.973	-	96.002	1.250.574	64.964	86.737	4.517	-	2.095.767
Precious metals	771.265	-	-	-	-	-	-	-	771.265
Interbank deposits	3.643.782	32.778	7.777.236	5.137.809	271.944	95.738	789.698	-	17.748.985
<i>Central Bank of Turkey</i>	-	-	-	-	-	-	-	-	-
<i>Domestic banks</i>	60.651	32.778	3.833.830	1.881.729	4.079	-	-	-	5.813.067
<i>Foreign banks</i>	3.429.629	-	3.768.280	3.256.080	267.865	95.738	789.698	-	11.607.290
<i>Participation banks</i>	153.502	-	175.126	-	-	-	-	-	328.628
Total	23.121.615	32.778	14.916.707	75.162.538	8.193.643	4.042.882	4.966.997	120.206	130.557.366

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
<i>Residents in Turkey</i>	4.614.977	-	3.248.873	18.013.646	2.459.778	709.667	2.100.420	10.508	31.157.869
<i>Residents abroad</i>	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
<i>Central Bank of Turkey</i>	-	-	-	-	-	-	-	-	-
<i>Domestic banks</i>	12.428	-	5.296.445	2.767.451	288.091	-	-	-	8.364.415
<i>Foreign banks</i>	2.366.254	-	231.000	1.800.280	45.305	-	933.405	-	5.376.244
<i>Participation banks</i>	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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SECTION V: EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

II. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED LIABILITIES (continued)

(1) Information on maturity structure of deposits: (continued)

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	22.403.792	20.718.253	15.637.186	14.405.969
Foreign currency saving deposits	7.115.578	6.632.903	11.883.688	11.027.597
Other deposits in the form of saving deposits	-	-	-	-
Foreign branches' deposits under foreign authorities' insurance	158.196	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	108.873	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	7.061	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	-	-

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SECTION V: EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

II. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED LIABILITIES (continued)

(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	-	126.033	-	84.160
Swap transactions	-	212.187	1.416	89.725
Future transactions	-	-	-	-
Options	49	373	18	354
Other	-	-	-	-
Total	49	338.593	1.434	174.239

(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	1.030.507	1.300.083	757.763	1.123.810
Foreign banks, institutions and funds	384.033	18.265.530	556.756	19.705.408
Total	1.414.540	19.565.613	1.314.519	20.829.218

b) Maturity structure of funds borrowed:

	Current period		Prior period	
	TRY	FC	TRY	FC
Short-term	901.872	5.582.632	851.253	7.965.899
Medium and long-term	512.668	13.982.981	463.266	12.863.319
Total	1.414.540	19.565.613	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 29% of saving deposits and 30% 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 46% of banks deposits and 35% of other deposits consist of foreign currency deposits.

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SECTION V: EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

II. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED LIABILITIES (continued)

(4) Marketable securities issued:

	Current period		Prior period	
	TRY	FC	TRY	FC
Treasury Bills ⁽¹⁾	1.608.870	-	1.500.713	-
Bonds ⁽²⁾	-	7.280.045	-	7.339.847
Total	1.608.870	7.280.045	1.500.713	7.339.847

⁽¹⁾ As of 4 March 2016, the Parent Bank issued treasury bills amounting to TRY 750.000 with maturity of 175 days, as of 27 November 2015, the treasury bills amounting to TRY 1.000.000 with maturity of 175 days are issued by the Parent Bank. And as of 20 May 2016, The Parent Bank issued treasury bills amounting to TRY 750.000 with maturity of 175 days.

⁽²⁾ As of 19 July 2012, the bonds amounting to USD 750.000 with maturity of 5 years and as of 5 February 2013 the bonds amounting to USD 750.000 with maturity of 7 years and as of 4 June, 2014 the bonds amounting to USD 500.000 with maturity of 5 years and 11 February 2015 the bonds amounting to USD 500.000 with maturity of 6 years are issued by the Parent Bank.

(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
	10.525	2.039.183	29.572	1.934.127

(6) Information on other liabilities:

Other liabilities balance in the balance sheet amounts to TRY 2.577.891 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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SECTION V: EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

II. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED LIABILITIES (continued)

(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	1.246.462	1.139.290
Provisions for first group loans and receivables	986.757	920.263
<i>Additional provisions for the loans with extended payment plan</i>	25.429	33.186
Provisions for second group loans and receivables	140.543	113.212
<i>Additional provisions for the loans with extended payment plan</i>	93.609	66.843
Provisions for non cash loans	119.162	105.815
Other	-	-

b) Foreign exchange loss provisions on the foreign currency indexed loans and finance lease receivables:

As of 30 June 2016 the Bank's foreign currency indexed loans and finance lease receivables amounting to losses on foreign exchange is TRY 13.118 (31 December 2015: TRY 7.222).

c) Specific provisions provided for unindemnified non-cash loans:

As of 30 June 2016, the Parent Bank's specific provision for unindemnified non-cash loans balance is TRY 123.509 (31 December 2015: TRY 93.877).

d) Information on other provisions:

Total other provision balance amounting to TRY 339.405 (31 December 2015: TRY 402.368) consists of TRY 123.509 (31 December 2015: TRY 93.877) for specific provisions for unindemnified non cash loans, TRY 68.589 (31 December 2015: TRY 37.481) for legal cases filed against the Bank, TRY 147.307 (31 December 2015: TRY 147.510) of other provisions. There is no general provision for possible risk in current period (31 December 2015: TRY 123.500).

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SECTION V: EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

II. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED LIABILITIES (continued)

(9) Explanations on provisions: (continued)

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 2015, 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	228.253	222.007
Provisions for unearned premium claims	438.616	345.222
Provision for outstanding claims	585.596	344.534
Provisions for unexpired risk reserves	23.738	18.940
Other	1.962	1.962
Total	1.278.165	932.665

(10) Explanations related to tax liabilities:

a) Information on current tax liability:

a.1. Information on tax provision:

As of 30 June 2016 the calculated corporate tax amount is TRY 240.252 for the Parent Bank. And this amount is submitted to account of corporate tax provision as of related date.

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SECTION V: EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

II. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED LIABILITIES (continued)

(10) Explanations related to tax liabilities (continued):

a) Information on current tax liability (continued):

a.2. Information on taxes payable:

	Current period	Prior period
Corporate tax payable	240.252	118.241
Income on securities tax	140.584	143.398
Property income tax	1.541	1.323
Banking and insurance transactions tax (BITT)	72.728	71.486
Foreign exchange transactions tax	12	9
Value added tax payable	3.636	5.180
Other	17.847	17.019
Total	476.600	356.656

a.3. Information on premiums:

	Current period	Prior period
Social insurance premiums-employee	472	377
Social insurance premiums-employer	1.107	818
Bank social aid pension fund premium-employee	9.801	7.164
Bank social aid pension fund premium-employer	13.526	9.881
Pension fund membership fees-employee and provisions-employee	-	-
Pension fund membership fees-employer and provisions-employer	-	-
Unemployment insurance-employee	33	25
Unemployment insurance-employer	98	74
Other	2.364	1.703
Total	27.401	20.042

b) Explanations regarding deferred tax liability:

Please refer to Section 5, explanations related to the assets footnote 15.

(11) Information on liabilities regarding assets held for sale and discontinued operations:

None.

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SECTION V: EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

II. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED LIABILITIES (continued)

- (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.

- 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)	7.655	1.570	9.155	-
Revaluation difference	44.301	37.209	(113.259)	(181.027)
Exchange rate difference	-	-	-	-
Total	51.956	38.779	(104.104)	(181.027)

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SECTION V: EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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	11.932.856	11.181.001
Payment commitments for cheques	5.791.714	5.442.458
Loan granting commitments	3.071.452	2.560.552
Two days forward foreign exchange buy/sell transactions	1.251.077	481.678
Commitments for credit cards and banking services promotions	49.390	46.532
Tax and fund liabilities from export commitments	23.948	20.764
Other irrevocable commitments	2.778.287	1.904.541
Total	24.898.724	21.637.526

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	4.694.698	5.016.951
Bank acceptance loans	4.171.607	3.273.781
Other guarantees	854.966	879.817
Total	9.721.271	9.170.549

b.2. Certain guarantees, tentative guarantees, surety ships and similar transactions:

	Current period	Prior period
Letters of certain guarantees	14.259.592	13.968.827
Letters of advance guarantees	3.422.897	2.992.251
Letters of tentative guarantees	681.981	789.535
Letters of guarantee given to customs offices	923.739	880.741
Other letters of guarantee	15.796.814	12.235.323
Total	35.085.023	30.866.677

b.3. Total non-cash loans:

	Current period	Prior period
Non-cash loans for providing cash loans	1.494.919	1.181.205
<i>Within one year or less original maturity</i>	214.718	184.804
<i>Within more than one year maturity</i>	1.280.201	996.401
Other non-cash loans	43.311.375	38.856.021
Total	44.806.294	40.037.226

c) Explanations related to contingencies and commitments:

Bank's commitments due to cheques given to client is TRY 5.791.714 (31 December 2015: TRY 5.442.458).

d) Services supplied on behalf of others:

None.

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SECTION V: EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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	1.828.515	89.873	1.237.883	79.050
Medium and long term loans	3.767.589	986.147	3.101.135	761.660
Interest on non-performing loans	31.610	1.211	34.139	920
Premiums from resource utilization support fund	-	-	-	-
Total	5.627.714	1.077.231	4.373.157	841.630

⁽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	33.422	4.639	8.242	353
Domestic banks	14.610	315	8.170	557
Overseas banks	1.395	1.105	1.602	1.040
Head office and branches	-	-	-	-
Total	49.427	6.059	18.014	1.950

c) Interest income on marketable securities:

	Current Period		Prior Period	
	TRY	FC	TRY	FC
Financial Assets Held for Trading	3.235	424	3.142	412
Financial Assets at Fair Value Through Profit or Loss	-	-	-	-
Available-for-Sale Financial Assets	386.896	106.502	305.960	78.598
Held-to-Maturity Investments	674.839	57.456	771.281	49.434
Total	1.064.970	164.382	1.080.383	128.444

d) Interest income from associates:

None.

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SECTION V: EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

IV. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED INCOME STATEMENT (continued)

(2) Information on interest expenses:

a) Information on interest expense on funds borrowed:

	Current period		Prior period	
	TRY	FC	TRY	FC
Banks	63.745	161.948	48.254	128.437
<i>Central Bank</i>	-	-	-	-
<i>Domestic banks</i>	34.931	11.529	26.224	10.050
<i>Overseas banks</i>	28.814	150.419	22.030	118.387
<i>Overseas head office and branches</i>	-	-	-	-
Other institutions	9	10.661	7	-
Total	63.754	172.609	48.261	128.437

b) Interest expenses to associates:

	Current period	Prior period
Interest expenses to associates	1.623	1.332

c) Information on interest expenses to marketable securities issued:

	Current period		Prior period	
	TRY	FC	TRY	FC
Interest on securities issued	79.245	169.077	62.092	148.985
Total	79.245	169.077	62.092	148.985

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	133	219.356	129.082	9.656	81	-	-	-	358.308
Saving deposits	3	18.544	1.604.175	51.212	15.085	19.500	4.261	1.712.780	
Public deposits	68	146.058	118.359	15.931	1.943	219	-	282.578	
Commercial deposits	8	148.086	825.894	42.809	5.827	1.237	-	1.023.861	
Other deposits	1	37.998	98.190	11.036	86.253	4.733	-	238.211	
7 days call accounts	-	-	-	-	-	-	-	-	
Total	213	570.042	2.775.700	130.644	109.189	25.689	4.261	3.615.738	
Foreign currency									
Deposits	314	14.678	221.206	18.641	8.523	30.426	114	293.902	
Bank deposits	1	43.422	189	80	-	53	3	43.748	
7 days call accounts	-	-	-	-	-	-	-	-	
Precious metal	-	-	-	-	-	-	-	-	
Total	315	58.100	221.395	18.721	8.523	30.479	117	337.650	
Grand total	528	628.142	2.997.095	149.365	117.712	56.168	4.378	3.953.388	

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IV. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED INCOME STATEMENT (continued)

(3) Information on dividend income:

Not prepared in compliance with the article 25 of the communiqué “Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks”.

(4) a) Information on trading profit/loss (Net):

	Current period	Prior period
Profit	7.246.869	10.010.509
Profit from the capital market operations	8.444	30.072
Profit on derivative financial instruments	661.352	1.894.312
Foreign exchange gains	6.577.073	8.086.125
Loss (-)	7.195.185	10.119.758
Loss from the capital market operations	516	2.442
Loss on derivative financial instruments	1.064.286	2.507.159
Foreign exchange losses	6.130.383	7.610.157

(5) Information on other operating income:

	Current period	Prior period
Adjustments for Prior Period Expenses ⁽¹⁾	263.225	646.241 ⁽²⁾
Life insurance income	486.846	334.344
Receivable from the asset sale on credit terms	106.956	45.126
Rent income	24.191	39.369
Other income	130.352	27.867
Total	1.011.570	1.092.947

⁽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.

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IV. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED INCOME STATEMENT (continued)

(6) Impairment losses on loans and other receivables:

	Current period	Prior period
Specific provisions on loans and receivables	393.338	609.891
<i>Group - III loans and receivables</i>	338.671	183.645
<i>Group - IV loans and receivables</i>	21.930	23.924
<i>Group - V loans and receivables</i>	32.737	402.322
General loan provision expenses	107.446	176.600
Provision expenses for possible losses	-	272.508
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	54.667	60.004
Total	555.451	1.119.003

(7) Information on other operating expenses:

	Current period	Prior period
Personnel expenses	925.937	797.689
Reserve for employee termination benefits	52.397	46.443
Bank social aid provision fund deficit provision	-	-
Fixed assets impairment expense	848	-
Depreciation expenses of fixed assets	56.831	59.066
Intangible assets impairment expense	274	-
Amortization expenses of intangible assets	15.582	8.496
Impairment expense for equity shares subject to the equity method accounting	-	-
Impairment expense of assets that will be disposed of	886	731
Amortization expenses of assets that will be disposed of	2.158	5.081
Impairment expense for property and equipment held for sale	47	-
Other operating expenses	619.430	449.491
<i>Operational leasing expenses</i>	106.723	85.651
<i>Maintenance expenses</i>	13.344	13.955
<i>Advertisement expenses</i>	53.247	39.189
<i>Other expenses</i>	446.116	310.696
Loss on sales of assets	609	1.078
Other	881.947	588.598
Total	2.556.946	1.956.673

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SECTION V: EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

IV. EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED INCOME STATEMENT (continued)

(8) Information on profit/loss from continuing and discontinued operations before taxes:
Not prepared in compliance with the article 25 of the communiqué “Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks”.

(9) Information on tax provisions for continuing and discontinued operations:
As of 30 June 2016, the Bank’s tax provision amounting to TRY 336.627 consists of TRY 434.320 of current tax charge and TRY 97.693 of deferred tax income.

(10) Information on net operating income/expense from continuing and discontinued operations after tax:

Not prepared in compliance with the article 25 of the communiqué “Financial Statements and Related Disclosures and Footnotes to be Announced to Public by Banks”.

(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.

b) Effects of changes in accounting estimates on the current and future periods’ profit/loss: There is no issue to be disclosed.

c) Profit/Loss from minorities:

	Current Period	Prior Period
Profit/Loss from Minorities	1.057	4.432

d) “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.

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SECTION V: EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

V. EXPLANATION RELATED TO THE RISK GROUP OF THE PARENT BANK

(1) Volume of the Parent 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:

There is no transaction related to the risk group of the Parent Bank.

b) Prior period:

Risk group of the Parent Bank	Subsidiaries, associates and jointly controlled entities (joint ventures)		Direct or indirect shareholders of the Parent 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	-	2	-	-	-	-

c) Deposits held by the Parent Bank's risk group:

Risk group of the Parent Bank	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	594	5.823	-	-	-	-
Interest expense on deposits	186	171	-	-	-	-

d) Forward and option contracts and similar transactions with the Parent Bank's risk group:

None.

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SECTION V: EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

V. EXPLANATION RELATED TO THE RISK GROUP OF THE PARENT BANK (continued)

(2) Disclosures for risk group:

a) The relations of the Bank with the entities controlled by the Parent Bank and its related parties, regardless of whether there are any transactions or not:

In the normal course of its banking activities, the Parent Bank conducted various business transactions with related parties at commercial terms and at rates which approximate market rates.

The Parent Bank's branches may operate as insurance agencies of Halk Sigorta AŞ ile 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 the Parent 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	-	-
Non-cash loans	-	-
Deposits	594	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).

d) Transactions accounted under the equity method:

Demir-Halkbank NV, operating in Netherlands, Kobi Girişim Sermayesi Yatırım Ortaklığı AŞ and Türk P ve I Sigorta 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 12.318 as of 30 June 2016 (30 June 2015: TRY 12.319).

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**SECTION V: EXPLANATIONS AND NOTES RELATED TO THE CONSOLIDATED
FINANCIAL STATEMENTS (continued)**

VI. EXPLANATIONS RELATED TO THE SUBSEQUENT EVENTS

Amount of 500 million USD Eurobond is issued outside Turkey as of 1 July 2016 and amount of 300 million TRY bond is issued domestically. Besides, amount of 175 million USD and 476,5 million EURO syndication loans are obtained as of 4 July 2016.

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SECTION VI: REVIEWED AUDITORS' REPORT

I. EXPLANATIONS ON THE REVIEWED AUDITORS' REPORT

The consolidated financial statements as of and for the six-month period ended 30 June 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 Reviewed Auditors' Report dated 8 August 2016 is presented in the introduction of this report.

II. EXPLANATIONS AND NOTES PREPARED BY THE INDEPENDENT AUDITORS

None.

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SECTION VII: INFORMATION ON INTERIM ACTIVITY REPORT

I. INTERIM PERIOD ACTIVITY REPORT INCLUDED CHAIRMAN OF THE BOARD OF DIRECTORS AND CEO'S ASSESMENTS FOR THE INTERIM ACTIVITIES

Assessment of Chairman of the Board of Directors

Dear Stakeholders,

Turkey remains a contender for the position of regional power as a result of its political stability, and maintains a privileged position among emerging countries thanks to its economic stability. A parallel state within the state staged a coup attempt July 15 with treacherous ambitions to disrupt this stability. However, under the leadership of our President Recep Tayyip Erdoğan, our glorious nation, as well as all of the media and political parties, foiled the attempt of this gang by embracing democracy and the will of the people. Following the sordid coup attempt, the markets were instilled with confidence by the sound structure and appropriate action of the Turkish economy and banking industry, and pulled through without sustaining any damage.

One of the other items on the world agenda was the U.K.'s decision to leave the European Union following a referendum. The mandate's results in the first week became conclusive, and the British pound fell more than 10 percent against the U.S. dollar in the wake of Brexit, falling to its lowest level since 1985. Subsequently, it was expected that the Bank of England would lower interest rates and direct hot money into the market using government bond purchases. While the British contemplated methods to achieve monetary stimulus, the world economy was being deeply affected by the developments in Europe.

On the other hand, it is anticipated that Federal Reserve will not increase interests rates again, due to the environment of uncertainty surrounding the European economy. The Federal Reserve Board Chair Janet Yellen, announced that economic growth needs to show a modest pace before there will be another interest rate hike. This announcement raised hopes that a new shock to global markets will not be experienced in the aftermath of the referendum.

During this time, the most positive note for the international economy was the improvement of mutual relations between Turkey and Russian Federation. The regional financial system is sure to be energized by the constructive steps taken by both countries. Their trade partnership will have many benefits, as they are strategically reliant on each other in many industries, in particular in energy and tourism.

Turkey's economic stability brought about positive results in export figures, with total exports soaring by 9.6 percent in May. The foreign trade deficit dropped by 25.5 percent to \$5.05 billion, down from \$6.78 billion in the same month, which increased the ratio of exports to imports to 70.6 percent. The Central Bank of the Republic of Turkey took a measured step toward austerity and lowered the upper interest rate limit by 50 basis points in June, supporting the positive developments in foreign trade data. Its 25-basis point cut in July was another decision that was consistent with market expectations.

Our country is growing rapidly in comparison with similar economies and determinedly implements structural reforms, helping it to become more resistant to external financial shocks. Our role in the banking industry means we are among the strongest architects of economic stability and resilience in our country. We manage all types of risk in a balanced way and increase our loan volume with each passing day.

Additionally, we are raising the value of the Halkbank brand even higher through our domestic and international banking operations, working to preserve our strong standing in the industry. Most recently, in recognition of the successful projects we have been completing, we received the "Bank of the Year" award at the Stars of the Year competition held by Ekovitrin, a monthly business magazine. In the same period, our bank maintained its rise within the top 10 of "Turkey's Most Valuable Brands," a study by Brand Finance, an international brand valuation consultancy. With a value of \$958 million, we became the only public bank to be ranked in the top 10, rising two places in the 2015-2016 period which saw the results of most banks drop significantly.

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SECTION VII: INFORMATION ON INTERIM ACTIVITY REPORT

I. INTERIM PERIOD ACTIVITY REPORT INCLUDED CHAIRMAN OF THE BOARD OF DIRECTORS AND CEO'S ASSESMENTS FOR THE INTERIM ACTIVITIES (continued)

Assessment of Chairman of the Board of Directors (continued)

Dear Stakeholders,

What makes Halkbank stand out in this industry is its innovative attitude. We take pride in being a part of a bank that adapts well to change, incorporates the views of its stakeholders in decision making, and is managed with transparency. Together with all our stakeholders, whom we embrace as members of this large family, we will continue to take Halkbank into the future as one of Turkey's most valuable brands.

Yours faithfully,

R. Süleyman ÖZDİL
Chairman of the Board of Directors

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I. INTERIM PERIOD ACTIVITY REPORT INCLUDED CHAIRMAN OF THE BOARD OF DIRECTORS AND CEO'S ASSESMENTS FOR THE INTERIM ACTIVITIES (continued)

Assessment of General Manager ⁽¹⁾

Dear Stakeholders,

On the evening of July 15, the patriots who aspire to devotedly serve their country were faced with a treacherous coup attempt targeting the unity and solidarity of the Republic of Turkey. The traitors took aim at democracy and the national will, thinking they could derail Turkey from its objectives and prevent us from serving our country. With the leadership of our President Recep Tayyip Erdoğan and our Grand National Assembly, the nation fended off the plans of this gang of traitors, and we have quickly returned to business as usual. The banking industry is continuing its operations without having sustained any damage at all. Thanks to measures taken by the Central Bank of the Republic of Turkey and by related institutions, the industry is maintaining its course and the effective operation of financial markets without any problems.

In the second quarter of 2016, global economic risk rose due to Brexit, the decision by the U.K. to leave the European Union. There was a direct impact on financial markets from the reaction of G-7 central banks as they contemplated new policies to overcome a liquidity shortage. The Turkish economy continued to grow successfully at a time when Federal Reserve revised its interest rate projection in light of the risk of global recession.

As is clear from the first quarter results, our country achieved 4.5 percent growth by outperforming EU nations as a trustworthy destination for investors. Figures for March reveal that the unemployment rate dropped to 10.1 percent and non-agricultural unemployment fell to 11.9 percent, the lowest level in the past nine months. Also noteworthy was the 1.1-percent decrease in industrial production in April, a leading indicator of growth, despite expectations of an increase.

According to World Trade Organization data, total global exports shrank by 8.5 percent in the first quarter of this year. Meanwhile, Turkey managed to reduce its foreign trade deficit by 25.5 percent in May with strong export figures. We believe that consumption and investment will provide robust momentum to the second half of the year. Therefore, we are confident in forging ahead toward our 4.5-percent growth target for 2016.

Halkbank continues to operate in all corners of the country, aspiring to meet all banking needs. The bank's raison d'être is the development of projects that benefit our country and prove our worth. Accordingly, the Halkbank family forms a crucial part of Turkey's stability and future vision. We take each step with an appreciation of this responsibility.

Also in this period, we achieved momentous feats by supporting new products and services in all areas of customer need. We continued to create solutions for diverse consumer demands domestically in corporate, SME and retail segments. As a result, we have expanded abroad, so that the Halkbank brand now reaches out to stakeholders not only in Turkey, but also throughout the world.

One of the most crucial developments in this period was the start of operations of our representative office in Singapore following the completion of registration procedures. We are confident in the consolidation of our relationships with international corporate investors and associated banks through this office, especially within the Asia-Pacific Region. We believe that with its potential for strong and stable growth, the representative office will make a huge contribution to our journey to become a global bank.

⁽¹⁾ Interim activity report information concerning amounts are unconsolidated and full TRY unless otherwise stated.

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SECTION VII: INFORMATION ON INTERIM ACTIVITY REPORT

I. INTERIM PERIOD ACTIVITY REPORT INCLUDED CHAIRMAN OF THE BOARD OF DIRECTORS AND CEO'S ASSESMENTS FOR THE INTERIM ACTIVITIES (continued)

Assessment of General Manager ⁽¹⁾

As of the second period, the foremost in popularity of our products were the loans that begin with a zero interest rate while offering a range of installment options. As always, we caused people to say, "This is How You Support Artisans and Craftsmen," and became a major agent of economic invigoration. Endeavoring to be worthy of the Halkbank name, we took decisive steps to carry forward small businesses, artisans and craftsmen into the Turkey of future.

Dear Stakeholders,

Our work has brought us closer to our goals for 2016, which we originally embarked on with great aspirations. The bank finished the second quarter with a net profit of 1,566 million Turkish lira and a 15.6 percent return on equity. Total assets reached 200 billion Turkish lira, a 6.7 percent increase compared to 2015 year-end, and total deposits rose to 130 billion Turkish lira. The bank increased its cash loans by 9.6 percent, taking them to 139 billion Turkish lira, with no compromises made to obtain the successful balance sheet figures of the second quarter.

In the second quarter of 2016, we continued to be the leader in SME banking. We are pleased to observe our activities in this area reflected in our financial results. Our commercial loan volume, which also includes our SME loans, saw a 10.7 percent surge to the end of June to reach 110 billion Turkish lira. Total loans, which include non-cash loans, amounted to 183 billion Turkish lira, representing a 10,2 percent increase, and the volume of our loans to cooperatives amounted to 19 billion Turkish lira. Throughout the rest of the year, we will continue to advance in these areas through our innovative products and services.

Halkbank established unique services in all areas of banking utilizing its customer satisfaction-oriented approach. It successfully executed its retail banking activities in the first half of the year. At the end of June, our retail loans came to 29 billion Turkish lira, and the number of Paraf credit cards rose to 3.9 million. Similarly, POS figures reached 302 thousand, and the number of member businesses increased to 289 thousand. We have accomplished much in this arena throughout the year, and we believe that growth will continue in the future.

Turkey is one of the biggest economies in the world, and Halkbank will continue to be one of Turkey's most worthwhile brands. Halkbank will remain at the front of the most trusted institutions in the industry with over 950 branches nationwide and its international strength and experience. It will also continue to accomplish valuable projects for Turkey on a foundation of 78 years of know-how.

We remain confident in the belief and support of our customers, investors, employees and business partners, and extend our sincere thanks to all our esteemed stakeholders for the strength they provide to the Halkbank family.

Yours faithfully,
Ali Fuat Taşkesenlioğlu
General Manager

⁽¹⁾ Interim activity report information concerning amounts are unconsolidated and full TRY unless otherwise stated.

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I. INTERIM PERIOD ACTIVITY REPORT INCLUDED CHAIRMAN OF THE BOARD OF DIRECTORS AND CEO'S ASSESMENTS FOR THE INTERIM ACTIVITIES (continued)

Major Consolidated Financial Information

Summary Balance			
Sheet (Million TRY)	June 2016	December 2015	Change (%)
Total Assets	204.814	191.001	7,2
Loans	139.515	127.220	9,7
<i>TRY</i>	95.279	86.889	9,7
<i>FC</i>	44.237	40.330	9,7
Marketable Securities	29.037	28.526	1,8
Deposit	130.557	122.504	6,6
<i>TRY</i>	83.170	78.808	5,5
<i>FC</i>	47.387	43.696	8,4
Total Equity	20.829	19.167	8,7

Summary Income			
Statement (Million TRY)	June 2016	June 2015	Change (%)
Interes Income	8.155	6.549	24,5
<i>On Loan</i>	6.705	5.215	28,6
<i>On Securities</i>	1.229	1.209	1,7
Interest Expense	4.885	3.615	35,1
<i>On Deposit</i>	3.953	2.871	37,7
Net Interest Income	3.270	2.933	11,5
Net Fee and Commission	549	562	(2,3)
Operating Income	4.922	4.486	9,7
Profit Before Tax	1.818	1.417	28,3
Net Profit	1.481	1.124	31,8

Ratio (%)	June 2016	December 2015
Interst Bearing Assets /Total Assets	82,5	82,3
Loans/Total Asset	68,1	66,6
Non-Performing Loans/Total Loans (Gross)	3,2	3,3
Demand Deposit/Total Deposit	17,7	17,1
Loan/Deposit Ratio	106,9	103,8
Average Return on Asset (ROA)	1,5	1,3
Average Return on Equity (ROE)	14,9	13,3
Net Interest Margin	4,0	4,1
Capital Adequacy Ratio	12,83	13,04